

Board Meeting Minutes  
August 7, 2018

Present via teleconference were:

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| 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 |
| Richard Sneider, Chief Investment Officer | Board of Commissioners of Public Lands |

**ITEM 1. CALL TO ORDER**

Board Chair Schimel called the meeting to order at 11:01 a.m.

**ITEM 2. APPROVE MINUTES – JULY 24, 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. Blake Lake Polk Co Pro & Rehab Polk County Application #: 02019010 Purpose: Finance dam reconstruction	Lake District Rate: 4.00% Term: 5 years	General Obligation	\$140,000.00
2. Concord Jefferson County Application #: 02019012 Purpose: Purchase ambulance	Town Rate: 4.25% Term: 10 years	General Obligation	\$85,000.00
3. Cumberland Barron County Application #: 02019016 Purpose: Purchase police vehicle	City Rate: 4.00% Term: 3 years	General Obligation	\$50,000.00
4. Jacksonport Door County Application #: 02019014 Purpose: Finance town hall/fire station project	Town Rate: 4.50% Term: 20 years	General Obligation	\$1,360,000.00

5.	Janesville Rock County Application #: 02019011 Purpose: Finance fire protection	Town Rate: 4.00% Term: 1 years	General Obligation	\$300,000.00
6.	Kewaskum Fond Du Lac, Sheboygan and Washington Counties Application #: 02019015 Purpose: Design and develop athletic fields and outbuildings	School Rate: 4.25% Term: 10 years	General Obligation	\$1,725,000.00
7.	Wycocena Columbia County Application #: 02019013 Purpose: Finance roadwork and storm sewer projects	Village Rate: 4.00% Term: 4 years	General Obligation	\$60,000.00
<b>TOTAL</b>				<b>\$3,720,000.00</b>

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

**DISCUSSION:** None.

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

#### **ITEM 4. PROPOSED SUBMERGED LANDS LEASE – BNSF RAILWAY COMPANY**

**MOTION:** Commissioner La Follette moved to approve the 50-year submerged lands lease to the BNSF Railway; Board Chair Schimel seconded the motion.

**DISCUSSION:** Deputy Secretary German explained that the proposed 50-year submerged lands lease was to a private company rather than a local municipality, so the annual lease payment reflects fair market value. A rent escalating clause of ten percent every five years is also included in the lease terms. The DNR issued their Findings of Fact and are in favor of the lease.

**VOTE:** The motion passed 3-0.

**NOW, THEREFORE BE IT RESOLVED,** that the Board of Commissioners of Public Lands authorizes a Submerged Lands Lease with BNSF for a term of up to fifty (50) years in accordance with Section 24.39 of the Wisconsin Statutes with a base rental rate of Thirty-nine thousand six hundred fifty-two dollars and fifty cents (\$39,652.50) per year with 10% rent increases every five years for the purposes of improving navigation, improving or constructing “harbor facilities” or for improvement, on such other terms and conditions as the Executive Secretary determines to be reasonable and necessary. The Executive Secretary is authorized and directed to execute any documents reasonably necessary to complete such transaction.

## ITEM 5. EXECUTIVE SECRETARY'S REPORT

Executive Secretary Barry's report is included below:

The Board of Commissioners of Public Lands (BCPL) adopted its Investment Plan and Policy (the "Plan") including Target Asset Allocations on November 1, 2016. This Plan was developed over several months with involvement from the UW School of Business and the State of Wisconsin Investment Board (SWIB) leadership. Further, the draft Plan was vetted by BCPL beneficiaries, most particularly the Department of Public Instruction (DPI) and the Wisconsin Educational Media and Technology Association (WEMTA). It was also shared with legislative leadership and the Governor's office.

Over the months of its development, the Plan was presented to this Board on several occasions and modifications were made to address Commissioner's concerns. Further, in adopting the Plan, the Commissioner's adopted the following, limiting amendment:

*"Upon providing such report {pertinent research on proposed equity, venture capital and real estate investments prior to the purchase of any such investments} to the Board, the Investment Committee shall have full authorization to purchase such investments. For the first six months after adoption of the Investment Policy, the Investment Committee's authorization for equity, venture capital and real estate investments shall be limited to an amount not to exceed \$15 million per month."*

### **Reporting Practices**

There are three levels of on-going reporting provided to the board with different degrees of detail that are provided for quarterly, monthly, or bi-weekly board meetings.

1. At every board meeting, the Investment Committee reports all investment transactions, including transaction level detail, on all public bond and public equity purchases and sales made since the previous board meeting.
2. Monthly reports detail the performance of public bond and public equity portfolios.
3. Quarterly reports typically include: (1) staff narrative reports on portfolio performance and liquidity, loan demand, and general financial market conditions; (2) staff reports on new investment opportunities and strategies, which are provided as early and often as possible for potential board discussion purposes; (3) a table that compares the performance of BCPL-managed portfolios against custom benchmark portfolios; and (4) an Executive Summary.

### **Investment and Reporting History**

The Common School Fund (CSF) Investment Policy Statement (IPS) approved on November 1, 2016, provided for the diversification of assets into three new asset classes including Public Equities, Real Estate, and Venture Capital.

