Orchard Fund

December 2020

Investment Commentary

Positive developments in December from both an economic and societal sense capped off a tumultuous year in which risk assets continued their upward trajectory. Markets were buoyed by the roll-out of multiple Covid vaccines (even as case numbers globally reached record levels), Congress in the US finally reaching a deal to provide much needed coronavirus relief and in Europe a signing of a BREXIT trade agreement after last minute talks provided comfort after more than 4 years of wrangling. Against this backdrop, develop market equities, as measured by the MSCI World Index in USD, expanded 4.3% over the period whilst the MSCI's Emerging Market equivalent was up 7.4% on the back of a weakening US Dollar.

In the US, equity indices were propelled to record highs as Congress agreed to a $900 billion Covid stimulus deal after months of negotiations. The 'risk-on' environment also reflected in the Dollar's DXY Index falling below 90 for the first time since the early stages of 2018: a fall of 2.1%. Smaller Capitalisation stocks were the main beneficiaries, as the Russell 2000 closed 8.7% higher, compared with the S&P 500 3.8% gain.

The European Central Bank announced a widely anticipated expansion to its bond buying programme, providing cheap funding for banks in support of the recovery in the Eurozone as well as extending the time frame of its funding. Purchasing Managers' Index (PMI) data releases in the region have been surprising on the upside on both the manufacturing and services front, though Covid-19 cases have been swelling to record levels and the roll-out of the vaccine hasn't been as successful as hoped. Nevertheless, equity markets made progress across the region, with the broad MSCI Europe Index returning 2.4% in local currency terms.

Boris Johnson announced on Christmas eve that a deal had been struck in resolution to trade deliberations, allowing the UK to finally leave the European Union avoiding what many believed to be the worst case scenario of a no-deal BREXIT on the 31st of December. The deal was well received by the market and accordingly the FTSE All Share Index climbed on the days following the announcement, ending the month 3.9% higher, though the 2020 return of -9.8% was its lowest since the 2008 financial crisis.

The positive sentiment in risk assets caused a tightening in high yield spreads, with European indices falling 13 bps points to 365 bps above Bunds, whereas in the US spreads narrowed to 387bps vs Treasuries for a return of 1.88% over the month. This 'risk on' environment and an expectation of fiscal stimulus in the US caused yields on longer dated Treasury yields to rise over the period and the benchmark 10 year Treasury finished the month 9 basis points higher with a yield of 0.91 bps.

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	£16.2m
Min Subscription	50,000 for individuals, 10,000 for platforms and designated bodies

MitonOptimal

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