



Douglas La Follette, *Secretary of State*
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Jonathan Barry, *Executive Secretary*

AGENDA

February 20, 2018
2:00 P.M.

Board of Commissioners of Public Lands
101 E. Wilson Street, 2nd Floor
Madison, Wisconsin

Routine Business:

- 1) Call to Order
- 2) Approve Minutes – February 6, 2018 (Attachment)
- 3) Approve Loans (Attachment)

Old Business:

- 4) Update: Three Lakes School District Land Purchase Request

New Business:

- 5) Ratify Adjustments to Loan Program Interest Rates (Attachment)
- 6) Discuss and Vote on Staff Attending Fixed Income Conference in Chicago

Routine Business:

- 7) Future Agenda Items
- 8) Executive Secretary's Report (Attachments)
 - Investment Transaction Report – February 16, 2018
 - Fixed Income Portfolio Report
 - Equity ETF Portfolio Report
- 9) Adjourn

AUDIO ACCESS INFORMATION

Toll Free Number: **(888) 291-0079**
Passcode: **6363690#**

**BOARD MEETING
FEBRUARY 20, 2018**

**AGENDA ITEM 2
APPROVE MINUTES**

Attached for approval are the minutes from the February 6, 2018, board meeting.

Board Meeting Minutes
February 6, 2018

Present via teleconference were:

- | | |
|---|--|
| Doug La Follette, Commissioner | Secretary of State |
| Matt Adamczyk, Commissioner | State Treasurer |
| Brad Schimel, Board Chair | Attorney General |
| Jonathan Barry, Executive Secretary | Board of Commissioners of Public Lands |
| Tom German, Deputy Secretary | Board of Commissioners of Public Lands |
| Vicki Halverson, Office Manager | Board of Commissioners of Public Lands |
| Richard Sneider, Loan Analyst and
Chief Investment Officer | Board of Commissioners of Public Lands |

ITEM 1. CALL TO ORDER

Board Chair Schimel called the meeting to order at 11:33 a.m.

ITEM 2. APPROVE MINUTES – JANUARY 17, 2018

MOTION: Board Chair Schimel moved to approve the minutes; Commissioner La Follette seconded the motion.

DISCUSSION: None.

VOTE: The motion passed 3-0.

ITEM 3. APPROVE LOANS

Executive Secretary Barry reported that the loans had been reviewed for proper public purpose.

<u>Municipality</u>	<u>Municipal Type</u>	<u>Loan Type</u>	<u>Loan Amount</u>
1. Orfordville Rock County Application #: 02018102 Purpose: Finance road projects	Village Rate: 3.00% Term: 5 years	General Obligation	\$275,000.00
2. Somers Kenosha County Application #: 02018103 Purpose: Finance TID #1 development incentives and ancillary costs	Village Rate: 4.75% Term: 15 years	TID Revenue	\$1,000,000.00
	TOTAL		\$1,275,000.00

MOTION: Board Chair Schimel moved to approve the loans; Commissioner La Follette seconded the motion.

DISCUSSION: No discussion.

VOTE: The motion passed 2-1. Commissioner La Follette and Board Chair Schimel voted aye; Commissioner Adamczyk voted no.

ITEM 4. DISCUSSION AND VOTE REGARDING LEGISLATION TO ELIMINATE STATE TRUST FUND LOAN PROGRAM – AB857 AND SB713

Board Chair Schimel asked Executive Secretary Barry to explain the proposed legislation and how it could impact the Board's programs. Executive Secretary Barry replied that the legislation will eliminate the State Trust Fund Loan Program, a current investment option for Trust Fund principal; expand the Board's ability to delegate investment authority to SWIB; remove public school libraries as named beneficiaries to the Common School Fund (CSF); and direct CSF earnings be distributed with general education aid. He attended a recent hearing and testified for informational purposes only. Board Chair Schimel asked if anyone had testified in favor of the legislation at the hearing. Executive Secretary Barry replied that three people favored the legislation: Rep. Hutton, Sen. Strobel, and Commissioner Adamczyk.

Commissioner Adamczyk questioned whether the Board needed to vote on the matter. He did not think the bill would pass this session. He said he supported the concept of the legislation and understood an amendment to maintain public school libraries as the CSF beneficiaries would be introduced.

