RHO INVESTMENTS

Monthly Factsheet as of May 2017

RETURNS

2017	+9,77%
CAGR *	8,78%
May 2017	+0,38%

RISK/ RETURN

Volatility*	8,90%
Sharpe Ratio*	0,99
Sortino Ratio	1,37
VaR 99% daily	1,65%

TOP FIVE POSITIONS

Germany 10Y, 5Y bonds	-25,94%
ACAFP 0 PERP	8,38%
Eurstoxx 50 Put Spread	-7.67%
Aernova	6,65%
France 10Y-30Y flattener (**)	-6,05%

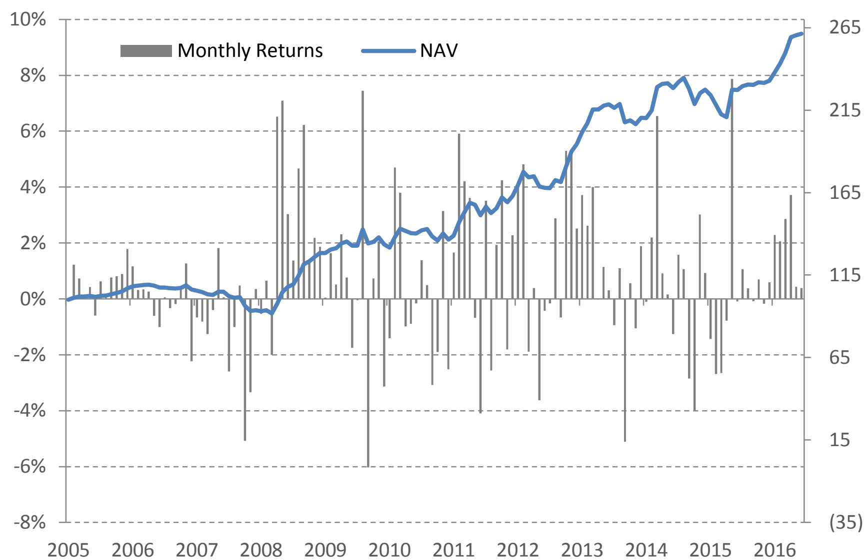
% EXPOSURE

Gross	159,08%
Net	69,43%

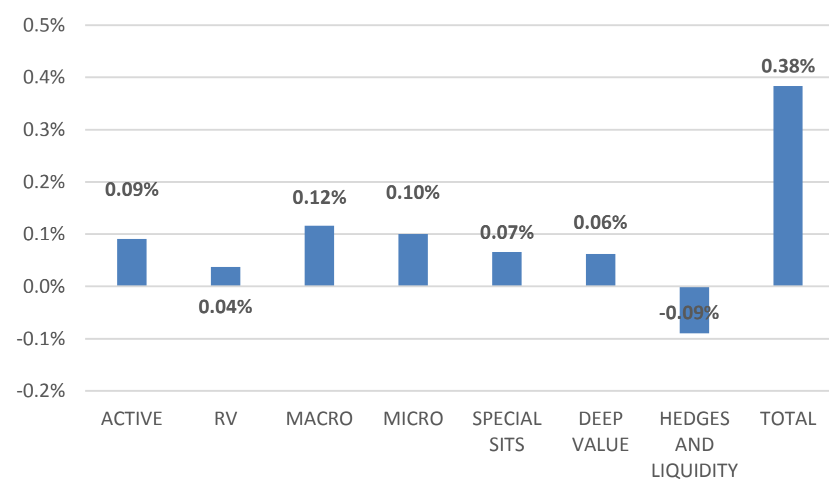
% of GROSS EXPOSURE per STRATEGY

Active	5,47%
Relative value	0,00%
Macro	27,59%
Micro	2,92%
Special Situations	14,27%
Deep Value	9,16%
Hedges	4,11%
Liquidity	36,49%

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	82m €
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 (**) 10Y Bond Exposure

