



Wyoming State Treasurer

Mark Gordon

MEMORANDUM

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TO: Members of the Board and Executive Staff of the Wyoming Wildlife and Natural Resource Trust

Members of the Board and Executive Staff of the Wyoming Cultural Resource Trust

Members of the Board and Executive Staff of Wyoming Public Television

FROM: Mark Gordon, Treasurer

DATE: December 6, 2016

RE: Opportunity and process occasioned by the passage of Amendment A.

In the 2016 General Election Wyoming voters amended Wyoming's Constitution giving the Legislature the opportunity to expand the universe of securities in which non-permanent funds could invest. This means that if the Legislature specifies, approved funds can now be invested in more asset classes than just fixed income securities. In order for any fund to benefit from this new capacity, the Legislature must recommend it by a 2/3rds vote of both Chambers voting separately. The Legislature may also prescribe additional conditions pertaining to how those specific funds may be invested.

Not every fund will benefit from this new provision in the Constitution. So it seems appropriate to take a considered approach to this new opportunity. My office is currently anticipating putting forward a small list of recommended funds that we believe would benefit from a more diverse set of investments. Generally, we looked to funds that have an expressed "trust" purpose with a corpus intended to throw off income over time from investments rather than just using an appropriated corpus to provide solely for programmatic spending needs.

Your fund is a good candidate. There are, in fact, three which we believe meet these conditions especially well: the Wyoming Wildlife and Natural Resource Trust, the Cultural Resource Trust, and the Wyoming Public Television Trust. I have spoken with the directors of each of the funds about being in the inaugural flight of funds to be advanced to the Legislature for consideration this coming session. Each has indicated a positive inclination to going forward. This memo is to put these communications to paper and to gather additional information which we believe will be helpful before making a recommendation to the Legislature. We would be interested in your reactions to the following inquiries:

1. A diversified portfolio of bonds and stocks has historically returned marginally better in most years improving income and also helping to build the corpus; however, stocks are inherently volatile and can result in realized losses over the course of a market cycle. These losses can be significant. Accordingly, that potential risk should be born in mind even though the Treasurer's Office always strives to minimize losses while assuring adequate returns in all market environments. Is your Board interested in investing in a diversified portfolio of equities and fixed income investments?
2. If so, please review your near-term and longer-term liquidity needs and report them to us. We will work with you to find an appropriate allocation plan for your fund to explain what that allocation plan might mean in terms of return and risk.
3. Please take a moment to consider your risk tolerance. We would suggest you express that along the lines of one of the following statements:
 - a. Maximize returns – risk is not a concern.
 - b. Balanced -- Returns are important but not if we risk too much of the corpus.
 - c. Safer – Preservation of the corpus first even though it might mean less return.
4. Please also communicate your fund's long-term purpose and what your long-term objectives are? These will help to inform the longer-term asset allocation.

At your earliest convenience, we would suggest a meeting with our office to discuss this new investment opportunity, to further explain the risks and potential rewards of a different investment mix, and to build an appropriate understanding for your board and also the Legislature.

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It is important to remember that even if the Legislature advances some or all of these candidate funds for treatment under the new Constitutional provision, there are still significant steps that need to be taken before we can begin to diversify candidate funds. First, the State Loan and Investment Board will need to incorporate new investment policies in its Master Investment Policy, which it will likely take up in April. Second, opportunity, pricing, and outlook all figure into the pace and timing of diversification. Stocks are currently valued at all-time highs and thus may not be the best investments to be making for a while. Progress towards fully diversifying successful funds might take as much as a year to come to fruition. I end with a couple of clichés: Patience can truly be a virtue and every journey begins with the first step.