

Silverdale Funds

ENHANCED RETURN | TAX EFFICIENT | USD BOND FUNDS

Overview

The Republican sweep may introduce significant policy shifts, though the exact nature and timing remain unclear. Markets are already pricing in a higher fiscal deficit and a steeper yield curve, with elevated yields on long-duration bonds.

Amid this macroeconomic uncertainty, the **3-to-5-year segment of the bond curve** presents a compelling opportunity, offering attractive income potential alongside room for capital appreciation.

FOMC cuts again, total cuts reach 75 bps

Following a 50-bps cut in September, the Federal Reserve lowered fed fund rate by an additional 25 bps on November 7, bringing the range to **4.50%-4.75%**. Minutes from the November meeting noted that *"...it would likely be appropriate to move gradually (reduce rates) toward a more neutral stance of policy over time."*

As per Fed's September report, the long-term neutral rate (R*) is 2.9% (without considering potential increase of fiscal deficit under the Republicans). While markets anticipate further 75 bps of cuts by next year, implying a neutral rate near 3.5%+. This suggests that the yield curve is likely to continue steepening, correcting the inversion and restoring term premiums.

A steeper, higher-for-longer environment is ideal for fixed income investors, offering elevated carry along with potential capital gains in the 3-to-5-year segment.

Silverdale Funds do not rely on interest rates cut for their outperformance; due to their embedded leverage, they are engineered to provide significantly higher returns than the market because (a) they enjoy higher (post leveraged) carry, (b) interest rate cuts lead to bond price appreciation, and (c) falling interest rates result in an immediate reduction in borrowing costs.

US Inflation: Volatile path to target

US inflation remains on a volatile path to 2% by 2026¹. The year-on-year headline CPI for Oct'2024 was 2.6% (up from 2.4% in August, MoM +0.2%), with more than half of this increase driven by shelter.

Labour: Tempered by disruptions

Nonfarm employment in the US increased only 12,000 in October due to labor strikes and hurricanes. Despite these disruptions, initial jobless claims remain at their lowest levels since late April, indicating resilient underlying job growth. As per Fed Chair Powell²: *"The labor market remains in solid condition, having cooled off from the significantly overheated conditions of a couple of years ago, and is now by many metrics back to more normal levels that are consistent with our employment mandate"*

Economic Growth remains healthy

The U.S. economy grew by 2.8% annualized in Q3 2024, driven by strong consumer spending from high-income households benefiting from wealth gains and robust income. The Atlanta Fed model estimates Q4 2024 growth at 2.7%, while the market consensus is 2%.

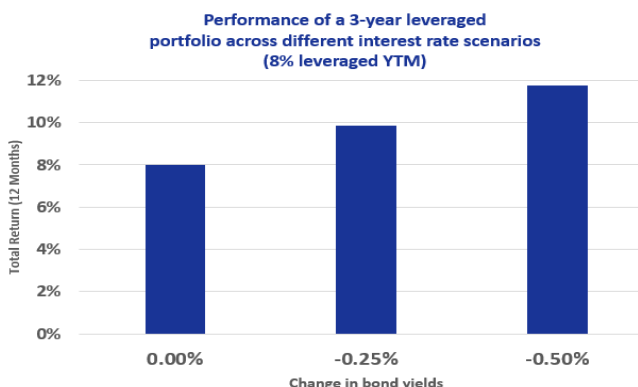


Fig-1: Enhanced return potential from 3-to-5-year bonds¹

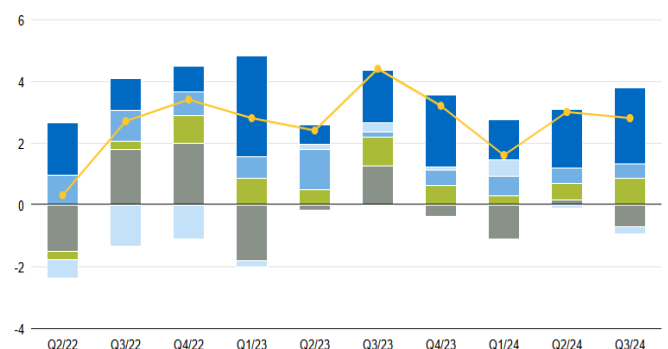


Fig-2: Consumption accounts for 80% of YTD24 growth³

¹ Source: Illustrative IG Portfolio with 8% Leveraged YTM, Silverdale Nov 2024

² Source: Federal Reserve, Nov 2024

³ Source: BEA, JPMorgan, Nov 2024

Implications of Republican Sweep

A Republican sweep is expected to exacerbate the fiscal deficit, which the Congressional Budget Office estimates will average 6.3% from 2025 to 2034, even before any tax cuts under Trump. Additionally, inflation may rise due to tariffs and immigration policy changes. As a result, the yield curve is likely to steepen further, with long-dated Treasury yields rising and increasing the term premium.



Fig-3: 10-year term premium trending higher with larger deficits⁴

Silverdale funds are positioned to capitalize on these dynamics by focusing on 3-to-5-year maturities, while benefiting from lower borrowing costs driven by Fed rate cuts, further enhancing leveraged returns.

