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Roundtable



Simran Capital's 2009 Returns Above 70 Percent

'Pre-Event Activism' Is Key to Stressed Debt Investing In 2010

Chicago-based Simran Capital Management has every reason to be optimistic heading into 2010. The fund and its trademarked Pre-Event Driven Activist Strategy posted strong returns in 2009 and attracted the attention of a blue-chip investor as California Public Employees Retirement System (CalPERS) recently funded Simran Capital's distressed high yield strategy.

During 2008, the Simran flagship Activist Opportunity Fund outperformed its benchmark, the JP Morgan High Yield Index, by nearly 900 basis points and exceeded the S&P 500 by almost 2000 basis points.

For 2009, this Simran fund is up over 60% net of fees, outperforming general high yield indices. These returns place Simran's funds in the top quartile for both 2009 and since inception across all composite, distressed, fixed income, and event-driven indices compiled by Hedge Fund Research and other related industry databases.

	Returns	
	2009	Since Inception*
<i>Simran Capital Activist Opportunity Fund</i>		
Gross Returns	73.76%	45.30%
Net Returns	63.05%	32.25%
<i>Relevant Benchmark Indices</i>		
JP Morgan Global High Yield Index	58.90%	16.27%
JP Morgan CCC High Yield Index	110.58%	11.57%
HFRX Fixed Income Corporate Index	17.28%	-8.62%
HFRX Event Driven Index	16.59%	-9.18%
HFRX Distressed Securities Index	-5.60%	-34.57%
S&P500	26.46%	-20.33%

*Since Inception – Reflects performance since January 1, 2008

Building Team to Maintain Growth

Simran, launched in 2005 by Mesh Tandon, has concentrated on building a track record in the volatile high yield and distressed-related markets during its first few years of operation. As Simran continues to garner assets, Mr. Tandon has added to his investment and client service teams to keep up with the demands associated with a vote of confidence from the largest pension plan in the United States. As assets have grown, so have personnel. Simran Capital opened offices in Dallas, Texas, and Newport Beach, California, to expand its existing investment, operations, and client service resources. Management and support staff were hired throughout 2009 at each location, as well as the headquarters in Chicago, and these new team members will complement the existing staff at Simran, providing a roadmap for continued growth and meeting the longer term strategic needs at the firm.

Stressed Bonds Outstanding Increase by 800%

Upon launching Simran, Tandon set out to take advantage of the overlooked and often feared “stressed” sector of the High Yield market: those bonds trading between 50% and 90% of par value due to uncertainties surrounding the operations or capital structure of an issuer, says Tandon. “These are firms that may be facing a restructuring if the company does not improve or refinancing is unavailable. As a result of the ongoing economic crisis, this portion of the market grew in 2009 to over 800% since June 2007 to comprise roughly 60% of the entire High Yield market.”

Many traditional High Yield managers consider stressed bonds too risky while distressed funds bypass stressed issues that are not considered distressed enough, either not facing extensive workout scenarios or with bonds that are trading at just pennies of face value. Simran’s strategy is designed to take advantage of the opportunity created by the overlooked stressed space, even as this sector of the market continues to experience rapid growth. Issuers have not defaulted and continue to pay interest which typically equates to a very high current yield to the investor. Furthermore, the company is focused on resolving its operational or capital structure issues and is open to ideas and help from advisors or investors offering a lifeline. Tandon continues, “as a result, the stressed sector is ideal for an Activist approach to investing, which is what Simran brings to the table.”

2010 Outlook

When asked about the outlook for the stressed sector of the market, Tandon states that “over \$2 trillion of U.S. corporate debt outstanding will mature over the next five years and this number comprises 40% of all debt outstanding. Our universe of potential investments is growing exponentially. Simran is exceptionally positioned for this environment by growing with the High Yield market in both assets and resources.”

The Simran team expects robust returns for the general high yield market during the first half of 2010 as a slowdown in the pace of inventory liquidation shifts inventories from a drag on growth to a major contributor early in the year. This growth, coupled with continued low interest rates should continue to support the high yield market and other cash alternatives through the first half. For the full year, the US economy will continue to grapple with persistently high unemployment, tight lending standards, low savings rates relative to debt levels, and a lack of foreseeable drivers to growth absent continued fiscal and monetary policy support. A key signpost to watch for in the coming year will be whether the economy can demonstrate an ability to grow once the inventory cycle is complete and government stimulus has run its course.

Despite the substantial gains in risk asset prices during 2009, Simran sees substantial opportunity for positive returns in the stressed sector of the high yield market, as the universe for potential investments in the stressed sector continues to grow, allowing Simran to be even more selective. Through November of 2009, high yield issuance totaled approximately \$136.7 billion, a threefold increase from the same period in 2008. Tandon and his team expects high yield issuance will continue at relatively elevated levels due to ongoing refinancing of leveraged loans with high yield bonds; asset allocation shifts into high yield and other risk assets as institutional investors’ risk tolerances increase and cash and higher quality bond yields remain low; and an increase in M&A activity, leveraged buyout and other shareholder-friendly activity. All positives for Simran’s Pre Event Driven Activist approach to investing throughout 2010.

