



# Portfolio Report November 2019

## The Rosevalley Behavioural Finance Funds

The Rosevalley Behavioural Finance Funds are high-conviction funds that take the theoretical and empirical evidence developed over the past 30 years in Behavioural Finance, and systematically build portfolios from these learnings. The portfolios are constructed on a benchmark-unaware basis, but performance is compared to the ASX-200 accumulation index.

One of the great joys of working in stock markets is the speed at which events unfold and impact markets. One of the great frustrations of working in stock markets is the speed at which events unfold and impact markets<sup>1</sup>. In this case we are referring to the fact that at the time of writing (mid-December), the events in the past two weeks, in particular the UK election and the truce in the trade war, make events in November look like ancient history... Nevertheless, we are not deterred, and soldier on. Here goes:

### Key Events November

Global markets showed solid performance during the month, except for Hong Kong, where the ongoing social unrest and political crisis had an impact on market performance:

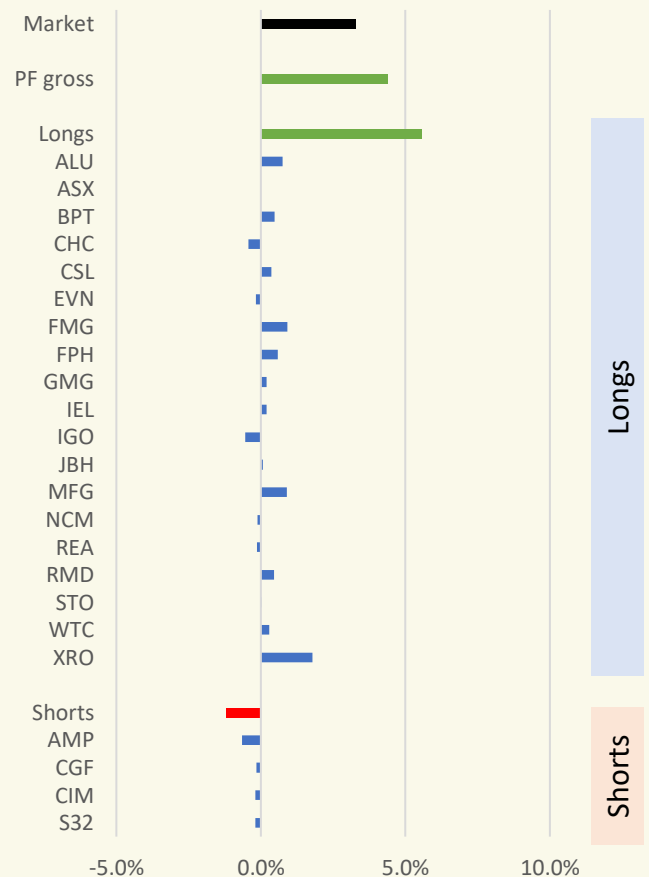
|            | November 2019 |
|------------|---------------|
| MSCI World | 3.0%          |
| S&P 500    | 3.6%          |
| DJIA       | 3.7%          |
| FTSE100    | 1.8%          |
| DAX        | 2.9%          |
| Hang Seng  | -2.1%         |
| ASX200     | 3.3%          |

Source: Factset

The Rosevalley portfolios showed a small outperformance, driven by the long side of the portfolios, with the shorts detracting from performance.

In terms of market-moving newsflow November was relatively quiet. The campaign in the UK for the December parliamentary election went along predictable lines (“Get Brexit Done” vs “We’ll spend billions on making your lives better”) and didn’t seem to impact markets much. Comments around the trade war were positive (“We’re close to a significant phase one deal”), but were somewhat offset by the US Congress publicly supporting

## November 2019 - Rosevalley 13/3 Contribution to total return



Source: Factset, Rosevalley

the Hong Kong protests, as well as speculation that the Fed may be done with lowering rates. In Australia the RBA kept rates steady, but the meeting minutes showed they are prepared to ease further, if the economic data warrants it. The market expectation seems to be this will happen in February.

For investors, November can be a busy month, as there are many company AGMs, quarterly updates, as well as a large broker conference during which companies may announce guidance updates. Broadly speaking, the AGMs and other updates were tilted towards downgrades rather

<sup>1</sup> No, this is not some great nugget of wisdom borrowed from a great investor like Warren Buffett, but please do feel free to quote us

