RHO INVESTMENTS

Monthly Factsheet as of January 2017

Quadriga ASSET MANAGERS

RETURNS

2017	+2,06%
CAGR *	8,33%
January 2017	+2,06%

RISK/ RETURN

Volatility*	8,97%
Sharpe Ratio*	0,93
Sortino Ratio	1,26
VaR 99% daily	3,19%

TOP FIVE POSITIONS

Germany 10Y, 5Y bonds	-33,22%
Aernova	9,50%
Priesa	7,25%
RABOBK 6,5% PERP	6,38%
Environmental Infrastructure	5,80%

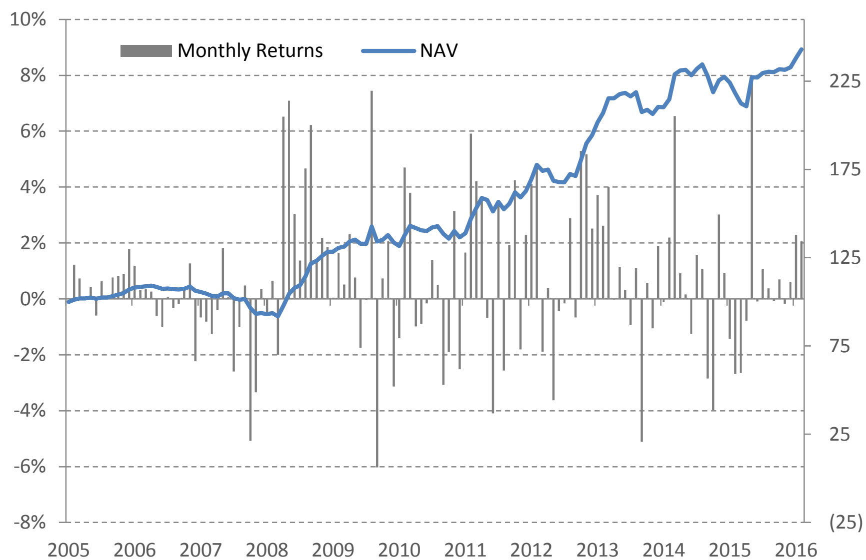
% EXPOSURE

Gross	167,63%
Net	71,91%

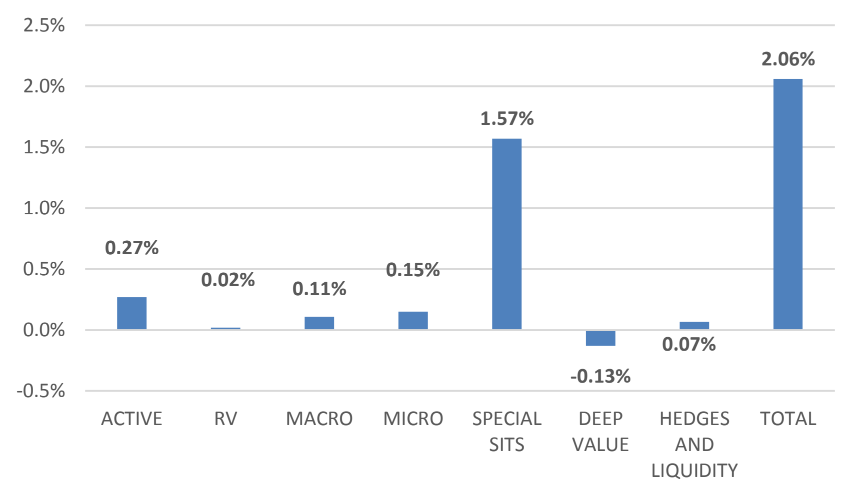
% of GROSS EXPOSURE per STRATEGY

Active	20,82%
Relative value	2,62%
Macro	12,58%
Micro	14,87%
Special Situations	13,14%
Deep Value	10,77%
Hedges	0,25%
Liquidity	18,15%

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 José Mosquera Christoph Fischer-Antze Imanol Urquizu José Martín-Vivas
Fund´s Structure	SIL
Domicile	Spain
Launch Date	December 2005
AUM	70m €
Currency	EUR
Liquidity	Weekly
Management Fee	1,00%
Performance Fee	20,00%
Minimum Investment	€50,000
ISIN	ES0155144035
Bloomberg Code	S1412 SM

