RHO INVESTMENTS

Monthly Factsheet as of March 2017

RETURNS

2017	+8,87%
CAGR *	8,83%
March 2017	+3,71%

RISK/ RETURN

Volatility*	8,97%
Sharpe Ratio*	0,98
Sortino Ratio	1,37
VaR 99% daily	1,18%

TOP FIVE POSITIONS

Germany 10Y, 5Y bonds	-27,55%
Aernova	8,49%
Steepener 5-30 year Germany	7,60%
CXGD 10 ¾ PERP	6,51%
Priesa	6,48%

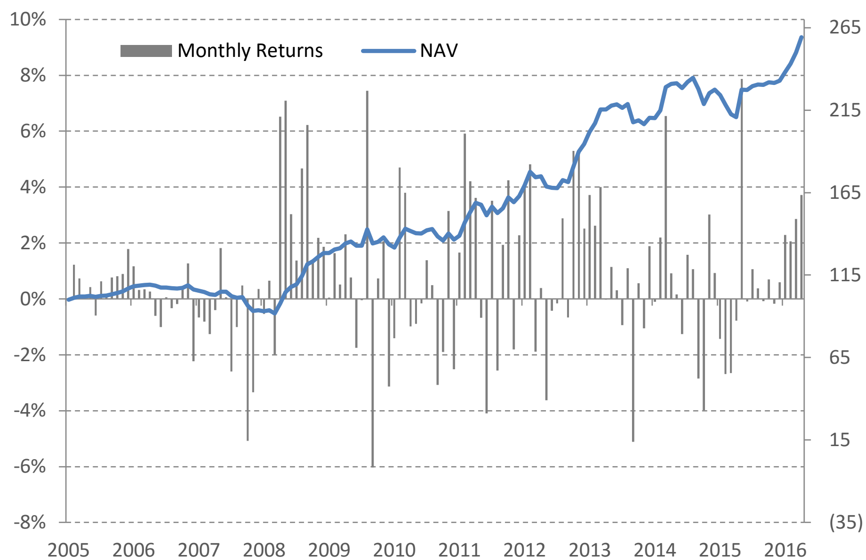
% EXPOSURE

Gross	192,43%
Net	68,22%

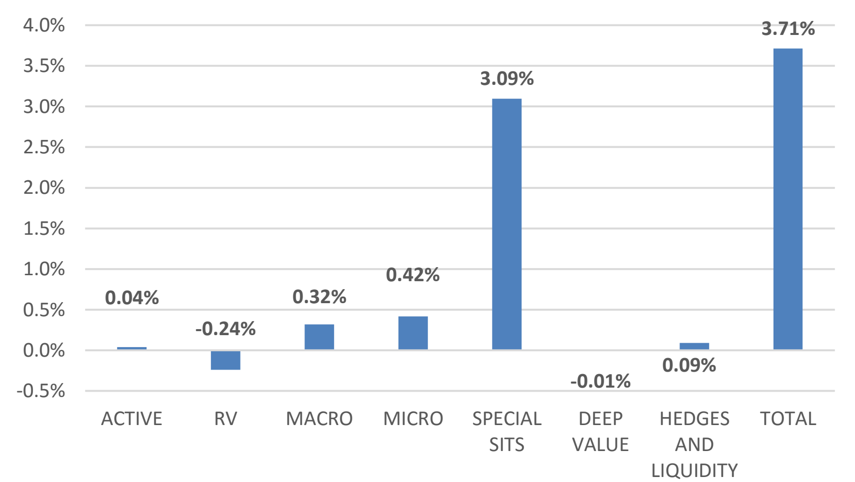
% of GROSS EXPOSURE per STRATEGY

Active	14,09%
Relative value	14,99%
Macro	17,73%
Micro	16,00%
Special Situations	9,81%
Deep Value	8,39%
Hedges	4,65%
Liquidity	14,34%

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	SIF
Domicile	Luxembourg
Launch Date	December 2005
AUM	77m €
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
Telephone	+34 91 324 42 00
Fax	+34 91 324 41 86
Website	www.aurigasv.es
Middle Office	Daniel Arribas / Patricia Alfonso

