

SIF



NAV 28/09/2022: 115.28

INVESTMENT TEAM

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QUADRIGA RHO INVESTMENTS

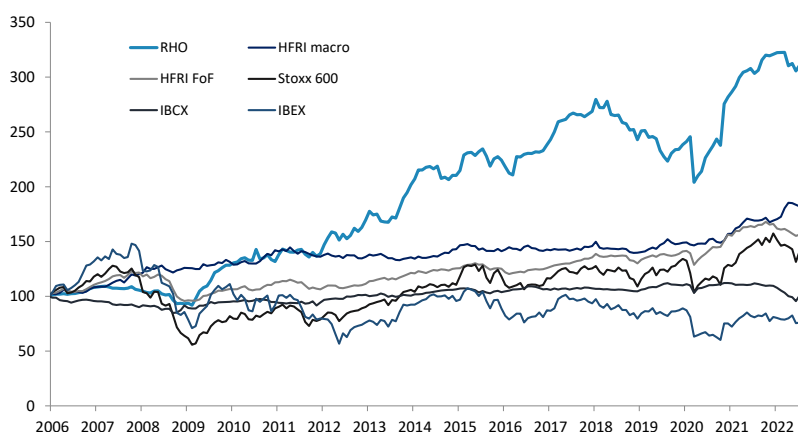
The fund's objective is to return net positive returns every year, regardless the behavior of traditional assets. To achieve it, the fund allocates to six different strategies: Active, Relative Value, Macro Selection, Micro Selection, Special Situations and Deep Value. The strategies are focused on finding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

Sep 2022 Update

The month of September was a tough "welcome back to school" experience for most market participants, given the very poor backdrop of performance across all asset classes. Rho Investments widened its broad market outperformance during this period and has continued to do so during the month of October as we type these lines. However, given the strategic increase in utilization in Micro directional exposures to capitalize on very attractive valuations in European credit markets (and to a lesser extent in cyclical European stocks) that we have been highlighting in our last two newsletters, the fund has increased its correlation to the overall markets. Thus disappointingly the fund generated a negative return of -4.0%, which must be put in context of a market of significant (inflation-related) sell-off in both risk-free assets (total returns lower than -4.1% in both German Bunds and 10-year USTs) and risky assets (with the Eurostoxx 50 losing -5.1%, Ibex 35 -5.6% and the S&P 500 and Nasdaq Composite -5.9% and -6.5% respectively in local currency terms). (cont...)

Fund Facts

Structure	SIF
Domicile	Luxembourg
Class	A / B
Mgmt. Fee	1% / 2%
Perf. Fee	20% / 20%
Min. Investment	500,000€ / 125,000€
NAV Currency	EUR
Liquidity	Weekly
ISIN	LU1610886332 / LU2403116234
Bloomberg Code	RHOSIFA LX / RHOSIFB LX
Custodian	Société Générale SS

