

# Silverdale Funds

ENHANCED RETURN | TAX EFFICIENT | USD BOND FUNDS

## Overview

*“...policy is at or near a point at which it will be appropriate to slow the pace of further (reductions)...”*

- Jay Powell, Chair, Fed Reserve, December 18, 2024

For CY2024 Silverdale Funds **delivered 14%-22%** grossly outperforming benchmark index returns of 7%-12%<sup>1</sup>. During the year, two Fixed Tenure Funds successfully matured on target<sup>2</sup> while we launched three new Fixed Tenure Funds. Additionally, we capitalized on improving Indian credits' fundamentals to launch Silverdale India USD Bond Fund, while Silverdale Credit Opportunities Fund continued to attract substantial inflows.

We are bullish of 2025, as Silverdale Funds are strategically positioned to benefit from higher starting yields<sup>3</sup> and lower borrowing costs, bolstered by the ongoing cycle interest rate cuts, and tailwinds of circa \$10 trillion of funds seeking investment opportunities<sup>4</sup> starting with over \$800 bn inflows into bonds in 2024.

## FOMC cuts again, Total Cuts reach 100 bps

On December 18, 2024, the Federal Reserve cut the federal funds rate by **25 bps**, following an earlier 75-bps cut, bringing the target range to **4.25%-4.50%**. Chair Powell<sup>5</sup> stated that policy is entering a “*new phase*” with a more cautious approach to rate cuts going forward.

2025 - Fed Projections	Dec'24 Meeting	Sep'24 Meeting	Change
Unemployment Rate	4.3%	4.4%	↔ Soft labour market
Core PCE (Inflation)	2.5%	2.2%	↑ Inflation to remain high
GDP	2.1%	2.0%	↔ GDP to remain stable
Fed Fund Rate	3.9%	3.4%	↑ 50bps cut vs 100bps earlier
Neutral Rate	3.0%	2.9%	↑ Moving higher

## Treasury yield curve: Steeper

Since September, the 10-year Treasury yield has risen 1% bps to 4.6%, even as the Fed lowered its policy rate by 1%. This divergence reflects heightened concerns over economic growth, ballooning U.S. debt, and increased Treasury issuance. The yield curve has now

un-inverted, with the spread between the 2-year (4.3%) and 10-year yields widening to 4.6%.

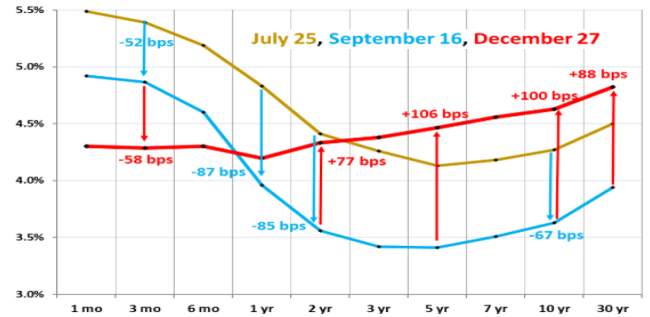


Fig-1: US Treasury Yield Curve<sup>6</sup>

## 3-5 year: Higher returns, lower volatility

As discussed in our November 2024 Commentary, the 3–5-year bond segment continues to present ideal combination of (a) relatively **higher yield**; (b) potential **capital gains** (interest rate cut of 0.50% to 1% could boost investor returns by 3%-5%), and (c) **low volatility**. Additionally, this range **mitigates reinvestment** risks, as bank deposit rates typically decline by 2.3% within 12 months of the first Fed rate cut<sup>7</sup>.

## US Inflation: Mixed Signals

Headline CPI rose to 2.8% year-on-year in Nov 2024 (up from 2.6% in Oct 2024), with shelter costs accounting for 40% of the increase. Core CPI maintained a monthly growth of 0.3% for 4<sup>th</sup> consecutive month.

## Labour: Recovers after disruption

After storm and strike-related disruptions, employment growth rebounded in Nov 2024 with 227,000 new jobs, compared and an upward-revision of October by 36000. Thus, the unemployment rate ticked up to 4.2%.

## Uncertainty as Trump prepares to take office

Despite the Republican victory, the US government narrowly avoided a shutdown over the debt ceiling, as 170 Republicans defied the party whip to extend or abolish debt ceiling. This underscores the potential for greater political gridlocks, further escalating policy uncertainty.

<sup>1</sup> BBG EM USD 1-3 Corp and Quasi Index; BBG EM HY Corp

<sup>2</sup> FMP 2024: Target 7% Achieved 7%; FMP Aug 2024: Target 9% Achieved 9%

<sup>3</sup> 88% of bond fund returns are explained by their starting yields.