(*) Since Inception

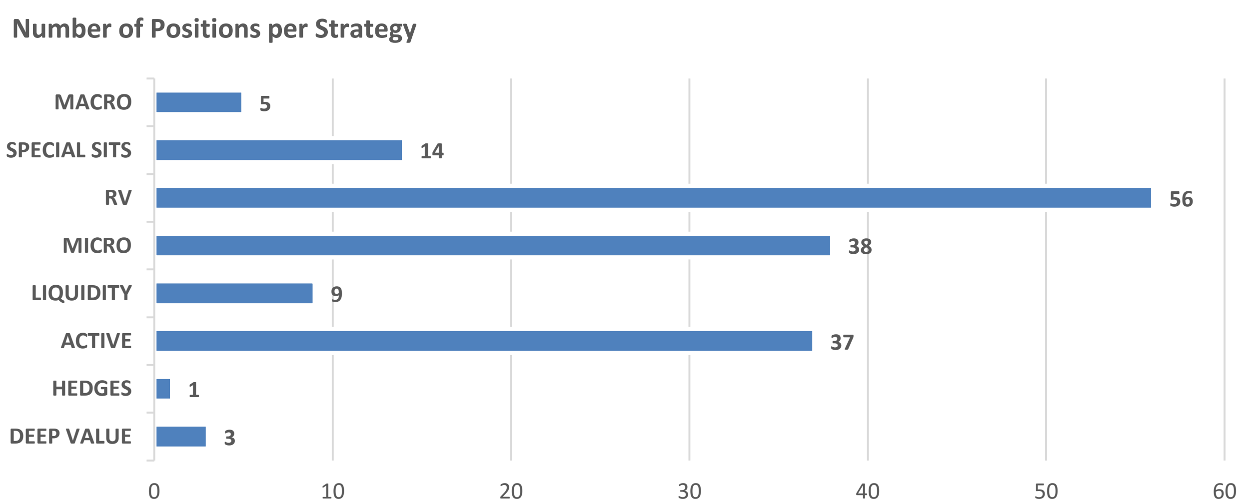
MONTHLY RETURNS

	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%										**8,87%**		

COMPARATIVE RISK/RETURN

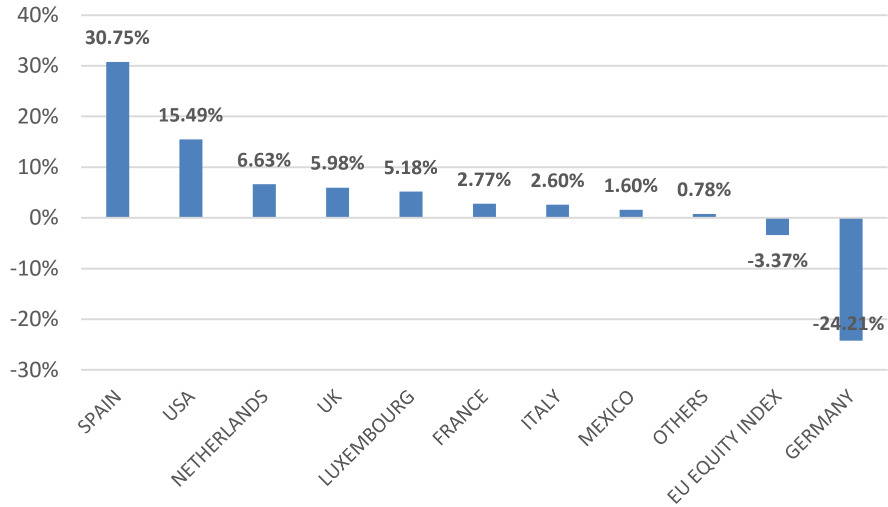
	RETURNS (CAGR)			VOLATILITY		
	5 years	**3 year**	**Since Inception**	**5 years**	**3 year**	**Since Inception**
RHO Investments	10,30%	6,39%	8,83%	9,25%	8,76%	8,97%
Stoxx 600	7,68%	4,47%	1,85%	11,91%	12,91%	14,84%
Iboxx EUR Corporate	4,40%	3,32%	4,02%	2,94%	2,85%	4,02%

RISK CONCENTRATION AND DISTRIBUTION METRICS (1)

