RHO INVESTMENTS

Monthly Factsheet as of July 2017

RETURNS

2017	+7,54%
CAGR *	8,45%
July 2017	+0,30%

RISK/ RETURN

Volatility*	8,88%
Sharpe Ratio*	0,95
Sortino Ratio	1,29
VaR 99% daily	2,89%

TOP FIVE POSITIONS

Germany 10Y, 5Y bonds	-28,06%
Aernova	7,18%
ACAFP 0 PERP	6,08%
BFCM 0 PERP	6,02%
Enviromental Infrastructure	5,27%

% EXPOSURE

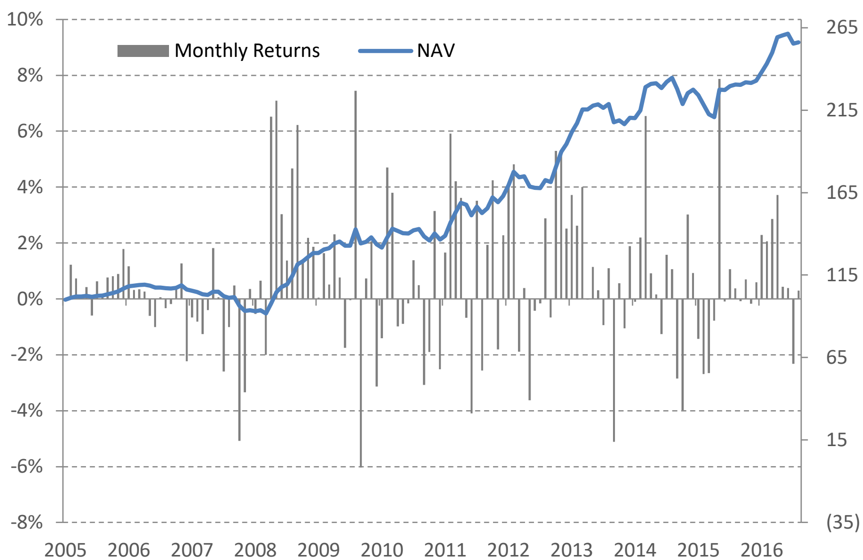
Gross	212,62%
Net	76,67%

% of GROSS EXPOSURE per STRATEGY

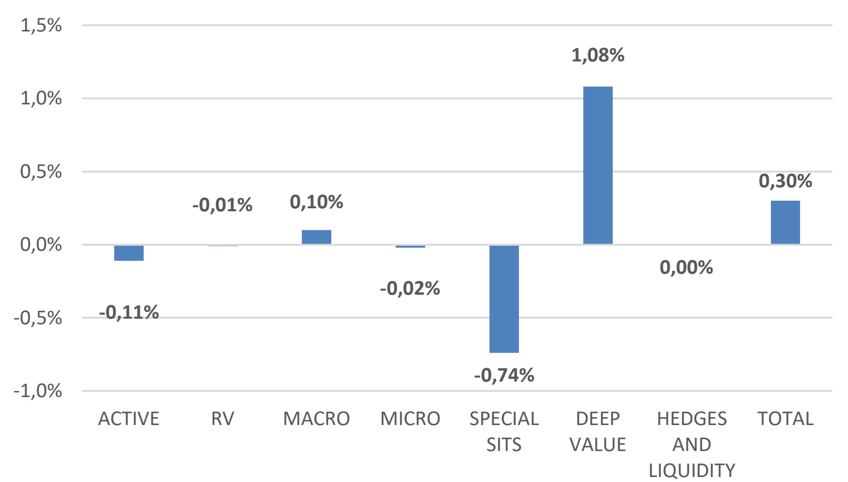
Active	29,54%
Relative value	9,34%
Macro	11,29%
Micro	6,22%
Special Situations	10,71%
Deep Value	6,79%
Hedges	2,32%
Liquidity	23,79%

