



Douglas La Follette, *Secretary of State*  
Matt Adamczyk, *State Treasurer*  
Brad D. Schimel, *Attorney General*

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 17, 2017

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 4, 2017 (Attachment)
- 3) Approve Loans (Attachment)

**Old Business:** None

**New Business:** None

### Routine Business:

- 4) Future Agenda Items
- 5) Executive Secretary's Report (Attachment)
  - Investment Transaction Report – October 11, 2017
  - 2017 Q3 Investment Summary – September 30, 2017
- 6) Adjourn

### AUDIO ACCESS INFORMATION

-----  
Toll Free Number: **(888) 291-0079**  
Passcode: **6363690#**

**BOARD MEETING  
OCTOBER 17, 2017**

**AGENDA ITEM 2  
APPROVE MINUTES**

Attached for approval are the minutes from the October 4, 2017, board meeting.

Board Meeting Minutes  
October 4, 2017

Present via teleconference were:

Doug La Follette, Commissioner	Secretary of State
Matt Adamczyk, Commissioner	State Treasurer
Brad Schimel, Board Chair	Attorney General
Jonathan Barry, Executive Secretary	Board of Commissioners of Public Lands
Tom German, Deputy Secretary	Board of Commissioners of Public Lands
Richard Sneider, Loan Analyst and Chief Investment Officer	Board of Commissioners of Public Lands
Vicki Halverson, Office Manager	Board of Commissioners of Public Lands

**ITEM 1. CALL TO ORDER**

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

**ITEM 2. APPROVE MINUTES – SEPTEMBER 19, 2017**

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

**DISCUSSION:** None.

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

**ITEM 3. APPROVE LOANS**

Executive Secretary Barry reported that the loans had been reviewed for proper public purpose.

<u>Municipality</u>	<u>Municipal Type</u>	<u>Loan Type</u>	<u>Loan Amount</u>
1. Brule Douglas County Application #: 02018044 Purpose: Purchase fire truck	Town Rate: 3.50% Term: 10 years	General Obligation	\$340,000.00
2. Coleman Marinette County Application #: 02018047 Purpose: Purchase TID #2 land and extend street and utilities	Village Rate: 4.00% Term: 20 years	General Obligation	\$863,102.00
3. Newark Rock County Application #: 02018046 Purpose: Finance roadwork	Town Rate: 3.00% Term: 5 years	General Obligation	\$150,000.00
4. Northfield Jackson County Application #: 02018042 Purpose: Finance roadwork	Town Rate: 3.00% Term: 5 years	General Obligation	\$50,000.00

5.	Tomah Monroe County Application #: 02018043 Purpose: Finance TID #8 economic development incentive	City Rate: 3.50% Term: 10 years	General Obligation	\$600,000.00
6.	Wascott Douglas County Application #: 02018045 Purpose: Purchase fire truck	Town Rate: 3.50% Term: 10 years	General Obligation	\$260,000.00
<b>TOTAL</b>				<b>\$2,263,102.00</b>

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

**DISCUSSION:** None.

**VOTE:** The motion passed 2-1. Commissioner La Follette and Board Chair Schimel voted aye; Commissioner Adamczyk voted no.

#### **ITEM 4. DISCUSS AND VOTE ON PROPOSED TRUST FUND LOAN EXTENSIONS**

Deputy Secretary German explained that loans disbursed after August 31 do not have a debt service payment the following March. Two separate loan applications previously approved by the board have a loan term of one year. Once these loans are disbursed a conflict will exist between the approved loan term and the date of final payment (i.e., the final payment will be greater than the one-year loan term). Staff is requesting that the Board approve extending the term of the loans from one to two years, pursuant to authority under Wis. Stat. § 24.73. The loan rate for the loans will remain the same at 3%.

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

**DISCUSSION:** None.

**VOTE:** The motion passed 2-1. Commissioner La Follette and Board Chair Schimel voted aye; Commissioner Adamczyk voted no.

**NOW, THEREFORE BE IT RESOLVED,** that the Board of Commissioners of Public Lands, pursuant to its authority under Wis. Stats. Section 24.73, authorizes the extension of the term of Loan #02017206 (city of Clintonville) and Loan #02018033 (Washburn County) from one year to two years after the date of the previous March 15, with all other terms and conditions remaining the same. The Executive Secretary is authorized and directed to execute any documents reasonably necessary to complete such transactions.

