

BCPL Board Meeting
June 2, 2026
Start Time: 2:00 pm

SG: I'm going to call our meeting to order today. I know we're dealing with some technical difficulties, so a lot of us are off video, but appreciate everybody joining. So Thuy sent the packet on Friday and then an updated portfolio report yesterday. So we should have that in front of us. And the first item on the agenda is approving the minutes. Is there a motion to approve the minutes?

JL: I'll motion.

SG: Thank you, John.

JK: I'll second.

SG: Thanks, Josh. Any friendly amendments, questions or comments about the minutes? Seeing none, all those in favor of approving the minutes say aye, aye, Sarah.

JK: Aye, Josh.

JL: Aye, John.

SG: The minutes are approved. The next item is approving our loan portfolio. Today, we have 9 loans at over \$4.6 million. I move to approve the loan portfolio. Is there a second?

JL: I'll second.

SG: There has been a second. So we'll turn it over to you, Rich, and you can walk us through the 9 loans that we are reviewing today.

RS: Thanks, Sarah. Let's walk through them one at a time, OK? The Village of Raymond has two loans that they're asking for, one of them is to purchase a snowplow and loan #2 is to finance some planting for a water and sewer project around an I-94 improvement. And then the village of Walworth has four loans that they're asking for. You know, they all have separate loan purposes. And I do prefer to have separate loan purposes on different loans because that adds some flexibility for the community in the future. They can pay off one of the loans rather than just paying one down. Loan #3 is to finance a water system valve repair. Loan #4 is to finance a number of capital projects and we do have a list of those capital projects in the loan file. Loan #5 is to finance some pilot testing on wells for PFAS. I think that's the second PFA loan that we've done in the last month or so. And then #6 is to finance a lead service line project. And so it seems like they are taking good care of their water system. Then loan #7 is to the city Of Montreal to finance a pass through loan to a water to their water utility. Now we do water to utility revenue loans, but because general obligation loans come at a lower rate and are a simpler process, they decided to borrow it through the city and then pass it through to that utility rather than having the utility borrow directly on a revenue loan. The Town of Lincoln and loan #8 is doing some road work and then finally loan #9 is to the village of Black Creek, which is a fairly large loan for a construction of a DPW building. They did have to construct a new one because of the way that the land is situated in the village of Black Creek. And so the cost for that were a little bit higher than they expected at the beginning of the project, but they do qualify for that loan. Are there any questions?

SG: No, Rich, not on my end, I think, but it's good to see that the county of Walworth, for example, using the loan program for these water projects.

RS: I agree.

SG: Josh or John, do you have any questions?

JK: None for me. Thanks.

JL: None either here.

SG: OK. All right. See none. All those in favor of approving today's loan portfolio say aye. Aye, Sarah.

JK: Aye, Josh.

JL: Aye, John.

SG: The loans are approved. We have no new business. So we're jumping straight into routine business. And maybe one thing I'll just point out to you is maybe we can go back to we used to do new business, old business and then routine business. But let's go to the Chief Investment Officer's report. Rich, we know you have your quarterly investment update for all of us and we got the updated one from Thuy yesterday.

RS: Thanks, Sarah. I would like to update the Board on 3 recurring topics during recent IC meetings:

You know, today, you know, I'd like to update the board on three recurring topics that we've been talking a lot about in recent investment committee meetings. You know, first, you know, investment committee. Members have voiced some surprise that the markets have been so calm. You know, this calmness is in the face of wars, tariffs, the increase in oil prices, other inflationary pressures, the bifurcation of economic success in America. You know, the so-called case shaped recovery where the top 10% of earners account for nearly half of the spending today. Also, interest rates have entered a period of higher for longer, with the Federal Reserve reluctant to goose the economy through lower rates while inflation remains higher than the 2% target. Another recurring theme has been the need for back office support. At BCPL, the team has been working hard across multiple avenues to address both software and personnel needs. And 3rd, the final recurring discussion within the investment committee has been press reports regarding challenges in the private debt market. Market observers are concerned that private debt funds have too many loans to software companies that could be impacted by AI. Consistent negative headlines that impacted capital flows across the private debt credit market. Retail investors want their money back and some funds have sold loans to create the capital necessary to fund these redemption requests. Loan sales temporarily flooded the market, reducing the market prices on private loans. This created a self-fulfilling prophecy of trouble in the sector. The resulting loss in loan values has hurt the value of all private credit bonds. Even funds that do not sell loans are hurt because of the requirement of to market on a regular basis. As you know, the investment committee has made large allocations to private debt for both the common school fund and the normal School fund. This allocation is one of the reasons that we've been able to make large increases in distributions over the past five years. At the end of Q1, the common School fund private debt portfolio was still averaging an 8% yield, which is a much better yield than available in either the public markets or the state trust fund loan program. Our private debt allocation has been very good for beneficiaries, but we need to remain diligent. Our funds do not buy or sell debt securities from other funds. Our funds remain well diversified across sectors, including real estate, infrastructure and a diverse group of privately held firms. Funds have conservative underwriting with strong covenants and are overwhelmingly in a senior secured position in the capital stack. We expect defaults to normalize from historic low levels, but the risk of severe default levels will typically only come from a deep recession. You can never take the possibility of a future recession off of the table. Our investments in the sector will experience credit losses. After all, the higher yields are compensating investors for added risk. But I believe that the investment committee has chosen the right mix of private credit funds that will outperform the market over time because of superior credit quality and fund management. Are there any questions before we move on to the portfolio report?

SG: Not for me. Thanks, Rich.

