

Board Meeting
Minutes
February 2nd, 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
Jim DiUlio, Deputy 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, Senior Accountant	Board of Commissioners of Public Lands
Thuy Nguyen, Office Manager	Board of Commissioners of Public Lands
Julie Benkoske, Chief of Staff	State Treasurer

ITEM 1. CALL TO ORDER

Board Chair Godlewski called the meeting to order at 2:02 p.m. She wished Commissioner Kaul a happy early birthday and thanked him for being a commissioner.

Commissioner Kaul shared that today is actually his birthday.

ITEM 2. APPROVE MINUTES – January 5, 2021.

Board Chair Godlewski shared that she sent the commissioners a friendly amendment. She stated that she saw that Commissioner LaFollette responded to her email. She explained that in the summation of a meeting that is over an hour long it is sometimes hard to glean what might be worthwhile to capture in the minutes. She wanted to make sure that what she said at the last meeting was captured and included in the record.

Commissioner LaFollette commented that he did not understand how a Board member could change the minutes and proposed that they remain as they are.

Board Chair Godlewski explained that similar to Commissioner Kaul’s amendment to clarify attorney communication, she wanted to make sure that what is in the record accurately reflects what she said. In the summation process some of her statements were skimmed out and she feels it’s important for it to be included in the record.

Commissioner LaFollette asked if she listened to the recording.

Board Chair Godlewski replied yes.

Commissioner LaFollette asked if her proposed amendment was word for word what was on the tape.

Board Chair Godlewski responded that it was in the style of what she said, but not word for word. She added that she included the time at which the statements to be amended were made next to the proposed amended language.

Commissioner LaFollette commented that the wording should be the same as on the recording and can't be altered or changed.

Board Chair Godlewski explained that that is not the format that has been used for the minutes.

Commissioner LaFollette commented that he does not have the recording so cannot confirm what was said.

Commissioner Kaul made a suggestion that the staff confirm that the amendments accurately reflect the conversation before the proposed amendments are adopted.

Commissioner LaFollette expressed that he would like to make sure that what is approved is actually the exact words that were spoken to avoid accusations of making alterations. He is agreeable to the changes if the staff confirms that the amendments are what was said.

Executive Secretary German commented that he has not gone back and listened to the entire recording but does recall that the proposed amendments are in keeping with his memory of what was said at the meeting. He is uncertain about the accuracy of the proposed changes to the last paragraph, as he is not sure it is the way he remembers it. He is unclear about what the staff was tasked with as far as updating the goals and priorities. Was the staff to report on the progress of the goals and priorities or update the actual document?

Commissioner LaFollette shared that he would have preferred that Board Chair Godlewski request that the Board add the missing portions rather than her doing it herself.

Board Chair Godlewski shared that she and Executive Secretary German had spoken to each other and she shared her concerns about the minutes with him. They discussed that she would type up the changes she was proposing because it was more than a few words, and then share that with the Commissioners.

Executive Secretary German confirmed that discussion happened.

Commissioner LaFollette commented that in the future he would prefer that the Board member ask the staff to check the minutes and add or change things that are not accurate.

Commissioner Kaul proposed a compromise.

Commissioner LaFollette replied that it is not a serious issue as there is no policy change or anything of great consequence. He just found it strange.

Board Chair Godlewski commented to Commissioner LaFollette that she is hearing two things. 1.) In the future if there are significant portions of the meeting not reflected in the minutes, commissioners are to ask staff to go back and review and make additions using their discretion; and 2.) When drafting the minutes, make sure it does not cut things short and skim too much off the discussion, especially in a longer meeting. She asked if Commissioner LaFollette was agreeable to that.

Commissioner LaFollette replied yes. He added that Board Chair Godlewski could have asked the staff to review the recording at the specified times and include the items that were missing.

Board Chair Godlewski commented that going forward the Board can employ that process. She asked Executive Secretary German if he had any additional thoughts.

Executive Secretary German shared that BCPL is open to helping in any way. He apologized to the Board if the minutes were too trimmed down. He explained that the minutes are not a verbatim transcript of the meeting and that last meeting

the transcript would have been over 20 pages long. The minutes are trying to capture the important parts and he apologized again if the minutes failed to do so for Board Chair Godlewski.

