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.

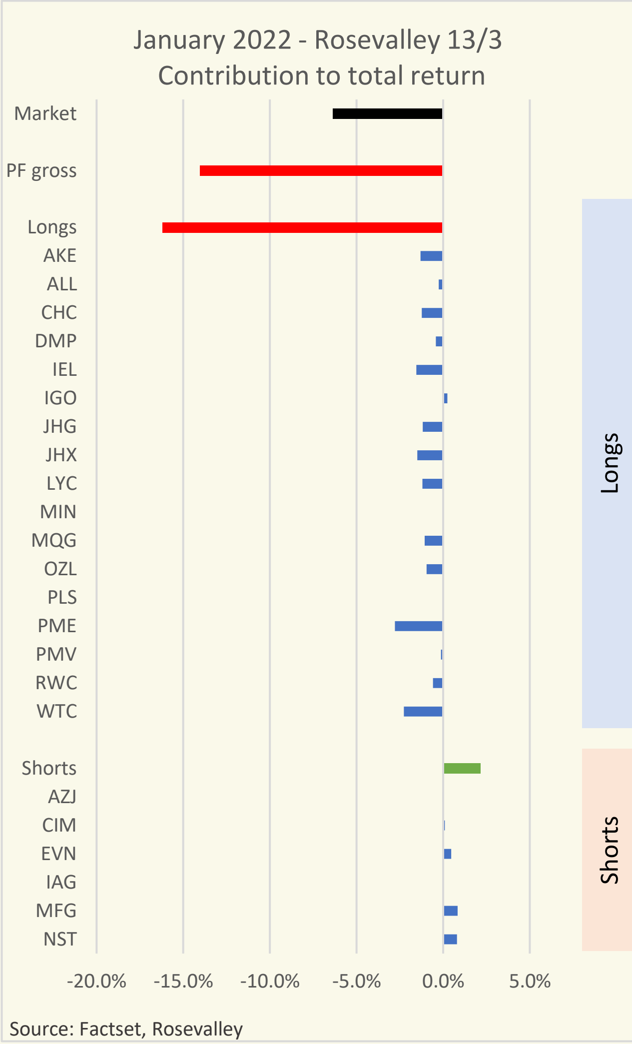
First-time readers of this report, please refer to the blue box at the end for added context and history

Market commentary

The first month of 2022 marked the time when markets finally woke up to the fact that inflation is real, and central banks have finally changed their tune on accelerating inflation risks and will do what they must to rein it in – in the process hurting stock markets. On top of this came the ups and downs of the ongoing omicron wave of the Covid pandemic. The combination is confusing for economists (and stock market investors): economies opening up = higher demand in the face of supply chains that are still not back to normal = more inflation. But more lockdowns = lower demand = lower inflation. But also, more lockdowns = continued supply chain upheaval = more inflation. To top it off, the ongoing build-up of Russian troops along the Ukrainian border started to worry markets over the month.

These factors contributed to market weakness as investors started taking money off the table. Most markets we track retreated, with the US and the world index down 5%, and Australia even worse at -6.4%. Rosevalley did not do well in this environment with the 13/3 portfolio losing 14%.

Total return	
	January 2021
MSCI World	-4.9%
S&P 500	-5.2%
DJIA	-3.3%
FTSE100	1.1%
DAX	-2.6%
Hang Seng	1.7%
ASX-200	-6.4%
Rosevalley 13/3	-14.0%
Rosevalley 10/0	-12.6%



Rising interest rates impact markets in a variety of ways. The effect that equity investors usually focus on is how higher interest rates increase the “discount rate”. Without being technical, this can be thought of as the effect that other potential investments now offer a higher interest rate and thus become relatively more attractive - therefore the demand for stocks tends to soften, leading to price declines. This effect is largest for stocks that are expected to grow fast or have little or no earnings – in the current market that means mainly tech stocks. This is why you saw the likes of Facebook, Google, Tesla, etc. fall more than lower-growth stocks.

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	-14.0%	2.0%	-2.5%	17.2%	17.6%		
	Net	-14.1%	1.2%	-4.8%	12.0%	14.1%		
Rosevalley 15/5	Gross	-15.4%	1.1%	-2.7%	21.2%		17.3%	
	Net[1]							
Rosevalley 10/0	Gross	-12.6%	-0.9%	-1.4%	10.9%			18.6%
	Net	-12.6%	-1.2%	0.9%	7.7%			7.8%
ASX-200		-6.4%	-4.3%	-3.8%	9.4%	7.2%	6.8%	6.9%

