



Portfolio Report March 2022

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

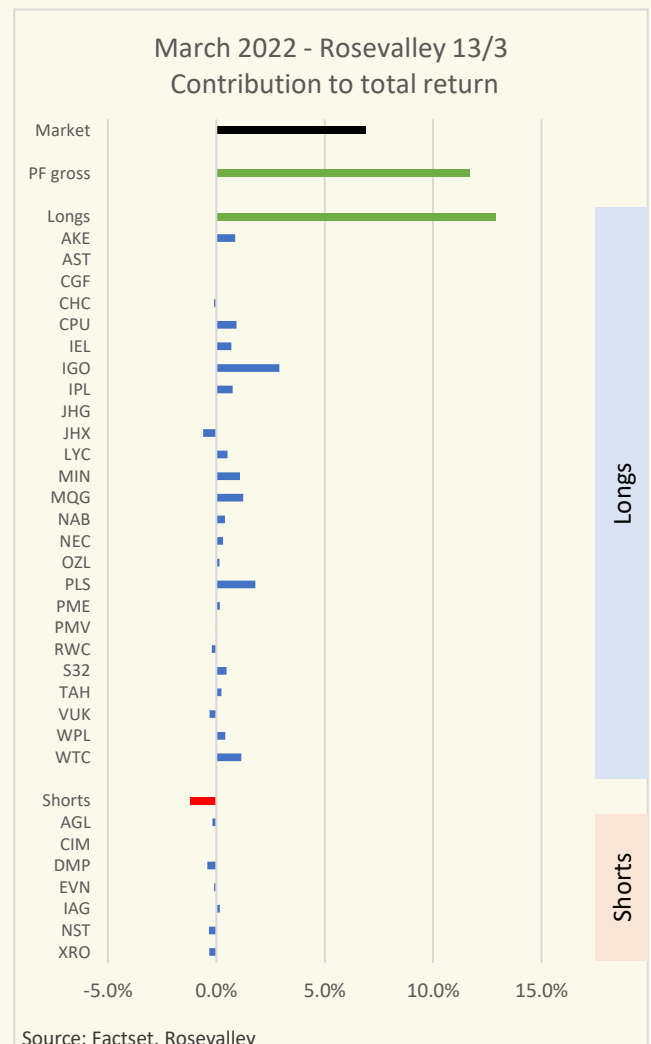
Market commentary

Strange. That is an understandable reaction to stock markets in March. The world is seeing its “most serious military conflict since the second World War”¹, and stock markets go up? What is going on?

	March 2022
MSCI World	3.2%
S&P 500	3.7%
DJIA	2.3%
FTSE100	1.4%
DAX	-0.3%
Hang Seng	-2.8%
ASX-200	6.9%
Rosevalley 13/3	11.7%
Rosevalley 10/0	10.5%

As the table above shows, Australia was the strongest performer among the group of international exchanges we track – and this gives us a clue to what is going on. As the war started, most commodity prices (things like iron ore, aluminium, oil, gas, wheat, corn; basically things that the global economy needs to produce all the things it produces) went up – even if they were already uncommonly high before the war started (see chart at right). While high commodity prices ultimately hurts consumers downstream (through higher prices for the products they buy), in the short term it helps producers as they get higher prices for their products. This can reasonably be expected to feed through to higher stock prices for those producers. The Australian stock exchange

¹ We actually don't believe this statement, but this is the way it is commonly being reported. The problem with this statement is that it is very US/Europe/West-vs-



East coloured. Bosnians, Vietnamese, Congolese, Cambodians, and many others might justifiably disagree.

Performance as of March 2022								
Portfolio		1 month	3 months	6 months	1 year	Since inception	Since inception	Since inception
						annualized (1 Oct 2018)	annualized (14 Aug 2018)	annualized (1 Aug 2018)
Rosevalley 13/3	Gross	11.7%	-12.2%	1.5%	19.7%	17.5%		
	Net	11.4%	-12.6%	0.0%	15.7%	14.0%		
Rosevalley 15/5	Gross	12.5%	-18.6%	-5.8%	14.6%	15.3%		
	Net ¹							
Rosevalley 10/0	Gross	10.5%	-5.2%	6.0%	24.0%	20.4%		
	Net	10.2%	-5.6%	7.9%	22.2%	9.7%		
ASX-200		6.9%	2.2%	4.4%	15.0%	9.5%	9.1%	9.1%

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

has a higher-than-average number of commodity producers listed, so it should not come as a surprise that the Australian market did better than most.

Rosevalley’s portfolios did well in this environment, reflecting the same dynamics of strongly performing commodity-related stocks. Our portfolio currently has a tilt toward several commodity/mining-related listed companies and we have benefitted from the surge in mining related stocks.

