



MEMORANDUM

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

From: The Honorable Curt Meier, State Treasurer

Date: December 23, 2021

Re: Treasurer's Office Performance Compensation Plan Payment Update FY21

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

W.S. 9-4-109(f) 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 second measurement period ended June 30, 2021 for fiscal year 2021 (FY2021). Since this is the second year for incentive compensation to eligible employees, this means that for FY2021 the formula relies on a two-year performance calculation. Next year will be a three-year average calculation, and from that point on it will be a rolling three-year-period calculation.

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.

Results

I am happy to report that the investment team outperformed the Total Fund benchmark by 0.30% for FY2021. This resulted in an estimated excess Total Fund alpha of around \$52 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, public equities and real estate achieve the maximum payout for the entire year. Hedge funds performed below the benchmark so do not qualify for a performance compensation payout for this year. It should be noted the opportunistic asset class also exceeded the benchmark, but no investment team member is assigned to that class, so is not used for individual asset class determination.

Calculations for each asset class were based on the monthly alpha and monthly average market values to determine an estimated alpha dollar value for each asset class for each month. These values were totaled to arrive at a fiscal year alpha calculation.

Since this year is a two-year calculation, the alpha percentages for FY2020 and FY2021 are averaged, as are the market values for each year. These are multiplied for each of the two years to arrive at an estimated alpha over the two-year period. The required alpha for each year is combined for comparison to the estimated alpha to arrive at a percentage of the maximum bonus calculation. See the attached appendices (B1 through B5) for these calculations.

The overall result is that fixed income, public equities and real estate asset classes earned the maximum payout. Please see the attached appendices (B-1 through B-5) for the estimated dollar alpha and payout percentages for performance compensation of the Total Fund and each of the individual asset class calculations.

Of note, the amount of the performance compensation earned is 1.28% of the additional alpha produced by the investment team. In addition, the amount paid in this first year (FY2021) is 0.3% 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 the Total Fund Sharpe Ratio and standard deviation information. The FY2021 Sharpe ratio of 3.54 is very good but somewhat lower than the benchmark of 3.70. The Sharpe Ratio this year is improved from FY2020, which had a Sharpe Ratio of 0.16. The two-year (FY2020 – FY2021) Sharpe Ratio was 0.81, which was higher than the benchmark of 0.77.

In terms of the absolute level of risk, the overall standard deviation of 4.59 is fairly low and much lower than the previous year (FY2020) standard deviation of 10.96. The two-year (FY2020 – FY2021) standard deviation was 11.05, which was lower than the benchmark of 11.17. See Appendix C for RVK's return, Sharpe Ratio and standard deviation analysis against the benchmark for both FY2021 and the two-year average.

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

Table 1, below, displays the FY2021 payments for the seven investment team members as approved by the Investment Funds Committee.

Table 1: FY2021 IFC PCP Approved Payments to the Treasurer's Office Investment Team.

| Position | Annual Salary (total) | Max % of Bonus (% of Salary) | Total Earned Payout | Year 1 Payout (25%) (Dec 2021) | Year 2 Payout (25%) (July 2022) | Year 3 Payout (50%) (July 2023) |
|--------------------------|-----------------------|------------------------------|---------------------|--------------------------------|---------------------------------|---------------------------------|
| Team Total | \$1,051,917 | | \$663,104 | \$165,776 | \$165,776 | \$331,552 |
| CIO | \$250,000 | 100% | \$250,000 | \$62,500 | \$62,500 | \$125,000 |
| SIO 1 | \$189,000 | 75% | \$70,875 | \$17,719 | \$17,719 | \$35,438 |
| SIO 2 | \$189,000 | 75% | \$141,750 | \$35,438 | \$35,438 | \$70,875 |
| SIO 3 | \$189,000 | 75% | \$141,750 | \$35,438 | \$35,438 | \$70,875 |
| Senior Analyst | \$93,000 | 25% | \$23,250 | \$5,813 | \$5,813 | \$11,625 |
| Analyst 1 | \$70,000 | 25% | \$17,500 | \$4,375 | \$4,375 | \$8,750 |
| Analyst 2 /Sen. Analyst* | \$71,917 | 25% | \$17,979 | \$4,495 | \$4,495 | \$8,990 |

Note: *Analyst 2/Senior Analyst was promoted in June 2021 so the salary is 11/12ths Analyst and 1/12th Senior Analyst.

