Redhedge ICAV
RV-Corporate Bonds Fund

Weekly newsletter – **Week ending 4 July 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	118.84
Week	-0.28%
Current Month	-0.09%
YTD	-0.51%
Inception	18.84%
Annualized Rtrn Since Inc.	2.58%

1 Month Return (rolling)	0.31%
1 Year Return (rolling)	0.74%
Max Drawdown (Weekly)	-0.38%
Positive Mths Since Incept.	67
Negative Mths Since Incept	15

Ratios

Source: Internal data

Sharpe (inception)*	2.99
Std.Dev. (of annualized rtn)	1.42

* RFR 0,00%

Fund Information

Source: Internal data

ISIN	IE00BD1R9143
Bloomberg Code	RRVCBAE ID
Inception Date	23 September 2016
Fund AUM	154mm EUR
Management Fee	1.00%

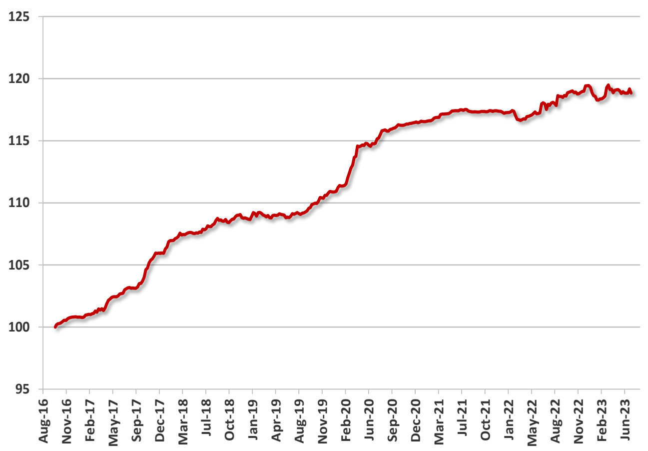
Performance Fee	25.00%
Redemption	Weekly
Min. Subscription	100k EUR
Fund Manager	Andrea Seminara

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%	-0.13%	-0.09%							-0.51%

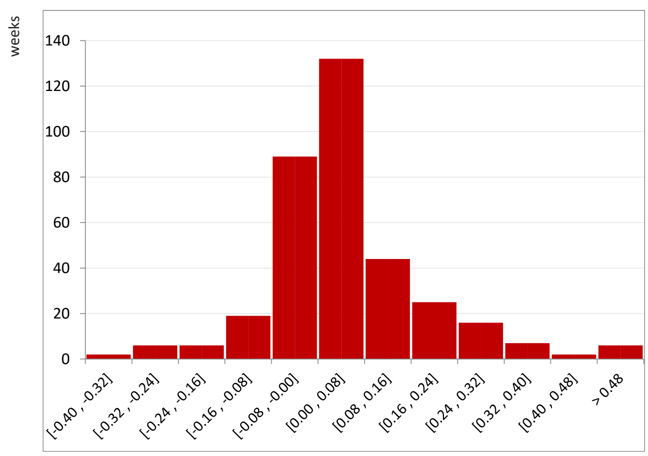
Source: Internal data

NAV Cumulative Performance Since Inception



Source: Internal data

Histogram of Weekly Returns (354 weeks)



% return

Source: Internal data

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Monthly Comment - Month ending 30 June 2023

June saw credit spreads tighten considerably as a lack of negative catalysts on the horizon and lower rates volatility gave investors more confidence. Synthetics and CDS markets continued to outperform, as issuance in both Corporate Hybrids and Unsecured Senior continued. The Itraxx EUR Main IG Index tightened 8bps on the month while the Itraxx EUR Xover HY index tightened 33bps on the month. At the same time, Germany Government Bond yields widened around 11bps in the month at the 10yr point.

In rates, we saw curves flatten significantly, with the 5s10s halting the small steepening that had begun in April/May, moving 17bps, as "higher for longer" becomes the base-case. All hawkish comments coming out of the various central banks have not yet translated into real higher yields however, with the ceiling at 2.5% still holding, as economic data coming out of Europe continues to be on the lower side. This gives the markets confidence that slowing consumer demand and price pressures will force the ECB's hand to pause very soon; even though a couple of hikes are still expected.

Corporate hybrids, with average yields above 7% to first reset, were very stable. The deals that came to the market were very well received and with few good alternatives as high-quality corporate hybrids out there, they remained in high demand. Looking at IG vs HY, we continue to see decompression as a key theme. Companies that have been at risk for a while seem to be running out of options. Casino Guichard-Perrachon (COFP), who's bonds have already been trading at distressed levels, is facing a credit event and looking for equity injections (alongside secured bond holders). SBB (SBBBSS) was forced to sell some assets, had a change in management and is in discussions to put the entire business up for sale - we are likely to see many more such situations across Europe. As such, we expect credit dispersion to continue, high-quality issuers (especially further down the cap structure) to outperform as the credit market remains open at attractive levels for them.

As the end of some supporting measures from the ECB are around the corner, key events to monitor are, how the cash markets react to a large buyer of primary falling away, combined with very tight credit spreads and low risk-premia. Equities have been very strong as well, and it will have to be seen whether they can support these valuations if margins start to come down, inventory numbers tick higher and the impact of higher prices & financing costs on consumer demand starts to be noticed. The recession theme continues to be lingering - the market may start to get worried and pricing in larger risk premia for recession. With manufacturing PMI's weak as well as low to no growth in Europe, we think if Services PMI's go lower, we may see the market starting to price in a higher chance of recession and this may lead to weakening in risk assets as well as an increase in volatility.

In the summer months of June through to August, we expect market volumes and participation to be low as many market participants and investors are taking a break. This is a small negative for our strategy, but we address this by reducing the gross exposures in our portfolio, as well as prioritising bonds with strong technicals and selling bonds with poor technicals. This should avoid being caught with a negative selection of bonds during the quieter summer months - where bond spreads can drift aimlessly for no fundamental reason.

Redhedge Investment Team

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