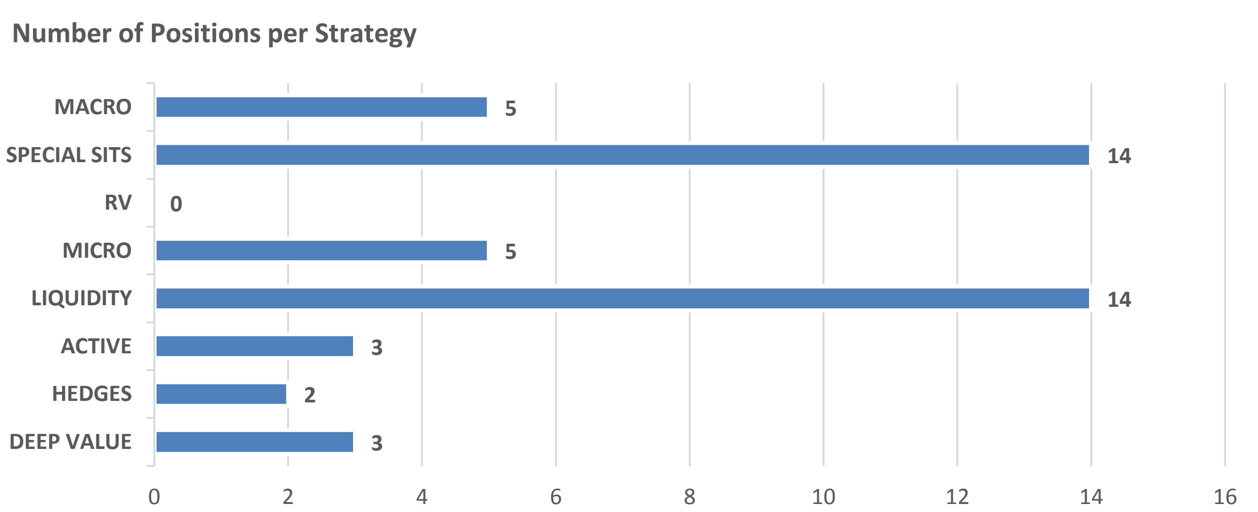
MONTHLY RETURNS

	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%	0.38%								**9,77%**		

COMPARATIVE RISK/RETURN

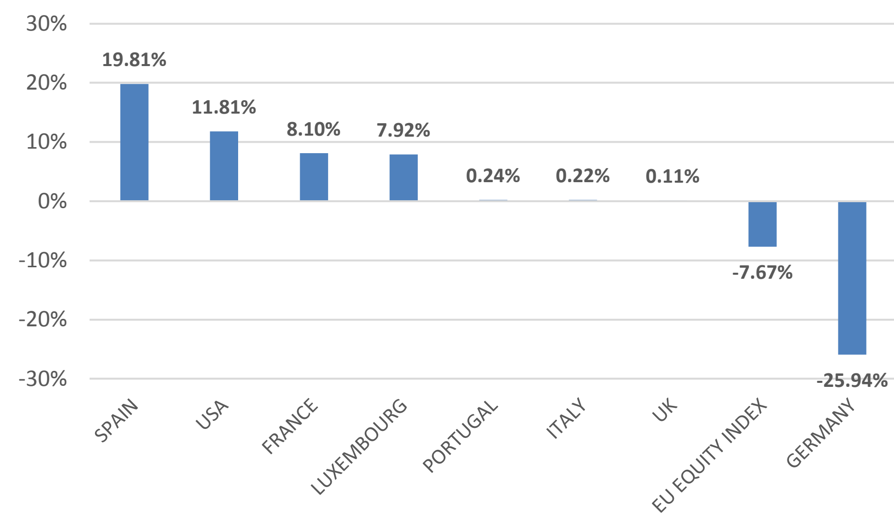
	RETURNS (CAGR)			**VOLATILITY**		
	5 years	**3 year**	**Since Inception**	**5 years**	**3 year**	**Since Inception**
RHO Investments	11,56%	6,17%	8,78%	8,95%	8,75%	8,90%
Stoxx 600	10,22%	4,25%	2,03%	11,33%	12,90%	14,74%
Iboxx EUR Corporate	4,52%	3,00%	4,04%	2,93%	2,81%	3,99%

