Portfolio Report August 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
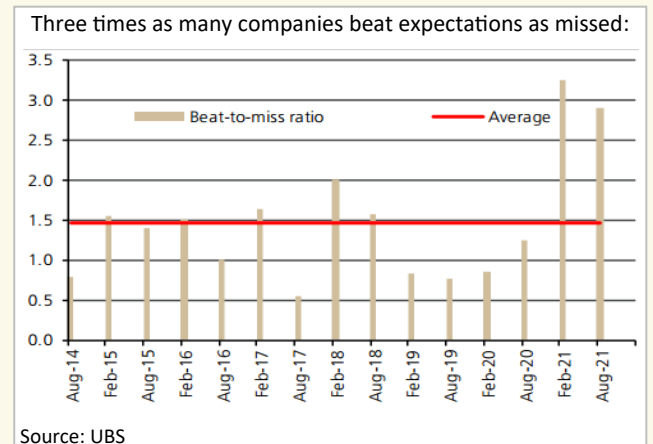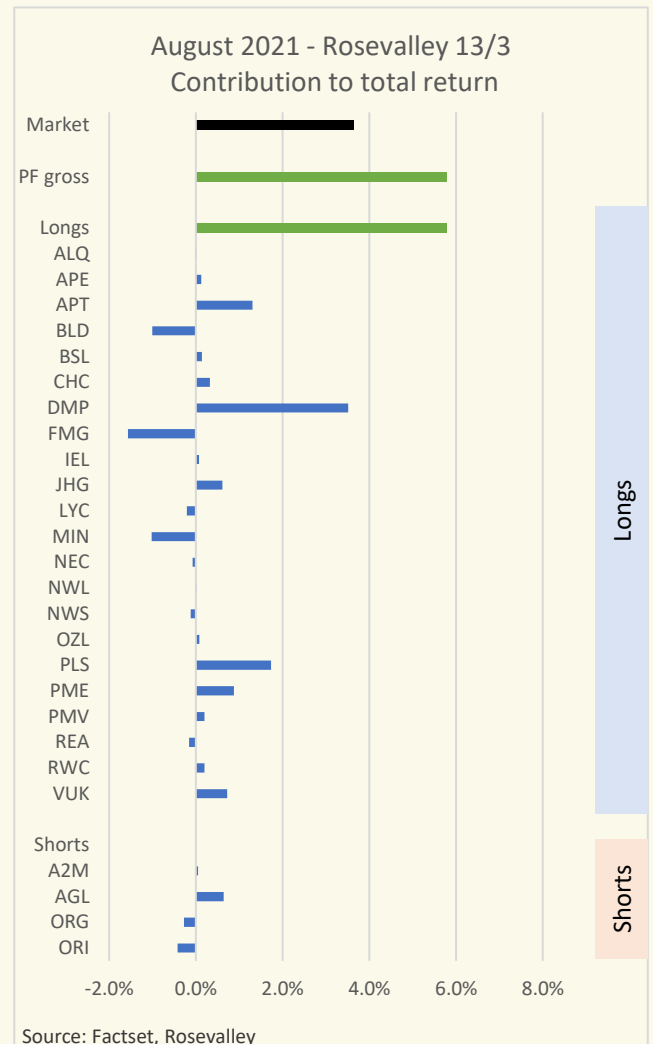
Market commentary

August was another strong month for stock markets around the world, with Australia one of the best performing at 2.5% return. Our Rosevalley funds did even better, outperforming by between 330-460 bps.

Total return	
	August 2021
MSCI World	2.7%
S&P 500	3.0%
DJIA	1.2%
FTSE100	2.1%
DAX	1.9%
Hang Seng	-0.1%
ASX-200	2.5%
Rosevalley 13/3	5.8%
Rosevalley 10/0	7.1%

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

For Australia, August is the month the majority of companies announce their annual earnings (most companies have a 30th June fiscal year-end). This August both the reported results and the market reaction can probably best be described as "unusual". On the positive side, there were more beats[1] than misses, and dividends and share buy-backs generally were higher than expected. The table on the right highlights that the beat to miss ratio for the last two reporting periods has been the highest for over 5 years. On the negative side, in most cases the outlook given by companies for next year, if they gave an outlook at all, was disappointing relative to market expectations. The most often cited reason was

[1] A result is called a "beat" if it is higher than analysts' expectations, and a "miss" if it is below. The astute reader will notice how self-centered

August 2021 - Rosevalley 13/3
Contribution to total return

Source: Factset, Rosevalley

Three times as many companies beat expectations as missed:

Source: UBS

this language is: in reality companies don't beat or miss anything – rather, it is analysts' estimates that are either too low or too high.

