

Investment Commentary

The Orchard Fund returned to form during September returning 65bps against a background of mixed markets and divergent currency moves

The summer came to an end with mixed markets but more positive returns for the Orchard Fund. For many money managers, currency was the biggest factor this month with Sterling rising 3.62% which saw miners and oil stocks decline as the value of their product declined in Sterling terms. We regularly hear the comment “a strong currency is good for the Orchard Fund isn't it” and would like to take a moment to dispel this misunderstanding.

The Orchard Fund is currency neutral. We hedge currency both at Fund and share class level and as such we are generally not affected by currency per se although some of the stocks in which we invest are directly affected by currency. We invest in companies with solid free cash flow and stable business models so even here, we try to minimise our exposure to currency. So why do we even talk about currency. Simply because performance is relative and currency affects both indices like the FTSE 100 and the performance of our competitors and that is often what our investors judge us against. The Orchard Fund does what it does and tries to eliminate uncertainty and risk, and for us, currency is an area which we know we cannot predict which is why we hedge our exposure. The equity markets are a big enough challenge for any manager or investor, why managers would choose to take additional risk in an area which is so difficult to call is beyond us.

Equally market whims are a constant source of amazement to us. One of the biggest mistakes we make every day is to believe that market moves are linked to news. If a stock opens up or down 3% it would be reasonable to assume that there was some news. It would also be wrong. Not only are daily moves sometimes illogical but so are longer term trends. Our largest mover this month was Halliburton which rose 18% in the month.

“The Orchard Fund is currency neutral. We hedge currency both at Fund and share class level and as such we are broadly not affected by currency ”

It would be great to report that there was some mind blowing news which justified this move. There was not. Earnings weren't revised higher, the prospects of the firm haven't changed. To be fair, they didn't need to. Halliburton is a good company with good growth prospects. It was the same last month when the share price fell 8% and little has changed. We invest in good companies with good free cash flow and solid balance sheets, knowing at some point the market will agree with us.

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

£70.4m

Min Subscription

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