ROSEVALLEY FUNDS

Portfolio Report February 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

Financial markets were weaker over February continuing their seesaw pattern as investors continue to try to second guess the appetite of the US Federal Reserve to continue its aggressive interest rate hiking cycle and whether rates will remain elevated for longer than markets expect.

For the month of February, the S&P 500 fell 2.4%, the Dow Jones shed 4.2% and the Nasdaq softened by 1.1%. Information Technology was the only sector of the S&P 500 to finish in positive territory. The Q42022 reporting season was underway. With 97% of market value reporting, of the 480 or so companies, 323 (67.3%) beat their earnings forecasts and 311 exceeded their sales forecasts.

European markets outperformed with the major markets finishing the month flat to positive in part due to the lower valuations and the re-emergence of China after the lifting of Covid restrictions.

February 2023 - Rosevalley 13/3
Contribution to total return

Source: Factset, Rosevalley

	February 2023
MSCI World	-1.5%
S&P 500	-2.4%
DJIA	-4.2%
FTSE100	1.8%
DAX	1.6%
Hang Seng	-9.4%
ASX-200	-2.4%
Rosevalley 13/3	-2.0%
Rosevalley 10/0	-3.1%
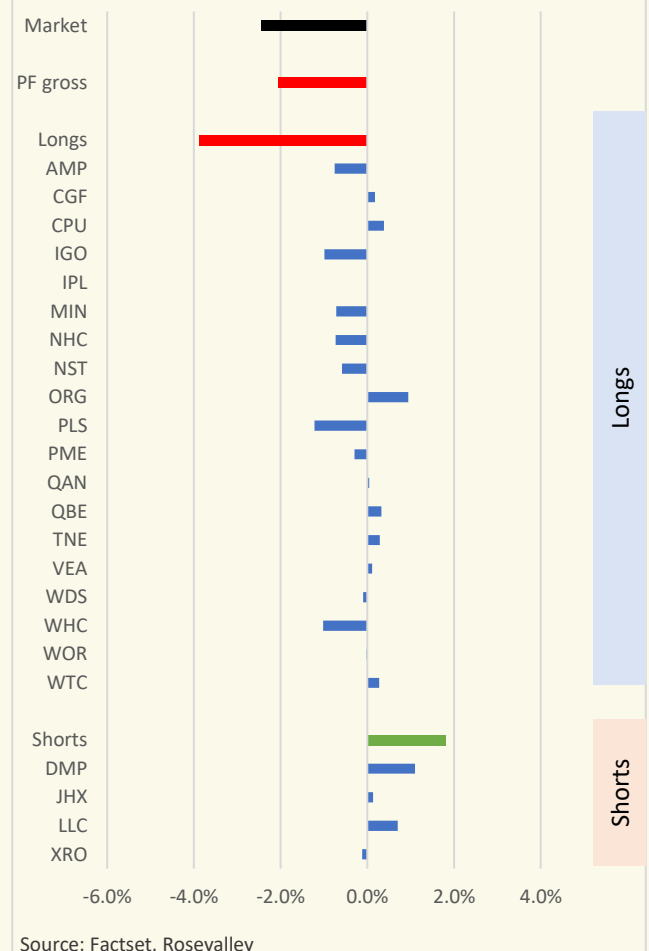
The US Federal Reserve increased rates by 0.25% whilst the European Central Bank, Bank of England and the Reserve Bank of India all raised rates in February by 0.50%. Unemployment rates remain relatively low in all major markets. In a clear sign that economic momentum remains, in January the US economy added 517,000 new jobs, the highest total in more than a year. Whilst there is strength, the hike in rates is beginning to impact other segments: according to McKinsey, the sale of existing homes fell by 0.7% in January 2023, to an annualised rate of 4 million dwellings sold, the lowest in 12 years.

Anecdotally, the rate of inflation appears to be rolling over in key markets. Inflation in the UK fell to its lowest level in 5 months measuring 10.1% in January.

Performance as of February 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	-2.0%	-8.7%	-0.9%	6.4%	12.4%		
Net	-2.2%	-9.5%	-2.7%	3.0%	9.0%		
Rosevalley 15/5 Gross	0.0%	-8.3%	-2.1%	9.1%		11.3%	
Net[1]							
Rosevalley 10/0 Gross	-3.1%	-7.3%	4.3%	10.1%			15.9%
Net	-3.1%	-7.7%	4.4%	9.8%			7.6%
ASX-200	-2.4%	0.3%	6.4%	7.2%	7.6%	7.3%	7.3%

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.

Locally, the S&P/ASX 300 Accumulation Index fell 2.5%, S&P/ASX 300 Accumulation Industrials fell 1.1% and the S&P/ASX 300 Accumulation Resources Index fell 6.2%. The local bonds were also weaker with the Australian Bond composite index down 1.3%.

Australian stocks and bonds both finished the month with negative returns. Miners continued to dominate the top performers among individual stocks.

AUD/USD depreciated sharply over February, driven by a succession of upside US economic data surprises, repricing of Fed policy expectations and a related USD strength alongside deterioration in risk sentiment indicators.