Performance as of August 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	5.8%	15.9%	29.7%	26.9%	23.8%		
	Net	4.2%	13.7%	26.2%	22.9%	19.9%		
Rosevalley 15/5	Gross	6.8%	18.1%	35.9%	29.2%		23.7%	
	Net[1]							
Rosevalley 10/0	Gross	7.1%	18.5%	24.1%	35.9%			24.7%
	Net	6.0%	15.2%	17.3%	22.7%			10.7%
ASX-200		3.6%	7.1%	16.2%	29.6%	11.0%	10.5%	10.5%

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.

uncertainty around Covid and the on and off again lockdowns, which makes forecasting especially difficult right now.

As one would expect, positive surprises led to positive share price movements and vice versa. Interestingly, however, the positive market reaction was strongest for a positive dividend surprise and most negative for a negative earnings surprise.
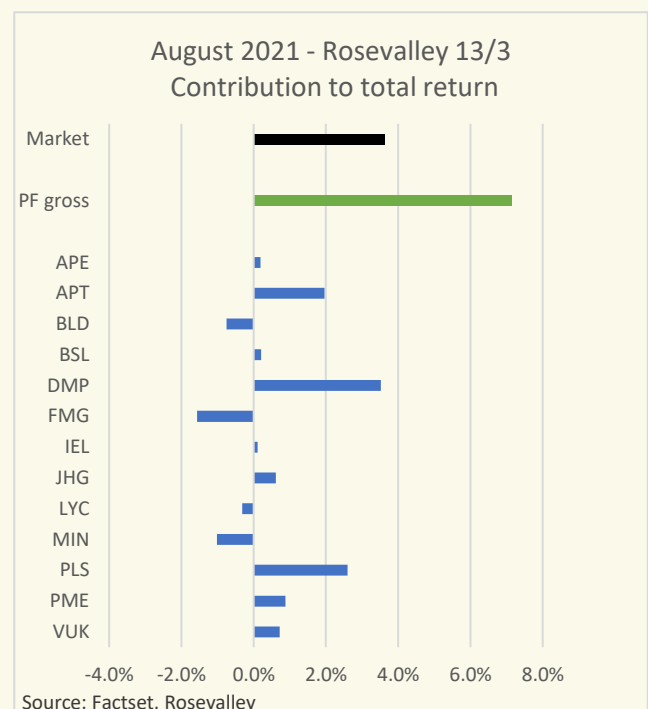
As ever during reporting season, we were amused by all the market and broker commentary that accompanies the results. What is most fascinating is how the same company result can result in completely different observations, depending on whether the observer had a positive or negative view on the stock beforehand. The bull on the stock will point to the progress in cost reductions while the bear may point to the fact that current profits were down. Conversely, for another stock the bull may point to rising profits, while the bear comments on the investments necessary to keep growth going! Confirmation bias is one of the strongest drivers of what you will get to hear and see – and this applies to many areas of life!

Looking forward, we believe the end of the current lockdowns around the country are most likely going to be one of the major drivers of the market for the next few months. We also believe further commentary from the US Federal Reserve and RBA about the timing of their reduction in the current stimuli is also likely to influence market movements.

August 2021 - Rosevalley 13/3
Contribution to total return

Source: Factset, Rosevalley

delivered strong earnings as lockdowns drove more take-out food consumption – however this was expected by the market. The real driver for the stock was the positive guidance around future growth in store numbers and profit that accompanied the earnings announcement. The second largest contributor was Pilbara Minerals (PLS), a lithium miner, whose stock went up 26% over the month. Even though the company is still loss-making, the positive outlook from the company at its recent results led to a strong positive share price reaction.

Portfolio performance

All three Rosevalley portfolios were comfortably ahead of the market, returning 6-7%, vs. the ASX200 at 3.6%. Performance came from the long positions, with the positive and negative short contributors cancelling each other out.
Domino's Pizza (DMP) was the largest contributor. The stock was up a stellar 35% for the month. The company

Longer term performance

For the 12-month and since-inception timeframes, all Rosevalley portfolios continue to perform strongly, still close to an annualized ~10% ahead of market since inception.

