



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

October 15<sup>th</sup>, 2019  
2:00 P.M.

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

### Routine Business:

- 1) Call to Order
- 2) Approve Minutes – October 1<sup>st</sup>, 2019 (Attachment)
- 3) Approve Loans (Attachment)

**Old Business:** None

**New Business:** None

### Routine Business:

- 4) Chief Investment Officer's Report (Attachment)
- 5) Executive Secretary's Report
- 6) Board Chair's Report
- 7) Future Agenda Items
- 8) Adjourn

### AUDIO ACCESS INFORMATION

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Board Meeting Minutes  
October 1<sup>st</sup>, 2019

Present in person were:

Sarah Godlewski, Board Chair	State Treasurer
Jonathan Barry, Executive Secretary	Board of Commissioners of Public Lands
Tom German, Deputy Secretary	Board of Commissioners of Public Lands
Mike Krueger, IT Manager	Board of Commissioners of Public Lands
Richard Sneider, Chief Investment Officer	Board of Commissioners of Public Lands

Present via teleconference were:

Josh Kaul, Commissioner	Attorney General
Doug La Follette, Commissioner	Secretary of State

**ITEM 1. CALL TO ORDER**

Board Chair Godlewski called the meeting to order at 1:58 p.m.

**ITEM 2. APPROVE MINUTES – SEPTEMBER 17<sup>th</sup>, 2019**

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

**DISCUSSION:** No Discussion

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

**ITEM 3. APPROVE LOANS**

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

**DISCUSSION:** Mr. Sneider noted the single loan was for road repairs and they were OK using the old loan rates because they needed to get started.

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

Municipality	Municipal Type	Loan Type	Loan Amount
1. Lake Mills Jefferson County Application #: 02020037 Purpose: Finance roadwork	Town Rate: 3.75% Term: 2 years	General Obligation	\$369,000.00
<b>TOTAL</b>			<b>\$369,000.00</b>

## ITEMS 4-8. OVERVIEW OF LAND TRANSACTION

**OVERVIEW:** Chairperson Godlewski briefly reviewed previous discussion on the land transaction and provided a high-level summary of the issue including the acreage being acquired through purchase by BCPL, that which would be acquired through land exchanges and the total timber acreage resulting to BCPL. The exchanges would provide for the permanent protection and preservation of most of those school trust lands that were being exchanged. The completed transaction will produce a school trust land base that is more consolidated, more productive, have better public access and can be managed more efficiently than the current land base.

**MOTION:** Commissioner La Follette thanked the chair and pointed out that the Board had significant discussion on these transactions during previous meetings and therefore he felt comfortable proceeding to approval.

Commissioner LaFollette moved approval of the four transactions as a package.

Chair Godlewski seconded the motion

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

## ITEM 9. CHIEF INVESTMENT OFFICER'S REPORT

Mr Sneider reported that market interest rates remain quite low. He provided the example of the ability of the State of Wisconsin to refinance tax exempt debt with taxable debt with rates near 2.40% for 12 years. BCPL did not acquire any of these new bonds, as rates were too low. Mr. Sneider also reported that staff was continuing the practice of weekly purchases of public equity ETFs.

## ITEM 10. EXECUTIVE SECRETARY'S REPORT

Executive Secretary Barry stated he did not have a report for this meeting.

## ITEM 11. BOARD CHAIR'S REPORT

Board Chairman Godlewski stated she did not have a report to deliver to the board at this time.

## ITEM 12. FUTURE AGENDA ITEMS

No future agenda items.

## ITEM 13. ADJOURN

Commissioner La Follotte moved to adjourn the meeting; Board Chair Godlewski seconded the motion. The motion passed 3-0; the meeting adjourned at 2:12 p.m.

  
Jonathan B. Barry, Executive Secretary

Link to audio recording: [https://bcpl.wisconsin.gov/Shared Documents/Board Meeting Docs/2019/2019-10-02\\_BoardMtgRecording.mp3](https://bcpl.wisconsin.gov/Shared Documents/Board Meeting Docs/2019/2019-10-02_BoardMtgRecording.mp3)

**BOARD MEETING  
OCTOBER 15, 2019**

**AGENDA ITEM 3  
APPROVE LOANS**

<u>Municipality</u>	<u>Municipal Type</u>	<u>Loan Type</u>	<u>Loan Amount</u>
1. Cedar Grove Sheboygan County Application #: 02020041 Purpose: Finance park improvements	Village Rate: 3.75% Term: 20 years	General Obligation	\$2,000,000.00
2. Garfield Jackson County Application #: 02020039 Purpose: Finance roadwork	Town Rate: 3.25% Term: 2 years	General Obligation	\$100,000.00
3. Mount Morris Waushara County Application #: 02020038 Purpose: Finance renovation of community center	Town Rate: 3.75% Term: 20 years	General Obligation	\$250,000.00
4. Sherwood Clark County Application #: 02020040 Purpose: Finance purchase of grader	Town Rate: 3.25% Term: 10 years	General Obligation	\$260,000.00
5. Whiting Portage County Application #: 02020042 Purpose: Interim financing for water project	Village Rate: 3.25% Term: 5 years	General Obligation	\$260,000.00
6. Whiting Portage County Application #: 02020043 Purpose: Interim financing for sewer project	Village Rate: 3.25% Term: 5 years	General Obligation	\$173,000.00
	<b>TOTAL</b>		<hr/> <b>\$3,043,000.00</b>

