



Portfolio Report September 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

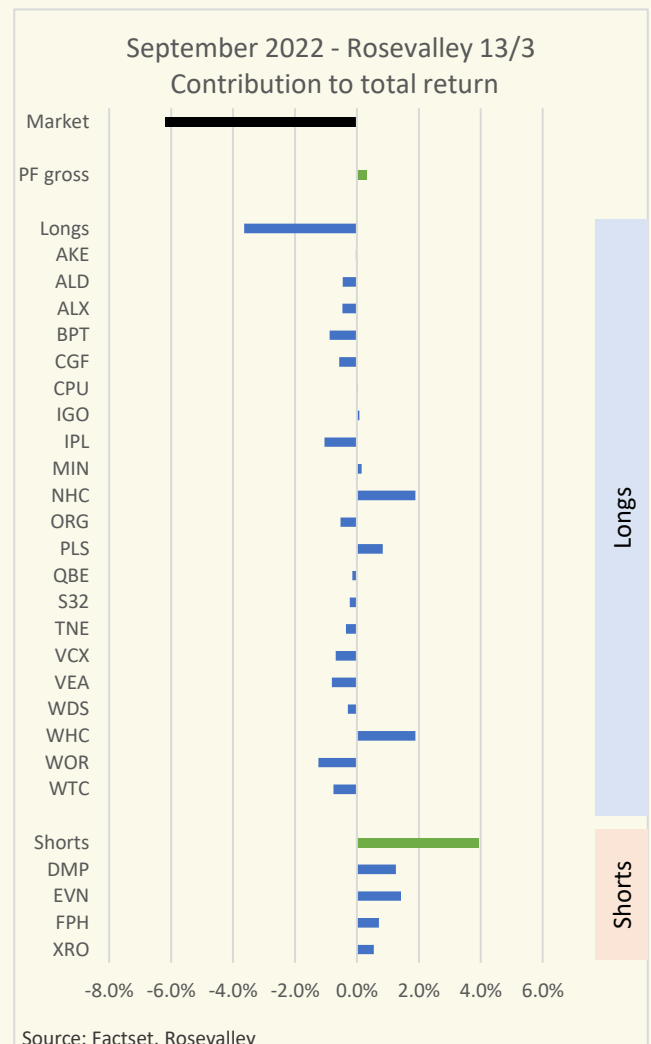
Market commentary

September saw the broad sell-off on stock markets worldwide continue, with drops mostly in the range of 5-10%. It was pleasing to see that, in contrast, two of the Rosevalley portfolios delivered small positive returns.

	September 2022
MSCI World	-8.3%
S&P 500	-9.2%
DJIA	-8.8%
FTSE100	-5.2%
DAX	-5.6%
Hang Seng	-13.1%
ASX-200	-6.2%
Rosevalley 13/3	0.3%
Rosevalley 10/0	1.9%

The drivers remain the same: inflation, interest rates, supply side shocks, energy shortages, geopolitical issues such as China and the, UK and worries about potential recessions in various countries. More recently there have been relatively wild swings in various currencies as the USD gains strength as a safe haven. The AUD has not been immune from this volatility and has weakened materially against the USD in recent weeks. In addition, the war in Ukraine is also never far from investors' minds.

Even though inflation is still high, the RBA increased the Cash Rate by a smaller amount in October (25 bps instead of 50 bps). This suggests we may be getting close to the end of the tightening cycle, which would likely be supportive for equity markets. However, we remain skeptical, and expect that the effect of the past rate increases have not yet found their way into consumer spending declines. We are of the view the RBA will



continue to put pressure on rates due to the weaker AUD creating import price inflation pressures. The ongoing La Nina effects with widespread rain and flooding across much of eastern Australia will continue to build food price inflation and supply shortages.

Finally, something to watch is the Chinese Communist Party 5-yearly Congress, which is currently taking place in Beijing. Investors are hoping to learn something about the future course of economic and foreign policy in China, which would have implications for Australia (given how large a trade partner China is) as well as the rest of the world.

