



Portfolio Report March 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

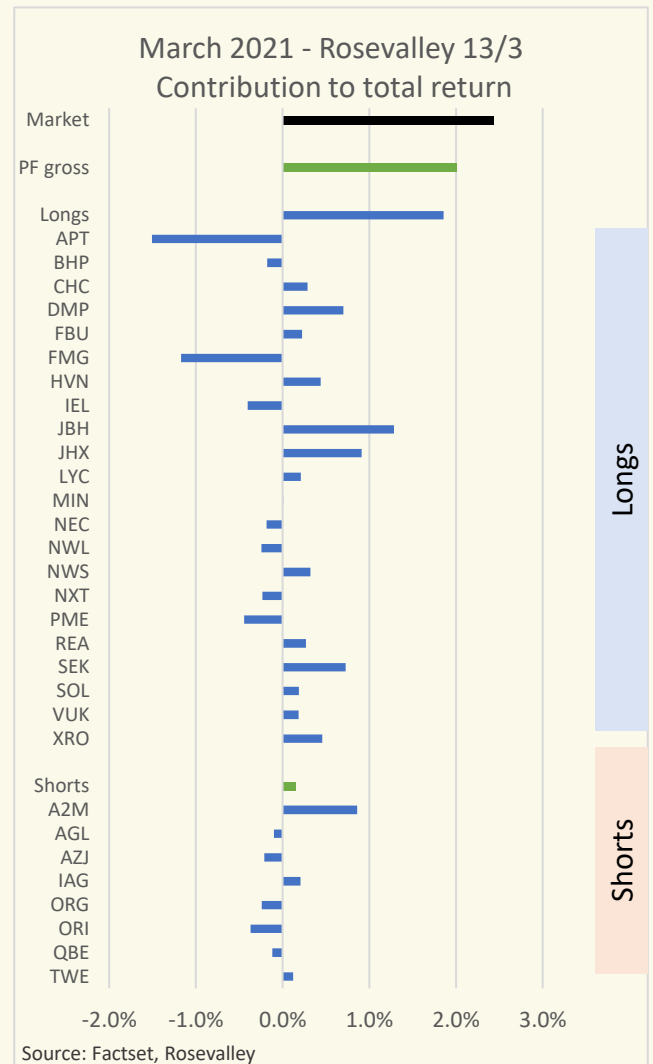
Market commentary

March was another strong month for stock markets around the world, as they continued to be driven by optimism about the vaccine rollout – even though Covid-19 cases continued to increase and the third wave we talked about last month became ever more apparent (see chart below). Compared to other markets, Australia was at the bottom end of the range – perhaps because the vaccine roll-out here has been fairly disappointing so far, or alternatively, because the case numbers are and were so low that vaccination will not have a big impact on economic activity.

Total return	
	March 2021
MSCI World	4.0%
S&P 500	4.4%
DJIA	6.6%
FTSE100	4.2%
DAX	8.9%
Hang Seng	-2.1%
ASX-200	2.4%
Rosevalley 13/3	2.0%

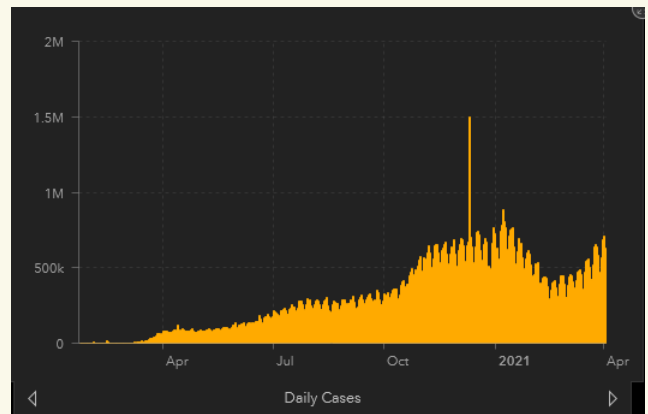
Source: Factset, Rosevalley. Note: The Rosevalley figures are unaudited.

