Orchard Fund

July 2020

Investment Commentary

The Fund returned -1.16% (A RDR share class) against its benchmarks of 1.65%.

July saw the extension of various policy makers' stimulus measures, along with the confirmation of a degree of fiscal integration within the European Union as, after lengthy negotiations, an agreement was achieved on a recovery fund. Economic data releases were mixed, though they would suggest activity was starting to progress somewhat, whilst there was a re-emergence of Chinese-US geopolitical tensions. In equity markets, emerging regions were buoyed by US Dollar weakness over the month. Coupled with loosening measures by monetary authorities, global emerging markets outpaced their developed equivalents, with the MSCI indices returning +9.0% and +4.8% respectively on a total return basis in USD terms.

In the US, economic activity shrunk by 9.5% over the 2nd quarter, however with a July reading of 50.3 the Composite Purchasing Managers Index (PMI) signalled its first month of expansion since January of this year. The Federal Reserve announced the extension of its emergency lending programmes, due to expire 30th September, until the end of the year which contributed in the sell-off of the US Dollar - the DXY Spot Index fell 4.2% over the month. The S&P 500 returned +5.6% driven largely by technology stocks, with key companies in the sector announcing better than expected earnings numbers.

The FTSE All Share Index was negative in July, falling 3.6% in Sterling terms. Currency movements were a factor in the UK equity market's relative underperformance: a large portion of the FTSE's constituents' revenues are denominated in US Dollars so an appreciation in Sterling causes earnings to decline. Additionally, the UK's relatively small Information Technology weighting was also a headwind, as was news that the government's furlough scheme won't be extended disappointed the market, notwithstanding plans were announced to introduce a range of auxiliary measures. The UK Composite PMI indicated an improved private sector business environment, with a 5-year high reading of 57.0, though unemployment is expected to surge with the rolling back of the furlough scheme.

The threat of a second wave of Covid-19 infections across Europe weighed on investor sentiment and the MSCI Europe ex -UK index retracted 0.5% over the month in local currency terms. The region's Composite PMI indicated the recovery was taking shape returning to expansion with a reading of 54.9 as economies continued to open up across the region. The agreement between EU leaders for a €750m recovery fund was significant and gives the union more scope to assist problematic areas of the European economy by allowing countries to borrow at the European Commission's AAA rating. In GDP terms, the region suffered its largest quarterly decline since being established, with the Eurozone economy contracting 12.1% in the second quarter (40.3% annualised).

Central Bank demand continues to support fixed income markets. In the US the benchmark 10-year Treasury yield got close to the record lows of 0.38% witnessed in the height of the pandemic in March, ending the month at 52 basis points (bps) whilst in the UK, negative yields extend out to the 8 year maturity with the 10 year Gilt yielding 10bps (in from 17bps at the end of June).

Fund Facts

Fund Facts	
Launch Date	14 January 2003
Fund Manager	MitonOptimal Portfolio Management (CI) Limited
Fund Structure	UCITS V
Domicile	Dublin
Currencies	GBP, USD, EUR, CHF
Administrator	CACEIS Ireland Ltd
Dividend Yield	Target 6%
Dividend Policy	Distribution
Dealing Days	Daily
Fund AUM	£19.74m
Min Subscription	50,000 for individuals, 10,000 for platforms and designated bodies

Orchard Funds PLC
Equity Income & Total Return
6% Targeted Annual Yield

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The agreement reached on the European recovery fund caused peripheral sovereign spreads to tighten over Bunds, with the Italian 10-year spread narrowed to +150bps over and Italian bonds returned +1.7% over the month. Corporate debt also rallied over the month. The US High Yield market outperformed its European counterpart, returning +4.7% and +1.7% respectively, both in local currency terms.

The bull market in gold took off in July, as a perfect storm of declining real interest rates, geopolitical tensions, a sell-off of the US Dollar and a global crisis was enough to send the price of gold 10.8% higher to finish the month just shy of the $2,000 an ounce level. Silver, often referred to as a higher beta play on gold, did even better and finished July 33.9% higher.

More specifically, with respect to the funds' intra-month activity, we were assigned on Best Buy stock taking a profit at $82.50 and as a consequence took the opportunity to look to re-enter the stock at $77.50, this resulted in the fund being paid an annualised 15% yield, for doing so.

Following the disappointing Q2 earning results from Intel, we were able to write the August $45 put, this was some 12% below the then market price for an annualised yield of 10%.

Following the run up in the share price in Altira we wrote calls some 20% above the current market price further enhancing the existing yield of the fund. This resulted in the position becoming one of the largest in the portfolio, as a result we have written some short dated close to the money calls yielding an annualised 30%, as protection.

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