# RHO INVESTMENTS

Monthly Factsheet as of April 2017

### RETURNS

| | |
|---|---|
| 2017 | +9,34% |
| CAGR * | 8,87% |
| April 2017 | +0,43% |

### RISK/ RETURN

| | |
|---|---|
| Volatility* | 8,94% |
| Sharpe Ratio* | 0,99 |
| Sortino Ratio | 1,37 |
| VaR 99% daily | 1,65% |

### TOP FIVE POSITIONS

| | |
|---|---|
| Germany 10Y, 5Y bonds | -27,45% |
| Aernova | 8,45% |
| EIH Holdings | 5,16% |
| Caixa Geral 10 ¾ PERP | 3,89% |
| AYTDS 2006-1 B | 3,28% |

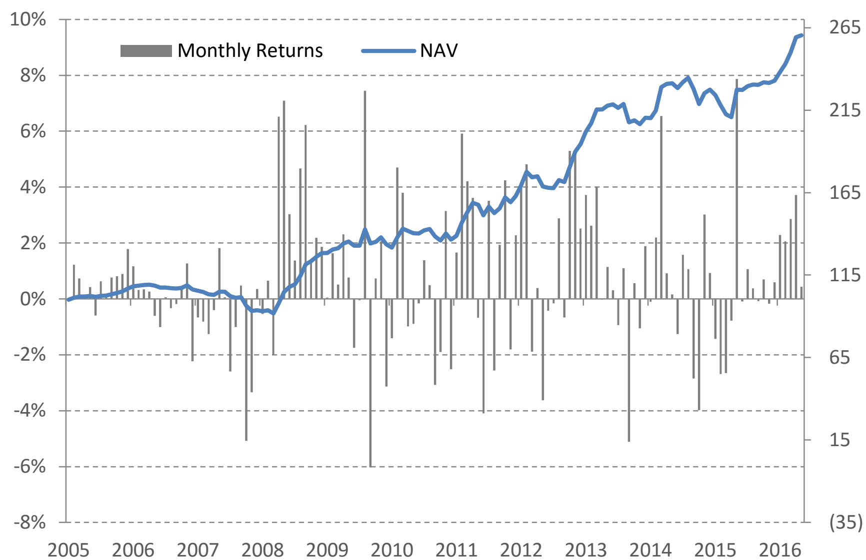
### % EXPOSURE

| | |
|---|---|
| Gross | 137,02% |
| Net | 29,38% |

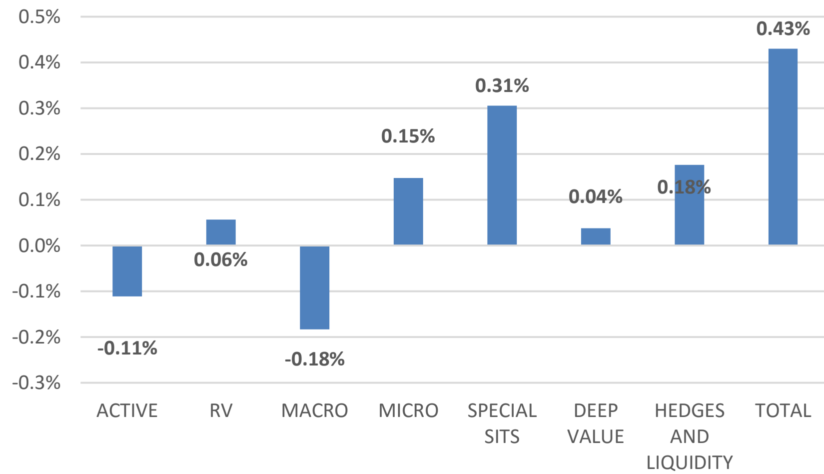
### % of GROSS EXPOSURE per STRATEGY

| | |
|---|---|
| Active | 1,20% |
| Relative value | 3,69% |
| Macro | 23,06% |
| Micro | 6,26% |
| Special Situations | 10,94% |
| Deep Value | 10,57% |
| Hedges | 5,98% |
| Liquidity | 38,00% |

### CUMMULATIVE RETURN




### PERFORMANCE ATTRIBUTION ACROSS STRATEGIES




### Fund´s objective

The fund´s objective is to return net positive returns every year, regardless the behavior of traditional assets. To achieve it, the fund allocates to six different strategies: Active, Relative Value, Macro Selection, Micro Selection, Special Situations and Deep Value. The strategies are focused on finding cheap assets with asymmetric profiles.

