

**Statement before the  
Legislative Council Study Committee on the  
Investment and Use of the School Trust Funds**

August 16, 2018

Jonathan Barry, Executive Secretary  
Board of Commissioners of Public Lands

The Board of Commissioners of Public Lands (BCPL) adopted its Investment Plan and Policy (the “Plan”) including Target Asset Allocations on November 1, 2016. This Plan was developed over several months with involvement from the UW School of Business and the State of Wisconsin Investment Board (SWIB) leadership. Further, the draft Plan was vetted by BCPL beneficiaries, most particularly the Department of Public Instruction (DPI) and the Wisconsin Educational Media and Technology Association (WEMTA). It was also shared with legislative leadership and the Governor’s office.

Over the months of its development, the Plan was presented to this Board on several occasions and modifications were made to address Commissioner’s concerns.

Further, in adopting the Plan, the Commissioner’s adopted the following, limiting amendment:

*“Upon providing such report {pertinent research on proposed equity, venture capital and real estate investments prior to the purchase of any such investments} to the Board, the Investment Committee shall have full authorization to purchase such investments. For the first six months after adoption of the Investment Policy, the Investment Committee’s authorization for equity, venture capital and real estate investments shall be limited to an amount not to exceed \$15 million per month.”*

**Reporting Practices**

There are three levels of on-going reporting provided to the board with different degrees of detail that are provided for quarterly, monthly, or bi-weekly board meetings.

1. At every board meeting, the Investment Committee reports all investment transactions, including transaction level detail, on all public bond and public equity purchases and sales made since the previous board meeting.
2. Monthly reports detail the performance of public bond and public equity portfolios.
3. Quarterly reports typically include: (1) staff narrative reports on portfolio performance and liquidity, loan demand, and general financial market conditions; (2) staff reports on new investment opportunities and strategies, which are provided as early and often as possible for potential board discussion purposes; (3) a table that compares the performance of BCPL-managed portfolios against custom benchmark portfolios; and (4) an Executive Summary.

## Investment and Reporting History

The Common School Fund (CSF) Investment Policy Statement (IPS) approved on November 1, 2016, provided for the diversification of assets into three new asset classes including Public Equities, Real Estate, and Venture Capital.

### *1. Public Equities*

The Investment Policy includes a target allocation of 15% (range of 12.5% - 17.5%) to public equities. The Investment Committee reported regularly to the Board during 2017 on our research of how and when to enter the public equity market. For most of 2017, equity market indices were continuously reaching record heights while economic/political volatility increased expected risk levels. This was a difficult market to enter with the first equity investment in the history of the CSF, and prudence dictated that risk should first be mitigated by working to “fill” the smoothing fund for both the Normal and Common School funds.

During 2017, the Investment Committee was able to take great strides in completing the goal of filling the smoothing funds through active bond management in a volatile interest rate environment. The CSF smoothing fund has exceeded 50% of the target level, while the Normal School Fund (NSF) holds 100% of its required balance.

Staff conducted extensive research for a planned entry into public equity investments, including meeting with SWIB equity investor leadership, vetting how to best manage investment placements, and which equity investment types would best meet BCPL investment goals. These goals were expressed to the Board as being low cost, current income, and growth potential.

ETFs were chosen as the investment vehicle to enter the public equity markets, primarily due to the cost structure, and the fact that the vast majority of studies have concluded that any additional returns expected through active equity investment do not exceed the higher cost of that management structure. In other words, passively managed ETF shares would provide the most cost-effective method for CSF entry into the public equity markets.

The Investment Policy Statement discussed the need for new asset classes to consider the mandate to provide strong, stable, and secure distributions to the Trust Fund beneficiaries. The Investment Committee, therefore, chose a structure of ETF investments that included a strong tilt toward income-producing stocks. Interviews with three large ETF management companies were conducted during 2017, and the Investment Committee chose Vanguard as the fund manager due to the low-cost structure and the availability of funds that best met the desired criteria.

In each of the 2017 quarterly reports to the board, staff provided updates on plans and a strategy for a cautious entry into public equities.

