

# HFM WEEK

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## CREDIT

### Muzinich retools and ups returns

**FIXED INCOME FUNDS** continue to perform strongly as arbitrage opportunities persist in the high-yield corporate bond market. RAB European High Yield Fund returned 1.74% in March and is up 3.58% for the year to date. Last year the fund was forced to consolidate with returns of 11.74%, following a tough 2005 that saw the fund down 60bp.

Muzinich & Co's flagship Hedgeyield, a credit hedge fund that seeks to exploit inefficiencies and mispricing in the high-yield corporate bond markets, returned year-to-date 3.27% through the end of March, according to an *HFMWeek* source.

The \$80m fund outperformed after its largest position, Celanese Corp – based in Dallas, Texas – made a tender offer. Celanese is a manufacturer of chemical products.

The fund also returned positive from its position in Freeport-McMoRan Cooper & Gold, a mining company in Phoenix, Arizona, which issued bonds late in the month to fund its acquisition of Phelps Dodge Corp.

Hedgeyield's outperformance stems from last June when managers decided to restructure the fund after performance suffered the past few years. Since inception in April 2003, it finished its first year up 8.20%. The following two years it returned 6.23% and 3.92% respectively.

Once the firm decided to retool the fund, it bought out its European seed investor.

Transformations in the portfolio entailed taking a more concentrated bet on credit decisions, from having 100 holdings down to 40. Position sizes changed from a maximum 2% to a maximum 5% for its long and short holdings. CCC holdings were limited to 10% of the portfolio for core holdings and after the fund was retooled, CCC holdings could be up to 30% of net-asset-value for core holdings. The fund also included bank debt.

After retooling the fund, returns have almost tripled. Last year the fund returned 10.62%.

For the high-yield sector as a whole, performance continued on an upward trend. ■

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