
TIP SHEET: Simran Targets 'Danger Zone' Of Distressed Bonds

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NEW YORK (Dow Jones)--Mesh Tandon is happy to be operating in what most investors regard as "the danger zone."

Tandon runs Simran Capital Management LLC, a Chicago-based hedge fund that specializes in what Tandon describes as "pre-event driven" activist investing. Simran targets companies whose bonds are severely discounted - trading at 50 cents to 80 cents on the dollar. Simran officials then work with the company's executives to fashion a turnaround designed in part to boost the value of the bonds held by Simran.

"We get in prior to the event and then work to make the event happen," Tandon says. The fund unloads its position as the bonds start appreciating. Generally, Tandon says, the bonds Simran invests in "pop 20% or 25%" within a few months. The fund's typical holding period is about six to nine months.

Take Primus Telecommunications Group Inc. (PRTL). Early this year, its 12.75% notes were trading for around 65 cents on the dollar, and the company was saddled with steep interest payments that were preventing it from investing in expansion. In February, Simran bought out those bonds in exchange for new notes that were higher up in Primus's capital structure. Tandon says the restructuring slashed Primus's interest expenses and, as the bonds quickly appreciated, generated a tidy profit for Simran.

Before launching Simran in September 2006, Tandon enjoyed a successful career on Wall Street, where he worked as an investment banker specializing in high-yield bonds at JPMorgan Chase & Co. (JPM). In 2005, he landed on the cover of *Trader Monthly's* list of the top 30 traders under 30 years old. Simran's chief investment officer, Jon M. Thomas, is also an alum of JPMorgan's investment bank.

Tandon, now 32, insists he's still basically an investment banker. "We're not portfolio managers looking for returns," he says. "We're investment bankers building value."

So far, Simran's strategy seems to be working well. In the nine months since its launch, the hedge fund has generated a roughly 28% return, according to a person familiar with the matter. In comparison, the Lehman US Aggregate Bond Index had a

one-year total return of 6.66%, as of May 31.

Simran has nearly \$100 million in assets under management. Its clients include wealthy individuals and some small institutions, as well as funds of funds. The minimum investment is \$1 million.

Tandon won't discuss his fund's current holdings, but he says that, at any given time, Simran owns the bonds of 40 to 50 companies. Most of them are midsized, with \$100 million to \$250 million in bonds outstanding. At almost all of the companies, Tandon says, Simran plays an active role working with management teams to help devise a turnaround.

Tandon says some of the current jitters affecting equity and fixed-income markets have created an ideal environment for Simran because of the growing pool of distressed companies in need of restructurings.

"Our strategy survives on uncertainty in the market," he says, citing concerns about a recession, currency fluctuations and ongoing turmoil surrounding subprime mortgages. "As there's more uncertainty, there's more opportunities for us."

(David Enrich covers the banking industry for Dow Jones Newswires.)

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