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Jonathan Barry, *Executive Secretary*

AGENDA

December 17th, 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
- 2) Approve Minutes – December 3rd, 2019 (Attachment)
- 3) Approve Loans (Attachment)

Old Business:

- 4) Update on fiduciary duty discussions

New Business:

- 5) Discuss the need for outside counsel for real estate investments

Routine Business:

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

AUDIO ACCESS INFORMATION

Toll Free Number: **(888) 291-0079**
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Board Meeting Minutes
December 3rd, 2019

Present in person were:

Doug LaFollette, Commissioner	Secretary of State
Jonathan Barry, Executive Secretary	Board of Commissioners of Public Lands
Tom German, Deputy Secretary	Board of Commissioners of Public Lands
Julie Benkoske	State Treasurer’s Office
Richard Sneider, Chief Investment Officer	Board of Commissioners of Public Lands

Present via teleconference were:

Josh Kaul, Commissioner	Attorney General
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Board members not present for meeting:

Sarah Godlewski, Board Chair	State Treasurer
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ITEM 1. CALL TO ORDER

Commissioner LaFollette called the meeting to order at 1:58 p.m.

ITEM 2. APPROVE MINUTES – NOVEMBER 19th, 2019

MOTION: Commissioner Kaul moved to approve the minutes; Commissioner LaFollette seconded the motion.

DISCUSSION: No discussion.

VOTE: The motion passed 2-0.

ITEM 3. APPROVE LOANS

MOTION: Commissioner LaFollette moved to approve the loans; Commissioner Kaul seconded the motion.

DISCUSSION: Mr. Sneider provided additional detail regarding the loan applications of Black River Falls and Mount Pleasant. Commissioner Kaul had questions regarding the impact of the FoxConn project on the credit quality of the Mount Pleasant loan. Mr. Sneider explained that this loan was for projects that did not involve the FoxConn development and were located within a tax incremental district that has already experienced successful development with a TID value increment in excess of \$83 million. In addition, the amount of general obligation issued by the Village of Mount Pleasant remains moderate, and Mount Pleasant retains significant borrowing capacity. In any case, BCPL will remain in an excellent position by virtue of the statutory ability to intercept state aid due the Village in case of loan default. This intercept has never been required in the history of the program, which began in 1871, but provides a great incentive for any Borrower to repay their Trust Fund Loan. Staff indicated they were highly confident that the loan would be repaid as agreed.

VOTE: The motion passed 2-0.

The Board of Commissioners of Public Lands (BCPL) unanimously approved **\$9,101,231.00** in State Trust Fund Loans to support **11** community projects in Wisconsin.

- > City of Black River Falls / Jackson County / Finance TID #3 infrastructure projects / \$1,210,000.00
- > Village of Campbellsport / Fond Du Lac County / Finance library roof project / \$85,000.00
- > City of Cumberland / Barron County / Finance roadwork / \$688,500.00
- > De Pere School District / Brown County / Finance school remodel and IT purchases / \$530,000.00
- > Town of Greenwood / Taylor County / Finance purchase of fire truck / \$100,000.00
- > Town of Highland / Douglas County / Finance tractor and brusher / \$144,531.00
- > Town of Lawrence / Brown County / Finance purchase of plow truck and property / \$500,000.00
- > City of Merrill / Lincoln County / Finance HVAC, Fiber, and Police Projects / \$251,200.00
- > City of Middleton / Dane County / Finance flood recovery projects / \$590,000.00
- > Village of Mount Pleasant / Racine County / Finance TID #1 Projects / \$4,977,000.00
- > Village of Rib Lake / Taylor County / Finance purchase of fire equipment / \$25,000.00

ITEM 4. ASSET ALLOCATION CHANGES IN INVESTMENT PLAN

MOTION: Commissioner Kaul moved to approve the asset allocation changes; Commissioner LaFollette seconded the motion.

DISCUSSION: Mr. Sneider noted the allocation to public equities is not changing, and the major modification is an increase in the allocation to real estate.

VOTE: The motion passed 2-0.

ITEM 5. CHIEF INVESTMENT OFFICER'S REPORT

Mr. Sneider has no report this week.

ITEM 6. EXECUTIVE SECRETARY'S REPORT

Executive Secretary Barry brought up an issue where the Governor's office, in a meeting with staff of the Treasurer's office, asserted that BCPL was one "of just three agencies that were found lacking in their financial control responsibilities." When we were informed of this, it was not immediately apparent to any of our staff—Tom, Denise or myself—what was being referred to. We surmised, correctly it turned out, that this probably had something to do with the new STAR system implementation. In a smaller agency such as ours, it is more difficult to maintain a span of control in all transactions where, for example, a payment may come in and then a deposit made but where it is important to have a degree of separation among employees handling the transaction.