In late January 2018, following a pull-back in the broader market, the Investment Committee authorized the investment of \$1 million per week in select common stock ETF's, with additional purchases to be made as appropriate under certain conditions. As of the end of the first quarter of 2018, staff had completed \$13 million in ETF purchases.

Today, our transaction report (as of July 31, 2018) for this Board meeting shows a total value in ETF equities of \$22,387,587 with a capital gain of \$399,089 or 1.8%. Additionally, this group of equities is projected to provide a dividend yield of 3.6% annually or \$796,025.

## **2. Real Estate**

The CSF Investment Policy asset allocation includes a 5% target (range of 0-15%) for real estate. No transactions have closed, although BCPL staff have held discussions with DOA personnel regarding potential BCPL investment in state-owned buildings.

## **3. Venture Capital**

The Investment Policy Statement asset allocation includes 3% target (range of 0-5%) to venture capital. The Investment Policy discusses that one advantage of BCPL's investments in this area is the connection to the University of Wisconsin, SWIB and the Wisconsin Alumni Research Foundation (WARF), and the proximity to companies that may develop commercial applications resulting from local research. Discussions with SWIB and WARF led to introductions to the local venture capital firms 4490 Ventures and Venture Investors, both of which were raising capital for new funds. Interviews with these fund managers led to increased interest by staff, in-person presentations by Fund Managers directly to the Board, the completion of due diligence reports by third-party vendors, a report and recommendation by the Chief Investment Officer to the Investment Committee, and the execution of funding commitments totaling \$30 million. The Board was kept well-aware of progress during a process that took approximately six months for each fund. Updates were provided during regular Board meetings, within Quarterly Investment Reports, and included the forwarding of third-party due diligence reports.

The BCPL Executive and Deputy Secretaries, with the Chair in agreement, met with legislative leadership in both the Senate and Assembly, and with the then Deputy Chief of Staff to the Governor, to apprise them of the Board's consideration of making these venture capital investments.

It should be noted that the full \$30 million commitment is never expected to be drawn and outstanding at any point in the future. The initial funding period for each fund is five years, and returns are expected to be received from early investments prior to the end of this initial funding period. A rule-of-thumb in venture capital funds is that an investor can expect that 50-60% of the total commitment will be the maximum outstanding at any time. To date, there has been one draw of \$3.6 million on the commitment to 4490, and no draws on the Venture Investors commitment.

## **Management Efficiency**

BCPL manages financial trust assets at a cost of 8bps (.08%) per year. This cost structure saves BCPL beneficiaries more than \$3.6 million per year from the average expense at SWIB and \$5.9 million per year from the industry average expense ratios\*. Given that the State of Wisconsin Legislative Fiscal Bureau indicates that constitutional and statutory constraints on fund investments would limit SWIB returns to the returns earned at BCPL, this is real money to the beneficiaries.

\*The most recent annual financial report from SWIB reports an average cost of nearly 41bps (.41%) per year, while Morningstar reports an industry average expense ratio of 62bps (0.62%).

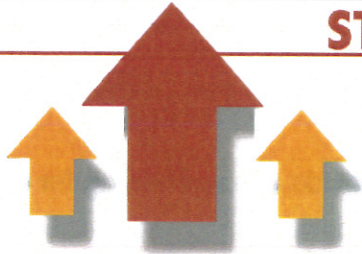
**Conclusion**

The Investment Committee works under the direction of the Board. Specifically, we take our direction from a majority of the Board and endeavor always to keep the full Board aware of all actions in a timely manner. We strive to be fully transparent and will continue to operate this way in the future.