Commissioner LaFollette expressed that he has no criticisms for the staff and that he just wants a clearer process in the future. He would urge in the future the Board member to ask the staff to go in and find the missing sections relevant and put them into the minutes and that would be fine.

Commissioner Kaul commented that he would like the staff to confirm that the changes are consistent with their recollection of the meeting. He asked Executive Secretary German to confirm the one issue that needed to be followed up on.

Executive Secretary German responded that he begs forgiveness from the Board because he was not sure exactly what the directions were from the Board with respect to the goals and priorities for this meeting.

Commissioner Kaul asked that those directions be confirmed and then relay to the Board at the next meeting what the discussion was. He asked if Commissioner LaFollette was satisfied with that.

Commissioner LaFollette replied that he was all right with that and in the future, he thinks it would be better to request changes in a more formalized way and believes the commissioners have agreed to that and so he is satisfied.

Board Chair Godlewski commented that she believes there are two conversations happening. One is would the Board like to go back and look at the time stamps that were referenced in her comments to assess if it represents what was on the recording, specifically the accomplishments discussed and identified in 2020, and what the priorities discussed for 2021 were. The second piece is, in the future when a meeting goes longer, to make sure that information is captured but if there is something missing to first ask the staff to go back and fill in the missing information or comments as appropriate. She asked if Commissioner LaFollette was okay accepting her friendly amendment or does he want the staff to go back and check the recording and then put the amendment on hold for the next meeting?

Commissioner LaFollette shared that he has just read through Board Chair Godlewski's email again and doesn't see anything there, in his opinion, that could not have been in the discussion. He would like in the future for things to be done more formally.

Board Chair Godlewski agreed.

Commissioner Kaul commented that that makes sense and asked if Executive Secretary German had any input.

Executive Secretary German agreed with what was said and reiterated that the confusion was whether the direction was to provide an update on the progress of the goals and priorities or update the goals and priorities document itself. Those are two different directions.

Commissioner LaFollette asked if the addition of the important priorities was okay.

Executive Secretary German replied yes.

Commissioner Kaul commented that he recalled discussing those topics but doesn't remember details. He restated that Executive Secretary German remembered having the discussion at some point but wasn't sure when.

Executive Secretary German responded yes.

Board Chair Godlewski reiterated that she moves to accept the friendly amendment with the exception of paragraph 33 and staff will confirm the accuracy of the additions to paragraph 33 at the next meeting.

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

VOTE: The motion passed 3-0.

DISCUSSION: Commissioner LaFollette asked Board Chair Godlewski about approval of the minutes, since the minutes are not word for word, is approval of the written minutes or the recording?

Board Chair Godlewski replied that that was a good question.

Executive Secretary German explained that the Board is approving the written minutes. He added that the meetings are recorded and are available to the public, as well as the Board materials, on the agency's website. This is done in an effort to be as transparent as possible.

Commissioner LaFollette repeated that what is being approved is the written minutes not the recording.

Board Chair Godlewski shared that she enjoys hearing Commissioner LaFollette's questions and even though he has been a long time Board member, he still continues to learn. She added that that was a good question and asks if the Board is now approving the minutes.

Executive Secretary German replied yes.

Board Chair Godlewski asked if there were more questions.

Commissioner LaFollette commented that in response to what he just heard from Executive Secretary German it is even more important that the minutes are done correctly because it is the written minutes being approved. When things are found in the minutes that are missing, it is important to get them into the actual record.

Board Chair Godlewski agreed on that point. She added it is important to make sure the record accurately reflects the conversation. She thanked everyone for the good conversation. She shared that there appears to be a good procedure moving forward on the minutes. She moved on to approval of the loans.

ITEM 3. APPROVE LOANS

Board Chair Godlewski shared that there are two loans to approve for a total of a little over \$345,000. One from Town of Bristol and one from a Lake District.

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

DISCUSSION: Mr. Sneider commented that the Town of Bristol is borrowing \$300,000 for road work. He added that the Board may recall that the Lilly Lake Rehab District several months ago borrowed funds to finance a new outlet structure for the lake. That project ran over budget, so they are coming back for more funds to complete the project.