### FUND FACTS

| | |
|---|---|
| Managers | Rodrigo Hernando<br>José Mosquera<br>Christoph Fischer-Antze<br>Imanol Urquizu<br>José Martín-Vivas |
| Fund´s Structure | SIF |
| Domicile | Luxembourg |
| Launch Date | December 2005 |
| AUM | 80m € |
| Currency | EUR |
| Liquidity | Weekly |
| Management Fee | 1,00% |
| Performance Fee | 20,00% |
| Minimum Investment | €50,000 |
| ISIN | TBC |
| Bloomberg Code | TBC |

### CONTACT DETAILS

| | |
|---|---|
| Address | Cuesta Sagrado Corazón 6. Madrid 28016 |
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| Middle Office | Daniel Arribas / Patricia Alfonso |

(*) Since Inception

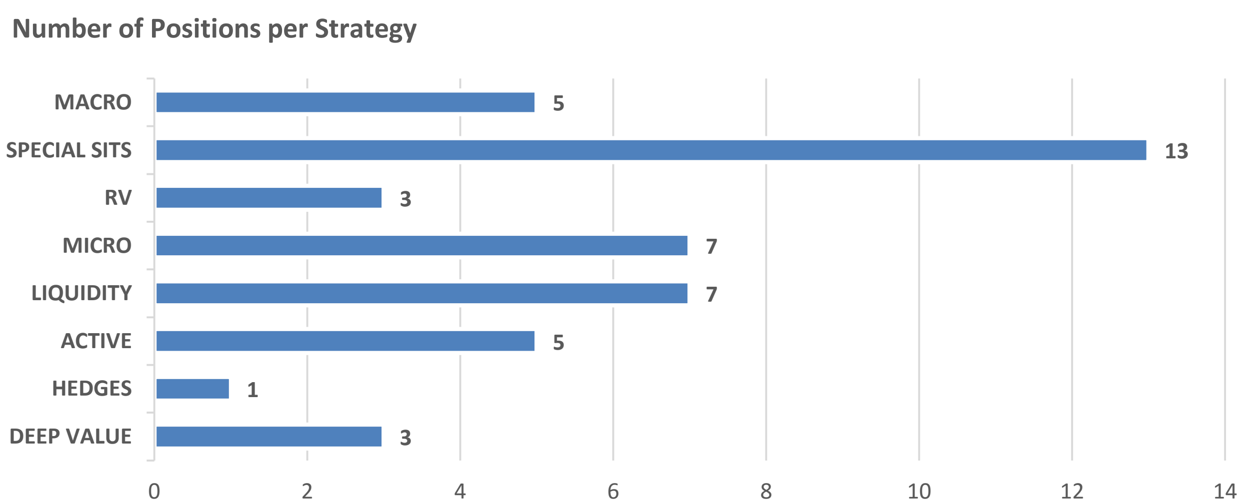
## MONTHLY RETURNS

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Year | Volatility | Sharpe |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2006 | 1,22% | 0,73% | 0,00% | 0,42% | -0,59% | 0,63% | 0,07% | 0,77% | 0,82% | 0,89% | 1,78% | 1,17% | **8,17%** | **2,17%** | **2,03** |
| 2007 | 0,31% | 0,35% | 0,27% | -0,61% | -1,01% | 0,06% | -0,33% | -0,18% | 0,38% | 1,27% | -2,23% | -0,66% | **-2,41%** | **3,05%** | - |
| 2008 | -0,81% | -1,25% | -0,41% | 1,82% | 0,05% | -2,60% | -1,01% | 0,48% | -5,08% | -3,34% | 0,36% | -0,53% | **-11,82%** | **6,47%** | - |
| 2009 | 0,65% | -2,00% | 6,52% | 7,09% | 3,03% | 1,38% | 4,66% | 6,22% | 1,41% | 2,18% | 1,87% | 0,05% | **37,98%** | **9,79%** | **3,88** |
