

Redhedge ICAV

RV Corporate Bonds Fund

Monthly newsletter – December 2024

For professional investors only. Not directed at retail investors

Performance

Source: Internal data

NAV	119.82	Annualized Rtrn Since Incept.	2.21%
Week Return	-0.09%	Max Drawdown (Weekly)	-0.42%
Current Month Return	-0.37%	Positive Months Since Incept.	74
YTD Return	0.06%	Negative Months Since Incept.	26
1-Year Rolling Return	0.06%		
Rtrn Since Incept.	19.82%		

Fund overview

Redhedge focuses on managing liquid alternative Relative Value Credit Market-Neutral strategies. Our strategy is founded on the fact that short-term price volatility can temporarily lead to the relative mispricing in credit markets leading to relative value trading opportunities. Our core investment philosophy is to maintain consistency and discipline regardless of market direction, volatility or conditions. By maintaining this disciplined approach, we can minimize the volatility and potential negative drawdowns. The investment process consists of idea generation and relative value credit selection. Portfolio construction is driven by the team's quantitative approach combined with fundamental credit analysis. This repeatable and disciplined process is focused on identifying the most attractive relative value credit opportunities across the European credit universe.

Ratios

Source: Internal data

Sharpe Ratio (Since Inception)	2.20
Std.Dev. of Annualized Rtrn (Since Inception)	1.00

Fund Information

Source: Internal data

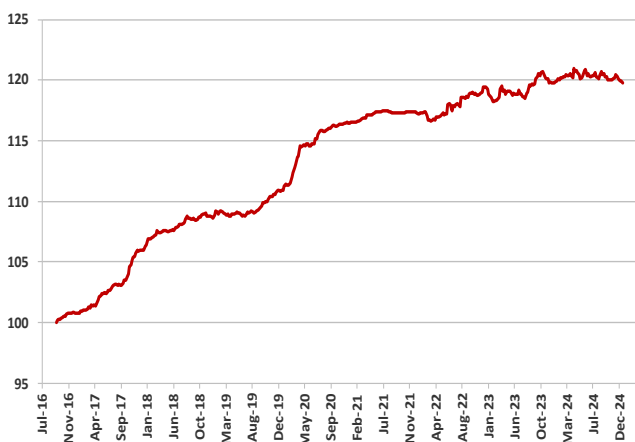
ISIN	IE00BD1R9143	Management Fee	1.00%
Bloomberg Code	RRVCBAE ID	Performance Fee	25.00%
Inception Date	23 Sept 2016	Redemption	Weekly
Fund AUM	44mm EUR	Min. Subscription	100K EUR
Fund Manager	Andrea Seminara		

Monthly Returns Since Inception

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year Tot.
2016									0.16%	0.39%	0.23%	0.01%	0.80%
2017	0.17%	0.10%	0.39%	0.07%	0.89%	0.22%	0.40%	0.04%	0.38%	1.59%	0.75%	0.02%	5.13%
2018	0.93%	0.21%	0.25%	0.17%	-0.06%	0.25%	0.37%	0.34%	0.06%	0.04%	0.32%	-0.34%	2.57%
2019	0.42%	0.01%	-0.16%	0.01%	0.05%	-0.21%	0.37%	-0.02%	0.38%	0.46%	0.44%	0.24%	2.01%
2020	0.48%	0.12%	1.91%	0.80%	0.18%	0.02%	0.87%	-0.02%	0.32%	0.08%	0.13%	0.05%	5.03%
2021	0.08%	0.06%	0.23%	0.24%	0.20%	0.09%	0.01%	-0.15%	0.02%	-0.01%	0.07%	-0.11%	0.72%
2022	-0.01%	-0.20%	-0.23%	0.21%	0.16%	0.66%	0.06%	0.44%	0.03%	0.36%	-0.11%	0.47%	1.84%
2023	-0.73%	-0.17%	0.94%	-0.36%	-0.10%	0.19%	-0.50%	0.83%	0.46%	0.52%	-0.53%	-0.28%	0.26%
2024	0.27%	0.21%	0.08%	0.35%	-0.36%	0.10%	-0.10%	0.00%	-0.06%	-0.27%	0.22%	-0.37%	0.06%