Historical Evolution vs Indexes (% Net) (*)**Monthly Returns (% Net) (*)**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2006	1.2%	0.7%	0.0%	0.4%	-0.6%	0.6%	0.1%	0.8%	0.8%	0.9%	1.8%	1.2%	8.2%
2007	0.3%	0.3%	0.3%	-0.6%	-1.0%	0.1%	-0.3%	-0.2%	0.4%	1.3%	-2.2%	-0.7%	-2.4%
2008	-0.8%	-1.3%	-0.4%	1.8%	0.1%	-2.6%	-1.0%	0.5%	-5.1%	-3.3%	0.4%	-0.5%	-11.8%
2009	0.7%	-2.0%	6.5%	7.1%	3.0%	1.4%	4.7%	6.2%	1.4%	2.2%	1.9%	0.0%	38.0%
2010	1.6%	0.5%	2.3%	0.8%	-1.8%	0.0%	7.4%	-6.0%	0.7%	2.1%	-3.1%	-1.4%	2.5%
2011	4.7%	3.8%	-1.0%	-0.9%	-0.2%	1.4%	0.5%	-3.1%	-1.9%	3.1%	-2.5%	1.7%	5.4%
2012	5.9%	4.2%	3.6%	-0.7%	-4.1%	3.5%	-2.6%	1.9%	4.2%	-1.8%	2.3%	4.1%	22.1%
2013	4.8%	-1.9%	0.4%	-3.6%	-0.4%	-0.2%	2.9%	-0.7%	5.3%	5.2%	2.5%	3.7%	19.0%
2014	2.6%	4.0%	0.0%	1.1%	0.3%	-0.9%	1.1%	-5.1%	0.6%	-1.1%	1.9%	-0.1%	4.2%
2015	2.2%	6.5%	0.9%	0.2%	-1.3%	1.6%	1.1%	-2.8%	-4.0%	3.0%	0.9%	-1.4%	6.7%
2016	-2.7%	-2.6%	-0.8%	7.9%	-0.1%	1.1%	0.4%	-0.1%	0.6%	-0.2%	0.6%	2.3%	6.2%
2017	2.1%	2.9%	3.7%	0.4%	0.4%	1.6%	0.6%	-0.6%	0.0%	-0.7%	0.9%	0.9%	12.8%
2018	4.1%	-2.7%	-0.1%	2.2%	-4.4%	-0.4%	0.2%	-2.6%	-0.4%	-2.3%	0.2%	-4.0%	-9.9%
2019	4.5%	0.1%	-2.5%	0.3%	-0.8%	-4.4%	-2.5%	-1.8%	3.2%	1.5%	0.1%	1.8%	-0.7%
2020	1.2%	1.8%	-16.9%	2.9%	2.0%	5.7%	2.5%	2.2%	2.7%	-2.4%	16.0%	2.3%	18.3%
2021	1.6%	1.8%	2.7%	1.6%	0.4%	0.7%	-1.5%	0.9%	3.1%	1.4%	-0.2%	0.4%	13.8%
2022	0.5%	0.0%	0.0%	-3.8%	0.7%	-2.2%	1.7%	0.1%	-4.0%				-6.8%

(*) Since inception - Rho SIL until June 2017, since June 2017, Rho SIF Multi-strategy

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Comparative Risk / Return

	RETURNS (CAGR)			VOLATILITY		
	10 years	3 years	Since inception	10 years	3 years	Since inception
Rho Investments	6.32%	9.07%	7.02%	11.02%	15.01%	10.20%
Stoxx 600	3.75%	-0.44%	1.76%	13.60%	17.91%	14.89%
Ibex	-0.45%	-7.29%	-1.82%	17.90%	23.32%	19.94%

Returns (% Net)

2022YTD	-6.78%
CAGR*	7.02%
Sep 2022	-3.97%

Risk / Return

Volatility*	10.20%
Sharpe Ratio*	0.69
Sortino Ratio	1.21
Parametric VaR 1-d	2.47%

Top Five Positions (Delta exposure as % of NAV / Market value at risk as % of NAV)

Crossover CDS ITRX 500 12/20/27	29.0% / na
Cajama 8% Senior preferred 09/22/26	6.9% / 6.9%
Grifols B shares	4.2% / 4.2%
Grifols A shares	-4.2% / -4.2%
Unicredit shares	4.0% / 4.0%

