Orchard Fund June 2018

Investment Commentary

June was a perfect representation of the year so far swinging from mildly positive through negative to finish the month broadly flat in line with the wider market

June and indeed the first half of 2018 have been an exercise in futility. A considerable amount of time and effort is put into the composition and balance of the portfolio and to review the score at half time and find that those efforts have seen the Fund fall slightly on the half year and replicate the majority of international markets is frustrating in the extreme.

That is not to say that the six months was without positives. Maintaining our faith in the inherent value of Shire Pharmaceuticals despite the share price moving sharply against us was justified by the Takeda bid which has seen the Shire share price finish the half year at multi month highs with more upside to come if the deal concludes positively. There were several other positives too but unfortunately, it seems that during this period, every ying was matched by a corresponding yang and for each positive there was a corresponding negative. Some of those negatives we believe fall firmly into the Shire camp where we believe that there is true value in those companies which the current share price does not reflect but we have also seen and held certain companies where the damage was permanent or at least very long term and we have taken our losses and sought pastures new where we believe the pickings will be more rewarding. We have a proud track record of only losing money on a gross basis in one out of seventeen years and we do not intend to give up that record lightly.

The Orchard strategy is designed to be able to make money in rising and sideways markets so it was slightly disappointing that we were not able to do so in the first six months of the year. The main reason for this was that although the market was largely flat on the first half of the year, the breakdown of the market showed a very different story.

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In the S&P 500 over half the market was negative on the year with over 20% of the market down over 10%. There were exceptional performers with the FANG stocks once again being high on that list and it was the out-performance of these highly capitalised stocks which dragged the indices higher for what could have been a very sobering first half of the year.

The out-performance of the FANG stocks has been going on for some time and it has left more traditional value stocks in the shade. That will not last forever and the market will at some point recognise the inherent value in some of the more traditional industries. When that happens, we will enjoy significant returns.

Fund Facts

Launch Date	14 January 2003
Lead Fund Manager	Richard Harwood MitonOptimal Jersey Ltd (since inception)
Fund Structure	UCITS V
Domicile	Dublin
Currencies	GBP, USD, EUR, CHF
Administrator	CACEIS Ireland Ltd
Dividend Yield	Target 6.% 2018 Est 6.18%
Dividend Policy	Distribution
Dealing Days	Daily
Fund AUM	£59.6m
Min Subscription	50,000 for individuals, 10,000 for platforms and designated bodies

MitonOptimal