

Investment Commentary

Another solid month saw the Orchard A share class rise 0.71% beating its benchmark for the seventh successive month this year.

It is difficult to reconcile the day to day movements in the market with the sedate monthly performance this year and July was no exception. Despite being happy with another solid month of positive return, this was not an easy month with some spectacular moves, primarily negative during the month. In the last week of the month we saw, Astrazeneca fall 15% in a day on disappointing results from their Mystic trial, and Tobacco companies fell almost that much in 10 minutes when the FDA surprised the market by announcing that they proposed reducing the nicotine allowed in cigarettes to non addictive levels.

Given the relatively concentrated nature of the Orchard Fund, these should have been concerning developments for the Fund, but thankfully, the margin of safety that we build into our agreements to buy, mitigated the worst of the losses. Sometimes the first rule of growing capital is mitigating losses. Astrazeneca, a 3% unit in the Fund, closed on Tuesday at £51.13 and fell on Wednesday down to £43.25, a fall of some 15.41%. Thankfully, we had made a commitment to buy Astrazeneca at £44.00 so although the decline took away our margin of safety, it did not massively hurt us, costing us 10.5bps of performance on the day compared to the 46bps loss we would have incurred had we simply bought the stock.

In the nine year bull market we have enjoyed since 2009, the concept of a margin of safety has been largely forgotten. If everything is going up, then why worry about downside risk. Our answer is simple, trees don't grow to the sky and bull markets don't last forever. We would rather continue being careful so that when things do turn we don't get hurt too badly rather than get carried away in the euphoria of ever rising markets. Movements like Astrazeneca and tobacco remind us of the value of caution.

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The earnings season is now well run and although there are still some big names to report, the general feeling is that we are back in the cycle of good results but cautious outlooks. We like caution as it stops the market getting over-excited and therefore we continue to balance the potential for gains with the risk of losses.

Fund Facts

Launch Date

14 January 2003

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%
2017 Est 6.22%

Dividend Policy

Distribution

Dealing Days

Daily

Fund AUM

£72.8m

Min Subscription

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