(*) Since Inception

CUMULATIVE RETURN



PERFORMANCE ATTRIBUTION ACROSS STRATEGIES



SIL´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 Apostolos Saflekos
Fund´s Structure	SIL
Domicile	Spain
Launch Date	December 2005
Strategy AUM	80m €
Currency	EUR
Liquidity	Weekly
Management Fee	1,00%
Performance Fee	20,00%
Minimum Investment	€50,000
ISIN	N/A
Bloomberg Code	S1412 SM

CONTACT DETAILS

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MONTHLY RETURNS

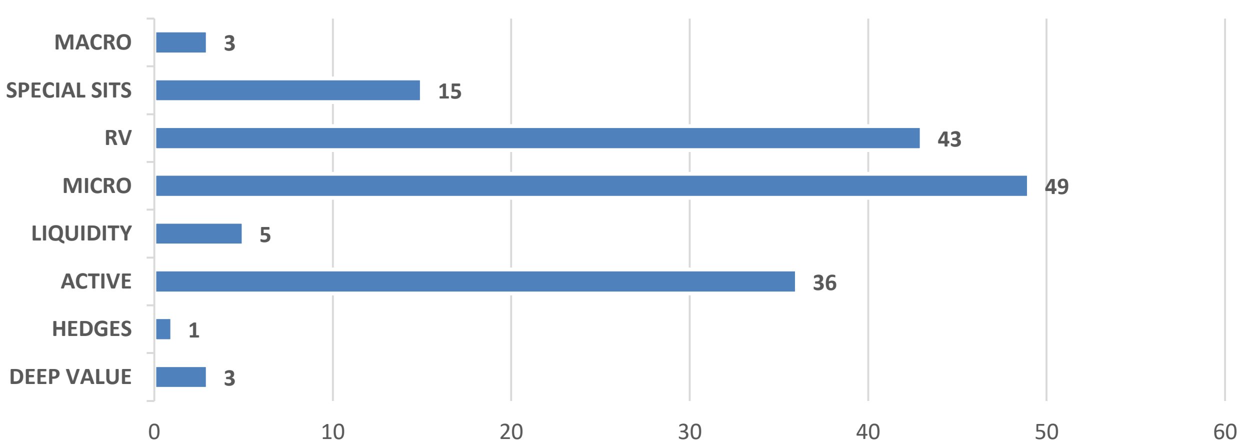
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year	Volatility	Sharpe
2006	1,22%	0,73%	0,00%	0,42%	-0,59%	0,63%	0,07%	0,77%	0,82%	0,89%	1,78%	1,17%	**8,17%**	**2,17%**	**2,03**
2007	0,31%	0,35%	0,27%	-0,61%	-1,01%	0,06%	-0,33%	-0,18%	0,38%	1,27%	-2,23%	-0,66%	**-2,41%**	**3,05%**	-
2008	-0,81%	-1,25%	-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%	-2,32%	0,30%						**7,54%**		

COMPARATIVE RISK/RETURN

	RETURNS (CAGR)			VOLATILITY		
	5 years	**3 year**	**Since Inception**	**5 years**	**3 year**	**Since Inception**
RHO Investments	10,92%	5,40%	8,45%	8,86%	8,86%	8,88%
Stoxx 600	7,65%	3,99%	1,72%	11,21%	12,96%	14,66%
Iboxx EUR Corporate	4,12%	2,71%	4,00%	2,81%	2,85%	3,97%