VOTE: The motion passed 3-0.

The Board of Commissioners of Public Lands (BCPL) unanimously approved **\$345,000.00** in State Trust Fund Loans to support **2** community projects in Wisconsin.

1. Lilly Lake Rehabilitation Dist. / Kenosha County / Finance outlet structure / \$45,000.00
2. Town of Bristol / Dane County / Finance roadwork / \$300,000.00

ITEM 4. OLD BUSINESS - Update on Goals and Priorities

Board Chair Godlewski acknowledged that there was some confusion on what the expectations were. She shared that she and Executive Secretary German connected on Monday. She confirmed with the commissioners that quarterly there will be updates on two things. One is the overall performance of the Common School Fund. The performance reports are provided in the packet. Mr. Sneider has been working very hard and she appreciates the work that he and Denise have been doing to put these reports together. The second piece is a quarterly progress report on the goals and priorities that were talked about and revised for 2021. She clarified for Executive Secretary German that she would like him to provide some highlights on some of the priorities today. She added that Mr. Sneider has an update about the performance of the Common School Fund. The quarterly updates will be provided one month after the quarter.

Commissioner Kaul responded that that sounds great.

Board Chair Godlewski asked if Executive Secretary German had any information to share today or would he like to wait until next quarter, as she understands there was some miscommunication.

Executive Secretary German shared three things that have transpired since the last meeting. First is the Trust Fund Investment Performance Scorecard. He has met with Stephanie Marquis several times and worked on refining the project and hopes it will be completed in the next several weeks. He feels that the work she has done so far looks good. He feels it will be a good way of communicating to Wisconsin communities about what BCPL has done and how it was done. Second, in regards to expanding the Investment Committee, the committee is looking for additional expertise. He had a great conversation with a candidate about joining the Investment Committee. The candidate has a great track record as a fund manager for a local investment company. He has indicated his willingness to serve on the committee. Board Chair Godlewski will be talking with him, and if all goes well, he would be the first private sector person on the Investment Committee. We still need to determine the best way to bring such a person on board in terms of developing forms for conflicts of interest and the like. The third thing was staffing, under Operations. As you know, John Schwartzman retired from BCPL after a long and productive career and we were able to fill that position internally in a very short period of time. He thanked DPM for helping make that happen. Kevin Burns, Senior Forester for BCPL, was selected as the new Forestry Supervisor. He is a quality individual and a great person to lead the northern office. Those are the three updates in progress. Executive Secretary German shared that he now understands that his directions are to provide updates on progress, but also to provide updates to the goals and priorities themselves. Is that correct?

Board Chair Godlewski explained that there are two things: updating that document to remove the 2019 goals and priorities and revise it based on the conversations that were had and to continue to update the Board on progress quarterly. She reiterated, one is updating the document and one is reporting progress as it relates to that document.

Executive Secretary German thanked Board Chair Godlewski for the clarification.

Commissioner Kaul asked if members of the Investment Committee who are neither BCPL staff nor Board members are volunteers.

Executive Secretary German responded that they are volunteers. The only current volunteer is Mark Eppli, who is director of Graaskamp Center for Real Estate at UW Business School. This new person would be the first private sector member.

Board Chair Godlewski shared that she got a sneak peek of the Scorecard work that Executive Secretary German has been diligently working on with Stephanie Marquis and she is very much looking forward to sharing that with the commissioners because it is going to be a great tool to use to talk about the work BCPL is doing. She clarified that new members are non-voting voluntary members on the Investment Committee. She and Executive Secretary German had a very good conversation about new members providing their expertise and the importance of addressing any sort of

conflict of interest. The Board will be kept updated on that.

Commissioner LaFollette commented that he has a potential concern that Executive Secretary German may be doing more reporting than is necessary. He added that sometimes you can have reports because they are important and sometimes you can have them just for the sake of reports. He wishes not to burden Executive Secretary German with a lot of things to do when he has an agency to run. He urges Executive Secretary German to be open with the Board to let them know if he feels the Board is asking him to put together reports just for the sake of reports.

Board Chair Godlewski agreed.

