RHO INVESTMENTS

Monthly Factsheet as of February 2017

Quadriga ASSET MANAGERS

RETURNS

2017	+4,97%
CAGR *	8,55%
February 2017	+2,85%

RISK/ RETURN

Volatility*	8,96%
Sharpe Ratio*	0,95
Sortino Ratio	1,31
VaR 99% daily	2,02%

TOP FIVE POSITIONS

Germany 20Y,10Y, 5Y bonds	-35,33%
Aernova	9,04%
Priesa	6,90%
RABOBK 6,5% PERP	6,07%
Environmental Infrastructure	5,52%

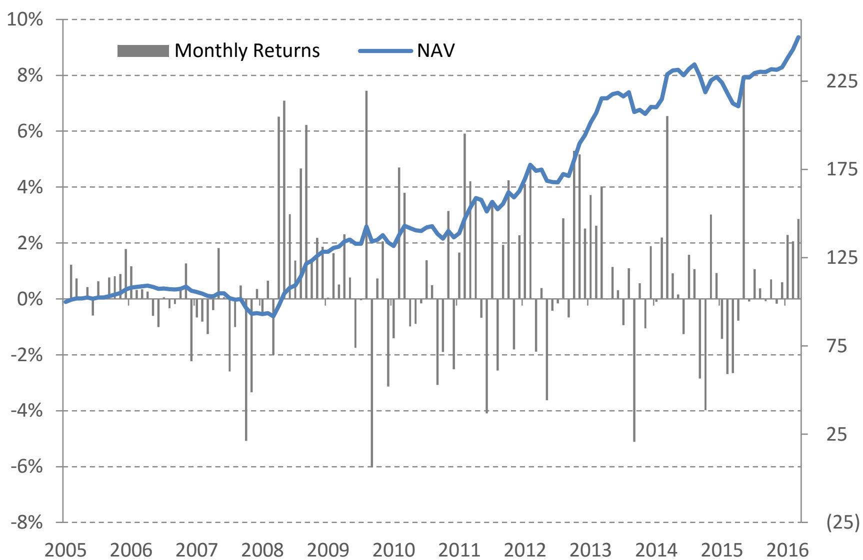
% EXPOSURE

Gross	187,34%
Net	64,30%

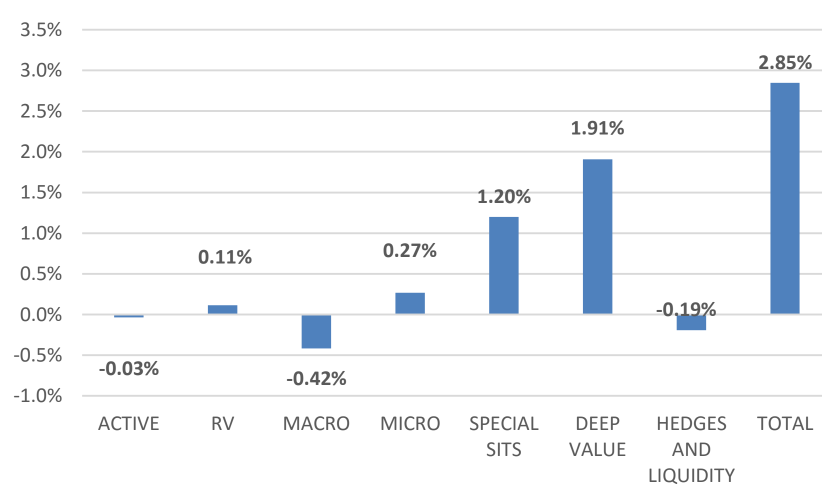
% of GROSS EXPOSURE per STRATEGY

Active	17,89%
Relative value	7,87%
Macro	17,06%
Micro	11,34%
Special Situations	9,59%
Deep Value	9,19%
Hedges	6,25%
Liquidity	20,80%

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	73m €
Currency	EUR
Liquidity	Weekly
Management Fee	1,00%
Performance Fee	20,00%
Minimum Investment	€50,000
ISIN	TBC
Bloomberg Code	TBC

