SIF

NAV SIF 22-Feb-23: 129.57

INVESTMENT TEAM

Rodrigo Hernando, CEO

José Mosquera, CIO

José Martín-Vivas, Sr. Analyst

Jorge Peñalba, Sr. Analyst

Fund Facts

Fund size	EUR 119mm
Structure	SIF
Domicile	Luxembourg
Class	A / B
Mgmnt. 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

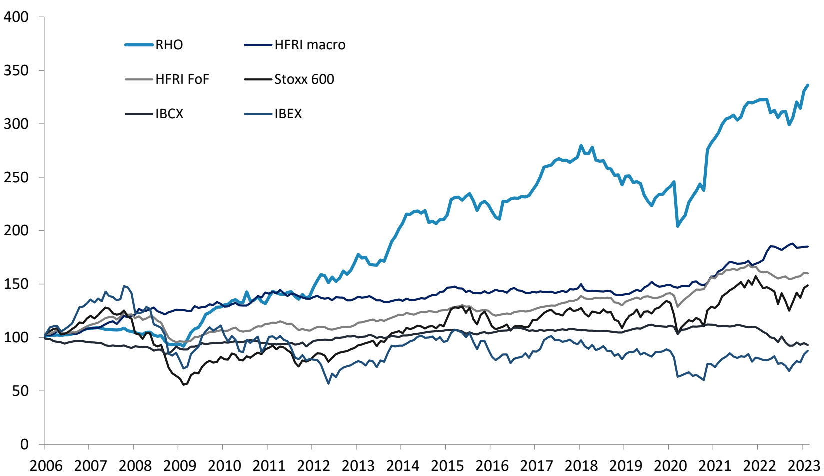
QUADRIGA RHO INVESTMENTS

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.

Feb 2023 Update

Given the current market backdrop, and the fact that we are approaching the end of March, mentioning that the fund generated a net return of +1.7% to investors in February is such a distant and irrelevant memory that I might as well discuss Homo Sapiens hunting habits in the Pleistocene, which is probably the time at which the junior analysts in the team envisaged me starting my trading career: amid mammoths and mastodons. Well, I never saw any of those species roaming the campus at the time I was close to finishing my master's degree and I dreamt of a career in trading, but I do vividly remember amongst the Campus Recruiterous Communis species those of Credit Suisse First Boston as the most glamorous. Who could have guessed at the time that all that glamour would be abruptly extinguished (10,000 years after mammoths) after a glorious history (well at least for the first 152) of 167 years, as the proverbial SVB fluttered its wings in Santa Clara to cause the mother of all hurricanes in Zurich. Whilst a lot has changed over the years in banking, the holy trinity of banking alchemy has remained intact, namely: maturity transformation, risk transformation and payments facilitation. (cont...)

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%	2.2%	4.8%	-1.9%	**-2.0%**
2023	5.2%	1.7%											**6.9%**

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

Comparative Risk / Return

	RETURNS (CAGR)			VOLATILITY		
	10 years	3 years	Since inception	10 years	3 years	Since inception
Rho Investments	6.79%	11.03%	7.33%	11.00%	15.41%	10.21%
Stoxx 600	4.75%	7.08%	2.34%	14.04%	18.91%	14.98%
Ibex	1.33%	2.50%	-0.77%	18.35%	24.51%	19.99%

Returns (% Net)

2023YTD	6.91%
CAGR*	7.33%
Feb 2023	1.67%

Risk / Return

Volatility*	10.21%
Sharpe Ratio*	0.72
Sortino Ratio	1.28
Parametric VaR 1-d	1.52%

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

ITRX SUB FIN 5Y CDS	-25.5% / na
SX7E Jun-23 120 calls	24.6% / 1.7%
SX5E Mar-23 4100 puts	-8.9% / 0.3%
Santander shares	4.9% / 4.9%
Grifols A shares	-4.8% / 4.8%

