

Silverdale extracts double- digit returns from IG bonds

Quarterly dividend on top of steady NAV increase sweetens the pot for investors.

DESPITE BEING RELATIVELY UNKNOWN, Singapore based fund manager: Silverdale Capital has carved out a niche leadership of delivering consistent and attractive risk-adjusted double-digit returns through its flagship fund: Silverdale Bond Fund.



SANJAY GUGLANI
Silverdale Capital

Established in 2008, Silverdale is a fund management license by Monetary Authority of Singapore and manages close to USD 1 billion spread across eleven funds, with more funds under its sleeve.

Best known for its Silverdale Bond Fund, a rare internally leveraged bond fund that invests in investment grade US dollar-denominated short duration bonds across the globe. It has delivered average returns of over 10% per annum consistently for over 4 years. With diversification across 119 bonds, Silverdale Bond Fund is designed to give investors higher returns with minimal risk, according to its Chief Investment Officer, Sanjay Guglani.

“The fact that our Sharpe Ratio is over three demonstrates that we are less risky than a typical unleveraged bond fund which has Sharpe Ratio of around one, yet we give twice their return,” Guglani said.

Currently, of the several funds that Silverdale manages, only three are open to public, with the rest being exclusive to certain private banks and family offices. Although currently focused on investors in Asia and in the Middle East, Silverdale wants to cast its net farther to UK and Switzerland over the next year.

Standing out One factor that sets Silverdale apart from its competitors is its ability to ring fence the leverage. “Everybody loves high returns. With Silverdale Bond Fund, the investors get enhanced returns due to leverage, yet are neither responsible for the loan nor for any margin

calls. It's like enjoying the rent from a house bought on mortgage but not being responsible for paying the mortgage instalment", says Silverdale's President Aseem Arora. More interesting is the fact that even the fund has never received a margin call. Guglani attributes it to their proprietary cash flow model, low duration, and maintaining unutilized credit limits of circa 10%.

Additional Advantage Besides providing weekly liquidity, without any lock-in or gates on redemption, Silverdale Bond Fund also pays dividend of six per cent on a quarterly basis. Currently, they pay USD 2 per share per quarter on the first Monday of each calendar quarter. Thus, providing investors definiteness in both quantum as well as timings of dividend.

"For institutions or firms that want to see cash flows, this is the best way to make that happen. Silverdale Bond Fund is not only liquid, it also gives investors fantastic cash flow quarterly. So, investors would typically start with amounts between USD 1 million and USD 3 million. When they see the cash flows, they get more interested in the fund and start investing in bigger tranches," Silverdale's President Aseem Arora said.

IT HAS DELIVERED AVERAGE RETURNS OF OVER 10% ... WITH DIVERSIFICATION ACROSS 119 BONDS.

Focus areas At the heart of Silverdale's investment strategy is its unflinching focus on risk management. Going forward, risk management protocol, processes, and systems shall continue to be top 'spend' by Silverdale.

"The returns are not in our hands, they are determined by the market; what is in our hands is risk management. We can't be confused about that," Guglani said.

Silverdale Capital is among the rare Investment Grade bond fund managers in the world that create their

WE ARE A FUND THAT IS MANAGED BY INSTITUTIONALIZED PROTOCOLS, WITH NO ONE PERSON CONTROLLING IT. WHILE THE CIO CAN VETO-OUT ANY INVESTMENT, HE CANNOT VETO-IN AN INVESTMENT.

proprietary cash-flow model. Companies get bankrupt, not because they are not profitable, else Uber and Twitter would have folded-up long ago. They get bankrupt because they do not have cash to pay. All standardized databases, be it Bloomberg or Reuters, provide accounting cash-flows, not real cash. Silverdale cash-flow model is based on fungible cash. This provides Silverdale its edge.

Further, diversification is the only free lunch in the world today. This is critical in the fixed income space, as the upside is capped at par value while the bottom is floored at zero. Silverdale seems to have taken it very seriously, with over 119 bonds from over a dozen countries in its portfolio as well as limiting maximum exposure to a single bond to less than 3%.

It is often acknowledged that success in today's world of super-transparency and hyper-competition cannot be achieved by one or two winning features; success is determined by interwoven web of several innovations and ingenious solutions created by a committed team. As Guglani mentioned: "We are a fund that is managed by institutionalized protocols, with no one person controlling it. Whilst I, as the CIO, have the right to veto out any investment, (but) I cannot take suo moto decision to invest even one hundred dollars. Each investment has to pass through the decision rigour. Hence, it is critical to have a team that is able to meet challenges, and that is what we have created. Each member of Team Silverdale works independently yet is inter-dependent." ■

