

Talking With Richard Saperstein
Managing Partner, Treasury Partners

Cleaning Up

By J.R. Brandstrader

A LOT OF THE PAPER CREATED IN THE most excruciating moments of the financial crisis has provided some pretty nifty returns to fixed-income investors. Richard Saperstein is among them.

"It caused significant dislocation within the fixed-income markets that provided outstanding opportunities," he says.

Saperstein works with a team of 15 investment, trading, research, accounting and portfolio-management professionals at Treasury Partners, which runs more than \$10 billion in separately managed cash portfolios. Among their clients are Fortune 500 companies, high-net-worth individuals and endowments. Treasury is a part of HighTower, a financial-advisor-owned partnership with assets of \$15 billion. The firm was bankrolled by a number of high-powered Wall Streeters, including former Morgan Stanley veterans Doug Brown and Philip Purcell, and David Pottruck, the one-time president of Charles Schwab.

As a former Bear Stearns financial advisor, Saperstein has some personal experience with the crisis. He brought his Bear Stearns group with him to form Treasury Partners in May, not long after JPMorgan Chase bought out the failing Bear. The team, both before and after its arrival at Treasury Partners, has played virtually every aspect of the financial recovery to date, including government-backed bank bonds, preferred stock, municipals and senior bank debt, all of which have generated solid—in some cases much better than solid—returns. Right now it is considering purchasing new Build America bonds, while adding to holdings in a number of other fixed-income areas, including zero-coupon municipals.

Treasury Partners was an eager buyer



Daniel Byrne for Barron's

of banks' issuance of debt backed by the Federal Deposit Insurance Corp., about \$307 billion of which was sold through the end of August via the government's Temporary Liquidity Guarantee Program (TLGP). In December of 2008 the group bought debt of Goldman Sachs (ticker: GS), due in 2012, and Wells Fargo (WFC), due in 2011, among other banks.

"These bonds, which are fully guaranteed as to interest and principal by the FDIC, were first issued at wide spreads to Treasuries," says Saperstein, managing partner and principal of Treasury Partners.

Spreads have since tightened from roughly 200 basis points, or two percentage points over comparable Treasuries, to about 15 basis points. The bonds now trade in line with other government-guaranteed securities, like those of the Federal National Mortgage Association and Federal Home Loan Bank. They have provided annualized returns to date ranging from 2% to 7%, he adds. They were purchased for extremely low-risk accounts.

Saperstein's group also was quick to exploit mispricing in the municipal-bond market that occurred during the crisis. It bought 30-year tax-free municipal bonds in the first quarter of '09 when these munis were yielding 5%. Among Saper-

stein's purchases were San Antonio water-revenue bonds, which—in a rarity—were yielding more than Treasuries.

His team also jumped on preferred shares last October, via the iShares S&P US Pfd Stock Index (PFF). The idea was to "participate in the recovery of the financial sector through preferred-stock exposure," says Saperstein. The purchases were part of a total-return strategy seeking price appreciation and dividend income.

It worked. The initial purchase has gained more than 27% since October and another allocation in early April of this year has jumped 41%.

After getting under way in May, Treasury Partners bought 10-year senior debt of big financial institutions like Bank of America (BAC), American Express (AXP), Morgan Stanley (MS) and JPMorgan Chase (JPM), as part of the government's Troubled Asset Relief Program. The spreads on virtually all these issues have tightened, meaning prices have gone up and yields have gone down. The returns on the debt of these financial institutions have ranged between 7% and 15% as stabilization has returned to the financial system.

Saperstein, 50, who graduated from the State University of New York at Oneon-

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ta and received an MBA from New York University, spent much of his career at Oppenheimer & Co. He explains Treasury Partners' approach as seeking to "achieve attractive yield through positioning on the yield curve and selecting the right credits." Though each account is customized, safety always comes first, and whatever risk is taken has to be thoroughly understood and controlled.

"We want an industry we like, a revenue source we can count on and a bond structure we can easily understand," he says.

Right now, the relatively steep yield curve provides incentives to extend maturities. "We don't want to have a lot of liquidity in the portfolio earning close to nothing [because of low short-term rates]. We run different pots of money in the corporate cash portfolio and I'd rather tie the money up for 18 to 36 months than keep it in overnight- to-90-day paper right now," says Saperstein, who perennially appears in Barron's ranking of the Top 100 Financial Advisors.

Treasury Partners uses a barbell strategy, in which a big portion of the portfolio is in short-maturity instruments or money-market funds for liquidity. The rest is invested in longer maturities to capture additional yield.

High-net-worth individuals and endowments generally have longer investment horizons than corporate clients. "Those investors are willing to assume more vola-

tility so we can look for additional opportunities. It's important to look at all opportunities and quite often we stay away from most of them," he says.

In the corporate-bond market, for instance, Treasury Partners hasn't bought airlines or most auto companies.

It is equally picky about tax-exempt bonds, steering clear of tobacco, hospitals, certificates of participation and special-purpose industrial-revenue bonds. Hospitals' financial situation is too uncertain and bonds backed by taxes on tobacco are worrisome because their revenue base is declining as tobacco prices rise, curbing use.

"We prefer a revenue source that has less elasticity and greater dependability. Something like a general-obligation bond that might be backed by income, excise, property or sales taxes [is] eminently more dependable than a hospital-revenue bond," he says.

He is looking at Build America Bonds, such as those from the state of California, due in 2034. These financings were authorized under the American Recovery and Reinvestment Act of 2009 to bolster local economies hard hit by economic weakness. Saperstein likes them because they are taxable municipals that "enable diversification into a different class of issuers within a traditional taxable-bond portfolio."

Zero-coupon municipals are another attractive option, he says. Issuers in-

clude New Jersey's State Transportation Trust Fund, with a bond due in 2025, and Palo Alto, Calif.'s Unified School District, which has debt due in 2025.

"These have been trading with yields nearly 100 basis points greater than equivalent coupon bonds. That makes them an effective compounder for investors who don't need income distributions," he says.

When it comes to short-term income, Saperstein prefers higher-paying callable U.S. government agencies to noncallable offerings because he thinks short-term rates will remain range bound. As a result, it's unlikely that issuers will call the bonds.

And since he thinks the financial system will continue to recover, he likes Goldman Sachs Liberty bonds due in 2035. "These are municipal bonds backed by a revenue stream from Goldman Sachs. Essentially, we're earning tax-free income on a corporate credit," he says.

Saperstein still is picking up big U.S. banks' bonds, such as American Express issues due in 2017 and 2019, Bank of America offerings maturing in 2017 and 2019, and Citigroup (C) debt with maturities in 2017 and 2018. He expects credit spreads to tighten further, meaning prices will rise as these financial institutions regain their footing in the next few years.

Let's hope he's right. ■



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