ITEM 5. NEW BUSINESS – Unclaimed Property lawsuit

Commissioner Kaul asked to speak before Executive Secretary German commented about the suit. He informed the Board that DOJ typically represents the State in litigation involving State entities but he has screened himself at the State Department of Justice from involvement as a lawyer on the case. He explained that what he will do at the Board meetings is listen to the information provided since it is all public, or to the extent that the information provided is public, and he intends to abstain from voting on anything related to the suit.

Board Chair Godlewski thanked Commissioner Kaul for his comments.

Executive Secretary German thanked Commissioner Kaul for his comments as well and shared that he was aware Commissioner Kaul was unfortunately presented with two different hats to wear in this particular situation.

Commissioner Kaul commented that it may not be strictly necessary but out of an abundance of caution felt it was appropriate.

Executive Secretary German explained that a class action suit was filed against the State of Wisconsin. The gist of the lawsuit is that the State is alleged to have committed an unlawful taking by not paying interest on unclaimed property when it is paid to its rightful owner. He explained how the case came about and that in the 7th Circuit Court of Appeals, the State of Illinois was found to have committed such a taking by failing to pay interest. However, in the same 7th Circuit decision it was found that small amounts of unclaimed property, such as \$100 claims, are not likely to generate net income and therefore if no net income is generated, there is no taking. The court also noted that that may impact the plaintiff's counsel's ability to certify an entire class for such a class action. There is a distinct possibility that the interest earned on all the unclaimed property is actually less than the cost to operate the unclaimed property program. In essence, there are no net earnings or no net interest at all. Unclaimed property sits in the State Investment Fund. The State Investment Fund is paying virtually nothing. Any amount sitting in the State Investment Fund is currently earning 0.12%, he believes.

Mr. Sneider commented that is it down to 0.095%.

Executive Secretary German further explained that if the Department of Revenue (DOR) had \$60 million in the State Investment Fund, it would have generated \$72,005 at 0.12%. With Mr. Sneider's update, it would be closer to \$60,000. It costs millions to operate the unclaimed property program. The suit claims that the state has failed to pay net earnings or net interest to the claimants. If there is no net interest, then there is no claim. Executive Secretary German has had some discussions with the general counsel for DOR and has put in a call to the Deputy Secretary of DOR but has not heard back. DOR was interested in input from the Board of Commissioners. Fight it, how hard and how far? There is a Court of Appeals decision in the 7th Circuit and another one in the 3rd Circuit that reached a different decision. This may be the kind of case that could go all the way to the US Supreme Court because different circuits have reached different decisions. This is also the kind of case that the plaintiffs could run up a significant amount of legal fees. DOR was hesitant about litigating this to the end of the road. They were looking for some guidance from the Board. General counsel is now starting to compile information on how much those net earnings might actually be. There is no final conclusion in terms

of what that looks like, and they don't know how far back they can go. Today, the interest is 0.095 in the State Investment Fund. If you go back several years ago it was above 2%. You would have to go back more than a decade before you get above 3, he believes, so it is a relatively modest amount of money that may be at stake.

Commissioner LaFollette asked for clarification on the case. Is it a class action suit yet or is it only the for the plaintiff Morgan Elizabeth Doyle?

Executive Secretary German replied that they are seeking class certification but to his knowledge it has not been certified yet.

Commissioner LaFollette commented that if it is not yet a class action, it would be a pretty minor thing. These people probably don't have a lot of unclaimed property, but if it becomes a class action suit then there may be a lot of unclaimed property. Are they asking it to be retroactive, to go back to the unclaimed property that was returned 5 or 10 years ago?

Executive Secretary German commented he believes they are trying to keep it as open ended as they can at this point. He shared he had asked the same question to the general counsel of the DOR, in terms of how far back they can go, and she was not certain yet.

Commissioner LaFollette thanked Executive Secretary German for the information.

Executive Secretary German shared that he did not have a definitive recommendation about settling or fighting the suit at this time. It is dependent upon the facts at this point, which the DOR is still trying to glean. His recommendation would have been to defer to the Department of Justice to use their discretion in judgment in terms of deciding how far to litigate the matter. Once it gets into the discovery process, the plaintiff could run up significant legal fees. The DOR was looking at the possibility of proposing a legislative change that would, remove the issue altogether. They had looked at putting in a provision in the statute that would allow for the payment of some net interest. There had been a discussion about putting in an administrative fee. He does not know what that proposal includes in terms of the proposed litigation, because he has not seen any of it. His recommendation would have been to leave the discretion with both the DOR and the Department of Justice to act in the best interests of the State and act in the best interest of our beneficiaries.