Commissioner Adamczyk went on to assert that Trust Fund earnings would have been higher had SWIB invested the funds as opposed to BCPL staff. Board Chair Schimel challenged that assertion and referenced a Legislative Fiscal Bureau report that concluded SWIB would likely not have realized higher earnings because SWIB would have been under the same statutory and constitutional investment limitations as BCPL staff.

Board Chair Schimel also pointed out that the State Trust Fund Loan program is beneficial to municipalities (and school districts). Not only are interest rates competitive but the lending process is straightforward and there are no prepayment penalties. While he prefers to not get involved in the legislative process, he is concerned that if the Board does not take a position on the legislation then it appears that the Board "thinks this is a good idea." He added that "this is not a good idea." Commissioner La Follette agreed.

Commissioner Adamczyk said, "As a trustee of this fund, I don't see myself as having any kind of obligation to the local municipalities because we are here to protect our beneficiaries, which are the K-12 public schools." Board Chair Schimel argued that the Board is fulfilling its obligation to the Trust and the beneficiaries while, at the same time, "doing good things for the municipalities."

Commissioner La Follette added, for the record, that the legislation "would destroy the Trust Fund Loan Program, which has operated for over 100 and some years, very effectively, very fiscally responsibly, and very helpful to hundreds and hundreds of schools and municipalities over the years."

MOTION: Commissioner La Follette moved that the Board take a position opposing the legislation and authorize the staff to communicate that position to the public and to the Legislature; Board Chair Schimel seconded the motion.

DISCUSSION: Board Chair Schimel finished by saying that he did not want the Board to appear to be characterized as acquiescing and why the Board needed to take a position.

VOTE: The motion passed 2-1. Commissioner La Follette and Board Chair Schimel voted aye; Commissioner Adamczyk voted no.

ITEM 5. DISCUSSION AND POTENTIAL VOTE REGARDING LEGISLATION PROHIBITING THIRD PARTY AUDITORS FOR UNCLAIMED PROPERTY – AB773 AND SB645

Board Chair Schimel explained that the Board would only be addressing a narrow portion of the legislation (third-party tax audits relating to unclaimed property). Executive Secretary Barry said the legislation related to tort reform and the portion that addresses third-party audits relating to unclaimed property was a concern to him. This portion of the legislation would reduce the deposits to the Common School Fund (CSF). He asked the Board for limited authority to register concern for only this portion of the proposed legislation.

MOTION: Commissioner La Follette moved that the Board oppose the draft legislation only as it relates to third-party tax audits of unclaimed property and authorize staff to communicate that position to the public and the legislature; Board Chair Schimel seconded the motion for purposes of discussion.

DISCUSSION: Board Chair Schimel asked Executive Secretary Barry to clarify if he was requesting that the Board oppose the legislation or authorization to register concern. Executive Secretary Barry replied authorization to register concern. Commissioner La Follette thought it was important that the Board make clear that it was *opposed* to this portion of the legislation rather than just concerned. Executive Secretary Barry noted that the legislation could affect the return of unclaimed property to its rightful owner in addition to diminishing the deposits to the CSF. Commissioner Adamczyk said he would not take a position on it. Board Chair Schimel said he was opposed only to the narrow section of the legislation pertaining to third-party tax audits of unclaimed property, not the entire legislation.

Board Chair Schimel noted that while Commissioner Adamczyk speaks about duty of loyalty to the beneficiaries, this legislation would reduce deposits to the CSF. Commissioner Adamczyk replied he did not wish to weigh in on the issue at this time.

VOTE: The motion passed 2-0. Commissioner La Follette and Board Chair Schimel voted aye; Commissioner Adamczyk was present but not voting.

ITEM 6. FUTURE AGENDA ITEMS

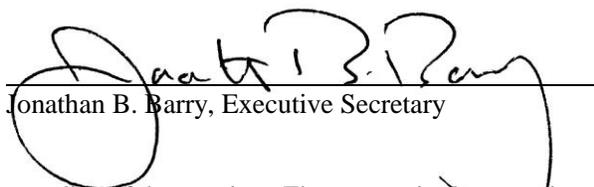
None.

