

Board Meeting
Minutes
November 2, 2021

Present were:

Sarah Godlewski, Board Chair	State Treasurer
Doug LaFollette, Commissioner	Secretary of State
Josh Kaul, Commissioner	Attorney General
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, 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 2:06 p.m.

ITEM 2. APPROVE MINUTES – October 19, 2021

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

DISCUSSION: None

VOTE: The motion passed 2-0.

ITEM 3. APPROVE LOANS

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

DISCUSSION: Mr. Sneider spoke about the loan to Village of Merton. He explained that the loan is a short-term loan the village expects to pay off in January. The village is unable to issue bonds for their project until certain audits are completed in January at which time the municipality will issue bonds to refinance the loan.

VOTE: The motion passed 2-0

The Board of Commissioners of Public Lands (BCPL) unanimously approved **\$2,942,478.00** in State Trust Fund Loans to support **4** community projects in Wisconsin.

1. Village of Clayton / Polk County / Finance Street and Sidewalk Projects / \$97,000.00
2. Village of Merton / Waukesha County / Finance new village hall / \$2,500,000.00
3. City of New London / Outagamie and Waupaca Counties / Finance roof and library projects / \$250,000.00
4. Town of Martell / Pierce County / Finance roadwork / \$95,478.00

ITEM 4. OLD BUSINESS – Update on co-op acquisition of idle paper mills

Executive Secretary German shared that a new mill bill has been introduced. The bill would provide \$15 million in GPR funding to support a guarantee to any lender that will lend money to an entity that will acquire or improve the facilities in Park Falls. BCPL could potentially do that. The new bill only provides \$1 million in funding to the Verso mill in Wisconsin Rapids. The \$1 million for Verso would be used to winterize the mill to keep it in decent shape over the winter. Most of the data supplied for the bill so far is focused on the Wisconsin Rapids mill rather than the Park Falls mill. There is a hearing tomorrow of the Forestry Committee in the Assembly. We will know more after that.

Board Chair Godlewski asked if there was any feedback or opinions provided about the use of GPR funds for this new bill.

Executive Secretary German replied yes, but no one has openly opposed the new mill bill. He explained that the current owner of the Park Falls mill is an entity that has no intention of operating it. The mill was purchased out of receivership and the new owner's plan was to sell it to somebody who would operate and improve the mill or instead scrap the mill by selling parts and pieces of the mill to recoup their purchase expenses.

In Wisconsin Rapids, Verso is still in the driver's seat and has not made a decision as to how to proceed. The \$1 million is a subsidy to keep the facility in decent shape over the winter. If BCPL were to participate in any mill financing situation, it would be more with the Park Falls mill because Verso has no imminent plan at this time.

Commissioner LaFollette joined the board meeting.

ITEMS 5. NEW BUSINESS – Quarterly Investment Report

Mr. Sneider shared three quarterly reports regarding the Common School Fund.

The portfolio report shows the current market value, cost, unrealized gains, yield, and projected income of the Common School Fund (CSF) portfolio by asset class. We have experienced gains in every asset class and are showing total unrealized gains of just under \$97 million at the end of Q3. Not included in this total are about \$1.5 million in realized gains from rebalancing activity during the quarter. These capital gains are now included in trust fund principle to be reinvested. The overall portfolio yield at 3.8% remained steady during the quarter, while the projected annual income rose about \$1.5 million from the last report due to an increased allocation to private real estate.

The asset allocation report shows how we're doing in regards to the investment policy target allocations. We are above the target allocation for both state and municipal taxable bonds and corporate bonds. State and Muni bonds are legacy assets that remain a core element of our strategy and policy. The amount invested in these bonds will be reduced over the next few years through normal bond redemptions, as issuers attempt to lower their interest costs. Corporate bonds have played an important role of producing distributable income over the past year, as the interest paid on cash reserves has been near 0. We are also above the current target for public equities. We purchased the majority of these assets when markets crashed in the spring of 2020 due to COVID-19. Equity markets have nearly doubled over the past 18 months. Asset classes where current allocations are below target include trust fund loans, private real estate/infrastructure, and venture capital. The demand for new loans has not kept up with the increase in loan prepayments caused by low market interest rates. The program remains active, but the average loan size is smaller, and the average term is shorter. The investment Committee is actively pursuing new investment opportunities and is currently reviewing potential investments in private real estate, infrastructure and venture capital categories. The investment Committee approved new commitments to three real estate funds sponsored by Nuveen totaling \$60 million. This commitment to open-ended real estate funds is different from earlier investments in that it focuses on specific property types. The first fund targets multifamily properties designed for middle income and younger families. The second acquires logistic properties, including light industrial, bulk distribution and cold storage. The third fund invests in office buildings built for the technology and healthcare industries. All three funds are newer strategies for Nuveen and BCPL will receive a founders' discount on the management fees on two of the funds for as long as we remain invested. The open-ended structure means that the funds have a perpetual life