Commissioner LaFollette commented that that sounds reasonable. He asked who pays the attorneys fees if the plaintiff does win.

Executive Secretary German commented that that is an excellent question. He explained that it would have to come out of the General Fund because that's where the interest is earned. The interest on the General Fund accrues to the State, it does not accrue to the beneficiaries of BCPL.

Commissioner LaFollette commented that it is good that BCPL does not stand to lose any money.

Executive Secretary German shared the reason why DOR is seeking input from the Board. If DOR has to pay some type of net earnings or net interest to the claimants of unclaimed property, it changes the nature of the way that program is administered. Currently, the interest on that amount that sits in the General Fund goes to the State. If the suit prevails, that money would have to go into a separate account, then it would go to the claimant under the unclaimed property program. It could also change the way the program is administered. He gives credit to the DOR now for taking a much closer look at how to administer the program. They have done a better job at projecting what their potential claims are and their costs of administration, and they have been retaining smaller amounts as reserves and passing along greater amounts of unclaimed property to the Common School Fund. Changes in the administration of the program may cause DOR to reserve higher amounts and therefore pass lower amounts onto the Common School Fund, which would then not be available to be invested and earn money for the public school libraries. This would affect future beneficiaries of the Common School Fund.

Board Chair Godlewski asked if there was anything the Board needs to do in the meantime.

Executive Secretary German commented that at this point, it is fine that the Board take this matter under advisement. If the Board would like to take some action, he believes it would be fine to defer to the discretion of DOR and DOJ. If the Board wants to just leave it as “taken it under advisement” and at the present time take no action, that is fine as well. He shared that he wanted to make sure that he had the opportunity to brief the Board and let them know what was currently going on with the litigation. As developments arise, he will make sure to be transparent with the Board, and if things begin going in a direction that becomes uncomfortable, the Board can weigh in at that point.

Board Chair Godlewski shared her appreciation for bringing this to the attention of the Board. Knowing that the unclaimed property is a significant revenue stream to the Fund, the Board will just wait to hear on what, if any, action they should take in the future.

ITEM 6. CHIEF INVESTMENT OFFICER’S REPORT

Board Chair Godlewski commented that Mr. Sneider has provided the Board with three reports: a performance report and two progress reports about asset allocation. She thanked Mr. Sneider and the staff for putting the reports together, as she understands it takes a lot of time and is not easy. She shared that this is a great improvement from what had been used over the last year.

Mr. Sneider shared that included in the board packet are two quarterly reports following the third quarter last year along with a third report that details the progress made on asset allocation over the previous quarter and last year.

The Portfolio Report located on page 24 of the board packet. This report provides general investment information regarding the Common School Fund, our largest fund by far. The first column details the asset classifications, while the next few columns include current market value, cost and unrealized gains or losses within each asset class.

We have experienced gains in every asset class except for Private Equity/Venture Capital. You might remember that private real estate showed an unrealized loss at the end of the last quarter due to Covid-related revaluations, but our investments within that sector have since recovered to positive territory. We are also making headway in the Private Equity/Venture Capital asset class, as losses are significantly lower than in the prior quarterly report. We are nearing breakeven in that asset class with 2 of our 3 funds now above water. Expectations are for this asset class to have significant unrealized and realized gains in coming years. He pointed out that **total** unrealized gains for the portfolio at the end of 2020 totaled nearly \$65 million. We are not planning to sell assets to realize these gains, but they provide an excellent cushion against a potential downturn in the market. And they certainly look good on paper.

The final two columns in this table show the yield and income from each of the asset classes. The overall portfolio yield at 3.4% is quite good compared to the yields offered in today’s market. The overall portfolio yield is about double the yield offered on new long-term taxable Municipal Bonds. One Wisconsin municipality issued bonds last week with a yield fixed for 15 years at 1.75%. The Federal Home Loan Banks (FHLB) recently issued 15-year bonds at a rate of 1.50%. 30-year Treasury bonds are now paying less than 1.9%.