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.

| Scenario | 2021 Payout | 2022 Payout | 2023 Payout |
|---|--------------------|--------------------|--------------------|
| Minimum Payments (current earned amounts) | \$321,795 | \$477,814 | \$331,552 |
| Maximum Future Year earned Payments | - | \$189,188 | \$378,375 |
| Maximum Total Payments | \$321,795 | \$667,002 | \$709,927 |

Note: Assumes current staffing levels and compensation.

This estimate does not include amounts for two additional investment team positions, which have been authorized but not filled. The positions consist of one senior investment officer and one investment officer. It should be noted that one of the original three authorized positions has been filled and that is the investment analyst, which is included in the estimate. Based on current salaries for the two unfilled positions, this could generate an additional \$207,750 in performance compensation payments (\$51,937 the first two years; \$103,875 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 2022 to discuss asset allocations for the upcoming year. Depending on the outcome of those discussions, any new asset class benchmarks would be considered, 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 1/10th 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 1/10th 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: FY21 Total Fund Returns Above/Below the Benchmark

| | | | | |
|--|---|--|---|--|
| Asset Category | FY21 Estimated Returns Above/Below Benchmark Total | FY21 Total Average Market Value | FY20 Estimated Returns Above/Below Benchmark Total | FY20 Total Average Market Value |
| Total Fund | \$51,618,052 | \$17,206,017,307 | \$77,796,276 | \$15,889,442,077 |
| Alpha Percentage Return | 0.30% | | 0.49% | |
| Fiscal Year June 2021 Performance | FY21 Total Portfolio Performance | | FY20 Total Portfolio Performance | |
| Maximum Potential Bonus Pool | \$375,740 | | \$360,844 | |
| Maximum % of Alpha Available for Bonuses | 2% | | 2% | |
| \$ Alpha Required to Earn Max Bonus | \$18,786,979 | | \$18,042,188 | |
| % Return Outperformance Equivalent | 0.109% | | 0.114% | |
| Estimated \$ Alpha | \$51,618,052 | | \$77,796,276 | |
| \$ Alpha Required for Max Bonus | \$18,786,979 | | \$18,042,188 | |
| % of Maximum Bonus Calculation | 274.75% | | 431% | |
| % of Max Bonus Target Earned | 100.00% | | 100% | |

| | | |
|--|------------------|---|
| FY21 PCP Calculation (2 year calculation) | | |
| Average % alpha | 0.39% | |
| Average Market Value | \$16,547,729,692 | |
| Alpha over 2 years | \$130,662,506 | Average portfolio value X average alpha X 2 |
| \$ Alpha Required for Max Bonus | \$36,829,167 | 2020 required alpha + 2021 required alpha |
| % of Maximum Bonus Calculation | 354.78% | Actual alpha/required alpha |
| % of Max Bonus Target Earned | 100.00% | Lesser of 100% and formula above |