ITEM 7. EXECUTIVE SECRETARY'S REPORT

- *Investment Transaction Report:* Executive Secretary Barry reported that staff recently purchased exchange-traded funds (ETFs). It was determined that this strategy of slowly purchasing ETFs would provide exposure to the equities market. The ETFs purchased have a strong tilt towards dividend-producing stocks. The Board's asset allocation model limits equities to 15% of the investment portfolio.
- *Agency Expenses Over \$5,000 Approved by Board Chair:* Board Chair Schimel explained that the expenditure was for a due diligence report relating to venture capital investments. The expense totaled \$15,000.

ITEM 8. ADJOURN

The meeting adjourned at approximately 12:12 p.m.


Jonathan B. Barry, Executive Secretary

These minutes have been prepared from a recording of the meeting. The summaries have not been transcribed verbatim. Link to audio recording: ftp://doafpt1380.wi.gov/doadocs/BCPL/2018-02-06_BCPL-BoardMtgRecording.mp3

**BOARD MEETING
FEBRUARY 20, 2018**

**AGENDA ITEM 3
APPROVE LOANS**

<u>Municipality</u>	<u>Municipal Type</u>	<u>Loan Type</u>	<u>Loan Amount</u>
1. Beloit Rock County Application #: 02018108 Purpose: Finance 2018 asset purchases	Town Rate: 3.50% Term: 10 years	General Obligation	\$1,608,561.00
2. Buchanan Outagamie County Application #: 02018107 Purpose: Finance buildings and infrastructure	Town Rate: 3.75% Term: 10 years	General Obligation	\$565,000.00
3. Cedarburg Ozaukee County Application #: 02018105 Purpose: Construct monopole cell tower	City Rate: 3.50% Term: 10 years	General Obligation	\$300,000.00
4. Juneau Juneau County Application #: 02018106 Purpose: Purchase equipment and furnishings	County Rate: 3.00% Term: 5 years	General Obligation	\$1,000,000.00
5. Mount Pleasant Racine County Application #: 02018104 Purpose: Finance TID#5 infrastructure and ancillary costs	Village Rate: 3.00% Term: 2 years	General Obligation	\$20,000,000.00
TOTAL			\$23,473,561.00

**BOARD MEETING
FEBRUARY 20, 2018**

**AGENDA ITEM 5
RATIFY ADJUSTMENTS TO LOAN PROGRAM INTEREST RATES**

Background

Market interest rates have continued to increase, reflecting growing worries about inflation and expected policy changes by the Federal Reserve.

Staff Recommendations

To keep pace with changes in the financial markets, staff recommends an increase in interest rates charged by the BCPL State Trust Fund Loan Program. The proposed new rate structure for the BCPL State Trust Fund Loan Program is as follows:

Loan Term	Current Rate	Proposed Rate	Change
2 Years	3.25%	3.50%	+0.25%
3-5 Years	3.50%	3.75%	+0.25%
6-10 Years	3.75%	4.00%	+0.25%
11-20 Years	4.00%	4.25%	+0.25%

Loan interest rates available in the State Trust Fund Loan Program should reflect the current market environment. Staff believes that the appropriate rate structure will maximize revenues generated by the loan program, while maintaining the competitiveness of the loan program relative to other funding sources available to our customers.

Interest Rate Adjustment Authorization

The Board had previously authorized the Executive Secretary in consultation with the Board Chairman to adjust loan interest rates up to 1% in between board meetings. In accordance with this authority, the Executive Secretary and Board Chairman approved these changes effective February 8, 2018.

Proposed Resolution

NOW, THEREFORE BE IT RESOLVED, that the Board of Commissioners of Public Lands ratifies the changes in BCPL State Trust Fund Loan Program, with annual interest rates to be set at 3.50% for 2-year loans; 3.75% for 3-5 year loans; 4.00% for 6-10 year loans; and 4.25% for 11-20 year loans.

