Change in investment strategy is considered

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For the Star-Tribune

As Wyoming turns over financial rocks looking to ease its budgetary shortfall, the Legislature and state Treasurer's office have focused their attention on the crown jewel of the state's revenue system: the Permanent Wyoming Mineral Trust Fund.

Created in 1975, the fund receives 2.5 percent of all severance taxes collected from minerals in Wyoming.

The permanent fund has a current market value of $7.3 billion.

For over 40 years, Wyoming has grown to depend on revenue generated from the permanent fund. Interest from the fund is the second-largest contributor to the state's general fund (sales and use tax is first). In 2015, permanent fund interest to the general fund was $494 million.

But the drop in mineral prices has caused a plummet in such contributions. In 2016, the Legislative Service Office estimates that permanent fund interest will add only $149 million to the general fund.

Within the last year, state Treasurer Mark Gordon and members of the Legislature have explored ways to streamline the permanent fund, hoping for greater efficiency and earnings. The stakes are high. A study found Wyoming's return on investments trailed the average by nearly 2 percent — a significant difference when billions of dollars are in play.

In August, Gordon's office co-hosted, in conjunction with the University of Wyoming's School of Energy Resources, the Stroock Public Forum on Sovereign Wealth. The Jackson-based event featured international economists and sovereign wealth fund managers from around the globe.

A sovereign wealth fund is generally defined as a state-owned investment fund that often – but not always – gains funding through natural resource development.

There are dozens of sovereign funds established worldwide. The largest is Norway's Government Pension Fund Global with a current balance of $882 billion or over 10 times the corpus of the Wyoming's permanent fund.

Within the U.S., only the Alaska Permanent Fund (market value: $54 billion) and the Permanent University Fund of Texas (market value: $17.3 billion) exceed Wyoming's.

"I know it's kind of a fairly dry topic," Jason Shogren, the Stroock Professor of Natural Resource Conservation and Management at UW, told the audience at the conference, "but it's probably the future of Wyoming and the West to understand how it is we are going to transform our stock of minerals, and any other resources, and be able to turn that into cash that we can figure out what to do with."

While presenters commended Wyoming for its foresight in establishing the fund, they also took the state to task for not keeping up with changes in sovereign wealth fund management.

Adrian Orr, CEO of New Zealand's $22.1 billion Superannuation Fund, said "I'd give Wyoming a B- in how the state currently thinks about the fund. To set up a permanent fund that turns mineral wealth into perpetual, ongoing wealth for current and future generations, you don't take the earnings out of it every year. That means you're consuming the earnings; you might as well drink the oil and eat the coal."

Samuel Wills, an expert in natural resource funded sovereign funds and an economist at Oxford, cautioned Wyoming about being too bullish on coal, despite leading the nation in production of the mineral.

"Discovering coal is like winning the lottery," he said. "What Wyoming is doing is transferring this short-term boom into a longer-term prosperity.

"Why should you worry? You might say, look, Sam, we've got over 400 million tons of coal in the ground … why should be we be thinking about future generations when they've got just as much (assets in) coal.

"Well, it's the old adage: The stone age didn't end due to the lack of stones. And it could well be the same with Wyoming's coal," he said.

There are other considerations besides quantity, Wills said, like a recent British study that showed if the world is going to keep even modest goals in global warming, "than 60 to 80 percent of all the coal and oil that are on the books of publicly listed companies can never be pulled out of the ground."

Instead, panelists said Wyoming should concentrate on restructuring the permanent fund, including minimizing outside consultant and management fees.

Wyoming is in the big leagues now of asset management, said Malan Rietveld, a fellow at Harvard's Center for International Development and director at Kalytix Partners.

"There is no reason why you can't identify and cultivate homegrown talent," Rietveld said. "But I'll be frank about it: You've got a very long way to go."

Legislators who attended the conference gave it high praise.

"It was the most intensive two days I have since I've been in the Legislature," said Sen. Fred Emerich, R-Laramie. "We've got to figure out what to do when we grow up."

Emerich also realized that Wyoming has a made a lot of good decisions. "There are many things we are doing correctly," he said.

On Sept. 14, the Select Committee on Capital Financing and Investments met in Buffalo to hear Gordon and his staff offer suggestions on how to improve the permanent fund.

Patrick Fleming, chief investment officer for the treasurer's office, quoted a National Association of College and University study that showed institutions with assets over $1 billion averaged a 7.7 percent return over the last 10 years.

The state of Wyoming's return, including investments in the permanent fund, averaged 5.93 percent return during the same period.

If the state had not been hampered by certain investment restrictions, Fleming said, "this would have resulted in an increase of $2.1 billion over the last 10 years."

"I believe the majority of this underperformance is due to very low staffing levels and asset allocation differences," said Fleming.

While Wyoming farms out management of most of its investments to outside firms, the treasurer's office does do some of its own own investing.

"It takes a tremendous amount of due diligence," said Fleming. Due to lack of staff, "it took us three months for us to approve our last investment."

Members of the committee told Gordon and Fleming they were interested in considering bills that would reform Wyoming's investments strategy, such as more adequate staff and lifting the restriction on the percentage of the portfolios can be invested in common stock, currently at 55 percent.