



## MEMORANDUM

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

From: The Honorable Curt Meier, State Treasurer

Date: December 28, 2020

Re: Treasurer's Office Performance Compensation Plan Payment Update

### **Introduction**

The Treasurer's Office is incredibly appreciative to the Legislature for its support of the Performance Compensation Plan (PCP). The plan is critical for the investment program's success and is integral to the Treasurer's Office's ability to attract and retain highly qualified individuals to the investment team. An engaged investment team is critical to maximizing risk adjusted investment returns to the State.

### **Purpose**

2019 House Enrolled Act 32 requires the Treasurer's Office to report on the status of the Performance Compensation Plan. The statutory language specifically includes these sections:

- (i) Payments and methodology of calculating payments under the plan;
- (ii) A measurement quantifying the risk resulting from the variation between the prior year's investment benchmarks and the prior year's actual investments;
- (iii) An estimate of future payments under the plan and future expected investment benchmarks.

### **Statutory Requirements**

(i) Payments and methodology of calculating payments under the plan;

### **Background**

After passage of 2019 House Enrolled Act 32, which authorized performance compensation, the Treasurer's Office adopted a Performance Compensation Plan. The section pertaining to methodology (Article 4) is included as Appendix A. The first measurement period ended June 30, 2020 for fiscal year 2020 (FY2020). Since this is the first year for incentive compensation to eligible employees, this means that for FY2020 the formula relies entirely on a one-year performance calculation. Next year will be a two-year average calculation, and beginning in the third year and beyond it will be a rolling three-year period computation.

Payments for performance compensation are to be paid over three years with 25%



being paid in each of the first two years and 50% paid in the third year. This is to help incentivize employee retention and evaluate staff over a longer time horizon. Each investment team member can earn performance compensation up to a maximum percentage that varies by individual salary, with more senior employees able to earn higher percentages. The performance compensation plan also requires that payments do not exceed 2% of the net investment returns above the established benchmarks.

For the Treasurer's Office, performance compensation is based 50% on the performance of the Total Fund and 50% based upon investment team member individual asset classes. This year the assigned asset classes changed for three members halfway through the fiscal year, further complicating these calculations.

### **Results**

I am happy to report that the investment team outperformed the Total Fund benchmark by 0.49% for FY2020. This resulted in an estimated excess Total Fund alpha of around \$78 million for the fiscal year. Per the Treasurer's Office performance compensation plan, the Total Fund accounts for half of the potential performance compensation payout to eligible employees, while the other half of the payout is dependent on individual asset classifications. For the Total Fund portion of performance compensation, the investment team has earned the maximum payout.

Individual asset classes saw fixed income and public equities achieve the maximum payout for the entire year, while real estate earned a payout which was around 30 percent of the maximum for the entire year. Alternatives (hedge funds) performed below the benchmark so do not qualify for a performance compensation payout for the entire year. As mentioned, these calculations are complicated by the fact that three team members had individual asset class assignments change halfway through the year. This required breaking out each asset class into half-year performance comparisons, as well. If an eligible employee was within a single asset class over the entire year, the total year performance of that asset class was used. If an eligible employee changed individual asset classes during the year, his performance was based on the respective asset class for the appropriate period.

All calculations for both the total year and half-year calculations were based on the monthly alpha and monthly average market value to come up with an estimated alpha dollar value for each asset class for each month. Total year calculations were based upon the total of these calculations, while the half-year was divided for team members with split individual asset allocations.

Please see the attached appendices B-1 through B-5 for the estimated dollar alpha and payout percentages for performance compensation of Total Fund and each individual asset class calculations.

Of note, the amount of the performance compensation earned is 0.80% of the additional alpha produced by the investment team. In addition, the amount paid in this first year is 0.2% of the additional alpha produced.



(ii) Provide a measurement quantifying the risk resulting from the variation between the prior year's investment benchmarks and the prior year's actual investments;

RVK, the Treasurer's Office's investment consultant, provided two different risk metrics for the Total Fund. The Total Fund Sharpe Ratio of 0.16 was higher than the benchmark (0.12) and peer median (0.10), indicating a greater level of return per unit of risk (standard deviation). In addition, RVK provided the Information Ratio, which measures the return per unit of risk relative to the index. The Information Ratio shows that with a value of 0.81 the Total Fund consistently added value versus the benchmark performance. RVK noted that an Information Ratio greater than 0.4 or 0.5 is generally considered strong and the tracking error of 0.55 is also modest. See Appendix C1 and C2 for RVK's Sharpe Ratio and Information Ratio analysis.