**BOARD MEETING
FEBRUARY 20, 2018**

**AGENDA ITEM 7
EXECUTIVE SECRETARY'S REPORT**

Attachments

- Investment Transaction Report dated February 16, 2018
- Fixed Income Portfolio Report
- Equity ETF Portfolio Report



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Investment Transaction Report February 16, 2018

Bond Purchases

Issuer	Credit Rating	Trade Date	Par Value	Price Paid	Coupon	Call Date	Yield to Call	Maturity Date	Yield to Maturity
UST TIPS	Aaa	02/02/18	\$5,000,000	\$4,959,608	0.625%	N/A	N/A	02/15/43	CPI + 0.965%

Bond Sales

Staff has not sold bonds since the last Investment Transaction Report.

Bond Portfolio

See attached.

Equity ETF Purchases

Staff purchased an additional \$3 million in ETF shares since the last Investment Transaction Report.

Equity ETF Portfolio

See attached.

Venture Capital Investments

BCPL closed on a \$15 million commitment to 4490 Ventures II on February 14. This transaction included an immediate capital call of approximately \$3.35 million to cover our portion of investments already made by the partnership. As noted in prior presentations made to the Board, this venture capital fund has a strategy of being the lead Series A investor in Midwest technology start-up companies attempting to disrupt legacy industries. This partnership has a 10-year term, plus two one (1) year extensions. Additional capital calls will be made as the General Partners source appropriate opportunities.



BCPL Fixed Income Portfolio

As of 02/15/2018

<u>Description</u>	<u>Moody's Rating</u>	<u>S&P Rating</u>	<u>Weight</u>	<u>Expected Yield</u>	<u>Modified Duration (years)</u>	<u>Cost Basis</u>	<u>Estimated Value</u>	<u>Estimated Unrealized Gain (Loss)</u>	<u>Annual Income</u>
Treasury and Agency Securities	Aaa	AA+	47.2%	3.31%	11.50	274,698,713	267,228,230	(7,470,482)	8,847,856
Wisconsin and State Agency	Aa2	AA-	27.4%	4.11%	10.32	152,134,491	155,009,494	2,875,003	6,563,641
Municipal/School District	Aa3	AA-	25.4%	3.83%	9.23	143,981,889	143,816,570	(165,319)	5,695,230
	Aa2	AA	100.0%	3.66%	10.60	570,815,093	566,054,295	(4,760,798)	21,106,728



BCPL Equity ETF Portfolio

As of 02/15/2018

<u>Symbol</u>	<u>Description</u>	<u>Quantity</u>	<u>Avg Cost</u>	<u>Cost Basis</u>	<u>Current Price</u>	<u>Current Value</u>	<u>Weight</u>	<u>Unrealized Gain (Loss)</u>	<u>Percent Gain (Loss)</u>	<u>Current Yield</u>	<u>Projected Annual Dividends</u>
Public Equities											
Domestic											
VTI	Vanguard Total Stock Market ETF	7,170	139.08	997,213	140.050	1,004,159	25.1%	6,945	0.7%	1.8%	18,427
VYM	Vanguard High Dividend Yield	6,981	85.79	598,885	85.970	600,157	15.0%	1,272	0.2%	3.1%	18,500
VIG	Vanguard Dividend Appreciation	1,936	103.14	199,681	103.640	200,647	5.0%	966	0.5%	1.9%	3,891
VNQ	Vanguard REIT ETF	2,650	75.41	199,846	74.880	198,432	5.0%	(1,414)	-0.7%	4.3%	8,613
Global											
VEU	Vanguard FTSE All World ex-US	18,016	55.46	999,230	55.780	1,004,932	25.1%	5,703	0.6%	2.9%	28,645
VYMI	Vanguard International High Dividend	8,780	68.23	599,065	68.386	600,426	15.0%	1,361	0.2%	3.7%	21,950
VNOI	Vanguard Global ex-US Real Estate	3,293	60.69	199,858	60.430	198,996	5.0%	(862)	-0.4%	3.3%	6,520
VIGI	Vanguard International Div Appreciation	2,928	66.03	193,350	66.210	193,863	4.8%	513	0.3%	2.1%	4,041
		<u>51,754</u>		<u>3,987,127</u>		<u>4,001,611</u>	<u>100.0%</u>	<u>14,484</u>	<u>0.4%</u>	<u>2.8%</u>	<u>110,587</u>