

Silverdale Funds

ENHANCED RETURN | TAX EFFICIENT | USD BOND FUNDS

Overview

"The time has come for policy to adjust. The direction of travel is clear, and the timing and pace of rate cuts will depend on incoming data, the evolving outlook, and the balance of risks". "We do not seek or welcome further cooling in labor market conditions".

- Jay Powell, Fed Chair, August 2024

Amid speculation on the pace of rate cuts, the message is that yields remain high, making it a good time to lock them in before the opportunity passes.

Powell confirms September Fed rate cut

At the Jackson Hole forum, Fed Chair Powell said: *"With an appropriate dialling back of policy restraint, there is good reason to believe that the economy will return to 2 percent inflation while maintaining a strong labor market."* Thus, opening doors for rate cuts, pivoting to labor data, as expected in our last month Commentary.

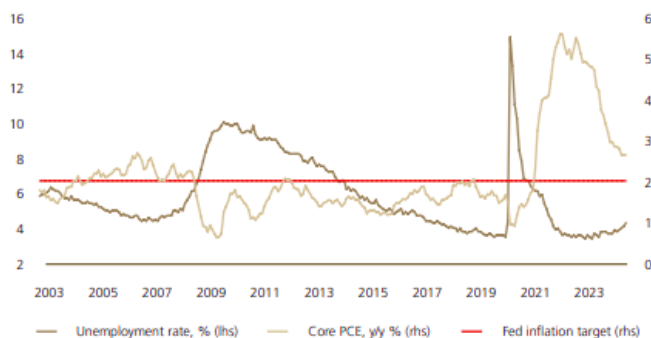


Fig-1: Dual Mandate: Higher unemployment and falling inflation create room for Fed to be flexible given the elevated interest rates¹

Shifting focus to labour markets

As per Bureau of Labor Statistics (BLS), the July'24 US employment report showed weakness, with the unemployment rate rising by 0.2% to 4.3% and job additions slowing to 114k. This weak data could be partly due to (a) weather, (b) increased labor supply from immigration, and (c) higher participation rates.

The BLS numbers are based on monthly surveys and estimates. These numbers are revised annually based on Quarterly Census of Employment and Wages (QCEW) which provides a comprehensive count of employment and wages from the unemployment

insurance tax records of nearly all US employers. Accordingly, the US non-farm payrolls for 12-months were reduced from 2.9 million to 2.1 million; thus, reducing monthly job additions from 246k to 178k which is low but not typical recession level of below 100k per month.

- (a) About 3.6 million illegal immigrants entered US in past 2 years². As per the prevailing regulations, most of these would be able to officially work after 180 days cooling period, thus adding to the labor supply and reducing the employment to participants ratio. Also, it is usual for businesses prefer not to report employment of illegal immigrants;
- (b) The participation rate for Prime age group (25-54 years) at 84% is the highest since 2001; and
- (c) Idiosyncratic factors such as auto-plant-shutdown in Michigan and temporary business closure due to Hurricane Beryl in Texas, also resulted in spike in unemployment claims.

Importantly, as noted by Powell *"rising unemployment hasn't been driven by elevated layoffs, as is typical in a downturn"* but rather by supply-side factors like immigration.

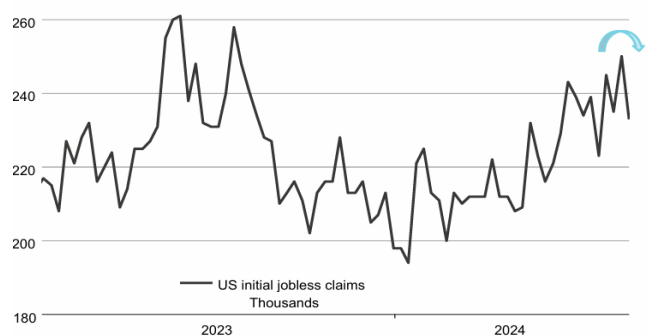


Fig-2: Stable Initial Jobless Claims ease fears of slowdown³

US Inflation: Encouraging low MoM reading

The July 2024 YoY headline CPI was 2.9% (June 2024: 3.0%) and Core CPI was 3.2% (June 2024: 3.3%). Month-over-month, the headline CPI increased by 0.155% and the core CPI increased by 0.165%, both slightly below the 0.17% rate needed to achieve a 2% YoY target.

¹ Source: UBS, August 2024

² Source: US CBO, Guggenheim May 2024

³ Source: Vontobel, August 2024

Technical, election, conflicts & central bankers

The market volatility would continue to be spiked by US election rhetoric (on tax, tariff, and payout), on-going Israel-Hamas and Ukraine-Russia conflict, the unwinding of crowded trades (as seen in early Aug'24, when Bank of Japan increased interest rate by 25 bps). Such spikes provide excellent investment opportunities to active investors.