| 2010 | 1,63% | 0,51% | 2,32% | 0,77% | -1,75% | -0,05% | 7,45% | -6,03% | 0,73% | 2,06% | -3,13% | -1,41% | **2,52%** | **11,42%** | **0,22** |
| 2011 | 4,70% | 3,80% | -0,98% | -0,89% | -0,16% | 1,38% | 0,50% | -3,08% | -1,90% | 3,15% | -2,52% | 1,66% | **5,44%** | **8,73%** | **0,62** |
| 2012 | 5,92% | 4,21% | 3,62% | -0,68% | -4,10% | 3,51% | -2,57% | 1,93% | 4,24% | -1,80% | 2,28% | 4,11% | **22,07%** | **11,13%** | **1,98** |
| 2013 | 4,81% | -1,89% | 0,39% | -3,62% | -0,42% | -0,16% | 2,89% | -0,66% | 5,30% | 5,17% | 2,52% | 3,72% | **19,05%** | **10,28%** | **1,85** |
| 2014 | 2,62% | 4,00% | -0,02% | 1,14% | 0,31% | -0,94% | 1,10% | -5,12% | 0,56% | -1,06% | 1,89% | -0,10% | **4,19%** | **7,81%** | **0,54** |
| 2015 | 2,20% | 6,55% | 0,91% | 0,16% | -1,26% | 1,58% | 1,06% | -2,85% | -3,98% | 3,02% | 0,93% | -1,43% | **6,66%** | **9,67%** | **0,69** |
| 2016 | -2,68% | -2,63% | -0,79% | 7,87% | -0,09% | 1,07% | 0,37% | -0,09% | 0,70% | -0,18% | 0,59% | 2,28% | **6,22%** | **9,37%** | **0,66** |
| 2017 | 2,06% | 2,85% | 3,71% | 0,43% | | | | | | | | | **9,34%** | | |

## COMPARATIVE RISK/RETURN

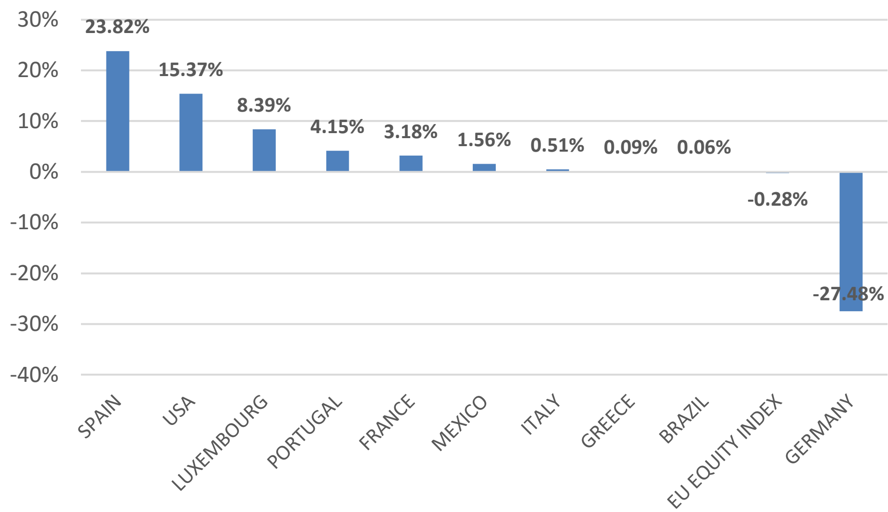
| | RETURNS (CAGR) | | | VOLATILITY | | |
|---|---|---|---|---|---|---|
| | **5 years** | **3 year** | **Since Inception** | **5 years** | **3 year** | **Since Inception** |
| RHO Investments | 10,55% | 6,14% | 8,87% | 9,23% | 8,75% | 8,94% |
| Stoxx 600 | 8,51% | 4,64% | 1,99% | 11,84% | 12,92% | 14,79% |
| Iboxx EUR Corporate | 4,48% | 3,18% | 4,07% | 2,93% | 2,83% | 4,01% |