(iii) Provide an estimate of future payments under the plan and future expected investment benchmarks.

Table 1 below displays the FY2020 payments for the seven investment team members as approved by the Investment Funds Committee.

**Table 1: FY2020 IFC PCP Approved Payments to the Treasurer's Office Investment Team.**

Position	Annual Salary (total)	Max Potential of Bonus (% of Salary)	Total Earned Payout	Year 1 Payout (25%)	Year 2 Payout (25%)	Year 3 Payout (50%)
<b>Total</b>	<b>\$1,050,000</b>		<b>\$624,076</b>	<b>\$156,019</b>	<b>\$156,019</b>	<b>\$312,038</b>
CIO	\$250,000	100%	\$250,000	\$62,500	\$62,500	\$125,000
SIO 1	\$189,000	75%	\$99,155	\$24,789	\$24,789	\$49,577
SIO 2	\$189,000	75%	\$88,921	\$22,230	\$22,230	\$44,460
SIO 3*	\$189,000	75%	\$129,938	\$32,484	\$32,484	\$64,969
Senior Analyst	\$93,000	25%	\$23,250	\$5,813	\$5,813	\$11,625
Analyst 1	\$70,000	25%	\$15,313	\$3,828	\$3,828	\$7,656
Analyst 2	\$70,000	25%	\$17,500	\$4,375	\$4,375	\$8,750

**Note:** \* SIO 3 qualifies for 11/12ths of performance compensation since the employee began working August 1, 2019.

Potential future performance compensation payments will depend on the estimated alpha versus the benchmarks. The minimum amount is the amount that has already been earned. The maximum amount is based on the assumption that performance will exceed the benchmark in each of the next two fiscal years by an adequate amount to earn maximum performance compensation. Table 2 shows the estimated



payouts assuming the maximum payout.

**Table 2: Potential Future Payment Scenarios.**

<b>Scenario</b>	<b>2020 Payout</b>	<b>2021 Payout</b>	<b>2022 Payout</b>
Minimum Payments (current earned amounts)	\$156,019	\$156,019	\$312,038
Maximum Future Year earned Payments	-	\$183,375	\$366,750
<b>Maximum Total Payments</b>	<b>\$156,019</b>	<b>\$339,394</b>	<b>\$678,788</b>

**Note:** Assumes current staffing levels and compensation.

It should be noted this estimate does not include amounts for the three additional investment team positions, which will be made available to the Treasurer's Office on January 1, 2021. The positions consist of one senior investment officer, one investment officer and one analyst. Based on current salaries for these positions, this could generate an additional \$225,250 in performance compensation payments (\$56,312 the first two years; \$112,625 the third year) if these positions were filled for an entire year. These payments would be prorated based upon time of service.

The Treasurer's Office is meeting with the Investment Funds Committee in the spring of 2021 to discuss asset allocations for the upcoming year. Depending on the outcome of those discussions, any new asset classes would have a consideration of the proper benchmarks but no other changes to the benchmarks are expected.

**Conclusion:**

The Treasurer's Office is grateful to the Legislature for the adoption of the PCP and for the support of the IFC, as well as the top five elected officials. The Performance Compensation Plan is critical for the investment program's success and is integral to the Treasurer's Office's ability to attract and retain highly qualified individuals to the investment team. The Treasurer's Office appreciates the Legislature's continued support.

# Appendix A

## Article IV. Performance Compensation Calculation

**Section 4.01 Quantitative Performance.** The determination of whether investment performance has exceeded established investment benchmarks is weighed as follows: fifty percent (50%) based on the Total Fund Performance and fifty percent (50%) based on the Participating Employee's individual Assigned Asset Class Performance, as set forth below.