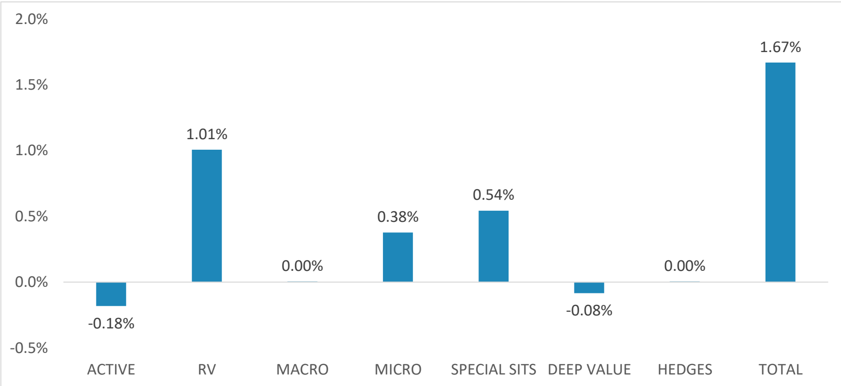
% Leverage

Gross	177.2%
Net	76.4%

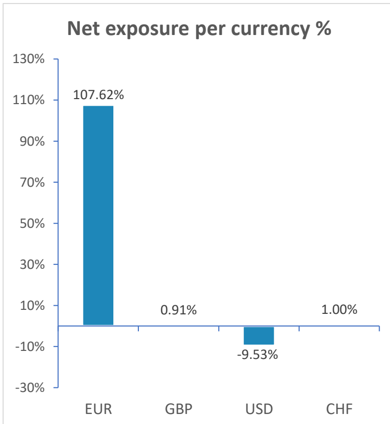
% of Gross Exposure per Strategy

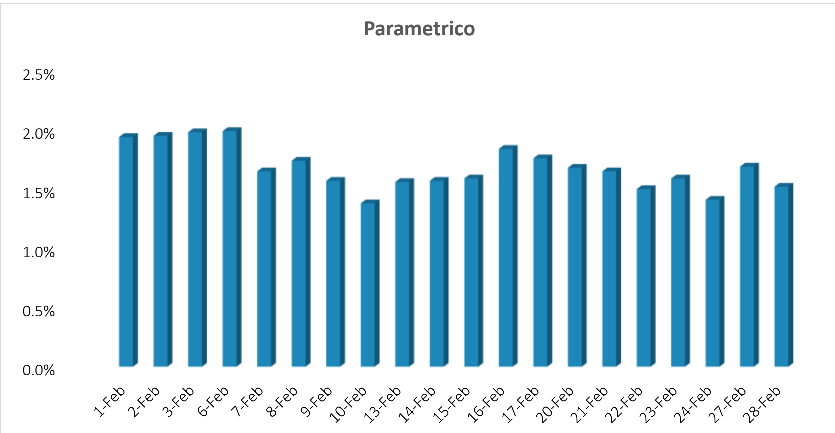
Active	0.9%
Deep value	2.9%
Hedges	4.7%
Liquidity	1.3%
Macro	5.3%
Micro	37.9%
Relative value	40.5%
Special sits	6.5%

Performance attribution across strategies (% Gross)



Risk Concentration and Distribution Metrics





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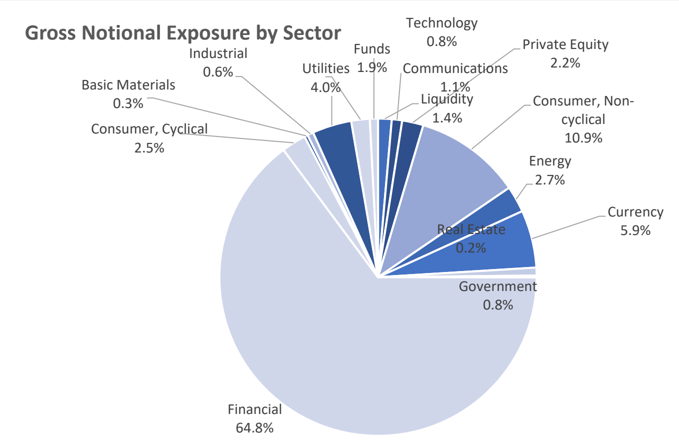
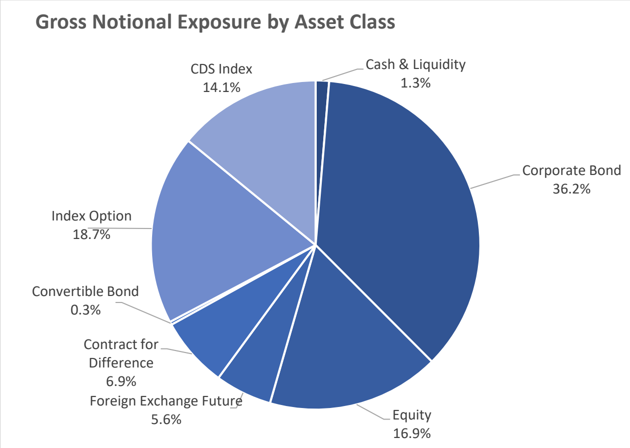
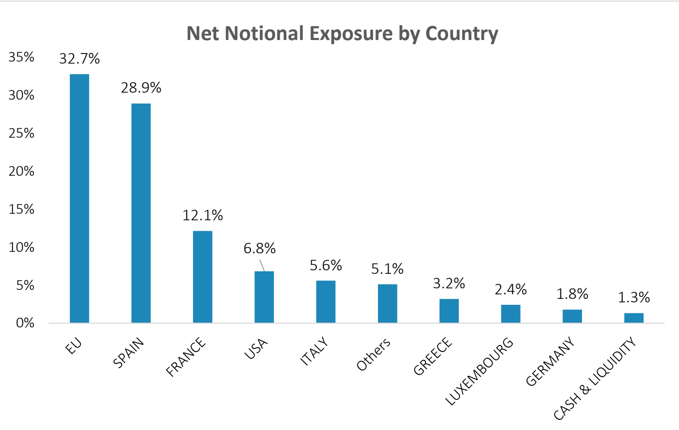
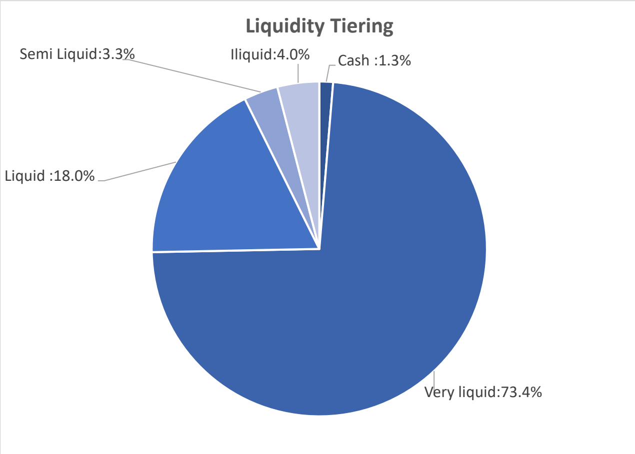
Risk Concentration and Distribution Metrics (2)









