



Sarah Godlewski, *Secretary of State*
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Thomas P. German, *Executive Secretary*

AGENDA

May 16, 2023

2:00 P.M.

Board of Commissioners of Public Lands
101 E. Wilson Street, 2nd Floor
Madison, Wisconsin

Routine Business:

1. Call to Order
2. Approve Minutes – May 2, 2023 (Attachment)
3. Approve Loans

Old Business:

4. None

New Business:

5. None

Routine Business:

6. Chief Investment Officer's Report
7. Executive Secretary's Report
8. Board Chair's Report
9. Future Agenda Items
10. Adjourn

AUDIO ACCESS INFORMATION

Conference Line Number: 608-571-2209
Conference ID Code: 335 125 302#

Board Meeting Minutes
May 2, 2023

Present were:

- | | |
|-------------------------------------------|----------------------------------------|
| Sarah Godlewski, Board Chair | Secretary of State |
| Josh Kaul, Commissioner | Attorney General |
| John Leiber, Commissioner | State Treasurer |
| Tom German, Executive Secretary | Board of Commissioners of Public Lands |
| Richard Sneider, Chief Investment Officer | Board of Commissioners of Public Lands |
| Denise Nechvatal, Controllor | Board of Commissioners of Public Lands |
| Micah Zeitler, Real Estate Specialist | Board of Commissioners of Public Lands |
| Chuck Failing, IT Specialist | Board of Commissioners of Public Lands |
| Thuy Nguyen, Office Manager | Board of Commissioners of Public Lands |

ITEM 1. CALL TO ORDER

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

ITEM 2. APPROVE MINUTES

MOTION: Commissioner Leiber moved to approve the minutes; Commissioner Kaul seconded the motion.

DISCUSSION: None.

VOTE: The motion passed 3-0.

ITEM 3. APPROVE LOANS

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

DISCUSSION: Mr. Sneider commented that the loan to Blackhawk School District is for financing the teardown of an older section of a school building that was built in 1921 and to construct new classrooms and offices. The loan to the Village of Osceola is to fund demolition of a building that had been condemned. The building was an old milk house that was acquired to provide river access for the village.

VOTE: The motion passed 3-0.

The Board of Commissioners of Public Lands (BCPL) unanimously approved **\$3,632,536.08** in State Trust Fund Loans to support 7 community projects in Wisconsin.

1. Village of Shiocton / Outagamie County / Finance purchase of garbage truck / \$254,536.08
2. Town of Gilman / Pierce County / Finance road and bridge work / \$1,000,000.00
3. Town of Anson / Chippewa County / Finance purchase of two new Fire Tender Trucks / \$398,000.00
4. Town of Unity / Clark County / Finance new town garage / \$600,000.00
5. Black Hawk School District / Green and Lafayette Counties / Finance building project / \$850,000.00
6. Village of Hawkins / Rusk County / Finance snowplow and truck purchases / \$250,000.00
7. Village of Osceola / Polk County / Finance building demolition / \$280,000.00

ITEM 4. OLD BUSINESS

None

NEW BUSINESS

ITEM 5. Sale of Withrow parcel, Town of Colburn, Chippewa County (S1705)

DISCUSSION: Executive Secretary German shared that staff is proposing the sale of a parcel in the Town of Colburn in Chippewa County. Staff believed that the original appraisal for this parcel did not accurately value the property. It did not take into account the true value of the mature timber that was standing on the property. Staff decided to hold a timber sale, thin the property very carefully and then attempt to sell the thinned property. The second appraisal came back higher. By breaking up the sale process into two phases, staff was able to generate a significant amount more for the trust funds. The property is located in the western part of the state, way outside of our consolidation zone. The three parcels brought to the board today for sale all have one thing in common – they're all relatively isolated and not currently productive. The Withrow parcel is not currently productive because we just had a timber sale.

Commissioner Leiber asked about potential buyers for this parcel if it has no access.