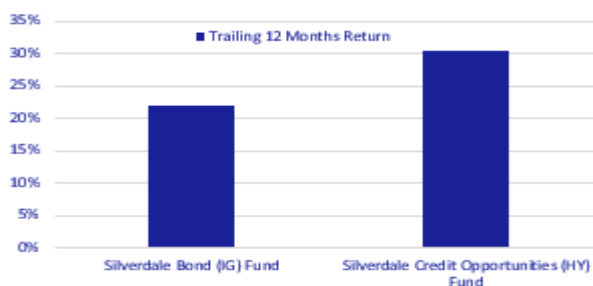


Fig-4: Trailing 12 months performance of Silverdale Opened Funds (Data from 27th Oct 2023 to 25th Oct 2024)⁵

Silverdale India USD Bond Fund

India is the only large economy where 30% of USD bonds are set for a credit upgrade. Its private sector capex is mainly funded by cash flow, rather than leverage, driving profitability.

Country	India	JACI APAC	US IG	US HY	Australia	China
Annual Return	4.1%	2.6%	2.5%	4.9%	2.5%	2.4%
Cumulative Return	56.2%	32.7%	31.7%	68.4%	30.7%	29.6%
Annual Volatility	4.2%	2.8%	4.8%	5.1%	3.1%	3.5%
Sharpe	0.98	0.92	0.53	0.95	0.79	0.67

Fig-5: India: Best performing USD bonds (2013-23)⁶

Despite being the fifth-largest economy, India's sovereign rating remains at the lowest investment grade (**BBB-/Baa3**), an anomaly for an economy of its

size. Indian credits offer elevated yields with improving credit profiles, making them top performers in the USD bond market over the past decade (2013–2023).

In this environment, the Silverdale India USD Bond Fund offers an appealing leveraged YTM of 12% following the recent market decline.

Investment avenues for investor objectives

Silverdale Open-ended Funds are enhanced return funds that provide liquidity, diversification, and upside potential (due to rate cuts), while fixed maturity target-return funds provide predictable income, as follows:

FUNDS	TARGET RETURNS
Silverdale (IG) Bond Fund	8%-10%
Silverdale (HY) Credit Opportunities Fund	10%-12%
Silverdale India USD Bond Fund	7%-9%
Silverdale Fixed Tenure Fund June 2028*	8.50%

Target Returns are per annum. () +/- 0.25% at launch*

Fund	Nov 2024	YTD 2024	Leveraged YTM
OPEN-ENDED FUNDS			
Silverdale Bond Fund (IG Fund)	0.2%	13.8%	9.0%
Silverdale Credit Opportunities Fund [#]	0.5%	21.9%	11.6%
Silverdale India USD Bond Fund ^{#A}	-2.2%	7.5%	11.4%
FIXED TENURE FUNDS			
FMP 2024 (Matured and Rolled) [^]	-1.2%	3.4%	9.9%
FMP Aug'24 (Matured and Rolled) [^]	-1.4%	0.2%	9.5%
FMP 2025	0.4%	8.6%	8.0%
FMP 2026	-0.4%	12.4%	9.8%
FMP Oct'26	-1.1%	9.2%	9.4%
FMP Nov'26	-0.6%	8.5%	8.9%
FTF Nov'27 [#]	-0.9%	10.5%	9.9%
FTF Jan'28	-0.5%	9.7%	8.9%
FTF Jun'28 ^{#A}	-0.7%	5.6%	9.7%
INDICES			
Bloomberg EM 1-3 yr Index	0.5%	7.2%	NA
Bloomberg Asia EM Index	0.1%	8.4%	NA

We deeply value your continued support, thank you!

DISCLAIMER
THIS COMMENTARY IS AN INTEGRAL PART OF AND SHOULD BE READ ALONG WITH THE FUND FACTSHEET FOR NOVEMBER 2024. This document is written for the benefit of and is being communicated exclusively to Accredited Investors or Institutional Investors as defined under the Securities and Futures Act (Cap. 289) of Singapore. The above commentary does not provide a complete analysis of every material fact regarding the market, industry, security, portfolio, or any Silverdale Fund. It is not a recommendation to buy or sell any security nor an investment advice. The portfolio holdings, opinions and information may change without notice and the actual results may differ from the said opinions and estimates. The contents of this document, including any narrative, does not constitute an offer to sell or a solicitation of any offer to buy the units or any Sub-Fund or class of the Silverdale Fund VCC (the "Fund") or any of the funds managed or advised by Silverdale Capital Pte Ltd., and is strictly for educational purpose only. The distribution of the Shares of the Fund may be restricted in certain jurisdictions. It is the responsibility of the person or persons in possession of this communication to inform themselves of, and to observe all such restrictions, all applicable laws, and regulations of the relevant jurisdiction, including of any applicable legal requirements, exchange control regulations and taxes in the countries of their respective citizenship, residence, and domicile. Any subscription for units or shares must be made solely based on the Fund's private placement memorandum, applicable class supplement and Subscription Documents (together "the Offering Documents"). Past performance is not an indicator of future performance. The Fund uses leverage and invests in financial derivative instruments. Please refer to the Offering Documents for Risk Factors. Nothing in this document is intended to constitute legal, tax, securities or investment advice or opinion regarding the appropriateness of any investment, or a solicitation for any product or service. Please seek opinion from an independent professional adviser before taking any decision based on this document.

⁴ Source: Apollo, NY Fed, Nov 2024

⁵ Source: Silverdale, Bloomberg Nov 2024

⁶ Source: JPMorgan, Bloomberg Dec 2023

[#] Numbers are indicative, pending finalization; [^] Launched in 2024