Looking down that right hand column, you will count 8 or 9 separate asset classes that are providing significant levels of income to our beneficiaries. This diversification is exactly what stabilizes future distributions against market volatility. This is a much different scenario than we faced before we were granted Prudent Investor Standard. We recently wanted to look back to see how distributions might have fared if we still managed the portfolio as we did 5 years ago or 10 years ago. He shared that he completed a study that showed if we still invested the way we did 10 years ago -- with only the State Trust Fund Loan Program, a few Packer bonds and a few bonds purchased directly from the Capital Finance Office - - our distribution would be around \$17 million this year. If we still invested the way we did only 5 years ago, when we added State and Municipal and Farm Credit bonds purchased on the secondary market, we could possibly distribute

around \$24 million. As mentioned, current market conditions do not offer many good alternatives if you are limited to fixed income.

The 2021 distribution will be a new record regular distribution at \$39 million. This distribution is much greater than would have been possible before we diversified in accordance with the Investment Policy approved by this board.

Total Projected Annual Income (down in the lower right hand corner) is at about \$41 million. This is not a projection of this year's or next year's distribution. This is only a projection of income over the next 12 months if there are no changes to the portfolio or market conditions. This estimate is meant to provide a sense of where the portfolio is sitting as of December 31st but is only a projection based on static assumptions. And both the markets and the portfolio are bound to change.

Commissioner LaFollette applauded the Board and the staff for accomplishing what they've done in the last 10 years, five years.

Mr. Sneider commented that we've come a long way.

Board Chair Godlewski asked to be reminded if the unrealized gains and losses are year to date.

Mr. Sneider explained that is the total portfolio is from when the securities were bought to the end of 2020.

Board Chair Godlewski replied ok, life to date.

Mr. Sneider commented that a lot of the securities were acquired a long time ago.

Board Chair Godlewski commented that that is why she asked if it was year to date or life to date. She thanked Mr. Sneider for the clarification.

Mr. Sneider continued to the asset allocation report page 25, which shows how we are doing in regard to the target allocations approved by the board.

As you will recall, this report shows our current allocation percentages, commitments made to individual asset classes but that have yet to be funded, and potential allocations once those commitments have been called by the fund managers. These are all compared to the current target allocations approved within the Investment Policy.

1. Our current allocations to private real estate and cash are the only asset classes outside of their target ranges in the far-right column. Real Estate is currently at 4.6% of total assets with a target range of 5-25%, while the cash target is at \$0. These allocations will likely be corrected over the next several months as subscription agreements and fund documents on several real estate investments are executed. Thanks to questions raised and support by Executive Secretary German and our Board, this progress will be made possible through our coming ability to hire legal assistance through a special purchase authority. The impact of these investments on future distributable income is expected to be significant.
2. As we have talked about in past meetings, preferred stock is considered a hybrid between fixed income and equities and have been a growing part of our portfolio over the past year. To date, we have included preferred stock ETFs within the domestic equities' asset class. This combination makes the different return profiles of common and preferred stock less transparent and provides a distorted view of the amount invested in domestic equities. To better account for our investments made in preferred stock ETFs, he will likely propose that a new line item be added for preferred stocks within the asset allocation model. This reclassification will require us to tweak the target allocations and ranges within the Investment Policy, and so require board approval at a future meeting.

Mr. Sneider moved on to talk discuss the Progress Report. This report compares the current market values of each asset class to the prior quarter and prior year.

There are a few interesting items to be highlighted:

We have rearranged our fixed income portfolio over the past year, but the total investment has stayed almost identical at about \$740MM. We have seen reductions in State and Muni bonds, as bond issues have been called and refinanced with lower rates available in the market.

1. This same impact was felt to a much larger extent within the State Trust Fund Loan (STFL) program, with the loan portfolio decreasing by \$80MM over the past year. Borrowers are refinancing and paying off their Trust Fund Loans, and we expect this trend to continue in 2021. BCPL cannot compete with some of the low interest rates available to large borrowers that are able to access the bond market. Earlier he mentioned that long-term rates have dropped to between 1.5% and 2% and BCPL has a statutory minimum rate of 2% on STFLs.

