ROSEVALLEY FUNDS

Portfolio Report January 2023

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

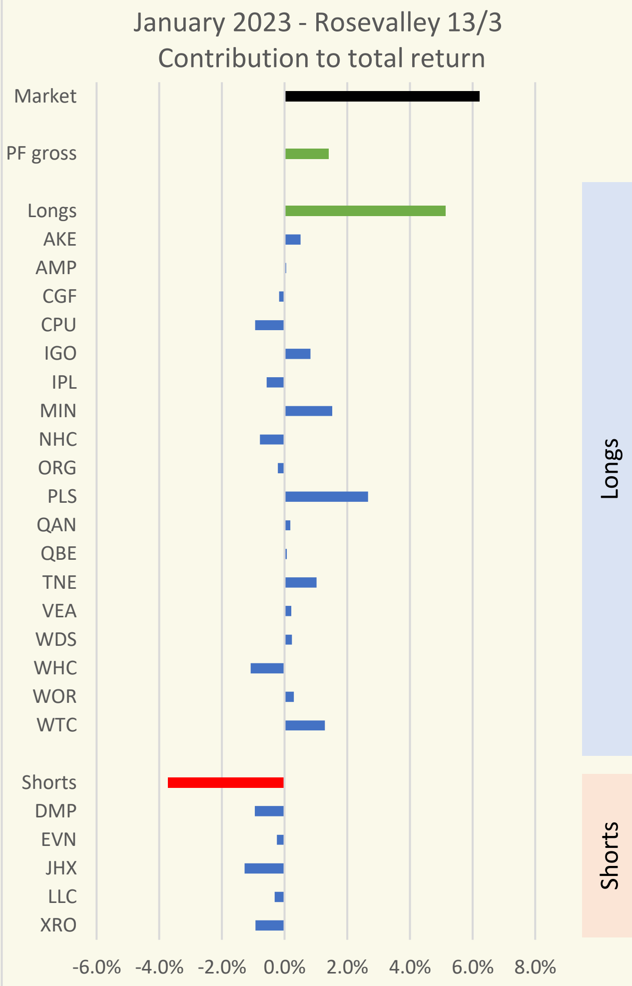
Markets rebounded strongly in January following a relatively weak 2022 across most asset classes. Over January 2023, developed market equities returned 6.5% whilst emerging market equities returned 6.6%.

The market's expectations that inflation may have peaked during 2022 that, relatedly, the interest rate cycle my soon peak, was the underlying impetus to the markets' rebound as we head into 2023.

Like elsewhere, the last quarter of 2022 was possibly the peak in Australian inflation. Directionally, going forwards the figures are expected to moderate; however, it will take some time for the inflation rate to be in line with the RBA's target of 2% to 3%. As a result, the RBA is expected to continue to hike interest rates during 2023, with financial markets commentators expecting a further 2-4 25bps rate hikes over the course of the year.

	January 2023
MSCI World	6.5%
S&P 500	6.3%
DJIA	2.8%
FTSE100	4.3%
DAX	8.7%
Hang Seng	10.4%
ASX-200	6.2%
Rosevalley 13/3	1.4%
Rosevalley 10/0	3.6%

Locally, the Australian market was up 6.2% for the month with sectors including Consumer Discretionary (9.9%); materials (8.9%) and REITS (8.1%) performing strongly reversing some of their previous weakness. By contrast,



Source: Factset, Rosevalley

Healthcare was up 3.9% and energy up 1.3% and utilities bucking the strong trend.

The labour market has remained strong through 2022 and has hovered around 3.5% unemployment for some time. Higher interest rates are likely to begin to impact employment coming into 2023.

Retail sales has been mixed for the last few months. November data was stronger: up 1.4% month over month (12.5% y/y). December retail sales were weaker: collapsing by 3.9% month over month as Christmas sales were pulled forwards into prior months.

Australian house prices have continued to weaken and have fallen progressively; the downturn is now the second

Performance as of January 2023								
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	1.4%	-4.8%	13.8%	-0.7%	13.1%		
	Net	0.9%	-5.7%	11.7%	-3.8%	9.7%		
Rosevalley 15/5	Gross	0.1%	-6.7%	11.1%	-6.6%		11.5%	
	Net[1]							
Rosevalley 10/0	Gross	3.6%	-1.0%	15.5%	11.5%			17.0%
	Net	3.5%	-1.3%	15.8%	11.1%			8.5%
ASX-200		6.2%	9.6%	10.3%	12.2%	8.3%	8.0%	8.0%

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.

most on record since data was recorded. Expectations are that the market will continue to soften into 2023.

By the end of January 2023, the S&P500 fourth quarter earnings season was about 50% complete. According to analyses of reported earnings and residual earnings expectations, the US market was on track to suffer a 9.6% decline year on year in operating earnings. The percentage of companies that beat earnings was running at circa 63% which is well below the historic average.

Portfolio performance

The Rosevalley Funds underperformed the local bourse with the long-only fund up 3.6% and the long/short fund up 1.4% versus the ASX 200 which was up 6.2%. Long and short positions collectively detracted from returns.