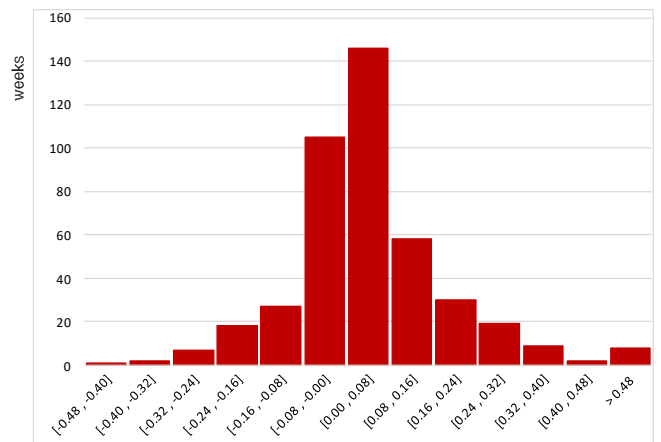
Source: Internal data

NAV Price Performance Since Inception



Source: Internal data

Histogram of Weekly Returns (432 weeks)



% return

Source: Internal data

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For Swiss investors:

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Monthly Comment – December 2024

As we approached the end of 2024 (and President-Elect Donald Trump's inauguration), volumes and volatility in European Credit markets remained very subdued, issuance ground to a halt and market participants turned their focus towards 2025. As a result, liquidity was lower (and transaction costs a lot higher) than usual. Going into year-end with a comparatively small gross, we were able to pick our spots providing liquidity, to put on new pair-trades and add to existing positions at attractive levels, that can be monetised once market liquidity normalises in the new year.

The macro-economic environment in December was largely a continuation of what we saw in November, with yields in both the United States & Europe continuing to climb. The 10y closed around 4.5% and 2.35% respectively, and while we expect that to continue a bit further in the New Year, we think we are closer to the end than the beginning of this move wider. The move lower in bonds has largely been driven by a more optimistic outlook for Donald Trump's 2nd term, but also because of economic data that has remained resilient. Time will tell whether these are outliers or part of a larger trend, but we remain positioned nimbly enough to be able to adjust in either case. We have also seen curves steepening across Developed Markets, making longer-end bonds more attractive once more.

A very similar scenario played out in Q1 2024, when yields moved 100bps wider (vs 120bps this time around) while equities and credit remained resilient. While it is possible that this time round mimics Q1 '24, we are more cautious and believe the higher funding costs, which are feeding through increasingly as rates stay at these elevated levels, will put additional pressure on companies' balance sheets, particularly the safe (but highly levered) ones.

In Europe, where demand in cyclicals has come under pressure, companies are facing pressure on both the cost/funding & revenue side. As a result, we do not think that credit spreads, which have remained well-anchored as buyers look for yield, provide interesting risk/reward at these levels. As we wrote in our year-end letter, we noted that Corporate Hybrids have compressed over the period to multi-year tightness vs Corporate Senior bonds. We believe this is a good opportunity to set up decompression trades (Long Senior Bonds vs Short Subordinated (Hybrid) bonds) as the relationship has come back to an extreme level in terms of both spread differential and spread ratio. This is on the back of yield-hungry investors which have piled into higher-yielding Subordinated bonds subsequently pushing them to very tight levels which we believe is irrational especially when comparing on a relative value basis vs their corresponding Senior bonds. In other words, we believe the increase in subordination, and therefore risk, is not fairly compensated by their compressing spread differentials.

Therefore, we believe the risk-reward for these trades are skewed and convex to the upside. This is because we think that there is limited scope for further downside or compression (as it becomes more difficult to compress as the spread differential tightens) and larger upside, benefiting from both a market normalising scenario and a risk-off scenario.

Redhedge Investment Team

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