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State Treasurer defends WyoStar II program
Optional fund provides investment vehicle for local governmental agencies

By Wyoming State Treasurer Curt Meier

The State's WyoStar investment programs have recently come under attack, and I would like to share a few facts.

These programs allow local governments to make institutional-quality investments with fees lower than what large institutional investors typically pay. The State's manager charges 0.06 percent and independent bond managers charge 0.5-1.0 percent on average. The State is able to minimize fees by combining many smaller accounts (local government entities) together into a larger fund.

These two WyoStar programs have very different profiles. WyoStar I is a short-term, money market type of fund that is liquid and stable. WyoStar II (WS2) is a short maturity bond fund. Its price fluctuates. When interest rates go up, bond prices go down and vice-versa.

The State Treasurer's Office (STO) hires JP Morgan to manage WyoStar. Over the recent fiscal year ending June 30, JP Morgan's performance ranks in the 18th percentile. This means 82 percent of other funds did not perform as well – a wonderful job during a very volatile period. STO administers the cash flows of the programs. This helps reduce the cost of the programs to local entities because we do not charge a fee for this service, even though we employ two full-time professionals to administer these programs.

It is important to note a bond fund is not a bond. You can mature a bond and never incur a loss (unless it defaults). Bond funds manage to a total rate of return basis; the primary goal is optimizing returns, not focusing on realized gains and losses. This is why an asset owner should not match a liability with a bond fund. In asset and liability management you match your asset with the liability due date, so most asset liability managers buy bonds that match the liability date, not a bond fund. They also usually buy U.S. Treasuries to mitigate default risk.

It has been falsely reported that WS2 does not hold maturities that match the liquidity needs of the fund. Actually, the short maturity investment grade bonds (two years) that are in this fund are one of the most liquid bonds available in the market other than U.S. Treasuries. When selling a large position in a

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fund, it is common practice to hold back a small percentage (usually 5-10 percent) to make sure accounting of accrued interest, capital gains/losses, fees and expenses are complete. Holding back the "tails" is common. It has nothing to do with liquidity.

Converse County Treasurer Joel Schell stated losses on withdrawals will be distributed to all participants. Actually, when the manager sells a bond, the unrealized gain or loss then becomes realized. The only way not to ever have realized gains and losses would be to mature a bond. Think of this as a stock. If you own Apple at $180 and today's price is $177, you will show an unrealized loss of $3. If you sell it today, you will show a realized loss of $3 but you still get $177, not some random number. Realized gains and losses do not change the value of the fund, only market movements do.

Treasurer Schell insinuated his county's investment lost a tremendous amount of money. The fact is that the return (gain) on his county's investment since inception was more than $500,000 over five years. Remember, this was during the worst bond market performance in over 40 years due to the quickest increase in Fed rates, and JP Morgan was still able to produce a positive return. The hold back he referred to as a "loss" has been returned to the county, in addition to some gains now that all of the accruals have been completed.

I also want to highlight that this fund is an *option* for local entities. These cities and counties have the ability to buy other funds or bonds to match their needs. If an entity does not want to incur realized gains and losses, common practice is to buy bonds (not bond funds) and mature them like normal asset and liability structures.

WS2 was set up as a longer-term investment program. This is not a money market fund. Investors should not go in and out of the fund but rather participate on a long-term basis, like stock investments but with lower volatility. STO is not a mutual fund. We are providing a service for those local entities that want a low-cost option to help manage cash reserves and hopefully receive a higher return in relation to the index.

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