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Thomas P. German, *Executive Secretary*

AGENDA

August 2, 2022
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 – July 19, 2022 (Attachment)
3. Approve Loans

Old Business:

4. None

New Business:

5. Quarterly Investment Report
6. Frontier Easement

Routine Business:

7. Chief Investment Officer's Report
8. Executive Secretary's Report
9. Board Chair's Report
10. Future Agenda Items
11. Adjourn

AUDIO ACCESS INFORMATION

Conference Line Number: **(608) 571-2209**
Conference ID Code: **790 694 843#**

Board Meeting
Minutes
July 19, 2022

Present were:

Sarah Godlewski, Board Chair
Josh Kaul, Commissioner
Tom German, Executive Secretary
Richard Sneider, Chief Investment Officer
Thuy Nguyen, Office Manager
Emma Stutzman, Chief of Staff

State Treasurer
Attorney General
Board of Commissioners of Public Lands
Board of Commissioners of Public Lands
Board of Commissioners of Public Lands
State Treasurer

ITEM 1. CALL TO ORDER

Board Chair Godlewski called the meeting to order at 12:31 p.m.

ITEM 2. APPROVE MINUTES – July 5, 2022

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

DISCUSSION: None

VOTE: The motion passed 2-0.

ITEM 3. APPROVE LOANS

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

DISCUSSION: Mr. Sneider shared that there are a couple of loans financing development incentives and are for constructing new town halls. He offered to send specifics on the economic development projects to the commissioners, if needed.

Executive Secretary German shared that if anyone is heading to BCPL's northern office, you can see the new Newbold Town Hall on Hwy 47 which was financed by the State Trust Fund Loan Program.

VOTE: The motion passed 2-0

The Board of Commissioners of Public Lands (BCPL) unanimously approved **\$6,375,245.00** in State Trust Fund Loans to support **6** community projects in Wisconsin.

1. Village of Webster / Burnett County / Finance Alterations to Village Hall / \$209,000.00
2. City of Saint Francis / Milwaukee County / Finance TID development incentive / \$4,000,000.00
3. City of Port Washington / Ozaukee County / Finance pass-through loan for TID #2 project / \$87,960.00
4. Town of Newbold / Oneida County / Finance construction of Town Hall / \$1,500,000.00
5. Town of Lawrence / Brown County / Finance purchase of fire truck / \$290,000.00
6. Town of Long Lake / Washburn County / Finance new Fire and Ambulance Hall / \$288,285.00

ITEM 4. OLD BUSINESS – Discussion on investments in firearm companies

Mr. Sneider shared that BCPL does not have any investments directly in any gun manufacturers or retailers. However, we do have about \$90,000 indirectly invested in gun manufacturers through larger Exchange Traded Funds (ETFs). That is about one in every 15,000 of Common School Fund dollars. If you laid out 155 \$1.00 bills, we would have one penny invested in gun manufacturers. If you include gun retailers, the total indirectly invested in manufacturers and retailers is about \$1.1 million with about 88% of that coming from an indirect investment in Walmart again as a result of our investment in a larger ETF. He believes about half of Walmart stores currently retail guns.

Commissioner Kaul raised the question of corporate behavior at the last board meeting. Mr. Sneider explained that the evidence appears to be clear that ESG investing that excludes portfolio investments in specific companies or industries based on ESG criteria does not have any impact on corporate behavior. Also, there is little evidence that ESG funds affect firm behavior because ESG funds primarily try to achieve their objective through portfolio selection, where changing the behavior of a firm is not the primary goal. Fund investments in green companies are often meant to attract investor capital that boost fund manager compensation without the need to change corporate policy.

Another point brought up by Commissioner Kaul at the last meeting was a potential conflict between fiduciary duty and ESG investing. Mr. Sneider described a study published by Stanford Law Review in 2020, written by professors from Northwestern and Harvard. The study provides an excellent review of this topic. The conclusion was that ESG investing is permissible under American Trust Fiduciary Law if two conditions are satisfied: First, the trustee must reasonably conclude that ESG investing will benefit the beneficiary directly by improving risk adjusted returns; and second, the trustee's exclusive motive for ESG investing is to obtain that direct benefit. They also clarified that this rule may be tempered by considering the purpose of a charitable endowment using the example of whether a distribution would be permissible under similar circumstances. They discuss the duty of prudence and that it is an important part of trust law. It is possible that ESG funds can provide a similar risk adjusted rate of return to passively manage funds, but risk adjusted returns of a portfolio can only be improved if those factors are not already reflected in market prices. An active investment strategy based on ESG factors can only profit if the market consistently misprices them. Most empirical studies find that on a risk adjusted basis, employing ESG screens leads to performance about the same or slightly worse than benchmark indices.