# STRONG SCHOOL LIBRARIES BUILD STRONG STUDENTS



## STUDENT ACHIEVEMENT



**WHEN SPENDING FOR SCHOOL LIBRARIES RISES, BETTER READING SCORES FOLLOW.**

**Test scores tend to be significantly higher for schools that have full-time certified school librarians as well as for those that have such a librarian with support staff.**

*Achterman 2008*

**2 STATE STUDIES CONFIRM SCHOOL LIBRARIANS SUPPORT STUDENT ACHIEVEMENT.**

## CAREER AND COLLEGE READINESS

**“School libraries are essential learning resources and librarians are the essential ‘guides inside’ our schools, leading everyday teaching and learning toward methods and outcomes that best prepare our students for the challenges of the 21st century.”** *Bernie Trilling, Global Director, Oracle Education Foundation, 2010*



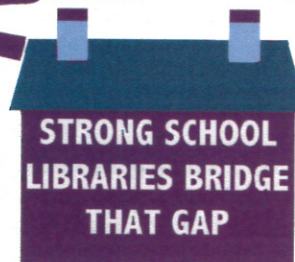
**“INFORMATION RETRIEVAL AND EVALUATION IS A LIFELONG SKILL THAT ALL WORKFORCE STUDENTS NEED. SCHOOL LIBRARIANS PROVIDE THAT INSTRUCTION.”**

*Bill Cullifer, Exec Director, WebProfessionals.org/WhyITnow.org Initiative, 2013*



**37% OF ALL AMERICANS DO NOT HAVE ACCESS TO HIGH-SPEED BROADBAND CONNECTIVITY AT HOME.**

*PEW 2012*



**STRONG SCHOOL LIBRARIES BRIDGE THAT GAP**

*DESIGNED BY: SAMANTHA LAMOS, 10TH GRADE, PETALUMA HIGH GRAPHIC DESIGN PROGRAM*



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*Sources: Achterman, Doug. “Haves, Halves and Have-Nots: School Libraries and Student Achievement,” University of North Texas, December, 2008.*

*Cullifer, Bill. Conversation by telephone February 2013.*

*Brenner, Joanna, Rainie, Lee. *Pew Internet: Broadband*. Pew Internet and American Life Project. Pew Research Center. May 24, 2012. <http://pewinternet.org/Commentary/2012/May/Pew-Internet-Broadband.aspx>*

*Bernie Trilling’s quote: School Library Monthly/Volume XXVII, Number 1/September-October 2010 From Libraries to Learning “Laboratories:” The New ABC’s of 21st-Century School Libraries by Bernie Trilling*

## Strong School Libraries Build Strong Students

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*"Education is the only valid passport from poverty....we bridge the gap between helplessness and hope for more than five million educationally deprived children. We put into the hands of our youth more than 30 million new books, and into many of our schools their first libraries."*

President Lyndon Baines Johnson's remarks on signing the Elementary and Secondary Education Act, April 11, 1965.  
<<http://www.lbjlib.utexas.edu/johnson/archives.hom/speeches.hom/650411.asp>> (accessed March 18, 2013).

### **Over 21 state studies confirm that school librarians and school libraries support students in academic achievement, lifelong learning, 21st century skills, and reading.**

A strong school library is staffed by the *library team* of a state certified or licensed librarian supported by clerical assistance; has up-to-date books, materials, equipment and technology; includes regular collaboration between classroom teachers and school librarians; and supports the development of digital literacy skills.

Kachel, Debra E. 2011. School Library Research Summarized: A Graduate Class Project. Mansfield University.  
<<http://libweb.mansfield.edu/upload/kachel/ImpactStudy.pdf>> (accessed March 18, 2013).

### **The library team provides the foundation for student learning.**

*"The most important thing a strong library program can have is a full-time certified librarian with support staff."*

PA School Library Project, et. al. 2012. Creating 21st-Century Learners: A Report on Pennsylvania's Public School Libraries. <[http://www.elc-pa.org/Creating21stCenturyLearners\\_LibraryDataReport.10.17.12.pdf](http://www.elc-pa.org/Creating21stCenturyLearners_LibraryDataReport.10.17.12.pdf)> (accessed March 18, 2013).

*"Research consistently shows that when children have access to good libraries with plenty of good books and with adequate staffing, they read more, and thus do better on reading tests. For children of poverty, libraries are typically the only possible source of reading material."*

Krashen, Stephen. 2004. *The Power of Reading*. Westport, CONN: Libraries Unlimited and Portsmouth, NH: Heinemann.

