

Investment Commentary

A tough month saw the A share class fall 4.41% as value stocks were again out of favour as long term interest rates moved inexorably lower.

Whilst the overall equity markets had a tough month, the value sector where the Orchard Fund invests had a desperate month with value as a single factor in the S&P 500 falling 9.57% in the month, a loss on the year of 15.67% and a decline in the last twelve months of over 20%. Quite simply there is no hiding place if you are an investor in value stocks.

We have done what we can to mitigate the worst of these issues, significantly raising cash in the portfolio so that at the end of the month we held almost 30% of the Fund in cash, having been even higher at some points during the month. We expect to retain that higher cash weighting until we see evidence that the trend is changing.

The problem for value stocks at the moment is that with interest rates so low, the market is indifferent between real returns now and the promise of returns in the future. As those promises cannot be tested, they can be as optimistic as they want and the market seems happy to accept the promise of jam tomorrow rather than actual returns today. As a consequence, value, as measured by the S&P ETF, is now as cheap, relative to growth measured the same way, as it has been since the dotcom boom of 2000.

Our greatest comfort is that growth is based on assumptions which may or may not come true. Value however is based on a reality now and as long as the fundamentals remain sound, it is relatively easy to calculate the worth of that income. However, it seems that we have entered a period where the markets are becoming increasingly divorced from reality and are being driven by factors which are not easily anticipated.

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As we warned last month, sentiment is a massive factor in the investment markets at the moment and that changes quickly. The possibility of a US recession should focus minds on reality rather than dreams but we still have the tweets of an increasingly incoherent US President to navigate. At this time we are minded to recall Warren Buffett’s quote, “price is what you pay, value is what you get”.

Fund Facts

Launch Date

14 January 2003

Lead Fund Manager

Richard Harwood
MitonOptimal Jersey Ltd

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

£34.1m

Min Subscription

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