## RISK CONCENTRATION AND DISTRIBUTION METRICS (1)

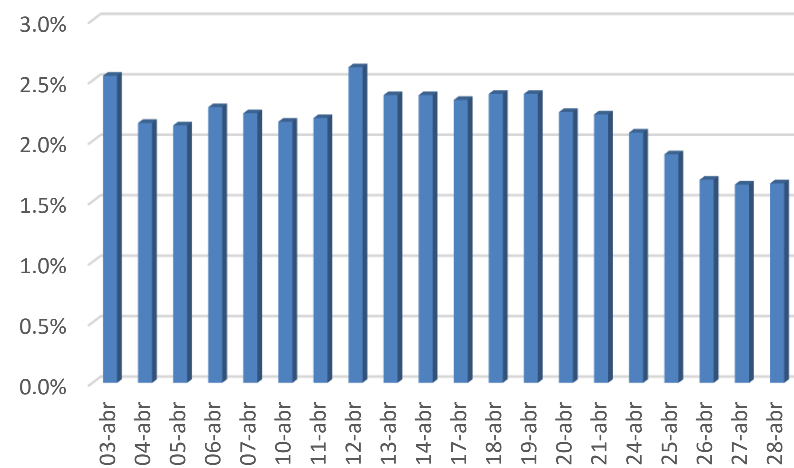


## RISK CONCENTRATION AND DISTRIBUTION METRICS (2)

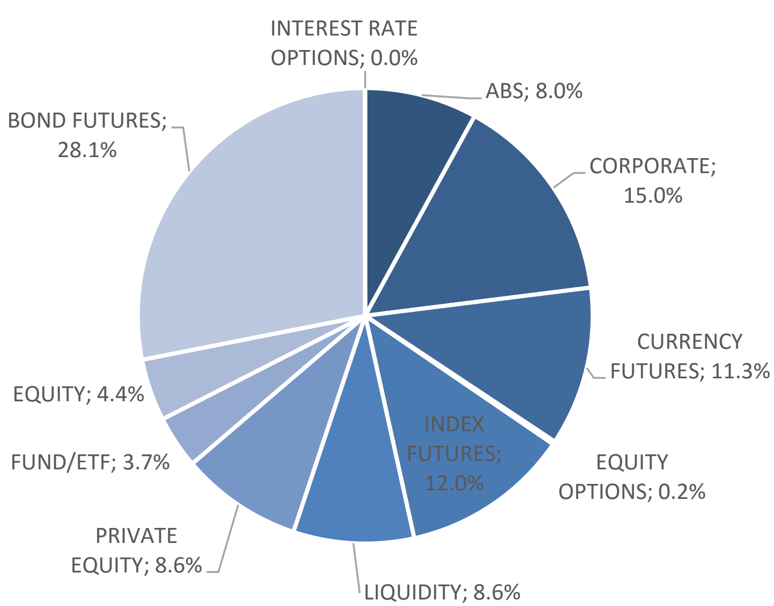
### Net Notional Exposure By Country



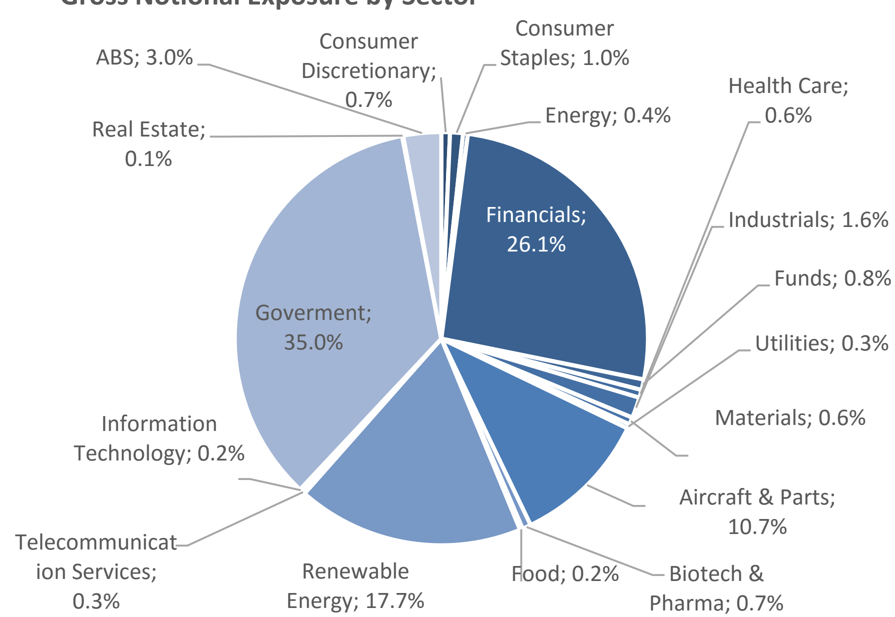

### Daily VaR




### Gross Notional Exposure By Asset Class




### Gross Notional Exposure by Sector



## MARKET AND PORTFOLIO COMMENTARY

### MARKET BACKDROP

- The Euro Stoxx 50 gained +1.68% in April driven by a relief rally in risk assets, as centrist candidate Emmanuel Macron´s first victory in the first round of the French presidential elections on the 23rd of April prompted political risk premia to collapse. US equities moved higher as well in April (S&P 500 +0.91%) riding the global post French election rally as well as (yet unfounded) faith that a meaningful tax reform will help the US economy expand at a faster pace.

