



MEMORANDUM

To: Joint Appropriations Committee
Select Committee on Capital Financing & Investments

From: Curtis E. Meier Jr., State Treasurer

Date: November 1, 2019

Re: Legislative Stabilization Reserve Account

In accordance with Wyoming Statute 9-4-715(q)(iv), not later than November 1 of each year, the State Treasurer shall report to the Joint Appropriations Committee and the Select Committee on Capital Financing and Investments regarding the annual review of the investment policy statement for the Legislative Stabilization Reserve Account (LSRA) and the investment performance of the account.

The State Loan and Investment Board (SLIB) created an investment policy for the Legislative Stabilization Reserve Account during the June 2019 meeting of SLIB. See the Investment Policy Statement, Appendix J (attached) for the most recent LSRA investment sub-policy.

There is not yet a full year performance measure of the account as the LSRA has not been fully invested. We anticipate fully funding the account by the end of the fourth quarter 2019.

APPENDIX J. Legislative Stabilization Reserve Account

- 1. Fund Description.** This sub-policy applies to the funds of the Legislative Stabilization Reserve Account ("LSRA") administered by the State Treasurer's Office. Funds in LSRA are expended only by legislative appropriation, are invested, and all investment earnings from LSRA are credited to the State's general fund.
- 2. Philosophy and Investment Strategy.** The LSRA will be invested in a manner to obtain the highest possible return while seeking to preserve the balance of the account necessary to address potential budget shortfalls or a structural budget deficit; published consensus revenue estimating group estimates of revenues that may be less than existing legislative appropriations for state government operations or support of public schools; or other emergencies and needs identified or authorized by the legislature under Wyoming statutes and session laws.

The LSRA will be divided into three underlying portfolios representing a range of liquidity, safety, and return objectives. There will be a short-term reserve, intermediate-term reserve, and long-term reserve. The amount of the LSRA that is allocation to each of the reserve portfolios shall be determined by the State Treasurer's Office in compliance with any applicable statutory guidelines and consistent with anticipated liquidity needs.

- 3. History and Purpose.** In 2019 the Legislature removed LSRA from the State Agency Pool for the purpose of enhancing returns and providing target date liquidity for legislatively mandated purposes.
- 4. Liquidity Requirements.** To the extent funds are available and prior to making any other investments, five hundred million dollars (\$500,000,000.00) shall be invested in the short-term reserve.
- 5. Risk.** The short-term reserve will be invested 100% in low duration fixed income and should be managed with a goal of avoiding annual losses greater than 4% with a 99% confidence level utilizing appropriate statistical modeling.

The intermediate-term reserve will be invested in 100% core fixed income and should be managed with a goal of avoiding annual losses greater than 12% with a 99% confidence level utilizing appropriate statistical modeling

The long-term reserve has a diversified asset allocation and should be managed with a goal of avoiding annual losses greater than 32% with a 99% confidence level utilizing appropriate statistical modeling.

- 6. Return Expectations.** The short-term reserve will be expected to provide returns in excess of the benchmark for low duration fixed income detailed in this policy. The intermediate-term reserve will be expected to provide returns in excess of the benchmark for core fixed income detailed in this policy. Returns for the long-term reserve will be measured against a target allocation index that reflects the returns for each asset class benchmark, weighted by the target allocations detailed below. In periods of portfolio transition where the actual allocations may not be reasonably expected to be close to the targets, shorter-term transition targets may be recommended by the Investment Funds Committee and approved by the Board on an annual basis.

7. Target Allocation. The target asset allocation for the LSRA is as follows:

Short-term Reserve: 100% Low Duration Fixed Income

Intermediate Reserve: 100% Core Fixed Income

Long-Term Reserve:

	Min	Long-Term Target	Max
Broad US Equity	17.00	22.00	27.00
Small Cap US Equity	4.00	6.00	8.00
Broad International Equity	21.00	28.00	35.00
MLPs	10.00	12.500	15.00
Hedge Funds	15.00	19.00	23.00
Bank Loans	10.00	12.50	15.00

The targets established above represent the long-term asset allocation objectives for the long-term reserve portion of the LSRA. The State Treasurer's Office shall maintain the allocation exposure to each asset class listed within a range of up to 50% of the difference between the long-term target and the upper or lower boundary for that asset class. Allocations outside of the target +/- 50% of the allowable range must be approved by either the Treasurer's Investment Funds Committee or the Board. Allocations outside of the Min and Max ranges detailed in this policy are not allowable without approval of the Board. Any periodic adjustments to the above-listed allocations should be made with consideration for the economic environment, ongoing cash flow activity, and the liquidity needs of LSRA. The State Treasurer's Office shall monitor compliance with the asset allocation on an on-going basis and will consider rebalancing the long-term reserve portion of the LSRA to comply with the asset allocation if a strategy is outside its Min and Max range. The State Treasurer's Office shall be required to rebalance the long-term reserve portion of the LSRA if a strategy is outside its Min and Max range and bring the portfolio back into compliance with this policy no less frequently than every 6 months.

In addition, during the implementation of a change to or modification of the asset allocation for LSRA, some strategies may fall outside the allocation until the revised asset allocation is fully implemented.