Feb 2023 Update (cont...)

(...cont) The panic in the streets might have migrated to online forums, the lines outside the banks might have become virtual queues, as clients pressed the refresh button on the transfer feature of their banking apps on their smart phones, but the essence of the problem remains the same: asset liability mismatch arising from maturity transformation in an environment of extreme rates vol, coupled with concentrated (untransformed) risk at a time when to remain competitive in the provision of payments you have to offer 24/7 lightning fast access to both crypto and fiat money. With technological progress we have come to live in a highly globalized and interconnected world, but highly interconnected systems exhibit complex systems behaviour, and thus our butterfly wings reference above. We live in an era which was characterized by French philosopher Paul Virilio as “the tyranny of speed”. Indeed, like the proverbial weather patterns, with chaotic and potentially unpredictable nature, so financial crises, in an era of rapid change (in this instance in interest rates) fueled by technology and its many putative market offspring (HFTs, CTAs, etc) have become less predictable, much more acute in nature and extremely short-lived. Whilst the GFC lasted under 2 years, the Covid crisis under 2 months, we believe the SVB/CS crisis has the potential to last under 2 weeks with the right regulatory response. Let me, after so much philosophical discussion around the changing nature of systemic risk and financial crises, now focus on summarizing some key points that I believe will be of interest to investors around the impact of the CS debacle. Let us start first with our fund risk and exposures:

- We have come to view (ironically because of failed past trades in expectation of a UBS takeover) Credit Suisse as non-investable across the capital structure, and thus the fund had no exposure to Credit Suisse securities or common equity at the time of the bank resolution by the Swiss authorities.
- As you know the fund has had a very bullish view on European bank stocks given the environment of rapidly rising rates, low beta to deposits of most European banks (and Spanish ones in particular), high levels of capitalization and low cost of risk across the system. However, this view has been expressed as a long optionality and long vol view on the SX7E so by construction the view has high levels of diversification and limited downside. Furthermore, as our investors also know well, is always our obsessive policy to dynamically adjust the exposures in the portfolio in order to ensure that they remain optimal at all levels (carry, fundamental market view, liquidity, correlation vs rest of portfolio, etc), so the SX7E exposure has taken several incarnations this year: outright 120 June 23 call, 120-130 call spread, and at the time of the CS event a 110-120-130 call fly where the maximum loss for the fund was capped at 0.7% of NAV.
- As systemic risk started to permeate the market, the fund increased its exposure to AT1 securities which we deemed as very attractive. In total the fund had an exposure to such securities of approximately 19% of gross fund exposure. However over 74% of the market value of the above securities were covered by a long position in iTraxx Sub Fin CDS at the time of the CS resolution, as our view under European BRRD and previous experience in Europe (Espirito Santo, Banco Popular, Monte de Paschi and regional Italian banks resolution) was that recovery on resolution is likely zero or at best very flat between AT1 and T2 securities. Given the extraordinary widening ahead of CDS roll, the fund exited its long protection position on the 20th of March at +231bps as we believed valuation was distorted by macro hedging by credit funds and trading desks, and we expected a clarification from European regulators on resolution hierarchy (which in any case is enshrined in article 47 of the European Bank Recovery and Resolution Directive adopted in 2014), which did actually hit the tapes later on that day. With hindsight, taking profits on the trade (which amounted to 0.8% of NAV) was the right approach for our investors given that the current market bid stands at a mere +175bps.
- The ramifications of the CS event have had very limited impact in terms of performance. Amid all the above turmoil the current as I type these lines (22nd March) intraday valuation of the fund is approximately only 0.4% lower than the official NAV of the previous week (126.02).
- The fund was running cash buffers throughout this event of more than 5% and raised extra prudential liquidity by de-grossing the portfolio to get to buffers over 10% to gain flexibility and exploit potential market opportunities if systemic risk heightened (even though that was not our base case) (cont...)

