Orchard Fund October 2018

Investment Commentary

October's markets have been far too reminiscent of those a decade earlier which saw the Orchard Fund suffer its worst ever loss although we have learned lessons since.

Although the markets were brutal in October with the S&P being down over 10% before rallying in the last few days, we have mitigated some of that risk seeing the Orchard Fund decline by 3.97%. This was achieved by going into the month with a higher than average cash weighting and the cautious nature of our portfolio. Despite this, it was difficult to avoid losses and the sharp rise in volatility, which we have mentioned before is a temporary phenomena for the Fund, makes matters appear worse than they are. As our commitments expire over the next few months, these higher levels of volatility turn into a double tailwind, not only enhancing short term performance as the existing time value erodes but also providing higher yields on new commitments that we make.

Whilst there are some similarities to 2008, not least of which was the speed of the declines which mirrored those of a decade earlier, there are some very significant differences which convince us that this is not a repeat of that terrible year. One of the main differences is that, despite what you might hear elsewhere, significant portions of the market are not expensive and they are getting cheaper. Even the S&P 500, which started the year at a price multiple of 22, has fallen to 18. Whilst it is above the long term average of 16, is not excessively expensive when earnings continue to rise significantly. More importantly, the financial system is much more robust now than it was 10 years ago.

When we review the Orchard portfolio, we become even more comfortable. Whilst the market may be a little above the long term average P/E, we are a little below with an average P/E of 14, some two points below the market. On a forward P/E ratio, things look even better.

"Be fearful when others are greedy and greedy when others are fearful - Warren Buffett."

There is no question that parts of the market had become expensive. Equally there is no question that the bull market is mature and that it has been a long time since there was any material correction and that we were well overdue the current pullback. It is no surprise that all of the major markets pulled back by at least 10%, the technical definition of a correction, and that we have then started to see some buying emerge.

Things are changing. Quantitative Easing is rapidly becoming Quantitative Tightening and interest rates around the world will rise, but the overall health of the world's economies remains robust and we consider this more to be a buying opportunity than the last chance to exit the market. It is rare that disagreeing with Warren Buffett is advisable.

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
£51.89m

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