

Board Meeting Minutes
June 16th, 2020

Present were:

Sarah Godlewski, Board Chair	State Treasurer
Josh Kaul, Commissioner	Attorney General
Doug LaFollette, Commissioner	Secretary of State
Tom German, Executive Secretary	Board of Commissioners of Public Lands
Richard Sneider, Chief Investment Officer	Board of Commissioners of Public Lands
Mike Krueger, IT Manager	Board of Commissioners of Public Lands
Denise Nechvatal	Board of Commissioners of Public Lands
Thuy Nguyen, Office Manager	Board of Commissioners of Public Lands
Julie Benkoske	State Treasurer's Office

ITEM 1. CALL TO ORDER

Board Chair Godlewski called the meeting to order at 2:01 p.m.

ITEM 2. APPROVE MINUTES – June 2, 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 shared that the loans are ordinary loans, two for roadwork and one for a fire truck.

VOTE: The motion passed 3-0.

The Board of Commissioners of Public Lands (BCPL) unanimously approved **\$1,373,920.00** in State Trust Fund Loans to support **3** community projects in Wisconsin.

1. Town of Draper / Sawyer County / Finance purchase of fire truck / \$43,920.00
2. Town of Washington / Vilas County / Finance roadwork / \$1,300,000.00
3. Town of Bone Lake / Polk County / Finance roadwork / \$30,000.00

ITEM 4. OLD BUSINESS – NONE

ITEM 5. NEW BUSINESS - NONE

ITEM 6. CHIEF INVESTMENT OFFICER'S REPORT

Mr. Sneider shared that he is working on a new report format. The new report will include current allocations, recent transactions, and progress toward the target allocations. He was not able to finalize the report for this meeting but hopes to have it ready for review in the next few meetings. He also shared that the BCPL's strategy has been to move slowly into diversifying its historical fixed income portfolio and other asset classes. BCPL wants to do this slowly because asset prices have been so high over the past few years. The recent collapse in equity prices in February and March provided BCPL with the opportunity to build those allocations to equities and it has now done that. Buying has been accelerated and average costs have significantly been reduced. It shows that BCPL's strategy has been a successful one. BCPL's portfolio remains very resilient. The average university endowment fell by 13.5% in the first quarter while the low point for the common school fund was a loss of less than 2%. The equity portfolio is up 3.4%, and that was before the rally that is going on today and the yield is 3.5% while the bond portfolio yield is 4% and as of this morning had an unrealized gain of more than 11 million dollars. Lastly, the investment committee has been looking at preferred stock to further diversify its holding to increase distributable income to the beneficiaries. At the investment committee meeting last week there was a unanimous vote to allocate 50 million dollars to preferred stock ETFs. It is difficult to categorize preferred stock within BCPL's asset allocation model because preferred shares contain attributes of both equities and fixed income. The investment committee thought it was best to include preferred shares in the public equity's category. However, the new investment in preferred stock will increase BCPL's investment in public equities above the 15% target allocation but remain well within the approved range in the investment policy.

Board Chair Godlewski commented that in times when the market is incredibly volatile, hearing about how resilient the BCPL trust fund is in comparison to others shows that the strategy is working and the work that Rich has been doing is appreciated. She adds that she thanks Rich for all his work and the work of the investment committee because this is when strategy really matters. Thank you for continuing to give us confidence that BCPL's money is being managed.

ITEM 7. EXECUTIVE SECRETARY'S REPORT

Executive Secretary German commented about the shutdown of the Verso paper mill in Wisconsin Rapids. This was not a small matter. This plant processes approximately 20 to 25% of the pulpwood in Northern Wisconsin. They are laying off over 900 people. The ramifications of this are very large. Loggers are losing one of the primary places to sell their wood so many loggers are not cutting or even bidding on future timber sale contracts. Truckers will not be hauling trees. In an area of the State that is already hurting from the effects of the COVID 19 pandemic and a decrease in tourism, this part of the state will suffer even more. BCPL is likely to feel the effects in two different ways. First, our timber producing operations will probably take a hit. Secondly, we will probably receive more inquiries from local governments looking for funding for economic development projects in this area. It is hard to project how this is going to play out but he believes this will have a significant ripple effect. He added that he thinks it is important for the board to know this information as it will likely impact BCPL.

Board Chair Godlewski thanked Executive Secretary German for sharing that news. It is a big hit when you think about 900 jobs being lost in Wisconsin Rapids alone without looking at the supply chain. She asked about timber taking a hit and wanted to know if BCPL sells a lot of its timber to Verso.