Feb 2023 Update (cont...)

(...cont) Now let us move on to the strategic ramifications of the CS resolution and our assessment of its impact in the market:

- We see the perception of heightened systemic risk as deflationary via a tightening of financial conditions (particularly in an economic area like the EU that is highly dependent on bank lending for corporate financing unlike the US where corporations, even SMEs, have good direct access to capital markets)
- Despite the efforts in stifling inflation by the ECB we see downward pressure on the terminal policy rate.
- Valuations in bank stocks remain very attractive if the cycle holds, however our thesis of a very fast rerating after Q1 results due in April we now believe the recovery will not be as explosive.
- From a capital securities point of view, we see AT1s as extremely attractive, yet valuations recovery will be gradual and not explosive, given that systemic risk will remain on the bank of investors for quite some time. However, at current elevated yields in many instances above our estimated cost of equity for the sector we believe there is a natural floor for valuations, given the capital optimization nature of AT1. Also, very limited refinancing needs in the space provide additional valuation support whilst the only negative we see is forced selling by leveraged Asian private bank clients and specialist capital securities funds, yet much of that forced-liquidation flow seems to have already taken place on Monday 20th March.
- We see an increasing divide in relative value vs Swiss AT1 and the rest of Europe as the messy resolution improvised by FINMA, by moving the legal goalposts over the weekend, and leveraging off broad contractual resolution language for Swiss AT1 securities, unsettled the well-established legal spirit of banking resolution (which in the EU is enshrined statutorily in the BRRD) will ironically force Swiss banks (in the old times the paradigm of stability and safety) to pay yield premia over comparable European institutions.
- We also see financial asset volatility remaining elevated for most of H1 2023.

Now going back to the distant memory of February, the fund´s solid performance beat comfortably the returns of HY risk, with the iTraxx 5-year Crossover CDS Index returning just +0.5%, although fell about 75bps short of European equity returns on average yet beating the S&P 500 total (USD) returns by 215bps. In terms of performance attribution returns were driven by Relative Value strategies (+1.0%) with positive mark-to-market in our long Santander stock vs short BBVA stock and our long SX7E 120 June 23 calls vs long protection iTraxx sub CDS as main contributors. Special Sits (+0.5%) performance was driven by positive mark-to-market in our holdings of distressed senior unsecured debt of French care homes operator Orpea (+0.4% total contribution to NAV) and equity of Spanish retailer Dia (+0.4%). Micro strategies (+0.4%) saw holdings of Allfunds stock (+0.2%) as the most salient contributor to profitability, where we utilized the Euronext takeover offer to fully exit our exposure at the time. Elsewhere rest of strategies were broadly flat except for the tactical trading-focused Active bucket (-0.2%) where performance was dampened by adverse mark-to-market on short-term bearish option positioning in the Eurostoxx 50 and crystallized losses in badly performing new-issue European credit.

Finally, and from the point of view of risk metrics, the fund continued to prioritize allocations to delta-neutral relative value positioning. As a result, we saw levels of net exposure broadly unchanged at 76% at the end February vs January month-end, whilst gross leverage rose from 1.5x at the end of January to 1.7x at the end of February. The picture from a statistical point of view, expressed as 1-day 99.5% confidence parametric VaR, shows VaR decreasing significantly from 2% at the end of January to 1.5% at the end of February as larger gross utilized generally decreased correlations across strategies underlying the portfolio. If we analyze average daily VaR utilization, we can see that it also decreased from 1.9% throughout January to 1.7% average daily use throughout February.