

101 E. Wilson Street
2nd Floor
PO Box 8943
Madison, WI 53708-8943

608 266-1370 INFORMATION
608 266-0034 LOANS
608 267-2787 FAX
bcpl.wisconsin.gov

Jonathan Barry, *Executive Secretary*

AGENDA

January 15, 2019

2:00 P.M.

Board of Commissioners of Public Lands

101 E. Wilson Street, 2nd Floor

Madison, Wisconsin

Routine Business:

- 1) Call to Order

New Business:

- 2) Elect a Board Chair

Routine Business:

- 3) Approve Minutes - December 18, 2018 (Attachment)
- 4) Approve Loans (Attachment)
- 5) Executive Secretary's Report (Attachment)
 - Investment Transaction Report
 - 2018 Q4 Fixed Income Benchmark Comparison
 - Fixed Income Portfolio Report
 - Public Equity Portfolio Report
- 6) Future Agenda Items
- 7) Adjourn

**BOARD MEETING
JANUARY 15, 2019**

**AGENDA ITEM 3
APPROVE MINUTES**

Attached for approval are the minutes from the December 18, 2018, board meeting.

Board Meeting Minutes
December 18, 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
Richard Sneider, Chief Investment Officer	Board of Commissioners of Public Lands
Vicki Halverson, Office Manager	Board of Commissioners of Public Lands

ITEM 1. CALL TO ORDER

Board Chair Schimel called the meeting to order at 2:04 p.m.

ITEM 2. APPROVE MINUTES – DECEMBER 4, 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. Belleville Dane and Green Counties Application #: 02019077 Purpose: Finance building improvements	School Rate: 4.25% Term: 5 years	General Obligation	\$750,000.00
2. Cambria - Friesland Columbia and Green Lake Counties Application #: 02019080 Purpose: Refinance WRS prior service pension liability	School Rate: 4.50% Term: 8 years	General Obligation	\$336,000.00
3. Clark Clark County Application #: 02019079 Purpose: Finance 2019 road construction	County Rate: 4.00% Term: 2 years	General Obligation	\$2,200,000.00
4. Clayton Winnebago County Application #: 02019084 Purpose: Finance water and sewer projects	Town Rate: 4.25% Term: 5 years	General Obligation	\$1,500,000.00
5. Hunter Sawyer County Application #: 02019075	Town Rate: 4.25% Term: 2 years	General Obligation	\$73,000.00

Purpose: Finance roadwork

6.	Lake Mills Jefferson County Application #: 02019082 Purpose: Refinance BCPL loan #2018059	Town Rate: 4.25% Term: 2 years	General Obligation	\$138,287.50
7.	Menasha Calumet and Winnebago Counties Application #: 02019081 Purpose: Refinance BCPL loan #2019025	City Rate: 4.50% Term: 15 years	General Obligation	\$3,890,000.00
8.	Mishicot Manitowoc County Application #: 02019074 Purpose: Purchase vehicles and equipment	Village Rate: 4.50% Term: 10 years	General Obligation	\$125,000.00
9.	Rusk Rusk County Application #: 02019076 Purpose: Finance capital purchases and building projects	County Rate: 4.25% Term: 10 years	General Obligation	\$772,147.00
10.	Trempealeau Trempealeau County Application #: 02019070 Purpose: Finance road construction	County Rate: 4.25% Term: 2 years	General Obligation	\$1,512,042.00
11.	Trempealeau Trempealeau County Application #: 02019071 Purpose: Purchase police vehicles	County Rate: 4.25% Term: 2 years	General Obligation	\$132,000.00
12.	Trempealeau Trempealeau County Application #: 02019072 Purpose: Finance HVAC/courthouse upgrades	County Rate: 4.25% Term: 2 years	General Obligation	\$532,400.00
13.	Trempealeau Trempealeau County Application #: 02019073 Purpose: Finance IT upgrades	County Rate: 4.25% Term: 2 years	General Obligation	\$39,230.00
14.	Valders Manitowoc County Application #: 02019078 Purpose: Finance TID #2 projects	Village Rate: 4.75% Term: 18 years	General Obligation	\$750,000.00
15.	Wilton Monroe County Application #: 02019083 Purpose: Finance flood damage repairs	Town Rate: 4.25% Term: 5 years	General Obligation	\$200,000.00

TOTAL

\$12,950,106.50

MOTION: Board Chair Schimel moved to approve the loans; Commissioner La Follette 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 LAND BANK SALE TO THE US DEPT. OF INTERIOR, FISH & WILDLIFE SERVICE (\$1809 - MEADOW VALLEY WILDLIFE AREA, MONROE COUNTY)

Commissioner La Follette asked if the Trust Lands were adjacent to property owned by the US Fish & Wildlife Service. Deputy Secretary German replied that the property was adjacent, and the Fish & Wildlife property is designated as a federal wildlife area.