This month the usual sources of gross-net difference worked against us – in particular the stock prices at which the trades were executed, such that the gross-net gap was -154 bps (vs. an expected + 57 bps).

Rosevalley 13/3 Execution		
	Model	Realized
Gross performance	5.78%	5.78%
deviation from model portfolio		-0.06%
difference between trade price and end-of-previous-month price	0.95%	-1.22%
trading costs	-0.27%	-0.13%
borrow costs	-0.12%	-0.09%
accrued vs paid dividends		-0.05%
Reported net performance	6.35%	4.24%

September Portfolio Manager model overrides

The portfolios for September have two long stock substitutions for the 13/3 and 15/5 portfolios. The first one is Afterpay (ASX:APT), which is under takeover offer from the US listed company Square (NYSE:SQ). The other one is OZ Minerals (ASX:OZL), which was taken out on sector concentration grounds.

As foreshadowed last month, we have made a slight change in how we think about sector concentration: we are now using a more differentiated categorization which allows for more precision. As an illustration: Pilbara Minerals, Orocobre, Mineral Resources, Lynas, BlueScope Steel, James Hardie, OZ Minerals and IGO are all classified in a sector named "Materials". However, this group of eight companies contains two lithium miners, one rare earth miner, one steel manufacturer, one housing materials manufacturer, one copper/gold miner and one gold/nickel miner. It would seem intuitive that exposure to a lithium miner and a steel producer does not constitute any concentration risk. Our new classification takes the categories from the Factset-defined Industry classification which is slightly more granular. This month's substitution of OZL comes from this new approach.

	13/3	15/5
Longs taken out	APT, OZL	APT, OZL
Replaced by	IGO, CHC	RMD, ALL
Comments	APT is under takeover offer – consequently the price signal does not reflect the behavioural signals that the model would ordinarily pick up. OZL is taken out for sector concentration reasons.	

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

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

Rosevalley 13/3 — ASX200

$18,662
$13,581

Rosevalley 13/3 - monthly performance

Rosevalley 13/3 - monthly performance   Benchmark   Outperformance

Source: Factset, Rosevalley
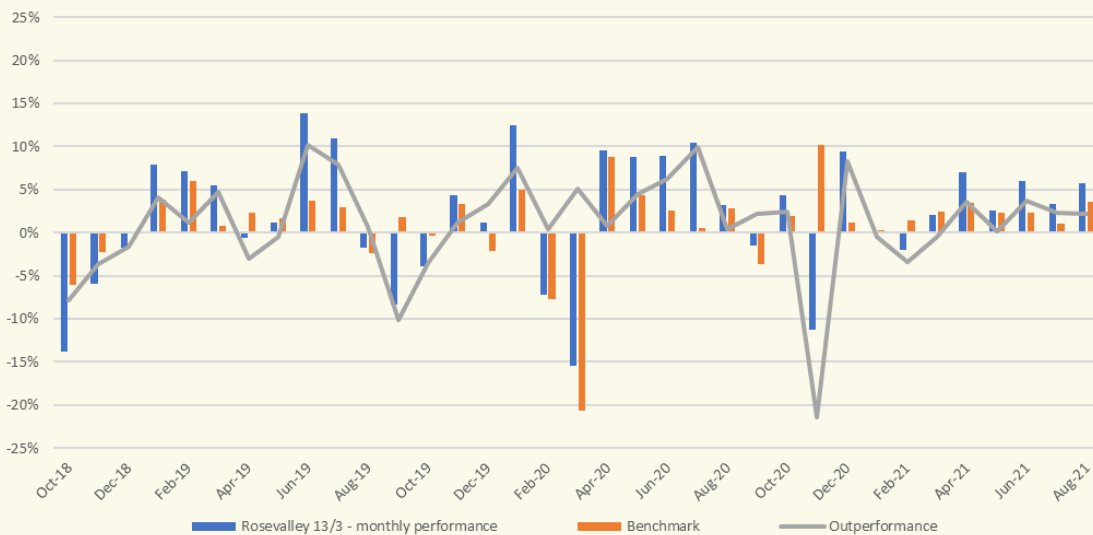
Rosevalley Funds: The Behavioural Finance Approach

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.

ROSEVALLEY FUNDS   Behavioural Finance Funds

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