**Section 4.01.01 Total Fund Performance.** The Plan Administrator in conjunction with the Investment Consultant shall calculate Performance Compensation for a particular Investment Period for the Total Fund by comparing the Total Fund's actual performance to the Total Fund Benchmark as established by the Investment Funds Committee prior to the Investment Period, set forth in Appendix A, and incorporated herein by this reference. Performance shall be calculated to the nearest 1/10<sup>th</sup> of a basis point. The Treasurer shall provide the calculation to the Investment Funds Committee for its determination regarding whether Performance Compensation was earned for a given Investment Period.

**Section 4.01.02 Assigned Asset Class Performance.** The Plan Administrator in conjunction with the Investment Consultant shall calculate Performance Compensation for a particular Investment Period for each Participating Employee for the employee's Assigned Asset Class by summing the employee's Assigned Asset Class actual total performance (the total Alpha dollars generated from the Assigned Asset Class) and comparing it to the Assigned Asset Class Benchmark's actual performance, using the Asset Class Benchmarks as established by the Investment Funds Committee prior to the Investment Period, set forth in Appendix A, and incorporated herein by this reference. Performance shall be calculated to the nearest 1/10<sup>th</sup> of a basis point. The Treasurer shall provide the calculation to the Investment Funds Committee for its determination whether Performance Compensation was earned for a given Investment Period.

**Example:** If the Total Fund return equals 10% and the benchmark return was 9.75%, then the fund would have outperformed the benchmark by 25 basis points (0.25%) for that Investment Period.

The Treasurer shall recommend for the Investment Funds Committee's determination the dollar amount of outperformance for any given Investment Period by multiplying the portfolio value by the percentage outperformance for that Investment Period. Portfolio value for calculating pro-rated performance shall be determined by averaging the monthly values of the Total Fund portfolio over the course of an Investment Period.

**Example:** If the average value of the Total Fund for an Investment Period was \$20 billion, that amount would be multiplied by 25 basis points outperformance (0.0025), resulting in a dollar amount equal to \$50,000,000.

**Section 4.02 Maximum Performance Compensation.** Prior to the beginning of each Fiscal Year, the Treasurer shall estimate the maximum performance compensation that may become payable to Participating Employees for the Investment Period. The maximum performance compensation that may be earned in any given Investment Period for each Participating Employee shall not exceed the following:

Eligible Employee Position                      Maximum Performance Compensation

Chief Investment Officer	One Hundred Percent (100%) of Base Salary
Senior Investment Officer	Seventy-Five Percent (75%) of Base Salary
Investment Officer	Fifty Percent (50%) of Base Salary
Senior Analyst	Twenty-Five Percent (25%) of Base Salary
Analyst	Twenty-Five Percent (25%) of Base Salary

Total payments to all Participating Employees for Performance Compensation earned in a given Investment Period shall not exceed two percent (2%) of the net investment returns above the established benchmark of the Total Fund for that Investment Period and two percent (2%) of the net investment returns above the established benchmark of the Participating Employee’s Assigned Asset Class. The amount of outperformance needed to achieve maximum performance compensation payout for any given Investment Period shall be determined by dividing the aggregate total of maximum performance compensation for each Participating Employee by two percent (2%). For examples, see Appendix B.

**Section 4.03 Calculating Performance Compensation.** At the conclusion of each Investment Period, the Treasurer shall recommend for the Investment Funds Committee’s determination the amount of Performance Compensation earned for each Participating Employee. If the Investment Funds Committee determines that the Total Fund Benchmark or any Asset Class Benchmarks have been exceeded for a given Investment Period, then the performance compensation shall be proportional up to the maximum determined amount derived from the 2% factor and salary percentage caps. For examples, see Appendix B.

**Section 4.04 Performance Compensation Payments.** Payments for Performance Compensation for any one Investment Period shall be as follows:

(a) Payments of Performance Compensation for Fiscal Year 2020, if any, shall be based upon Investment Performance Measurement beginning July 1, 2019 and ending June 30, 2020.

(b) Payments of Performance Compensation for Fiscal Year 2021, if any, shall be based upon the arithmetic average of the Investment Performance Measurement beginning July 1, 2019 and ending June 30, 2020 and the Investment Performance Measurement beginning July 1, 2020 and ending June 30, 2021.

(c) Payments of Performance Compensation for Fiscal Year 2022 and each Fiscal Year thereafter, if any, shall be based upon the arithmetic average of the Investment Performance Measurement beginning that Fiscal Year and the two immediately preceding Fiscal Years.

