



Portfolio Report August 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.

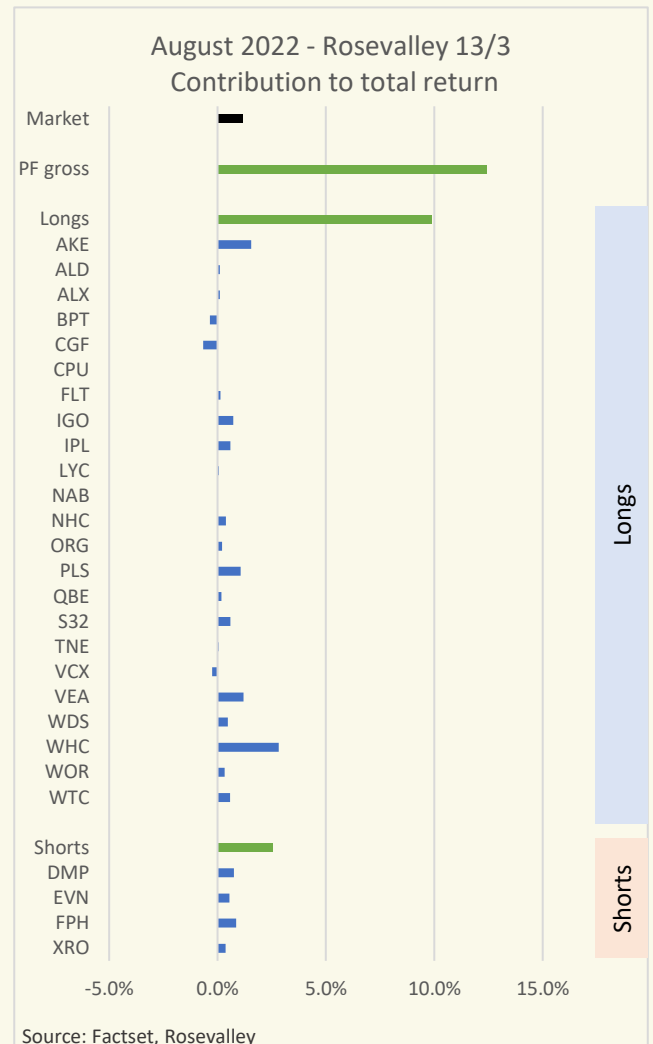
First-time readers of this report, please refer to the blue box at the end for added context and history

Market commentary

August was a difficult month for stockmarkets around the world. Continued tightening by central banks led to negative performance for most main indices. Australia did better, up 1.2%, driven by a relatively upbeat earnings season led largely by the mining sector. Rosevalley did even better, with the flagship portfolio up 12.5%.

	August 2022
MSCI World	-3.4%
S&P 500	-4.1%
DJIA	-4.1%
FTSE100	-1.1%
DAX	-4.8%
Hang Seng	-0.8%
ASX-200	1.2%
Rosevalley 13/3	12.5%
Rosevalley 10/0	7.4%

The main driver for international markets was the decidedly hawkish tone of US Fed chairman Jerome Powell in a recent speech, where he was explicit in saying that he was prepared to see a recession if that's what it takes to get inflation under control (see chart on right). It appears that inflationary pressure in the US is more widely spread throughout the economy than previously thought by many market participants. Our read of this is: more of the same – we've been talking about this for many months now. The market is expecting more interest rate rises to come, in line with the Fed's own forecasts. The speed of rate increases and the duration of those increases will be borne out in the fullness of time as the Fed sizes up the economic risk.



Performance as of August 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	12.5%	0.7%	7.3%	-9.6%	14.3%		
	Net	12.3%	0.4%	5.9%	-11.7%	10.9%		
Rosevalley 15/5	Gross	13.5%	1.7%	11.4%	-13.2%		13.3%	
	Net ¹							
Rosevalley 10/0	Gross	7.4%	-1.6%	5.6%	-4.6%			16.8%
	Net	7.5%	-1.4%	5.2%	-1.8%			7.5%
ASX-200		1.2%	2.4%	0.7%	-3.4%	6.9%	6.6%	6.6%

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

As always, the interesting thing here is the market reaction to news that should not have come as a surprise at all. To us this is another illustration of how markets are not efficient...

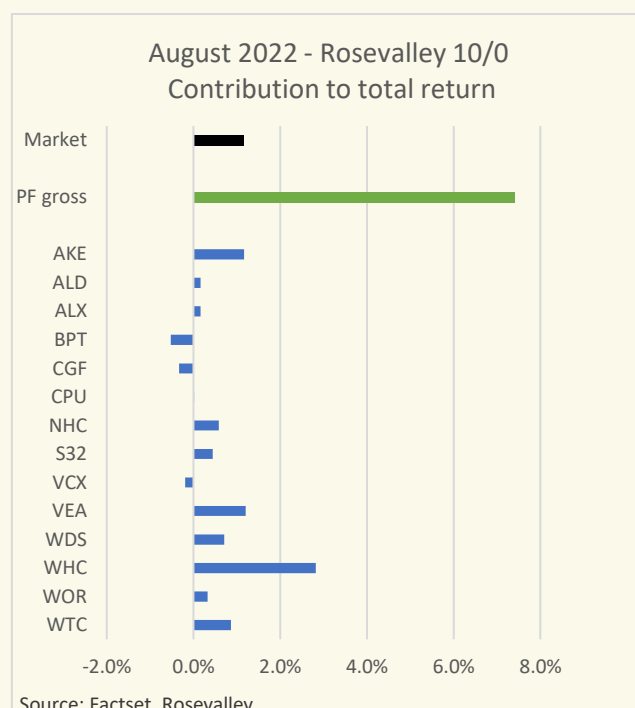
Portfolio performance

As mentioned, the Rosevalley portfolios had a stellar month, even in this down market. Rosevalley 13/3 was up a remarkable 12.5% and Rosevalley 10/0 was up 7.4%.