RS: Well on the portfolio report, the first thing I would like to point out are the losses that we continue to show in the value of our fixed income and preferred stock asset classes. These paper losses will not be recognized until the time these investments are sold if ever. And I say if ever because many of these securities are bonds that will pay off in full if held a maturity as of today. In

this higher for longer rate environment, it seems likely that these unrecognized losses will remain for some time. But remember that these paper losses are not material to our beneficiaries and these fixed income investments and I am including the preferred stocks in this picture provide nearly 75% of the income we distribute each year. The second item to highlight is the half a point decline in our average yield over the past year. A year ago, the common school fund portfolio had an average yield of 4.9%, which has now fallen to 4.4%. This decline is responsible for about a \$5,000,000 drop in the projected annual income that is shown in the lower right hand corner. Much, if not all of this calculated decline is due to two anomalies that will be self-correcting. First, in past portfolio reports, I've been projecting the income from our largest infrastructure fund at the long term expected yield of 5%. Now that this fund is fully invested, I changed the calculation to use the most recent actual quarterly distribution. I fully expect distributions from this fund to increase over time as the underlying infrastructure investments continue to mature. Secondly, our portfolio management software has a quirk that calculates projected annual income as a multiple of the most recent distribution. For example, the most recent monthly distribution will be multiplied by 12 and the most recent quarterly distribution will be multiplied by four. This quirk amplifies any volatility within the amounts distributed over the past year. As a result, in today's report, the dividends projected by our private debt portfolio are about \$3,000,000 lower than projected a year ago. Also the dividends projected by our common stock portfolio about \$2,000,000 lower than the dividends received over the past 12 months. To highlight my point about volatility, this morning we received notice that our next quarterly distribution from common stocks will raise this projection significantly by nearly \$6 million. So we'll have to take that into account when we look at the next quarterly report. But Please remember that these numbers in the right hand column are just projections. I include them because these projections tend to even out over time and have provided the staff and board with important information over the years. And even if these calculations do not self-correct in the near term as we expect, note that we have over \$40 million in smoothing funds available to supplement distributions in the future. Are there any questions before we move on to the allocation report?

None for me.

RS: OK, Thank you. Not much has changed in the allocation report, so this should be quick. Moving down from the top to the bottom of the page, within fixed income, we remain over allocated in several fixed income categories including state and muni bonds, U.S. Treasury and agency bonds, corporate bonds and preferred stocks. These overallocations remain an excellent source of liquidity when attractive opportunities in other sectors might become available. In the meantime, these assets produce good income for our beneficiaries. With state trust fund loans, it is normal to be under allocated at this point. In here, we received about \$40 million in loan principal included in the annual payments received in March. Our private debt allocation is also well below the target. I believe that our fund managers are holding off on calling in committed funds until turbulence in that sector settles down a little bit. The investment committee may be considering a supplemental commitment to an existing fund manager in this asset class over the next few months. Sometimes turbulence in markets like that create opportunities and we'll be looking at that side of it too. Inequities and alternatives. Common stocks are near target, while the alternatives, including real estate, infrastructure and private equity are well below target. Additional private equity or venture capital commitments may need to wait for additional back office resources, but the investment committee may be looking at adding to our real estate and infrastructure commitments through current funds and managers later this summer. That's all I have today and I want to thank you for your time. Does anybody have any questions?

SG: Josh or John, do you have any questions for Rich?

JK: None for me. Thanks for the update, Rich.

RS: Thank you.

JL: None, none here.

SG: Yeah, Rich, I just again really appreciate you and Denise and the team for putting these quarterly reports together. I think it's really helpful as it gives an overall performance evaluation both forward-looking and even backwards looking. So thank you.

RS: Thank you. You're welcome.

SG: Moving on to the next item, Executive Secretary's report, Tia.

TiaN: Thank you, Sarah. Just a short line. We continue as Rich mentioned to make progress in seeking solutions to the challenges and the risk posed by the challenges in the back office. And I'm there seems to be a little bit of slow response from DOA and getting the limited term employee accountant posted. It's a staff issue there or someone's been on maternity and it's just going a little slow. But what we have revised the position description and it's in DO as hands. I hope it will be posted very, very soon. And as reported previously, various efforts led by in some cases Chuck, some cases Rich, some Tia. Denise has been working feverishly and has had a very productive meeting with a consulting firm that has deep experience with state government and BCPL on helping us mitigate these back office needs. And when things are a little firmer and clearer, I'll be making a recommendation on what direction we might go. It's just a little premature for that. We just got a proposal in this morning. I haven't had a chance to analyze it or talk to have a team discussion. Sarah, you and I can talk about it in our weekly check in tomorrow. So that's been a primary focus and I think that's all I have to report

SG: OK, well thank you Tia. And again thanks to the team I know what this was ours this was our there was a second investment off site now so far since the beginning of the year and 3rd total within BCPL. So I know you guys are working really hard on projects and wrapping things up and getting things in in a good place. So thank you.

TiaN: Yeah, thank you.

SG: All right, moving on to the Chair's report. I actually don't have much to report today, so I'm just going to keep moving down to the rest of the agenda which is would anybody like to see any future agenda items? All right. See none. We'll move to old business and there is no old business. So we're just moving on to our final item which is adjourning our meeting today. Is there a motion to adjourn our meeting?

JK: I so move.

JL: I'll second.

SG: Thanks, John. We will take your second. Any questions, comments, debate, seeing none, all those in favor of adjourning our meeting say aye. Aye, Sarah.

JK: Aye, Josh.

JL: Aye, John.

SG: Our meeting is adjourned. Thanks everybody.

TiaN: Thank you.

SG: Have a good week. Bye, guys.

END TIME: 2:18 pm