ROSEVALLEY FUNDS

Portfolio Report December 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

Note: like in earlier years, due to holidays and other team commitments our January report is abbreviated – just showing the numbers with some very brief observations.

Market commentary

Markets around the world had a strong end of the year, with most markets we track up 4-5%. Australia did relatively worse, at only 2.7%.

The table below also shows the returns for the full year, which shows the US doing very well, with Europe and Australia trailing.

The stellar year for stocks came even as the Covid pandemic rages on across many geographies. The US alone had recorded 53 million Covid cases and more than 800,000 deaths since the outbreak began. The ongoing extreme money stimulus has continued to boost company returns, earnings and share price. In the last few months of the year there was growing sentiment that inflation would be stronger than expected coming into 2022.

Source: Factset, Rosevalley

Total return		
	December 2021	CY21
MSCI World	4.0%	24.7%
S&P 500	4.5%	28.7%
DJIA	5.4%	18.7%
FTSE100	4.8%	18.4%
DAX	5.2%	15.8%
Hang Seng	-0.3%	-11.8%
ASX-200	2.7%	17.2%
Rosevalley 13/3	9.5%	36.2%
Rosevalley 10/0	5.5%	26.7%

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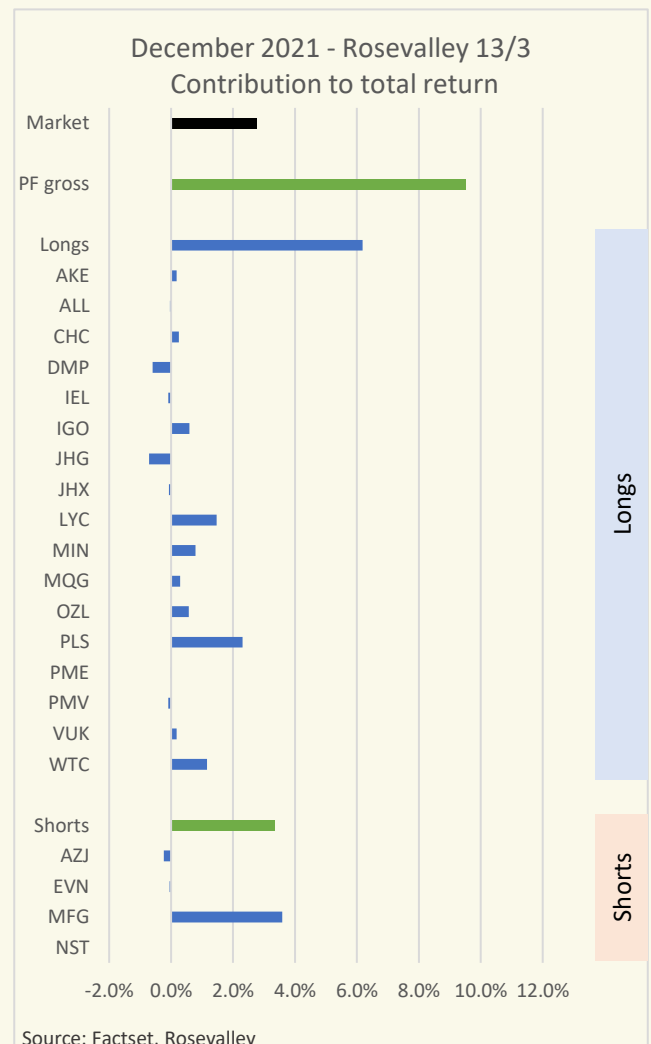
Portfolio performance

The Rosevalley portfolios also had a very strong finish of the year, and indeed a very strong full year - beating the Australian market and all major international markets by a wide margin. The outperformance was driven by both the long and short sides of the portfolios, with materials/mining-related stocks again the main contributors on the long side. On the short side the position in funds manager Magellan delivered a strong contribution to the portfolio.
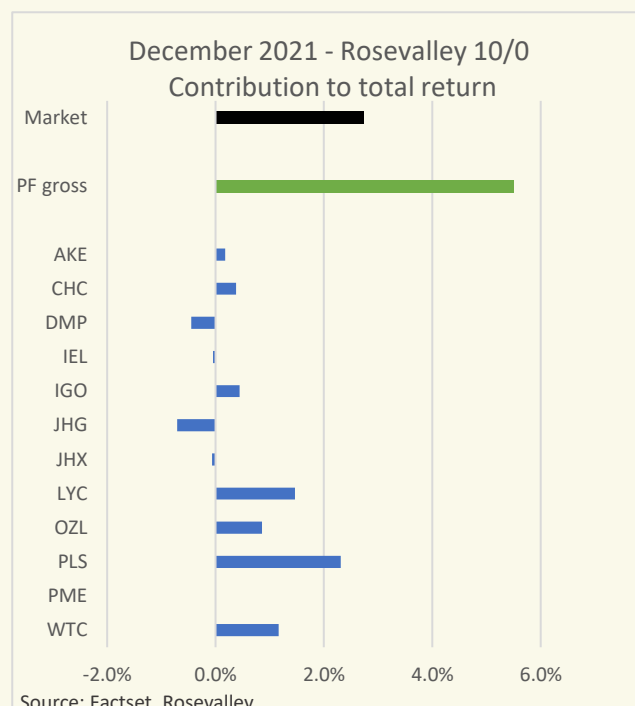
Performance as of December 2021								
Portfolio		1 month	3 months	6 months	1 year	Since inception annualized (1 Oct 2018)	Since inception annualized (14 Aug 2018)	Since inception annualized (1 Aug 2018)
Rosevalley 13/3	Gross	9.5%	15.6%	17.2%	36.2%	23.7%		
	Net	9.0%	14.4%	14.0%	29.6%	19.9%		
Rosevalley 15/5	Gross	9.6%	15.7%	19.0%	42.5%		23.8%	
	Net[1]							
Rosevalley 10/0	Gross	5.5%	11.8%	16.9%	26.7%			23.9%
	Net	5.4%	14.2%	18.6%	21.7%			12.3%
ASX-200		2.7%	2.1%	3.8%	17.2%	9.6%	9.1%	9.1%

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.