Australia's property market downturn stalled in February with home prices up nationally amid skyrocketing interest rates and continuous price falls over the past year, producing mild negative returns for listed property and positive return for infrastructure for the month.
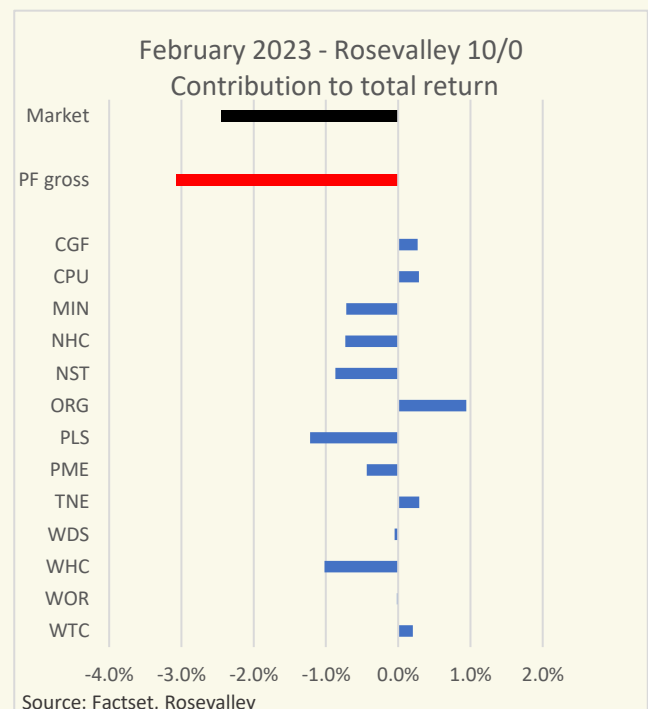
Portfolio performance

February 2023 - Rosevalley 10/0 Contribution to total return

Source: Factset, Rosevalley

The Rosevalley Funds underperformed the local bourse with the long-only fund down 3.1% and the long/short fund slightly better than the market at -2.2%. Long positions detracted and short positions contributed to fund performance.

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.

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. The stock was weak during February largely due to the sell down of a large cornerstone investor that is rumoured to have existed most of their holding in the company.

IGO Limited (IGO.ASX) was softer over February due to weakness in the underlying commodities the company has investments in.

Whitehaven Coal Ltd (WHC.ASX) has been a stellar performer over the 2022. However the stock has been weak in recent times due to a fairly significant fall in the price of coal which is off 60% from its peaks in 2022.

The short positions in the Long/Short fund all contributed to fund performance.

This month the usual sources of gross-net difference were unfavourable for the portfolio, however less so than raw modelling would suggest: the gross-net gap was -12 bps (vs. an expected -20 bps).

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

Rosevalley 13/3 Execution		
	Model	Realized
Gross performance	-2.05%	-2.05%
difference between trade price and end-of-previous-month price	0.23%	0.10%
trading costs	-0.30%	-0.06%
borrow costs	-0.13%	-0.18%
Reported net performance	-2.25%	-2.17%

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 March-March 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

$16,844
$13,798
$7,000

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

— Rosevalley 13/3   — ASX200

Rosevalley 13/3

■ Rosevalley 13/3   ■ Benchmark   — Outperformance
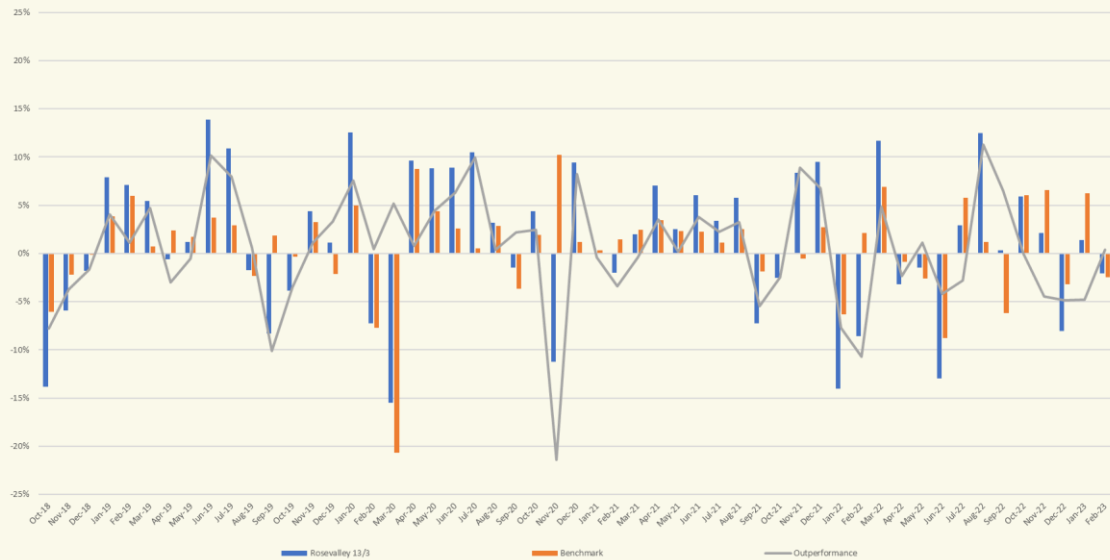
Source: Factset, Rosevalley

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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