Orchard Fund

November 2020

Investment Commentary

The Fund returned 16.05% (A RDR share class) against its benchmarks of 5.92%

News of an effective Covid-19 vaccine propelled risk assets sharply higher in November, whilst Joe Biden defeating current US president Donald Trump in the presidential election and the signing of one of the largest free trade deals in history also provided support for markets.

Market sentiment was buoyed at the beginning of the month by the relatively convincing victory of Democrat Joe Biden in the US election, which alleviated fears that the result would be contested in the courts should the incumbent Donald Trump lose by a narrow margin. The result was followed by successive announcements that Pfizer/BioNTech, Moderna and AstraZenca/Oxford had all been successful in producing vaccines with varying high rates of efficacy. Echoing the "dash for trash" witnessed in the immediate aftermath of the 2008/9 financial crisis, this triggered a sharp rotation into previously underperforming (cyclical / "value") assets in anticipation of the opening up of economies. A "drill-down" into the (developed market) MSCI World benchmark's 12.8% (USD) gain for the month revealed the extent of this rotation with the World Value Index +15.1% and its Growth counterpart +10.9%. Meanwhile, with these previous laggard sectors tending to feature prominently within commodity-producing nations the MSCI Latin American Index was up 21.9% in USD terms, compared with the broader MSCI Global Emerging Market Index's 9.3% increase for the period.

In the US, the election result was greeted with optimism, as the margin of victory provided an element of certainty on the political landscape, while the vaccine breakthrough provided respite for a number of the more cyclical sectors of the market – for example energy, where the price of Brent Crude was up 28.9%. However, Congress is yet to pass a much needed stimulus bill with the size of any stimulus package seemingly dependant on two Senate races in Georgia where the difference between the Democrats winning both and control of the Senate and the Republicans taken at least one seat could be in the region of USD 2 trillion. After leading the global market higher year to date, the US lagged in November, returning +11.0% as measured by the S&P 500, though In this environment smaller capitalisation stocks were the main beneficiaries and the Russell 2000 returned +18.4%.

Europe has seen some of the highest case numbers globally of the coronavirus, resulting in severe societal restrictions and subsequent damage to their economies.

Fund Facts

Launch Date
14 January 2003

Fund Manager
MitonOptimal Portfolio Management

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
£16.2m

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

News of the vaccines and the expectation of additional stimulus measures sent monthly returns in European indices to record levels, particularly in peripheral nations that had been some of the hardest hit, with Spain and Italy returning +25.6% and +23.1% in local currency terms. The broader EuroStoxx 50 Index returned +18.1%, again in local currency terms – it's steepest monthly gain on record. Composite PMI data underscored the current fragility of the Eurozone economy, however, falling to 45.1, signalling a contraction in activity, with the services and manufacturing components down on the previous month at 41.3 and 53.8 respectively. Meanwhile, the Union's recovery fund was delayed with member states Hungary and Poland vetoing the EU budget over an incorporated clause.

The UK market also rallied sharply in November, with the FTSE 100 soaring 12.7% in GBP terms - its best month for 30 years. Also encouraging was the news the UK economy had expanded 15.8% quarter-on-quarter in the 3 months to September, its largest expansion since records began in 1955. In contrast, it was also announced that government debt to GDP had exceeded 100% and that the British economy is forecast to contract by 11.3% in 2020, the largest plunge in economic output in 300 years, highlighting the magnitude of the impact that Covid -19 has had on the economy.

Pre-election expectation of a 'Blue Wave' with Democrats winning both houses and the presidency suggested a large fiscal package was imminent, requiring a higher degree of borrowing and subsequent Treasury issuance. With Republicans still controlling the Senate at this stage, however, yields on Treasuries fell in November as the likelihood of a large fiscal programme decreased and any further stimulus would require policies by the Federal Reserve. Meanwhile, the European Central Bank pledged further stimulus to be announced in December leading to market expectations that this will focus on emergency bond buying and banking loans. In response, peripheral sovereign spreads tightened over the month (Greek yields turned negative!) and riskier sectors of the fixed income universe outperformed: European and US High Yield indices returned +4.4% and +4.0% respectively, whilst Emerging Market Debt improved by 3.7%.

More specifically, with respect to the funds' intra-month activity, we reduced exposure to Cicso, Humana and Intel allowing the positions to expire. Performance was robust following the sharp reversal in momentum from growth towards value and cyclical stocks, importantly the fund's delta remains above 50.

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