

Investment Commentary

February was a tough month with the A share class losing 3.07% as markets fell sharply and volatility rose. However, it was individual holdings where volatility really rose.

We are very careful when using the words historic or unprecedented. February earned the right to use both with a totally unprecedented 117.5% single day rise in the VIX index almost doubling the previous highest single day rise. We also incurred our largest ever single day fall in a holding when the Macquarie Infrastructure Fund "MIC" fell 41.2% in a single day. That was historic but not the sort of history we would like to have made.

Against such a brutal background, the Fund performed in line with expectations and is well set to recover as that higher volatility provides new opportunities and the increased volatility embedded in our current positions erodes. At the month end, the Fund enjoyed a running yield of almost 10% with a duration of over 4 months which certainly bodes well for the future.

It is sometimes difficult in the middle of such market moves to rationalise what is happening and to understand whether the market or industry has fundamentally changed or whether these are temporary phenomena. In this case, we believe that the fundamentals of the market are changing and that those changes will set the tone for investing in the medium term. Thankfully, we believe that change will ultimately benefit the Orchard strategy and so we can be relatively sanguine about the short term pain.

We have mentioned on several occasions that the market is becoming increasingly bifurcated with the winners gaining a lot and the losers losing ever larger percentages. This month we saw MIC fall 41.2% in a single day. This move triggered our soft stop loss and caused us to undertake a complete review of the Company.

"We do not like excessive risk but where the market is overpricing it, we have to be willing to take advantage."

Whilst it is important not to rush these reviews, it is equally important that they are timely as if the Company has changed, then our reaction to it should also change. In the case of MIC we undertook that review and concluded that the reaction was excessive in the extreme and instead of cutting our holding we temporarily increased our position. This took advantage of the higher volatility caused by the fall and allowed us to be paid 4% for 22 days in return for agreeing to buy the stock 10% below the price it had fallen to. Three days later the stock had staged a marginal recovery and we took a 3% profit in three days on that extra 1% unit. We do not like excessive risk but where the market is over-pricing risk, we have to be willing to take advantage.

Fund Facts

Launch Date

14 January 2003

Lead Fund Manager

Richard Harwood
(since inception)

Fund Structure

UCITS V

Domicile

Dublin

Currencies

GBP, USD, EUR, CHF

Administrator

CACEIS Ireland Ltd

Dividend Yield

Target 6.0%
2017 Est 6.25%

Dividend Policy

Distribution

Dealing Days

Daily

Fund AUM

£65.9m

Min Subscription

50,000 for individuals,
10,000 for platforms and
designated bodies