CONTACT DETAILS

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(*) Since Inception

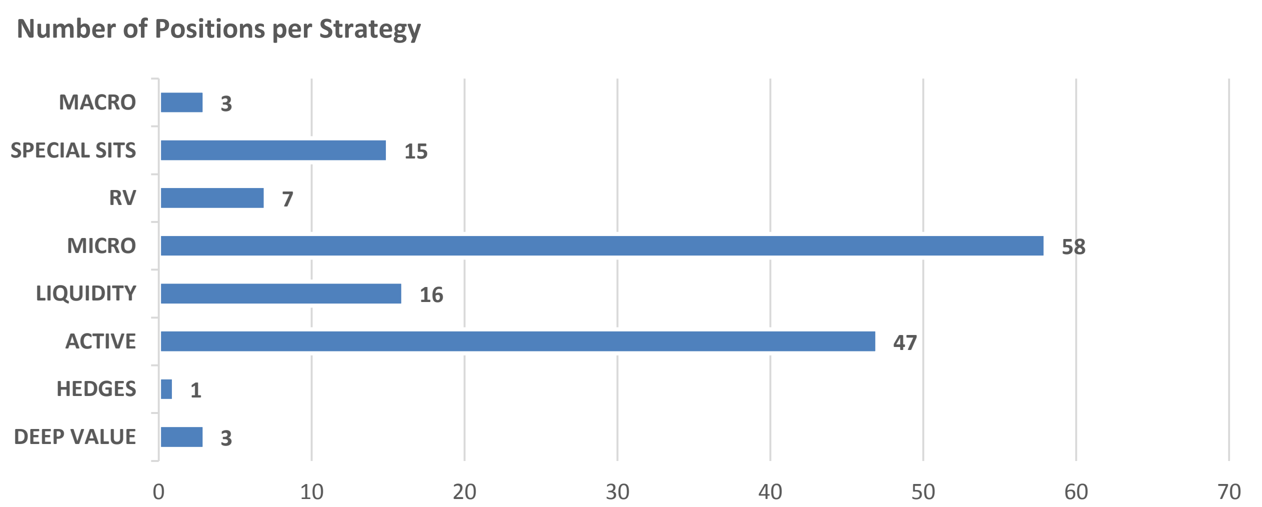
MONTHLY RETURNS

	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%												**2,06%**		

COMPARATIVE RISK/RETURN

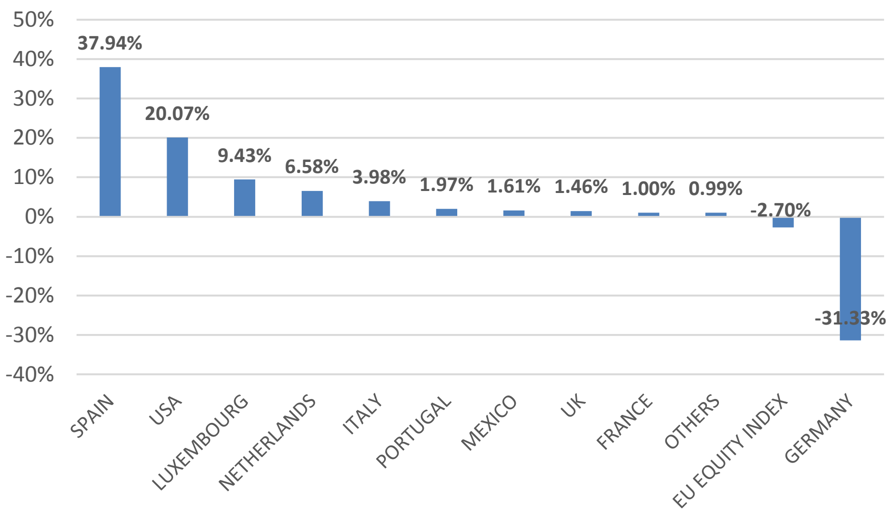
	RETURNS (CAGR)			VOLATILITY		
	5 years	**3 year**	**Since Inception**	**5 years**	**3 year**	**Since Inception**
RHO Investments	10,57%	5,49%	8,33%	9,33%	8,70%	8,97%
Stoxx 600	7,20%	3,74%	1,36%	11,93%	13,03%	14,91%
Iboxx EUR Corporate	4,78%	3,35%	4,00%	2,97%	2,79%	4,04%