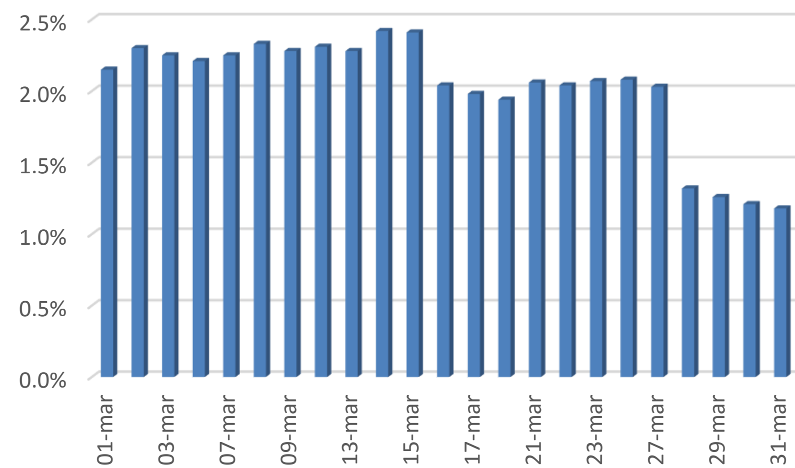


RISK CONCENTRATION AND DISTRIBUTION METRICS (2)

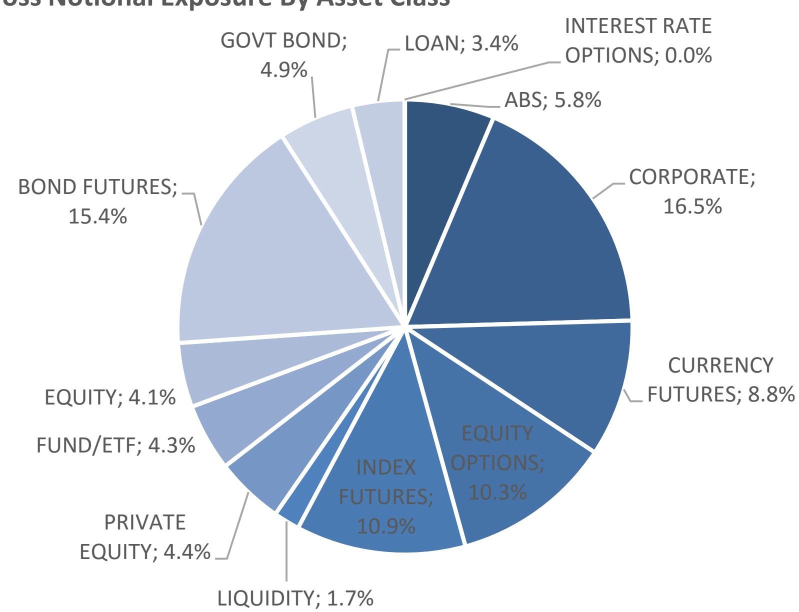
Net Notional Exposure By Country



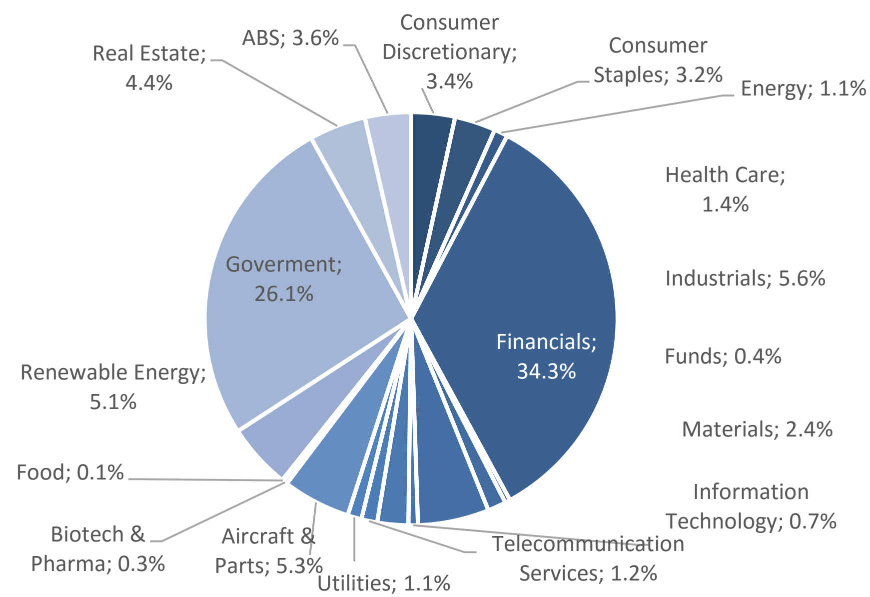
Daily VaR



Gross Notional Exposure By Asset Class



Gross Notional Exposure by Sector



MARKET AND PORTFOLIO COMMENTARY

MARKET BACKDROP

- European equities had a very strong month in March, with the Euro Stoxx 50 gaining +5.46% as perceived political risks in Europe receded, and the ECB started to sound a little bit less dovish. US equities struggled to build on their very good performance so far this year with the S&P 500 losing -0.04% on the month against a backdrop of a (largely discounted) FOMC hike.

