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Jonathan Barry, *Executive Secretary*

## AGENDA

April 2, 2019  
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 - March 19, 2019 (Attachment)
- 3) Approve Loans (Attachment)

### Old Business: None

### New Business:

- 4) Report on Legal Advice from DOJ Regarding State Treasurer's Ability to Audit and/or Request Audits of Unclaimed Property Program - Board Chair Godlewski
- 5) Discuss Potential Revenue Opportunities from Trust Lands - Board Chair Godlewski

### Routine Business:

- 6) Report of the Chief Investment Officer (Attachments)
- 7) Executive Secretary's Report
- 8) Future Agenda Items
- 9) Adjourn

## AUDIO ACCESS INFORMATION

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**BOARD MEETING  
APRIL 2, 2019**

**AGENDA ITEM 2  
APPROVE MINUTES**

Attached for approval are the minutes from the March 19, 2019, board meeting.

Board Meeting Minutes  
March 19, 2019

Present in person were:

Sarah Godlewski, Board Chair	State Treasurer
Jonathan Barry, Executive Secretary	Board of Commissioners of Public Lands
Vicki Halverson, Office Manager	Board of Commissioners of Public Lands
Richard Sneider, Chief Investment Officer	Board of Commissioners of Public Lands

Present via teleconference were:

Doug La Follette, Commissioner	Secretary of State
Josh Kaul, Commissioner	Attorney General

**ITEM 1. CALL TO ORDER**

Board Chair Godlewski called the meeting to order at 2:00 p.m.

**ITEM 2. APPROVE MINUTES - MARCH 5, 2019**

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

**DISCUSSION:** Commissioner Kaul noted a typographical error in paragraph four of item five on page five of the minutes (i.e., the word “statute” should be changed to “statutory”).

Commissioner Kaul asked if the reference to past audits in the minutes referred to audits of the unclaimed property program or entities that collect unclaimed property. Executive Secretary Barry replied that they were third-party audits of businesses in multiple states to ensure full reporting of unclaimed property to the State of Wisconsin. Legislation was introduced in the 2017-2018 legislative session that repealed the right of the state to participate in third-party audits. While the state could conduct its own audit, there are no auditors to perform that duty.

Board Chair Godlewski added that the Unclaimed Property Program was, at one time, administered by the State Treasurer’s Office. Currently, the Department of Revenue (DOR) processes claims and administers the program, while the State Treasurer’s Office is responsible for promoting the program to reunite individuals with their property.

Executive Secretary Barry said he would provide to the Commissioners an abbreviated version of the statutory language that modified the program.

Commissioner La Follette expressed his concern regarding the lack of audits and asked if an audit could be requested. Board Chair Godlewski replied that she will be meeting with DOJ legal counsel to discuss that matter and will give an update at the next board meeting.

The March 5 minutes will include a correction of the typographical error and a clarification of which entity or program Board Chair Godlewski is referring to regarding audits.

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

**ITEM 3. APPROVE LOANS**

<u>Municipality</u>	<u>Municipal Type</u>	<u>Loan Type</u>	<u>Loan Amount</u>
1. Greenville Outagamie County Application #: 02019111 Purpose: Construct public safety building	Town Rate: 4.25% Term: 2 years	General Obligation	\$6,750,000.00
2. Lake Denoon Lake District Waukesha County Application #: 02019110 Purpose: Finance weed abatement program	Lake District Rate: 4.25% Term: 3 years	General Obligation	\$30,000.00
3. Twin Lakes Kenosha County Application #: 02019112 Purpose: Purchase fire truck	Village Rate: 4.50% Term: 10 years	General Obligation	\$574,731.00
<b>TOTAL</b>			<b>\$7,354,731.00</b>

Mr. Sneider reported that the loans had received legal review by the Department of Justice. He added that it is likely that the municipalities above may request new loan applications to take advantage of lower interest rates, which the Board will discuss and potentially ratify in the next agenda item.

