

**WYOMING STATE TREASURER'S OFFICE
ANNUAL REPORT
FISCAL YEAR 2006**

State Treasurer

Wyoming Quality of Life Result::

Wyoming state government is a responsible steward of State assets and effectively responds to the needs of residents and guests.

Wyoming has a diverse economy that provides a livable income and ensures wage equality.

Department: Wyoming State Treasurer

Contribution to Wyoming Quality of Life:

As responsible stewards of the state's assets, the State Treasurer's Office contributes to Wyoming's quality of life by investing state funds in a prudent manner to ensure safety of principal, adequate liquidity and maximization of the total rate of return on investments ultimately saving tax dollars for every working Wyoming citizen. Also as the steward of unclaimed property assets, the agency responds to the needs of Wyoming residents through diligent efforts to locate its citizens or heirs who rightfully own the property.

The State Treasurer also contributes to Wyoming's quality of life by investing state funds in legislatively designated investments. These projects contribute to the diversification of Wyoming's economy. The placement of state funds with Wyoming banks encourages lending to Wyoming residents and businesses stimulate the State's economy.

Basic Facts:

During Fiscal Year 2006, the State Treasurer's Office had a total of 25 full time positions and one at-will employee contract position authorized. The agency operated with a total budget for fiscal year 2006 of \$12,723,150. Of this amount, \$1,869,916 was general funds and \$10,853,234 was investment income funds. Agency personnel provide investment management, program management, financial management and processing, legal counsel, computer technology and administrative support.

The five primary programs and/or functions include:

#1 Investment of State Funds: During fiscal year 2006, the State Treasurer's Office invested over \$8.2 billion. Investment income is currently the third largest source of income to the general fund.

#2 Banking Activities, Cash Management: Receipts from state agencies are received, reconciled and deposited daily. The agency also has general responsibility for the management of the state's cash resources including the development of information to forecast the cash needs of the state.

#3 Unclaimed Property Program: The administration of this program involves collecting and holding unclaimed funds for rightful owners or heirs.

#4 Special Legislative Projects: The Treasurer's Office administers various legislative programs which involve accounting and distributing state and federal funds as prescribed by law to cities, towns, counties, the University of Wyoming, community colleges and state agencies.

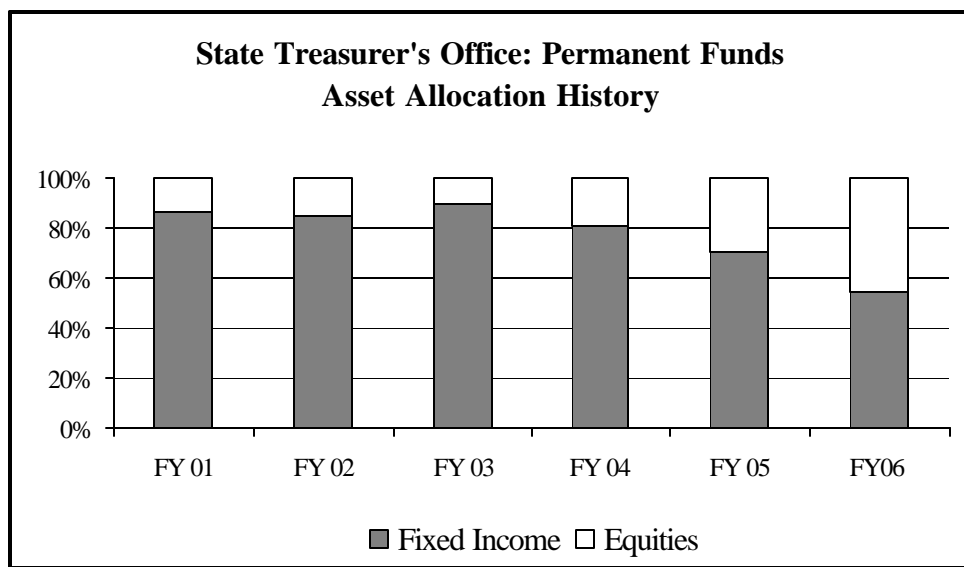
#5 Board and Commissions: The State Treasurer serves on numerous boards and commissions.