Performance as of September 2022

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	0.3%	16.1%	-3.6%	-2.2%	14.1%
	Net	-0.2%	15.0%	-5.2%	-5.2%	10.6%		
Rosevalley 15/5	Gross	-0.3%	14.7%	-1.2%	-7.0%		13.0%	
	Net ¹							
Rosevalley 10/0	Gross	1.9%	14.1%	-2.6%	3.2%			17.0%
	Net	1.9%	14.1%	-2.7%	5.0%			7.8%
ASX-200		-6.2%	0.4%	-11.6%	-7.7%	5.0%	4.8%	4.9%

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

Portfolio performance

As mentioned, the Rosevalley portfolios had a positive month, even in this down market. Rosevalley 13/3 was up a 0.3% (before transaction and other costs) and Rosevalley 10/0 was up 1.9%.

The contribution to performance for the long/short fund came from the short side, with the longs adding up to a net deduction. The long-only portfolio did not include some of the detractors that were in the long-short portfolio, and thus managed to deliver a positive performance.

Longer term performance

With the strong outperformance this month, 1-year numbers are now again firmly in excess of the broader market. Since-inception performance numbers are still getting closer to their expected long term values.



Execution

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).

Rosevalley 13/3 Execution		
	Model	Realized
Gross performance	0.30%	0.30%
ALX rights issue		-0.12%
difference between trade price and end-of-previous-month price	-0.04%	-0.20%
trading costs	-0.17%	-0.06%
borrow costs	-0.13%	-0.16%
Reported net performance	-0.03%	-0.24%

October Portfolio Manager model overrides

The portfolios for October have one and two stock substitutions for the 13/3 and 15/5 portfolios respectively.

	13/3	15/5
Longs taken out	IGO	IGO, YAL
Replaced by	WOR	MPL, PME
Comments	All changes driven by sector concentration considerations.	

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

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 October-October 2018.

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

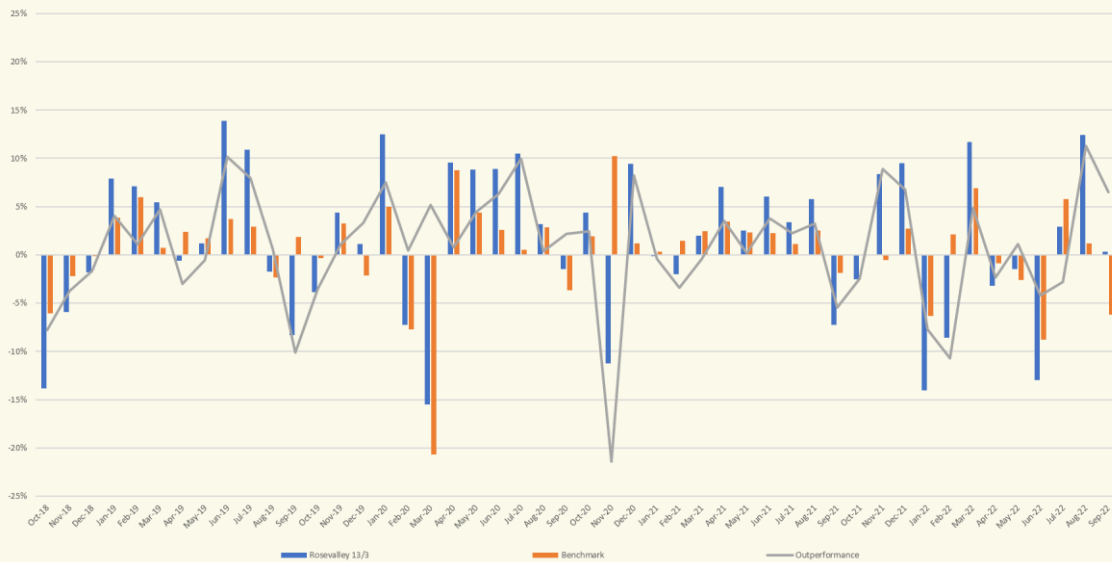
The monthly report discusses current events, portfolio performance, trade execution, gross-net differences, next month's portfolio, and broader market and macro expectations.

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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