<sup>4</sup> For details, refer to Silverdale Monthly Commentary Sep 2024

<sup>5</sup> Source: Federal Reserve, Dec 2024;

<sup>6</sup> Source: Bloomberg, WolfStreet, Dec 2024

<sup>7</sup> Source: Blackrock, Sep 2024

## Outlook for 2025: Compelling Opportunities

Bonds are poised to offer significant **diversification benefits in 2025**, especially amidst potential equity market volatility. In 2024, for instance, during a period when the S&P 500 Index dropped 7.9%, the Bloomberg U.S. Aggregate Index gained 2.6%. Further, the bond yields now at their highest in decades and the yield on the Bloomberg U.S. Aggregate Index having surpassed the S&P 500 earnings yield, bonds present a compelling opportunity for high income and potential capital gains.

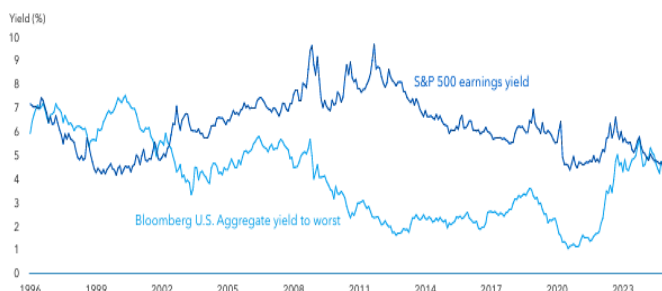


Fig-2: TINA Era Over: Bonds Offer Strong Income Opportunities<sup>8</sup>

## Investment opportunities for investors

For investors seeking liquidity and enhanced returns, while capitalizing on bond prices appreciation due to interest rate movements and benefiting from lower borrowing cost, Silverdale Open-Ended Funds could provide significant returns as follows:

- **Silverdale Bond (IG) Fund**  
**Target Return: 8%-10% | CY 2024 Return: 13.8%**  
 Investment-grade short-duration diversified bond portfolio (125+ securities), minimizing volatility.  
*Current, leveraged YTM: 9.0%*
- **Silverdale Credit Opportunities (HY) Fund:**  
**Targets Returns: 10%-12% | CY 2024 Return: 22.8%**  
 Capitalizing on historically low defaults and high security within high-yield universe, with 80% of the portfolio allocated to BB and BBB-rated 2-3 years securities.  
*Current, leveraged YTM: 10.5%*
- **Silverdale India USD Bond Fund**  
**Targets Returns: 7%-9% | 2024 Return: 8.9%**<sup>9</sup>  
 Capitalizing on improving credit fundamentals with 30% of India USD credits under watch positive for credit upgrades, and improving corporate fundamentals. The fund invests primarily in US dollar bonds issued by Indian corporates.  
*Current, leveraged YTM: 10.8%*

<sup>8</sup> Source: Capital Group, Dec 2024

<sup>9</sup> For 8.5 months: 26 Apr 2024 to 27 Dec 2024

Silverdale Open-Ended Funds	Target Returns (p.a.)	2024 Return	Leveraged YTM
<i>Liquidity, diversification, and upside potential from rate cuts</i>			
Silverdale (IG) Bond Fund	8%-10%	13.8%	8.9%
75% Investment Gr; 125+ securities			
Silverdale (HY) Credit Opportunities Fund	10%-12%	22.8%	10.5%
Higher quality high yield			
Silverdale India USD Bond Fund	7%-9%	8.9%	10.8%
Indian USD bonds; 2-3 yrs duration			

For investors seeking greater certainty of returns, **fixed-tenure funds** provide an attractive option, as evidenced by the performance of Silverdale Fixed Maturity Plans:

Silverdale Target Return Funds	Target Returns (p.a.)	2024 Return	Since inception
<i>Providing predictable income</i>			
FMP 2023 [Launch: Sep'20; Matured: Nov'23]	7%	N.A	23.7%
FMP 2024 [Launch: Dec'20; Matured: Jun'24]	7%	N.A	26.4%
FMP Aug 2024 [Launch: Nov'22; Matured: Aug'24]	9%	N.A	16.5%
FMP 2024 (post - rollover)	8%	4.1%	4.1%
FMP 2025	6%	9.3%	22.5%
FMP 2026	7%	12.9%	17.4%
FMP Aug 2024 (post - rollover)	8%	0.7%	0.7%
FMP Nov 2026	8.75%	8.7%	16.3%
FMP Oct 2026	9%	10.2%	17.4%
FTF Jan 2028	9%	10.3%	12.6%
FTF Nov 2027 <sup>^</sup>	9.25%	11.9%	11.6%
FTF June 2028 <sup>^</sup>	8.5%	6.2%	6.2%

*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 DECEMBER 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.

\* Indicative, not guaranteed

<sup>^</sup> Numbers are indicative, pending finalization