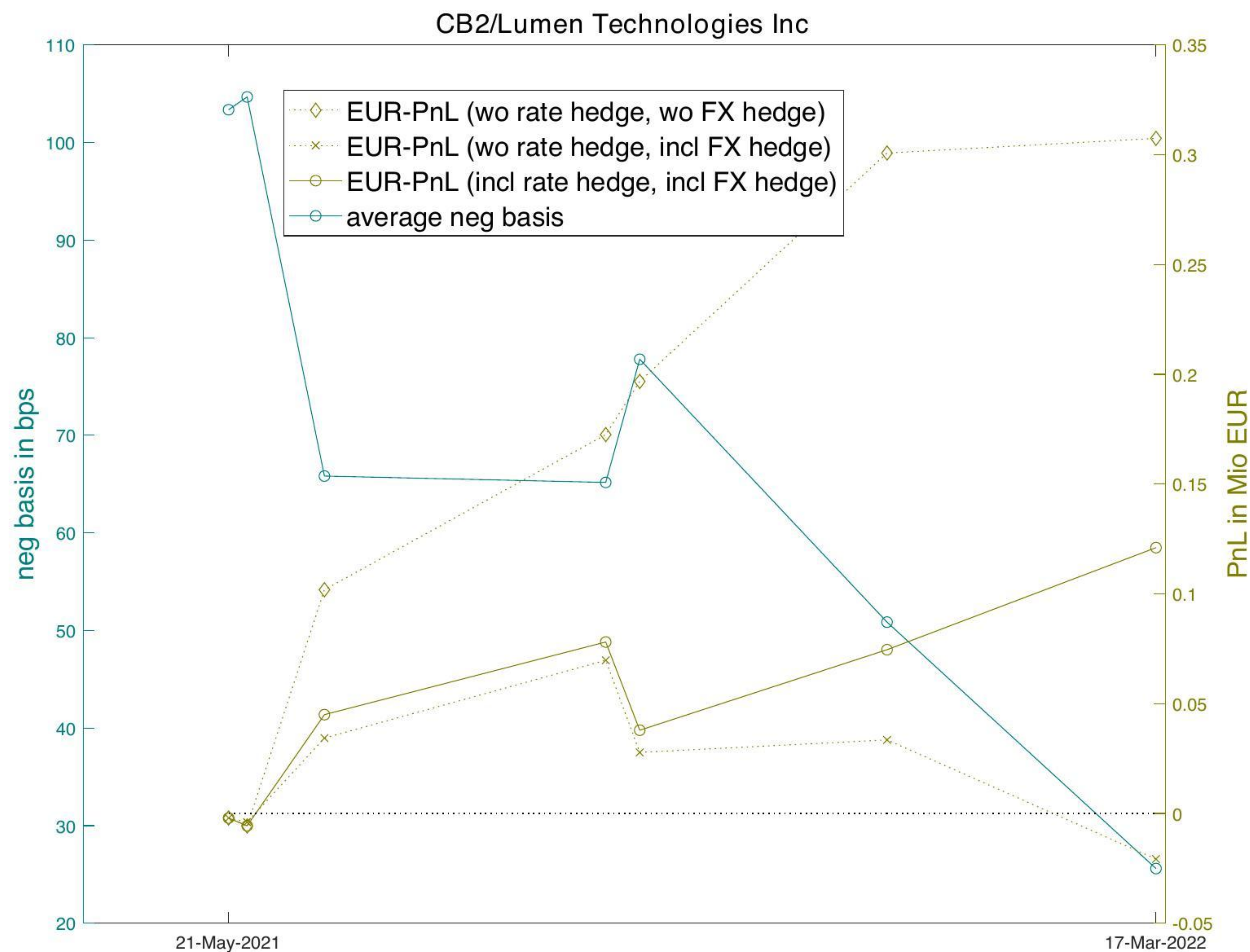


## 4.2 An application to our fund XAIA Credit Debt Capital



**Fig. 1** The PnL of the negative basis position Lumen Technologies in our fund XAIA Credit Basis II from trade inception on 21 May 2021 until 17 March 2022. The PnL including both FX and interest rate hedge is essentially the position's contribution to the fund's performance. The PnL without hedge shows that the FX move was significant, and the PnL including FX hedge but without interest rate hedge is approximately equal to what we observe in our front office system SOPHIS in the column "Result curr. global". The depicted negative basis measurement is computed along the lines of Mai (2019) and its decrease explains a huge part of the position's positive PnL.

- **Mismatch Basis:** Buy a long-dated bond and hedge it with shorter-dated CDS protection. Such positions are usually delta-neutral, gamma-positive and theta-negative, but can also be delta-long and theta-positive. Depending on the size of the bond-CDS-basis, these positions can sometimes even be theta-positive and gamma-long, which is our preferred case.
- **Matched Basis:** Buy a bond and hedge it with maturity-matched CDS protection. Such positions are theta-positive and profit (suffer) from a tightening