



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

Thomas P. German, *Executive Secretary*

AGENDA

March 17th, 2020
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 – March 3rd, 2020 (Attachment)
- 3) Approve Loans (Attachment)

Old Business:

- 4) Ratify Loan Rate Adjustment

New Business:

- 5) None

Routine Business:

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

AUDIO ACCESS INFORMATION

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Board Meeting Minutes
March 3rd, 2020

Present in person were:

Tom German, Executive Secretary
Mike Krueger, IT Manager
Denise Nechvatal, Accountant
Richard Sneider, Chief Investment Officer

Board of Commissioners of Public Lands
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Present via teleconference were:

Sarah Godlewski, Board Chair
Josh Kaul, Commissioner
Doug LaFollette, Commissioner

State Treasurer
Attorney General
Secretary of State

Absent Board members:

None

ITEM 1. CALL TO ORDER

Board Chair Godlewski called the meeting to order at 2:02 p.m.

ITEM 2. APPROVE MINUTES – FEBRUARY 18th, 2020.

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

DISCUSSION: None

VOTE: The motion passed 3-0.

ITEM 3. APPROVE LOANS

MOTION: Commissioner Lafollette moved to approve the loans; Board Chair Godlewski seconded the motion.

DISCUSSION: Mr. Sneider discussed the Marshall loan which is for land for a developer for a new apartment complex. Commissioner Lafollette asked if the land was being given to the developer, Mr. Sneider commented that the structure of the deal might involve a subsidy to the developer or be a pass-through loan to the developer would be paid back.

Mr. Sneider also discussed the potential increase in loans that are refinancing prior BCPL loans. As interest rates have hit record lows, we can expect an increase in these refinance situations. The only hurdle for borrowers face in refinancing a BCPL loan is the requirement that they borrow additional funds for a new project that amount to a minimum of 25% of the amount they would like to refinance.

VOTE: The motion passed 3-0.

The Board of Commissioners of Public Lands (BCPL) unanimously approved **\$2,297,361.36** in State Trust Fund Loans to support **7** community projects in Wisconsin.

- > Town of Black Creek / Outagamie County / Finance ambulance purchase / \$275,852.00
- > Town of Ellington / Outagamie County / Finance purchase of fire truck / \$700,000.00
- > Village of Kendall / Monroe County / Refinance bank debt / \$406,431.62
- > Village of Marshall / Dane County / Finance development incentive / \$425,000.00
- > Town of Mercer / Iron County / Finance purchase of fire truck / \$308,824.00
- > City of Merrill / Lincoln County / Finance city hall roof repairs / \$80,000.00
- > City of Merrill / Lincoln County / Refinance BCPL Loan #2005180 / \$101,253.74

ITEM 4. NO OLD BUSINESS

DISCUSSION: None

ITEM 5. NO NEW BUSINESS

DISCUSSION: None

ITEM 6. CHIEF INVESTMENT OFFICER'S REPORT

Mr. Sneider commented that the 15% drop in equity prices over the past week has provided a buying opportunity. The BCPL is a permanent fund, and staff is looking for a better price point to get into the new asset classes. Staff utilized the full authority provided by the Investment Committee, which also had a special meeting to provide additional authority to take advantage of this market volatility

Mr. Sneider indicated that the BCPL portfolio is in good shape, and includes a strong bond portfolio and cash to take advantage of market fluctuations. The biggest risk may be the decline in interest rates and the potential to lose many of the trust fund loans if refinanced through the bond market or bank debt.

Mr. Sneider also mentioned that the investment committee had recently made a \$30 million commitment to the Blackstone/GSO Secured Loan Fund, a fund that makes loans to small and middle market companies. The sponsor has an excellent track record and the loans have good security, but are at higher risk level than the municipal and agency bonds that BCPL has acquired in prior years. The investment should provide returns in the 8-10% range with loans that are floating rate, so the investment will benefit when rates eventually turn higher.

Board Chair Godlewski commented that Rich was doing good work on further diversification.