Collectively, these activities and programs serve all state agencies and all citizens of the state.

State Treasurer

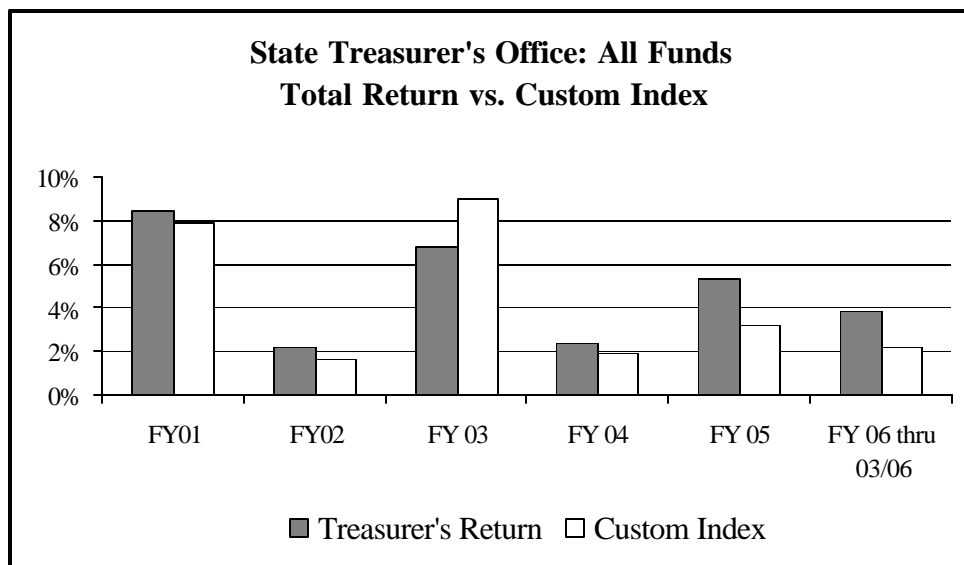
Performance Measures:

#1 Asset Allocation - Percentage of permanent funds invested in fixed income securities and equities.

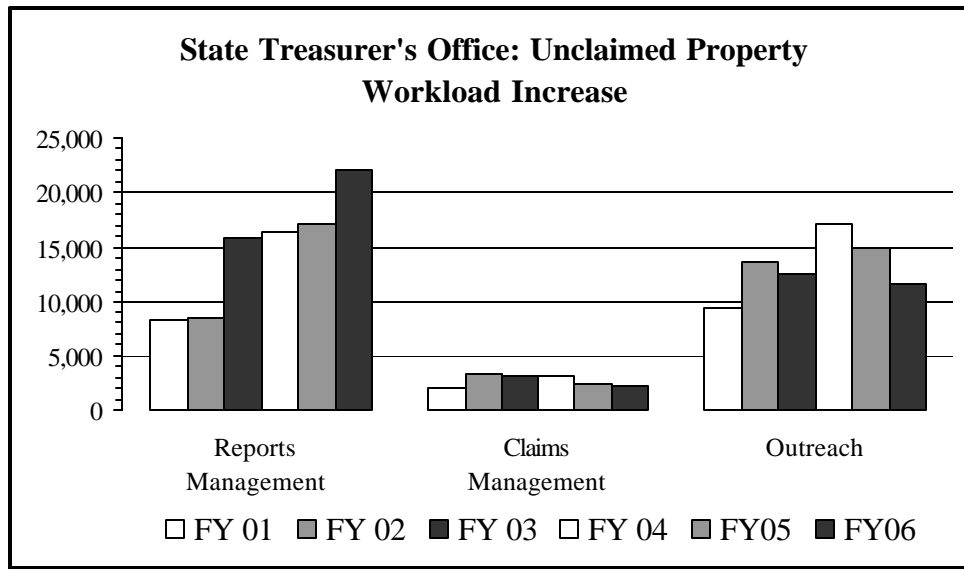


#2 Investment Performance – Rate of Return - Wyoming Total Fund compared to Custom Index as benchmark