CONTACT DETAILS

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(*) Since Inception

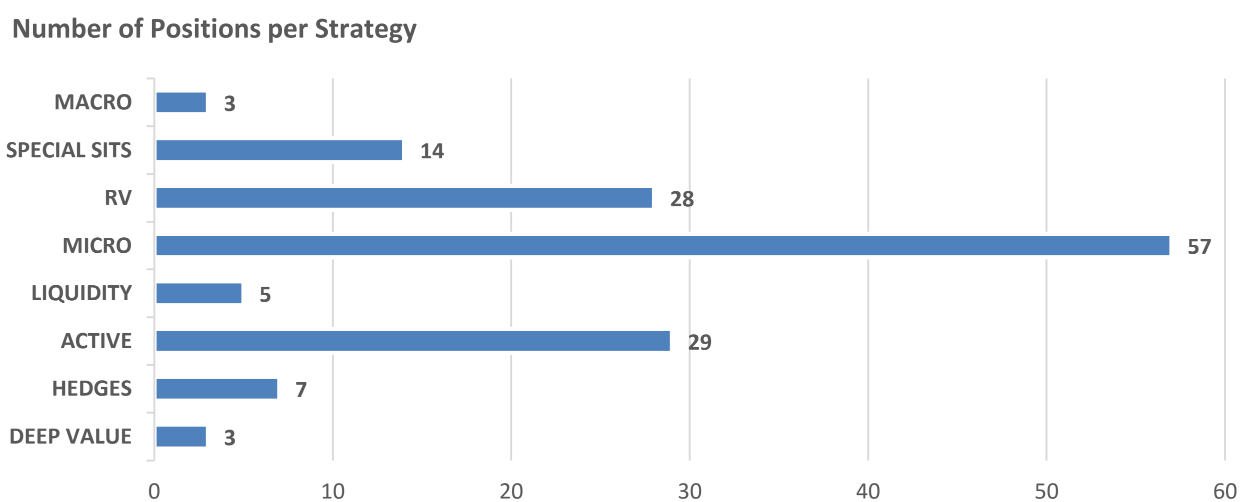
MONTHLY RETURNS

	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%	2,85%											**4,97%**		

COMPARATIVE RISK/RETURN

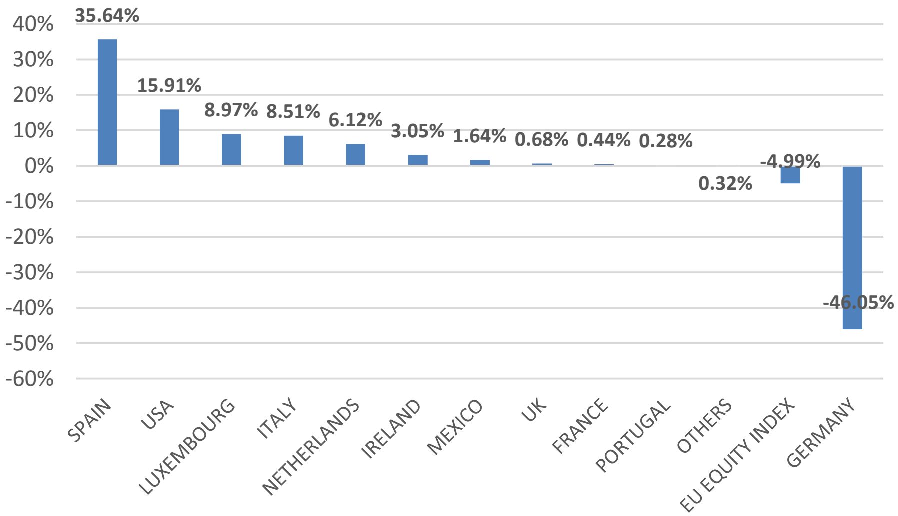
	RETURNS (CAGR)			**VOLATILITY**		
	5 years	**3 year**	**Since Inception**	**5 years**	**3 year**	**Since Inception**
RHO Investments	10,28%	5,10%	8,55%	9,25%	8,56%	8,96%
Stoxx 600	6,97%	3,08%	1,60%	11,88%	12,85%	14,87%
Iboxx EUR Corporate	4,67%	3,57%	4,08%	2,93%	2,83%	4,03%

RISK CONCENTRATION AND DISTRIBUTION METRICS (1)