Mr. Sneider shared that he analyzed 20 large ESG funds and found that none had solely excluded gun manufacturers and retailers. He compared those ESG funds to funds we currently own and found that ESG funds had higher management fees. The current average fee on the four BCPL-owned ETFs with exposure to guns is about 5 basis points. The average fee on the 20 gun-free funds is about 19 basis points and the yields were lower. If you moved some or all of our funds that are invested in broad market ETFs to a fund that excluded companies that have exposure to ESG factors, we would likely be overweighting our portfolio with high tech companies because tech companies are more likely to pass ESG screens. Many of these funds are market value weighted, so you are tilting the portfolio quite substantially to big tech. Big tech firms generally do not pay dividends. One of our mandates is to develop a diversified stream of income for our beneficiaries. We have about \$110 million invested in the four ETFs that have exposure to guns. If we move those to the lowest cost alternative ESG fund, our fees would increase by about \$45,000, but annual distributions would go down by about \$1 million because funds that do have ESG screens tend to have lower distributable yields. Currently, our fees for EFTs total about \$360,000.

Mr. Sneider commented that he has started to explore the idea of a separately managed account but more research on this potential avenue is needed. If we hired an asset manager to manage our funds on a passive basis, we could potentially tilt that fund towards dividends, value, or whatever aspects we thought would be most important for our beneficiaries. We would have more flexibility but still be able to create a fund that produced both the distributable income to our beneficiaries and the potential for capital gains. Initial discussions with a firm that does this type of business indicated that the cost of management would be between 10 and 20 basis points, so our management cost would go up slightly. Our average overall ETFs right now cost us about 14 basis points. If their pricing came in about 15 basis points, our fees might go up a little bit but we would be able to get a portfolio that would meet the criteria that would be more appealing to our beneficiaries. The Investment Committee determined that because of these factors it may not be the best solution to move

the funds from the current investments to an ESG Mutual Fund or ETF but it would be worth exploring a separately managed account.

Board Chair Godlewski emphasized that this discussion did not originate from concern about corporate or investor activism. It stemmed from thinking about what is in the best interest of our beneficiaries and our fiduciary responsibility. She has met with the President and representatives of the Wisconsin Educational Media & Technology Association (WEMTA) as well as the President of the American Federation of Teachers (AFT). Both very much appreciate the potential of looking at a separately managed account.

Executive Secretary German stated that BCPL has tried to manage its trust assets in order to provide our beneficiaries with a strong and stable stream of earnings distributions, while still growing the fund at a rate equal to or greater than the rate of inflation. Incorporating a separately managed account may allow for a portfolio that is more precise in what types of stocks we'd prefer and what we'd like to avoid. It would be the same asset class as the ETFs but more focused. In order to make a decision, we need to determine which entities are best, the best way of choosing the provider and the cost of such a strategy. Mr. Sneider and the investment committee are compiling and reviewing information on this and will be sharing it with the board when they've gathered the necessary information.

Commissioner Kaul shared that he is leery of identifying particular types of investments to omit because there may be many potential areas where we may be skeptical of investing for one reason or another. The more investments that are ruled out, the more we risk having our returns impacted. It makes sense to get input from our beneficiaries. He asked if there is a way to formalize the input received from our beneficiaries. He asked for clarification on who our beneficiaries are. Can BCPL staff figure out a way to get formal input from our beneficiaries?

Executive Secretary German commented that while putting together the investment policy, the investment committee thought specifically about our beneficiaries and tried to ensure that we communicated with the different stakeholders: i.e., WEMTA, DPI and school boards.

Board Chair Godlewski shared that she has frequent communication with our stakeholders, i.e., WEMTA, Dr. Underly from DPI, AFT and WEAC. The investment committee's next step is to figure out what the cost and structure of a separately managed account would look like. She believes it makes sense to explore that option.

Commissioner Kaul asked about coming up with a formal process to solicit input from stakeholders.

Board Chair Godlewski shared that the next step could be having the stakeholders attend an investment committee meeting as to not burden BCPL staff with additional work.

ITEMS 5. NEW BUSINESS – WPS Easement

Executive Secretary German described the WPS easement as a simple utility easement over a very short stretch of BCPL land. It would encumber less than 1/10 of an acre. BCPL has determined that a \$500 fee would be reasonable, full, and fair consideration for the easement.