RISK CONCENTRATION AND DISTRIBUTION METRICS (1)

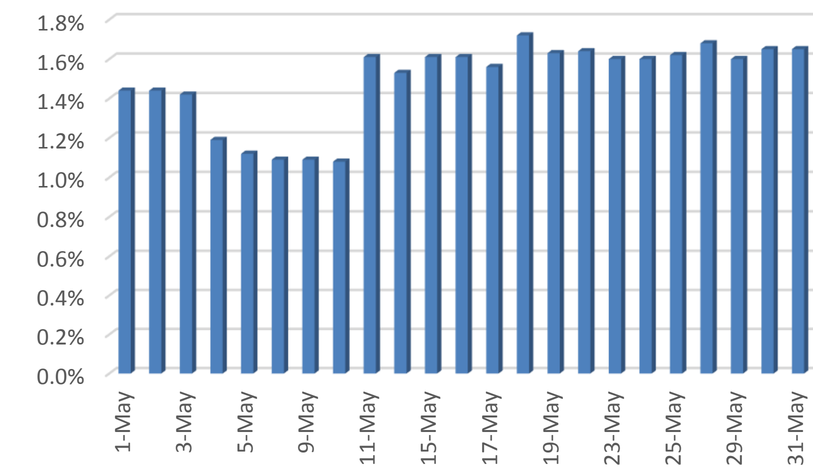


RISK CONCENTRATION AND DISTRIBUTION METRICS (2)

