Orchard Fund August 2018

Investment Commentary

The Orchard methodology couldn't save us in a month where the FTSE 100 fell over 4%, but diversification and our international exposure mitigated the worst of the losses

August may have seen beautiful weather but it was brutal for the UK stock market as it fell over 4%, some of that downdraught caught the Orchard Fund where the A share class fell 53bps this month. The markets have been churning over the summer and it is symptomatic that we have seen many of the same names appearing in our top movers document, often twice on the upside and once on the downside.

We are always mindful of the combination of thin holiday markets and earnings season and it certainly had an impact this month although on the whole it was less painful than it has been in the past. One of the noticeable features of the late cycle markets we are currently experiencing is that any disappointing news is met severely by the markets and this month we endured a couple of double digit falls following earnings announcements but thankfully also saw the majority of our holdings generate good earnings and pleasant upside moves.

Fundamentals are only part of the story at the moment, and we are never far from the next politically inspired move in the markets. Currently, we have two stocks which are being particularly harmed by the threat of a trade war between the US and China but we believe that the current share prices are more than discounting the likely effect on the Company's earnings and as such, we are continuing to be patient.

The portfolio as a whole continues to carry less than half of the risk of the overall market but within the portfolio we have more positions at the upper end of our target range than would be normal. This is where a share price has fallen and we increase our exposure as it gets cheaper. Given a basic premise of investing is to buy cheap and sell expensive this is fine. However, it does mean that the movement in our share price is disproportionately affected by these larger units in the short term.

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One of the most difficult skills for any Fund Manager is knowing when they have got it wrong and it is time to exit a position. We spend more time on that topic than any other but equally don't want to be scared out of positions which have genuine value just because the market turns its face against them in the short term. The Market can be a wilful mistress, and it is important to know when to stand your ground without being stubborn. We believe those larger holdings offer real value at current levels and will reward us handsomely for our patience in the medium term.

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
£54.6m

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

MitonOptimal