MOTION: Commissioner Kaul moved to approve the easement authorizing staff to finalize and execute the WPS easement; Board Chair Godlewski seconded the motion.

DISCUSSION: None.

VOTE: The motion passed 2-0

ITEM 6. CHIEF INVESTMENT OFFICER'S REPORT

None

Mr. Sneider stated he will be providing the quarterly investment summary at the next board meeting.

ITEM 7. EXECUTIVE SECRETARY'S REPORT

Executive Secretary German thanked Board Chair Godlewski for opening the door for more conversations with the Forest Service. Atty. Vince Vukelich of the Forest Service has been responsive and BCPL is hopeful that the transaction will move forward. Updates on progress will be shared as developments come about.

ITEM 8. BOARD CHAIR'S REPORT

Board Chair Godlewski shared that she has had good conversations with our beneficiaries. Her office has been highlighting some of the infrastructure projects that were helped financed through the State Trust Fund Loan Program calling July Infrastructure Month. She has shared the great work that BCPL has and is doing with people who are not aware of what BCPL does and has received positive feedback.

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 2-0; the meeting adjourned at 2:26 p.m.



Thomas P. German, Executive Secretary

Link to audio recording:

<https://bcpl.wisconsin.gov/Shared Documents/Board Meeting Docs/2022/2022-07-19 BoardMtgRecording.mp3>

**BOARD MEETING
AUGUST 2, 2022**

**AGENDA ITEM 3
APPROVE LOANS**

Municipality	Municipal Type	Loan Type	Loan Amount
1. Waterford Graded J1 Racine County Application #: 02023006 Purpose: Finance asphalt rehabilitation	School Rate: 4.50% Term: 10 years	General Obligation	\$425,000.00
2. Whiting Portage County Application #: 02023007 Purpose: Finance roadwork and equipment purchase	Village Rate: 4.50% Term: 10 years	General Obligation	\$307,000.00
3. Rutland Dane County Application #: 02023008 Purpose: Finance roadwork	Town Rate: 4.50% Term: 10 years	General Obligation	\$225,000.00
4. Sevastopol Door County Application #: 02023009 Purpose: Finance park reconstruction	Town Rate: 4.50% Term: 10 years	General Obligation	\$175,000.00
5. Slinger Washington County Application #: 02023010 Purpose: Finance operations	Village Rate: 4.50% Term: 5 years	General Obligation	\$620,000.00
	TOTAL		<hr/> \$1,752,000.00

Common School Fund
Portfolio Report
June 30, 2022

Asset Class	Current Market Value	Cost	Unrealized Gain/Loss	% Gain/Loss	Yield at Cost	Projected Annual Income
Fixed Income						
Public Debt						
State/State Agency/Municipal Bonds	98,834,057	99,676,771	(842,714)	-0.8%	4.0%	4,032,535
U.S. Treasury/Agency Bonds	93,949,510	94,896,000	(946,490)	-1.0%	4.8%	4,530,000
U.S. Treasury Inflation Protected Securities	-	-	-			-
Corporate Bonds	151,456,107	173,523,373	(22,067,266)	-12.7%	5.1%	8,796,123
Private Debt						
BCPL State Trust Fund Loans ¹	216,875,836	216,875,836	n/a	n/a	3.6%	7,727,211
Other Private Debt ²	54,470,714	54,585,265	(114,551)	-0.2%	6.8%	3,723,006
Total Fixed Income	615,586,224	639,557,245	(23,971,021)	-3.7%	4.5%	28,808,875
Equities and Alternatives						
Public Equities						
Preferred Stocks	83,929,243	98,465,876	(14,536,633)	-14.8%	5.3%	5,247,320
Domestic Equities ³	156,439,771	142,001,141	14,438,630	10.2%	4.0%	5,633,484
Global Equities	124,251,018	127,414,398	(3,163,380)	-2.5%	4.8%	6,091,225
Alternatives						
Private Real Estate ³	224,408,335	181,184,972	43,223,363	23.9%	4.5%	8,204,137
Real Assets/Infrastructure	-	-	-			-
Private Equity/Venture Capital ⁴	35,784,642	25,553,143	10,231,499	40.0%	0.0%	-
Total Equities and Alternatives	624,813,009	574,619,530	50,193,479	8.7%	4.4%	25,176,166
Cash						
State Investment Fund ⁵	54,766,132	54,766,132			0.98%	537,219
Total Cash	54,766,132	54,766,132			0.98%	537,219
TOTAL CSF PORTFOLIO	1,295,165,365	1,267,808,262	26,222,458	2.2%	4.3%	54,522,260

Notes:

¹ The total market value of STFL assets is likely greater than cost. However, these assets are held at cost because no independent appraisal has been conducted and STFL assets have always been held to maturity. Annual income is at STFL interest payments due 3/15/23, and is subject to change.