**BOARD MEETING**

**October 15, 2019**

**AGENDA ITEM 4**

**CHIEF INVESTMENT OFFICER'S REPORT – SEPTEMBER**

This may be starting to sound like a broken record: equity prices remain near record highs, interest rates remain near record lows, markets remain extremely volatile and BCPL Trust Funds are holding abundant levels of cash.

Our portfolios continue to perform quite well (see Attachment 1 for an analysis of our fixed-income yields), and we have started making significant commitments to the real estate asset class. We are in an excellent position to take advantage of new investment opportunities that will be designed to increase our long-term expected returns and reduce future earnings volatility.

My main concern is the pace of capital deployment and the potential short-term impact of the current interest rate environment on distributable income. It is expected that the Federal Reserve will continue to reduce short-term rates in an attempt to reverse recent economic trends. Further declines in interest rates will impact the yield earned on cash reserves and reduce the income available for distribution in 2020. The actual amount of the beneficiary distribution will not be impacted because we have sufficient reserves in the smoothing funds. But if interest rates remain near record lows, there is a chance that we may need to dip into the smoothing funds to supplement income in 2020. In that scenario, the smoothing funds would be performing exactly as designed and would be refilled later next year.

As we have discussed, high asset prices have a significant impact on the pace of capital deployment. It is difficult to move large amounts of capital into assets that are considered over-valued. In equities, staff continues to make weekly acquisitions to add to our ETF portfolio. These (relatively) small on-going purchases make sense because the yield generated by our ETF assets is greater than the return on cash, we have an extremely long investment horizon, and there can never be 100% certainty regarding short-term or medium-term equity pricing. On the bond side, staff believes there is little advantage to locking in rates for long periods of time that are only slightly higher than current cash yields.

Over the next several months, the Investment Committee will continue the process of committing capital to higher returning assets, including real estate and private debt. One important step in that process will be an update to the Investment Policy. The Investment Committee has been working on the policy for several months and it will be available for board review in the next few weeks.

Attached is an analysis that compares our fixed income portfolio against the S&P Taxable Municipal Bond Index. Our portfolio beat the benchmark by 1.41%, increasing quarterly income by \$3.9 million over an investment made in the benchmark index.

Attachments

1. 3<sup>rd</sup> Quarter Fixed Income Benchmark Comparison
2. Investment Transaction Report
3. Month-End Portfolio Report - Public Bonds
4. Month-End Portfolio Report - Public Equities

**BCPL**  
**Fixed Income Benchmark Comparison**  
**Fixed Income Assets Only**  
**3rd Quarter 2019**  
as of September 30, 2019

Comparison to Benchmark	Fixed-Income Assets	Expected Yield <sup>1</sup>	Average Credit Quality <sup>2</sup>	Weighted Avg Maturity	
<b>Total BCPL-Managed Fixed Income Assets</b>	<b>\$ 1,106,037,639</b>	<b>3.32%</b>	<b>Aa1</b>	<b>4.80 Yrs</b>	
<b>Benchmark Performance - S&amp;P Taxable Municipal Bond Index</b>		<b>2.65%</b>	<b>Aa3</b>	<b>14.94 Yrs</b>	
<b>BCPL Absolute Yield Relative to Benchmark</b>		<b>+ 0.67%</b>	<b>++</b>	<b>10.14</b>	
Adjustment for Better Credit Quality Compared to Benchmark <sup>3</sup>		+	0.25%		
Adjustment for Shorter Maturity Compared to Benchmark <sup>4</sup>		+	0.49%		
<b>BCPL Risk-Adjusted Yield Relative to Benchmark</b>		<b>+ 1.41%</b>			
<b>Detail of BCPL-Managed Fixed Income Assets</b>					
	<b>% of BCPL-Managed Fixed-Income Assets</b>			<b>Years</b>	
Bonds	21.51%	\$ 237,944,137	4.16%	Aa2	12.52
BCPL State Trust Fund Loans	41.40%	\$ 457,904,594	3.89%	Aa1	5.09
Cash and Cash Equivalents	37.09%	\$ 410,188,908	2.18%	Aaa	0.00
<b>Total BCPL-Managed Fixed Income Assets</b>	<b>100.00%</b>	<b>\$ 1,106,037,639</b>	<b>3.32%</b>	<b>Aa1</b>	<b>4.80</b>

**Notes to BCPL Benchmark Comparison:**

<sup>1</sup> 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.

<sup>2</sup> 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 Moodys 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.

<sup>3</sup> 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 this 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.

<sup>4</sup> Maturity Adjustment Maturity - 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.

