

## STATE TREASURER

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## STATE of WYOMING

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October 9, 2008

Dave Freudenthal, Governor  
State of Wyoming  
Capitol Building  
Cheyenne, WY 82002

Dear Governor Freudenthal:

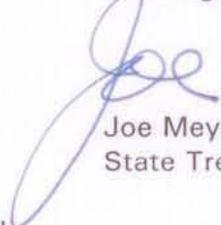
Good afternoon. You have each received a folder containing relevant current financial information regarding the state investment portfolio. Some overviews:

1. As you have seen in the materials, for many months the Office of State Treasurer has increased its oversight, monitoring and due diligence functions relative to all classes of investments in the portfolio. We are in a "red" alert mode at the present time, working with RV Kuhns and individual state investment managers, and will continue in that mode until national financial conditions stabilize;
2. Given that the state investment portfolio was developed over ten years based on optimal allocations among classes of investments, and based on a portfolio review by RV Kuhns under current financial conditions, several items have been reviewed with increased monitoring with the following results:
  - a. Is the optimal allocation strategy for the portfolio reviewed and modified annually still best serving the portfolio in the current abnormal stressed market environment? It is possible that the market volatility may have misaligned asset allocations relative to long-term target allocations. The practical and most immediate task is adherence to rebalancing policies. In up markets as was experienced in FY 08, that means capturing excess valuations as capital gain and rebalancing down to targets. In down markets it means incrementally moving assets to equities, domestic and international, and rebalancing up to targets. That currently is occurring;
  - b. Maximizing the long-term returns of the state's investment portfolio depends to a large extent on maintaining as close to an optimal asset allocation as possible for much of the period. Asset allocation is the largest driver of total fund returns. Changing it significantly creates a clear cost and notable risks. The Office of State Treasurer follows this course of action with minor corrections if circumstances warrant same. This is the most conservative course of action;

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- c. Maintain and increase diversification between and within the various classes of investments, fixed and equities. This has been and is being accomplished;
  - d. Avoid over concentration in specific industries and unreasonable use of leverage. The Office of State Treasurer, through many meetings and conversations with investment managers, verified, and continues to verify, that portfolio managers do not have excessive concentrations in specific industries nor have strategies using excessive leverage. Frequent communications with all managers is increasing at present and will continue;
  - e. Currently the Office is extending its review to include the securities lending programs and cash management vehicles. The State Loan and Investment Board's investment manager, RV Kuhns, is also stepping up its monitoring efforts and communicating frequently with members of this Office.
3. The state's investment portfolio has been intentionally positioned over the past several months to have a larger cash position. A large portion is very liquid. Given the current markets, and lack of liquidity, there should be some good opportunities to deploy this liquidity in several manners in the immediate future. How that is accomplished is a policy decision which I hope Wyoming legislators, the Governor as chief budget officer, other members of the State Loan and Investment Board and this office can and will collaborate on over the months ahead and through the upcoming legislative session for the ultimate benefit of Wyoming citizens.

Best regards,



Joe Meyer  
State Treasurer

cc: State Elected Officials  
Advisory Board Members  
Chairmen, Appropriations Committee  
Speaker Cohee  
President Schiffer