#### **ITEM5. PROPOSED LAND BANK SALES TO THE PUBLIC**

Staff explained that the parcels are unproductive and not generating income for the Trust Funds. If any of the parcels do not sell via sealed bid, they will attempt to be sold via private sale. While neighboring property owners have expressed an interest in the property, there is no guarantee that they will submit a bid.

Commissioner Adamczyk noted that the parcels must be sold at or above the minimum appraised value and asked about the cost of appraisals. Deputy Secretary German replied that an appraisal can cost \$500 or more. Commissioner Adamczyk asked whether parcels could be offered for sale prior to an appraisal. His concern was that monies were being expended for an appraisal when it's conceivable that the property may not sell. Deputy Secretary German replied that an appraisal must be conducted before parcels are offered for sale, per Wis.

Stats. § 24.08. Commissioner La Follette asked if it was required that the appraised value be made public. Executive Secretary Barry said staff would research the question and provide the Board with an answer.

**MOTION:** Commissioner Adamczyk moved to approve the sale of the parcels via sealed bid; Board Chair Schimel seconded the motion.

**DISCUSSION:** Commissioner La Follette asked how the land sales are advertised. Deputy Secretary German replied that a class 3 notice is published in a newspaper in the county where the lands are located. A notice is also posted on the agency's website.

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

**ITEM 5A. PROPOSED LAND BANK SALES TO THE PUBLIC – S1708 HIGHWAY 70, PRICE COUNTY**

**NOW, THEREFORE BE IT RESOLVED**, that the Board of Commissioners of Public Lands authorizes the sale of the Property pursuant to a sealed bid process. The minimum acceptable bid for the property shall be the appraised value as determined by the independent appraiser as set forth above. Such sale shall be conducted 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 such transactions.

**ITEM 5B. PROPOSED LAND BANK SALES TO THE PUBLIC – S1801 PINE LAKE CREEK, ONEIDA COUNTY**

**NOW, THEREFORE BE IT RESOLVED**, that the Board of Commissioners of Public Lands authorizes the sale of the Property pursuant to a sealed bid process. The minimum acceptable bid for the property shall be the appraised value as determined by the independent appraiser as set forth above. Such sale shall be conducted 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 such transactions.

**ITEM 5C. PROPOSED LAND BANK SALES TO THE PUBLIC – S1802 SUGAR CAMP SECTION 16, ONEIDA COUNTY**

**NOW, THEREFORE BE IT RESOLVED**, that the Board of Commissioners of Public Lands authorizes the sale of the Property pursuant to a sealed bid process. The minimum acceptable bid for the property shall be the appraised value as determined by the independent appraiser as set forth above. Such sale shall be conducted 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 such transactions.

**ITEM 6. FUTURE AGENDA ITEMS**

None.

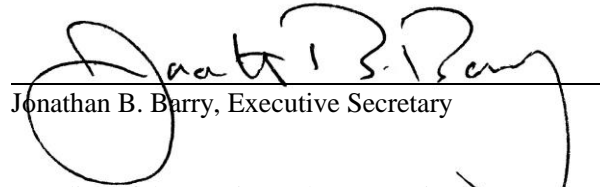
**ITEM 7. EXECUTIVE SECRETARY'S REPORT**

None.

**ITEM 8. ADJOURN**

**MOTION:** Board Chair Schimel moved to adjourn; Commissioner La Follette seconded the motion.

The meeting adjourned at approximately 2:20 p.m.