However, we have so far been able to roll with the punches and reinvest funds from bonds that have been called, and loans that have been prepaid. We have moved these funds into corporate bonds and private debt funds, which offer a significantly higher yield than muni bonds and STFLs and have performed well to date. These funds have a higher default risk, but we are well diversified so the impact of any individual default on the portfolio should be minimal.

2. You will notice there was a big move into public equities during 2020 as CSF investment in public equities increased three-fold from about \$94 million to \$284 million. After prudently waiting (years it seems) until the time was right to fund our target allocation into public equities, we seized the opportunity presented by the market collapse last Spring. As of yesterday, we have unrealized gains in our public equity portfolio of over \$42 million. As mentioned earlier, these gains provide a strong cushion should equity prices fall back once again, but as shown in the first report presented today, these equity investments also provide an excellent source of distributable income.

Looking a little further down in this chart to Alternative Investments, we were able to fund our first investment in Private Real Estate during 2020. We have talked about how this allocation is expected to generate excellent distributable income in the range of a 4-5% yield, while also providing the potential for long term capital gains. We are looking forward to additional investments within this asset class soon.

3. The change on our cash position also tells a story about 2020. During 2020, we were able to invest a net \$160 million of cash into other more productive asset classes. This was during a year when we also had increases in cash reserves of over \$100 million from bond and loan redemptions. We made good progress on investing this cash, but there is still a lot of work to do.
4. One final point, at the bottom of the table, he added quarterly and annual increases in CPI to see how we were doing against inflation. He believes this is one of the most important numbers we might look at today.

As shown in this table, the growth in fund value has far out-paced the level of inflation on both a quarterly and annual basis. This growth comes from fines and forfeitures, unclaimed property, and gains in the investment portfolio.

We are not going to see this kind of performance every quarter or every year but remember that our mission is to invest these funds in a manner that provides significant, stable, and sustainable distributions to beneficiaries of today and tomorrow. The beneficiaries of today are being served with record distributions. And as long as the fund continues to grow faster than the long-term rate of inflation, the CSF will remain relevant and serve public school students for generations to come. He believes that our investment policy has put this fund on the right path to achieve that goal.

Commissioner LaFollette asked about the cash situation. He stated that he noticed we only have about 70 million in cash now versus \$118,000,000. How much cash do we think we need to keep? Is there any minimum cash we think we need to hold?

Mr. Sneider commented that that was a good question. He explained he thinks we need to keep somewhere in the \$20 to \$40 million range in cash, depending on what we expect to need for the State Trust Fund Loan Program over the next quarter or two. The need to hold cash is reduced because our bond portfolio is extremely liquid. We have gains in the bond portfolios should we want to sell any bonds to fund the loan program demand in the future if we didn't have the cash reserves available. He shared that we actually have \$171,000,000 in cash today. On the first page of the portfolio report the money that's invested in ADM is actually cash money in addition to the State Investment Fund.

Commissioner LaFollette apologized for overlooking the \$100 million.

Mr. Sneider commented that ADM is the company that in Brookfield called American Deposit Management.

Commissioner LaFollette commented that he now recalls that.

Mr. Sneider added that ADM also invests in Wisconsin banks.

Commissioner LaFollette asked Mr. Sneider if he were asked to find some good investments for \$120 or \$130 million in the next couple weeks, could he?

Mr. Sneider replied that we are working very diligently. He added that he currently has significant authority from the Investment Committee to buy more preferred stock, ETF's and value common stock ETF's that pay high dividends and we will be moving a lot of money into those real estate funds over the next several weeks. He shared that he expects at the end of the next quarter there will be a lower cash position even though we are going to get a significant amount of principal back through the State Trust Fund Loan annual payments. This year's expectation for principal is \$50 or \$60 million that we'll get back in March.

Commissioner LaFollette commented that that is good and thanked Mr. Sneider.

Board Chair Godlewski thanked the team again. She commented that our largest distribution is worth recognizing and it's because of all the work Mr. Sneider and the team have done, for thinking through what to invest in in each asset class and how to maximize distributions but also looking at how to preserve and grow principal. She thanked Mr. Sneider for the information.