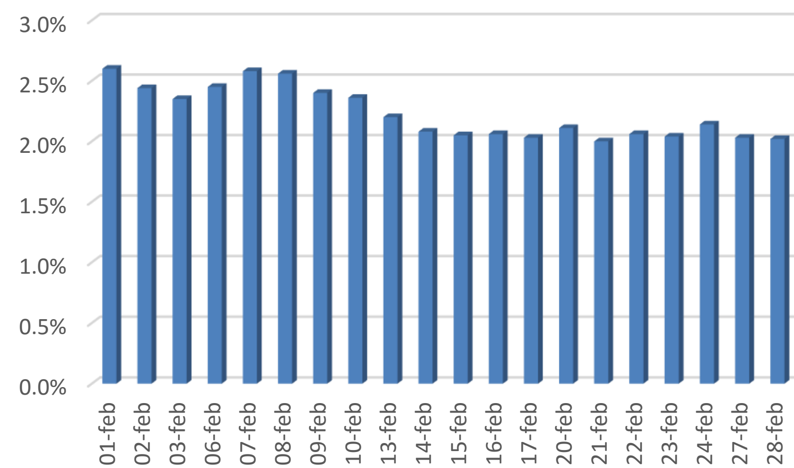


RISK CONCENTRATION AND DISTRIBUTION METRICS (2)

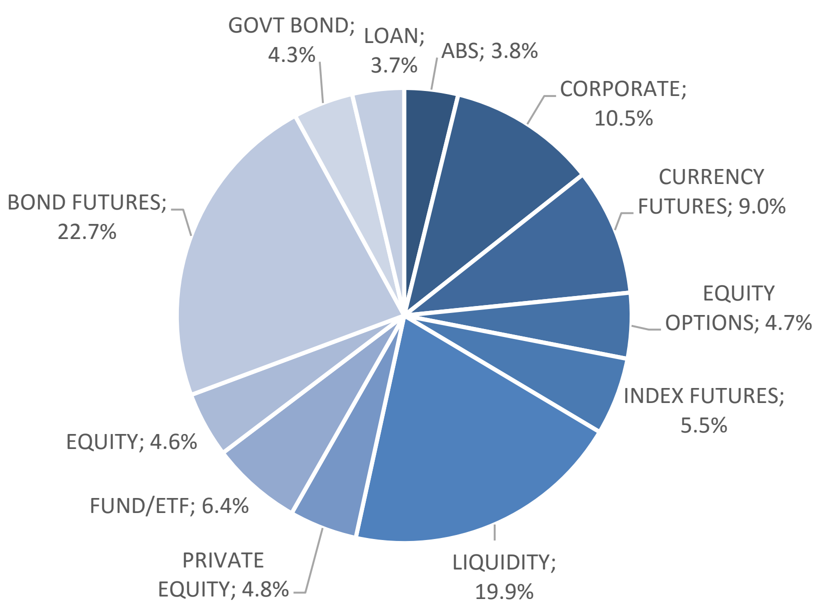
Net Notional Exposure By Country



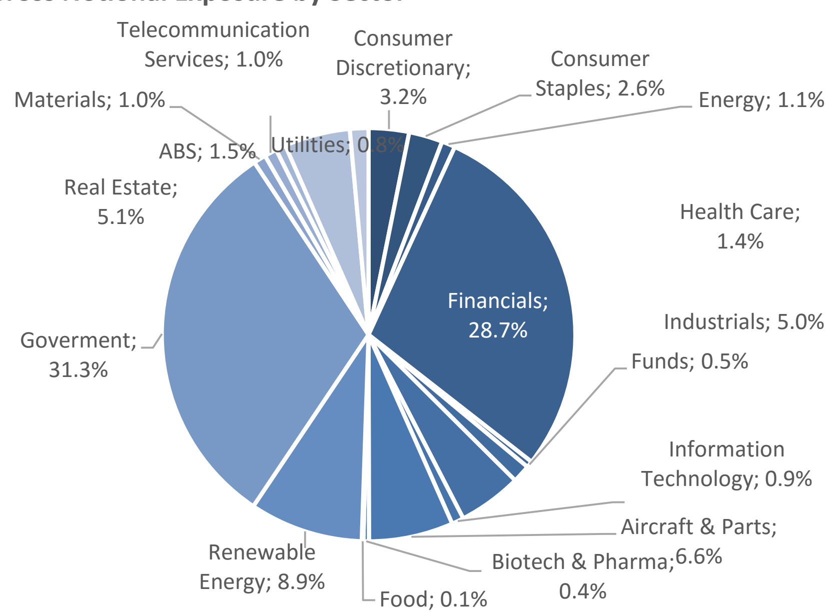
Daily VaR



Gross Notional Exposure By Asset Class



Gross Notional Exposure by Sector



MARKET AND PORTFOLIO COMMENTARY

MARKET BACKDROP

- European equities moved higher throughout the month of February (Euro Stoxx 50 +2.75%), as growth and recovery optimism outweighed any fears of political instability and lack of progress on structural reforms. It was however US equities leading the way higher (S&P 500 +3.72% on the month) driven by a blind faith on Trumponomics, which found some encouraging grounds of support on Mr Trump´s more measured and conciliatory tone in his address to congress. However the we have yet to see a tangible delivery on such high embedded market expectations. The better market tone also helped push implied volatility to new lows in European indices, with the V2Stoxx finishing February -6.24% lower at 16.28.