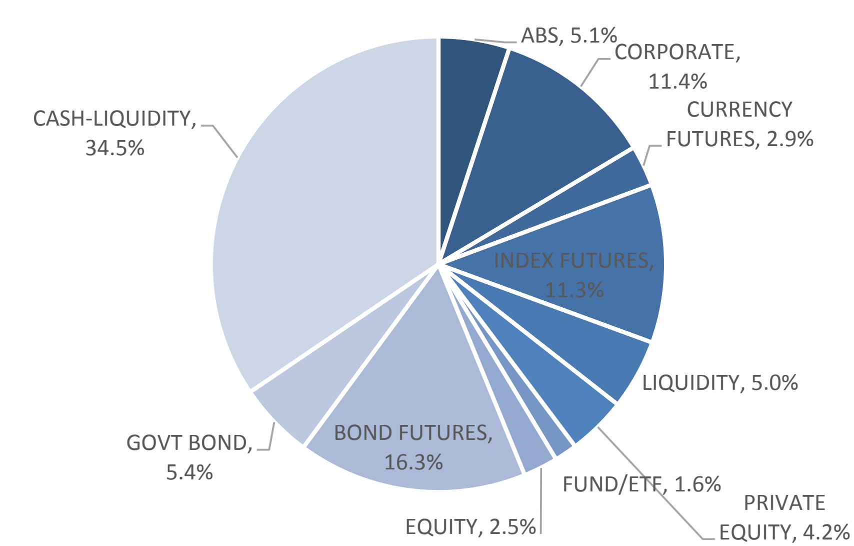
Net Notional Exposure By Country



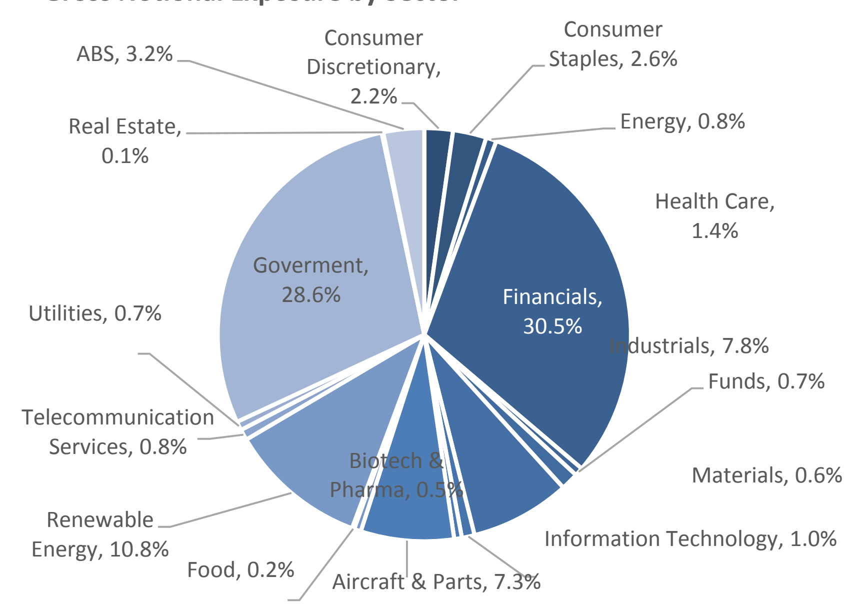
Daily VaR



Gross Notional Exposure By Asset Class



Gross Notional Exposure by Sector



MARKET AND PORTFOLIO COMMENTARY

MARKET BACKDROP

- The Euro Stoxx 50 index lost -0.14% in a month punctuated by political risk. May opened with a bullish tone predicated on the result of the second round of the French presidential elections, in which Emmanuel Macron won convincingly with 66.1% of the vote vs. Marine Le Pen's 33.9% of the vote. However, mid-month we saw a temporary selloff in risk markets amid leaks of a memo by former head of FBI James Comey allegedly citing pressures from president Trump to drop an enquiry into former national security advisor Mike Flynn´s ties to Russia. Despite brief concerns about heightened impeachment risk for president Trump, which could jeopardise his ambitious (although yet to be seen) economic agenda, the S&P 500 managed to mark new highs, gaining +1.16% on the month.

- The Fed decided to keep rates on hold during their meeting on May 3rd and underlined that "the committee views the slowing in growth during the first quarter as likely to be transitory", which vindicated bond bears in their belief in a sustained rate hiking path. The rhetoric provided an uplift to both bank shares and Treasury yields in the first half of May, before Donald Trump behaved like the proverbial bull in a China shop with regards to both domestic and foreign affairs throughout the rest of the month, thereby underpinning 10yr Treasuries, which tightened -7.8 bps to close out the month at 2.203%. Bunds largely tracked the trajectory of Treasuries with the 10yr point of the curve closing at 0.304% on May 31st (-1.3 bps).

- Implied volatility in both European equities and German government bonds declined over the course of the month, as equity indices overcame the temporary Trump-induced selloff to finish the month at 14.55% after having started the month at 17.05%. The volatility measured in the front month Bund future contract fell from 5.60% to 4.52%.

- EURUSD continued its explosive move higher throughout the month of May adding +3.14% to close at 1.1237, again largely driven by political considerations. On the EUR side of the pair, political risk premia collapsed after the second round of the French presidential elections on May 7th and the resounding victory of the centre-right CDU party in regional elections in Germany's most populous federal state Nordrhein-Westfalen on May 14th. On the US side of the cross, the cries for an impeachment of US president Donald Trump grew louder in mid-May, which prompted the greenback to double down on its weakness, pushing EURUSD above the 1.12 handle.

- Oil prices rallied into the OPEC meeting on May 25th, which produced a consensus for a nine-month extension of the supply cut that had been initially agreed during their previous meeting in last November and was threatening to run out at the end of June. WTI oil futures reached highs of 51.47 USD heading into the OPEC meeting, before gravitating back below the 50 USD level losing -2.62% on the month.