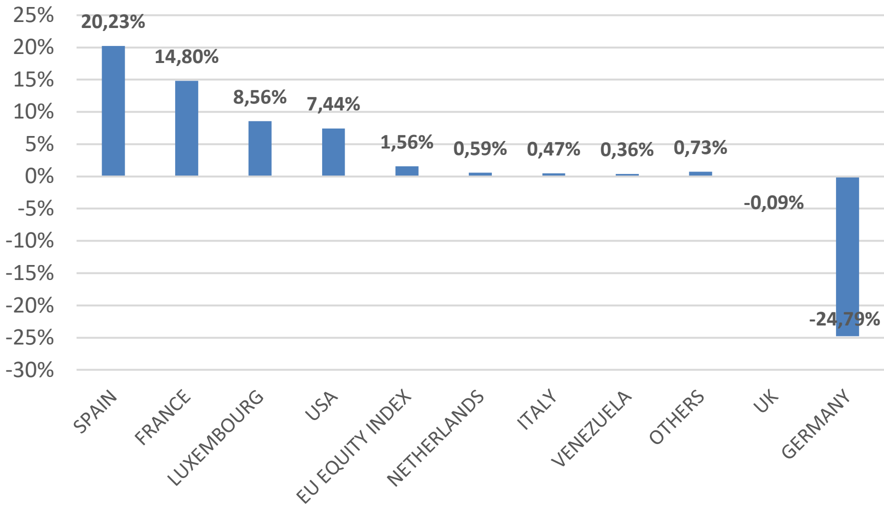
RISK CONCENTRATION AND DISTRIBUTION METRICS

Number of Positions per Strategy

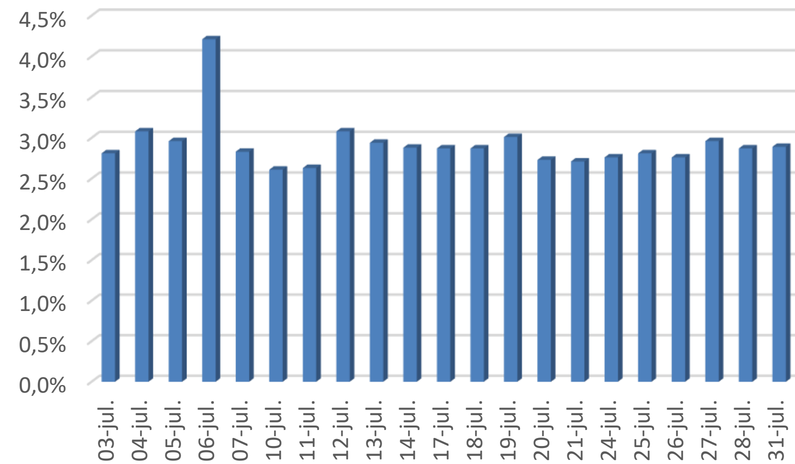


RISK CONCENTRATION AND DISTRIBUTION METRICS (2)