and offers investors the opportunity to sell their interests in the funds on a quarterly basis. These three commitments are contingent upon the receipt of an approved third party due diligence report, but all three funds have already received large commitments from SWIB. Nuveen is owned by the well regarded TIAA and the three funds also received large commitments from the parent company. We hope to be able to close on these commitments before the end of the year, and funding of these commitments will take place over the first three quarters of 2022. Funding of these and other commitments will come from cash reserves, the sale of select corporate bond assets as mentioned, and perhaps some profit taking from a prudent reduction in public equities. We have now closed on our commitment to the Venture Capital Fund NVNG, which made a small first capital call on Friday.

Board Chair Godlewski shared that the Nuveen funds are a good fit for the portfolio both from a diversification and income perspective. 70% of these properties meet green certification. Nothing Ventured Nothing Gained (NVNG) is a fund based here in Wisconsin that is committed to startups in the Midwest, particularly in Wisconsin. She asked if there were other commitments made in the third quarter.

Mr. Sneider replied that a commitment was made to the Prudential Fund between the end of the second quarter and beginning of the third quarter.

Mr. Sneider discussed the progress report. There was a modest decrease in bonds, trust fund loans and public equities during Q3, with a small increase in private debt and venture capital. The jump in our private real estate investment was due to a couple of elements: the call of \$35 million of our prior commitment to the Invesco U.S. Income Fund and the continued impressive performance by the Blackstone Real Estate Investment Trust, one of the largest investments currently within the Common School Fund. Lastly, the Common School Fund continues to grow well in excess of the inflation rate while also providing record distributions to our beneficiaries.

Executive Secretary German pointed out that the word “closing” means different things in different situations. Closing on a piece of real estate means completing the purchase. When closing on an investment in a private investment fund, it does not necessarily mean that the money is being invested on that day. It means that the paperwork is completed and you have been recognized as an acceptable investor by the fund. The actual investment will follow later.

Mr. Sneider commented on the Prudential investment. We closed on the paperwork, but it may take up to three years for that entire investment to be put to work. All the funds have a different investment period, and it can range from one year two to five years. We keep those time lines in mind when making commitments to these investments.

ITEM 6. CHIEF INVESTMENT OFFICER'S REPORT

Mr. Sneider shared that he had an initial meeting with David Brown on Friday. David is the academic director of the Hawks Center for Security Analysis at the UW Madison Finance Department. He discussed portfolio optimization. This is a process that helps investors determine the target allocation percentages that develop the highest expected return for the level of risk. Because we also have a need to provide a strong distribution to our beneficiaries, this process will also include constraints including minimum yield. This optimization process becomes a very complicated math problem, and Mr. Sneider hopes this relationship will help to develop new recommendations for the board in the near future.

Second, in July of 2020, we invested \$30 million in the Blackstone Credit Secured Lending Fund (BXSL), a private debt fund that lends money to small and medium sized corporations. Over the past 15 months, this investment has provided an annual return of 15%, including over 7% distributable income. On October 1st, Blackstone filed a registration statement with the SEC to take this fund public through an initial public offering of common shares. Blackstone pulled the trigger on October 28th. The initial share price of \$26.15 was about \$2 higher than our cost of around \$24.00. The prices fluctuated over the past few days, reaching as high as \$30.50 on Monday, but have since come back down to about \$29 a share. We own nearly 1.25 million shares at the current price. Our unrealized gain in BXSL has risen to over \$6 million. This is the first IPO of an investment in BCPL's history. This is a good development but there are a few issues that affect BCPL. First, this investment is now “public” rather than “private” which will require that we move the investment from our private debt asset class to our public equity asset class, which will create some short-term imbalances in our current

portfolio allocation. Second, this is the first individual common stock owned by the Common School Fund in its 173 year history. Until now, our equity investments have been limited to exchange traded funds (“ETF’s”) and other funds that include investments in multiple companies.

Third, the Common School Fund investment policy allows BCPL to hold individual common stocks, but there are two constraints: 1.) no more than 5% of any corporation may be owned by any school trust fund; 2.) any common stock investment may not exceed 5% of the market value of any school trust fund. Neither of these constraints should become a problem. We currently own, slightly less than 1% of the company and the investment is well under 3% of the Common School Fund at the current value.