## Appendix B-1: Total Fund Alpha Above/Below the Benchmark FY2020

Asset Category	Total Year	Half Year	
	Total Estimated Alpha Above/Below Benchmark	Estimated Alpha Above/Below Benchmark First Half	Estimated Alpha Above/Below Benchmark Second Half
<b>Total Fund</b>	<b>\$77,796,276</b>	<b>\$14,073,783</b>	<b>\$63,722,493</b>
<b>Fiscal Year June 2020 Portfolio Values</b>	<b>Year Total Portfolio Average MV</b>	<b>First Half Portfolio Average MV</b>	<b>Second Half Portfolio Average MV</b>
Average Market Value	\$15,889,442,077	\$16,128,775,239	\$15,650,108,916
Maximum Potential Bonus Pool	\$360,844	\$180,422	\$184,797
Maximum % of Alpha Available for Bonuses	2%	2%	2%
\$ Alpha Required to Earn Max Bonus	<b>\$18,042,188</b>	<b>\$9,021,094</b>	<b>\$9,239,844</b>
% Return Outperformance Equivalent	0.114%	0.056%	0.059%
Estimated \$ Alpha	<b>\$77,796,276</b>	<b>\$14,073,783</b>	<b>\$63,722,493</b>
\$ Alpha Required for Max Bonus	\$18,042,188	\$9,021,094	\$9,239,844
% of Maximum Bonus	431%	156%	690%
% of Max Bonus Target Earned	100%	100%	100%

Note: Maximum Potential Bonus Pool is the total amount of performance compensation payments possible for all eligible employees in the asset class. This is divided by 2% to determine the \$ of alpha required by the asset class to earn the maximum payment.

## Appendix B-2: Fixed Income Alpha Above/Below the Benchmark FY2020

Asset Category	Total Year	Half Year	
	Total Estimated Alpha Above/Below Benchmark	Estimated Alpha Above/Below Benchmark First Half	Estimated Alpha Above/Below Benchmark Second Half
Fixed Income	\$53,978,071	(\$7,180,314)	\$61,158,386
Fiscal Year June 2020 Portfolio Average Values	Year Total Portfolio Average MV	First Half Portfolio Average MV	Second Half Portfolio Average MV
Average Market Value	\$7,682,089,657	\$7,379,720,009	\$7,984,444,886
Maximum Potential Bonus Pool	\$136,625	\$88,219	\$68,313
Maximum % of Alpha Available for Bonuses	2%	2%	2%
\$ Alpha Required to Earn Max Bonus	\$6,831,250	\$4,410,938	\$3,415,625
% Return Outperformance Equivalent	0.089%	0.060%	0.043%
Estimated \$ Alpha	\$53,978,071	(\$7,180,314)	\$61,158,386
\$ Alpha Required for Max Bonus	\$6,831,250	\$4,410,938	\$3,415,625
% of Maximum Bonus	790%	-163%	1791%
% of Max Bonus Target Earned	100%	0%	100%

Note: Maximum Potential Bonus Pool is the total amount of performance compensation payments possible for all eligible employees in the asset class. This is divided by 2% to determine the \$ of alpha required by the asset class to earn the maximum payment.



### Appendix B-3: Public Equity Alpha Above/Below the Benchmark FY2020

	Total Year	Half Year	
<b>Asset Category</b> <b>Public Equity</b>	<b>Total Estimated Alpha Above/Below Benchmark</b> <b>\$49,054,339</b>	<b>Estimated Alpha Above/Below Benchmark First Half</b> <b>\$15,465,735</b>	<b>Estimated Alpha Above/Below Benchmark Second Half</b> <b>\$33,588,603</b>
<b>Fiscal Year June 2020 Portfolio Values</b>	<b>Year Total Portfolio Average MV</b>	<b>First Half Portfolio Average MV</b>	<b>Second Half Portfolio Average MV</b>
Average Market Value	\$4,940,932,635	\$4,662,864,560	\$5,219,000,710
Maximum Potential Bonus Pool	\$73,719	\$56,766	\$36,859
Maximum % of Alpha Available for Bonuses	2%	2%	2%
\$ Alpha Required to Earn Max Bonus	<b>\$3,685,938</b>	<b>\$2,838,281</b>	<b>\$1,842,969</b>
% Return Outperformance Equivalent	0.075%	0.061%	0.035%
Estimated \$ Alpha	<b>\$49,054,339</b>	<b>\$15,465,735</b>	<b>\$33,588,603</b>
\$ Alpha Required for Max Bonus	\$3,685,938	\$2,838,281	\$1,842,969
% of Maximum Bonus	1331%	545%	1823%
% of Max Bonus Target Earned	100%	100%	100%

