Orchard Fund

October 2020

Investment Commentary

The Fund returned -1.29% (A RDR share class) against its benchmark of -1.56%.

After a constructive first half of the month risk assets sold off in October, as fears over a second wave of Covid-19 hurt investor sentiment. Equity indices were sent tumbling at the prospect of a return to the lockdown measures that were implemented at the start of the pandemic. The fall was felt predominantly in developed markets, where virus cases have been increasing at an alarming rate, with the MSCI (developed market) World Index contracting 3.0% in USD terms. In contrast, emerging markets were broadly positive over the period with the MSCI's Emerging Market equivalent benchmark posting a gain of 2.1%, again in USD terms, supported by encouraging Chinese macroeconomic data indicating expansion within the region.

News flow in the US was dominated by the US election as campaigning intensified ahead of voting day on the 3rd of November. Early polls indicated a comprehensive Joe Biden victory with a 'Blue Wave' sweep for the democrats, which was taken favourably by investors and the market rallied accordingly. Sentiment shifted in the later stages of the month, however, as uncertainties developed as to the outcome of the election and the likelihood of a disputed result, along with the resurgence of Covid-19 cases and the potential for social restrictions to be reimposed. This in turn caused the S&P 500 to contract 5.6% in the last week of October with a total return of -2.7% over the period. On the economic data front, the latest GDP print indicated the US economy grew by an annualised 33.1% during the third quarter and the Purchasing Managers' Index (PMI) surveys suggested the economy continued to expand in October with readings of 54.6 and 53.4 respectively for Services and Manufacturing PMIs.

Europe has once again taken over as the global epicentre of the pandemic with record daily infection rates and governments have reacted accordingly, imposing lockdown restrictions on vast parts of the continent. As such, the region's largest economies were among the worst performing global equity markets, the biggest detractors being the German DAX (-9.4%), Italian FTSE MIB (-5.6%) and French CAC 40 indices (-4.4%), while the broad MSCI Europe ex UK-Index was down 5.4%, all in local currency terms. Against this backdrop the ECB left monetary policy unchanged, though President Christine Lagarde indicated further stimulus would undoubtedly be announced in the Central Bank's December meeting, particularly with the Eurozone's unemployment rate rising to 8.3% and the area's latest inflation rate flash reading of -0.3%.

Fund Facts

Launch Date
14 January 2003

Fund Manager
MitonOptimal Portfolio Management (CI) Limited

Fund Structure
UCITS V

Domicile
Dublin

Currencies
GBP, USD, EUR,

Administrator
CACEIS Ireland Ltd

Dividend Yield
Target 6%

Dividend Policy
Distribution

Dealing Days
Daily

Fund AUM
£16.2m

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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Similar to the rest of Europe, the UK has seen a surge in the number of new infections, though, whilst trying to avoid implementing national lockdowns the government had been using a tiered system where localised lockdowns were being implemented to try and contain the virus. However, by the end of October the infection rate had got to such a level a national lockdown was announced to take effect at the beginning of November. With it the government furlough scheme has been extended to the end of March 2021 at an estimated cost of £6.2 billion a month. August GDP data disappointed and has caused economists to downgrade third quarter expectations; though still positive, the 2.1% reading was less than the 4.6% estimate and markedly lower than the previous month's. Also weighing on investor sentiment was the slow progress in Brexit negotiations with the European Union commencing legal action against the UK as a result of the UK's Internal Markets bill and the subsequent cessation of talks. The FTSE All Share ended the month 3.8% lower.

Core sovereign bond yields diverged over the month, as supply and demand factors impacted on price movements. In the US, the prospect of a Democrat clean sweep of the house and senate caused yields to rise on the expectation of increased fiscal spending from stimulatory policies, whilst bond yields declined (and prices rose) in Europe on the expectation of ECB buying leading to peripheral European nations' bonds outperforming with spreads narrowing against German Bunds.

More specifically, with respect to the funds' intra-month activity, having seen a significant 15% pullback in the share price of RIO, we cautiously entered a position in the December £40 puts, over 10% below the current market price, yielding an annualised 12%.

We also rolled our commitment to buy CSCO forwards reducing the buy price from $40 to $39 – importantly, still picking up an annualised 15% for rolling the position forward.

Finally, after a strong run, we reduced our exposure to Fedex.

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