Executive Secretary German replied that the biggest source of buyers are the adjacent landowners, which he acknowledges is a limited pool.

MOTION: Commissioner Leiber moved to approve the sale of the Withrow parcel; Commissioner Kaul seconded the motion.

VOTE: The motion passed 3-0.

ITEM 6. Sale of parcel west of Javenkowski Rd, Town of Three Lakes, Oneida County (S2306)

DISCUSSION: Executive Secretary German shared that he has personally seen this parcel of land. The parcel contains wetland and trees that do not have much value. We were looking at selling this parcel to the public because it has frontage on a public road and may attract more bidders. BCPL also owns a couple of nearby parcels directly across the road, but the parcels on that side constitute a larger block. The appraisal was acceptable. Even though the parcel proposed for sale has public access and is in our consolidation zone, it is not currently producing any revenue for the trust funds and therefore is appropriate for sale.

MOTION: Commissioner Kaul moved to approve sale of the parcel west of Javenkowski Rd; Commissioner Leiber seconded the motion.

VOTE: The motion passed 3-0.

ITEM 7. Sale of Yellow River parcel, Town of Bashaw, Washburn County (S2307)

DISCUSSION: Executive Secretary German shared that this parcel is isolated and outside our consolidation zone. One unique characteristic about this parcel is that there is a water feature that runs through it. It does not have public access so it is difficult to manage and difficult to generate any revenue from. Some of the neighboring landowners have expressed interested in acquiring it so, this parcel is appropriate for sale because of that fact and because it has not and likely will not generate any revenue for the trust funds unless we sell the parcel.

MOTION: Board Chair Godlewski moved to approve sale of the Yellow River parcel; Commissioner Leiber seconded the motion.

VOTE: The motion passed 3-0.

ITEM 8. Conservation Easement on Severed Mineral Estate, Town of La Follette, Burnett County

DISCUSSION: Executive Secretary German shared that starting in 1909 there has been a Wisconsin statute that required the reservation of certain rights upon the sale of public lands. The public lands were, in essence, defined as the lands that BCPL was managing. We now have about 200,000 acres of reserved mineral estate, which for the most part generates zero income or revenue for the trust funds. Under the statutes we have the power to sell easements for full and fair value. Wisconsin Chapter 700 is about conservation easements and explains how those can be granted or sold. Taking into consideration those statutes, BCPL has the power to sell a conservation easement.

Generally, one is selling a conservation easement on the surface land, but you can also sell it on the mineral estate. People that are looking at setting up wetland mitigation banks either have to own the mineral estate to enter into a conservation easement or find the owner of that severed mineral estate and have them join in the conservation easement. That is what is being proposed here. The landowner is looking to set up a wetland mitigation bank but doesn't own the mineral estate. The landowner approached BCPL asking if we would be willing to sell that. The statutes do not provide a mechanism for us to sell the mineral estate but because we can sell a conservation easement, we could join in that conservation easement to the extent that we own that mineral estate and promise not to use those mineral rights.

In order to come up with a value of the conservation estate, first, we attempt to get an assessment of what minerals are there. To do this, we reached out to the local experts. Their opinion was that there are no viable recoverable minerals. This does not mean that the value of granting that conservation easement is zero. We do not know what the future for minerals is going to look like in 30-40 years. We then asked other land commissions in the western part of the United States what they would do in this situation. The policy throughout most of our western counterparts is to either sell those rights or encumber them for somewhere between \$50 and \$100 an acre. We proposed that to the people setting up the wetland mitigation bank and they agreed.

We are asking the board to consider encumbering our mineral estate in this area in return for the payment of \$100 an acre (140.9 acres for \$14,090). We have only done one of these conservation easements on mineral estate before, so we're relatively new to this process. This transaction is making an unproductive asset into a productive asset. It is using a trust asset to generate revenue that has not generated revenue before.

Commissioner Leiber asked about where the proceeds from this transaction go.

Executive Secretary German explained that it will go to the principal of the fund but not into the land bank portion.

