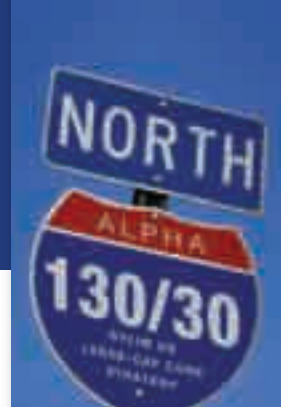


# Raising the Alpha Target with 130/30 Strategies



**130/30 strategies may offer an ideal solution for investors and trustees interested in experiencing the benefits of shorting and leverage without moving into hedge funds.**

Few pension plans with long-term perspectives expect equity markets will continue to deliver the type of returns experienced over the past two decades. Yet, many plans may still have long-term return assumptions built into their plans that exceed future expected returns. One way to raise alpha targets and help solve this capital markets dilemma, may be to implement short-extension or 130/30 strategies. These strategies offer important advantages over other approaches:

- **Relaxing the long-only constraint may enhance returns.** In long-only portfolios, managers have limited ability to express negative forecasts. A 130/30 strategy introduces a modest ability to short stocks, which allows managers to capitalize on their best ideas, whether they are positive or negative forecasts.
- **The strategy may be implemented without the use of derivatives to maintain full exposure to the equity benchmark,** which may be an advantage for those investors who are uncomfortable with derivatives or whose policies preclude their use.

## What are 130/30 Strategies?

A 130/30 strategy is an equity strategy benchmarked to an equity index. As the name suggests, it invests 130% of investor capital in long positions, while 30% is sold short. The proceeds from the short sales are then used to fund the purchase of the additional 30% of the long positions. The net investment is 100% exposure to the equity benchmark.

For every \$100 invested:



This article is a condensed version of a white paper published by New York Life Investment Management (NYLIM). To receive the expanded discussion about 130/30 strategies, including more about short selling, relaxing long-only constraints, risk control, and implementation considerations:

## Contact NYLIM Institutional Sales

- Call 1-877-394-4800
- E-mail [institutional@nylim.com](mailto:institutional@nylim.com)
- Visit [www.nylim.com/130-30](http://www.nylim.com/130-30)

## Mechanics of 130/30 Strategies

In addition to maintaining full “dollar” exposure to the benchmark as indicated by the net 100% exposure, 130/30 strategies are designed to have betas close to one relative to the benchmark. 130/30 strategies have many appealing attributes:

■ **Preservation of strategic asset allocation**—Since 130/30 portfolios are typically classified as equity as opposed to alternative investments, replacing long-only mandates does not necessarily require a change in asset allocation.

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■ **Consistency of holdings**—Alpha is generated through securities that reside within the investment universe, not transported from another universe.

■ **Simplicity of structure**—They can be offered via traditional mechanisms, such as funds regulated under the Investment Company Act of 1940, Delaware Limited Partnerships, collective trusts, or separate accounts.

■ **Risk controls**—Managers can deliver risk characteristics similar to long-only strategies by imposing portfolio limits on sector and industry exposures, as well as specific constraints on individual holdings.

■ **The potential for reduced risk of adverse tax ramifications**—Unlike hedge funds that can generate significant levels of unrelated business taxable income (UBTI), there is no need for an offshore blocking mechanism.

## Efficient Extension of Alpha

130/30 strategies may be attractive alternatives to long-only mandates since they:

- Leverage managers’ research and more fully express both positive and negative forecasts; and
- Generate potentially superior returns with similar amounts of risk relative to a given benchmark than typical long-only strategies.