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#3 – Unclaimed Property workload increase – Number of annual holder reports received, number of claims paid and number of outreach documents sent out



Story Behind The Performance during fiscal year 2006:

#1 Asset Allocation: Wyoming permanent funds are invested pursuant to a long-term asset allocation plan that is designed to protect the corpus of the funds, provide inflation proofing and support state spending and to provide inflation proofing. Interest, dividends and realized capital gains from the Permanent Wyoming Mineral Trust Fund (PWMTF) are deposited into the state's general fund while interest income, dividends and realized gains from the Permanent Land Funds (PLF) support public institutions; the largest recipients are the state's K-12 schools.

State law permits investment of up to 55 percent of the PWMTF and PLF in equities. The purpose of this diversification is to enhance total return. Current market conditions predict a 7 percent long-term total return of a portfolio equally divided between equities and fixed income securities, compared to a 4.5 percent long-term total return for a portfolio invested solely in cash and fixed income.

Legislatively Designated Investments (LDIs) are also a component of the State's investment portfolio. These mandated programs are a challenge. They represent a small share of the State's investment portfolio, but require vigilance throughout the life of the investment. The same holds true for any current and future investment in the other programs authorized by the Legislature: bonds issued by the Wyoming Pipeline Authority, Wyoming Infrastructure Authority and Industrial Development Bonds.

Energy prices have produced a rapid growth of revenue flowing to state permanent funds. This additional revenue has allowed for a more aggressive timeframe in which to reach the asset allocation target of 50 percent investment in equities and 50 percent in fixed income securities. This increase of revenue to the permanent funds and diversification between equities and fixed income investments has produced additional investment income to the state.

Increasing investment income to the State remains an important goal. This goal was achieved

State Treasurer

during Fiscal Year 2006 with investment income totaling \$327.8 million compared to \$245.9 in fiscal year 2005 and \$245.5 in fiscal year 2004. Investment income is the largest source of non-tax revenue to the State's General Fund. It equates to over \$1,100 per Wyoming worker and replaces taxes residents would otherwise pay to support the public services Wyomingites enjoy.

#2: Performance of Wyoming Investments – Rate of Return: The primary investment performance objective is for the Total Wyoming Fund (culmination of all state investment pools) to outperform the Total Fund Custom Index. This index is a benchmark calculated using broad indices corresponding to each asset class the state invests in, weighted based on the current allocation to each asset class. This Custom Index provides a measure of the Wyoming Fund's total performance relative to the performance of the market. The Custom Index is a tool to evaluate whether or not the Fund's selected managers, as a whole, are outperforming broad market benchmarks. With the exception of fiscal year 2003, the Total Wyoming Fund has outperformed the Total Fund Custom Index since fiscal year 2000. Fiscal year 2003 was difficult due to low interest rates and an over-weighting of the state's portfolio in fixed income and cash.

Although final audited figures for total investment rate of return versus the total fund custom index were not available at the time of this writing, indicators show that the rate of return for fiscal year 2006 will once again outperform the custom index benchmark. The rate of return for the first three quarters of fiscal year 2006 was nearly two percent above the custom index.

Continued monitoring of investment performance by the State's investment consultant as well as State Treasurer staff has been important to ensure that the rate of return continues to outperform the benchmark. As the state's portfolios are diversified and investments become more complex, however, monitoring efforts need to be expanded to include additional due diligence and periodic site visits by staff, which will require additional travel by State Treasurer staff.

#3 Unclaimed Property Workload: Unclaimed property reports and payments are due from holders on November 1 of each year. The national unclaimed liability for Wyoming residents varies each year. As such, the state has no control over the number of reports and cash received during the reporting period. Reports are verified, balanced and entered onto the Unclaimed Property database. Various outreach programs provide owner notification so the funds may be claimed. Property received during the calendar year is advertised the following February. Claims are filed and paid upon receipt of documentation. Securities held (stocks and mutual funds) are balanced and tracked for mergers/acquisitions, etc.