ITEM 7. EXECUTIVE SECRETARY'S REPORT

Executive Secretary German reported staff have completed in-person interviews of four final candidates for the BCPL office manager position. They are currently conducting reference checks before making an offer.

Secretary German said he met with a number of people at the Wisconsin Wetland Association conference in an attempt to find advocates for conservation entities to acquire and preserve BCPL's wetland holdings. He discovered that the state is in the midst of updating its comprehensive plan for wetland mitigation and preservation and a number

of people stepped forward to offer their assistance. He is currently scheduling follow up meetings with those individuals.

Wisconsin Venture Investors (“VI”) provided an update on our venture capital investment in their fund. VI gave a quick summary of how all of the companies that VI invested in were doing. VI has kept its valuations of most of those investments at the initial investment amount. However, the valuation of two of the investments were increased slightly which increased the total valuation of our investment in the fund.

Secretary German met with Sarah and officials from WHEDA to discuss the possibility of BCPL investing in some of WHEDA’s fixed income investments. It was a good discussion and we will be getting together again to look at more concrete opportunities.

Secretary German met with USFS officials in Rhinelander last week to express our disappointment that the proposed exchange between our agencies was not progressing in a timely manner. However, they had a productive discussion and the USFS laid out their expected project timeline and remaining challenges and hopefully they will be putting out the appraisals for bid within the next couple of weeks and the appraisal work should start before the end of our fiscal year.

Yesterday, BCPL hosted over 20 county Registers of Deeds from across the state for a tour of our land records archive. It was a great group of engaged visitors.

Secretary German met with an official from the Conservation Fund about potential sales of BCPL properties and purchases of productive timberland. We have worked with the Conservation Fund on land transactions in the past and there appear to be some opportunities to work on some larger transactions in the future.

ITEM 8. BOARD CHAIR’S REPORT

Board Chair Godlewski commented that the investment committee is continuing to look for other investment opportunities.

ITEM 9. FUTURE AGENDA ITEMS

No new future agenda items.

ITEM 10. ADJOURN

Commissioner Lafollette moved to adjourn the meeting; Board Chair Godlewski and Commissioner Kaul seconded the motion. The motion passed 3-0; the meeting adjourned at 2:19 p.m.



Thomas P. German, Executive Secretary

Link to audio recording: <https://bcpl.wisconsin.gov/SharedDocuments/BoardMeetin0Docs/2020/2020-03-03-BoardMtgRecording.mp3>

**BOARD MEETING
MARCH 17, 2020**

**AGENDA ITEM 3
APPROVE LOANS**

Municipality	Municipal Type	Loan Type	Loan Amount
1. Mishicot Manitowoc County Application #: 02020117 Purpose: Finance land purchase	Village Rate: 3.25% Term: 10 years	General Obligation	\$270,000.00
2. Menasha Calumet and Winnebago Counties Application #: 02020118 Purpose: Finance street, sidewalk and trail projects	City Rate: 2.75% Term: 7 years	General Obligation	\$1,390,000.00
3. Menasha Calumet and Winnebago Counties Application #: 02020119 Purpose: Finance street, buildings, and park projects	City Rate: 3.50% Term: 20 years	General Obligation	\$1,005,000.00
4. Menasha Calumet and Winnebago Counties Application #: 02020120 Purpose: Finance street and sidewalk projects	City Rate: 2.75% Term: 10 years	General Obligation	\$490,000.00
TOTAL			<hr/> \$3,155,000.00

BOARD MEETING
March 17, 2020

AGENDA ITEM 4
RATIFY ADJUSTMENTS TO STATE TRUST FUND LOAN PROGRAM INTEREST RATES

Background

Market interest rates fell significantly in the last few weeks, extending a steep drop that began in late December. The 10 year benchmark Treasury yield fell from 1.92% at year end to bottom out at the record level of 0.34% on March 9th.

Staff Recommendations

BCPL loan rates should reflect current market conditions. BCPL staff is recommending that we lower our rates by 0.75% for loans with 2-5 year maturities, .50% for loans with 6-10 year maturities, and 0.25% for loans of 11-20 year maturities.