- Iberian and more broadly EU peripheral risk traded reasonably well over the course of the month despite substantial remaining provisioning needs across NPAs in the Italian, Portuguese and Spanish banking sectors. Whilst the market still waits for a solution to Novo Banco, BMPS and several regional banks, the focus was in the quickly deteriorating situation of Banco Popular Español. Whilst the broader market and Spanish macro risk remained sanguine throughout much press speculation as to the possible solutions for the bank´s future viability, as we type these lines the bank was put into resolution and sold to Banco Santander for the whopping total consideration of 1 EUR after writing down AT1s to zero and forcefully converting T2 securities into stock which was also transferred to Banco Santander. This will not only make for a very busy month of June in the markets but will also open a completely new era in regulatory intervention but more importantly for the fund, also a new opportunities in relative value trading as the market reprices the bank capital structure stack going forward.

PERFORMANCE AND RISK

- Another positive month in terms of performance, in yet again difficult conditions to navigate given the substantial input of political risk premia in asset pricing, a substantial rise in idiosyncratic credit risk, diminishing new issue concessions, and low levels of realised volatility.

- The fund returned 38bps net of fees in May despite once again the fund maintaining very modest levels of market exposure.

- Whilst maintaining overall levels of risk relatively low we continued to deploy capital on RV strategies. Thus, gross leverage increased modestly month on month (up to 159% in May vs 137% at end of April), and whilst our net exposure to the market has increased substantially (up to 70% in May vs 29% at the end of April) it was mainly the result of closing some short risk exposures than adding new longs. Furthermore our liquidity position has increased substantially (from 38% of gross exposure to 55%) to unusually large levels, which we are currently deploying as new pockets of opportunities have opened up. Overall levels of risk utilisation in VaR terms remained broadly flat on a month-end to month-end comparison, although the average daily 1-day 99% confidence VaR utilisation diminished from 2.18% in April to 1.49% in May.

- All our six sub-strategies yielded positive results in the month, although all relatively modest in the context of the aforementioned relatively low levels of exposures.

- Macro Directional strategies was the best performing bucket gaining 12bps on the month driven by bearish positioning via put spreads in the Eurostoxx 50 established at intra-month lows in implied vol, which we expected to bounce as we approached the UK elections.

- Elsewhere Micro directional strategies generated +10bps of performance as the fund reduced exposure to the European bank AT1 and T2 market amid aggressive pricing seen in the primary market in the most recent transactions. The Active bucket yielded a meagre 9bps of performance amid collapsing new issue premia and generally fairly reduced levels of intraday volatility for all of the asset classes and markets comprised within the asset class. Elsewhere very little to shout about with RV strategies dominated by UK election-focused themes which generated just 4bps of performance, whilst Deep Value returned 6bps. Special Situations returned a positive 7bps return as of May month end despite having been adversely affected by mark to market in our T2 Banco Popular holdings. As many of our investors are probably concerned about any risk management issues arising from the resolution of Banco Popular Español, a few comforting lines here to highlight that any losses arising from this situation are not only fairly small but more importantly that they strongly validate the robustness of our risk management framework and diversification:

    1) Despite a 60-sigma move in terms of statistical risk the loss arising in the portfolio as a result was confined to roughly 1.8% of NAV which is in the context of targeted risk/volatility for the fund.

    2) The fund is still 8% up on the year largely outperforming a vast majority of peers in terms of risk-reward.

    3) Although a loss event for the fund it has generated substantial new avenues of revenue opportunity in the medium term that should offset any short-term performance issues.

INVESTMENT OUTLOOK

- **INVESTMENT THESIS 1:** From our macro valuation strategy our main thesis of the last quarter remains broadly unchanged: Risky assets remain fully priced across the board, with short term upside purely derived from a collapse in political risk premia and an agonic extension of over-accommodative monetary policies across all major developed nations.