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

**DISCUSSION:** None.

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

**ITEM 4. RATIFY ADJUSTMENTS TO LOAN PROGRAM INTEREST RATES**

Staff explained that loan interest rates were adjusted in October 2018. Market interest rates stabilized at lower levels in recent weeks, so staff recommended reducing loan rates by 0.25% for all loan terms. In accordance with Board policy, the Executive Secretary and Board Chair authorized the change effective March 18.

**MOTION:** Commissioner Kaul moved to ratify the changes to the loan program interest rates; Board Chair Godlewski seconded the motion.

**DISCUSSION:** None

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

**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 4.00% for 2-year loans; 4.00% for 3-5 year loans; 4.25% for 6-10 year loans; and 4.50% for 11-20 year loans.

## ITEM 5. EXECUTIVE SECRETARY'S REPORT

- **Discuss Key Provisions of Joint Legislative Council Recommendations**

Executive Secretary Barry reported that the Joint Legislative Council Committee released their [report](#)<sup>i</sup> of the investment and use of the School Trust Funds and introduced two Assembly bills<sup>ii</sup>. He and staff recommend that the Commissioners take no position on [Assembly Bill 48](#) but support [Assembly Bill 49](#). Assembly Bill 49 would allow the BCPL Commissioners to contract with the State of Wisconsin Investment Board (SWIB) to invest all or part of the School Trust Funds.

Board Chair Godlewski asked what precludes BCPL from working with SWIB at this time. Executive Secretary Barry replied that while BCPL can ask SWIB to invest the Trust Funds, SWIB can only invest in fixed-income instruments. They are not allowed to exercise prudent person investing authority; Assembly Bill 49 would allow that.

**MOTION:** Commissioner La Follette moved to support 2019 Assembly Bill 49 and take no position on 2019 Assembly Bill 48; Board Chair Godlewski seconded the motion.

**DISCUSSION:** None.

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

Executive Secretary Barry said the report also included a recommendation that the Legislature conduct a study in the future of the results of the Board's expanded investment authority.

Executive Secretary Barry said that an orientation meeting with freshmen legislators was scheduled for March 27. It will be held in Room 330 Southwest of the State Capitol from 8:30 AM to 9:30 AM. The meeting objectives include introducing legislators to BCPL, explain how their legislative district benefits from the State Trust Fund Loan Program and public school library aid, and how they can assist communities within their district access financing from BCPL for public purpose projects.

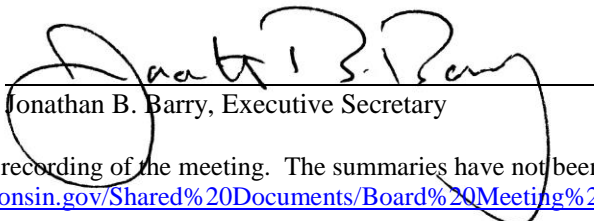
## ITEM 6. FUTURE AGENDA ITEMS

In addition to routines business, the April 2 board meeting agenda will include the following:

- Report on Legal Advice from DOJ Regarding State Treasurer's Ability to Audit and/or Request Audits of Unclaimed Property Program - Board Chair Godlewski
- Discuss Revenue Generation Options from Trust Lands - Board Chair Godlewski

## ITEM 7. ADJOURN

The meeting adjourned at 2:41 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: [https://bcpl.wisconsin.gov/Shared%20Documents/Board%20Meeting%20Docs/2019/2019-03-19\\_BoardMtgRecording.mp3](https://bcpl.wisconsin.gov/Shared%20Documents/Board%20Meeting%20Docs/2019/2019-03-19_BoardMtgRecording.mp3)

(See next page for footnotes.)

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<sup>i</sup> Joint Legislative Council's Report

[https://docs.legis.wisconsin.gov/misc/lc/study/2018/1788/070\\_joint\\_legislative\\_council\\_recommendations\\_to\\_the\\_2019\\_20\\_legislature/001\\_jlcr\\_2019\\_04](https://docs.legis.wisconsin.gov/misc/lc/study/2018/1788/070_joint_legislative_council_recommendations_to_the_2019_20_legislature/001_jlcr_2019_04)