² An investment of \$20 million in Blackstone Private Credit Fund was called on 7/1/22 and is included in this table to provide a more complete representation of current assets and projected income (income for this investment is estimated at it's 2021 distribution yield).

² The CSF investment in BXSL (a fund that primarily invests in the senior secured debt of private U.S. companies) went public through an IPO on 10/28/21 and was moved from the Private Debt asset class to the Domestic Equities asset class. The value of this investment was \$28.2 million on 6/30/22, a loss of 2.5% from the \$30 million cost. Not including BXSL, CSF domestic equities are valued at \$127 million.

³ An investment of \$25 million in the Nuveen US Cities MultiFamily Fund was called on 7/1/22 and is included in this calculation to provide a more complete representation of current assets and projected income (income for this investment is projected at the Fund's distribution yield over past year).

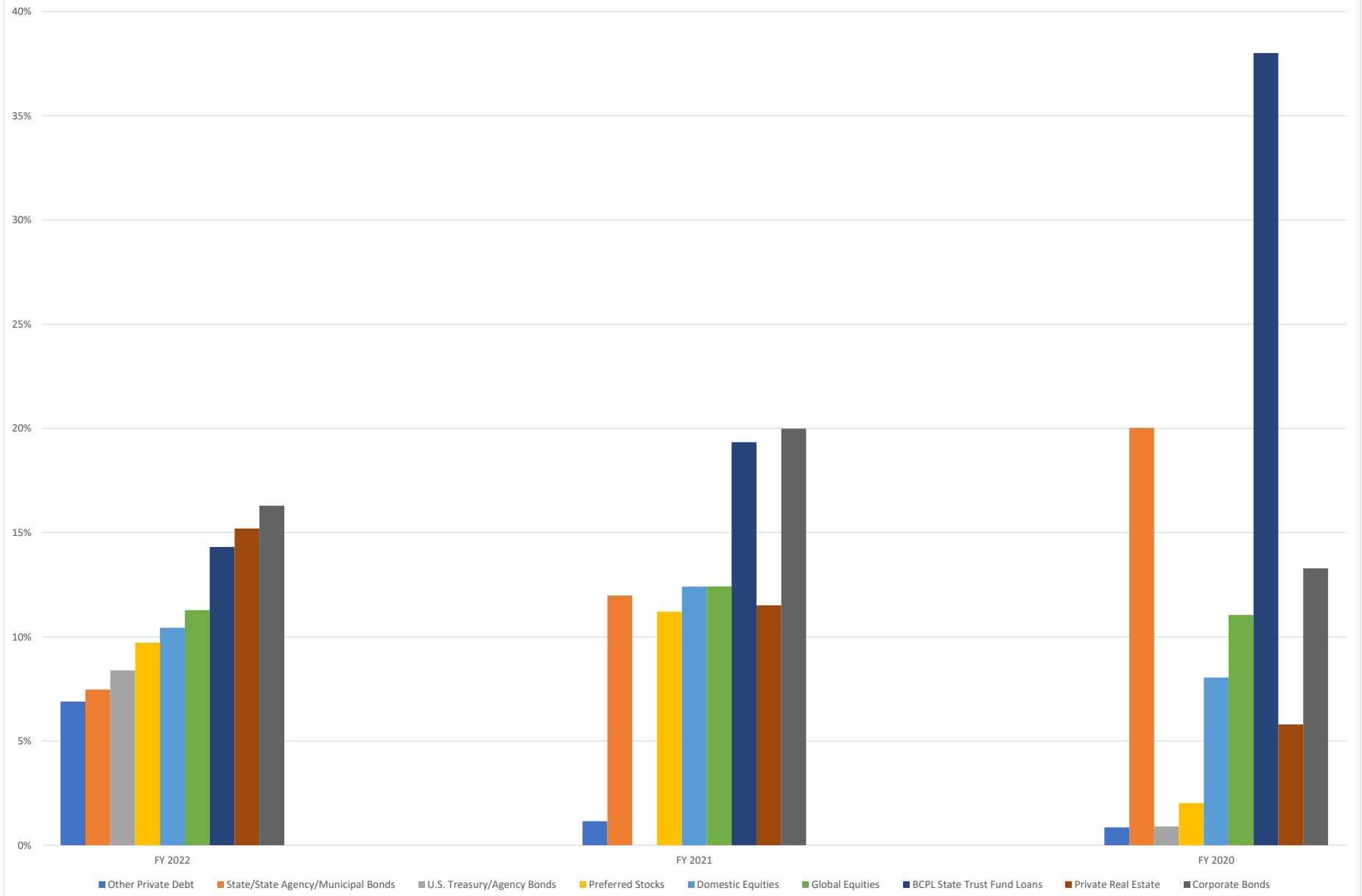
⁴ Private equity/venture capital investments are valued at the sum of manager-provided market values (at the end of the prior quarter) and capital calls made during the current quarter. Market valuations for prior quarters is updated as information is received.