INVESTMENT ACTION: Our focus will still remain on very short-term active strategies, on an efficient selection of new shorts, as well as further deployment of RV ideas whilst keeping overall net exposure at relatively low levels until we see risk, uncertainty and illiquidity premia build up across risky assets. From a macro risk-reward perspective we continue to favour a short in core rates rather than sponsoring any further signs of EU reflation via long positions in stocks. However, given the relentless and stubborn dovish rhetoric from the ECB we are currently reassessing the timing and catalyst for a repricing of core EGB markets, particularly in light of supportive seasonal technicals for bonds coinciding with the summer period. As a result, and depending on the levels of implied volatility, we will aim to migrate some of the delta-one short in rates to a short position in short-dated calls in order to minimise volatility and generate some positive carry for the portfolio.

- **INVESTMENT THESIS 2:** Idiosyncratic risk is set to rise and has been largely overlooked by the market given the greater correlation across single names brought about by non-orthodox monetary policy.

INVESTMENT ACTION: We will be further increasing the inherent diversification of the portfolio, and in the Special Situations space where we see new substantial opportunities open up yet we are mindful of increasing levels of risk.

- **INVESTMENT THESIS 3:** As a result from the collapse and resolution of Spanish lender Banco Popular Español we will expect,

  i) a big divide in the market between on one side GSIBs (which is just a fancy new regulatory name to avoid stating that after so much posturing around moral hazard issues and regulation to eradicate it, there are still many institutions that are indeed too big to fail) and on the other the smaller medium and small-sized institutions that make up the European financial landscape

  ii) a substantial repricing of the capital structure for banks

INVESTMENT ACTION: We are currently examining investing in debt and stock issued by small-sized banks in Spain and Italy, which have been oversold as a result of the Banco Popular story and which are trading well below fair value. From a relative value perspective we are looking at the T2 vs stock or AT1 relationship for some of the weaker European lenders as we think that T2 securities now all appear largely overvalued vs more junior parts of the capital stack (and for French lenders in particular).

- **INVESTMENT THESIS 4:** Political risk premia is here to stay. Whilst the risky assets rally over the course of the last two months had much to do with the collapse of political risk premia, we believe that the market has gone too far in its forward-looking assessment. The much-Trumpeted US fiscal stimulus still depends on a president which has all the tickets in the impeachment raffle, OPEC agreements could be at risk from new diplomatic wars in the Middle East, the political situation in Italy is far from having been resolved, and as to how Brexit negotiations will proceed now as a result of the UK general election is anyone's guess.

INVESTMENT ACTION: We are looking to actively add overlay hedges around political risk concerns surrounding any of our more idiosyncratic investment propositions.

- **INVESTMENT THESIS 5:** Our concerns about the effect of Brexit on UK domestic demand remain intact, whilst a weakened political mandate after the recent elections will further impair the UK government's ability to navigate very difficult political negotiations with the EU and balancing its twin deficit problem.

INVESTMENT ACTION: We continue to explore relative value plays within UK and Spanish (exposed to UK high st.) stocks. We still hold conviction in the prospects of our long FTSE 100 vs short FTSE 250 over the medium term. We have also added an outright short in Banco Sabadell stock which will not only capitalise on any issues with UK exposures but also on a higher market scrutiny regarding low coverage levels following the resolution of Banco Popular.

- **INVESTMENT THESIS 6:** The market remains overly sanguine about Iberian risk at a time when the Spanish minority government is losing political support, persistent macro imbalances remain overlooked by the market and Banco Popular has been resolved by EU's SRB. At the same time, the Portuguese banking system which replicates many of the issues inherent in Banco Popular still remains largely without a credible solution, and in particular Novobanco whose sale to private equity firm Lonestar still remains fraught with problems.

INVESTMENT ACTION: We have exited all our exposure to Portuguese banks despite still attractive valuation for some securities like Caixa Geral AT1s and we have substantially reduced levels of Spanish exposure in the portfolio. We will also use any strength in seasonal price action to enter peripheral government wideners at attractive levels.