RISK CONCENTRATION AND DISTRIBUTION METRICS (1)

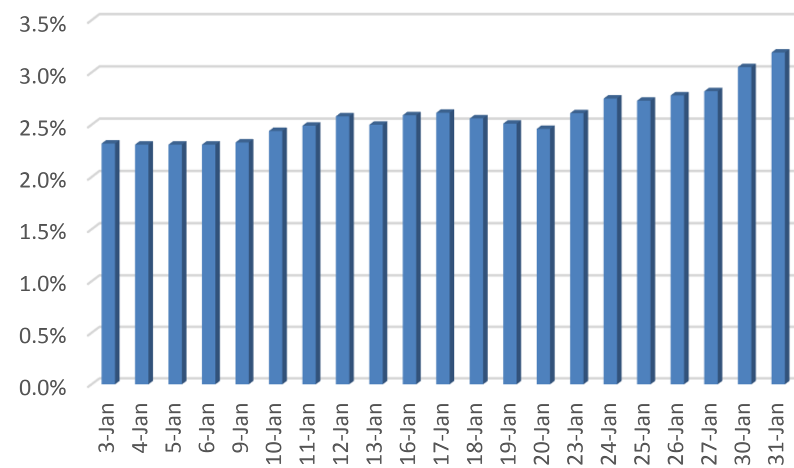


RISK CONCENTRATION AND DISTRIBUTION METRICS (2)