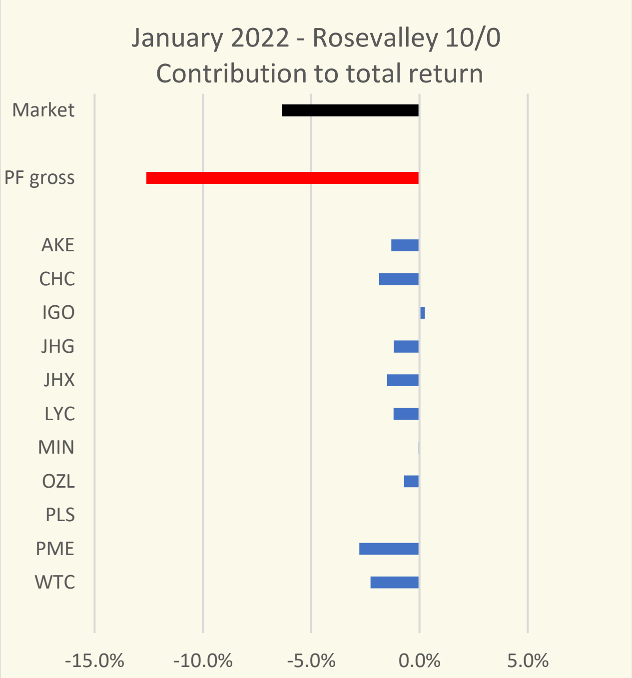
Source: Rosevalley, Factset. Note returns are not audited. [1]Rosevalley 15/5 was not actively traded during the month, so no net numbers are available.

Portfolio performance

As mentioned, Rosevalley did not do well in this environment. We can speculate that the "normal" behavioural characteristics that the portfolio takes advantage of, get overwhelmed by another human instinct – the urge to run away from danger. Professional investors have a technical term for this: GTFO[1].

The negative performance happened across all stocks in the portfolio, but as you would expect, among the largest detractors this month was the tech stock Wisetech (WTC), which was down 23%.

The portfolio didn't own any commodity-related stocks, which was a sector that delivered a positive return (both inflation and war tend to drive up commodity prices).



Source: Factset, Rosevalley

Longer term performance

In spite of the disappointing month. longer term numbers still look very strong, with all portfolios comfortably showing the ~10% outperformance that the backtest suggests.

Execution

This month the usual sources of gross-net difference were favourable relative to the modelled expectation: the gross-net gap was -3 bps (vs. an expected -23 bps).

Rosevalley 13/3 Execution		
	Model	Realized
Gross performance	-14.04%	-14.04%
deviation from model portfolio		0.01%
difference between trade price and end-of-previous-month price	0.03%	0.11%
trading costs	-0.14%	-0.05%
borrow costs	-0.12%	-0.10%
Reported net performance	-14.27%	-14.07%

[1] Get the f*&@ out!

February Portfolio Manager model overrides

The portfolios for February have two long stock substitutions for the 13/3 and 15/5 portfolios driven by concentration concerns: miners AKE and OZL. The substitutes are JHX and AST in Rosevalley 13/3 and GMG and NSW in Rosevalley 15/5.

	13/3	15/5
Longs taken out	AKE, OZL	AKE, OZL
Replaced by	JHX, AST	GMG, NWS
Comments	All changes driven by sector concentration considerations.	

See the appendices for full detail on the list for February.

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

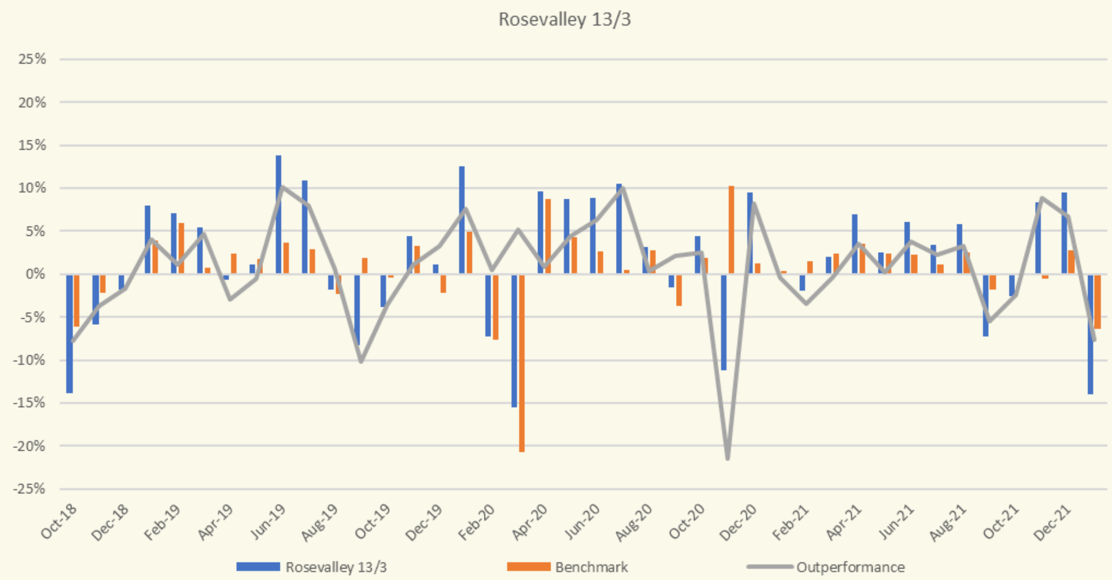
Rosevalley is a boutique funds manager with a unique approach to portfolio construction. Rosevalley Funds are constructed using the principles of Behavioural Finance (BF). Behavioural Economics and Behavioural Finance were developed over the past 30 years or so through the work of economists like Tversky, 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.

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



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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