ROSEVALLEY FUNDS

Portfolio Report January 2021

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.

First-time readers of this report, please refer to the blue box at the end for added context and history

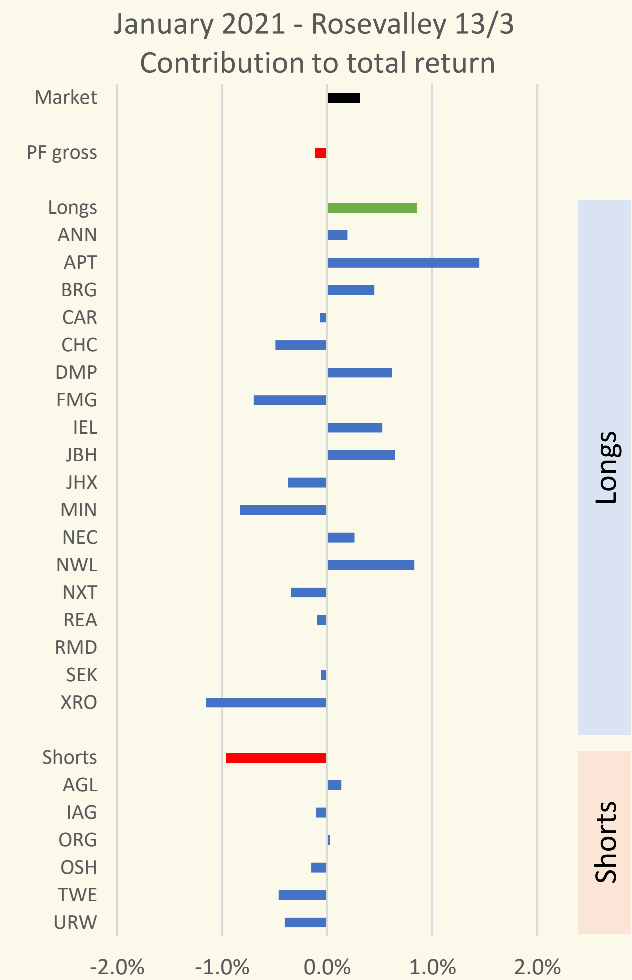
Market commentary

January was a relatively flat month for stock markets around the world – especially when compared to the volatility of 2020, and given the events of the month: the storming of the US Capitol Building and the impeachment of Donald Trump.

Total return	
	January 2021
MSCI World	-0.8%
S&P 500	-1.0%
DJIA	-2.0%
FTSE100	-0.8%
DAX	-2.1%
Hang Seng	3.9%
ASX-200	0.3%
Rosevalley 13/3	-0.1%

Source: Factset, Rosevalley. Note: The Rosevalley figures are unaudited.

On the other hand, this performance is perhaps not as surprising as it may seem, given that the roll-out of Covid-19 vaccines was gathering pace during the month – raising both hope of and confidence in a sustainable economic recovery over the next 12-18 months.



Source: Factset, Rosevalley

There was one thing that did upset the apple cart during the month, receiving considerable media attention: the story of the rise and fall of a US listed company called GameStop.

Source: Yahoo Finance

In short: members of a group on Reddit (a social news aggregator and discussion website) called “WallStreetBets” egged each other on to buy shares in this struggling bricks-and-mortar retailer. The original posts appeared because some people had figured out that GameStop was a heavily shorted, low liquidity stock, which made it vulnerable to a market dynamic called “a short squeeze”. (A short squeeze happens when a heavily shorted stock starts to go up, which

Performance as of January 2021								
Portfolio		1 month	3 months	6 months	1 year	Since inception annualized (1 Oct 2018)	Since inception annualized (14 Aug 2018)	Since inception annualized (1 Aug 2018)
Rosevalley 13/3	Gross	-0.1%	-2.9%	3.0%	15.8%	17.8%		
	Net	-0.6%	-2.3%	3.4%	11.9%	15.0%		
Rosevalley 15/5	Gross	-0.5%	-6.9%	-1.2%	11.6%		15.8%	
	Net[1]							
Rosevalley 10/0	Gross	-0.1%	12.1%	17.5%	17.4%			21.8%
	Net[2]	-1.3%	9.2%	11.8%	3.5%			7.8%
ASX-200		0.3%	11.9%	13.0%	-3.1%	6.2%	5.8%	5.9%

Source: Rosevalley, Factset. Note returns are not audited. [1]Rosevalley 15/5 was not actively traded during the month, so no net numbers are available. [2]Rosevalley 10/0 is traded on a demonstration basis – as a result of its small size commissions are a large proportion of assets, which explains the large gap between gross and net returns.