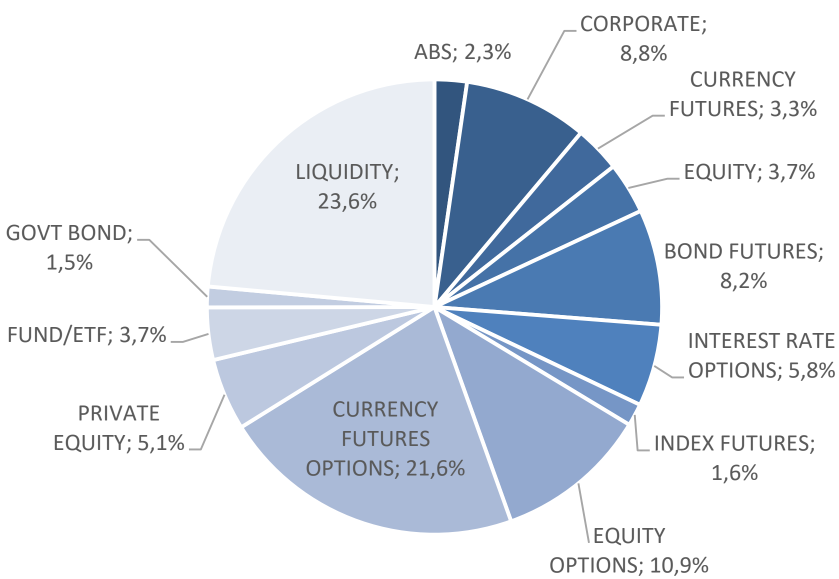
Net Notional Exposure By Country



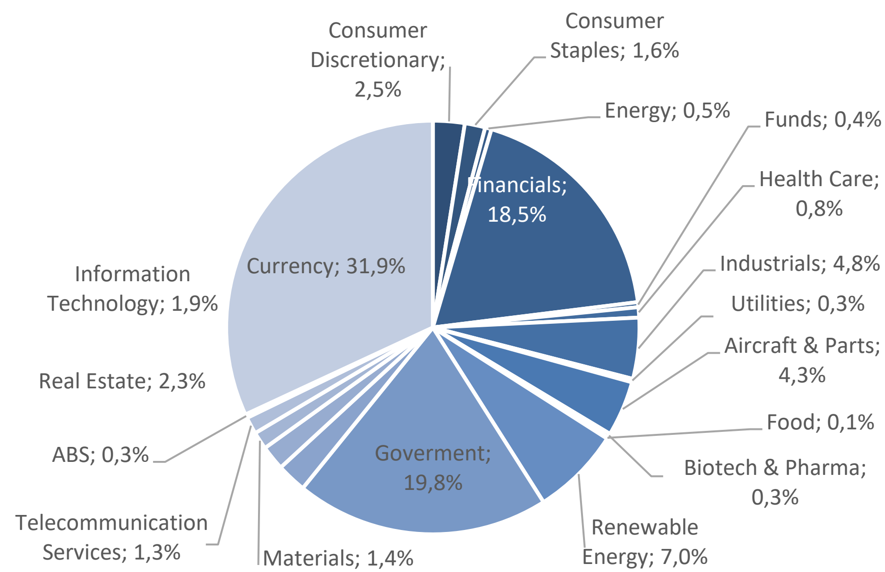
Daily VaR



Gross Notional Exposure By Asset Class



Gross Notional Exposure by Sector



MARKET AND PORTFOLIO COMMENTARY

MARKET BACKDROP

- European stocks ground higher in July (Euro Stoxx 50 +0.22%) shrugging off headwinds such as a substantial move higher in EURUSD, and a renewed debate in the market about ECB QE tapering. US equities were unfazed by the political chaos in the White House and the inability of the Trump administration to pass legislation, climbing higher throughout the month (S&P 500 +1.93%) helped by a weaker USD.

- After having unleashed a lot of bearish sentiment in the EGB market with his Sintra speech in June, ECB President Mario Draghi struck a more balanced tone during the governing council meeting on July 20th. He did his best to push back any announcement on the future of ECB QE till potentially October, while not making any changes to the prevalent language in the policy statement. Bunds rose throughout the month to 0.543% in the 10yr point of the curve (+7.6 bps), while periphery vs. core spreads compressed, as dictated by the usual positive technicals of the of the complacent summer carry trade (10yr BTPS -6.4 bps).

- US Treasuries closed July virtually unchanged at 2.294% (-0.9 bps) after a volatile month, which saw the Fed reiterate their message after their meeting on July 26th that the beginning of the implementation of the balance sheet roll-off framework was near. The market seemingly shrugged off this removal of accommodative monetary policy, deeming the net change in future purchases as too small to have a material impact on the trajectory of yields. The USD kept on losing ground against most of its major peers as the market-implied odds of further rate hikes for this year diminished materially.

- Whilst the trajectory of monetary policy and rate differentials had been dominating short-term EURUSD moves, it seems that politics have taken over as the major force moving EURUSD higher these days. At the start of 2017 it was European political risks that used to depress EURUSD valuations, it seems now the tables have turned and is the political chaos in Washington that has pushed EURUSD +3.37% higher in July. The dollar index has lost -2.89% in the same time frame.