MOTION: Commissioner Leiber moved to approve the proposed Conservation Easement; Commissioner Kaul seconded the motion.

VOTE: The motion passed 3-0.

ITEM 9. CHIEF INVESTMENT OFFICER'S REPORT

Mr. Sneider provided the quarterly investment report. He presented the Portfolio report that shows the current market value cost, unrealized gainer loss, percentage gainer loss yield and projected annual income for the Common School Fund portfolio by asset class. The report shows that we had a good quarter. Our projected income

increased about \$1,000,000 since the last quarterly report. The current projection of annual income is nearly \$16 million or 30% higher than projected 12 months ago. Two factors contributed to this growth: 1) commitments to private debt funds increased by more than \$110 million over the past 12 months; and 2) the general increase in market interest rates over the past 16 months.

This increase in interest rates is a double edged sword. The value of our fixed income bond portfolio goes up or down depending on market interest rates. For example, let's say you want to invest in order to receive an annual payment of \$5000 for a period of time. If market rates were at 5%, you would need to invest \$100,000 to receive this benefit. \$100,000 times 5% is equal to \$5000. If the market rates go up to 6%, another investor would not be willing to pay you \$100,000 to receive that \$5000 annual payment. At 6% with \$100,000 invested, that new person would now expect to receive \$6000 per year. To make \$5000 a year at 6% a person would need to invest about \$83,000. The present market value of your fixed income stream just went down by \$17,000.

In addition to bonds and other fixed income assets, real estate is another asset class that is beginning to show the impact of higher interest rates. Most purchases of commercial real estate require financing. One impact of higher interest rates is that higher mortgage payments will reduce the amount of future cash flows received from the property. But in addition to that negative impact on cash flow, there's a second impact of higher rates on commercial real estate that is similar to the bond example. Higher interest rates reduce the value of the income you expect to be generated by the property. In the real estate industry, this process is called an increase in the CAP or capitalization rate. The recent rise in market interest rates has forced an increase in commercial real estate cap rates over the past year or so. In turn, that increase in cap rates has had an impact on the value of commercial and multifamily properties across the country. Fortunately, these impacts on the Common School Fund bond and real estate portfolios are only paper losses. Changes in the asset value do not reduce the amount of distributable income that will be received. Asset prices are going to eventually recover and BCPL manages the trust fund assets on the basis of a permanent time horizon. That means that our portfolios are built to withstand short-term fluctuations in asset prices while continuing to distribute an increasing amount of income to our beneficiaries.

We have constructed a diverse portfolio of assets that produce separate and substantial streams of income, many with low correlations to one another. We will soon be adding an 11th asset class to this group as we just closed on our first commitment to the "infrastructure" asset class. We maintain a smoothing fund with a minimum balance at 50% of the next targeted annual distribution. These smoothing funds are fully funded and are available to supplement future distributions if necessary.

The Asset Allocation Report shows how we are doing in regard to our target allocations. This report shows our current market values, outstanding commitments and investment policy target allocations and ranges. We are getting very close to our target allocations across the board. There are a few new commitments that have been included in this potential portfolio, including the previously mentioned commitment to the BlackRock Global Infrastructure Fund IV which closed last week and Baird Venture Partner VI, which will be closing very soon.

The full impact of these commitments will occur over the longer term. The BlackRock Fund will be making infrastructure investments over the next five years and has a full term of 12 to 15 years. The Baird Fund has an investment period of six years with a duration of 10 to 13 years with targeted income in the 6% to 8% range. One of the reasons we're excited about the BlackRock Fund is that income from infrastructure assets will be uncorrelated with any of the other asset classes we currently hold in the Common School Fund. This diversification helps to further reduce any risk to the amount of future distributable income. This is the fourth infrastructure fund sponsored by BlackRock and prior funds have averaged an annual 14% return on exit.