Fourth, there is a lock up period of several months where BCPL will not be able to sell its investment. This lock up period is designed to create price stability for the shares of stock during the transition from a private fund to a public fund. The lock up period also has the benefit of allowing the investment Committee time to consider the best options available for the Common School Fund moving forward. We will be able to sell, if we choose to do so, 10% of our shares on January 3rd, 15% on March 1st, 25% on May 1st, and the remaining 50% on July 1st.

Board Chair Godlewski expressed her excitement about the news of BXSL going public.

Executive Secretary German also expressed happiness that the value of the BXSL investment had risen significantly, he noted that the fund is still paying significant dividends, which is one of the reasons why we purchased the fund in the first place. We looked at it as a great investment that would be producing dividends that would be distributed to the beneficiaries of today, and we hoped that the fund would increase in value to benefit the beneficiaries of tomorrow. The fund has done exactly that. The dividends received so far have been wonderful and produced a key part of the of the record distribution that we made.

ITEM 7. EXECUTIVE SECRETARY’S REPORT

Executive Secretary German spoke about 2021 Assembly Joint Resolution #92. This resolution would affect all three board members but in different ways. This joint resolution would make the Secretary of State, the State Treasurer and the Superintendent of Public Instruction appointed positions by the Governor, as opposed to separately elected. Because the Board of Commissioners of Public Lands would still be made up of the Attorney General, Secretary of State and State Treasurer it could possibly change the dynamics of the board because two of the positions on the board would be appointed by the Governor. Executive Secretary German asked for some direction from the board as to what they would like the staff to do with respect to this legislation.

Board Chair Godlewski shared that if this legislation were to be successful, she believes it would be a risk to the Common School Fund and the structure of the board.

Executive Secretary German expressed skepticism that this bill proposing a constitutional amendment will pass.

He shared that there are other states that have the governor serve on their Land Commission but he is not aware of any Land Commission where 2/3 of the of the board would be made up by the governor or the governor's appointees.

Board Chair Godlewski discussed possible courses of action. Do we write a letter? Testify? She feels strongly about registering against this legislation making sure our position known.

Commissioner Kaul noted that if there is a hearing scheduled on the bill, we must make sure we’re notified, have someone testify and register against the legislation. If there is no hearing it doesn’t make sense to use resources to do anything yet.

Executive Secretary German clarified that joint resolutions that are constitutional amendments are not vetoable by the Governor. The resolution must be passed by two sessions of the legislature and then approved by the voters of the state. He is not aware of a hearing scheduled yet. The last time there was an attempt to amend the Constitution impacting BCPL, due to the valiant efforts of the State Treasurer, that attempt went down to a 60-40 loss when it went to the citizens of

Wisconsin. He is surprised that another attempt to amend the Constitution is being made so soon.

Commissioner Kaul asks for feedback and shares that a meeting may need to be scheduled quickly if there is a potential hearing to discuss testimony and to registering against the legislation.

Board Chair Godlewski agreed with Commissioner Kaul. She asks who is chairing the committee in both chambers.

Executive Secretary German replied that he believes it went to the Committee on State Affairs.

Board Chair Godlewski commented that Executive Secretary German's relationship with some of the staffers may be beneficial to stay on top of this legislation. She shared that Senator Felzkowski is vice chair of the committee on the Senate side but she is not sure about the assembly side.

Executive Secretary German will provide an update at the next meeting as to status of the legislation. He and Board Chair Godlewski agree that if the legislation starts to move faster, a special meeting of the board will be scheduled.

ITEM 8. BOARD CHAIR'S REPORT

Board Chair Godlewski discussed two things. One, it is the 150th anniversary of the State Trust Fund Loan Program. She and her staff are going to be doing some work to acknowledge this because the program is an important part of the state's history and ability to help finance projects across the state. Second, she asks for feedback from the Commissioners about meeting in person. She asks that the board consider doing the year-in-review meeting in January in person.

ITEM 9. FUTURE AGENDA ITEMS

None

ITEM 10. ADJOURN

Commissioner LaFollette moved to adjourn the meeting; Commissioner Kaul seconded the motion. The motion passed 3-0; the meeting adjourned at 2:45 p.m.



Thomas P. German, Executive Secretary

Link to audio recording:

<https://bcpl.wisconsin.gov/Shared Documents/Board Meeting Docs/2021/2021-11-02 BoardMtgRecording.mp3>