- Inflation readings across Europe continued to exhibit a rising trend, which was quickly dismissed by ECB officials as merely attributable to the energy components of price indices, thus trying to avoid any uncomfortable early discussions on tapering. This dovish stance coupled with heightened political risks, especially with regards to the French presidential elections and Marine Le Pen's lead in the polls, caused 10yr Bunds to reverse the entire selloff seen in January, tightening -22.8 bps to close the month at 0.208%.

- US Treasuries, however, did not participate in the Bund rally. Benchmark 10yr treasuries closed the month virtually unchanged at 2.453%, as several FOMC members started to exhibit an increasingly hawkish rhetoric putting a March hike within tangible reach. EURUSD reacted accordingly and traded -1.64% lower to close the month out at 1.0607 on the back of renewed dollar strength.

- A point of focus within the rates markets was once again 10yr France vs. Germany spread, which widened from 59.5 bps at the end of January all the way to intraday wides of 82.5 bps. The turning point came towards the end of the month, as centrist politician Francois Bayrou announced that he would not join the presidential race and formed a political alliance with centrist candidate Emmanuel Macron instead. 10yr FRTR vs. DBR spreads finished February at 67.4 bps. Periphery vs. core spreads tightened as did semi-core vs. core spreads into month end.

- Growing optimism of a sustained Iberian economic recovery found more encouraging support in last month´s economic releases. Notably Spanish consumer price inflation accelerated to +3.2% YoY in February. However, with the unemployment rate stubbornly high at 18.70%, a path of rising inflation coupled with no signs of an uptick in wages could lead to another squeeze of the already embattled middle class. On the political front, tensions are increasing between Catalonia and the central government with regards to the desired independence of the region. Spanish 10yr government bonds their Italian equivalents by approximately 10 bps on the month.

PERFORMANCE AND RISK

- Yet another very strong month for the fund with a net return of +2.85% in February, taking the year to date return in 2017 to 4.97%
- We had already anticipated in Q4 2016 that our returns in H1 2017 would be dominated by the presence of catalysts for the optionality acquired within our longer-term and more idiosyncratic strategy buckets over the course of the last two-years. As originally envisaged, the catalysts have manifested substantially asymmetric pay-offs in terms of the original size of our investments into the Specials Situations and Deep Value buckets, which largely drove overall performance for the month of February.
- 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. Additionally, we have decided to actively reduce directional risk exposure ahead of a month of March heavily laden with political uncertainty and a market backdrop where risky assets look on average fairly rich in terms of valuations.
- Gross exposure increased from 168% to 187% in order to take advantage of a growing universe of RV opportunities. However net exposure to the market was reduced to 64% (down from 72% at the end of January) and overall risk in statistical terms (99% confidence 1-day VaR) decreased by 37% (from 3.19% at the end of January to 2.02%) and at month end was roughly equivalent to that of a portfolio 75% invested in the Eurostoxx 50, with the caveat that the net equity market delta exposure of the fund stood at roughly 5% of NAV (unadjusted for beta).
- Deep Value strategies returned +1.91% on the month driven by market gains on our EIH renewable energy investments. Special Situations contributed a net +1.20% return driven by further positive mark to market in our Santander CMS legacy Tier1 bank capital position, and our investment in Novobanco senior unsecured long-dated zero-coupon securities. Given the strong bid for risky-assets we decided to exit both investments. The Santander exposure had become very expensive in relative value terms, so we decided to switch into a more liquid exposure to French bank BFCM 7.5 big figures cheaper and with more LME potential in our view, although momentarily unduly punished by the French political situation. In the case of Novobanco we believe the market reacted overly optimistically to the partial Lone Star bid, where still substantial execution risk remains, and we see limited credit upside in the case of private equity involvement vs our original thesis of a Santander or Caixabank bid for the whole entity. Within the Special Situations bucket we still envisage substantial short-term, upside related to the imminent (according to the Spanish press) merger between Bankia and BMN which we play via investment in the mezzanine and junior tranches of a Spanish LT2s-collateralised CDO which we acquired at distressed prices. Elsewhere, Micro strategies contributed 27bps to performance driven by our exposure to Spanish real estate sector stocks and Relative Value contributed 11bps of performance driven by our long Unicredit vs bank index and positive carry in option volatility strategies. Our short-term trading-oriented Active strategies were roughly flat on the month dragged by lower levels of market volatility, lower levels of primary activity and reduced new issue premia concessions.
- Macro directional strategies provided the only negative contribution to the overall portfolio (-0.42%) which was largely driven by the strong bounce in German government bond prices and to a lesser extent by resilient EURUSD FX levels. We still see short exposure to European rates as one of the most attractive risk-reward exposures in the macro landscape and short EURUSD as laden with optionality during the month of March.