Performance as of November 2019

| Portfolio       |       | 1 month | 3 months | 6 months | 1 year | Since inception (1 Oct 2018) | Since inception (14 Aug 2018) | Since inception (1 Aug 2018) |
|-----------------|-------|---------|----------|----------|--------|------------------------------|-------------------------------|------------------------------|
| Rosevalley 13/3 | Gross | 4.5%    | -8.0%    | 14.2%    | 37.4%  | 11.4%                        |                               |                              |
|                 | Net   | 4.2%    | -7.8%    | 13.0%    | 34.7%  | 9.1%                         |                               |                              |
| Rosevalley 15/5 | Gross | 3.4%    | -10.7%   | 13.0%    | 33.2%  |                              | 13.0%                         |                              |
|                 | Net   | 2.9%    | -12.1%   | 8.9%     | 25.3%  |                              | 4.1%                          |                              |
| Rosevalley 10/0 | Gross | 5.3%    | -3.0%    | 13.3%    | 36.8%  |                              |                               | 25.6%                        |
|                 | Net   | 4.8%    | -4.5%    | 8.1%     | 24.3%  |                              |                               | 6.6%                         |
| ASX-200         |       | 3.3%    | 4.8%     | 9.2%     | 26.0%  | 15.7%                        | 15.4%                         | 15.9%                        |

Source: Rosevalley, Factset

than upgrades. However, as shown above, these weren't enough to drag the overall market down.

Portfolio performance

The Rosevalley portfolios had a good month, showing a positive return, and slightly higher than the market overall. Performance was driven by the long exposures, with the short in AMP being the worst detractor in both portfolios.

Longer term performance

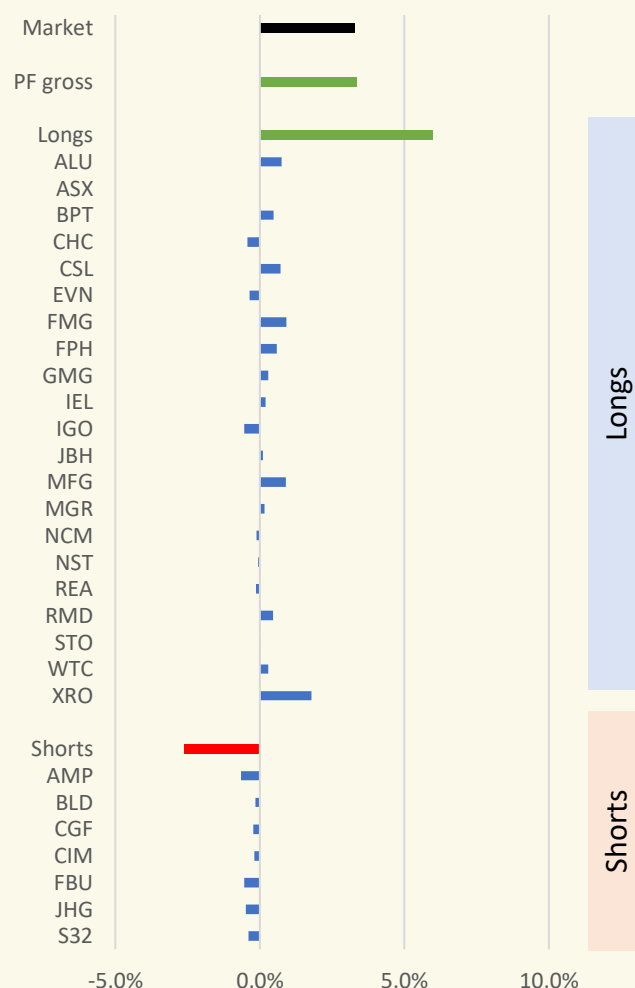
With this month's performance, since-inception performance has almost caught up with the broader market again.

Execution

Execution was positive this month: the achieved net performance was 4 bps above the modelled outcome for the Rosevalley 15/5 portfolio, as shown below (the other portfolios showed a similar trend). The main reason was lower trading costs than modelled.

|  | Model  | Realized |
|--|--------|----------|
| Gross performance  | 3.36%  | 3.36%    |
| deviation from model portfolio                                 |        | 0.03%    |
| difference between trade price and end-of-previous-month price | 0.10%  | -0.06%   |
| trading costs  | -0.35% | -0.17%   |
| borrow costs   | -0.21% | -0.16%   |
| rounding   |        | -0.06%   |
| Net performance  | 2.90%  | 2.94%    |

November 2019 - Rosevalley 15/5 Contribution to total return



Source: Factset, Rosevalley

December portfolio

The portfolio for December sees one long idea replaced for the 13/3 and one long and two shorts replaced for the 15/5 portfolio:

|                         | 13/3  | 15/5     |
|-------------------------|---|----------|
| <b>Longs taken out</b>  | CSL   | CSL      |
| <b>Replaced by</b>      | A2M   | STO      |
| <b>Comments</b>         | CSL was taken out to avoid an unacceptable concentration in the Health Care sector. For 13/3, the next stock in the list, A2M, was chosen as replacement. For 15/5 the portfolio manager skipped WTC (short-seller's report) and CHC (sector concentration), to arrive at STO as a replacement. |          |
| <b>Shorts taken out</b> |   | CIM, CYB |
| <b>Replaced by</b>      |   | CGF, FLT |
| <b>Comments</b>         | For 13/3, no substitutions were necessary. For 15/5 both CIM and CYB were taken out due to a lack of available shorts. Of the next stocks in the list, WBC was skipped due to sector concentration, leaving CGF and FLT as replacements.  |          |

will focus on the good news and forget about the bad (call us cynics...).

