

# Wisconsin Coalition of Annuitants

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## Minutes of Meeting November 18, 2013

The meeting was held at the Wisconsin Education Association Council, Media Room, 33 Nob Hill, Madison and was called to order by Vice Chair Jerold Vreeland at 9:35 a.m.

**DIRECTORS & ALTERNATES PRESENT:** R. Beglinger, WFT-R, O. Berge, WARSDA; D. Chickering, WREA; B. Davis, WFT-R; S. Drew, SWIB; B. Fendel, AFSCME; E. Frank, DNR; J. Grosklaus, West Allis; R. Hoessel, DOT; B. Holahan, UWMRA; C. Howard, WEAC-R; A. Knop, WEAC-R; D. Kratz, CORR; J. Maydak, West Allis; J. Munro, WARSDA; D. Rohweder, ESP; W. Rowe, ACE; B. Schaefer, SEA; J. Skiles, UW-R; T. Speranza, RPFfw; M. Turner, WARSDA; J. Vreeland, Wauwatosa; A. Wallace, UWRA.

**GUESTS:** V. Cutler, F. Nepple, C. Preisler, C. Prestigiaco, S. Sweet, R. Wojciak.

**EXCUSED:** D. Bennett, J. Egan, J. Miller, J. Palmer.

**NEW DIRECTOR:** Ollie Berge, who has been a long-time director of the WCOA, introduced his replacement, Miles Turner. Ollie was thanked for his years of service and Miles was welcomed to the WCOA.

**MINUTES** of the October meeting were approved as mailed.

### **GUEST: Chris Prestigiaco, Portfolio Manager, SWIB**

Chris Preisler introduced Mr. Prestigiaco, who has been with SWIB since 2001. Mr. Prestigiaco is responsible for the origination, monitoring and disposition of direct senior and mezzanine debt investments, venture capital limited partnerships and side-by-side investments. He oversees a combined portfolio valued at over \$700 million. Ten years prior to coming to SWIB, Mr. Prestigiaco was the vice-president in the wholesale banking group of a regional bank. He is a graduate of UW and Edgewood with degrees in economics and international relations and an MBA in accounting. He is a Madison native.

Mr. Prestigiaco will discuss 1) the Wisconsin Private Debt Portfolio which is offered to companies in Wisconsin and the Midwest and 2) the Wisconsin Private Equity Portfolio which is also known as the venture capital portfolio.

The Wisconsin Private Debt Portfolio offers direct lending to Wisconsin businesses and benefits WRS participants (investment returns) and the financial needs of businesses (funding of businesses). SWIB is unique in that it is the only public plan that lends directly to businesses. Other states have contacted SWIB desiring information to structure a similar investment plan. The portfolio objective is to make money at market rate returns and meet the WRS fiduciary responsibility. Subsidized lending programs for job creation or economic development are not offered.

SWIB has been involved in private debt since the early 60's. In 1983 the Wisconsin opportunities were separated from the national private debt portfolio. In the last 30 years \$2 billion has been invested in approximately 200 transactions in Wisconsin. Today's portfolio value is \$425 million with 40 customers. Over the years investments have been made in both public and private companies.

The financing requirements include the company being headquartered in Wisconsin, having a major operation within the state, or the loan dollars to be invested in Wisconsin. The majority of the loans are for capital expansion. Up to 15% of the portfolio could be invested in neighboring states; however, only three out-of-state investments have been made recently.

Approximately 50% of the investments are in manufacturing, followed by finance, health care, retail distribution and transportation. The overall credit quality of the portfolio is to be maintained at investment grade, which is BBB or better.

The portfolio offers two types of debt structures: senior debt and subordinated debt. Senior debt is long term of 5 to 15 years with a fixed rate using treasury yields, public market credit spreads, and then adding a premium since SWIB is a private lender and unable to sell or trade its

securities. They offer both secured and unsecured loans. Terms today are shorter (5 to 7 years) due to the low interest rate environment. Senior loans have amortizing payments to pay down the principle over the term of the loan. Maintenance fees are charged for prepayment and any expenses in processing and maintaining the loan are paid by the customer. Investment amounts are \$5-\$50 million. The largest in the last 10 years has been \$30 million.

The subordinated debt structure is standard with the exception that SWIB is willing to do loans as small as \$3 million and is willing to take a success fee rather than equity in the company. Typical terms are five years with all in returns being 16% to 18%. The cash interest payment ranges between 10% to 12%, along with a 3% to 5% accruing interest and a 2% commitment fee. The higher interest is necessary because of the risk involved in a subordinated loan as the primary lender treats the capital as equity. The subordinated investment transaction size is between \$3-\$15 million.