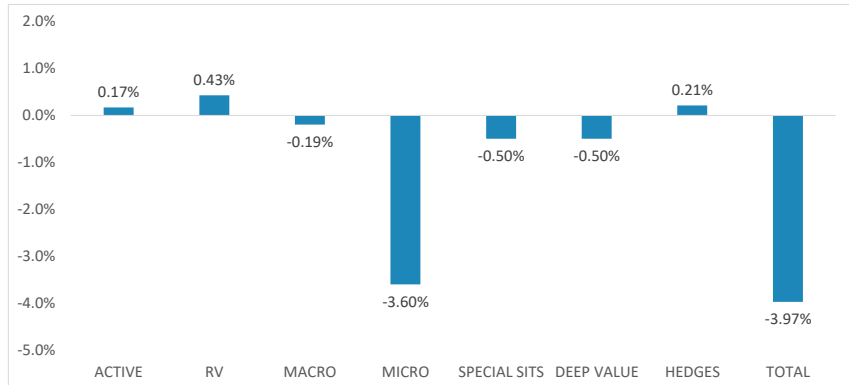
% Leverage

Gross	143.4%
Net	109.7%

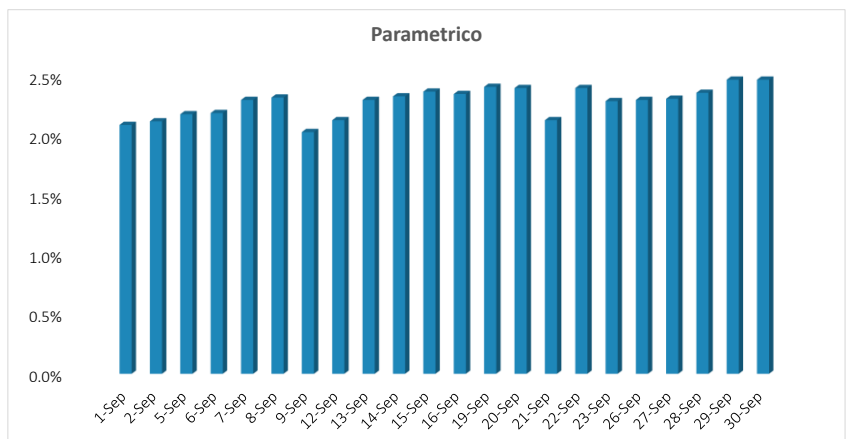
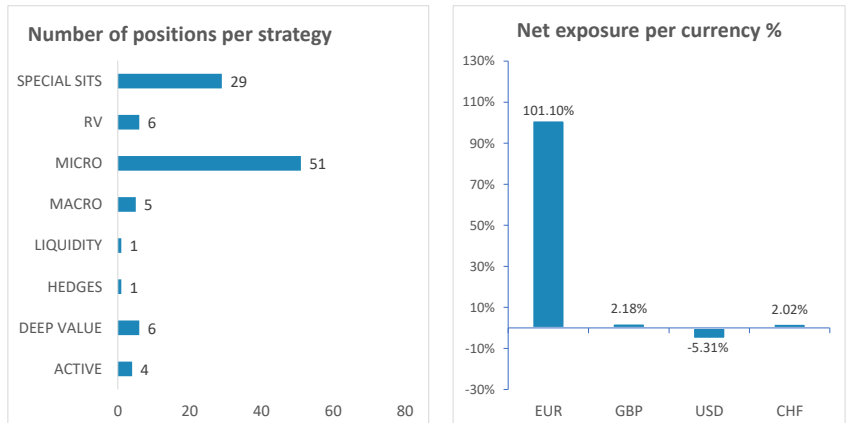
% of Gross Exposure per Strategy

Active	3.8%
Deep value	4.4%
Hedges	6.8%
Liquidity	16.0%
Macro	22.4%
Micro	32.3%
Relative value	7.9%
Special sits	6.3%

Performance attribution across strategies (% Gross)



Risk Concentration and Distribution Metrics

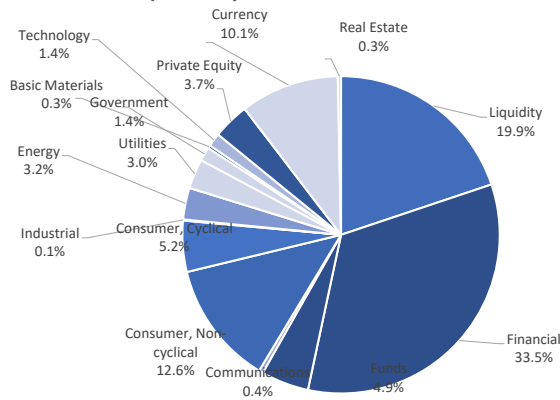


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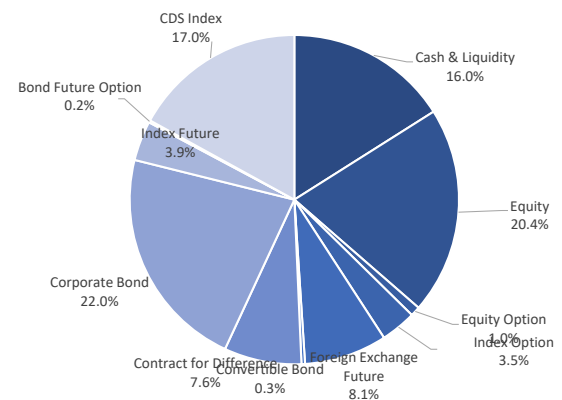
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Risk Concentration and Distribution Metrics (2)