MOTION: Commissioner La Follette moved to approve the sale of the Trust Lands to the US Dept. of Interior, Fish & Wildlife Service; Board Chair Schimel seconded the motion.

DISCUSSION: None.

VOTE: The motion passed 3-0.

NOW, THEREFORE BE IT RESOLVED, that the Board of Commissioners of Public Lands approves the sale of the property to the USFWS at the price of One Hundred Forty-eight Thousand Dollars (\$148,000) in accordance with Chapter 24 of the Wisconsin Statutes on such 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. PROPOSED LAND BANK SALE TO THE PUBLIC (\$1811 - SWAMP CREEK, ONEIDA COUNTY)

Deputy Secretary German explained that the property is landlocked, and the adjacent landowner is interested in purchasing the Trust Lands. The property must be sold via sealed bid process, so it is likely that the only bid received will be from the adjacent landowner.

MOTION: Commissioner La Follette moved to approve the sale of the Trust Lands via sealed bid process; Board Chair Schimel seconded the motion.

DISCUSSION: Board Chair Schimel noted that the property is unproductive and has no legal access.

VOTE: The motion passed 3-0.

NOW, THEREFORE BE IT RESOLVED, that the Board of Commissioners of Public Lands authorizes the sale of the property pursuant to a sealed bid process. The minimum acceptable bid for the property shall be the appraised value as determined by the independent appraiser as set forth above. Such sale shall be conducted in accordance with Chapter 24 of the Wisconsin Statutes on such 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 transactions.

ITEM 6. EXECUTIVE SECRETARY'S REPORT

Executive Secretary Barry thanked the Board for giving him the privilege to serve them. The Board and staff have accomplished much during his tenure as Executive Secretary. The 2019 distribution to the public school libraries is estimated to be \$36.2 million. The Common School Fund smoothing fund is one-hundred percent filled and staff are confident in their prediction of a record distribution for 2020. To accommodate a larger distribution in 2020, the investment plan may need to be modified. He thanked the Board for their work on the agency's investment plan and their adoption of it.

Chief Investment Officer Sneider also thanked the Board for one of the most important accomplishments in the agency's 170-year history - their adoption of the Investment Policy. The policy ensures future generations will benefit from the Trust Funds, which were created at the time of statehood.

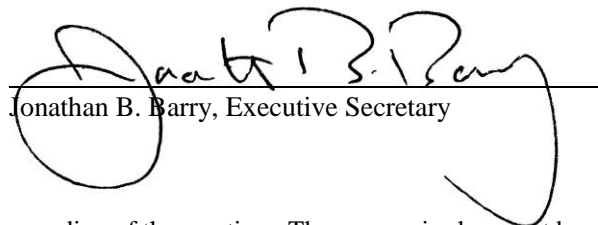
ITEM 5. FUTURE AGENDA ITEMS

The Board discussed whether a meeting was needed on January 2. It was decided that a meeting was not necessary. *(The first board meeting in 2019 will be held on Tuesday, January 15.)*

ITEM 6. ADJOURN

Board Chair Schimel noted that this was his last meeting on the Board. Commissioner La Follette complimented him on the work he did while serving as chairman and said that it was a pleasure to have worked with him. Board Chair Schimel added that the staff at BCPL have done "wonderful work and it was a privilege to work" with them.