SWIB focuses on financing that is not available to businesses through other financial institutions. SWIB does not compete with banks, but does provide long-term fixed-rate financing. Banks do shorter-term lines of credit and prefer loans with maturities of three years or less. The private debt portfolio fills a niche in financing.

The Wisconsin Private Equity Portfolio is also known as venture capital and originated in the 90's when the board and staff saw early stage opportunities in companies like Third Wave and Promega. Recognizing what was occurring in Silicon Valley, locally where capital was constrained with good opportunities, the board approved a \$50 million commitment to the portfolio. There continue to be many opportunities due to the lack of capital. The investment strategy is to find fund managers that take advantage of the opportunities in Wisconsin.

Today over \$320 million has been committed to the portfolio. Investments have been made with six general limited partnerships totaling nine funds. Direct investments with 20 companies have been made through side-by-side discretionary funds which are investments with fund managers of a specific company within the limited partnerships. The individual investments are between \$500,000 and \$750,000 and provide an opportunity for observation rights. Termination of investments tend to be acquisitions by other companies rather than IPOs. TomoTherapy has been the only company that went public.

SWIB's contributions to the Early Stage Ecosystem involve two strategies. Northgate is a fund-of-funds manager located in California that has access to the best venture capitalists in the world. In the past it has been difficult for public plans to have access to venture capitalists. Because of the relationship with Northgate, SWIB is able to invest in specific companies. Another advantage is that partners of the funds will travel to Wisconsin and share information on venture markets. A third advantage is SWIB is able to link West and East coast capital with local companies.

The second strategy is 4490 Ventures, a partnership with WARF (Wisconsin Alumni Research Foundation). Each will invest \$15 million and a manager will be hired to invest in early-stage IT companies.

SWIB is also on the selection committee for the state's venture capital initiative manager. The state will create a \$25 million fund of funds.

The initiatives not only help the state of Wisconsin, but could also help the SWIB portfolio returns by generating more investment opportunities.

QUESTIONS/COMMENTS: Opportunities look good for the future in Milwaukee and Madison. The Private Debt portfolio seeks out investments, where companies come to SWIB for Private Equity. SWIB does not invest directly with startups but would refer them to one of their funds for investment consideration. The Board has a fiduciary responsibility that exceeds any external pressures for venture capital investment.

Mr. Prestigiacomo was thanked for his time and presentation.

**GUEST: Chris Preisler, Communications, SWIB**

Preliminary returns the end of October were core fund 11.4%, ahead of its benchmark of 11.1% and the variable fund was at 23.5%, ahead of its benchmark of 22.8%. The core fund is \$85.3 billion and the variable fund is \$6.9 billion. Total of all funds under management reached a high of \$100 billion.

There was a recent article in Pensions and Investments on Massachusetts Management Board and how they changed strategies in risk and returns. The Massachusetts staff had visited SWIB and copied some of the SWIB strategies.

Institutional Investor recently had an article on the 40 most influential individuals to decide the future of pensions. SWIB's CIO David Villa was number 38 on the list.

SWIB recently filled the newly created Director of Strategic Planning and Transformation position. Elizabeth Fadell comes to SWIB from UW Madison Office of Quality Improvement and was a founder and managing member of the Enterprise Group. This position will report directly to Mr. Williamson.

**Tarna Hunter** sent an email, which I discovered after leaving the meeting, informing me that she was stranded at the Detroit airport.

**LEGISLATIVE REPORT:** None

**CORRESPONDENCE:** Buzz Davis inquired if there was an interest in the WCOA having a presentation on a private sector pension proposal. Following a brief description of the presentation and group discussion the following motion was made.

**MSC The WCOA will schedule the presentation with Mr. Davis at the conclusion of the December 16, 2013 meeting.**

**OLD BUSINESS:** Death of Eugene Lehrman, who several years ago was the Chair of AARP in Wisconsin and later the Chair of the National AARP. Death of Dr. Gene Farley, who with his wife Dr. Linda Farley, several years ago, gave a presentation to the WCOA on single-payer health insurance.

Dave Stella has been named Chair of the Wisconsin AARP.

**NEW BUSINESS:** The WCOA Annual Conference will be held May 19, 2014 at the American Family National Headquarters. We need to encourage attendance. The committee will be contacting presenters.

**TREASURER'S REPORT:** Annual dues statements will be in the mail by December 1. Checkbook balance is \$6886.68. Treasurers' report accepted as presented.

**NEXT MEETING: December 16, 2013, 9:30 a.m.,** Wisconsin Education Association Council, Media Room, 33 Nob Hill, Madison, WI.

The meeting adjourned at 11:05 a.m.

Respectfully submitted – Dick Kratz