INVESTMENT OUTLOOK

- **INVESTMENT THESIS 1:** Economic nationalism will succeed in delivering higher inflation, not necessarily higher growth. If history is anything to go by, economic nationalism has been counterproductive to global trade and economic growth. It is in this context that we find puzzling the general overenthusiasm for global stocks. With Trump and May at the helm in the US and UK, and the frightening potential of more extreme entrants to the populist party (e.g. Le Pen, Wilders, etc.), at the very best uncertainty premia built into risk assets should increase. At the very worst we should expect a widespread increase in political tensions and a deep fracture on the geopolitical equilibrium forged since the end of the cold war. Heightened political tensions should manifest themselves from an economic stand point as an increase in barriers to trade and a reversal of the deflationary benefits that consumers in developed economies have broadly enjoyed over the last two decades. The above scenario depicts to us a very asymmetric risk-reward to sponsoring the reflation trade via a rates short (and European one´s in particular) as opposed to via an equity long (and US stocks in particular).

    INVESTMENT ACTION: At risk of not participating in the general obsession with a reflation trade via equities (which we still see plausible on M&A grounds and cyclical recovery of overly punished sectors like construction or banks) we see the risk-reward of shorting nominal yields as a much more risk-reward and statistically attractive proposition. We have increased our short exposure to German bonds, which has already validated by the price action seen at the beginning of March.

- **INVESTMENT THESIS 2**: As embedded on the thesis above, we remain very cautious about the prospects of EPS growth in Europe. However we have to concede that there is potential for upside driven by M&A activity (transatlantic for large caps and domestic consolidation amid smaller European players) and a rebound in construction, real estate and banking valuations in Europe.

    INVESTMENT ACTION: Given the less attractive ex-ante risk-reward profile for equities, and potential for an increase in volatility from depressed we will aim to structure any equity trades in terms of relative value or long volatility. We have entered a relative value long of Unicredit shares vs the bank index and we have implemented new option implied volatility strategies around the earnings season.

- **INVESTMENT THESIS 3**: Despite some of our earlier scepticism we have become increasingly bullish about the recovery in the Spanish real estate and construction sectors, encouraged by growing evidence of a pick up in activity levels, increase in demand and structural potential for supply bottlenecks.

    INVESTMENT ACTION: We have selectively commenced to move out of longs in Spanish large-cap construction stocks where we believe that the upside potential is close to peaking as the potential further asset disposals and leverage reduction has greatly diminished (and which were the drivers of our investment thesis) and have instead transitioned into new opportunities in mid-sized Spanish real estate stocks where we believe valuations are far more attractive and offer more immediate upside on aggressive rental repricing, in particular those linked to the tourist sector where we see still substantial growth in international demand derived from political instability in competing regions (Northern Africa, etc).

- **INVESTMENT THESIS 4**: We will continue to see a strong political drive to resolve the structural issues (weak capitalisation, excessive levels of NPAs and inadequate levels of provisions) that still beleaguer a great part of the European banking sector. Amid limited availability of private money willing to underpin the recapitalisation of some of Europe´s weakest lenders (as we saw in the case of Banca Monte dei Paschi) most recapitalisation plans for viable middle-sized institutions will hinge upon voluntary conversion of capital securities. We believe that liability management exercises constitute an interesting capital arbitrage opportunity offering better entry points vs an outright equity investment. This is particularly relevant as once structural issues are resolved, these banks will still face substantial competitive and cyclical (term structure of interest rates and weak loan demand) pressures that will cap the medium prospects for ROTE targets envisaged in many management plans we have analyzed. By investing in equity via debt capital instruments with high potential of voluntary conversion into stock we can achieve synthetic "breakeven" ROTEs as low as 1.5%, which provide us plenty of margin for error relative to overoptimistic management turnaround plans angling for high single digit returns.

  INVESTMENT ACTION: We are currently analyzing a good number of potential investments in T1 and T2 legacy securities issued by middle-sized European banks where the ECB has identified additional capital needs such as Banca Carige in Italy or Banco Popular in Spain.