The meeting adjourned at 2:15 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: https://bcpl.wisconsin.gov/Shared%20Documents/Board%20Meeting%20Docs/2018/2018-12-18_BCPL-BoardMtgRecording.mp3

**BOARD MEETING
JANUARY 15, 2019**

**AGENDA ITEM 4
APPROVE LOANS**

Municipality	Municipal Type	Loan Type	Loan Amount
1. Brandon Fond Du Lac County Application #: 02019093 Purpose: Purchase dump truck	Village Rate: 4.25% Term: 5 years	General Obligation	\$20,000.00
2. Chilton Calumet County Application #: 02019096 Purpose: Finance pass-through development loans	City Rate: 4.75% Term: 12 years	General Obligation	\$788,000.00
3. Christiana Vernon County Application #: 02019089 Purpose: Purchase dump truck	Town Rate: 4.50% Term: 10 years	General Obligation	\$175,000.00
4. Elm Grove Waukesha County Application #: 02019090 Purpose: Finance village hall HVAC system	Village Rate: 4.50% Term: 10 years	General Obligation	\$1,000,000.00
5. Fredonia Ozaukee County Application #: 02019095 Purpose: Purchase fire truck	Town Rate: 4.75% Term: 12 years	General Obligation	\$658,312.00
6. Hartford Washington County Application #: 02019085 Purpose: Purchase lake patrol boat	Town Rate: 4.25% Term: 4 years	General Obligation	\$29,000.00
7. Kohler Sheboygan County Application #: 02019091 Purpose: Finance street project and capital equipment	Village Rate: 4.25% Term: 5 years	General Obligation	\$366,000.00
8. Lebanon Dodge County Application #: 02019094 Purpose: Purchase dump truck and attachments	Town Rate: 4.50% Term: 10 years	General Obligation	\$197,292.00
9. Oakfield Sanitary District #1 Fond Du Lac County Application #: 02019087 Purpose: Finance sanitary system repair/rebuild	Sanitary District Rate: 4.75% Term: 15 years	General Obligation	\$25,000.00

<u>Municipality</u>	<u>Municipal Type</u>	<u>Loan Type</u>	<u>Loan Amount</u>
10. Pewaukee Waukesha County Application #: 02019088 Purpose: Finance development incentives	Village Rate: 4.75% Term: 20 years	General Obligation	\$206,000.00
11. Richland Richland County Application #: 02019092 Purpose: Finance 911 system	County Rate: 4.25% Term: 5 years	General Obligation	\$200,000.00
12. Suring Oconto County Application #: 02019086 Purpose: Refinance WRS prior service pension liability	Village Rate: 4.25% Term: 2 years	General Obligation	\$45,000.00
TOTAL			\$3,709,604.00

**BOARD MEETING
JANUARY 15, 2019**

**AGENDA ITEM 5
EXECUTIVE SECRETARY'S REPORT**

Attachments

- Investment Transaction Report
- 2018 Q4 Investment Report
- Fixed Income Portfolio Report
- Public Equity Income Report

101 E. Wilson Street
2nd Floor
PO Box 8943
Madison, WI 53708-8943

608 266-1370 INFORMATION
608 266-0034 LOANS
608 267-2787 FAX
bcpl.wisconsin.gov

Jonathan Barry, *Executive Secretary*

Investment Transaction Report January 11, 2019

Transactions since the previous Investment Transaction report dated 12/14/2018:

Bond Purchases None

Bond Sales None

Public Equity Purchases Staff made regular purchases totaling an additional \$6 million in ETF shares.

Because of a strong custodial relationship that BCPL maintains with Schwab, there are no transaction costs for BCPL to acquire ETF shares. The absence of any external costs allows monthly rebalancing of the public equity portfolio to the approved allocations:

Domestic Equities		
VTI	Vanguard Total Stock Market	25%
VYM	Vanguard High Dividend Yield	15%
VNQ	Vanguard REIT	5%
VIG	Vanguard Dividend Appreciation	5%
Global Equities		
VEU	Vanguard FTSE All World ex-US	25%
VYMI	Vanguard International High Dividend	15%
VNQI	Vanguard Global ex-US Real Estate	5%
VIGI	Vanguard International Div Appreciation	5%

At the end of December 2018, the portfolio was rebalanced as domestic equities had fallen relative to global markets. This rebalancing required an additional investment of \$1 million.

The total value of public equity ETFs following a purchase made on 01/11/19 was approximately \$44 million or 4% of the CSF.