⁵ State Investment Fund yield is from June 2022 SIF Pool Earnings Workbook. Total cash is a preliminary number subject to change.

Common School Fund Income Growth and Diversity by Asset Class

Asset Class	FY 2022		FY 2021		FY 2020	
	Annual Projected Income	% of Total	Annual Projected Income	% of Total	Annual Projected Income	% of Total
Fixed Income						
Public Debt						
State/State Agency/Municipal Bonds	4,032,535	7%	5,748,658	12%	7,607,924	20%
U.S. Treasury/Agency Bonds	4,530,000	8%	-		343,000	1%
U.S. Treasury Inflation Protected Securities	-		-			
Corporate Bonds	8,796,123	16%	9,590,597	20%	5,047,656	13%
Private Debt						
BCPL State Trust Fund Loans	7,727,211	14%	9,281,001	19%	14,439,919	38%
Other Private Debt ²	3,723,006	7%	552,531	1%	325,625	1%
Total Fixed Income	28,808,875	53%	25,172,787	52%	27,764,124	74%
Equities and Alternatives						
Public Equities						
Preferred Stocks	5,247,320	10%	5,378,285	11%	768,204	2%
Domestic Equities	5,633,484	10%	5,955,475	12%	3,055,560	8%
Global Equities	6,091,225	11%	5,958,564	12%	4,196,248	11%
Alternatives						
Private Real Estate	8,204,137	15%	5,523,384	11%	2,203,945	6%
Real Assets/Infrastructure	-		-		-	
Private Equity/Venture Capital	-		-		-	
Total Equities and Alternatives	25,176,166	46%	22,815,708	48%	9,455,753	25%
Cash						
State Investment Fund	537,219		43,574		325,451	
Total Cash	537,219	1%	43,574	0%	325,451	1%
TOTAL CSF PORTFOLIO	\$ 54,522,260		\$ 48,032,069		\$ 37,545,328	
Expected Portfolio Yield	4.21%		3.64%		3.19%	

Common School Fund
Projected Income by Asset Class



Common School Fund
Asset Allocation Report
June 30, 2022

Asset Class	Current Portfolio		Potential Portfolio			Target	
	Current Market Value	Current Allocation	Expected Commitments	Market Value + Commitments	Potential Allocation	Target Allocation	Target Range
Fixed Income							
Public Debt							
State/State Agency/Municipal Bonds	98,834,057	7.6%		98,834,057	7.6%	5.0%	0% to 30%
U.S. Treasury/Agency Bonds	93,949,510	7.3%		93,949,510	7.3%	0.0%	0% to 30%
U.S. Treasury Inflation Protected Securities	-	0.0%		-	0.0%	0.0%	0% to 10%
Corporate Bonds	151,456,107	11.7%		151,456,107	11.7%	10.0%	0% to 30%
Private Debt							
BCPL State Trust Fund Loans	216,875,836	16.7%		216,875,836	16.7%	30.0%	20% to 50%
Other Private Debt	54,470,714	4.2%	40,000,000	94,470,714	7.3%	10.0%	0% to 20%
Total Fixed Income	615,586,224	47.5%	40,000,000	655,586,224	50.6%	55.0%	
Equities and Alternatives							
Public Equities							
Domestic Equities	240,369,014	18.6%		240,369,014	18.6%	7.5%	5% to 30%
Global Equities	124,251,018	9.6%		124,251,018	9.6%	7.5%	5% to 20%
Alternatives							
Private Real Estate	224,408,335	17.3%	43,439,776	267,848,111	20.7%	20.0%	5% to 25%
Real Assets/Infrastructure		0.0%		-	0.0%	5.0%	0% to 10%
Private Equity/Venture Capital	35,784,642	2.8%	6,788,438	42,573,080	3.3%	5.0%	0% to 10%
Total Equities and Alternatives	624,813,009	48.2%	50,228,214	675,041,223	52.1%	45.0%	
Cash							
State Investment Fund	54,766,132	4.2%					
Total Cash	54,766,132	4.2%				0.0%	0% to 10%
TOTAL CSF PORTFOLIO	1,295,165,365		90,228,214				