Jonathan B. Barry, Executive Secretary

These minutes have been prepared from a recording of the meeting. The summaries have not been transcribed verbatim.  
Link to audio recording: [ftp://doafpt1380.wi.gov/doadocs/BCPL/2017-10-04\\_BCPL-BoardMtgRecording.mp3](ftp://doafpt1380.wi.gov/doadocs/BCPL/2017-10-04_BCPL-BoardMtgRecording.mp3)

**BOARD MEETING  
OCTOBER 17, 2017**

**AGENDA ITEM 3  
APPROVE LOANS**

<u>Municipality</u>	<u>Municipal Type</u>	<u>Loan Type</u>	<u>Loan Amount</u>
1. Bellevue Brown County Application #: 02018050 Purpose: Finance public infrastructure projects	Village Rate: 4.00% Term: 18 years	General Obligation	\$1,200,000.00
2. Reedsburg Sauk County Application #: 02018049 Purpose: Finance development incentive	City Rate: 4.00% Term: 15 years	General Obligation	\$1,335,000.00
3. Richland Center Richland County Application #: 02018051 Purpose: Finance TID #6 infrastructure projects	City Rate: 3.50% Term: 10 years	General Obligation	\$315,000.00
4. Trout Lake District Juneau County Application #: 02018048 Purpose: Finance engineering assessment	Lake District Rate: 3.00% Term: 2 years	General Obligation	\$30,000.00
<b>TOTAL</b>			<b>\$2,880,000.00</b>

**BOARD MEETING  
OCTOBER 17, 2017**

**AGENDA ITEM 4  
DISCUSS REQUIREMENT TO PUBLISH APPRAISED VALUE  
OF TRUST LANDS OFFERED FOR SALE**

At the October 4 board meeting, Commissioner La Follette asked if it was required that the appraised value of Trust Lands being offered for sale be published. Staff has conducted research and Wis. Stat. §24.10 provides guidance on this issue:

- (1) ...Except for lands withheld from sale under s. 24.09 (2), each lot, tract of lands, or collection of tracts of lands to be sold **shall be offered at the minimum price fixed by law** and shall be cried at public auction long enough to enable everyone present to bid. If the minimum price or more is bid, the lot or tract shall be struck off to the highest bidder, but if the minimum price is not bid the tract shall be set down unsold. (Note: Emphasis added.)
  
- (2) If the sale is to be by sealed bid, the highest bid for any lot, tract of lands, or collection of tracts of lands shall be accepted, unless the highest bid is below the minimum price fixed by law. If the highest bid is below the minimum price fixed by law, then all bids may be rejected. If all bids are rejected or if no bid is received, the board may readvertise the sale, adjourn the sale to a definite date, or withhold the lands from sale pursuant to s. 24.09 (2).



**BOARD MEETING  
OCTOBER 17, 2017**

**AGENDA ITEM 6  
EXECUTIVE SECRETARY'S REPORT**

Attached for review are the following reports:

- Investment Transaction Report – October 11, 2017
- 2017 Q3 Investment Summary – September 30, 2017

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*

### Investment Transaction Report October 11, 2017

#### Bond Purchases

Issuer	Credit Rating	Trade Date	Par Value	Price Paid	Coupon	Call Date	Yield to Call	Maturity Date	Yield to Maturity
FFCB	Aaa	10/04/17	\$5,000,000	\$4,991,250	3.59%	10/16/18	3.66%	10/16/37	3.49%
FFCB	Aaa	10/11/17	\$5,000,000	\$5,000,000	3.25%	01/18/18	3.25%	04/18/30	3.25%

Since the last Investment Transaction Report, staff has also made two purchases totaling \$10 million in Treasury Inflation Protected Securities (TIPS). BCPL now has a total of \$20 million invested in TIPS (about 2% of the Common School Fund).

TIPS are Aaa-rated Treasury Bonds that provide significant advantages for endowments and other funds concerned with the effects of inflation on the purchasing power of future beneficiaries. TIPS pay interest on a semi-annual basis, with the face value of the bond increasing over time by the inflation rate. The yield available for distribution to beneficiaries is about 1%, and interest payments will increase over time as the coupon rate is applied to higher and higher principal values. TIPS are liquid securities, and BCPL will have the option to sell the bonds and capture the increase in value at any time prior to maturity. If held for longer than one year, the increase in value will be a long-term capital gain added to CSF principal rather than distributed to beneficiaries. The total return to BCPL is guaranteed at about 1% plus CPI. CPI has increased an average of 2.6% annually over the past 30 years and 4.1% annually over the past 50 years.

#### Bond Sales

No bonds have been sold since the previous Investment Transaction Report.