Prepared by Richard Sneider, CFA, CIPM

**BOARD MEETING****October 15, 2019****AGENDA ITEM 4****Investment Transaction Report - September 2019**

Transactions during the month of September 2019 are as follows. Outstanding commitments are as of the end of the month:

Fixed Income**Bonds**

Purchases	None
Sales	None
Redemptions	None

**Trust Fund Loans**

Monthly Board Approvals	\$1.7 million
Monthly Disbursements	\$7.3 million
Redemptions	None
Outstanding Commitments	\$11.4 million

Equities and Alternatives**Public Equities<sup>1</sup>**

Purchases	\$7.0 million
Sales	\$1.0 million

**Real Estate/Infrastructure<sup>2</sup>**

Monthly Funding	None
Outstanding Commitments	\$90.0 million

**Private Equity/Venture Capital<sup>3</sup>**

Monthly Funding	\$150,000
Outstanding Commitments	\$27.3 million

<sup>1</sup> Regular purchases of public equity ETFs totaled \$5 million during September. The month-end rebalance trade included a purchase totaling \$2 million and sale of \$1 million in ETFs. The sales provided a long-term capital gain of approximately \$70,000 that will be added to CSF principal in accordance with the Investment Policy Statement.

<sup>2</sup> All outstanding commitments have been approved by the Investment Committee and are awaiting document review and execution. An additional commitment of \$30 million approved on 10/8/19 will be included in the October Transaction Report.

<sup>3</sup> Outstanding commitments include \$30 million in prior commitments less amounts called to date, along with \$7.5 million approved by the Investment Committee and awaiting document review and execution.



**BCPL Public Bond Portfolio**  
As of 09/30/2019

<u>Description</u>	<u>Moody's Rating</u>	<u>S&amp;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+	6.8%	3.65%	3.66%	12.51	14,972,500	15,159,000	186,500	546,500
Wisconsin and State Agency	Aa2	AA-	50.0%	4.17%	4.22%	10.22	106,539,075	112,188,594	5,649,518	4,623,536
Municipal/School District	Aa3	A+	43.2%	4.08%	4.13%	9.27	91,419,216	96,775,704	5,356,488	3,870,568
	Aa2	AA-	100.0%	4.10%	4.14%	9.97	212,930,791	224,123,298	11,192,506	9,040,605



**BCPL Public Equity Portfolio**

As of 09/30/2019

<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>
<b>Domestic Equities</b>											
VTI	Vanguard Total Stock Market ETF	99,656	137.00	13,652,702	151.000	15,048,056	20.0%	1,395,354	10.2%	1.8%	273,057
VYM	Vanguard High Dividend Yield ETF	127,057	83.29	10,582,196	88.730	11,273,768	15.0%	691,572	6.5%	3.2%	355,760
VXF	Vanguard Extended Market	32,382	114.92	3,721,353	116.330	3,766,998	5.0%	45,645	1.2%	1.3%	47,602
VIG	Vanguard Dividend Appreciation ETF	31,476	105.61	3,324,202	119.580	3,763,900	5.0%	439,698	13.2%	1.8%	66,414
VNQ	Vanguard REIT ETF	40,285	80.33	3,236,290	93.250	3,756,576	5.0%	520,287	16.1%	3.4%	126,495
		<u>330,856</u>		<u>34,516,742</u>		<u>37,609,298</u>	<u>50.0%</u>	<u>3,092,556</u>	<u>9.0%</u>	<u>2.3%</u>	<u>869,328</u>
<b>Global Equities</b>											
VEU	Vanguard FTSE All World ex-US ETF	301,668	49.89	15,048,863	49.900	15,053,233	20.0%	4,370	0.0%	3.1%	461,552
VYMI	Vanguard International High Dividend ETF	188,714	60.67	11,449,302	59.390	11,207,724	14.9%	(241,578)	-2.1%	4.4%	496,318
VNQI	Vanguard Global ex-US Real Estate ETF	64,194	57.04	3,661,339	58.590	3,761,126	5.0%	99,788	2.7%	3.8%	141,227
VIGI	Vanguard International Div Appreciation ET	56,491	62.46	3,528,572	66.570	3,760,606	5.0%	232,034	6.6%	1.4%	54,220
SCZ	Ishares MSCI EAFE Small Cap	32,919	56.60	1,863,345	57.230	1,883,954	2.5%	20,609	1.1%	2.8%	53,000
EEMS	Ishares MSCI Emerging Mkt Small Cap	44,691	43.02	1,922,830	42.110	1,881,938	2.5%	(40,892)	-2.1%	2.7%	50,948
		<u>688,677</u>		<u>37,474,251</u>		<u>37,548,582</u>	<u>50.0%</u>	<u>74,332</u>	<u>0.2%</u>	<u>3.3%</u>	<u>1,257,264</u>
		<u>1,019,533</u>		<u>71,990,993</u>		<u>75,157,880</u>	<u>100.0%</u>	<u>3,166,887</u>	<u>4.4%</u>	<u>2.8%</u>	<u>2,126,592</u>