	Unfunded Commitments as of 6/30/22		
	Total	Unfunded	Expected
Private Debt			
Brookfield Infrastructure Debt Fund II	\$ 30,000,000	\$ 12,636,656	\$ -
PGIM Senior Loan Opportunities Fund I	50,000,000	40,000,000	40,000,000.00
Private Real Estate			
Blackstone Strategic Partners Real Estate VII	30,000,000	18,188,587	-
Nuveen US Cities Industrial	20,000,000	20,000,000	20,000,000.00
Nuveen US Cities Office	15,000,000	10,439,776	10,439,776.30
Invesco US Income Fund	53,000,000	13,000,000	13,000,000.00
Private Equity/Venture Capital			
4490 Venture II	15,000,000	4,800,000	-
Venture Investors Health Fund VI	15,000,000	6,375,000	-
Baird Venture Partners V	7,500,000	2,662,994	-
NVNG Fund I	10,000,000	8,788,438	6,788,438.00

See Notes provided on the attached Portfolio Report for additional information

**BOARD MEETING
AUGUST 2, 2022**

**AGENDA ITEM #6
PROPOSED FIBER OPTIC LINE EASEMENT – WEST CLEAR LAKE ROAD –
VILAS COUNTY**

RECITALS

- A. Frontier North, Inc., d/b/a Frontier Communications desires an easement for a new underground fiber optic line on BCPL property along the West Clear Lake Road right-of-way in Vilas County.
- B. Records indicate that BCPL is the fee title owner of the right-of-way.
- C. The proposed easement will be approximately 460 feet long, 12 feet wide, and contain 0.11 acres. It will burden BCPL land located in:

Township 40 North, Range 4 East, Town of Lac du Flambeau
Section 34: part of the NE/SE

- D. The legislature has enacted statutes prohibiting other state agencies from charging fees associated with granting easements for broadband infrastructure in underserved areas. BCPL staff recommends waiving the fee for this easement considering it will not have a significant detrimental impact on the value of BCPL's parcel.
- E. BCPL staff recommends approval of the proposed fiber optic line easement.

NOW, THEREFORE BE IT RESOLVED, that the Board of Commissioners of Public Lands approves the fiber optic line easement with Frontier Communications for the sum of \$0 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 the easements.

EASEMENT EXHIBIT WEST CLEAR LAKE ROAD

IN THE SE 1/4 & NE 1/4 OF THE SE 1/4 OF SECTION 34
BEING LOCATED IN T. 40 N. - R. 04 E., TOWN OF LAC DU FLAMBEAU, VILAS COUNTY, WISCONSIN

Exhibit A



SCALE: 1' = 300'

458.6'



P.O.T.

PARCEL NO: 10-605

PARCEL NO: 10-602

PARCEL NO: 10-604

Private

NW 1/4 - SW 1/4 SEC. 35

PARCEL NO: 10-592

33' typ. R-O-W

DNR

DNR

15' W. of centerline

SE 1/4 - SE 1/4 SEC. 34

PARCEL NO: 10-594

NORTHEASTERLY
1738'±

GOV'T LOT 3 - SEC. 35

EAST LINE SE 1/4 SEC. 34

PARCEL NO: 10-597

CENTERLINE 10' WIDE
EASEMENT

W. CLEAR LAKE RD.

SE COR. SE 1/4
SEC 34-40-04

NORTHWESTERLY
36'±

P.O.B.

ET SURVEYING, INC.

832 LEDGEVIEW BLVD.
FOND DU LAC, WI 54935
Phone: (920) 948-4066

PROJECT: WEST CLEAR LAKE RD.
SE 1/4 & NE 1/4 - SE 1/4 - SECTION 34, T. 40 N. - R. 04 E.,
TOWN OF LAC DU FLAMBEAU, VILAS COUNTY, WISCONSIN

FIELD WORK: NONE DRAWN BY: EP

DRAWN DATE: 12/02/2021

REVISION DATE:

FILE: RW Eng Vilas Cnty easements