Orchard Fund

April 2019

Investment Commentary

Another solid monthly return of 2.8% sees the A share class record a year to date return of over 11%

After the trauma of the final quarter of 2018, we are enjoying a very pleasant start to the year with our best ever performance in the first four months of the year. What is even more gratifying is that during this rally, we have been able to reposition the portfolio so that we ended the month with our exposure close to our optimal position, as well as enjoying a gross running yield of over 9%.

This is an important statistic for the strategy as that is the annualised return we would enjoy if none of our stocks moved over the lifetime of our commitments. The higher that number, the less we need the market to rise to deliver our desired returns. The average duration of our commitments is currently over 5 months which means that we have that yield locked in for a long time.

We only ever know whether the portfolio is correctly positioned at any given time in hindsight and given we err towards a balanced position, it is impossible to be 100% right. Working out how much exposure you wish to have to the market is not an exact science. Experience has taught us that the optimal position for the majority of scenarios is between 35% and 45%, and we are currently close to the middle of that range at 42%. This number rises if the market falls, and falls if the market rises, so it moves every day but we are comfortable with the current position.

That movement is one of the inherent advantages of the Orchard strategy. The aim of investing is to buy cheap and sell expensive. The way we compose our portfolio ensures that we increase our market exposure as the market falls and reduce it as it rises. It may fall further or rise higher but as a basic investment rule, we are on the side of the angels.

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Over the last few years we have seen some erosion of the capital of our distribution classes as the dividend distributions have been greater than the capital gains. As such, the dividend yields have risen beyond our target ranges. This month, we have decided to return the dividend yield to 6%, significantly above that available in the market, but at a level which will hopefully allow us to grow our investors capital as well as their income.

We have started the year well and have positioned the portfolio to continue that trend. We remain optimistic that 2019 could be a very good year.

Fund Facts

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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%
Dividend Policy	Distribution
Dealing Days	Daily
Fund AUM	£46.7m
Min Subscription	50,000 for individuals, 10,000 for platforms and designated bodies

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