The recommended rates are among the lowest rates ever offered on trust fund loans, which are prevented by statute from being lower than 2%. Staff believes the rate structure below offers some incentive for customers to borrower necessary funds with shorter-term loans, which will reduce the long-term impact of this interest rate market on beneficiary distributions.

<u>Loan Term</u>	<u>Prior Rate</u>	<u>New Rate</u>	<u>Change</u>
2 Years	3.25%	2.50%	-0.75%
3-5 Years	3.25%	2.50%	-0.75%
6-10 Years	3.25%	2.75%	-0.50%
11-20 Years	3.75%	3.50%	-0.25%

Authorization for Interest Rate Adjustment

The Board had previously authorized the Executive Secretary in consultation with the Board Chair to adjust loan interest rates up to 1% in between board meetings. In accordance with that authority, the Executive Secretary and Board Chair approved these changes effective March 3, 2020.

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 2.50% for 2-year loans; 2.50% for 3-5 year loans; 2.75% % for 6-10 year loans; and 3.50% for 11-20 year loans.

BOARD MEETING

March 17, 2020

AGENDA ITEM 6

CHIEF INVESTMENT OFFICER'S REPORT – FEBRUARY

What a difference a month makes.

Four weeks ago, my report discussed the initial concerns of the coronavirus and the subsequent 3% correction in stock prices. Also mentioned was the 14-month drop in Treasury yields that brought the benchmark 10-year note to near 1.5%.

It took just one month for the 10-year Treasury drop another 80% to a new low of 0.34% on March 9th. The last 30 days have also witnessed the Dow Jones Industrial Average falling over 8,000 points since hitting a record level of 29,551.

The great news is that BCPL is extremely well positioned in the environment. We maintain strong bond and loan portfolios, which produce significant income for our beneficiaries and have increased in value during this market turmoil. We have high levels of cash reserves and have been able to take advantage of lower stock prices to make progress in fulfilling target allocations to the public equity asset class. And we have made substantial commitments to both real estate and private debt, which will diversify our income streams and reduce our exposure to market fluctuations.

The BCPL Investment Committee has been active in responding to this unstable market, with two regular meetings and two special meetings over the past month. Market conditions have created certain risks and opportunities, and the Investment Committee increased staff authority to provide the necessary tools for immediate action in response to the volatile environment. Staff has responded with timely purchases of public equities within the target allocations as provided by the board-approved Investment Policy. These assets were acquired at huge discounts to their market value only weeks ago, and are prudent acquisitions for a permanent fund.

Staff members and the Investment Committee anticipate remaining in constant contact with each other as the coronavirus situation unfolds.

Attachments

- Investment Transaction Report
- Month-End Portfolio Report - Public Bonds
- Month-End Portfolio Report - ETFs and Mutual Funds

BOARD MEETING**March 13, 2020****AGENDA ITEM 6****Investment Transaction Report – February 2020****Fixed Income**

Bonds		
Purchases		None
Sales		None
Redemptions		\$325,000
ETFs and Mutual Funds		
Purchases		\$17.5 million
Sales		None
Private Debt		
Monthly Funding		None
Outstanding Commitments ¹		\$30.0 million

Equities and Alternatives

ETFs and Mutual Funds		
Purchases		\$12.0 million
Sales		None
Real Estate/Infrastructure ²		
Monthly Funding		\$40.0 million
Outstanding Commitments		\$110.0 million
Private Equity/Venture Capital		
Monthly Funding		None
Outstanding Commitments		\$24.6 million

¹ The BCPL Investment Committee made a commitment of \$30 million to Blackstone/GSO Secured Lending Fund at their meeting held 2/25/20. This investment is subject to the acceptance of a 3rd party due diligence report.

² The \$40 million commitment to the Blackstone Real Estate Investment Trust was funded in late February following review and acceptance of the 3rd party due diligence report by the BCPL Investment Committee.

Outstanding commitments to the Real Estate/Infrastructure asset class increased with a \$30 million commitment to Blackstone Strategic Partners Real Estate Fund VII. The 3rd party due diligence report on this fund has been received and accepted by the BCPL Investment Committee, and funding of this investment is now subject to document review and execution.