Deputy Secretary German investigated this further and pointed out that BCPL had, for years, maintained an Internal Control Plan that had worked well and had been approved by DOA and understood by the LAB. However, when the State cut over to STAR, that system was different from that which that state had been using. There were some pieces missing from STAR in the accounts receivable module. The fix will be for agencies, including BCPL, to set up a "compensating control plan" that would provide for a hard copy step for internal approval by a second pair of eyes within the agency before having the document go to DOA.

ITEM 7. BOARD CHAIR'S REPORT

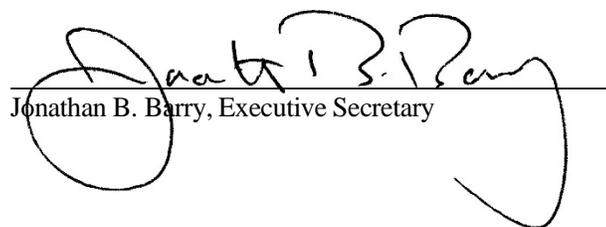
Commissioner LaFollette had no board chair report.

ITEM 8. FUTURE AGENDA ITEMS

Deputy Secretary German asked that we put on the next agenda the issue of outside counsel for real estate investments that are part of our approved asset allocation and are being contemplated but cannot be undertaken without outside counsel review. Commissioners Kaul and La Follette agreed that this matter should be included on the agenda for the next meeting on December 17th.

ITEM 9. ADJOURN

Commissioner Kaul moved to adjourn the meeting; Commissioner LaFollette seconded the motion. The motion passed 2-0; the meeting adjourned at 2:23 p.m.



Jonathan B. Barry, Executive Secretary

Link to audio recording:

https://bcpl.wisconsin.gov/Shared Documents/Board Meeting Docs/2019/2019-12-03_BoardMtgRecording.mp3

**BOARD MEETING
DECEMBER 17, 2019**

**AGENDA ITEM 3
APPROVE LOANS**

Municipality	Municipal Type	Loan Type	Loan Amount
1. Cumberland Barron County Application #: 02020083 Purpose: Finance airport projects	City Rate: 3.25% Term: 5 years	General Obligation	\$60,000.00
2. Two Rivers Manitowoc County Application #: 02020084 Purpose: Refinance WRS Unfunded Pension Liability	City Rate: 3.25% Term: 10 years	General Obligation	\$1,200,000.00
3. Beaver Dam Dodge County Application #: 02020085 Purpose: Finance purchase of capital equipment	City Rate: 3.25% Term: 3 years	General Obligation	\$275,000.00
4. Endeavor Marquette County Application #: 02020086 Purpose: Finance roadwork	Village Rate: 3.25% Term: 5 years	General Obligation	\$10,000.00
5. York Dane County Application #: 02020087 Purpose: Finance purchase of plow truck	Town Rate: 3.25% Term: 5 years	General Obligation	\$250,000.00
6. Madison Dane County Application #: 02020088 Purpose: Finance purchase of vehicles and equipment	Town Rate: 3.25% Term: 10 years	General Obligation	\$410,000.00
7. Viroqua Vernon County Application #: 02020089 Purpose: Refinance unfunded WRS pension liability	City Rate: 3.25% Term: 9 years	General Obligation	\$865,000.00
	TOTAL		\$3,070,000.00

**BOARD MEETING
December 17, 2019**

**AGENDA ITEM 6
CHIEF INVESTMENT OFFICER'S REPORT – NOVEMBER**

The BCPL Investment Committee has approved a strategy to invest up to \$5 million weekly in corporate bond funds following board approval of the new allocation model. Specific bond funds were chosen to balance the risks of the CSF fixed income portfolio, while increasing the overall yield. The yield on these bond funds is greater than the yields currently available on government debt, trust fund loans and cash reserves. This strategy should increase amounts available for distribution to beneficiaries, along with improving portfolio diversification.

Staff has continued to utilize a methodical approach to investing in public equities. The long investment horizon available to the permanent Common School Fund (CSF) reduces some concerns regarding the price level of new acquisitions. Diversification of trust assets is a fiduciary responsibility as prescribed by the Prudent Investor Standard. However, staff believes this diversification must continue in a prudent manner that considers current market conditions.

Staff continues to evaluate additional asset classes (e.g. preferred stock, convertible bonds) for potential entry points and diversification benefits to the portfolio.

Early in 2018, BCPL made a \$15 million commitment to 4490 Ventures II, L.P., the second fund sponsored by this local venture firm. 4490 Ventures II has now made six investments: four are currently held at investment value, and one has been "marked up" to include the increase in value signaled through subsequent financing. Staff was recently informed that 4490 Ventures has now written off the remaining portfolio investment to zero. While this recent decision must be considered a setback for 4490 Venture II, the overall impact on the CSF portfolio is negligible with a realized accounting loss of about \$1.15 million. Staff believes that the 4490 Ventures II portfolio will more than recover this loss over the remaining investment horizon.