Executive Secretary German commented that over the last couple years, he thinks there has been only one timber sale that went directly to Verso. However, BCPL sells a lot to loggers who in turn sell to Verso. In terms of BCPL's timber operations, he believes BCPL will see fewer bidders on its timber sales and may have some sales that attract no bidders at all because loggers right now are so scared about what they are going to do with the wood. He suspects that some loggers will ask for more time on contracts that are already out there. He also shares that he is talking with Kevin and John of the Lake Tomahawk office and tracking unpaid timber sales. He is not aware of any receivables that are in danger but BCPL will need to keep track of these closely.

Board Chair Godlewski asked if BCPL has a harvest strategy that it can alter based on what the demand is.

Executive Secretary German replied that John sets up timber sales 10 years into the future. In essence, he is looking at what trees are reaching a maturity level for harvesting this year, next year, etc. John also looks at how to combine certain things. If there is a timber sale that is likely to get little attention, he will sell that in conjunction with a sale that will get a lot of attention. What BCPL is looking at now is if it is necessary to put the brakes on trying to sell anything that would head to that market and focus more on markets that would go to mills further to the north and west. Executive Secretary German explains that he does not have a good answer to Board Chair Godlewski's question because the shut down is still rippling through the market. He shares that he will be on a call with Henry Schoenebeck tomorrow. Henry is the head of the Great Lakes Timber producers. He commented that he spoke with Henry for an hour and half about some of the different pieces that are impacting the market and he is still gathering more information himself. Tomorrow there is a regional meeting of timber producers in the northeastern part of the state and Executive Secretary German will have a better handle on how things are going then.

Commissioner LaFollette thanked Executive Secretary German for the information. Commissioner LaFollette commented that he has been in politics a long time and knows that area of Wisconsin has had paper mills closing and opening on and off for many years now. He adds that sometimes when a closing happens quickly somebody buys the facility but does not necessarily hire all the workers back. He comments that he has not heard about a buyer for the mill and asks if Executive Secretary German has heard anything about one.

Executive Secretary German commented that that was his first question. Is there a buyer in the wings or are there serious discussions going on with potential buyers? The answer he got was that it does not look like it. Often times when one is selling a business one wants to sell it as a going operation because you can get more value to it, if you wait until the operation is shuttered then you may get less, and may only be able to sell assets at that point. For Verso to decide to pull the plug and shut down the facility is a big deal. Verso is not shutting down the operation today, they are shutting off the acceptance of new wood and winding down their supply. There is always a chance for a buyer. Wisconsin has endured the closure of a number of mills but this one is bigger and has a further reach than many of the others that have closed.

Board Chair Godlewski commented that it was recently reported that COVID was a significant driver of the closure and market conditions. Depending on what the economic recovery could look like it might be able to reopen or partially reopen. Verso closed both facilities in Wisconsin Rapids and Duluth, MN. There was talk that if market conditions improve, they might be able to think through a different strategy and do something. She adds that she would like to talk to Executive Secretary German about the taskforce that is working at the economic development opportunities in that area. A discussion needs to be had to see if there is a role for BCPL.

ITEM 8. BOARD CHAIR'S REPORT

Board Chair Godlewski commented she just participated in a teleconference with the 72 county treasurers today. They talked about the current economic conditions they are facing at the local level. Part of that conversation was about the survey results she mentioned at a previous meeting. She surveyed the 72 county treasurers asking them if they were concerned about their increase in expenses related to COVID, while their revenue sources were either being delayed or decreasing and how does that impact their ability to keep their operations going at the local level.

This is such an uncertain time. 70% of the respondents said they are unsure what this is going to look like and unsure what their support could be. Knowing the Trust Fund Loan Program is available added some relief. They are waiting to see if there will be a fourth stimulus package from the federal government and what revenue that package might provide to local governments. Right now, counties may be looking at a gap between their decreased tax revenues and their projected expenses. Between county rainy day funds and budget cuts there is no way they will be able to make up that difference. The League of Municipalities estimated that the total lost revenue the state is facing this year is over 400 million dollars. She commented that she will continue to keep the board posted as she has more conversations and is happy the Trust Fund Loan Program is available.

ITEM 9. FUTURE AGENDA ITEMS

No new future agenda items.

ITEM 10. ADJOURN

Commissioner Lafollette moved to adjourn the meeting; Commissioner Kaul seconded the motion. The motion passed 3-0; the meeting adjourned at 2:17 p.m.

A handwritten signature in black ink, appearing to read "Thomas P. German", written over a horizontal line.

Thomas P. German, Executive Secretary

Link to audio recording:

https://bcpl.wisconsin.gov/SharedDocuments/BoardMeetingDocs/2020/2020-6-16_BoardMtgRecording.mp3