The commitment to the newest Baird Venture Capital Fund (BVC) focuses on B2B technology and services in underserved geographic markets, including the Midwest. We had invested in Baird's Fund V several years ago. As of last year, our investment in that fund has achieved a net return of nearly 30% in the technology and services sector.

Note that we are over target in the public market sectors of government and corporate bonds, but under target in

private debt including State Trust Fund Loans and private debt funds. Our plan is to balance these exposures to the target levels over time through bond redemptions and selective bond sales. We expect that State Trust Fund Loan balances will likely increase over the remainder of the year and that the shift to private markets will accelerate from the reinvestment of bond redemptions if and when market interest rates retreat from current levels. We are somewhat over target in both domestic and global ETF allocations. The Investment Committee approved a plan to reduce our ETF exposures to reach target levels through a series of steps over the next month. These sales will accomplish three goals. They'll reduce the Common School Fund public equity ETF exposures to the target level. They will slightly de-risk the portfolio during uncertain market conditions and will also capture some of the outperformance that has been provided by global equities over the past six months.

The domestic equities asset class currently includes common stock in the Blackstone Secured Lending Fund (BXSL) that we received when a prior Blackstone private debt fund went public through an IPO in October of 2021. This asset has climbed about 13% year to date. The investment Committee has been monitoring this investment and will determine an appropriate time for sale of those shares along with the reinvestment of any proceeds.

As for alternative assets, we are mostly invested in real estate. Over the next few months, we anticipate closing on one additional commitment to both infrastructure and venture capital, bringing those asset classes closer to their target allocations.

ITEM 10. EXECUTIVE SECRETARY'S REPORT

Executive Secretary German shared that that he is the majority of his time trying to convince joint finance to provide BCPL with the funding that we're asking for in the in our budget request. He will update the board on the results of that next meeting.

ITEM 11. BOARD CHAIR'S REPORT

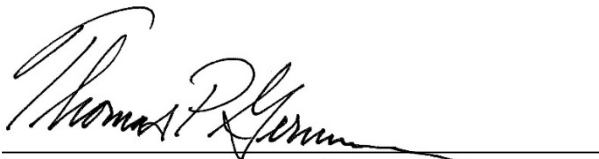
None

ITEM 12. FUTURE AGENDA ITEMS

None

ITEM 13. ADJOURN

Commissioner Leiber moved to adjourn the meeting; Commissioner Kaul seconded the motion. The motion passed 3-0; the meeting adjourned at 2:36 p.m.



Thomas P. German, Executive Secretary

Link to audio recording:

[https://bcpl.wisconsin.gov/bcpl.wisconsin.gov/Shared Documents/Board Meeting Docs/2023/2023-05-02/BoardMtgRecording.mp3](https://bcpl.wisconsin.gov/bcpl.wisconsin.gov/Shared%20Documents/Board%20Meeting%20Docs/2023/2023-05-02/BoardMtgRecording.mp3)

**BOARD MEETING
MAY 16, 2023**

**AGENDA ITEM 3
APPROVE LOANS**

Municipality	Municipal Type	Loan Type	Loan Amount
1. Colburn Chippewa County Application #: 02023078 Purpose: Finance roadwork	Town Rate: 5.00% Term: 6 years	General Obligation	\$598,000.00
2. Vandebroek Outagamie County Application #: 02023079 Purpose: Finance roadwork	Town Rate: 5.00% Term: 15 years	General Obligation	\$1,200,000.00
3. Hartford Washington County Application #: 02023080 Purpose: Finance purchase of plow truck	Town Rate: 5.00% Term: 5 years	General Obligation	\$322,740.00
4. Lodi Columbia County Application #: 02023081 Purpose: Finance purchase of snowplow and street sweeper	City Rate: 5.00% Term: 10 years	General Obligation	\$455,000.00
5. Ellsworth Community Pierce County Application #: 02023082 Purpose: Finance locker room remodel	School Rate: 5.00% Term: 10 years	General Obligation	\$999,995.00
	TOTAL		<hr/> \$3,575,735.00