The inflation worries we talked about last month are still figuring prominently, at least in the financial press. As keen followers of financial markets, and therefore financial news, we find ourselves (like everybody else) wondering: surely, if everybody is talking about it, there must be some truth to it? As behavioural investors, we know we are facing a couple of classic behavioural biases here: availability heuristic and narrative fallacy, to name just two obvious ones. The fact that we are experiencing this sentiment drives home something we have talked



Source: Factset, Rosevalley

Global daily Covid-19 Cases



Source: [Johns Hopkins University Covid-19 Dashboard](https://coronavirus.jhu.edu/data/cases)

Performance as of March 2021								
Portfolio		1 month	3 months	6 months	1 year	Since inception	Since inception	Since inception
						annualized	annualized	annualized
						(1 Oct 2018)	(14 Aug 2018)	(1 Aug 2018)
Rosevalley 13/3	Gross	2.0%	-0.1%	1.3%	47.7%	16.6%		
	Net	1.4%	-2.0%	0.0%	42.7%	13.3%		
Rosevalley 15/5	Gross	3.9%	1.3%	0.3%	44.7%	15.5%		
	Net ¹							
Rosevalley 10/0	Gross	-0.2%	-3.1%	16.0%	47.9%	19.0%		
	Net ²	-1.3%	-5.9%	9.8%	28.8%	5.4%		
ASX-200		2.4%	4.3%	18.5%	37.5%	7.5%	7.0%	7.0%

Source: Rosevalley, Factset. Note returns are not audited. ¹Rosevalley 15/5 was not actively traded during the month, so no net numbers are available. ²Rosevalley 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.

about in the past: knowing about behavioural biases doesn't make you immune to them. This is one of the most striking findings of the discipline, and somewhat counterintuitive: why wouldn't we be able to correct our thinking once we know how our mind leads us astray?¹

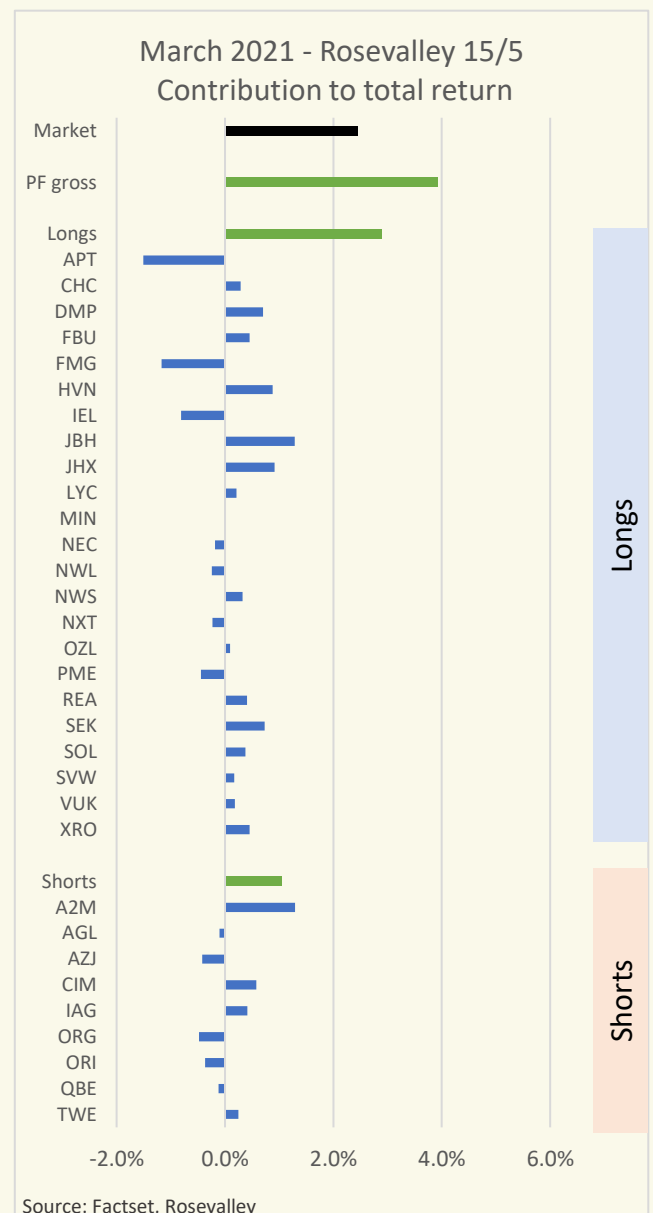
Anyway, back to the markets. Like in February, tech stocks remained under pressure, thanks to a mixture of rising interest rates and high valuations. We expect this thematic has a little further to play out. At the same time we notice that the pull-back of the tech sector has been broad-based and indiscriminate – we expect that in the months to come investors will differentiate between those tech stocks that specifically benefitted from the Covid lockdowns (e.g. remote work-related businesses), and those that have a business model that depends on longer-term trends (e.g. AI, autonomous driving).

Portfolio performance

The Rosevalley portfolios were up over the month, but underperformed the ASX200. Contributors were longs in consumer discretionary stocks (DMP, HVN, JBH) and a short in A2M. Detractors were in tech (APT) and resources (FMG).