BCPL

Fixed Income Benchmark Comparison

4th Quarter 2018

as of December 31, 2018

Comparison to Benchmark	Fixed-Income Assets	Expected Yield ¹	Average Credit Quality ²	Weighted Avg Maturity	Yrs
Total BCPL-Managed Fixed Income Assets	\$ 1,094,029,019	3.74%	Aa1	9.84	
Benchmark Performance - S&P Taxable Municipal Bond Index		3.66%	Aa3	14.70	
BCPL Absolute Yield Relative to Benchmark		+	0.08%	++	4.86
Adjustment for Better Credit Quality Compared to Benchmark ³		+	0.25%		
Adjustment for Shorter Maturity Compared to Benchmark ⁴		+	0.27%		
BCPL RISK-ADJUSTED YIELD RELATIVE TO BENCHMARK		+	0.60%		
Detail of BCPL-Managed Fixed Income Assets					
	% of BCPL-Managed Fixed-Income Assets				Years
Bonds	52.66%	\$ 576,080,835	3.83%	Aa1	14.54
BCPL State Trust Fund Loans	46.39%	\$ 507,483,569	3.67%	Aa1	4.70
Cash and Cash Equivalents	0.96%	\$ 10,464,615	2.37%	Aaa	0.00
Total BCPL-Managed Fixed Income Assets	100.00%	\$ 1,094,029,019	3.74%	Aa1	9.84

Notes to BCPL Benchmark Comparison:

¹ **Expected Yield** is the weighted average yield to the redemption date for each bond, and assumes that issuers will redeem bonds at the earliest possible date, when it is in their best interest given current market interest rates. Also called 'yield-to-worst', this number is equal to the lower of the 'yield to call' and 'yield to maturity' for each investment in the portfolio.

² **Average Credit Quality** - Except for the BCPL loan portfolio, all average credit quality ratings shown equal the weighted average credit rating of individual securities held within each portfolio. A rating for the loan portfolio is provided to improve the ability to compare BCPL managed funds to other funds. The Aa1 rating presumed for the loan portfolio is considered reasonable, as there has not been a single default in the State Trust Fund loan program since inception in 1871, and BCPL has the statutory right and requirement to cure any future default by intercepting state aid otherwise due the borrower. The global long-term rating scale of Moody's Investor Services begins at 'Aaa' for obligations judged to be of the highest quality, subject to the lowest level of risk. The ranking in order from highest to lowest quality then includes: Aa, A, Baa, Ba, B, Caa, Ca, and C. Ratings from Aa to Caa are modified with 1, 2, or 3 to provide a high, middle and low ranking within each alphabetic category. 'Investment-grade' securities have ratings of Baa3 or higher.

³ **Credit Quality Adjustment** - All else equal, a portfolio with lower credit quality should have a higher yield because the investor has assumed a higher level of default risk. To compare the yield of portfolios with different credit scores, an adjustment needs to be made that will increase the relative yield for the portfolio with the higher credit score. This adjustment will equalize the difference in credit quality so that any comparison of yield between the portfolios does not automatically favor the portfolio with lower credit quality. To adjust BCPL returns for any difference in credit quality, you can look at differences in the yield between S&P Taxable Bond Funds that are segregated by credit quality (AAA, AA, A, etc). If the credit scores are 2 notches different (say Aa1 vs Aa3), 2/3 of the yield difference between the S&P AA-Rated Taxable Municipal Bond Index and the S&P A-Rated Taxable Municipal Bond Index would be an appropriate adjustment.

⁴ **Maturity Adjustment** - All else equal and under normal market conditions that include an upward sloping yield curve, bond portfolios with a longer average maturity (and/or duration) will have a higher yield. To compare two portfolios that have different maturities, an adjustment needs to be made to increase the yield of the portfolio with the shorter average maturity. This adjustment will equalize the maturity level of the portfolios, so that any comparison of yield between the portfolios does not automatically favor the portfolio with the longer maturity. To adjust for any difference in maturity, you can look differences in the yield between S&P Taxable Bond Indices that are segregated by remaining bond term (S&P Short- Intermediate, Long-Intermediate, and 15+ Year Taxable Municipal Bond Indices). Adjusting the percentage of the benchmark invested in each of these funds until the maturity exactly matches the average maturity of BCPL-managed funds provides the appropriate adjustment for maturity.