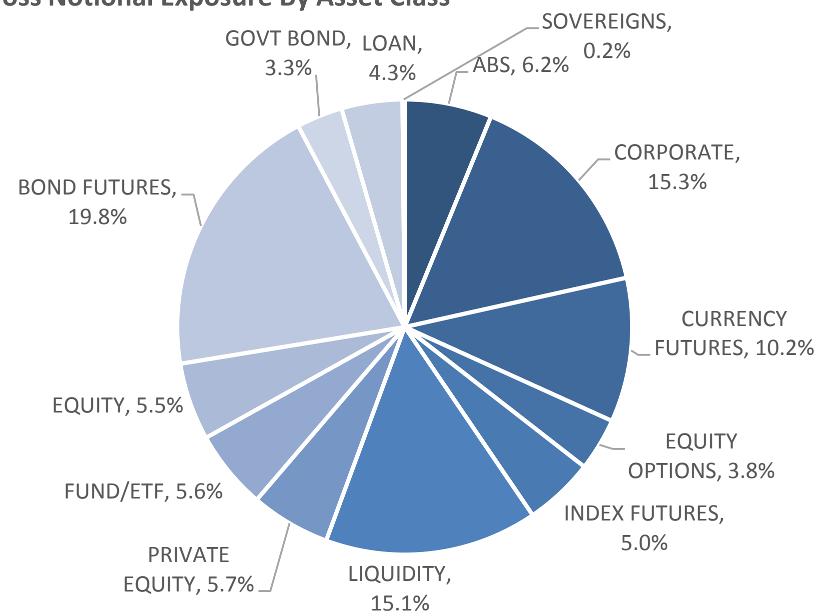
Net Notional Exposure By Country



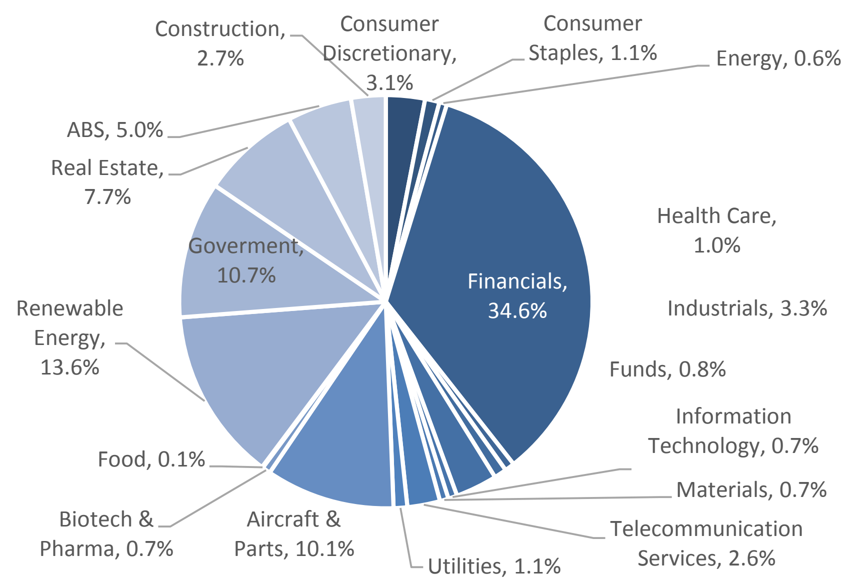
Daily VaR



Gross Notional Exposure By Asset Class



Gross Notional Exposure by Sector



MARKET AND PORTFOLIO COMMENTARY

MARKET BACKDROP

- European equities traded sideways for the better part of January, before selling off into month end as the recently inaugurated US president Donald Trump thus far managed to only emphasise the protectionist and populist agenda of his electoral campaign via executive orders of dubious constitutional validity, whilst leaving the market still anxiously waiting for him to deliver on his “reflationary” policy promises. The Euro Stoxx 50 dropped -1.81% in January, while the S&P 500 gained +1.79%, which can be mainly attributed to the US dollar selloff, as the new Trump administration did their best to talk down the dollar.

- The ECB did not modify their asset purchase program any further during their monetary policy meeting on January 19th. ECB President Mario Draghi did his best to talk down the increase in inflation seen in December by attributing it to a transitory increase in energy prices, and arguing that core inflation has yet to show a convincing upward trend. The markets did not agree entirely with his assessment and sent 10yr Bund yields +22.8 bps higher, to end the month at 0.44% after CPI readings showed beyond-consensus increases in Eurozone YoY inflation. Oil prices however decreased by -3.38% throughout January. Comments from ECB policymakers in late January indicated that tapering would not be a topic of conversation until after the summer. Notwithstanding, there was a significant widening in periphery vs. core spreads, as 10yr Italy vs. Germany spread moved by +20.9 bps on the month to +180.9 bps. The sentiment in government bond markets seems nervous with the tapering threat looming in the background, and political uncertainties also taking a toll on spreads: 10yr France vs. Germany widened +12.4 bps on the month to 60.2 bps, as polls showed increasing support for the nationalist far-right presidential candidate Marine Le Pen.

- Credit primary markets were very busy this month, as issuers rushed to get funding done before potential further increases in interest rates in the US and potential tapering discussions in the second half of this year in Europe. New issuance in US investment grade stood at over US$ 225bn, which marks a record-high dating back to at least 2014, whilst total January issuance in Europe was well over EUR 200bn, which constituted a total volume increase of 65% vs January 2016.

- The Euro rose +2.54% against the US dollar to finish the month at 1.0784, as an adviser to the Trump administration accused Germany to keep the Euro artificially low to give its export-heavy economy a boost. The aforementioned allegations came on the heels of prior statements from US president Donald Trump that China would manipulate the yuan to its advantage as well as multitude other protectionist accompanied with executive orders to renegotiate international trade agreements, which saw several emerging market currencies such as the Mexican peso suffer as a result.

- Spanish GDP grew by an annualized pace of +3.0% in Q4 2016, with inflationary pressures on the rise (CPI +3.0% YoY vs. +1.6% YoY prior). The PP-led minority government did not manage to come to an agreement on the 2017 budget with the opposition. This is very likely to put much-needed fiscal policy adjustments on hold until at least May 2017, when the main opposition party PSOE will agree elect their new leader and policy lines, thus jeopardising meeting budget deficit targets set by the EU.