Note: Maximum Potential Bonus Pool is the total amount of performance compensation payments possible for all eligible employees in the asset class. This is divided by 2% to determine the \$ of alpha required by the asset class to earn the maximum payment.

## Appendix B-4: Real Estate Alpha Above/Below the Benchmark FY2020

Asset Category	Total Year	Half Year	
	Total Estimated Alpha Above/Below Benchmark	Estimated Alpha Above/Below Benchmark First Half	Estimated Alpha Above/Below Benchmark Second Half
Real Estate	\$1,062,498	\$1,046,149	\$16,349
<b>Fiscal Year June 2020 Portfolio Values</b>	<b>Year Total Portfolio Average MV</b>	<b>First Half Portfolio Average MV</b>	<b>Second Half Portfolio Average MV</b>
Average Market Value	\$1,206,903,062	\$999,779,648	\$1,414,026,476
Maximum Potential Bonus Pool	\$70,875	\$17,719	\$35,438
Maximum % of Alpha Available for Bonuses	2%	2%	2%
\$ Alpha Required to Earn Max Bonus	\$3,543,750	\$885,938	\$1,771,875
% Return Outperformance Equivalent	0.294%	0.089%	0.125%
Estimated \$ Alpha	\$1,062,498	\$1,046,149	\$16,349
\$ Alpha Required for Max Bonus	\$3,543,750	\$885,938	\$1,771,875
% of Maximum Bonus	29.98%	118.08%	0.92%
% of Max Bonus Target Earned	29.98%	100.00%	0.92%

Note: Maximum Potential Bonus Pool is the total amount of performance compensation payments possible for all eligible employees in the asset class. This is divided by 2% to determine the \$ of alpha required by the asset class to earn the maximum payment.