*"The school library provides a wealth of curriculum-based resources as well as opportunities for students to learn at a personal level of inquiry, outside the assigned curriculum."*

Goodin, Susie M., S.M. 2010. "Steps Towards Unifying Literacy Theory and Librarianship." *CSLA Journal*, 34 (1): 24-25.  
<[http://www.csla.net/images/stories/publications/pdfs/journal/10/10\\_springjournal.pdf](http://www.csla.net/images/stories/publications/pdfs/journal/10/10_springjournal.pdf)>

*"There was a significant positive relationship between a majority of the 21 library services regularly provided and student achievement at all levels. Total library services were significantly related to student achievement at all levels when controlling for all school and community variables."*

Achterman, Doug. 2008. *Haves, Halves, and Have-Nots: School Libraries and Student Achievement in California*.  
<<http://digital.library.unt.edu/ark:/67531/metadc9800/>> (accessed March 18, 2013).

## School librarians provide the scaffolding for reading success

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When comparing schools with and without librarians, the study indicates that the presence of a qualified school librarian can make a tremendous difference in reading achievement. This difference ranges from eight percent for high schools to 35 percent for elementary schools. For instance, schools with librarians have 35 percent more fourth graders who score proficient or above than schools without librarians.

Rodney, Marcia J., Keith Curry Lance, and Christine Hamilton-Pennell. 2003. *The Impact of Michigan School Libraries on Academic Achievement: Kids Who Have Libraries Succeed*. Lansing, MI: Library of Michigan.  
<[http://www.michigan.gov/documents/hal\\_lm\\_schlibstudy03\\_76626\\_7.pdf](http://www.michigan.gov/documents/hal_lm_schlibstudy03_76626_7.pdf)> (accessed December 15, 2010).

In an Iowa study, in all three grade levels surveyed, the students' test scores tend to rise with the increased incrementally as [library] staffing and library usage increased.

Rodney, Marcia J., Keith Curry Lance, and Christine Hamilton-Pennell. 2002. *Make the Connection: Quality School Library Media Programs Impact Academic Achievement in Iowa*. Bettendorf, IA: Iowa Area Education Agencies.  
<[http://www.iowaageonline.org/pages/uploaded\\_files/MakeTheConnection.pdf](http://www.iowaageonline.org/pages/uploaded_files/MakeTheConnection.pdf)> (accessed December 15, 2010).

In a Missouri study, students who have access to the library either during school hours or have electronic access outside the library show a significant success rate.

Quantitative Resources, LLC, et al. 2003. *Show Me Connection: How School Library Media Center Services Impact Student Achievement*. Jefferson City, MO: Missouri State Library. MO Department of Elementary and Secondary Education.  
<<http://dese.mo.gov/divimprove/lmc/documents/libraryresearch.pdf>> (accessed March 25, 2013).

# How Books Get to Our Libraries

## An Explanation of the Common School Fund



Wisconsin, 1848

The Common School Fund was created through our state's Constitution to provide resources to schools. Proceeds from land sales seeded the fund initially, but it has grown under the guidance of the Board of Commissioners of Public Lands and through fines, forfeitures, and sound management. Three elected officials comprise the Board:

Attorney General  
Secretary of State  
Treasurer

Each year the fund's net proceeds are distributed to WI schools through DPI.

## How the Common School Funds Grow

### Revenue



Revenue from fees, fines, forfeitures, timber sales, unclaimed property build the fund.

### Loans & Bonds



The principal of the funds are invested in municipalities and school districts through a successful loan program that helps public entities to purchase things like fire trucks.

### Investments



Investments by the Board of Commissioners of Public Lands staff keep the fund strong and working for the students of Wisconsin.

Each year, the net earnings from the fund are distributed to our libraries. For many WEMTA members, the CSF is the sole source of funding.

Please read more about the Common School Fund, the Board of Commissioners of Public Lands and what can be purchased here: [bcpl.wisconsin.gov](http://bcpl.wisconsin.gov)

This document was created by the Wisconsin Educational Media & Technology Association (WEMTA).

