Redhedge ICAV
RV-Corporate Bonds Fund

Weekly newsletter – **Week ending 2 May 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	119.11
Week	0.03%
Current Month	-0.32%
YTD	-0.29%
Inception	19.11%
Annualized Rtrn Since Inc.	2.68%

1 Month Return (rolling)	-0.18%
1 Year Return (rolling)	1.79%
Max Drawdown (Weekly)	-0.38%
Positive Mths Since Incept.	67
Negative Mths Since Incept	13

Ratios

Source: Internal data

Sharpe (inception)*	3.06
Std.Dev. (of annualized rtn)	1.48

* RFR 0,00%

Fund Information

Source: Internal data

ISIN	IE00BD1R9143
Bloomberg Code	RRVCBAE ID
Inception Date	23 September 2016
Fund AUM	197mm EUR
Management Fee	1.00%

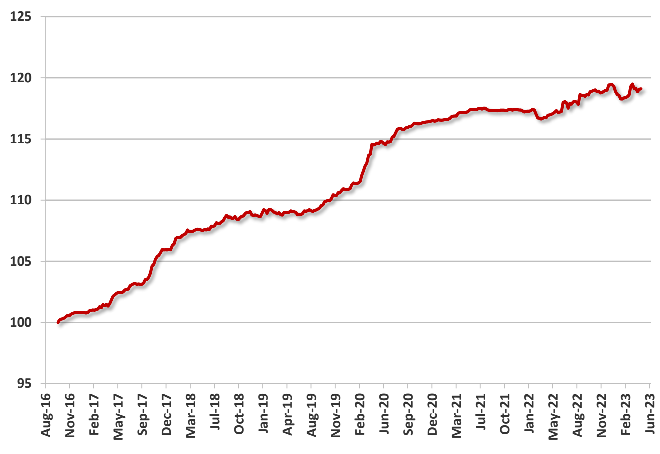
Performance Fee	25.00%
Redemption	Weekly
Min. Subscription	100k EUR
Fund Manager	Andrea Seminara

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%	0.94%	-0.32%									-0.29%

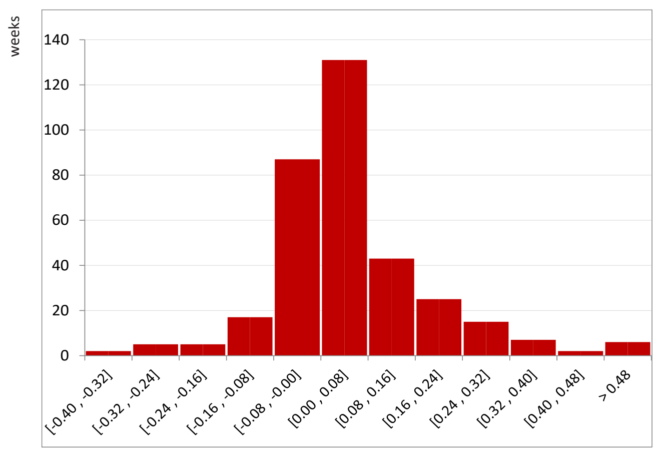
Source: Internal data

NAV Cumulative Performance Since Inception



Source: Internal data

Histogram of Weekly Returns (345 weeks)



Source: Internal data

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Monthly Comment - Month ending 30 April2023

April saw a bit of consolidation and recovery in the market after the volatile events in March with Credit Suisse's near collapse and stresses in the US Regional Banks. Credit spreads initially widened at the start of April as these macro fears were still lingering but they recovered and later traded sideways for most of the month. Spreads across IG and HY indices as well as cash bonds were marginally tighter by month end. We think that the markets were trading sideways as valuation returned back to tight levels but there continues to be overhang or macro tail-risks causing risk premia to be priced in.

We are cautious on risk assets here in general. The risk-reward is skewed towards the downside and there are lots of potential negative catalysts. One big concern we have continues to be Real estate risk in particular, Commercial real estate (CRE). We have had a negative view in this sector for a while and we see subordinated debt in the space trading at distressed levels, with some bonds from major issuers as low as 30-40 cts. The main concern in this sector is asset valuation which could face devaluation pressure, as well as a business model that is clearly unsustainable with current high funding rates that are higher than rental yields or cap rates. We think that at this stage, it is very unlikely any issuer could fund or refinance themselves in capital markets which is also reflected by current bond prices. Investors fear the domino effect from any issuer running into refinancing pressure. We think there is a lot of contagion risk here that is not priced into risk assets away from this sector both in the US and in Europe.

In a way there are some similarities to the 2008 financial crisis as these CRE are also a ticking time bomb and collateral damage from central bank tightening. Similarly, the US regional bank crisis is also a concern, and we believe we will see more bank failures this year as this high interest rate environment is starting to become unsustainable for these banks who will experience more deposit flight vs unrealised losses in their hold to maturity portfolios. Structurally, the situation is not tenable, because the rates curve in the US is inverted, depositors receive much higher interest going into government bills or money market funds as banks are also unable to increase interest rates for depositors. At the moment the market is focused on "the next bank" which was First Republic Bank at the end of April, but also quick to focus on the next bank afterwards, causing a cascading effect which could lead to a large contagion similar to the savings and loans crises back in the 90s in the US. Investors will need to monitor this to see how it plays out eventually later this year.

We think there is a disconnect between what the credit and equity markets is pricing in terms of risk premium compared to what the rates market is pricing. In the US, the market is pricing in around 2-3 cuts of 25 bps each (around 50-75bps in total) by end of the year. This is not because the market thinks that the Fed would be cutting, it is because the market is pricing in some probability of a tail-event, this would force the Fed to cut aggressively (up to or more than 3-4%) such as US regional banking failures, or a deep recession or just fears from the US debt ceiling situation. However, in credit and equity markets, levels recovered back to the highs we saw in January, which is pricing in very little tail risk. This is even after the inflation spike in February and banking stresses (with Credit Suisse and SVB) in March. Hence, we believe here that investors are not being compensated to hold on to risk. We continue to be cautious in our portfolio to protect from adverse downside moves in this environment.

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