The table on the prior page highlights the best and least performing long and short stocks. Long Pilbara Minerals Ltd (PLS:ASX) contributed most to our long positions. The stock was up strongly over the month and has been the best performing stock for 2021. Pilbara Minerals is in the business of Lithium mining, a strong industry thematic in 2021 and in coming years as electric vehicles gain global market share.

On a similar theme, our long in Lynas Rare Earths Ltd (LYC:ASX) contributed strongly. Lynas is also a mining producer however of a wide range of rare earths.

Our short in Magellan Financial Group (MFG:ASX) contributed significantly to fund performance. Magellan has been in the headlines for some time with instability in its leadership team. More recently was the announcement by the company of a significant drop in its Funds Under Management which had fallen to $95.5 billion from 113.3 billion at 30 September 2021.

December 2021 - Rosevalley 10/0 Contribution to total return

Source: Factset, Rosevalley

The net return for Rosevalley 13/3 for the year was 29.6% - if the fund had been included in the January Morningstar fund survey, it would have ranked 7th in the category Long short funds:

Longer term performance

Longer term numbers also look very strong, with all portfolios comfortably showing the ~10% outperformance that the backtest suggests.

Long short funds 2021 returns (%)

Fund name	Return
Atlantic Absolute	57.6
Paragon Australian Long Short Fund	44.2
Auscap Long Short Aust Equities	43.1
QVG Long Short	34.7
Quest Long Short Aust Equities	31.5
Sandon Capital Activist	30.2
WaveStone Dynamic Aust Equity	19.0
WaveStone Capital Absolute Return	17.4
Monash Absolute Investment	17.2
Investors Mutual Private Portfolio	13.9
K2 Australian Absolute Return	13.3
Invesco Aust Equity Efficient Income	12.7
Perpetual Pure Equity Alpha	9.3
Bennelong Kardinia Absolute Return	6.6
CFS FC-Bennelong Kardin W Abs Ret	5.9
Invesco Aust Equity Long Short	3.3
Atlantic Pacific Aust Equity	0.9
Bennelong Long Short Equity	−5.1

- Show less

Source: MORNINGSTAR

This month the usual sources of gross-net difference were unfavourable relative to the modelled expectation: the gross-net gap was -50 bps (vs. an expected -28 bps).

Rosevalley 13/3 Execution		
	Model	Realized
Gross performance	9.51%	9.51%
deviation from model portfolio		-0.04%
difference between trade price and end-of-previous-month price	0.04%	-0.30%
trading costs	-0.20%	-0.05%
borrow costs	-0.12%	-0.10%
Reported net performance	9.23%	9.01%

The portfolios for January have two long stock substitutions for the 13/3 and 15/5 portfolios driven by concentration concerns: miners OZL and S32. The substitutes are MQG and IEL in Rosevalley 13/3 and GMG and SHL in Rosevalley 15/5.

	13/3	15/5
Longs taken out	OZL, S32	OZL, S32
Replaced by	MQG, IEL	GMG, SHL
Comments	All changes driven by sector concentration considerations.	

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 January-January 2018.
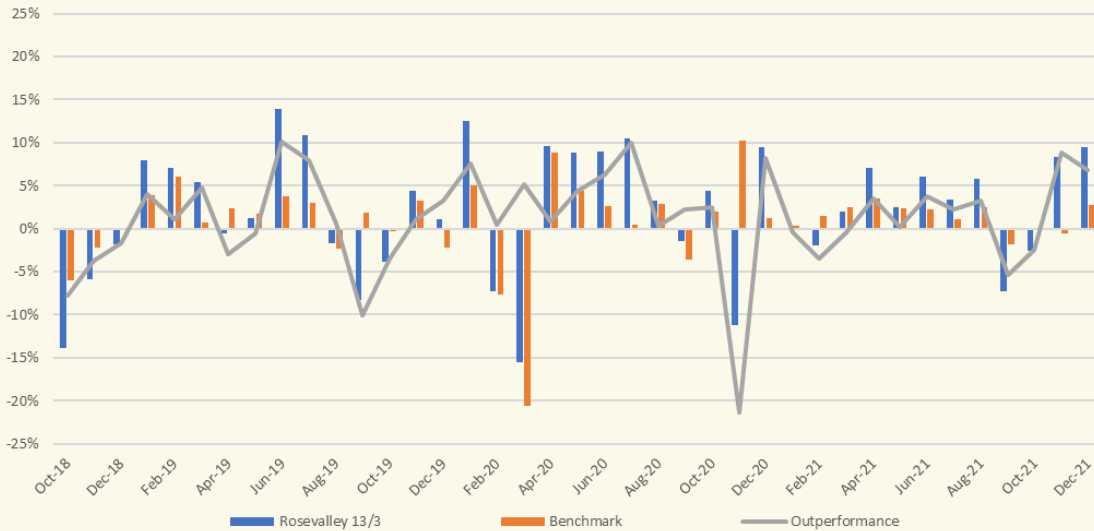
The portfolios are rebalanced monthly. The Rosevalley team has discretion to make some substitutions, albeit that the bar for those is set high.

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

$20,007

$13,460

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

—— Rosevalley 13/3   —— ASX200

Rosevalley 13/3

■ Rosevalley 13/3   ■ 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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