NOTES: 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: FY21 Fixed Income Returns Above/Below the Benchmark

| Asset Category | FY21 Estimated Returns Above/Below Benchmark Total | FY21 Total Average Market Value | FY20 Estimated Returns Above/Below Benchmark Total | FY20 Total Average Market Value |
|--|--|---------------------------------|--|---------------------------------|
| Total Fixed Income | \$21,934,269 | \$8,444,674,138 | \$53,978,071 | \$7,682,089,657 |
| Alpha Percentage Return | 0.26% | | 0.70% | |
| Fiscal Year June 2021 Performance | FY21 Total Portfolio Performance | | FY20 Total Portfolio Performance | |
| Maximum Potential Bonus Pool | \$136,625 | | \$136,625 | |
| Maximum % of Alpha Available for Bonuses | 2% | | 2% | |
| \$ Alpha Required to Earn Max Bonus | \$6,831,250 | | \$6,831,250 | |
| % Return Outperformance Equivalent | 0.081% | | 0.089% | |
| Estimated \$ Alpha | \$21,934,269 | | \$53,978,071 | |
| \$ Alpha Required for Max Bonus | \$6,831,250 | | \$6,831,250 | |
| % of Maximum Bonus Calculation | 321% | | 790% | |
| % of Max Bonus Target Earned | 100.00% | | 100% | |

| FY21 PCP Calculation (2 year calculation) | | |
|---|-----------------|---|
| Average % alpha | 0.48% | |
| Average Market Value | \$8,063,381,898 | |
| Alpha over 2 years | \$77,601,112 | Average portfolio value X average alpha X 2 |
| \$ Alpha Required for Max Bonus | \$13,662,500 | 2020 required alpha + 2021 required alpha |
| % of Maximum Bonus Calculation | 567.99% | Actual alpha/required alpha |
| % of Max Bonus Target Earned | 100.00% | Lesser of 100% and formula above |

NOTES: 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: FY21 Public Equity Returns Above/Below the Benchmark

| Asset Category | FY21 Estimated Returns Above/Below Benchmark Total | FY21 Total Average Market Value | FY20 Estimated Returns Above/Below Benchmark Total | FY20 Total Average Market Value |
|--|--|---------------------------------|--|---------------------------------|
| Total Equities | \$35,573,898 | \$5,930,948,205 | \$49,054,339 | \$4,940,932,635 |
| Alpha Percentage Return | 0.60% | | 0.99% | |
| Fiscal Year June 2021 Performance | FY21 Total Portfolio Performance | | FY20 Total Portfolio Performance | |
| Maximum Potential Bonus Pool | \$79,865 | | \$73,719 | |
| Maximum% of Alpha Available for Bonuses | 2% | | 2% | |
| \$ Alpha Required to Earn Max Bonus | \$3,993,229 | | \$3,685,938 | |
| % Return Outperformance Equivalent | 0.067% | | 0.075% | |
| Estimated \$ Alpha | \$35,573,898 | | \$49,054,339 | |
| \$ Alpha Required for Max Bonus | \$3,993,229 | | \$3,685,938 | |
| % of Maximum Bonus Calculation | 891% | | 1331% | |
| % of Max Bonus Target Earned | 100.00% | | 100% | |

| FY21 PCP Calculation (2 year calculation) | | |
|--|-----------------|---|
| Average % alpha | 0.80% | |
| Average Market Value | \$5,435,940,420 | |
| Alpha over 2 years | \$86,573,688 | Average portfolio value X average alpha X 2 |
| \$ Alpha Required for Max Bonus | \$7,679,167 | 2020 required alpha + 2021 required alpha |
| % of Maximum Bonus Calculation | 1127.38% | Actual alpha/required alpha |
| % of Max Bonus Target Earned | 100.00% | Lesser of 100% and formula above |