Longer term performance

For the 12-month and since-inception timeframes, all Rosevalley portfolios continue to perform very strongly. Note that the one-year performance of 48% may seem



¹ As an aside, we keep encountering investment funds that proclaim to be based on BE/BF principles, but seem to never have come across this insight. These funds tend to describe their process as “looking for opportunities where investors have fallen prey to behavioural biases”, thus implicitly believing that they themselves

won't suffer from these. Rosevalley Funds are constructed to mathematically take advantage of other people's biases, without assuming that we could make investment decisions free of those biases.

extraordinary, but of course is measured against the trough of the market a year ago.

April Portfolio Manager model overrides

Execution

This month the rebalancing trades at the start of the month were unfavourable, as was the inability to get set in all the shorts – as we have experienced over a number of months. Borrow costs and trading costs were less than modelled. Taken together, the gross-net gap was 65 bps.

Rosevalley 13/3 Execution		
	Model	Realized
Gross performance	2.01%	2.01%
deviation from model portfolio		-0.41%
difference between trade price and end-of-previous-month price	-0.11%	-0.35%
trading costs	-0.25%	-0.06%
borrow costs	-0.12%	-0.01%
accrued vs paid dividends		0.17%
Reported net performance	1.53%	1.36%

The portfolios for April have four long stock substitutions for the 13/3 and 15/5 portfolios respectively, driven by sector concentration concerns.

	13/3	15/5
Longs taken out	MIN, FMG, BSL, FBU	MIN, FMG, FBU
Replaced by	SOL, HVN, XRO, JBH	XRO, JBH, REA
Comments	Sector concentration – in both portfolios the next stocks in the list that did not repeat the sector concentration were picked.	

Rosevalley is looking for a Sponsor

As most readers are probably aware, the Rosevalley Behavioural Finance Funds are currently run in “Proof of Concept” mode. Of the three portfolios discussed on this website, one (the 10/0) is run with actual money, while one other (the 13/3) is run as a “paper portfolio” with the same broker. The idea is to establish a paper trail that shows the validity of the strategy and that can be independently verified.

The monthly newsletters reflect the purpose of the exercise. The comments on gross vs net, execution, trading costs, etc. reflect the goal of establishing a track record both with regard to the strategy itself and the practical implementation of it. The publication of the full portfolio result of the previous month, and the full portfolio holdings for the following month (which no fund manager would normally do) further serve to create the possibility of independent verification.

We are currently looking for a sponsor to enable us to continue to build out our track record. We are keen to meet with potential clients interested to sponsor these strategies and /or invest alongside us.

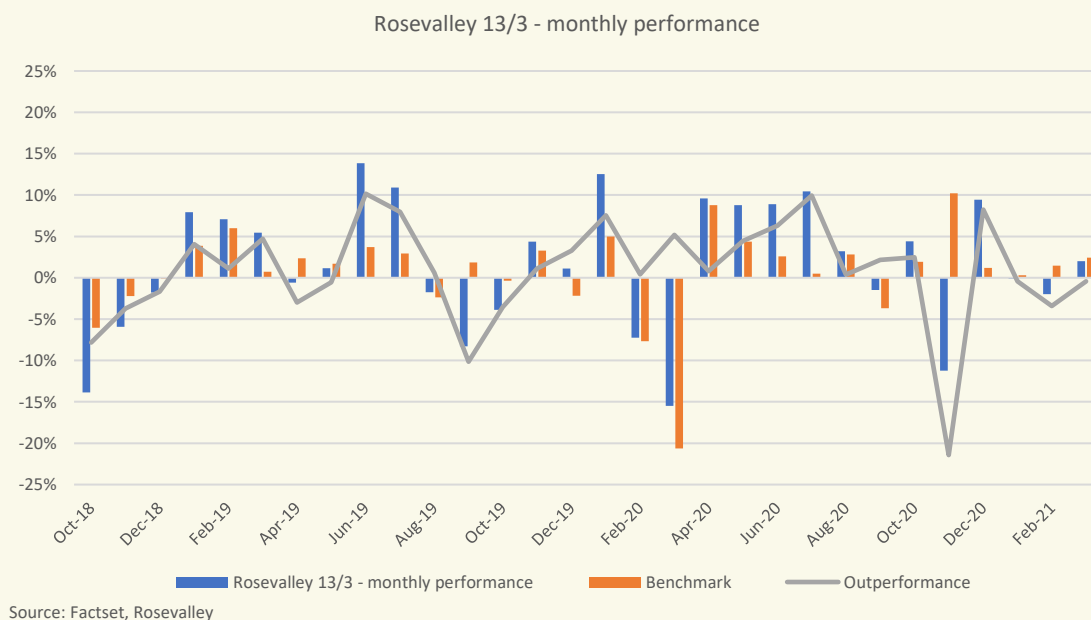
Some context for readers who are less familiar with Rosevalley Funds:

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 April-April 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 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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