Three additional commitments totaling \$80 million remain subject to 3rd party due diligence reports.

End-of-month Trust Fund balance sheets were not available at the time of this report, so data regarding the loan program and cash balances has been omitted.



BCPL Public Bond Portfolio
As of 02/28/2020

<u>Description</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>
Publicly-Traded Fixed Income Securities							
Wisconsin and State Agency	4.17%	4.21%	9.78	106,430,434	113,065,923	6,635,490	4,623,536
Municipal/School District	4.03%	4.10%	9.00	91,864,308	98,646,624	6,782,316	3,849,123
Treasury and Agency Securities	3.65%	3.66%	12.05	14,972,500	15,123,785	151,285	546,500
Corporate Debt	3.56%	3.56%	19.04	15,000,000	16,409,250	1,409,250	534,600
	<u>4.04%</u>	<u>4.09%</u>	<u>10.23</u>	<u>228,267,242</u>	<u>243,245,582</u>	<u>14,978,340</u>	<u>9,553,760</u>



Common School Fund ETFs and Mutual Funds
As of 02/28/2020

<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>Unrealized Gain (Loss)</u>	<u>Percent Gain (Loss)</u>	<u>Current Yield</u>	<u>Projected Annual Income</u>
Corporate Debt										
USHY	iShares Broad USD HY Corp Bond	765,716	41.12	31,489,831	40.41	30,942,584	(547,247)	-1.7%	6.0%	1,860,690
BYLD	iShares Yield Optimized Bond ETF	406,234	25.87	10,508,119	26.06	10,586,458	78,339	0.7%	3.6%	382,920
JMSIX	JPM Income Fund	1,087,500	9.66	10,500,000	9.69	10,537,873	37,873	0.4%	5.1%	534,330
				52,497,950		52,066,914	(431,036)	-0.8%	5.3%	2,777,940
Domestic Equity										
VTI	Vanguard Total Stock Market ETF	136,833	142.60	19,512,573	150.44	20,585,157	1,072,583	5.5%	1.9%	396,816
VYM	Vanguard High Dividend Yield ETF	185,768	85.10	15,808,093	82.50	15,325,860	(482,233)	-3.1%	3.4%	527,581
VXF	Vanguard Extended Market	44,320	116.85	5,178,789	115.57	5,122,062	(56,727)	-1.1%	1.4%	72,685
VIG	Vanguard Dividend Appreciation E	44,465	110.32	4,905,538	114.91	5,109,473	203,935	4.2%	1.9%	94,710
VNQ	Vanguard REIT ETF	58,410	84.29	4,923,285	87.33	5,100,945	177,660	3.6%	3.6%	183,407
				50,328,278		51,243,497	915,219	1.8%	2.5%	1,275,199
Global Equity										
VEU	Vanguard FTSE All World ex-US ET	423,883	50.32	21,330,395	48.49	20,554,087	(776,308)	-3.6%	3.4%	707,885
VYMI	Vanguard International High Divid	272,387	60.63	16,516,173	56.39	15,359,903	(1,156,270)	-7.0%	4.8%	729,997
VNOI	Vanguard Global ex-US Real Estat	94,658	57.46	5,438,666	54.14	5,124,784	(313,882)	-5.8%	8.3%	424,068
VIGI	Vanguard International Div Appre	76,975	64.32	4,951,161	66.35	5,107,291	156,130	3.2%	2.0%	101,607
EEMS	Ishares MSCI Emerging Mkt Small	65,148	42.92	2,795,904	40.74	2,654,130	(141,774)	-5.1%	2.9%	77,937
SCZ	Ishares MSCI EAFE Small Cap	45,471	57.32	2,606,285	54.56	2,480,898	(125,388)	-4.8%	4.0%	99,581
				53,638,583		51,281,092	(2,357,491)	-4.4%	4.2%	2,141,075
				156,464,812		154,591,504	(1,873,308)	-1.2%	4.0%	6,194,214