<sup>ii</sup> 2019 Assembly Bill 48

[https://docs.legis.wisconsin.gov/misc/lc/study/2018/1788/070\\_joint\\_legislative\\_council\\_recommendations\\_to\\_the\\_2019\\_20\\_legislature/2019\\_ab\\_48](https://docs.legis.wisconsin.gov/misc/lc/study/2018/1788/070_joint_legislative_council_recommendations_to_the_2019_20_legislature/2019_ab_48)

2019 Assembly Bill 49

[https://docs.legis.wisconsin.gov/misc/lc/study/2018/1788/070\\_joint\\_legislative\\_council\\_recommendations\\_to\\_the\\_2019\\_20\\_legislature/2019\\_ab\\_49](https://docs.legis.wisconsin.gov/misc/lc/study/2018/1788/070_joint_legislative_council_recommendations_to_the_2019_20_legislature/2019_ab_49)

**BOARD MEETING  
APRIL 2, 2019**

**AGENDA ITEM 3  
APPROVE LOANS**

<u>Municipality</u>	<u>Municipal Type</u>	<u>Loan Type</u>	<u>Loan Amount</u>
1. Rock Elm Pierce County Application #: 02019113 Purpose: Purchase tractor and equipment	Town Rate: 4.00% Term: 5 years	General Obligation	\$80,000.00
	<b>TOTAL</b>		<b>\$80,000.00</b>

**BOARD MEETING  
APRIL 2, 2019**

**AGENDA ITEM 6  
CHIEF INVESTMENT OFFICER REPORT -- MARCH 2019**

Staff remained cautious in the acquisition of public equities as prices stayed at elevated levels throughout the month. Of the 15% target allocation approved within the Investment Policy, BCPL has moved 5% of total assets to public equities over the past 14 months. Patience will remain critical during the prudent transition towards a diversified portfolio and is made even more important with recessionary pressures on the horizon.

As discussed in past board communications, exchange-traded -funds (ETFs) were chosen as the platform for the public equity allocation due to management cost and other advantages. At the March 12 meeting of the BCPL Investment Committee, members voted to slightly change the mix of ETFs within this allocation. The change adds exposure to small cap stocks in both domestic and global markets. Small companies have historically provided an above-average rate of return to investors and had been under-represented in the prior allocation to market-value weighted ETFs.

The new ETF combination is as follows:

Domestic Equities			
	VTI	Vanguard Total Stock Market ETF	20%
	VYM	Vanguard High Dividend Yield ETF	15%
	VIG	Vanguard Dividend Appreciation ETF	5%
	VNQ	Vanguard REIT ETF	5%
new	VXF	Vanguard Extended Market ETF	5%
Global Equities			
	VEU	Vanguard FTSE All World ex-US ETF	20%
	VYMI	Vanguard International High Dividend E	15%
	VIGI	Vanguard International Dividend Appreciation	5%
	VNQI	Vanguard Global ex-US Real Estate ETF	5%
new	SCZ	iShares MSCI EAFE Small Cap ETF	2.5%
new	EEMS	iShares Emerging Markets Small Cap ETF	2.5%

Market interest rates fell steadily throughout the month, with the benchmark 10-year Treasury ending near 2.40%. The downward trajectory was considered dramatic, with interest rates quickly moving to levels not seen in the past 15 months. Lower market rates increased the opportunity to sell lower-yielding bonds at a small profit (bond prices rise when interest rates fall). Opportunistic bond sales are strategically important to facilitate the on-going reallocation of assets in accordance with the Investment Policy.

Note that the March decrease in interest rates had a great impact on total unrealized gains/losses in the BCPL-managed public bond portfolio. This measure showed a net loss of \$6.9 million at the end of February, while the net unrealized gain now stands at \$3.5 million.

To further the diversification process, the Investment Committee continues to meet with real estate asset managers and venture capital firms to explore current opportunities in those markets.

Attachments

- Investment Transaction Report
- Public Bond Portfolio Report
- Month-End Portfolio Report - Public Equities



**Investment Transaction Report  
March 29, 2019**

Transactions made during March 2019 include:

**Bond Purchases**            None

**Bond Sales**                Staff sold just over \$41.25 million in bonds during March. The average yield on the sold bonds was 3.27% and proceeds of the sale will be reinvested in assets with higher expected returns.