- Commodities saw a decent turnaround in momentum as oil rebounded from levels below 45 USD in the beginning of July to levels above 50 USD, closing the month with gains of +8.38%. Substantial gains in other commodities such as copper, and rumours about potential further supply cuts in the Middle East have contributed to this move. Now from a macro perspective the market will face the conundrum of ascertaining which development will have a larger impact on inflation readings in the Eurozone: the inflationary pressures arising from stronger commodity prices or the deflationary impact of a quickly rising EUR.

PERFORMANCE AND RISK

- July was a turn around month in terms of performance with the fund recovering 0.30% amid substantial dispersion across strategies

- Our risk stance continues to be very cautious and defensive, both in terms of strategy allocation and portfolio construction in which we have increased the overall liquidity levels

- We continued to prioritise allocation to short-term and more liquid exposures, reducing where possible directional positioning with the only exception of deeply idiosyncratic distressed or event-driven situations, or short-risk directional allocations to any assets that we have identified as particularly over-valued. As a result the Active, Relative Value and Macro strategies accounted for 50.2% of gross exposures and liquidity for 23.8%, with Micro Directional strategies only accounting for 6.22% of gross exposures.

- Overall performance was dominated by Deep Value which registered a 1.08% gain on the dividend payment of our Aernova investment and Macro strategies which benefitted from short-term tactical bullish positioning in EURUSD and early profit taking on bearish EGB positioning.

- The only notable negative contribution to performance came from Special Situations, which returned -0.74% in the month and within which we saw substantial dispersion. Once again our core positioning in CMS-linked legacy bank capital instruments, which continues to be one of our core and largest single-item contributions to risk brought substantial positive mark to market. Furthermore we see still more upside from these exposures and we expect our positions in legacy bank capital instruments issued by BFCM and Credit Agricole to have short-term catalysts ahead of their 2021 capital derecognition. These upside will likely come in the form of an exercise of “clean-up” calls (as at current levels tenders appear less likely and more ineffective) but even if the issuer does not exercise the calls they still also provide very cheap optionality to the portfolio in terms of any upticks in inflationary Eurozone pressures, which ultimately could also accelerate the decision to call of those securities irrespective of capital optimisation. Also in the event-driven world the adverse mark-to-market effect arising from the terms of the Bankia M&A deal on BMN stock have created a negative impact in our position. However we have now fully hedged the exposure equivalence in terms of Bankia shares with December (as the deal is scheduled to close then) puts, thus removing any further downside and keeping any remaining upside.

- All other buckets provided little in the way of performance with Active trading strategies producing a mere 6bps in terms of performance despite substantial (albeit very small in absolute notional terms and in terms of VaR) gross allocation. Lack of volatility, lower liquidity and lack of primary supply translated in much lower levels of profitability for the strategy.

INVESTMENT OUTLOOK

Not a a lot has changed in our view of the world, although admittedly we have turned slightly more bearish as overall valuations crept up. One of the few exceptions to our general view of grossly over-valued assets is encapsulated in Thesis #4 which constitutes a new addition from the previous month. Otherwise the rest of the investment thesis below replicate those published in our June investment newsletter.

- **INVESTMENT THESIS 1:** Our main macro thesis that has informed investment decisions since the end of last year remains undented. We remain troubled by the levels of investor complacency in a market where equities look fully priced vs excessive monetary accommodation and asymmetrically positioned for a slip in the earnings season, whilst more worryingly, fixed-income values continue to hover exuberantly well above bubble territory. Whilst we acknowledge that we are likely to still experience some bullish short-term momentum purely derived from the last throes of over-accommodative monetary policies, and from a lack of new (although some of the existing ones should be worrying enough) political concerns, we also know by experience that market timing is a very imperfect science, and more importantly, in the words frequently (and apparently erroneously) attributed to John Maynard Keynes "markets can stay irrational longer that you can stay solvent.."