Attachments

1. Investment Transaction Report
2. Month-End Portfolio Report - Public Bonds
3. Month-End Portfolio Report - Public Equities

BOARD MEETING**December 17, 2019****AGENDA ITEM 6****Investment Transaction Report - November 2019**

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

Fixed Income

Bonds

Purchases ¹	\$1,330,000
Sales	None
Redemptions	None

Trust Fund Loans

Monthly Board Approvals	\$12.5 million
Monthly Disbursements	\$3.0 million
Redemptions	None
Outstanding Commitments	\$39.5 million

Equities and Alternatives

Public Equities

Purchases	\$3.0 million
Sales	None

Real Estate/Infrastructure²

Monthly Funding	None
Outstanding Commitments	\$120.0 million

Private Equity/Venture Capital³

Monthly Funding	None
Outstanding Commitments	\$27.3 million

Cash Balance**\$373.6 million**

¹ Staff purchased municipal bonds totaling \$600,000, WARF bonds totaling \$15 million, and Corporate Bond ETFs totaling \$4 million between 12/1/19 and 12/13/19. These transactions will be included in the December transaction report.

² All outstanding commitments have been approved by the Investment Committee and are awaiting document review and execution.

³ Outstanding commitments include \$37.5 million in total commitments less amounts called to date.



BCPL Public Bond Portfolio
As of 11/30/2019

<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+	6.8%	3.65%	3.66%	12.29	14,972,500	15,142,445	169,945	546,500
Wisconsin and State Agency	Aa2	AA-	50.2%	4.17%	4.21%	9.96	106,433,912	111,414,653	4,980,741	4,623,536
Municipal/School District	Aa3	A+	42.9%	4.07%	4.13%	9.04	90,281,430	95,136,710	4,855,280	3,808,478
	Aa2	AA-	100.0%	4.10%	4.14%	9.72	211,687,842	221,693,809	10,005,966	8,978,515



BCPL Public Equity Portfolio
As of 11/30/2019

<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>
Domestic Equities											
VTI	Vanguard Total Stock Market ETF	109,071	138.36	15,090,810	160.020	17,453,541	20.4%	2,362,731	15.7%	1.7%	298,855
VYM	Vanguard High Dividend Yield ETF	140,867	83.85	11,811,224	91.760	12,925,956	15.1%	1,114,732	9.4%	3.1%	394,428
VXF	Vanguard Extended Market	35,762	115.19	4,119,378	124.010	4,434,846	5.2%	315,467	7.7%	1.2%	52,570
VIG	Vanguard Dividend Appreciation ETF	34,498	106.79	3,683,885	122.540	4,227,385	4.9%	543,500	14.8%	1.7%	72,791
VNQ	Vanguard REIT ETF	44,881	81.66	3,665,089	93.070	4,177,075	4.9%	511,985	14.0%	3.4%	140,926
		<u>365,079</u>		<u>38,370,386</u>		<u>43,218,803</u>	<u>50.5%</u>	<u>4,848,416</u>	<u>12.6%</u>	<u>2.2%</u>	<u>959,569</u>
Global Equities											
VEU	Vanguard FTSE All World ex-US ETF	326,055	49.96	16,288,182	52.160	17,007,029	19.9%	718,847	4.4%	2.9%	498,864
VYMI	Vanguard International High Dividend ETF	205,169	60.67	12,448,240	61.800	12,679,444	14.8%	231,205	1.9%	4.3%	539,594
VIGI	Vanguard International Div Appreciation ET	60,916	62.83	3,827,602	69.920	4,259,247	5.0%	431,645	11.3%	1.4%	58,467
VNQI	Vanguard Global ex-US Real Estate ETF	69,204	57.23	3,960,787	60.460	4,184,074	4.9%	223,287	5.6%	3.6%	152,249
SCZ	Ishares MSCI EAFE Small Cap	35,469	56.75	2,012,899	61.010	2,163,964	2.5%	151,065	7.5%	2.6%	57,105
EEMS	Ishares MSCI Emerging Mkt Small Cap	48,176	43.02	2,072,731	43.445	2,093,016	2.4%	20,285	1.0%	2.6%	54,921
		<u>744,989</u>		<u>40,610,439</u>		<u>42,386,773</u>	<u>49.5%</u>	<u>1,776,334</u>	<u>4.4%</u>	<u>3.2%</u>	<u>1,361,200</u>
		<u>1,110,068</u>		<u>78,980,825</u>		<u>85,605,576</u>	<u>100.0%</u>	<u>6,624,750</u>	<u>8.4%</u>	<u>2.7%</u>	<u>2,320,770</u>