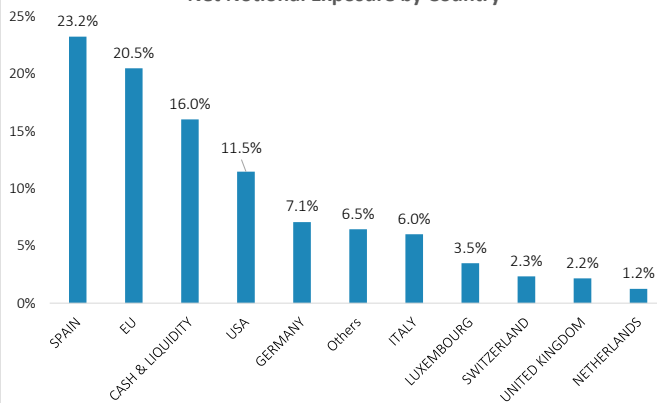
Gross Notional Exposure by Sector



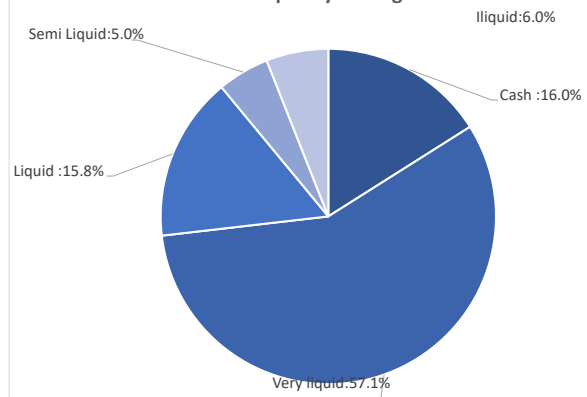
Gross Notional Exposure by Asset Class



Net Notional Exposure by Country



Liquidity Tiering



Sep 2022 Update (cont...)

