# Orchard Fund — November 2018

# Investment Commentary

## "Factoring in Value"

Whenever markets behave as erratically as they have in the last month, we foolishly return to our screens looking to make sense out of the sometimes eclectic movements. I say foolishly as more often than not, in the short term in particular, markets move on sentiment and not on fundamentals but despite this, we seek clarity where there is none. One of the ways which we do this is to look at the factors which are working well in the market and those which are not working.

As most of our investors know, we look to invest at the intersection of value and quality, with value being one of our major filters. With the US equity market, where we normally have over 50% of our exposure, broadly flat on the year, it is useful to understand what factors that have contributed to that. Regrettably, albeit not overly surprisingly, the results are not encouraging. Over the last twelve months, value as a standalone factor in the US has seen an average price decline of 18% although that single factor held up better than the rest of the market in October, falling just 0.22%. Dividends, one of our other factors, fell over 10% in the same year, with profitability as a single factor weighing in with a 3% decline.

So, if we shouldn't have invested in cheap, profitable, dividend paying companies, with 20/20 hindsight, where should we have invested the Fund? The answer is almost as unpalatable as it is unlikely.

Apparently the three most important characteristics for profitable stocks in the last year have been 3 month target price change, momentum and effective tax rate.

> "To put it another way, the market has pretty much totally ignored fundamentals in favour of whimsy."

It seems that the last effects of the cheap money generated by QE are still at play.

We mention QE because there is something equally interesting in this factor analysis. Over a 7 year period, the period during which QE has been the biggest single driver of the market, that trend continues with value returning just 12.46% in 7 years, whereas momentum has generated 40% returns. However, when we extend the analysis back 15 years, there is a radical reversal where we see that value returned 113% whilst momentum returned just 16.03%.

We are all aware that QE is rapidly turning into QT which suggests that in looking for future returns, we would be well advised to look back before 2008. That being the case, value and profitability may be the two most important factors looking forward.

## 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**
£50.36m

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

MitonOptimal



Orchard Funds PLC
Equity Income & Total Return
6% Targeted Annual Yield