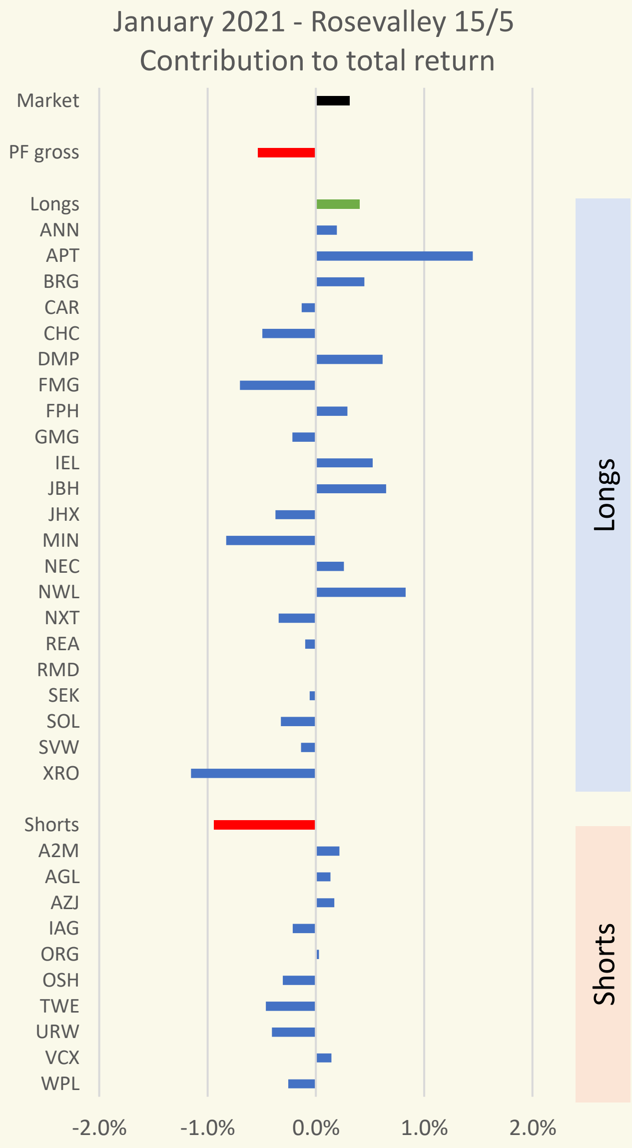
causes losses for the shorters – they will try to limit their losses by buying back the stock, thus causing the price to increase further, thereby creating a self-reinforcing loop.) The campaign was exceedingly successful, and the stock went from ~$20 in December to ~$500 at its peak in January. In the process one hedge fund that had heavily shorted the stock needed a capital infusion to stave off bankruptcy. By this time, the Reddit crowd had morphed into a movement with the aim of "sticking it to Wall Street". While many of them have claimed victory, our heart goes out to those who have put their life savings and maximum drawn down loans (yes, people got so fired up that they did that) into this stock – given that the stock is now back to $50, and many of them will have lost everything. Our CIO has written a detailed piece on these events which can be found here. Of relevance for the Australian market was the unprecedented size and speed of the short squeeze on GameStop led many investors to reducing the risks in their portfolios: reducing exposure to both longs and shorts. In Rosevalley's portfolios this can be seen in the negative contribution of the long in XRO and the shorts in TWE and URW.

February is reporting season in Australia. Based on the reported results at the time of writing, it would appear to be a fairly upbeat set of results (the same is true for 4Q20 results in the US).

Portfolio performance

The Rosevalley portfolios were pretty flat, like the broader market. Gross and net performance was broadly in the -0.5% to -1% range.

Longer term performance



Source: Factset, Rosevalley

For the 12-month and since-inception timeframes, all Rosevalley portfolios continue to perform very strongly. As a reminder: the expected (as based on the backtest) long-term outperformance after trading costs is around

10% p.a. Size-adjusted, all portfolios are at or above this expected value over a number of time periods and since inception.

Execution

This month the rebalancing trades at the start of the month were very unfavourable. Compounding this, there was a deviation from the model portfolio (due to difficulty in finding enough shorts) that hurt performance. Borrow costs and trading costs were less than modelled. Taken together, the gross-net gap was 48 bps.