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*Investors in Rosevalley 15/5*

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|            |        |
|------------|--------|
| Investor 1 | 4.55%  |
| Investor 2 | 90.27% |
| Investor 3 | 5.17%  |

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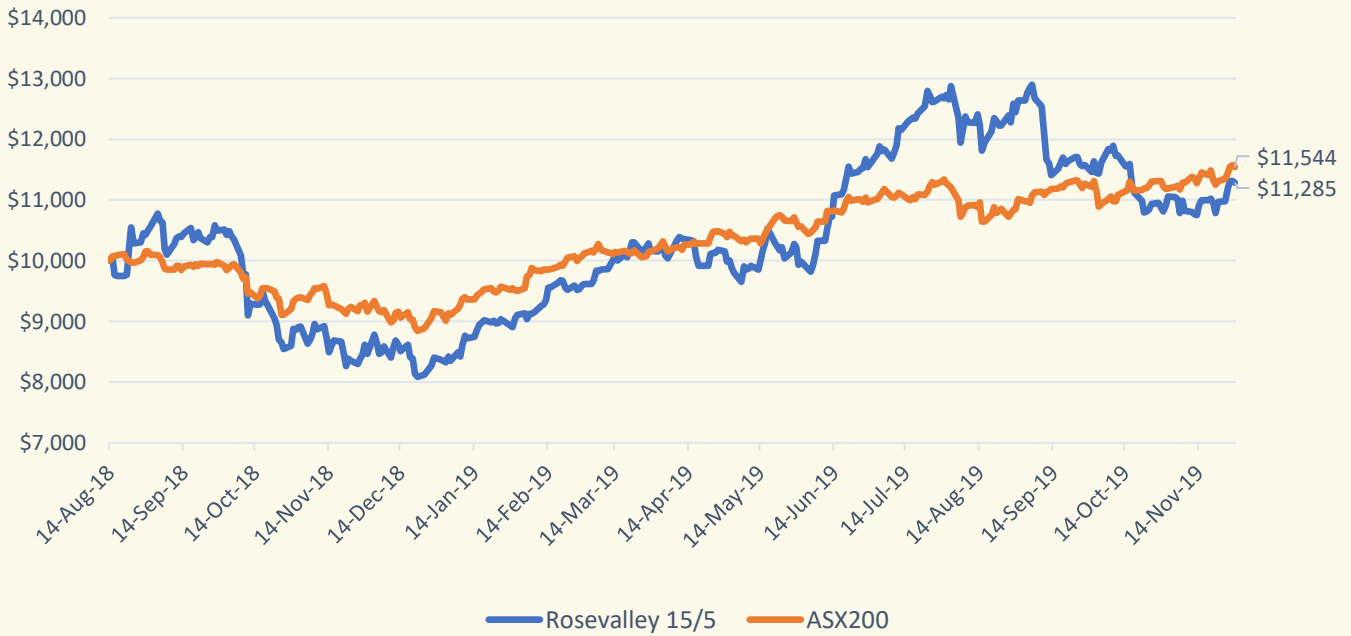
*Looking ahead*

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At the time of writing we know that the UK election resulted in a very strong win for Boris Johnson and his Conservative Party. Also, the US announced a "truce" in the trade war through their "Phase One" agreement. The market reacted very positively to both of these events (with the Rosevalley portfolios doing even better). We expect this momentum to continue through the end of the year. And finally, President Trump got impeached by the House of Representatives. This latter event seems to be of little importance to the markets – presumably because it is fairly certain that the Senate will acquit him of the charges.

Meanwhile, in Australia the start of the bushfire season has been severe, with the burnt area in the first couple of months already six times larger than the annual average. While companies have yet to comment on the impact, it is hard to believe there won't be any. Sectors that come to mind are insurance (damaged property, business interruption), tourism (less inbound, more outbound), retail & entertainment (people staying indoors), construction (workers cannot work on very hazy days for health reasons), and perhaps even banks (lower loan growth due to lower economic activity). We'll be keeping a keen eye open for company announcements over the next six weeks: companies tend to deliver downgrades a few weeks prior to the first half earnings in February, presumably in the hope that, come results day, investors

**Rosevalley 15/5  
Since inception  
Growth of \$10,000**



Source: Factset, Rosevalley

**Rosevalley Funds: The Behavioural Finance Approach**

Over the past 30 years Behavioural Finance has emerged as a serious alternative to the Efficient Market Hypothesis. Whereas the Efficient Market Hypothesis starts with the assumption that people (investors) are rational and profit-maximizing, Behavioural Finance builds upon empirical observations of how people actually behave, and goes on to explain securities prices from this principle. Along the development of Behavioural Finance, it has been able to explain many peculiarities that had remained puzzles under the Efficient Market Hypothesis.

Rosevalley Funds portfolios are built around the theoretical and empirical underpinnings of Behavioural Finance, and at heart take advantage of the way human beings behave in the real world.

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