NOTES: 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: FY21 Real Estate Returns Above/Below the Benchmark

| Asset Category | FY21 Estimated Returns Above/Below Benchmark Total | FY21 Total Average Market Value | FY20 Estimated Returns Above/Below Benchmark Total | FY20 Total Average Market Value |
|--|--|---------------------------------|--|---------------------------------|
| Total Real Estate | \$31,253,243 | \$1,628,409,725 | \$1,062,498 | \$1,206,903,062 |
| Alpha Percentage Return | 1.92% | | 0.09% | |
| Fiscal Year June 2021 Performance | FY21 Total Portfolio Performance | | FY20 Total Portfolio Performance | |
| Maximum Potential Bonus Pool | \$70,875 | | \$70,875 | |
| Maximum% of Alpha Available for Bonuses | 2% | | 2% | |
| \$ Alpha Required to Earn Max Bonus | \$3,543,750 | | \$3,543,750 | |
| % Return Outperformance Equivalent | 0.218% | | 0.294% | |
| Estimated \$ Alpha | \$31,253,243 | | \$1,062,498 | |
| \$ Alpha Required for Max Bonus | \$3,543,750 | | \$3,543,750 | |
| % of Maximum Bonus Calculation | 881.93% | | 29.98% | |
| % of Max Bonus Target Earned | 100.00% | | 29.98% | |

| FY21 PCP Calculation (2 year calculation) | | |
|---|-----------------|---|
| Average % alpha | 1.00% | |
| Average Market Value | \$1,417,656,393 | |
| Alpha over 2 years | \$28,456,396 | Average portfolio value X average alpha X 2 |
| \$ Alpha Required for Max Bonus | \$7,087,500 | 2020 required alpha + 2021 required alpha |
| % of Maximum Bonus Calculation | 401.50% | Actual alpha/required alpha |
| % of Max Bonus Target Earned | 100.00% | Lesser of 100% and formula above |

NOTES: 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.

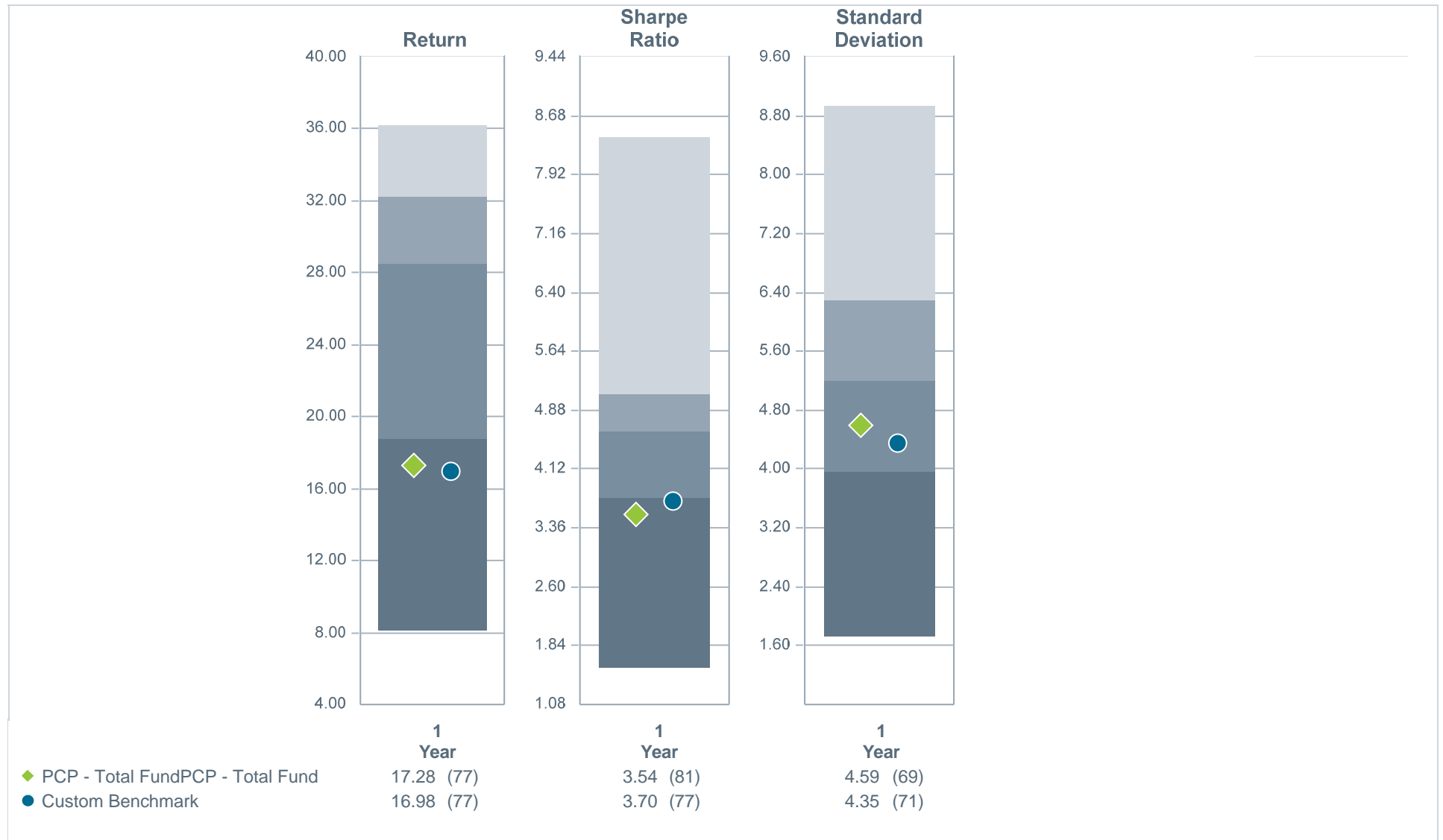
Appendix B-5: FY21 Hedge Fund Returns Above/Below the Benchmark