- ECB President Mario Draghi did his best to squash the cacophony of ECB speakers with regards to the monetary stimulus exit sequence by underlining his dovish stance, and postponing any discussion about tapering into H2 2017. Fuelled by this dovish rhetoric 10-year Bunds rallied to their mid-April lows of 0.156%, before rebounding with a vengeance to yield levels of 0.378% in the days after Emmanuel Macron's electoral victory. The renewed dovish comments made by Mario Draghi during the ECB monetary policy meeting on April 27th only provided temporary respite for Bund long positions, before higher than expected inflation readings (Eurozone CPI +1.9% YoY) weighed on the market and saw 10-year Bunds finish the month at 0.317% (-1.0 bps).
- 10-year US Treasuries closed May at 2.280% yield (-10.7 bps) after touching intra-month lows of 2.168% in mid-May largely related to disappointment with regards to Trump administration´s inability to deliver on electoral promises such as tax reform and infrastructure spending.

- EURUSD rose to levels of 1.0895 (+2.28%) at the end of April, largely due to the electoral victory of Emmanuel Macron in the first round of the French presidential elections, but also due to better than expected macroeconomic EU data such as PMIs and GDP growth.

- French assets were among the main beneficiaries of the relief rally and collapse of political premia that started on April 24th, as the market-friendly outcome of a run-off vote between the centrist candidate Emmanuel Macron and the right-wing candidate Marine Le Pen got digested by markets. At the end of April the former was forecast to defeat the latter in the second round on May 7th by 61% to 39%. 10-year France vs. Germany government bond spreads compressed to levels of 44.9 bps (-29.1 bps) at the end of the month after trading as high as 82.7 bps in early April.

- WTI oil futures traded -3.41% lower throughout April, as efforts to extend oil supply cuts were unsuccessful. Supply cuts had been coordinated by OPEC and non-OPEC countries late last year and the agreement is set to run out on June 30th this year.

- The positive spill over from French elections weighed more on Iberian risk than actual political developments in the region, as 10-year PGB/Bund and SPGB/Bund spreads tightened 40bps and 3bps respectively in the month despite still a potential contingent bill for the Portuguese government from rescuing its banking sector, and widespread corruption cases within the ruling centre-right party in Spain potentially undermining supports for its minority government.

**PERFORMANCE AND RISK**

- A positive month in terms of performance, yet somehow slightly lagging returns across risky assets, where we believe that political tail-risks were not adequately priced, even though they benefited from a positive “base case” outcome from the French elections.
- The fund returned 43bps net of fees in April despite low overall levels of market exposure.
- Gross leverage decreased substantially month on month (down to 137% in April vs 192% at end of March), however the risk reduction was more marked in terms of net exposure (down to 29% in April vs 68% at the end of March). Overall levels of risk utilisation in VaR terms increased marginally from relatively moderate levels, with the fund posting a 1day 99% VaR/NAV of 1.65% at the end of the month (comparing to 1.2% the previous month). Average daily 1-day VaR utilisation over the period however increased more modestly, 18bps ( from 2.0% in March to 2.18% throughout April).
- Amid a substantial overvaluation across risky assets and political tail risks our focus has centred around finding attractive risk-reward shorts or relative value plays as well as keeping substantial cash buffers to allocate into the special Situations space, where we continue to see a substantial opportunity set. As a result, our cash position has increased to 38% of NAV and our net market exposure has dramatically diminished to 29%
- Once again, the best performing bucket was Special Situations which gained 31bps largely driven by the early amortisation of a 5mm Priesa collaterised loan for an annualised return of 20% after 5months. We still expect substantial contributions within the bucket in the next 3 months from our investment in re-structured Abengoa bonds and from the imminent merger of Bankia and BMN via our exposure through AYTDS CDO and BMN stock.
- The Micro sub-strategy also yielded positive  results with the +15bps generated in the month largely attributable to profit taking in our AT1 holdings such as Caixa Geral 10.75% and BBVA 7%.
- RV strategies generated a mere +6bps with substantial dispersion within the bucket and the significant gains generated from our long Unicredit stock vs short the Eurostoxx bank index offset in great part by bearish Brexit related trades that we still expect will play out in the medium term.
- On the negative side, Macro strategies performance was largely dampened by bearish optionality plays on political risk around the French referendum. Whilst we have always understood these as a low probability outcome, the high severity of the tail event, the attractive risk-reward payoff and the natural mark-to-market hedge that they provide at portfolio level vs directional exposures in the Special Sits and Micro buckets warranted taking these trades on. Macro lost -0.18% on the month as a result of bearish EUR/USD option trades and long/short exposure in the FTSE 100 vs EUROSTOXX 50. Active short-term trading strategies also produced a small negative return (-0.11%) attributable to lower overall levels of volatility and compressed new issue premia in credit markets. Deep Value was broadly flat (+0.04%) although we still envisage substantial short-term upside within the next 3 months in which we should see catalysts for exiting two out of our three long-term holdings.