The number of unclaimed securities shares received since fiscal year 2001 (377,486) has more than doubled in fiscal year 2006 (855,964). This has created a tremendous additional workload as securities must be constantly reviewed and requires additional work due to mergers/acquisitions and posting of dividends to owners' accounts. Processing securities-related claims are more complex than cash claims as additional research is required to review corporate history, account verification with the transfer agents, and detailed re-issuance processes must be completed in order to return the securities to the rightful owners/heirs.

The number of reports received, claims processed, and outreach efforts conducted to locate rightful owners all increased through fiscal year 2004. With these workload increases, limited staff and a limited revenue stream, performing and maintaining standards have become challenging. Therefore, during fiscal year 2005 and 2006 it became necessary to decrease the number of outreach efforts conducted which resulted in a lower number of claims received and processed. The number of reports received from holders continued to increase, however, due to federal requirements and some statutorily and some statutorily-required functions have not commenced.

What's been Accomplished?

#1 Asset Allocation:

State Treasurer

The Treasurer's Office has been slowly moving toward a long-term asset allocation target of 50 percent invested in equities and 50 percent invested in fixed income securities. In fiscal year 2005, the Treasurer's Office implemented a plan to have the PWMTF and PLF portfolios invested in 30 percent equities by June 30, 2005. This goal was achieved through dollar cost averaging transfers from fixed income into equities. The agency continued to make monthly deposits throughout FY 2006 striving to reach a goal of a 40 percent equity allocation for the PWMTF and PLF by fiscal year end. The agency surpassed this goal by 5 percent reaching a 45 percent equity allocation for the PWMTF and PLF as of June 30, 2006. This was possible due to increased revenue flows into the permanent funds and due to a more aggressive approach of placing additional revenue into equities with the goal of reaching the long term target asset allocation of 50 percent equities and 50 percent fixed income. The agency now anticipates reaching this 50/50 asset allocation target by December 31, 2006 rather than by the earlier projection date of June 30, 2007.

#2 Investment Performance:

Diversification into equities is essential to achieve long-term total return for permanent funds that exceed total return for funds invested only in cash and fixed income. Although great strides have been taken, continued diversification of the state's investment portfolio is necessary to continue to improve the total return for the PWMTF and PLF accounts. This includes further diversification for both fixed income as well as equities. Continued diversification will provide protection of corpus and enhancement of return. Diversification will also ensure greater returns on a more consistent basis, helping to smooth what can be unpredictable mineral income.

During fiscal year 2006, the State Loan and Investment Board (SLIB) authorized and selected four investment firms to provide investment in real estate and selected four firms to provide management in specialized fixed income strategies; core plus; corporate bonds; mortgage back securities and global fixed income securities. The Treasurer's Office will continue to explore additional investment opportunities in coordination with the SLIB's outside investment consultant.

This continued diversification has required careful monitoring by the state's investment consultant as well as the State Treasurer's staff. During fiscal year 2006, the Treasurer's Office increased monitoring efforts by working more closely with the various investment managers and by performing on-site due diligence visits to ensure that investment performance is maintained or improved. As the state continues to diversify its portfolio and state funds are invested in more complex asset classes, the agency will increase monitoring efforts, due diligence and periodic site visits to ensure that investment performance is maintained or improved.

#3 Unclaimed Property Workload:

To improve the Unclaimed Property program workload, several changes were implemented during fiscal year 2006. Due to the shortage of staff, electronic processing of holder reports and automated claims processed was implemented. These new processes will alleviate time-consuming data entry and reduce claims preparation time. The goal to complete the holder annual report management period by one or two months was partially met. We anticipate processing time to continue to decrease this next year with additional companies reporting via the electronic reporting program. In addition, the automated dividend upload program is under development. This program will provide dividend payments to be automatically calculated and entered into the unclaimed property database instead of manual calculation and data entry.

Outreach efforts conducted to locate rightful owners and outreach programs that provide owner notification were temporarily suspended. This has reduced the daily workload of claims; however, it did have a greater impact on the annual advertising period. Cost saving projects were implemented to reduce the number of reports processed and provide file copies of outreach letters in report format.