Wyoming State Treasurer
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MEMORANDUM

TO: The Honorable Co-Chairman, Drew Perkins, Senator
The Honorable Co-Chairman Michael Madden, Representative
Members of the Select Committee on Capital Finance & Investments

FROM: Mark Gordon, State Treasurer

DATE: November 15, 2016

SUBJECT: Internal Investment Infrastructure

The State Treasurer's Office was asked to develop an outline of what it would take to build out an internal investment program. Accordingly, we offer the attached business case which we believe accurately and economically illustrates the best approach to implementing the internal capacities necessarily commensurate with Wyoming's investment responsibilities. The proposal also offers a way to pay for the changes within the existing budget while ultimately delivering more revenue to the state through additional program savings.

We believe this platform, if fully implemented, would save Wyoming on management costs thereby returning a greater percentage of investment proceeds to Wyoming overall. Sufficient in-house management would improve returns and reduce portfolio risk.

The Treasurer's Office offers this plan to be responsive to the Committee's request. We look forward to discussing the ramifications with you.

State Treasurer's Office
Internal Investment Infrastructure
Estimates November 10, 2016

- Up to 50% of the savings achieved through reducing corresponding external manager fees may be used for this project; expenditures not to exceed $3 million/year beginning in FY18 and the last three months of FY17 (effective immediately).

- Up to 9 additional FTEs may be hired.
  - FTEs as follows:
  - 2 Senior Investment Officers
  - 2 Investment Analysts
  - 3 Accountants
  - 1 Attorney
  - 1 Info Tech

See attached worksheet for classifications, salary ranges and benefits for FTEs. Note that information is by month and by year. Maximum cost of FTE's/year is approximately $1.1m.

- 200 series cost is estimated to be $300,000/year. Based on current appropriations, day to day operating costs will be approximately $165,000/year. Additionally, there will be initial start up costs for office furniture, technology equipment and initial supplies. The four investment positions will also need 200 series funds for travel costs for site supervision of vendors.

- 900 Series costs are estimated to be $1.6 million/year:
  - There will be necessary technology costs. This estimate includes four additional Bloomberg connections as well as costs for trading software. The decisions about which specific software programs will best meet the state's needs are still being determined. There are a few software options available, some run as high as $1m.
  - Additional consulting services may be necessary, depending on which asset classes are brought in house.
  - Additional banking fees may be necessary if additional accounts must be opened. Conversely, this could possibly be a savings as some accounts could potentially be closed. Again this will be better delineated as the shift to in-house management plays itself out, and the details of account management are implemented.

- There will be 400 series ETS costs for connections, phones etc. for new FTEs. Based on current costs the estimate for services is $10,000/year.

- 500 Series costs are anticipated to be zero, as the State Treasurer's Office will use its temporary space at 2020 Carey Avenue in such a way as to temporarily accommodate these additional staff, thus no lease space will be needed. However, there likely will be a need for some modifications of the space which will be handled with 200 Series funds.

It is anticipated that initial costs will be higher than ongoing costs of the project as office restructuring and some technology costs will be one-time expenditures. Thus we recommend that a financial report be submitted to the legislature at the end of the biennium specifically delineating the changes in investments from external to internal, the cost savings and how those savings were realized, the FTEs hired and the operational expenditures, and the overall savings realized by the move to an internal investment infrastructure. (There can be no overall losses since the program can only be funded by savings, and even that is capped at 50% of savings.)