Orchard Fund March 2019

Investment Commentary

March was a much quieter month with the Orchard Fund finishing largely unchanged to close the quarter up in excess of 8%.

After two months of solid gains, the market became much more mixed in March as sector rotation again reared its head. Following the fourth quarter sell off, certain themes are re-emerging which is seeing the breadth of the market fall off significantly. Indeed, it is note worthy that the FANG stocks are up over 40% from the December lows, replicating their strong start to 2018.

We entered the year with a significantly higher equity exposure than normal believing that the fourth quarter sell off had provided a strong buying opportunity. That has seen the Orchard Fund largely match the wider equity market returns despite carrying significantly lower risk. However, the rally in the market means that although value still exists, it is not as compelling as it was earlier in the year. With this in mind, we have moved our exposure back towards our neutral range where we are less reliant on market movements to generate returns but instead can rely on one of the few constants in the investment world, the erosion of time value, to take us forward. That does not mean that we won't benefit from a rising market but does ensure that if markets consolidate over the summer, which is our best case scenario, we will still be able to generate solid returns from the erosion of time value.

Since the arrival of Quantitative Easing, volatility, which is one of the key factors in the pricing of options, has been subdued relative to its long term average but the volatility of the fourth quarter has brought back some of those returns and we have used the first quarter to position ourselves with an attractive income stream going forward.

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At the end of March, the running yield of the portfolio, that being the yield if the market and all of our stocks didn't move until expiry, stood at over 8.7%, which with a large portion of the portfolio expiring in April, will rise significantly when we are able to recommit those expiring commitments.

Having built a solid base for the year, the target is to benefit from that built in advantage to turn 2019 into an exceptional year for the Fund and to make amends for a disappointing 2018. We remain invested alongside our investors which ensures our aspirations match theirs.

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
£47.0m

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