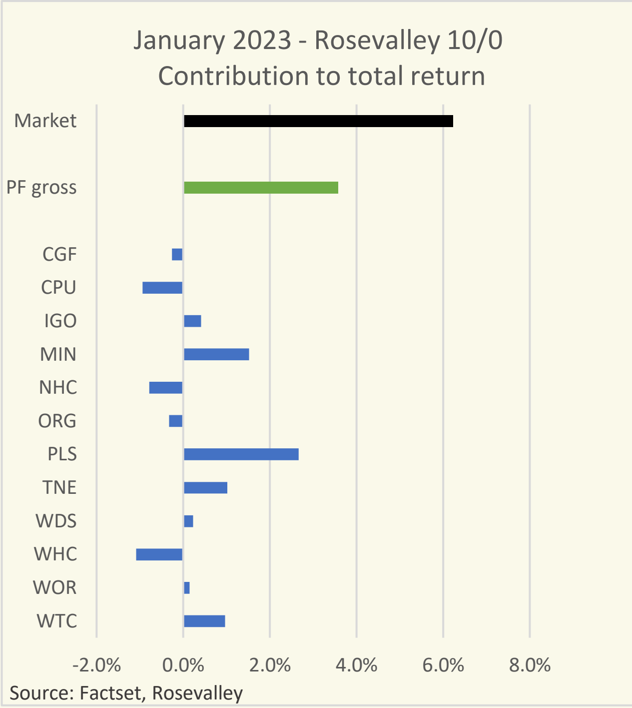
We are not concerned by this weakness as our back-test indicates that the fund will underperform once in every three years. Despite our short-term underperformance our long-term investment strategy remains intact.

Furthermore, our since-inception returns for each strategy remain ahead of the benchmark returns on both a gross and net of fees and trading cost basis.

The outlook for 2023 is likely to be similar to that which unfolded in 2022, with much volatility across sectors as higher inflation and rising interest rates flow through to company earnings and valuation multiples across all asset classes. Some of this action will be with a lag effect, particularly for more illiquid assets. During 2023 there is a high degree of expectation that the various central banks will have reached the peak of their interest rate tightening cycle and inflationary pressures are likely to ease.

With regard to fund performance, the largest contributors for the fund were the biggest detractors for the previous month:

Pilbara Minerals (PLS.ASX) has been a strong performer for some time and has recently rebounded following some short term weakness. The company has



considerable cash flow with a cash balance at end of 2022 of $2.2 billion. The company has announced its inaugural dividend payment to be applied to the 2023 results.

Mineral Resources (MIN.ASX) performed strongly during January; it is performing off the back of its lithium exposure and some corporate action whereby the company opted to walk away from a buyout of Warrego Energy, secured Norwest Mining and driving higher on the back of higher demand and prices for Lithium.

WiseTech Global Ltd (WTC.ASX) was the third best performing stock for the portfolio over the month, following its detraction to performance in the month prior.

The short positions in the Long/Short fund all detracted from performance.

Our short in **James Hardie Industries (JHX.ASX)** was the biggest detractor to fund performance. James Hardie is a leading manufacturer of fibre cement siding and backerboard. Their primary markets are the United States, Australia, New Zealand, the Philippines, Europe and Canada. The stock performed well over January as the market began anticipating perhaps a slightly better result for the company for the first half of FY2023 and the stock was beginning to look reasonable value, albeit in the face of severe market headwinds. The stock had been beaten down in 2022, falling from a high of $55.30 at the start of January 2022 to a low of $26.30 on 31st December 2022.

Execution

This month the usual sources of gross-net difference were unfavourable for the portfolio: the gross-net gap was -48 bps (vs. an expected -26 bps).

Rosevalley 13/3 Execution

	Model	Realized
Gross performance	1.41%	1.41%
difference between trade price and end-of-previous-month price	0.00%	-0.19%
trading costs	-0.13%	-0.07%
borrow costs	-0.13%	-0.22%
Reported net performance	1.16%	0.93%

February Portfolio Manager model overrides

The portfolios for February don't have any stock substitutions.

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

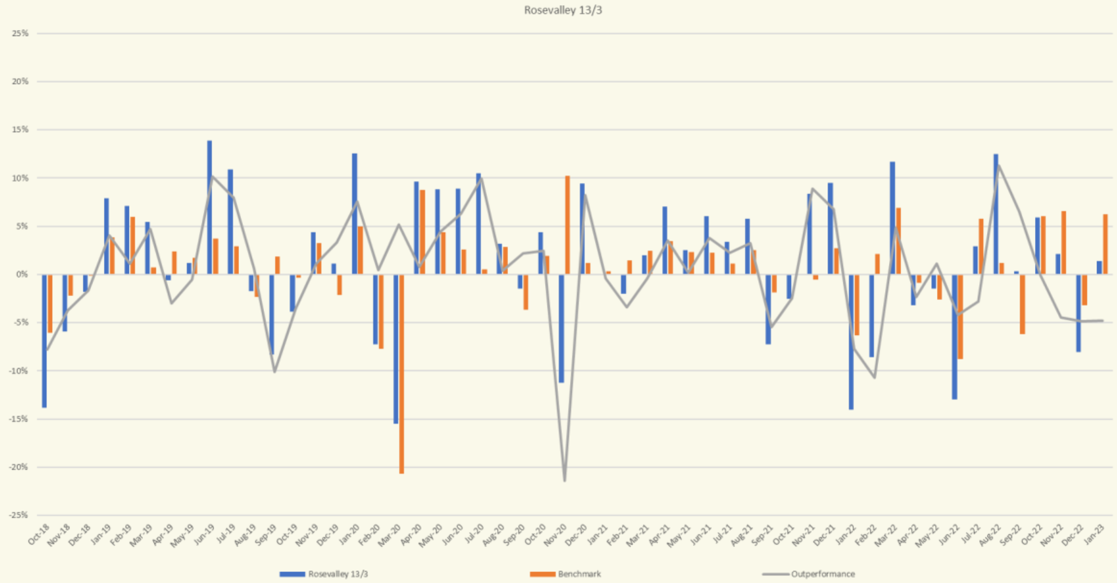
Rosevalley is a boutique funds manager with a unique approach to portfolio construction. Rosevalley Funds are constructed using the principles of Behavioural Finance (BF). Behavioural Economics and Behavioural Finance were developed over the past 30 years or so through the work of economists like Tversky,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