AGENT LENDER

A GOLDMAN LANDOW CAPITAL COMPANY

A BENEFICIAL OWNERS GUIDE TO U.S. TREASURY SECURITIES LENDING BEFORE, AFTER, AND DURING A FINANCIAL CRISIS

During times of crisis it becomes evident that most, if not every investment portfolio will contain some amount of short term U.S. Treasury securities for the following reasons;

1. Provide a safe liquid position if cash is needed.
2. Provide a guaranteed return of principal as well as an agreed upon return on principal.
3. Provide a hedge against potential losses on riskier investments.

It is true, Beneficial Owners do not need a financial crisis to subscribe to the above attributes of U.S. Treasury ownership. However, because institutions will suffer reduced revenues coupled with increased expenses during times of severe market stress, Beneficial Owners can look to the securities lending landscape to offset some of the financial strain. This raises a few important questions for Beneficial Owners of U.S. Treasuries. First, I can't sacrifice why I own Treasury securities in the first place (see 1-3 above), second, if I lend my securities, I cannot suffer any losses, and finally, the return I receive needs to be worth engaging in.

These are three very aggressive goals for Beneficial Owners to have while not increasing the risk profile of a U.S. Treasury securities lending investment portfolio. As Beneficial Owners have acknowledged, the current securities lending model offered by agent lenders does not offer

U.S. Treasury Beneficial Owners the protection nor the guaranteed enhancement that would be needed to offset declining revenues and added expenses in times of financial crisis. In fact, the current model does not protect Beneficial Owners nor guarantee enhancement even in good times. Additionally, the current securities lending model is not a risk free enhancement tool but can be regarded as a rather risky trading strategy. This risk was never more evident than during the 2008/2009 credit crisis, which resulted in the exiting of many participants which influenced the underlying liquidity of the market. To reverse this trend, it is imperative that agent lenders reengineer the securities lending model and figure out how to help Beneficial Owners in times of crisis as well as times of market normalcy.

To successfully structure a new U.S. Treasury securities lending model, it needs to be structured in a way to; (1) guarantee Beneficial Owners never lose control of the U.S. Treasury securities they have ***and a paper indemnification does not guarantee this*** (2) guarantee that the owner will always reap the benefits of US Treasury securities ownership ***and a paper indemnification does not guarantee this*** (3) guarantee that the owner will not take catastrophic losses on the leveraged investment they make with the money they borrow ***and even if this was indemnified it is nothing but a paper promise not a guarantee*** (4) guarantee that the owner will receive a specific and acceptable enhancement amount ***and an indemnification of this is also nothing but a paper promise.***

If the above four guarantees were offered by agent lenders and the guarantees could be relied on, Beneficial Owners would have been (be) in a better position to whether a past (future) financial crisis. If there was a securities lending agent who was able to offer the above it would not have taken away all the pain but would have helped. It is also safe to say, most agent lenders are just acting as agent, receiving millions in annual fees, while not offering a true guarantee which would satisfy the wants and needs of U.S. Treasury Beneficial Owners as stated above. To this fixed income strategist, and author of this piece, being able to offer a true guarantee which satisfies the needs of Beneficial Owners is the holy grail of U.S. Treasury securities lending.

The wait is over for a solution to Beneficial Owner's needs, as there is finally a securities lending product available today and it's making its way to Main Street. It's called AgentLenderPLUS U.S. Treasury Spread Lock. AgentLenderPLUS (ALP), a division of Goldman Landow Capital who after years of development and proof of concept within an SEC Rule 2a-7, AAA rated U.S. Treasury Money Market Fund is starting to market the benefits from participation in the Spread Lock product. The ALP Spread Lock (1) guarantees Beneficial Owners never loses control of the U.S. Treasury they have **and receive a real indemnification** (2) guarantees Beneficial Owners will always reap the benefits of U.S. Treasury ownership **and receive a real indemnification** (3) guarantees Beneficial Owners never take any loses on the investment they make with money they borrow **and receive a real indemnification** (4) guarantees Beneficial Owners will receive $12,000,000 annually (before rebate) on each $10 Billion in U.S. Treasury securities that engage in the ALP-Spread Lock program for the full year.

To better understanding **what a real indemnification is** (which supports the ALP Spread Lock product) it is recommended Beneficial Owners read the Legal Opinion/White Paper authored by the law firm Greenberg Traurig. To request a copy, please visit www.goldmanlandowcapital.com

Here is an excerpt from the Greenberg Traurig White Paper

Alpha PLUS Does Not Require the Custodian or Agent Lender to Indemnify the Counterparty's Performance

Beneficial owners do not need to obtain indemnification for counterparty default in Alpha PLUS ***because the beneficial owner is always in possession of replacement Treasuries that have been deemed to be equivalent in market yield. In the context of securities lending, the agent lender generally indemnifies the beneficial owner up to the amount of losses that occur when the collateral***

value is insufficient to acquire replacement securities if a borrower fails to return borrowed securities.[47] Most securities lenders require indemnification from their agent lenders, and it has become standard market practice in recent decades.[48] Indemnification protects the beneficial owner from counterparty risk—specifically, the risk that the borrower does not return the loaned securities, and the collateral on hand is insufficient to purchase replacement securities at the time of default.[49] These risks are absent from Alpha PLUS, where the custodian or agent lender effects the substitutions on a DVP basis and the beneficial owner releases securities only upon receipt of Treasuries that have been deemed by the beneficial owner to be of equivalent market yield. In the event that a beneficial owner has an obligation under its internal policies to obtain indemnification when entering a repo, indemnification should not be difficult to obtain because of the absence of counterparty and market risk in Alpha PLUS. It is indeed difficult to see how indemnification could ever be invoked. The parties perform their repo obligations at the outset of the back-to-back repo arrangement. The beneficial owner holds replacement collateral that it has deemed to be of equivalent market yield. Under the circumstances, we see no reason why a custodian or agent lender would not indemnify the counterparty's obligations in Alpha PLUS

In conclusion, for the first time, Beneficial Owners have a securities lending tool at their disposal which provides guaranteed yield enhancement along with true portfolio indemnification. Using U.S. Treasury Spread Lock as part of a Beneficial Owners portfolio management strategy enables owners to engage in U.S. Treasury securities lending while being devoid of the two major risks associated with current sec lending models (counterparty and reinvestment risks).

To learn more how U.S. Treasury Spread Lock works and its impact on your Treasury holdings, please contact Lew Goldman at lgoldman@goldmanlandowcapital.com or call 516-223-3932.