Full year was not used as there was only half year assignments

## Appendix B-5: Alternative (Hedge Funds) Alpha Above/Below the Benchmark FY2020

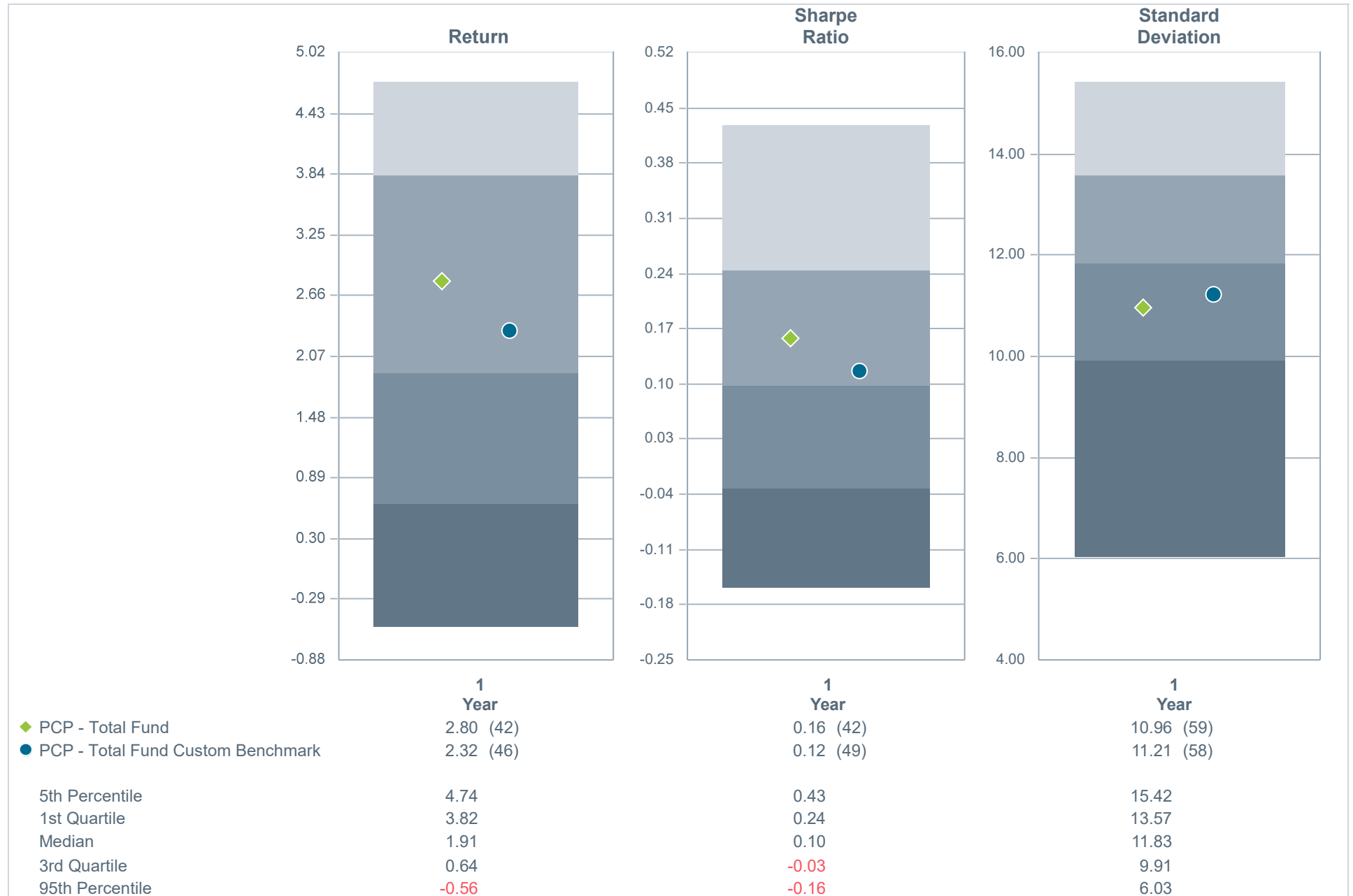
Asset Category Alternatives (Hedge Funds)	Total Year	Half Year	
	Total Estimated Alpha Above/Below Benchmark <b>(\$10,311,653)</b>	Estimated Alpha Above/Below Benchmark First Half \$528,062	Estimated Alpha Above/Below Benchmark Second Half <b>(\$10,839,715)</b>
Fiscal Year June 2020 Portfolio Values Average Market Value	Year Total Portfolio Average MV \$740,537,252	First Half Portfolio Average MV \$745,109,934	Second Half Portfolio Average MV \$735,964,569
Maximum Potential Bonus Pool	\$35,438	\$17,719	\$35,438
Maximum % of Alpha Available for Bonuses	2%	2%	2%
\$ Alpha Required to Earn Max Bonus	<b>\$1,771,875</b>	<b>\$885,938</b>	<b>\$1,771,875</b>
% Return Outperformance Equivalent	0.239%	0.119%	0.241%
Estimated \$ Alpha	<b>(\$10,311,653)</b>	<b>\$528,062</b>	<b>(\$10,839,715)</b>
\$ Alpha Required for Max Bonus	\$1,771,875	\$885,938	\$1,771,875
% of Maximum Bonus	-581.96%	59.60%	-611.77%
% of Max Bonus Target Earned	0.00%	59.60%	0.00%

Note: Maximum Potential Bonus Pool is the total amount of performance compensation payments possible for all eligible employees in the asset class. This is divided by 2% to determine the \$ of alpha required by the asset class to earn the maximum payment.

# Appendix C1

Wyoming State Treasurer's Office - Performance Compensation Plan  
 Risk & Return Statistics vs. All Endowments & Foundations > \$1B  
 Plan Sponsor Peer Group Analysis

As of June 30, 2020



Performance shown is net of fees. Calculation is based on monthly periodicity. Parentheses contain percentile ranks.



# Appendix C2

Wyoming State Treasurer's Office  
PCP - Total Fund  
Information Ratio

As of June 30, 2020

	1 Year
vs. PCP - Total Fund Custom Benchmark	
Tracking Error	0.55
Info Ratio	0.81
Excess Return	0.45

Performance shown is net of fees. Calculation is based on monthly periodicity.