**NEW FUND LAUNCH**

- We are now offering our flagship Multi-Strategy SIL vehicle in a Luxembourg SIF format and have opened the subscription period which will run until the 12th May. For those potential investors who have not contacted us and have an interest in the new structure please e-mail Diego Torres (diego.torres@aurigasv.es) within our Business Development Team for further details.

**INVESTMENT OUTLOOK**

- **INVESTMENT THESIS 1:** Risky assets remain fully priced across the board. Short-term upside appears purely derived from diminishing political premia in the EU.

  INVESTMENT ACTION: In the absence of significant signs of an increase in aggregate demand and further EPS growth in developed markets we remain pessimistic about the upside prospects for equity and credit valuations. Our focus will remain on efficient selection of new shorts or further deployment of RV ideas keeping overall net exposure at relatively low levels. From a risk-reward perspective we continue to favour a short in core rates rather than sponsoring any further signs of EU reflation via long positioning in stocks.

- **INVESTMENT THESIS 2**: As political risk premia wanes we have become increasingly troubled by tight valuations of core vs peripheral risk in government bond yields. Granted that ECB´s PSPP continues to provide a technical cap to spreads, yet as ECB tapering awkwardly looms like the proverbial elephant in the China shop there is a manifest risk of a negative feedback loop where servicing costs for heavily indebted peripheral economies rise, which in turn increase the budget deficit, and so forth… It was fun popping open the champagne when Super Mario was paying for the drinks, but when he removes accommodation all the peripheral guests for the party will be running for the hills with Dutch Eurogroup head Mr Dijsselbloem validating his thesis that the periphery likes nothing better than wasting money on women and drinks….

  *INVESTMENT ACTION*: We believe that there is also a lot of optionality embedded in peripheral spread wideners in EGB land, however given the uncertain timing of tapering and the “undercover political mandate” of the ECB it will take a substantial overshoot in inflation targets for any meaningful and decisive QE removal. We are thus looking for ways to structure the trade with minimal carry and theta cost. We thing there is potentially better value in curve flatennners in BTPs and SPGBs than outright spreads.

- **INVESTMENT THESIS 3**: We remain concerned about the effect of Brexit on UK domestic demand and ultimately remain sceptical about the UK government ability to navigate very difficult political negotiations with the EU and balancing their twin deficit problem despite the high popularity of Theresa May´s cabinet (or maybe the case of the political alternatives being as popular as a second-hand freezer in Antarctica).

  *INVESTMENT ACTION*: We are currently exploring relative value plays within UK and Spanish (exposed to UK high st.) stocks. We continue to hold conviction in our long FTSE 100 vs short FTSE 250 despite weak performance thus far.

- **INVESTMENT THESIS 4**: Within the special situations space we see substantial opportunities to participate in the recap of distressed peripheral lenders via legacy sub securities at implicit P/TBV levels far more attractive than participating in a rights issues directly.

  *INVESTMENT ACTION*: We are exploring a number of investment opportunities in Italy comprising old T1s issued by Banca Carige and Banca Popolare di Vicenza

- **INVESTMENT THESIS 5**: Despite our concerns about Spanish public finances and a fragile political situation we still see substantial upside in Spanish real estate assets.

  *INVESTMENT ACTION*: Given that REITs and construction companies look fully-priced for the stage in the credit cycle, we are looking at structuring other efficient ways of capturing some of the upside whilst hedging some of the broader macro and political tail risks.