(...cont) From a performance attribution point of view, tactical trading-focused Active (+0.2%) and Relative Value (+0.4%) strategies managed to generate positive performance in a month of substantial market drawdowns, but it was not enough to offset larger losses in longer-term and more directional strategies underlying the fund. The Active bucket returns were buoyed by short-term trading in stock indices volatility, with a particularly bearish stance in the Nasdaq via out-of-the-money 12500 strike Sep 22 puts in which we fully monetized convexity gains before expiry. Relative Value strategies continue to be focused on an optionality theme of Spanish company Grifols utilizing the heavy discount of pref vs ordinary shares as an attractive corporate lever to address its heavy debt burden, as well as a few dispersion trades around Spanish banks' equity valuations. The positive mark-to-market (+0.6% total return over NAV) in the delta-neutral Grifols long-short pair was the main driver of performance in the bucket, as the market reassessed the possibility of a capital increase (which would be one of our defined catalysts for pref shares to close the valuation gap vs ordinary shares). Despite the substantial performance in this position since it was opened, we still see further 10-15% upside in the spread. On the negative side of the performance spectrum, Micro strategies was the underlying culprit for weak absolute performance at fund level. The bucket is diversified enough so that not a single exposure accounted for more than 65bps of negative performance, but the common themes of contrarian views on valuation of high beta/highly cyclical exposures added up to a -3.6% return in terms of NAV, with losses in Credit Suisse stock (-0.6% return over NAV), Wizz Air stock (-0.4%) and shares of Spanish renewable energy company Soltec Energy (-0.4%) as main drivers. With regards to domestic renewable energy companies we strongly believe that despite the threat of further rises in government yields, smaller players within the domestic renewable energy sector are not only now very attractively priced in terms of fundamental metrics like EV/ Mwh, evolution of margins and increase in ready-to-build prices, but we also envisage strong upside from positive event risk optionality (as we expect incumbent utilities to make significant acquisitions across the space), as well as in terms of strong political momentum across the EU in terms of energy transition policy. We will be looking to selectively add names like Soltec and OPDE to our Micro bucket on further weakness. Macro strategies (-0.2%) was weighed down by exposure to the SX7E index, that has failed to react positively to interest rate factors and continues to be dragged by recessionary expectations (and its associated asset quality concerns). Whilst we believe that European banks enter this potential recession with a strong CET1 position and already much NPL risk is frontloaded via macroeconomic inputs into IRB models, we acknowledge that the current market environment will not credit bank valuations with the NIM benefit of higher interest rates, so we have decided to pare down our macro exposure to the sector until we get more visibility beyond a Q3 reporting that is already consensus-viewed as to deliver strong numbers. Special situations (-0.5%) disappointingly continues to see a very slow deal flow, although we expect a substantial increase in opportunities towards Q1 2023 as the rise in funding costs and removal of post pandemic government support schemes put substantial pressures on many heavily indebted companies. We are in fact already starting to see an encouraging inflow of new situations like Orpea or Casino bonds, which we are currently reviewing for investment as their valuations continue to drop close to our base case modelled recovery values. In the meantime, existing positions in the portfolio (such as stock of Spanish retailer Dia which contributed -0.3% over NAV to total performance, or Venezuelan defaulted bonds which failed to react to positive political noise from the Biden administration regarding sanctions) have yet to see catalysts conducive to repricing. Finally Deep Value strategies (-0.5%) continues to focus on long-term US tele-health investments, to which we have added an element of rolling covered call writing to benefit from very high levels of implied vol in the sector, at a time when we expect valuations to remain depressed and do not foresee any clear catalyst for stock rerating. (cont...)

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(...cont) Moving on to overall risk allocation and positioning strategy, the fund currently has the following high convictions that are informing investment decisions:

- Overall market positioning is light and there is still plenty of liquidity in the system

- Whilst the severity of potential tail events going into the European winter has increased, all these “grey swans” are very well flagged and known, and much doom and gloom has been hedged for and incorporated into asset prices

- We will see an increase in severe bear market squeezes in the next few months fueled by negative gamma and plain old FOMO across fund managers on any move higher

- Feels like the “pain trade” is a move higher in risky asset prices

- Once again, like we saw in 08, credit markets are clearly leading the way in terms of pricing recession and broader risks (including systemic and sovereign ones)

- Credit looks too cheap to stocks

- European stocks are starting to be attractively priced in terms of many metrics but crucially we have yet to see significant EPS downgrades across sectors and we believe this to be a potential catalyst to finally buy stocks on weakness with a meaningful level of conviction

Given the above, the fund is cautiously optimistic (maybe just by virtue of how pessimistic everyone else seems to be) about valuations, and has thus added directional risk to the portfolio, but only in credit (and particularly in CDS index form, given attractive skew and technicals vs cash) where we think carry and optionality-adjusted returns appear already significantly attractive despite all market pessimism. The portfolio moves to add risk in credit (mainly in the Micro and Macro buckets, and to a lesser extent in Special Situations) has been coupled with a VaR-equivalent reduction in equity exposures (both in the Macro and Micro buckets), which has translated into a significant increase in market exposure even if in terms of statistical risk this move appears far more modest. From the point of view of risk metrics, we can thus observe a significant increase in both net leverage (from 63% at the end of August to 110% at the end of September) and, to a lesser extent, gross leverage (from 1.3x at the end of August to 1.4x at the end of September). Finally, from a statistical point of view, expressed as 1-day 99.5% confidence parametric VaR, we also see risk increase from 1.9% at the end of August to 2.5% at the end of September. Likewise average daily VaR utilization also increased from 1.8% during the month of August to 2.3% average throughout the month of September.

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