Executive Secretary German shared that there were a couple of things that Mr. Sneider said that really drove home the point for him. The idea that if we had managed the money like we did five years ago, we would have been distributing about \$24 million but instead, we're distributing \$39 million. That's 62% higher. An incredible amount goes into how that distribution has changed. The amount of work that Mr. Sneider had to do in terms of coming up with the strategies and then implementing those strategies and the amount of work that Denise had to do in terms of being able to account for all these different investments and classes of investments. Our staffing hasn't changed, our budget didn't change, just the amount of work and the amount of assets, that changed. We went 170 years here at BCPL without getting the kind of unrealized gains we have now. On top of all that, we have roughly about 18 million in our smoothing fund. These are all wonderful accomplishments that have been accomplished without additional resources for the agency, and in a day and time when the expectations of the public are to do more with less, he believes the agency has done exactly that. He shared his appreciation of the staff for doing great work.

Commissioner LaFollette thanked Executive Secretary German. He asked if it would be appropriate to put out a press release sharing the accomplishments of the agency and what Mr. Sneider just shared. He believes it would be a good

press release and asked if that was possible.

Executive Secretary German replied that we are heading to that time of year when we make our distribution to the Department of Public Instruction (DPI) to be distributed to all the school districts. His idea was to make sure that the press release and press communications capture some of these accomplishments so it not just one number in the check but all the numbers behind that number.

Board Chair Godlewski commented that that goes back to the Scorecard and why we are capturing this data. It is so we can share this with the public.

Commissioner LaFollette shared that perhaps there could be two press releases. One now based on this meeting sharing the good news from Mr. Sneider and then in in a couple of months when we distribute \$39 million. He believes combining the information into two press releases is too much for the press to handle.

Executive Secretary German commented that we will do our best.

Commissioner LaFollette thanked Executive Secretary German.

Board Chair Godlewski asked for any additional questions and moved on to the Executive Secretary's report.

ITEM 7. EXECUTIVE SECRETARY'S REPORT

Executive Secretary German commented that even though Mr. Sneider shared earlier that the demand for Trust Fund loans has dropped off a bit, there may be three larger ones on the horizon. He spoke with Cory Mason, the mayor of Racine, who insisted he pass along his greetings to the Commissioners. Racine is very interested in taking out a \$5+ million loan to fund an economic development project in their community, and it anticipates doing that in the next couple months. In northern Wisconsin, portions of the Verso Mill closed months ago, but the reverberations are still echoing through the northern Wisconsin community. A group of loggers, truckers and other affiliated folks are looking at creating a Co-op along with acquiring several other mills. They are looking at having the respective counties apply for the loans and pass them through as economic development loans to those Co-ops. Those loans would be somewhere in the \$20 million range. BCPL has done loans up to 25 million, but anything over 20 million is a sizable amount. He reiterated that the loans would be to the counties not directly to the Co-ops. The counties would remain liable for all payments of interest and principal on those loans. He will provide updates as they come.

ITEM 8. BOARD CHAIR'S REPORT

Board Chair Godlewski thanked Executive Secretary German. She commented that it is exciting to know that there is a plan in place for Verso Mill. She acknowledges that the meeting has gone over an hour but believes the conversation has been very helpful as the Board now has more information about both the portfolio as well as where things are with the lawsuit. She thanked the Commissioners for their time. She shared that she recently connected with the Superintendent of Public Instruction, Dr. Stanford Taylor, as well as the WEMTA (WI Educational Media & Technology Association) president. Should we be considering anything else we can do to help them, understanding that they are still primarily doing remote learning and they are our beneficiaries? She has been surveying the beneficiaries to understand what their needs might be, and how the Common School Fund has made a difference. She will share with the Board the results of the survey and continue to keep the Board posted on her conversations with the Superintendent and the president of WEMPTA.

Commissioner Kaul thanked Board Chair Godlewski.

ITEM 9. FUTURE AGENDA ITEMS

NONE

ITEM 10. ADJOURN

Commissioner LaFollette moved to adjourn the meeting; Board Chair Godlewski seconded the motion. The motion passed 3-0; the meeting adjourned at 3:16 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/Shared Documents/Board Meeting Docs/2021/2021-01-05-BoardMtgRecording.mp3>