PERFORMANCE AND RISK

- Once again we are very happy to announce a very solid performance despite a very uncertain and treacherous investment environment plagued by doubts about the "Trump reflation trade", a potential new global geopolitical regime, and the rise of populist politics across the globe, all of which create a fairly uncertain investment outlook. In this environment we are confident that our optionality-driven investment ethos will continue to provide optimal risk-adjusted returns to our investors.
- The fund returned +2.06% net of fees in the month of January, largely driven by Special Situations strategies as we had anticipated in our previous newsletter.
- In terms of risk usage we have continued to play along the strategy outlined in November: capitalise on a higher dispersion of asset returns via a cautious increase in gross leverage in order to further allocate to Relative Value, Active strategies, and (to a lesser extent) to growing opportunities we see in the Macro strategies, whilst at the same time keeping the levels of net exposure at moderate levels . Gross exposure was relatively unchanged month on month (down from 170% in December to 168% at end of January), whilst net exposure saw a moderate increase (from 64% in December to 72% in January). Overall levels of risk utilisation in VaR terms remain at moderate levels with the fund posting a 1day 99% VaR/NAV of 3.19% at the end of the month. Whilst that magnitude of statistical risk would be equivalent to a 103% exposure to the Eurostoxx 50, the realised average volatility of the fund on the month was only 30% of that of the Eurostoxx 50 for an outperformance of 387bps. Despite risk levels having broadly increased from December in terms of published static exposure at month end, the average daily 1dayVaR/NAV utilisation dropped 5% month on month (from an average 2.72% throughout December down to 2.58%) and cash buffers remained very high at close to 30% of the fund´s NAV thus establishing a more defensive overall profile than that implied by static VaR metrics.
- Virtually all strategies (the exception being a modest -0.13% drawdown in Deep Value) produced positive results in January, although the overall gain was largely driven by Special Situations. As largely anticipated in our previous newsletters, much of the optionality of the portfolio built within the Special Situations and Deep Value strategies will see the envisaged catalysts play out in Q1 and Q2 2017. January already developed some of these, and Special Sits returned 1.57%, largely driven by our play on the consolidation of Spanish domestic bank BMN with Bankia via investment in the mezzanine tranche of a Spanish LT2s-collateralised CDO acquired at distressed prices, by the conversion of a senior unsecured loan into Amper shares which we proceeded to sell at a substantial profit, but also by exiting our positioned in restructured senior Isolux debt following what we perceived as a very negative results and strategy update by the company, which completely altered our investment thesis. The sale of Isolux debt generated a mark-to-market gain of 0.21% for the fund, although a net loss from our original entry point, but which was validated by the 50% collapse in senior restructured debt following our exit. We did however retain a minor exposure via the subordinated-equity strip, which offers smaller exposure on default and better optionality.
- Our aim to further allocate risk to the "Active" Strategies bucket also yielded good returns, as the strategy contributed 27bps to overall performance, boosted by higher levels of primary activity in credit and government markets, higher single stock volatility around the earnings season, as well as larger intraday dispersion across liquid asset returns.
- January also saw a steady performance of our directional strategies. Macro returned 0.11% net of fees driven by the performance of our bearish stance on European rates, as strong CPI readings across the Eurozone validated our thesis of a gradual build up of inflationary pressures against a backdrop of disproportionately lax ECB policy. Micro delivered 15bps of performance largely driven by a recovery in Spanish real estate and construction stocks within the portfolio and a positive repricing of our "value" portfolio and associated call writing.

- Disappointingly and despite a substantial increase in the dispersion of valuations (for instance, forward P/E metrics within the S&P500 show the most amount of dispersion since mid 2009) our Relative Value bucket remains underutilised. We do not seem to be alone in this predicament as prime brokers widely report low levels of leverage across hedge funds (for instance BAML HF clients average leverage stood at a historically low 2.07x), and the net short interest on the S&P500 (ex-ETFs) stood at 3.6% of float (lowest since 2014). However, we feel that the dispersion of returns although promising, has largely taken place across sectors as a result of broader asset allocation decisions (fully pricing the "Trump reflation" story), and not enough has happened within sectors (other than banks). Overall Relative Value generated disappointing mere +2bps of performance driven by relative positioning in OTM long-short option pairs (e.g. short BBVA 6.5 March calls vs short banco Santander March puts) in a context of lower implied vols which also generated less theta income.

INVESTMENT OUTLOOK

- **INVESTMENT THESIS 1:** Our main thesis stated in the previous newsletter, remains undented, but with a few new caveats.

