Redhedge ICAV
RV-Corporate Bonds Fund

Weekly newsletter – **Week ending October 3rd, 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	120.32
Week	0.17%
Current Month	0.63%
YTD	0.73%
Inception	20.32%
Annualized Rtrn Since Inc.	2.67%

1 Month Return (rolling)	0.63%
1 Year Return (rolling)	1.45%
Max Drawdown (Weekly)	-0.38%
Positive Mths Since Incept.	70
Negative Mths Since Incept	15

Ratios

Source: Internal data

Sharpe (inception)*	2.90
Std.Dev. (of annualized rtn)	1.35

* RFR 0,00%

Fund Information

Source: Internal data

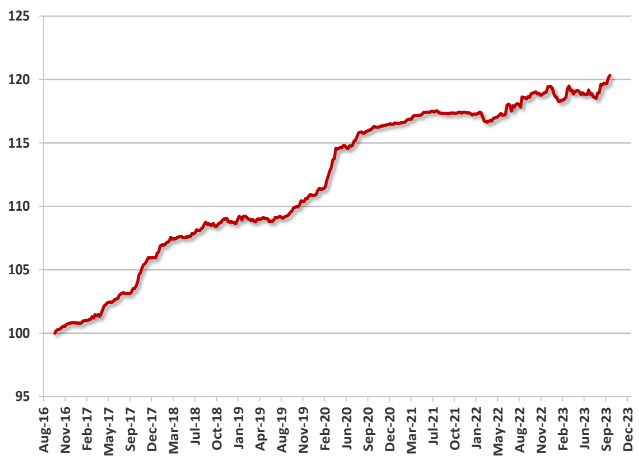
ISIN	IE00BD1R9143
Bloomberg Code	RRVCBAE ID
Inception Date	23 September 2016
Fund AUM	146mm EUR
Management Fee	1.00%
Performance Fee	25.00%
Redemption	Weekly
Min. Subscription	100k EUR
Fund Manager	Andrea Seminara

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%	-0.26%	0.87%	0.63%				0.73%

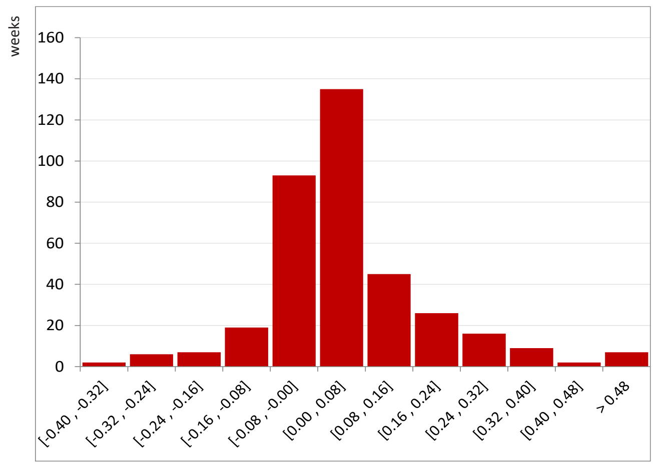
Source: Internal data

NAV Cumulative Performance Since Inception



Source: Internal data

Histogram of Weekly Returns (367 weeks)



Source: Internal data

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Monthly Comment - Month ending 30th September 2023

The month of September saw modest widening, as once again, Central Bank decisions were front and centre, dictating the trajectory for credit markets. Diverging from the ECB's 25bp hike, the FED decided to keep its rate unchanged. A pause, accompanied with a hawkish tone and a higher dot-plot, as a result of which the rates market now expects one more hike this year and less cuts than previously expected, next year. This further tightening of financial conditions, as 'higher for longer' must now be the base case, and will work its way through the economy; it is our core thesis that credit spreads will be impacted more strongly by this going forward. Credit and rates markets have had a lot of difficulty coming to terms with the new inflationary paradigm, seemingly always underestimating how far/high central banks are willing to go to rein-in inflation. As a result, we see little upside in overly long credit, trading near YTD tights, particularly highly-levered "defensive" names with high refinancing needs over the coming 12-24 months.

The Itraxx Main IG Index widened by around 7bps to 80bp area in the new series (S40), while the Itraxx XOVER HY index widened around 35bps to 435bps area in the new CDS Index series. Cash bonds were more resilient as they tightened by 10bps in the first half of the month but eventually gave back returns and widened back 10bps to 173bp spread area by the end of the month. As we mentioned earlier, rates were a big mover which contributed to the risk-off move this month as the rates curve bear steepened. The 10yr point was around 35 wider at around 2.85% and the German 5y10y curve steepened by around 6-7bps back to +6.5bps and positive territory again after being inverted for pretty much most of the year, as spreads (and outright yields) have come under considerable pressure in the last few days of the month. With bund yields nearing 3% and volatility in the rates market picking up significantly, there is little upside being long credit here. In addition, the underweight positioning across real-money investors that had been apparent all of the first half of the year has reversed, with both CTA and Real-Money adding risk, both through CDS indices and supply. As a result, we remain cautious and see potential scope for more material widening going into the last few months of the year.

Our strategy benefitted from this return in volatility and uncertainty in the market as some of our pair trades mainly worked. Namely the pairs where we were focused on long higher quality and low beta bonds against lower quality and higher beta bonds - which are essentially decompression trades - started to perform. Also, our curve steepener trades in corporate hybrids performed – we have long short duration hybrids and shorted longer call hybrids within the same issuer. One issuer where this trade performed very well was Bayer (BAYNGR) where a tender was announced to call their NC23 and NC24 bonds and new issuance of hybrids callable in 5.25yrs and 8.25yrs which caused the curve to steepen, and we could take profit on both our long and short positions.

Lastly, we also have a fundamental catalyst trade that started to perform. We have started to build a long position in Tennet Senior Unsecured bonds (Tennet is Dutch government owned utility, operating transmission and networks, in the Netherlands and Germany) which we hedged vs cyclical corporate senior bonds. This was a well flagged story as the German government was in negotiation with the Dutch to purchase the German operations of Tennet in a deal worth potentially more than 20bn EUR. We viewed this sale as very likely to happen, with an uncertain timing due to the collapse of the Dutch government. However, the latest news flow suggests that negotiations are ongoing, leading the market to believe in an earlier deal and therefore started to price these bonds tighter. The outcome is also uncertain, but we think a variation of the following is most likely to occur: (1) a sale of the German assets with debt, which means some "newer" Tennet bonds with embedded substitution language in the prospectus could trigger a Change of control at par, (2) an outright sale would lead to Tennet making whole their bonds at a premium or (3) the cash from the sale will be used to tender (asset liability management) existing bonds. This has caused the Tennet curve to outperform and we continue to monitor the situation.

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