The contribution to performance for both the long only and long/short fund was broad-based, with both longs and shorts contributing. The most significant contributors to performance were energy (Whitehaven (WHC), a coal company; Viva Energy (VEA), an energy retailer; Woodside (WDS), an oil company), and lithium stocks (Pilbara Minerals (PLS), Allkem (AKE), and IGO Ltd (IGO)).

Longer term performance

With the good return this month, 1-year numbers look better, though still below the index. Pleasingly, since-inception performance numbers are once again getting close to their expected long term values.



This month the usual sources of gross-net difference were favourable for the portfolio: the gross-net gap was -20 bps (vs. an expected -58 bps).

The portfolios for September have no stock substitutions.

Rosevalley 13/3 Execution		
	Model	Realized
Gross performance	12.45%	12.45%
deviation from model portfolio		-0.01%
difference between trade price and end-of-previous-month price	0.00%	0.05%
trading costs	-0.45%	-0.08%
borrow costs	-0.13%	-0.16%
Reported net performance	11.87%	12.25%

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

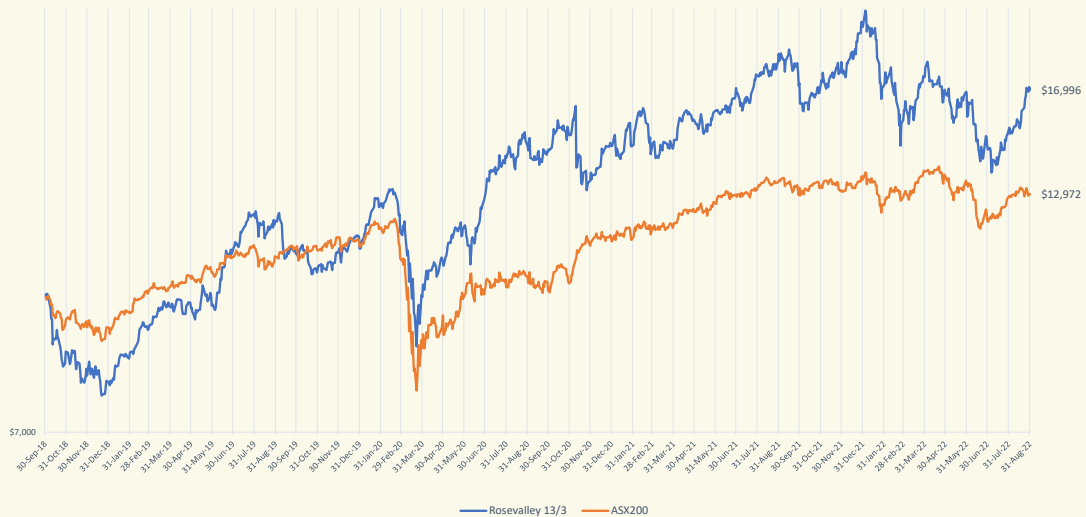
Rosevalley is a boutique funds manager with a unique approach to portfolio construction. Rosevalley Funds are constructed using the principles of Behavioural Finance (BF). Behavioural Economics and Behavioural Finance were developed over the past 30 years or so through the work of economists like Tversky, 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 September-September 2018.

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

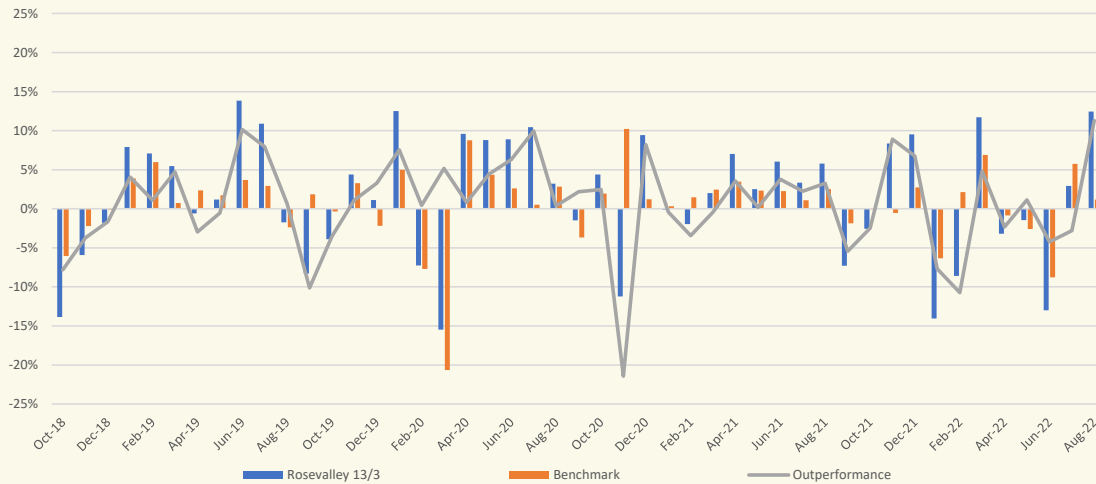
The monthly report discusses current events, portfolio performance, trade execution, gross-net differences, next month's portfolio, and broader market and macro expectations.

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



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

Rosevalley 13/3



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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