- US Treasuries sold off into the FOMC meeting in mid-March, as the rhetoric of several Fed speakers turned increasingly hawkish, preparing the market effectively for the rate hike announced on March 15th. As some Fed speakers envisaged up to another three hikes this year, 10yr USTs broke through the 2.60% level to the upside, which had been earmarked by several investors as the potential bellwether of a bear market. However, the inability to pass the American Health Care Act by the Trump administration made cracks in the coalition of several Republican caucuses visible, and prompted a sharp bounce on Treasuries, with the 10yr yield closing the month at 2.39% (-6.3 bps).

- Bunds sold off, as the ECB sounded slightly less dovish during their press conference on March 9th, acknowledging improved macroeconomic data but still only cautiously revising their own macroeconomic forecasts for growth and inflation in the Eurozone to the upside. 10yr Bunds finished the month at 0.328% (+12.0 bps).

- EURUSD edged almost continuously higher throughout March to touch the 1.09 level and then reverse course to end the month at 1.0652 (+0.42%). Again, the story behind the EUR strength was predicated on a reduction of perceived EU political risks. The threat of a government including Geert Wilders´ right-wing PVV in the Netherlands was averted on March 15th, with the incumbent VVD led by Mark Rutte winning the elections. The prospect of a strong performance of the right-wing AfD was crushed in the German regional elections in Saarland on March 26th, as the Merkel-led CDU won overwhelmingly in a pro status quo vote. Polls in France stabilized forecasting a duel between Emmanuel Macro and Marine Le Pen in the second round of the French presidential elections, in which the centrist candidate is forecast to win by a wide margin.

- Semi-core vs. core spreads and periphery vs. core spreads in EGBs reacted positively to the political developments. 10yr France vs. Germany traded as low as 55.2 bps towards the end of March, while 10yr Italy vs. Germany tightened to levels as low as 175.3 bps, before starting to drift wider from there, as recent supply took its time to get digested.

- Despite the positive tone for risky assets in Iberia last month we had some polite reminders that idiosyncratic risk still runs high across Spain and Portugal and is not a good time for investors to get complacent. Spanish company Isolux looks headed towards a second restructuring to avert bankruptcy, Banco Popular uncovered irregularities surrounding its recent capital increase and still looks in need of a further capital injection, whilst in Portugal the sale process of Novobanco is fraught with execution risk.

PERFORMANCE AND RISK

- Another very strong month for the fund with a net performance across all strategies of +3.71% despite a focus on substantial risk reduction as we had outlined in our previous newsletter.
- In terms of overall portfolio construction and risk management we continue to execute the plan outlined at the end of November 2016. We believe that we have enough embedded optionality in our more idiosyncratic and longer term buckets that will play out in Q3 17, so we have continued to actively reduce absolute levels of risk exposure and directionality whilst increasing relative value risk.
- Gross leverage increased marginally month on month (up from 187% in February to 192% at end of March), as did net exposure (up from 64% in February to 68% in March). However, overall levels of risk utilisation in VaR terms continue to decrease substantially, with the fund posting a 1day 99% VaR/NAV of 1.2% at the end of the month (comparing to 2% the previous month). Also average daily 1-day VaR utilisation over the month dropped 72bps (from 2.72% in February to 2% throughout March), which equates in terms of risk to a portfolio 64% invested in the Eurostoxx 50 and 36% in cash. However the analogy is hardly representative of portfolio composition, as in terms of delta-adjusted equity exposure the fund closed the month with an equity delta of -2.78% of NAV, and net equity markets exposure throughout the month has ranged from +5% to -5% of NAV.
- All strategies with the exception of Relative Value produced positive results in March. Relative Value lost 24bps on the month as we looked to encapsulate European political risk optionality through a variety of trades in equity index pairs, and single name option volatility pairs. In the absence of catalysts the different trades lost in carry and adverse mark to market, but we believe that still provide residual optionality to cover tail risks going into the French elections at the end of April.
- As envisaged, overall performance was driven by the Special Situations bucket which returned +3.09% on the month driven by the much anticipated closure of the Abengoa re-structuring deal, positive mark to market in our Bankia/BMN M&A arb via a distressed CDO and profits realised in our stock allocation arising from a senior unsecured Amper loan conversion. Our other deeply idiosyncratic bucket: Deep Value was broadly flat on the month but we expect to be the main driver of performance in Q2 17 as we expect catalysts to exit two of our longer term positions within the strategy.
- Our directional strategies continued to perform well, with the Macro bucket contributing +0.32% to overall returns and Micro +0.42%. Within Macro our negative stance in core Europe nominal yields was the largest contributor to performance, whilst in Micro we exited a number of profitable investments in bank AT1 and hybrid securities.

