

Investment Commentary

Any investor who lived through 1987, 1998 and 2008, approaches October with a sense of caution. This year despite markets being benign, some of the holdings in the Fund suffered significant losses resulting in the Fund falling 70bps in the month

One of the characteristics of the Orchard Fund which we pride ourselves on is its predictability. We have a clear process, we follow it and the outcomes of that process tend to be generally predictable. If market rises, we will catch a reasonable percentage of the upside and if the market falls, we tend to catch a much lower percentage of the downside. October broke this rule with the Fund falling despite a rising market which is a very rare occurrence.

In any portfolio there is market risk and there is stock specific risk. The market risk is managed by our delta which is normally less than half of the market risk while our stock specific risk is managed by the diversification in the portfolio with no holding accounting for more than 3.5% of the portfolio. In most markets that works well to smooth returns and give a positive and predictable outcome. In October, nothing could protect us from earnings related moves which were significantly higher than we both expected and had prepared for.

In the last week of the month, three of our largest holdings fell by more than 10% in the day following their earnings announcement, with two falling by more than 15%.

When the unusual happens, we try to be as open and transparent with our investors as we can, and this month is no different. In our top movers document, we have spent much more time than usual looking at the stocks which have lost money this month. As you will see from the magnitude of those falls, it is a testament to the strategy that the loss for the month was not significantly greater.

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It would be exceptionally arrogant if moves in holdings like this did not make us question our strategy and whether we were wrong. We have and we do, but we know that investing in good quality stocks with a margin of safety is, and always will be the right thing to do for long term investors. It has served us well in the past and despite changing markets it will serve us well in the future.

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%
2017 Est 6.22%

Dividend Policy

Distribution

Dealing Days

Daily

Fund AUM

£69.7m

Min Subscription

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