| Asset Category | FY21 Estimated Returns Above/Below Benchmark Total | FY21 Total Average Market Value | FY20 Estimated Returns Above/Below Benchmark Total | FY20 Total Average Market Value |
|--|--|---------------------------------|--|---------------------------------|
| Total Alternatives (Hedge Funds) | (\$34,656,079) | \$821,450,338 | (\$10,311,653) | \$740,537,252 |
| Alpha Percentage Return | -4.22% | | -1.39% | |
| Fiscal Year June 2021 Performance | FY21 Total Portfolio Performance | | FY20 Total Portfolio Average MV | |
| Maximum Potential Bonus Pool | \$70,875 | | \$35,438 | |
| Maximum% of Alpha Available for Bonuses | 2% | | 2% | |
| \$ Alpha Required to Earn Max Bonus | \$3,543,750 | | \$1,771,875 | |
| % Return Outperformance Equivalent | 0.431% | | 0.239% | |
| Estimated \$ Alpha | (\$34,656,079) | | (\$10,311,653) | |
| \$ Alpha Required for Max Bonus | \$3,543,750 | | \$1,771,875 | |
| % of Maximum Bonus Calculation | -977.9% | | -581.96% | |
| % of Max Bonus Target Earned | 0.00% | | 0% | |

| FY21 PCP Calculation (2 year calculation) | | |
|--|-----------------------|---|
| Average % alpha | -2.81% | |
| Average Market Value | \$780,993,795 | |
| Alpha over 2 years | (\$43,824,254) | Average portfolio value X average alpha X 2 |
| \$ Alpha Required for Max Bonus | \$5,315,625 | 2020 required alpha + 2021 required alpha |
| % of Maximum Bonus Calculation | -824.44% | Actual alpha/required alpha |
| % of Max Bonus Target Earned | 0.00% | Lesser of 100% and formula above |

NOTES: 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 C



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

Appendix C

Wyoming State Treasurer's Office
Multi Timeperiod Statistics

As of June 30, 2021

| | 2 Years Return | 2 Years Sharpe Ratio | 2 Years Standard Deviation |
|----------------------------|----------------------|-------------------------------|-------------------------------------|
| PCP - Total Fund | 9.80 | 0.81 | 11.05 |
| PCP - Total Fund Benchmark | 9.40 | 0.77 | 11.17 |

Performance shown is net of fees.