Rosevalley 13/3 Execution

	Model	Realized
Gross performance	-0.11%	-0.11%
deviation from model portfolio		-0.14%
difference between trade price and end-of-previous-month price	0.14%	-0.24%
trading costs	-0.12%	-0.10%
borrow costs	-0.12%	-0.01%
accrued vs paid dividends		0.01%
Reported net performance	-0.21%	-0.59%

February Portfolio Manager model overrides

The portfolios for February have two long stock substitutions for the 13/3 and 15/5 portfolios respectively, driven by sector concentration concerns – a very similar outcome to the previous month. Both portfolios also have two short substitutions, driven by the lack of available shorts.

	13/3	15/5
Longs taken out	MIN, OZL	MIN, OZL
Replaced by	HVN, SEK	IEL, NXT
Comments	Sector concentration – in both portfolios the next stocks in the list that did not repeat the sector concentration were picked.	
Shorts taken out	AGL, ORG	AGL, ORG
Replaced by	AZJ, QBE	IAG, ORI
Comments	Lack of shorts availability – in both portfolios the next stock in the list was picked.	

Some context for readers who are less familiar with Rosevalley Funds:

Rosevalley is a boutique funds manager with a unique approach to portfolio construction. Rosevalley Funds are constructed using the principles of Behavioural Finance (BF). Behavioural Economics and Behavioural Finance were developed over the past 30 years or so through the work of economists like Tversky, Kahnemann, Thaler, Shefrin. The idea behind BF (and the Rosevalley portfolios) is to study human behaviour as it is, not as classical economic theory says it should be (i.e. BF does not believe humans are always rationally maximizing their utility).

Rosevalley's portfolio construction algorithms are based on these insights. The model yields a ranking of stocks in order of greatest to smallest upside. Portfolio construction then follows by going long the stocks at the top and short the stocks at the bottom. The flagship product is Rosevalley 13/3, which is a 130/30 fund. We also run a 150/50 (Rosevalley 15/5), and a long-only fund (Rosevalley 10/0). Inception for the three portfolios was during February-February 2018.

The portfolios are rebalanced monthly. The Rosevalley team has discretion to make some substitutions, albeit that the bar for those is set high.

The monthly report discusses current events, portfolio performance, trade execution, gross-net differences, next month's portfolio, and broader market and macro expectations.

Rosevalley 13/3
Since inception
Growth of $10,000

Source: Factset, Rosevalley. Note Rosevalley numbers are not audited

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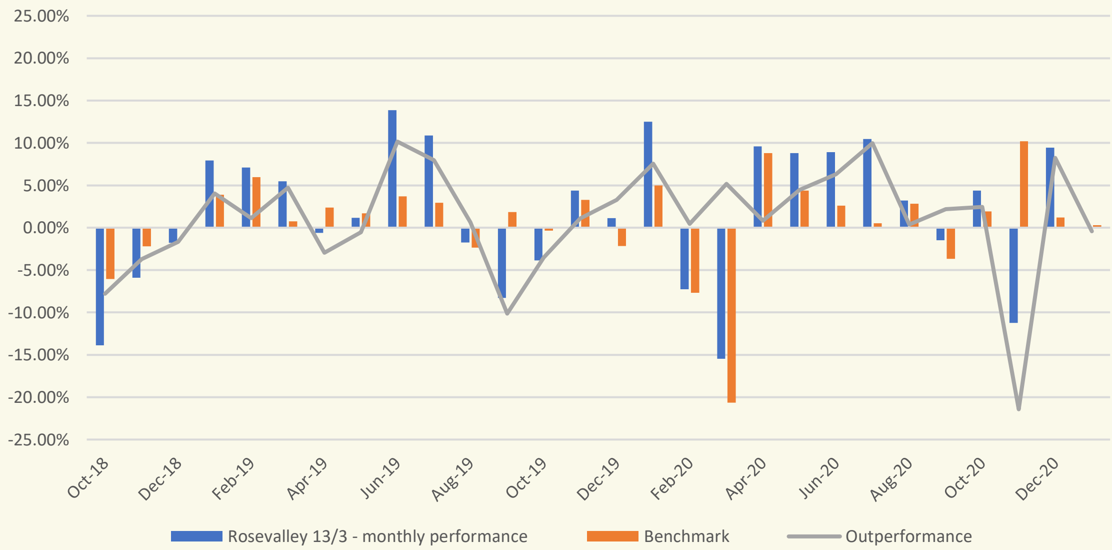
Rosevalley 13/3 - monthly performance



Source: Factset, Rosevalley. Note Rosevalley numbers are not audited

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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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