Orchard Fund January 2019

Investment Commentary

"After a torrid December, January has provided a pleasant start to the new year with the Orchard Fund producing its best monthly return since 2011 "

Whilst we always believed that December's losses were an aberration, it is gratifying to recoup so much of that loss in a single month with the potential of more gains to come. It was equally gratifying that this happened at a time when, unlike December, individual stocks were less impacted by the direction of the wider market and more affected by stock specific news.

The Orchard Fund returned a solid 5.74% compared to a gains of 3.58% for the FTSE and 4.78% for the S&P 500 in Sterling terms driven by a combination of value and stock specific news.

So what can we infer from January when looking out towards the rest of the year. The most important message was that, regardless of whether they admit it or not, the Federal Reserve is watching the markets and being affected by them. The dovish comments coming out of the Fed in January, highlighted that they are brutally aware that a falling stock market has implications for the real economy and they were willing to cut of those implications at the pass. The markets had previously risen higher, backed by what they believed was the "Bernanke put", or the belief that the then Chairman of the Federal Reserve would cut interest rates if markets started to fall. The current Chairman simply now changes that to the "Powell put" and markets are taking comfort and rising.

When the markets rallied sharply from their lows on the 24th December, we were initially worried that this may be a bear market rally which could soon turn. Although we are not out of the woods yet, the technical indicators are suggesting a more positive outlook for 2019 and at the moment we are not fighting the tape

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If fundamentals return to the fore, we are quietly confident that the portfolio is well placed to grow further. We enter February with a relatively high cash weighting, as we maintained throughout January, and if we receive the confirmations that we seek, we will be committing that money to the market.

The portfolio still looks cheap with a forward P/E ratio of 11 for the UK and European holdings and 14 for the American holdings, approximately 10% cheaper than the wider market in both instances. Value does not guarantee better returns but does offer a greater degree of confidence that the earnings which we are anticipating will be delivered, which bodes well for future 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.%
2019 Est 7.47%

Dividend Policy
Distribution

Dealing Days
Daily

Fund AUM
£47.76m

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

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