

Board Meeting  
Minutes  
April 5, 2022

Present were:

Sarah Godlewski, Board Chair	State Treasurer
Doug LaFollette, Commissioner	Secretary of State
Josh Kaul, Commissioner	Attorney General
Richard Sneider, Chief Investment Officer	Board of Commissioners of Public Lands
Denise Nechvatal, Senior Accountant	Board of Commissioners of Public Lands
Mike Krueger, IT Manager	Board of Commissioners of Public Lands
Thuy Nguyen, Office Manager	Board of Commissioners of Public Lands
Emma Stutzman, Chief of Staff	State Treasurer

### ITEM 1. CALL TO ORDER

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

### ITEM 2. APPROVE MINUTES – March 15, 2022

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

**DISCUSSION:** None

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

### ITEM 3. APPROVE LOANS

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

**DISCUSSION:** Mr. Sneider explained that road work and refinancing making up the bulk of the loans. He noted that some of the loans are at the lower old interest rate as they were initiated before we changed our rates.

Commissioner LaFollette asked if interest rates are higher on longer range loans.

Mr. Sneider replied yes. Generally, that is true. He will discuss that further in his report.

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

The Board of Commissioners of Public Lands (BCPL) unanimously approved **\$4,207,620.68** in State Trust Fund Loans to support **8** community projects in Wisconsin.

1. Town of Calumet / Fond du Lac County / Finance purchase of truck/snowplow / \$170,000.00
2. Town of Conover / Vilas County / Refinance BCPL Loan #2020057 / \$138,269.61
3. Town of Conover / Vilas County / Refinance BCPL Loan #2020059 / \$106,956.71
4. Town of Conover / Vilas County / Refinance BCPL Loan #2020058 / \$48,394.36
5. Town of Kingston / Juneau County / Finance purchase of truck / \$94,000.00
6. Town of Delafield / Waukesha County / Finance roadwork / \$250,000.00
7. Town of Metomen / Fond Du Lac County / Finance roadwork / \$400,000.00
8. Town of Knowlton / Marathon County / Finance reconstruction of Old Highway 51 / \$3,000,000.00

#### **ITEM 4. OLD BUSINESS**

None

#### **ITEMS 5. NEW BUSINESS**

None

#### **ITEM 6. CHIEF INVESTMENT OFFICER'S REPORT**

Mr. Sneider shared that the investment committee approved another increase in the State Trust Fund Loan Program interest rates. The new rates went into effect March 28<sup>th</sup> and the increase was needed to reflect current market conditions. The new interest rates for the State Trust Fund Loan Program are 4.00% for 2-10 years and 4.25% for 11-20 years.

It is unusual to have the same rate for a 10 year loan as a 2 year. Most of the time BCPL's longer term rates are substantially higher than the rate on shorter term loans. However, BCPL sets its rates in consideration of how the national fixed income markets are moving and right now the interest rates on U.S. treasury securities are pretty much the same across the board. 2, 10 and 20 year treasury rates are about 2.5%. The 5 year treasury note rate is actually higher at 2.7% than the 10 and 20 year rates. An "inverted" yield curve means that the short term rates are higher than the long term interest rates. In the past an inverted curve has usually been a precursor to recession. Here is the theory about why this time is different - quantitative easing. Quantitative easing is Fed speak for the Fed buying debt in the open market to push down interest rates which may have artificially created this inversion by reducing longer term interest rates.

The market is anticipating that the Federal Reserve will raise short term rates substantially over the remainder of the year in an effort to subdue inflation. This will probably include the Fed selling off many of the \$4 trillion in bonds that they purchased since the onset of COVID-19. Selling these bonds will increase overall supply and effectively reduce prices. And when bond prices go down, yields go up. Interest rates are definitely on the rise. So, what does this all mean for BCPL?

First, our current fixed income portfolio will lose value. At the next quarterly reporting, you'll notice that bond valuations have already declined. The nice thing about bonds is that unless there's a default, you get 100% of your principal back upon maturity.

Second, as market interest rates go up, we will begin to see fewer early redemptions in bonds. As rates go up, there is less incentive for bond issuers to refinance. That will help stabilize that part of our portfolio.

Third, as rates become more attractive from an investment standpoint, we will begin to invest more of our excess cash reserves into longer term fixed income investments that pay reasonable rates of return.

Fourth, we will also begin to grow the interest income received from the State Trust Fund Loan Program. The average interest rate in our loan portfolio will slowly begin to move higher. And as with bonds, incentive for our customers to refinance and prepay loans will go down.

And last, the big picture is that a higher interest rate environment will improve our ability to generate distributable income over the long term.

The investment committee made an additional \$13 million commitment to the Invesco US Income Fund, one of our open-ended real estate funds that invests in a diversified portfolio across the United States. In addition to property appreciation, this fund has been generating 5.4% in distributable income. The new commitment brings the total investment in this fund to about \$55 million or 4% of Common School Fund assets. This level of funding will allow about 25% appreciation before we reach the threshold of 5% of total assets for any one fund investment. In addition, the Investment Committee also made a \$20 million commitment to Venture Investors Health Fund VII, a new Madison based fund managed by the same team as one of our current Venture capital investments. We've been very pleased with the performance of our

current investment in Fund VI. It is expected that this commitment will close over the summer and be called over the next three to four years.

Board Chair Godlewski reiterated to the Commissioners that the Investment Committee has been very busy. With regards to all the work the Investment Committee has taken on, we're seeing it pay off as we continue to have record breaking distributions. She shared her appreciation for the work. She emphasized that Venture investments is an example of partnering with firms that are based here in Wisconsin.

#### **ITEM 7. EXECUTIVE SECRETARY'S REPORT**

None

#### **ITEM 8. BOARD CHAIR'S REPORT**

Board Chair Godlewski shared that she was in Green Bay yesterday and did a Common School Fund distribution to the Green Bay Public Schools. People were incredibly appreciative and the former head of WEMTA was there. She commented that it was a very appropriate event as April is National School Librarian Month. It was a great way to kick off this month knowing that our funds are often the sole source of funding for Wisconsin's public school libraries. She added that the next BCPL meeting will be a bit longer. In addition to some land transactions, an update on the goals and priorities of the agency will be presented.

#### **ITEM 9. FUTURE AGENDA ITEMS**

None

#### **ITEM 10. ADJOURN**

Board Chair Godlewski moved to adjourn the meeting; Commissioner Kaul seconded the motion. The motion passed 3-0; the meeting adjourned at 2:13 p.m.



Thomas P. German, Executive Secretary

Link to audio recording:

<https://bcpl.wisconsin.gov/Shared Documents/Board Meeting Docs/2022/2022-04-05 BoardMtgRecording.mp3>