To date in 2017, net profit realized on the sale of bonds totals nearly \$9.0 million. In accordance with BCPL policy, these gains were allocated as follows:

\$5.74 million to CSF smoothing fund  
\$2.25 million distributed to beneficiaries in 2018  
\$0.94 million to CSF principal  
\$8.93 million total 2017 gains

#### Current Holdings

##### Combined Trust Fund Bond Portfolios

Investment Type	10/11/17	09/27/17
US Treasury and Federal Agency Bonds	\$188,135,751	\$174,937,117
Wisconsin and State Agency Bonds	\$152,681,715	\$152,681,715
Wisconsin Municipal and School Bonds	<u>\$173,374,804</u>	<u>\$173,427,002</u>
Total Bond Investments (at cost)	\$514,192,270	\$501,045,834
(at market value)	<u>\$522,521,829</u>	<u>\$509,855,862</u>
Unrealized Gains	\$8,320,809	\$8,810,028

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*

## Investment Report - Third Quarter 2017

### Executive Summary

BCPL investment performance continues to exceed benchmark returns. The risk-adjusted return in BCPL-managed portfolios was **0.66% greater** than benchmark yields during the third quarter. This improvement provides beneficiaries with **\$1.71 million more** during the third quarter than would be generated by an investment in the benchmark portfolio.

The calculations above do not include nearly **\$9 million in capital gains** realized through bond sales during the first nine months of 2017. Booking these profits had the benefit of reducing portfolio risk by converting 'paper gains' into cash, increasing the 2018 distribution to beneficiaries, adding to the Common School Fund (CSF) principal balance and providing the initial funding of the CSF smoothing account.

The BCPL Investment Committee is planning a cautious entry into public equity markets as stock indices continue to reach new records. Due diligence continues regarding BCPL investments in the venture capital funds 4490 Ventures II and Venture Investors Fund 6, and in a package of seasoned WHEDA apartment mortgage loans.

### Q3 Investment Highlights and Outlook

At the beginning of the third quarter, interest rates began a precipitous decline with the benchmark 10-year Treasury rate reaching a 2017 low of 2.01% in early September. A strong recovery during the last few weeks of the quarter brought the 10-year yield back near 2.40%, and highlights recent volatility within interest rate markets. Staff expects interest rates to rise moderately through year-end, although the current degree of economic and political uncertainty reduces confidence levels in any market forecast.

Cash reserves remain somewhat elevated at \$137 million, but Staff believes that elevated cash levels may be appropriate in this market environment. BCPL is earning higher returns on cash as the Federal Reserve continues to increase short-term interest rates. More importantly, Staff believes that cash provides additional flexibility to take advantage of a potential correction in the public equity market. At the same time, we must always maintain awareness that stability of the annual trust fund distribution is of great importance to beneficiaries. Accordingly, BCPL-managed portfolios remain primarily invested in longer-term and higher-yielding fixed-income assets.

Throughout 2017, continued low interest rates combined with high volatility have induced a substantial number of redemptions within BCPL bond and loan portfolios, and Staff has responded with a very active program to reinvest cash proceeds. To date in 2017, \$301 million in loans and bonds have been paid off, while another \$115 million in bonds were sold to generate the capital gains discussed above. Total redemptions of \$416 million mean that nearly 40% of BCPL-managed portfolios has turned over to date in 2017. This high turnover has been caused by four primary factors: BCPL loan terms include the ability to prepay without penalty (\$74 million in 2017); BCPL loans are self-amortizing and a significant amount of principal is received annually on March 15 (\$43 million); callable bonds are preferred by Staff in this market environment because a significant yield premium is available relative to non-callable bonds (\$184 million); and volatile interest rates provide Staff with the opportunity to capture capital gains by selling bonds that have increased in value (\$115 million).

BCPL staff responded to 2017 redemptions by purchasing \$312 million in new bonds, while loan disbursements have totaled \$133 million through September. These reinvestments have reduced cash levels from \$176 million at the start of the year to the current level of \$137 million. By carefully timing of the purchase and sale of select bonds, Staff captured \$9 million in capital gains while increasing the expected yield of managed portfolios from 3.26% to 3.34%.

**Summary and Benchmark Comparison**

The overall expected yield of funds managed by BCPL was 3.34% at the end of third quarter, a slight increase from the prior quarter. This expected yield does not include \$9 million in capital gains realized through bond sales during the first nine months of 2017.