  Last month we wrote: *"So, what is "Trumponomics" all about? Well, nobody really knows, and we are no wiser. Whilst we strongly believe in a reflation trade (but purely supported on recent macro data like US wage growth or a sharp rebound in Chinese PPI from 2015 lows), we have no hopes pinned on a fiscal and economic policy with still many unknowns. Whilst is tempting, given the names in the new US cabinet and in the parallels established to "Reaganomics", to sponsor a widespread equity rally, the truth is that the starting point in terms of valuation metrics is very different, as we highlighted in our previous newsletter. We do believe however that the trade is better expressed in a short stance in European rates. These have lagged substantially the move (and for good reasons) seen in USTs, but given the "undercover" beginning of ECB accommodation removal, and potential inflationary signs emanating for China (which accounts for over 20% of all EU import and which thus far had been exporting deflation globally), we believe the short in EU rates offers the best risk/reward on valuation grounds."*

  Well, we are all unfortunately starting to learn all about Mr Trump´s policies. However, little has perspired in terms of policy specifics other than executive orders aimed at border control and a confirmation of Mr Trump´s protectionist ambitions. Whilst talks of fiscal stimulus look very promising and should substantially boost aggregate domestic demand and corporate profits, the impact on economic growth of barriers to international trade, and the effect of higher inflation could very well negate much of the magical promises of "supply-side" economic alchemy. Furthermore, available reports point at extreme hedge fund positioning for the "reflation trade" (USTs shorts, long copper, long cyclicals vs short defensives, and long US bank stocks in particular), and we all know how over crowded trades tend to unfold…

    INVESTMENT ACTION: We remain very comfortable with our short European rates position as is better sheltered from the weak technicals of short US Treasuries. We are considering migrating some of this outright short on a further 20bps move higher to outright shorts in SPGBs and peripheral EGB wideners.

- **INVESTMENT THESIS 2**: We expect an increase in European M&A activity given high current levels of equity valuations and limited room for organic EPS growth.

  INVESTMENT ACTION: We continue our emphasis to shift risk from Micro directional strategies to Special Situations in order to capture excess returns arising from corporate event risk. Furthermore, we are positioned for domestic consolidation in the Iberian banking space where NIM pressures and lack of loan growth will accelerate the consolidation of FROB-owned banks. We are also studying a number of opportunities within mid-sized domestic caps which are looking like attractive consolidation targets.

- **INVESTMENT THESIS 3**: We expect a convergence in terms of valuation of some of the weaker European banks, which have seen their stock valuations severely depressed as a result of weak capitalisation, loose provisioning guidelines and little visibility into NPAs as well as poor governance with the rest of the sector. Now as the ECB has toughened its supervisory stance on asset quality and capital levels, a number of weak institutions have started to put their house in order, and if we get stronger indications of a sustained European economic recovery they can become very attractive proposition as they converge with the broader sector in terms of valuation.

  INVESTMENT ACTION: We have begun to do extensive work on Unicredit ahead of their 13bn rights issue. We believe that is a very compelling RV story vs the sector post asset disposals and NPA clean-up, and we are looking to use any heavy trading in the rights issue to establish a long position vs the European banks index expecting a convergence in valuation from the 0.55 P/BV post recap for Unicredit to the 0.75x of the sector. We have also started to do work on other “basket cases” such as Banco Popular Español, Banca Carige and HSH exploring potential (ideally relative value) investments from both a credit and equity perspective.

- **INVESTMENT THESIS 4**: Even though we do not invest directly in commodities, in order to inform our sectoral views, macro inflationary expectations and US dollar relative valuation, we do form long-term trend expectations for commodities and oil in particular. We see Trump´s agenda towards Iran and OPEC agreements reached last year as providing a structural floor to oil prices, however is difficult to form a convincing view as to the magnitude and sustainability of the current rebound in prices given the scale of geopolitical unknowns and the potential impact of a rise of protectionism on global growth. As such, we continue to shy away from first-order directional exposures to the oil sector, and continue to structure optionality-driven second-order exposures which should provide adequate shelter from substantial oil price volatility.

  INVESTMENT ACTION: We continue to look for commodity-related reflation trades with minimum direct exposure to commodity prices given the overcrowded positioning seen in the sector. We remain invested in Spanish construction company Sacyr which looked substantially under-priced and should not only benefit from the broader global reflation theme, but which also offers a second-order kicker via their strategic investment in Repsol, where a positive mark to market in their stake should help strengthen their balance sheet position. The position continues to steadily converge to fair value and as we approach our exit target we are actively looking for replacement options.