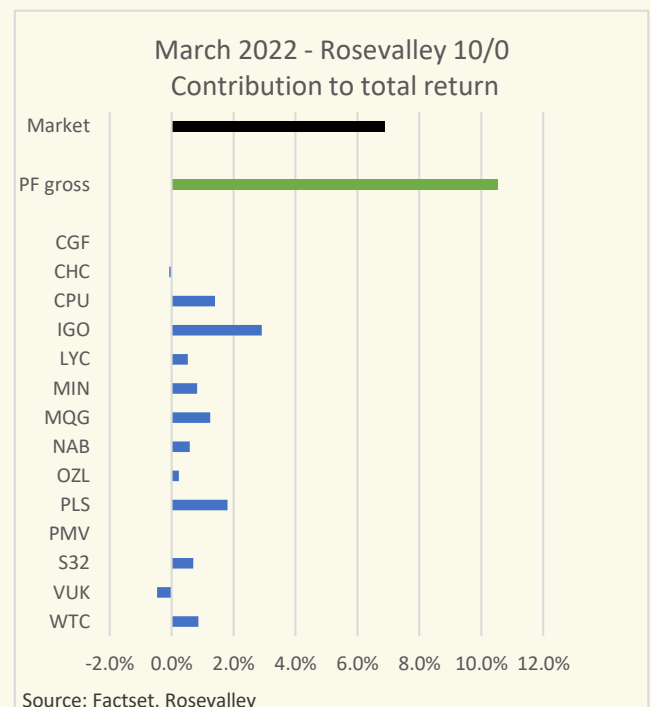
Of course the other big issue, inflation, has not gone away and in fact in recent months the pressure has become more elevated. Over the past couple of months the resolve of various central banks to raise interest rates in order to fight inflation has strengthened markedly – such that markets are now pricing in significant interest rate rises over the next couple of years. It is mostly tech-stocks and companies with financing risk that may suffer from this, however – again favouring Australia which has relatively fewer tech stocks.

Where to from here? Our short answer is that we believe that commodity prices will stay elevated longer than the market is currently thinking², and consequently we believe commodity-related stocks (and therefore the Australian market) will continue to perform well.

Portfolio performance

The Rosevalley portfolios had an excellent month, outperforming the broader market by between 3-4.5%. Rosevalley 13/3 was up 11.4% and Rosevalley 10/0 was up 10.2%.

The two largest contributors were IGO and Pilbara Minerals, both lithium miners. Other contributors included Macquarie Bank, and CPU – the latter performed well based on its leverage to higher interest rates (it has a



large balance of money it holds on behalf of clients, and on which it earns interest).

Longer term performance

Since-inception performance numbers are still strong, albeit just a tad below where we expect them to be over the long term. While last month we were trailing the market on a 12-month basis, that has now reversed back to decent outperformance.

² We say this based on fundamental research that we have access to, but is not Rosevalley research.

Execution

This month the usual sources of gross-net difference were favourable relative to the modelled expectation: the gross-net gap was -29 bps (vs. an expected -55 bps).

Rosevalley 13/3 Execution		
	Model	Realized
Gross performance	11.71%	11.71%
deviation from model portfolio		0.05%
difference between trade price and end-of-previous-month price	-0.05%	-0.14%
trading costs	-0.37%	-0.09%
borrow costs	-0.12%	-0.11%
Reported net performance	11.16%	11.42%

April Portfolio Manager model overrides

The portfolios for April have two long stock substitution for the 13/3 and three in the 15/5 portfolios driven by concentration concerns: miners Oz Minerals and Iluka, complemented by Mineral Resources in 15/5. The substitutes are ALS and Nine in Rosevalley 13/3 and Nine, Tabcorp, and Challenger in Rosevalley 15/5.

	13/3	15/5
Longs taken out	OZL, ILU	OZL, ILU, MIN
Replaced by	ALQ, NEC	NEC, TAH, CGF
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 April-April 2018.

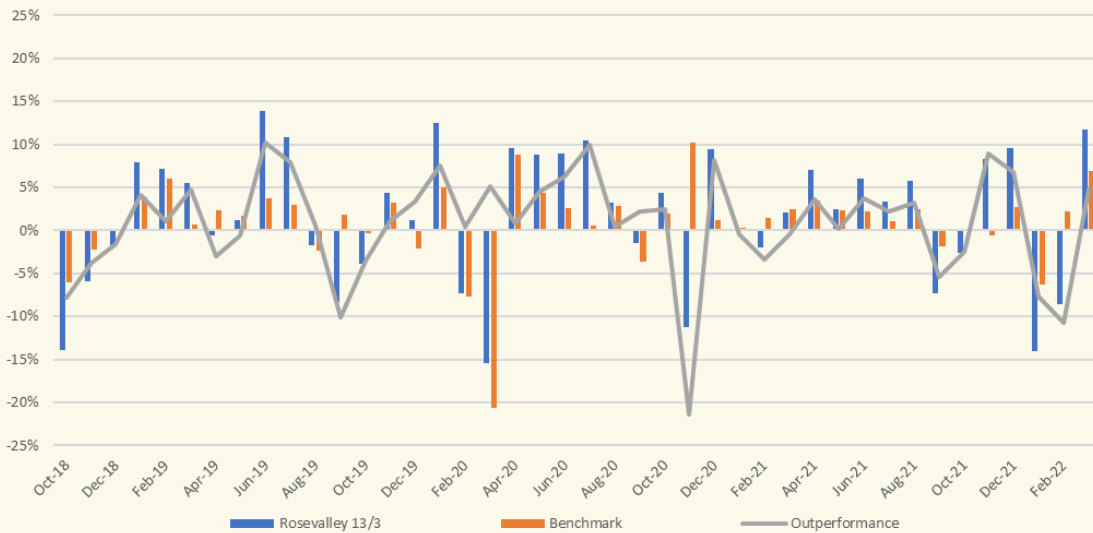
The portfolios are rebalanced monthly. The Rosevalley team has discretion to make some substitutions, albeit that the bar for those is set high.

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

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



Rosevalley 13/3



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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