Orchard Fund

September 2020

Investment Commentary

The Fund returned -4.65% (A RDR share class) against its benchmarks of -1.58%

The bull market in risk assets faltered somewhat in September, as concerns heightened in respects to a impending second wave of Covid-19 infections in the west and the implications on the global economy from subsequent containment measures. Whilst backward-looking economic data releases indicated the recovery in parts of the world economy was starting to take hold, investor uncertainty caused by the resurgence of the pandemic was enough to send equity markets tumbling across the board. Emerging markets, as measured by the MSCI EM Index, outperformed their developed counterparts over the period, reflecting the current wave of infections being concentrated in the west, posting a total return of -1.60% versus a contraction of -3.45% for the MSCI's (developed market) World Index (both in USD terms).

The US equity market suffered its first monthly negative return since March, as a number of fears weighed on investor sentiment. Concerns over of a second wave of Covid; the Presidential election and an expectation of volatility surrounding the lead-up and result; and the disagreement in reaching Congressional support for additional stimulus measures dragged US bourses down. By contrast, however, economic data was broadly positive.

Nonfarm payrolls indicated a resumption of economic activity rising by 661,000, with the unemployment rate falling to 7.9% - its lowest level since the start of the pandemic.

PMI data also indicated expansion with the Manufacturing and Services prints coming in well above 50, signalling expansion, at 55.4 and 57.8 respectively. Meanwhile, the US economy is now forecast to shrink 3.5% this year opposed to the 6.5% contraction forecast in June. Notwithstanding the constructive data, the market chose to discount the concerns and the S&P 500 fell -3.84%, distinctly better than the NASDAQ's fall of -5.10%.

The MSCI Europe Index fell 1.41% over the month, with Spain's Ibex 35 benchmark down -3.3% and Italy's FTSEMIB down -3.0%, whilst the German DAX was 1.4% lower. New restrictions to stem the spread of the virus' second wave have caused the recovery on the continent to stagnate. PMI data releases suggest restrictions currently applied have led to divergences between economies within the union, with those reliant predominantly on the services sector underperforming those with a manufacturing bias to their economy. September's composite print signalled expansion within the region with a reading of 50.4, however, the services component fell to 47.6 whilst the manufacturing reading rose to 53.7.

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

MitonOptimal

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

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Investment Commentary

September's CPI data release suggested a fall in prices as headline inflation came in at -0.30%, increasing expectations that the ECB will announce additional stimulus measures.

Across the channel in the UK, the latest incarnation of the government's job support scheme received a mixed reception, as the furlough scheme ended. Emulating the height of the crisis, the UK has been 2-3 weeks behind that of mainland Europe and, although the second wave fears of the pandemic only just started to take hold towards the tail end of September, market volatility concerns nevertheless persisted. Whilst still no closer to an agreement with the European Union over Brexit, the UK signed its first post-separation agreement trade agreementl, allowing tariff-free trade on 99% of exports to Japan. After underperforming year to date, the UK outperformed the broader market in relative terms, with the FTSE All Share returning -1.7%.

Covid-induced volatility in risk assets and comments from Central Banks in respect to monetary policy helped core government bond yields rally in September. The Federal Reserve restated that rates won't rise until at least 2023, the Bank of England raised the potential of utilising negative interest rates, whilst in Europe inflation numbers suggest the ECB will increase stimulus measures in some way. Against this backdrop benchmark 10 year government bond yields responded by contracting 2bps (0.68%), 8bps (0.23%) and 12bps (-0.52%) for US Treasuries, UK Gilts and German Bunds respectively. In the corporate space, spreads widened and European High Yield indices followed equities down.

More specifically, with respect to the funds' intra-month activity, we rolled the AT&T 30 puts for an annualised 16% but importantly with no additional increase in exposure to the stock, just duration. The second noteable trade was in S&P 500 options - were we sold a put following the sharp sell-off and swiftly took profits, as they accrued.

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