March sales provided long-term capital gains of \$123,000 and short-term capital gains of \$36,000 for the CSF. The Investment Policy provides that long-term gains are added to the principal of the funds, while short-term capital gains are included in distributable income.

**Public Equity Purchases** Staff made regular purchases totaling \$1 million in ETF shares, and a month-end rebalancing trade of \$1 million. The total value of public equity ETFs is now approximately \$54 million, or 4.8% of the CSF.



**BCPL Public Bond Portfolio**

As of 03/29/2019  
03/28/2019 Prices

<u>Description</u>	<u>Moody's Rating</u>	<u>S&amp;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+	56.9%	3.55%	3.56%	11.42	272,484,180	270,260,427	(2,223,754)	9,609,826
Wisconsin and State Agency	Aa2	AA-	23.1%	4.18%	4.22%	10.39	107,015,511	109,895,694	2,880,183	4,643,133
Municipal/School District	Aa3	AA-	19.9%	4.10%	4.13%	9.46	91,673,987	94,508,326	2,834,339	3,881,593
	Aa1	AA	100.0%	3.81%	3.82%	10.79	471,173,678	474,664,447	3,490,768	18,134,553



**BCPL Public Equity Portfolio**

As of 03/29/2019  
03/28/2019 Prices

Symbol	Description	Quantity	Avg Cost	Cost Basis	Current Price	Current Value	Weight	Unrealized Gain (Loss)	Percent Gain (Loss)	Current Yield	Projected Annual Dividends
<b>Domestic Equities</b>											
VTI	Vanguard Total Stock Market ETF	89,766	135.57	12,169,631	143.760	12,904,760	24.4%	735,129	6.0%	2.0%	258,526
VYM	Vanguard High Dividend Yield ETF	91,981	82.42	7,580,855	85.210	7,837,701	14.8%	256,846	3.4%	3.2%	252,028
VIG	Vanguard Dividend Appreciation ETF	25,126	102.00	2,562,908	108.970	2,737,980	5.2%	175,072	6.8%	2.0%	53,518
VNQ	Vanguard REIT ETF	30,299	77.16	2,338,014	86.990	2,635,710	5.0%	297,696	12.7%	4.0%	104,229
VXF	Vanguard Extended Market	2,190	113.94	249,521	114.900	251,631	0.5%	2,110	0.8%	1.5%	3,657
		<u>239,362</u>		<u>24,900,929</u>		<u>26,367,782</u>	<u>49.9%</u>	<u>1,466,854</u>	<u>5.9%</u>	<u>2.5%</u>	<u>671,958</u>
<b>Global Equities</b>											
VEU	Vanguard FTSE All World ex-US ETF	258,518	50.02	12,930,005	49.920	12,905,219	24.4%	(24,787)	-0.2%	3.2%	408,458
VYMI	Vanguard International High Dividend ETF	129,167	61.31	7,918,879	60.650	7,833,979	14.8%	(84,900)	-1.1%	4.4%	341,001
VNQI	Vanguard Global ex-US Real Estate ETF	45,827	56.57	2,592,460	59.380	2,721,207	5.2%	128,747	5.0%	4.0%	108,152
VIGI	Vanguard International Div Appreciation ET	42,260	61.52	2,600,007	64.280	2,716,473	5.1%	116,466	4.5%	1.8%	47,754
SCZ	Ishares MSCI EAFE Small Cap	2,190	57.11	125,063	57.100	125,049	0.2%	(14)	0.0%	2.8%	3,526
EEMS	Ishares MSCI Emerging Mkt Small Cap	2,790	44.77	124,895	44.720	124,769	0.2%	(127)	-0.1%	2.7%	3,376
		<u>480,752</u>		<u>26,291,310</u>		<u>26,426,695</u>	<u>50.1%</u>	<u>135,385</u>	<u>0.5%</u>	<u>3.5%</u>	<u>912,267</u>
		<u>720,114</u>		<u>51,192,239</u>		<u>52,794,477</u>	<u>100.0%</u>	<u>1,602,238</u>	<u>3.1%</u>	<u>3.0%</u>	<u>1,584,225</u>