Redhedge ICAV
RV-Corporate Bonds Fund

Weekly newsletter – **Week ending 28 February 2023**

For professional investors only. Not directed at retail investors

Fund overview

The fund's strategy is founded on the fact that, in credit markets, short term price volatility can temporarily lead to relative mispricing of bonds. Our model enables us to incorporate long term dislocations into a traditional yield curve approach. These structural factors are a persistent characteristic of a bond that can throw-off a more naive RV strategy. The distinction between short-term and long-lasting price influences is critical for a successful RV strategy. Our sector specialists identify the reasoning behind price mis-allignements and search for those likely to correct in the short/medium term. Using a long/short approach, we aim to capture the differential between bond spreads (within the same bond curve or sector) generated by temporarily imbalances and profit once the factors that cause this mis-pricing dissipate.

Performance

Source: Internal data

NAV	118.37
Week	0.01%
Current Month	-0.17%
YTD	-0.90%
Inception	18.37%
Annualized Rtrn Since Inc.	2.66%

1 Month Return (rolling)	-0.43%
1 Year Return (rolling)	1.14%
Max Drawdown (Weekly)	-0.38%
Positive Mths Since Incept.	66
Negative Mths Since Incept	12

Ratios

Source: Internal data

Sharpe (inception)*	3.11
Std.Dev. (of annualized rtn)	1.34

* RFR 0,00%

Fund Information

Source: Internal data

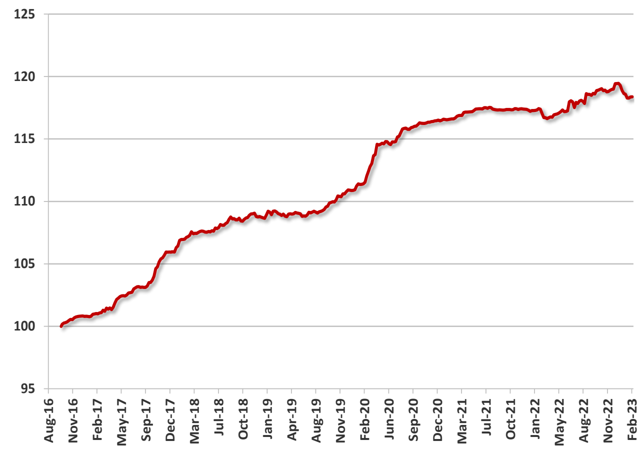
ISIN	IE00BD1R9143
Bloomberg Code	RRVCBAE ID
Inception Date	23 September 2016
Fund AUM	198mm EUR
Management Fee	1.00%
Performance Fee	25.00%
Redemption	Weekly
Min. Subscription	100k EUR
Fund Manager	Andrea Seminara

Monthly Returns Since Inception

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year Tot.
2016									0.26%	0.29%	0.23%	0.02%	**0.80%**
2017	0.16%	0.10%	0.30%	0.49%	0.56%	0.25%	0.46%	-0.04%	0.56%	1.42%	0.74%	0.00%	**5.10%**
2018	0.95%	0.21%	0.24%	0.16%	-0.04%	0.33%	0.29%	0.37%	-0.17%	0.24%	0.08%	-0.10%	**2.59%**
2019	0.42%	0.01%	-0.32%	0.16%	0.05%	-0.12%	0.28%	0.05%	0.55%	0.23%	0.43%	0.24%	**2.01%**
2020	0.44%	0.61%	1.45%	0.80%	0.05%	0.15%	0.91%	0.05%	0.21%	0.12%	0.10%	0.04%	**5.03%**
2021	0.09%	0.11%	0.17%	0.25%	0.19%	0.08%	-0.09%	-0.05%	0.02%	0.06%	0.00%	-0.18%	**0.65%**
2022	0.09%	-0.51%	0.04%	0.26%	0.10%	0.66%	0.10%	0.40%	0.26%	0.00%	0.02%	0.47%	**1.91%**
2023	-0.73%	-0.17%											**-0.90%**