Total Return Analysis - A total return analysis including all income plus any periodic change in asset values would provide a more comprehensive and accurate comparison between the returns generated by BCPL-managed fixed income investments and our benchmark. However, total return analysis requires accurate asset valuation in order to provide a reasonable basis for measuring management performance. A significant portion of BCPL managed assets are invested in loans to municipalities and school districts through the BCPL State Trust Fund Loan Program. BCPL has never sold a trust fund loan and has always held these investments to maturity. There is currently no formula, model or algorithm for determining the value of the loan portfolio as market conditions change. An assumption that the value of each portfolio loan maintains a 100% valuation (par) regardless of market conditions would be incorrect and misleading.



BCPL Fixed Income Portfolio

As of 12/31/2018

<u>Description</u>	<u>Moody's Rating</u>	<u>S&P Rating</u>	<u>Weight</u>	<u>Expected Yield</u>	<u>Yield to Maturity at Cost</u>	<u>Modified Duration (years)</u>	<u>Cost Basis</u>	<u>Estimated Current Value</u>	<u>Estimated Unrealized Gain (Loss)</u>	<u>Annual Income</u>
Treasury and Agency Securities	Aaa	AA+	54.3%	3.56%	3.45%	12.06	310,430,996	299,780,801	(10,650,195)	10,605,016
Wisconsin and State Agency	Aa2	AA-	23.5%	4.07%	4.09%	10.10	128,086,488	129,681,438	1,594,950	5,351,118
Municipal/School District	Aa3	AA-	22.2%	3.92%	3.94%	9.11	121,182,355	122,542,018	1,359,664	4,868,290
	Aa1	AA	100.0%	3.76%	3.70%	10.94	559,699,839	552,004,257	(7,695,582)	20,824,424



BCPL Public Equity Portfolio

As of 12/31/2018

Symbol	Description	Quantity	Avg Cost	Cost Basis	Current Price	Current Value	Weight	Unrealized Gain (Loss)	Percent Gain (Loss)	Current Yield	Projected Annual Dividends
Domestic Equities											
VTI	Vanguard Total Stock Market ETF	77,141	136.05	10,495,353	127.630	9,845,506	25.1%	(649,848)	-6.2%	2.1%	203,652
VYM	Vanguard High Dividend Yield ETF	75,166	82.70	6,216,401	77.990	5,862,196	14.9%	(354,205)	-5.7%	3.5%	202,948
VIG	Vanguard Dividend Appreciation ETF	20,125	101.79	2,048,606	97.950	1,971,244	5.0%	(77,363)	-3.8%	2.2%	42,464
VNQ	Vanguard REIT ETF	25,994	76.88	1,998,531	74.570	1,938,373	4.9%	(60,158)	-3.0%	4.4%	85,260
		<u>198,426</u>		<u>20,758,892</u>		<u>19,617,319</u>	<u>50.0%</u>	<u>(1,141,573)</u>	<u>-5.5%</u>	<u>2.7%</u>	<u>534,325</u>
Global Equities											
VEU	Vanguard FTSE All World ex-US ETF	214,543	50.51	10,835,834	45.580	9,778,870	24.9%	(1,056,965)	-9.8%	3.4%	336,833
VYMI	Vanguard International High Dividend ETF	104,207	61.84	6,444,603	56.270	5,863,728	14.9%	(580,875)	-9.0%	4.5%	264,686
VNQI	Vanguard Global ex-US Real Estate ETF	38,153	56.83	2,168,326	52.410	1,999,599	5.1%	(168,727)	-7.8%	5.0%	100,724
VIGI	Vanguard International Div Appreciation ET	34,420	61.77	2,126,075	57.600	1,982,592	5.1%	(143,483)	-6.7%	1.9%	37,518
		<u>391,323</u>		<u>21,574,838</u>		<u>19,624,789</u>	<u>50.0%</u>	<u>(1,950,050)</u>	<u>-9.0%</u>	<u>3.8%</u>	<u>739,760</u>
		<u>589,749</u>		<u>42,333,730</u>		<u>39,242,107</u>	<u>100.0%</u>	<u>(3,091,623)</u>	<u>-7.3%</u>	<u>3.2%</u>	<u>1,274,085</u>