INVESTMENT ACTION: Our focus will remain on paying as little negative carry or implicit opportunity costs as possible whilst the above-mentioned issues remain unresolved. We remain focused on an efficient selection of new shorts, as well as further deployment of RV ideas. We will keep overall net exposure at relatively low levels until we see catalysts for a correction fully apparent and obvious to the herds. We think that a "ECB tapering tantrum" is fully possible in the September meeting even if market consensus seems to be gathering around a September meeting announcement of a tapering process beginning in January 2018. Even if in theory incorporated into current valuations, market sentiment will remain fragile to the "T" word and we strongly believe that will not be a case of "sell the fact". We are thus currently exploring ways to express an increase in volatility around the ECB September meeting in both bonds, stocks and FX. We also continue to research optionality-driven trades expressing the (adverse) effect of tapering on peripheral EU government debt sustainability and corporate credit quality (and on the most levered European HY companies in particular).

- **INVESTMENT THESIS 2:** Overall levels of implied volatility remain stubbornly low across most asset classes by historic standards at a time when develop markets navigate the unchartered waters of unorthodox monetary policy withdrawal. Think of doctors putting a patient in an induced coma to treat a serious brain condition…you know that the recovery path is fraught with risk…The difference between medical science and monetary policy being that doctors have extensive experience with pentobarbital or similar drugs to induce a coma state in a critically ill patient, whilst central bankers lack the benefit of experience in terms of effects and risks related to QE exit

INVESTMENT ACTION: We will be selectively adding RV volatility strategies and in any case where the overvaluation is substantial and the time-decay not too prohibitive adding to outright long-vol positions. In particularly we are targeting to buy EM equity indices implied vol as it screens particularly cheap to other asset classes.

- **INVESTMENT THESIS 3:** Recent experience has highlighted that the strict rulebook of BRRD far from providing strict guidelines and a clear process for bank resolution is open to regional interpretations to accommodate political needs.

INVESTMENT ACTION: "Experience is what you got when you didn't get what you wanted". This is one of our favourite Howard Mark´s (of Oaktree Capital Management fame) quotes and encapsulates our feeling from our recent Banco Popular resolution experience. A not particularly costly (in terms of overall fund volatility) but hard lesson nonetheless. From now on a few lessons appear crystal clear to us

- subordinated bank debt no longer constitutes an attractive arbitrage opportunity to enter a bank´s capital via conversion into common stock as part of LME or restructuring exercises
- bank T2 securities have to reprice substantially from current levels (vs AT1) and we will explore any viable compression trades across European banks
- for medium and large banks where there is not a sufficient stack of new NPS securities outstanding, senior unsecured debt will remain sacrosanct and will not be subject to bail-in (as ranks pari passu with junior depositors and on systemic grounds these will remain untouched). As such, we will be looking to explore long senior unsecured vs short new NPS securities opportunities in some of the weaker EU bank credits as the new market for NPS evolves.

- **INVESTMENT THESIS 4:** Despite the above we still see a few opportunities in the European banking sector for outright long-risk positioning, BUT we are looking for banks with a reasonable existing CET1 cushion and multiple operational levers (asset disposals) to resolve their current problems (essentially NPEs) for these stocks (given thesis 3 above, we see a better risk-reward through common equity than through less liquid capital instruments) to re-rate closer to sectoral average in the Eurozone of P/TBV c. 0.8x vs levels in the 0.3 to 0.4x area. Additionally most of these cheap viable banks offer good optionality in terms of any inflationary surprises in the Eurozone as the stocks we are analyzing typically exhibit the highest sensitivity of NIM to rising rates of all European banks.

INVESTMENT ACTION: In particular we have initiated outright and RV exposures to Banco BPM in Italy and we are looking at a number of opportunities in NPL disposals from small and middle-sized Southern European entities.

- **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 add investment themes predicated on a weakening of UK domestic demand to our RV, Macro and Micro directional buckets.