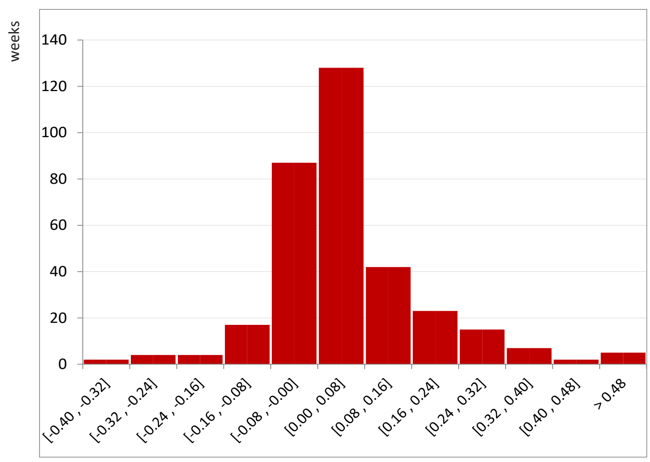
Source: Internal data

NAV Cumulative Performance Since Inception



Source: Internal data

Histogram of Weekly Returns (336 weeks)



% return

Source: Internal data

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Monthly Comment - Month ending 28 February 2023

February started with continued strength in the markets initially before weakening back towards the end of the month. The Itrx EUR Main IG index rallied around 6-7bps to reach this year's tights of around 72bps before giving up gains and widening back to the 80bp area. Similarly, for the Itrx XOVER HY index which rallied from the 410bps area to the tights of the year just under 380bps before weakening back to the 410-415bps area. Cash however, continued its strong rally in the year and ended the month around 3-5bps stronger. For most of January and February, the market was strong as the market narrative then, was that inflation was coming down sharply in both the US and Europe and the Fed would pivot earlier. This has fuelled the rally in risk assets including credit spreads, pushing credit spreads to the tights since last year's widening. A further short squeeze and stretched technical has led to what we think are expensive bond valuations and poor risk-reward.

However, about half-way through February, the market narrative slowly shifted as inflation data in both the US and Europe showed that inflation was not abating as quickly as the market expected. In fact, inflation in Europe has drifted higher, signalling that central bank's fight against inflation is not over yet. The market started to price in more hikes for both the Fed and ECB which has caused rate yields to go higher. The 10yr German Bund yield went from their tights of 2% in January to around 2.65% by the end of February thus highlighting that one of the major risks this year was that inflation would not fall as fast as the market was expecting. This change in the market narrative to potentially high or persistent inflation, has caused risk premium to return to the market causing underperformance in spreads. Peak rates for central banks are now expected to be higher and to stay high longer, which means that the timing expectations for central bank cuts after peak rates will be pushed further down. Peak rates in the US are almost expected to be 5.5% now, compared to just above 5% in January. In Europe, peak rates are now expected to be closer to almost 4% compared to just around 3.25% in January.

Credit spreads continued to be resilient despite this change in the market narrative. Credit markets we feel have moved into consolidation mode and would be range-bound in the near term as we await more data which might determine the next move in macro-markets. From a valuation point of view, credit spreads don't look attractive as they have rallied to the tights of the range. However, the technical fundamentals continue to be strong, as yields remain high, and big inflows especially into IG credit, combined with high real money cash-balances, have generated strong demand for credit. Issuance has been strong as well this year especially compared to last year, but they have been well absorbed with most deal's book coverage averaging around 2-3x or more and with most deals doing well - however new issue premiums continue to be very skinny. At this stage, the market feels a bit more nervous as the risk-premium has increased due to more uncertainty on the macro front regarding inflation and economic data. We started to see profit taking as well as decompression between higher quality and lower quality credit. High Yield has been an underperformer this year, as the higher yields made it more challenging in terms of refinancing risks, the risks of recession will likely impact High Yield more.

Due to the inverted rates curve, the yields for credit issuers are also very flat or sometimes inverted across the curve. We have seen a lot more interest in the shorter end of the curve due to this, as investors are receiving equal or higher yield investing in the shorter bonds compared to the longer-end bonds. The changing market narrative to a more uncertain macro-outlook has also made investors invest more defensively at the front end. We think that this phenomenon is not sustainable in the medium to long term, as inverted rates curves don't tend to last - and something would have to give, which could potentially be a recession, leading to much wider spreads. This defensive posturing which suggests further downside risk in the credit spreads, shows that the risk-reward of outright long credit, has started to look unattractive.

We believe our market neutral relative value approach is positioned well to tackle these market conditions and provide downside protection and diversification in a credit portfolio.

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