NEW FUND LAUNCH

- We take the opportunity to proudly announce to our current investors and prospective ones that, after a lengthy process, our new flagship Luxembourg SIF vehicle will finally launch at the end of April, when we aim to open a two-week subscription period. We have already received substantial commitments and interest for the new fund launch, but 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 and exact timing of the new launch.

INVESTMENT OUTLOOK

- **INVESTMENT THESIS 1:** We have stated extensively our lack of faith in the "Trump reflation" trade. Market technicals and fundamental valuation metrics all point towards a scenario in which if we do not see a quick delivery on political rhetoric, markets might run out of patience and, given the extreme positioning in the market, the "reflation trade" could cave in as quickly as it developed.

  INVESTMENT ACTION: We aim to keep outright risk at very low levels to shelter the fund from broad market unfavorable valuation metrics and crowded positioning. Despite a more dovish than warranted ECB stance and a deceleration in core EU inflation, we still favour a short position in EGB nominal yields (particularly given its much more attractive risk-reward vs an outright long in stocks). However, given the risk of contagion into EGBs of a pronounced UST´s rally if the belief in the "Trump reflation" comes to an end, we have decided to prudentially trim some of our short exposures in European nominal yields.

- **INVESTMENT THESIS 2**: We remain troubled by tail risk derived from political considerations. We see the market as over-sanguine about European politics: difficult UK-EU relationships post Article 50 activation, French elections, a fragile Italian government, Portuguese expenditure burdened by the rescue of Novobanco and CaixaGeral and within Spain the lack of political support for the centre-right government to even pass the budget let alone control the budget deficit situation or pass far reaching structural reforms… all point to a very fragile geo-political equilibrium. Whilst we think these concerns are difficult to quantify or trade, the tail nature of some of the ramifications could manifest as events with serious impact in the market. Worryingly, none of the above negative optionality seems to be incorporated in the form of additional risk premia into risky assets.

  INVESTMENT ACTION: We continue to actively seek trades that capture political tails. On USD weakness we have added EURUSD bearish trades both via options and delta one. Post article 50 activation we do not think that market pricing reflects the risks for domestic-focused UK companies post Brexit (real estate developers and some retailers in particular), and have entered a short FTSE 250 vs long FTSE 100 position to express this view. We believe that there is also a lot of optionality embedded in peripheral spread wideners in EGB land, however these require ECB tapering as a catalyst, as in the meantime PSPP acts as a technical distortion and support mechanism for overly tight spreads.

- **INVESTMENT THESIS 3**: Despite the improvement in macroeconomic conditions in Iberia we still see a good number of companies overburdened with debt which will likely have to follow a restructuring process.

  INVESTMENT ACTION: After our lengthy but very successful involvement in the Abengoa restructuring we are looking for a number of companies that we see as candidates for restructuring further than the line or (in the case of banks) which are likely to be subject of a distressed capital increase/bail-in. Companies we are currently analysing for both long and short cases are Deoleo, Cortefiel, Novobanco, Cortefiel and Isolux.

- **INVESTMENT THESIS 4**: Despite broader political and macroeconomic concerns (which we intend to hedge out) we have turned very constructive on Spanish real estate.

  INVESTMENT ACTION: We are exploring a number of options to gain idiosyncratic exposure to the Spanish real estate sector where we now see a solid floor to both land and residential real estate prices. We are looking at a good number of companies in different parts of the capital structure as well as some deals with cash flows which provide direct or indirect exposure to real estate prices.