#### ***1. Public Equities***

The Investment Policy includes a target allocation of 15% (range of 12.5% - 17.5%) to public equities. The Investment Committee reported regularly to the Board during 2017 on our research of how and when to enter the public equity market. For most of 2017, equity market indices were continuously reaching record heights while economic/political volatility increased expected risk levels. This was a difficult market to enter with the first equity investment in the history of the CSF, and prudence dictated that risk should first be mitigated by working to "fill" the smoothing fund for both the Normal and Common School funds.

During 2017, the Investment Committee was able to take great strides in completing the goal of filling the smoothing funds through active bond management in a volatile interest rate environment. The CSF smoothing fund has exceeded 50% of the target level, while the Normal School Fund (NSF) holds 100% of its required balance.

Staff conducted extensive research for a planned entry into public equity investments, including meeting with SWIB equity investor leadership, vetting how to best manage investment placements, and which equity investment types would best meet BCPL investment goals. These goals were expressed to the Board as being low cost, current income, and growth potential.

ETFs were chosen as the investment vehicle to enter the public equity markets, primarily due to the cost structure, and the fact that the vast majority of studies have concluded that any additional returns expected through active equity investment do not exceed the higher cost of that management structure. In other words, passively managed ETF shares would provide the most cost-effective method for CSF entry into the public equity markets.

The Investment Policy Statement discussed the need for new asset classes to consider the mandate to provide strong, stable, and secure distributions to the Trust Fund beneficiaries. The Investment Committee, therefore, chose a structure of ETF investments that included a strong tilt toward income-producing stocks. Interviews with three large ETF management companies were conducted during 2017, and the Investment Committee chose Vanguard as the fund manager due to the low-cost structure and the availability of funds that best met the desired criteria.

In each of the 2017 quarterly reports to the board, staff provided updates on plans and a strategy for a cautious entry into public equities.

In late January 2018, following a pull-back in the broader market, the Investment Committee authorized the investment of \$1 million per week in select common stock ETF's, with additional purchases to be made as appropriate under certain conditions. As of the end of the first quarter of 2018, staff had completed \$13 million in ETF purchases.

Today, our transaction report (as of July 31, 2018) for this Board meeting shows a total value in ETF equities of \$22,387,587 with a capital gain of \$399,089 or 1.8%. Additionally, this group of equities is projected to provide a dividend yield of 3.6% annually or \$796,025.

## **2. *Real Estate***

The CSF Investment Policy asset allocation includes a 5% target (range of 0-15%) for real estate. No transactions have closed, although BCPL staff have held discussions with DOA personnel regarding potential BCPL investment in state-owned buildings.

## **3. *Venture Capital***

The Investment Policy Statement asset allocation includes 3% target (range of 0-5%) to venture capital. The Investment Policy discusses that one advantage of BCPL's investments in this area is the connection to the University of Wisconsin, SWIB and the Wisconsin Alumni Research Foundation (WARF), and the proximity to companies that may develop commercial applications resulting from local research. Discussions with SWIB and WARF led to introductions to the local venture capital firms 4490 Ventures and Venture Investors, both of which were raising capital for new funds. Interviews with these fund managers led to increased interest by staff, in-person presentations by Fund Managers directly to the Board, the completion of due diligence reports by third-party vendors, a report and recommendation by the Chief Investment Officer to the Investment Committee, and the execution of funding commitments totaling \$30 million. The Board was kept well-aware of progress during a

process that took approximately six months for each fund. Updates were provided during regular Board meetings, within Quarterly Investment Reports, and included the forwarding of third-party due diligence reports.

The BCPL Executive and Deputy Secretaries, with the Chair in agreement, met with legislative leadership in both the Senate and Assembly, and with the then Deputy Chief of Staff to the Governor, to apprise them of the Board's consideration of making these venture capital investments.

It should be noted that the full \$30 million commitment is never expected to be drawn and outstanding at any point in the future. The initial funding period for each fund is five years, and returns are expected to be received from early investments prior to the end of this initial funding period. A rule-of-thumb in venture capital funds is that an investor can expect that 50-60% of the total commitment will be the maximum outstanding at any time. To date, there has been one draw of \$3.6 million on the commitment to 4490, and no draws on the Venture Investors commitment.

### **Management Efficiency**

BCPL manages financial trust assets at a cost of 8bps (.08%) per year. This cost structure saves BCPL beneficiaries more than \$3.6 million per year from the average expense at SWIB and \$5.9 million per year from the industry average expense ratios\*. Given that the State of Wisconsin Legislative Fiscal Bureau indicates that constitutional and statutory constraints on fund investments would limit SWIB returns to the returns earned at BCPL, this is real money to the beneficiaries.

\*The most recent annual financial report from SWIB reports an average cost of nearly 41bps (.41%) per year, while Morningstar reports an industry average expense ratio of 62bps (0.62%).

### **Conclusion**

The Investment Committee works under the direction of the Board. Specifically, we take our direction from a majority of the Board and endeavor always to keep the full Board aware of all actions in a timely manner. We strive to be fully transparent and will continue to operate this way in the future.

## **ITEM 6. FUTURE AGENDA ITEMS**

None.

## **ITEM 7. ADJOURN**

The meeting adjourned at 11:07 a.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://doaftp1380.wi.gov/doadocs/BCPL/2018-08-07\\_BCPL-BoardMtgRecording.mp3](ftp://doaftp1380.wi.gov/doadocs/BCPL/2018-08-07_BCPL-BoardMtgRecording.mp3).