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Alpha PLUS aims to boost US treasury yields

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Alpha PLUS technique revolves around back-to-back repo agreements

Lewis Goldman, "Lucky Lew" as his friends call him, has forged a career out of developing and distributing new products and strategies for beneficial owners in the fixed income market. The native New Yorker has structured, priced, marketed and sold structured securities to countless institutional money managers, broker dealers, and trading desks at bond houses globally. Most of his time is spent dealing in the US Treasury market – the deepest and most liquid in the world. Back in 2010 while enjoying the festivities of his twin sons Bar Mitzvah party, Goldman collapsed as a result of sudden cardiac arrest and was saved by his two best friends since the age of 11 who were there with him on the dance floor. His friends happen to be cardiologists. Lucky Lew.

Three years later he set out on his own to form his own business, Goldman Landow Capital, named from his grandparent's surname. Working with his longtime friend and colleague Marc Greenspan, Goldman hopes luck extends to his latest venture, US Treasury Alpha PLUS - a process designed to allow pension funds, corporates and other institutional investors to enhance the yield on their US treasuries. The technique revolves around back-to-back repo agreements, allowing beneficial owners to maintain ownership of their original T-Bills or Treasury Notes while earning fees from substitutions of collateral carried out with an approved counterparty. In exchange for the potential yield enhancement, the beneficial owner must be indifferent to holding and potentially owning Treasuries that mature within a 16-day window. "Anytime you can add additional alpha without adding risk it would be prudent to do so," Goldman said. "In the case of Alpha PLUS after considerable vetting with experts in the field of yield curve analysis, the conclusion is the 16 day potential maturity differential is, even in extreme volatility, insignificant compared to the potential yield enhancement that can be generated by engaging in Alpha PLUS. I would rather forgo the few basis points of opportunity cost created by the potential 16 day maturity differential to pick-up 15 to 35 basis points in additional alpha."

Al Kramer, a former treasurer for Carson City, Nevada - a position he held for 20 years - is familiar with the process Goldman and Greenspan are promoting. "I used a virtually identical technique back in 2004 when managing \$40m of US Treasuries for Carson City," Kramer told Global Investor/ISF. "It made a lot of sense to me. Every transaction led to a positive gain. We saw returns in excess of 42bps over two years. "If you own treasuries, why wouldn't you enhance them? Admittedly it's a niche area. Maybe the enhancement from the technique isn't enough to persuade you to put more money in treasuries, but that's not what this is about," Kramer added.

Goldman will be speaking to some of the largest US pension funds this week in Florida at the IMN's Securities Finance and Collateral Management Conference. He's confident Alpha PLUS will prove popular in the end, although he admits widespread adoption is a long-term goal. To support his efforts, Goldman has teamed up with legal experts at Greenberg Traurig who have taken a closer look at the technique. Their verdict seems compelling. "Alpha PLUS is a strategy that generates yield enhancement using products and techniques that have been around for decades," Greenberg Traurig's Robert Frenchman, who advises broker-dealers on securities law, wrote in a recent whitepaper focusing on Alpha PLUS. "There are no new securities here. There are no new securities transactions here. This is a collateral substitution strategy in a back-to-back repo structure. The beneficial owner earns a fee each time a substitution of collateral occurs, as does the custodian or agent lender," he added.

Frenchman is also unaware of any laws or regulations that prohibit entities from using Alpha PLUS, or that prohibit individuals at entities from using it. Likewise, he can't think of any government or regulatory approval that is needed for entities or individuals to participate in such a technique. "Alpha PLUS offers

beneficial owners—to our knowledge, for the first time—the benefit of income from a stream of substitution fees without the burden of additional capital outlays, counterparty risk, or reinvestment risk," Frenchman continued. "This enables beneficial owners, as well as their custodians and agent lenders, to avoid common legal and regulatory problems that may arise when seeking yield enhancement on a portfolio of US Treasury securities. "These benefits should be of particular importance to institutional money managers who have fiduciary obligations to maximize their return on investment."

US Veterans Initiative

Goldman, the son of a disabled American Veteran and brother to Purple Heart US Marine Corps recipient while in Vietnam, hopes some of the new found revenue streams from Alpha PLUS can be donated by beneficial owners to veteran charities supporting veteran homelessness. Goldman is determined to make this a reality and has recently partnered with a veteran owned and operated money manager to help eradicate the homelessness plight of US veterans. "If you would consider using your US Treasury positions to generate alpha, then your institution can make a difference to those veterans who are in need of sustainable shelter," Goldman added. "I see no reason why our country's defense contractors who maintain enormous positions in US Treasuries wouldn't want to support such an initiative especially if they can generate a new found revenue stream without making any new capital investment, without altering their investment strategy, all without having any counterparty risk. "The best part is, the beneficial owner does no work, as all the substitutions of collateral, when engaging in Alpha PLUS is handled by the beneficial owners custodian or agent lender". "Alpha PLUS is a perfect fit for everyone. The beneficial owner generates additional alpha, custodians or agent lenders earn their fee's, and veteran charities have more funds to help the over 40,000 to 50,000 veterans who are sleeping on the streets across our country today". "We believe any institution, whether a state or local municipality, pension fund, corporation, hedge fund, and money manager, individually or collectively can in just a few years eradicate the veteran homelessness issue facing our country. "In the end the process affords owners of US Treasuries the opportunity to take idle treasury positions sitting at the owners custodian collecting dust, and converts the dust into yield."