Predictable returns with Fixed Tenure Funds

About 88% of bond returns are determined by their starting yields, as follows:

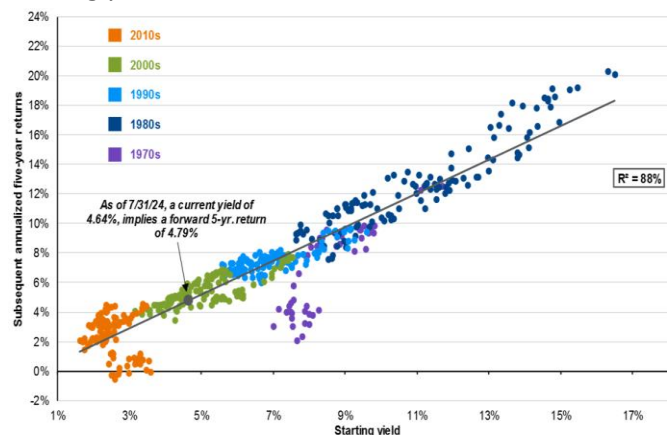


Fig-3: Fixed Income Yields and Forward Returns⁴

The current bond yields are in the 80th percentile of their 10-year range. The investors have the opportunity to lock in these attractive returns through Silverdale Fixed Tenure Funds, as seen by their track record.

Silverdale Fixed Maturity Fund Aug 2024 matured on 30th August 2024 delivering targeted return of 9% p.a. cumulating to +16.5% outperforming the indices which provided 8% to 15% returns, as follows:

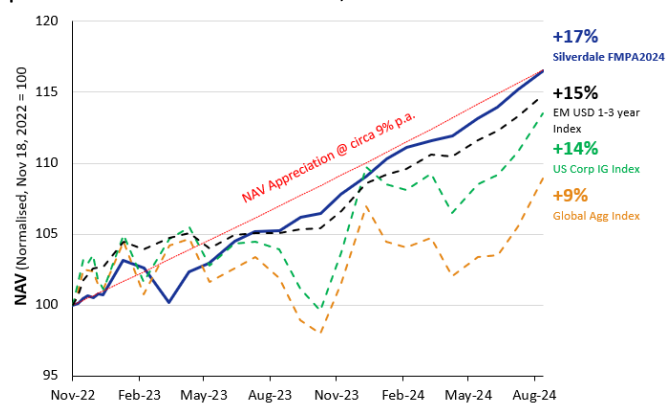


Fig-4: Locking-in the target returns with Silverdale FMPs⁵

For those investors who expressly opted for roll-over, the Fund has been rolled to March 2028.

⁴ Source: JPMorgan, Aug 2024

⁵ Source: Silverdale, Bloomberg, July 2024

Window to add bonds is narrowing

The upcoming interest rate cuts likely to be gradual and data-dependent, starting on 19 September 2024. In the last six interest rate cycles, in the 6-months after the interest rate cut, cash returned 2.9% as compared to 6% returned by US investment-grade bonds.

August 2024 Performance

In the month of August 2024, the NAV of Silverdale Bond Fund and Silverdale India USD Bond Fund increased by 2.6% and 2.9%[#] respectively, and the NAV for various Silverdale Fixed Tenure Funds appreciated between 1.2% to 2.3% as compared to 1.3% return by Bloomberg Emerging Markets USD Corp & Quasi Index.

Fund	Aug-24	YTD	Since Nov'23	Leveraged YTM
Silverdale Bond Fund	2.6%	12.2%	19.8%	7.9%
FMP 2024 (Matured and Rolled)	2.1%	NA	NA	8.5%
FMP Aug'24 (Matured and Rolled)	1.2%	6.8%	9.5%	NA
FMP 2025	1.2%	6.8%	12.9%	9.8%
FMP 2026	1.2%	10.8%	18.5%	9.7%
FMP Oct'26	1.5%	9.0%	18.0%	8.0%
FMP Nov'26	1.4%	7.8%	17.7%	7.7%
FTF Nov'27 [#]	1.8%	9.5%	NA	9.0%
FTF Jan'28	1.7%	8.6%	NA	7.9%
FTF Jun'28 ^{#A}	2.3%	4.5%	NA	8.1%
Bloomberg EM 1-3 yr Index	1.3%	5.7%	8.9%	NA
Bloomberg Asia EM Index	1.7%	7.6%	15.7%	NA

Silverdale Bond Fund continues its focus on high-quality (IG:77%) bonds and has leveraged YTM of 7.9%. Silverdale Credit Opportunities Fund has leveraged YTM of circa 11%[#] while Silverdale India Bond Fund has leveraged YTM of circa 8%[#] (Duration: 2.4[#] years).

We thank-you for your support.

Silverdale Fixed Tenure Fund June 2028

Target Returns* Approx **8.50% p.a.** (+/- 0.25%)

Defined Tenure June 2028

Credit Rating Approx 63% Investment Grade

No. of bonds 25-50

Dividend Plan USD 7.00 per year, paid half yearly

(*) Indicative, at launch

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[#] Numbers are indicative, pending finalization

[^] Launch Date: 10 May 2024