The best measure for comparing investment performance against our custom benchmark is the SEC yield, which provides a standard methodology for the mutual funds and bond indices that comprising our benchmark. The risk-adjusted yield of BCPL-managed portfolios remains 0.66% greater than benchmark returns. Each 0.01% increase in return is the equivalent of an additional \$109,000 distribution to beneficiaries each year.

## BCPL Investment Summary

3rd Quarter 2017

as of September 30, 2017

Portfolio Summary	Total Assets	Expected Yield <sup>1</sup>	SEC Yield <sup>2</sup>	Average Credit Quality <sup>3</sup>	Weighted Avg Maturity
Total BCPL Managed Financial Assets	\$ 1,086,871,426	3.34%	3.28%	Aa1	8.82
Benchmark Performance <sup>4</sup>			3.03%	A1	8.86
<b>BCPL Investments</b>					
	% of Total BCPL Managed Assets				
Bonds	44.71%	\$ 485,934,401	3.72%	3.59%	Aa2 14.73
BCPL State Trust Fund Loans	42.67%	\$ 463,755,584	3.62%	3.62%	Aa1 5.24
Cash and Cash Equivalents <sup>5</sup>	12.62%	\$ 137,181,441	1.03%	1.03%	Aaa 0.00
<b>Total BCPL Managed Investments</b>	<b>100.00%</b>	<b>\$ 1,086,871,426</b>	<b>3.34%</b>	<b>3.28%</b>	<b>Aa1 8.82</b>
<b>Benchmark Components</b>					
	Weighting				
S&P Long Intermediate Term Taxable Municipal Bond Index <sup>6</sup>	60.00%		3.33%	3.84%	Aa3 9.70
S&P U.S. Treasury Bill Index <sup>7</sup>	10.00%		0.94%	0.83%	Aaa 0.09
Wisconsin Tax-Exempt Bond Mutual Funds (combined) <sup>8</sup>	30.00%	\$ 351,600,001	N/A	2.15%	Baa1 10.12
<b>Total Benchmark</b>	<b>100.00%</b>			<b>3.03%</b>	<b>A1 8.86</b>
Important Notes on Following Page					
Prepared by Richard Sneider					

**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> **SEC Yield** - The SEC yield should not be confused with the expected yield on invested funds. The SEC yield will vary substantially with market conditions because it is calculated using the current market value of assets, and the value of fixed income assets fluctuates with market interest rates. For example, although interest payments produced by an individual bond remain constant following the issuance of the bond, the SEC yield on this bond will increase with market interest rates solely because the value of the bond decreases (yield = income/value). If all bonds are held to maturity, the actual return to the investor would equal the "yield to maturity at cost". This calculation is not provided for benchmark components and is therefore not included in this comparison. Many investors prefer to use "yield to worst", which calculates the return using the lower of the "yield to call" and "yield to maturity". The most appropriate method to compare bond portfolios is to look at Total Return, which combines both income and changes in the market value of the underlying assets (see note 8 below). BCPL does not have the ability to use Total Return as a method of comparison because the Trust Fund Loan Portfolio has never been valued. Rather, the SEC Yield is used for comparison because it is a standardized methodology for calculating yield as required by the Securities and Exchange Commission for all mutual funds and provides a means to compare BCPL managed funds to a simple benchmark. The SEC yield is a close approximation to the net yield to maturity of the fund using the current market value of the fund, and is calculated as the yield to the investor (after fund expenses and fees) during the previous 30 days assuming all bonds are held to maturity. The SEC Yield for the State Investment Fund is for the most recent month available.

<sup>3</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. Mutual Fund credit quality is provided by Morningstar. The global long-term rating scale of Moody's 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>4</sup> **Benchmark Components and Weighting** - Due to the unique set of BCPL authorized investments consisting primarily of the BCPL State Trust Fund Loan Program, and bonds issued by the State of Wisconsin and Wisconsin municipalities and school districts, there are no managed funds that perfectly match the characteristics of the BCPL portfolio. However, the chosen benchmark components provide the best opportunity to compare BCPL investments to funds managed by other professionals. The justifications of including individual benchmark components are provided below. Component weighting begins with an estimate of average liquidity levels required throughout the year, with additional factors including an estimate of the proportion between taxable and tax-exempt project funding, and the use of current taxable and tax-exempt bond yields in developing program interest rates.

<sup>5</sup> **Cash** - Cash and cash equivalents includes all investments in the State Investment Fund and Farm Credit adjustable rate notes, and all funds managed by ADM in FDIC-insured deposit accounts.

<sup>6</sup> **S&P Long Intermediate Term Taxable Municipal Bond Index** - This taxable municipal bond index is included as a benchmark component because it properly reflects the investment strategies of BCPL managed Trust Funds, including both the direct investment in taxable municipal bonds and the influence of taxable bond yields on the development of loan program interest rates. The S&P Long Intermediate Term Taxable Municipal Bond Index matches the weighted average maturity and duration of total BCPL managed funds fairly well, although BCPL maintains better average credit quality. This index is comprised of all taxable bonds issued by any state (including the Commonwealth of Puerto Rico and U.S. territories such as the U.S. Virgin Islands and Guam) with an investment grade rating (minimum S&P BBB- or Moody's Baa3), a minimum par amount of \$1 million, and remaining maturity between 5 and 15 years. Average credit quality level is not published by S&P, but was calculated at the weighted average rating of amounts held within the separate S&P AAA, AA, A, and BBB Rated Taxable Municipal Bond Indices using a formula developed by Schwab Portfolio Center, the portfolio analysis software used by BCPL. Overall, a weighting of 60% is appropriate given the average levels of cash and tax-exempt investments held by the Trust Funds throughout the year.

<sup>7</sup> **S&P U.S. Treasury Bill Index** - The U.S. Treasury Bill Index represents the average cash position held by the Trust Funds throughout the year, and is included because BCPL maintains significant levels of liquidity needed to fund expected trust fund loan demand over the next 3-6 months. The amount of portfolio liquidity (cash) varies significantly throughout the year, and is impacted by factors including the interest rate environment, the absence of prepayment penalties within the loan program, and the statutory payment structure requiring annual loan payments on March 15 each year. The S&P U.S Treasury Bill index is a market weighted index that includes all U.S. Treasury Bills with maturities ranging from 0-12 months. Because an index is not a managed portfolio, but only a collection of securities within a specific set of criteria, management expenses are not included. Overall, a weighting of 10% for this benchmark component is appropriate given the average levels of cash held by the Trust Funds throughout the year.

<sup>8</sup> **Wisconsin Tax-Exempt Bond Funds** - Tax-exempt bond funds are included as a benchmark component for three reasons: BCPL invests directly in tax-exempt bonds when available at acceptable terms; a significant portion of loans made through the BCPL State Trust Fund Loan Program fund projects that would qualify as tax-exempt; and current tax-exempt bond yields are an important factor in the construction of loan program interest rates. There are three bond mutual funds that invest primarily in Wisconsin State and Municipal Bonds, investments that are similar to the securities approved for BCPL investment. These funds are sponsored by Wells Fargo, Nuveen and Nationwide Ziegler, and there are significant differences between the management of these mutual funds and BCPL trust funds. All three mutual funds are limited to tax-exempt investments, a universe of securities that generally provide lower yields than the taxable instruments favored by BCPL. On the other hand, all three of these funds invest substantial amounts in bonds that have considerable default risk including bonds issued by the Commonwealth of Puerto Rico, community development revenue bonds, hospital revenue bonds, and other bonds types not available within the risk parameters of the BCPL investment authority. Overall, a weighting of 30% for this benchmark component is appropriate given the level of Trust Fund investment in tax-exempt instruments and the influence of tax-exempt bond rates on the interest rates charged within the loan program.

<sup>9</sup> **Total Return Analysis** - A total return analysis including the periodic change in asset values in addition to earnings would provide a more comprehensive and accurate comparison between the returns generated by BCPL managed funds 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 or model available to determine an accurate market value of the loan portfolio. Should BCPL sell loans in the future and establish a secondary market in BCPL State Trust Fund Loans, total return analysis may provide an improvement over the current method of yield comparison as the model for measuring BCPL investment performance against the appropriate benchmarks.