

Investment Commentary

Despite a tough last week, the Orchard A share class finished the month up 0.8% with gains in the US more than offsetting the 2% loss in the FTSE 100

There is a saying that as January goes, so goes the year. Given the solid performance of the Orchard Fund against a backdrop of negative performance from the FTSE 100, we would have no issue if that were the case.

January saw the S&P 500 rise 5.6% on the month but that was in stark contrast to the FTSE 100 which fell 2% in the same period. Even within those moves there was considerable volatility intra-month which significantly impacted the Fund. Although 0.8% was a solid performance, a week earlier, before markets started to move lower that was a much more encouraging 1.55% which would have been a very acceptable start to the year.

We have for many months been warning of the probability of greater volatility and for a while we have felt like we were whistling in the dark. However, between the 2nd and 30th January volatility rose 61.64% albeit from a very low base. Such sharp rises are likely to become more frequent as we go forward and whilst longer term these are beneficial to the strategy, they will, in the short term, increase the volatility of our own returns. Overall volatility is our friend, albeit a double edged sword in the short term.

The Orchard portfolio replicated the wider markets with plenty of winners but also some significant losers. Three stocks alone cost us over 60bps for the month, but for two of those stocks at least, we are not concerned. The Orchard methodology is to concentrate on the fundamentals and let the price action follow. Amongst our largest winners are plenty of stocks that have been unloved in previous months but the fundamentals remain sound. As we say, if you maintain your discipline, volatility is your friend.

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It is important in investing to maintain a perspective. We were recently asked by a group of UK investors when the pull back would stop. We replied that everything is in perspective. Markets are entering their 9th year of a major bull market and some volatility is inevitable. We expect it and position ourselves to take advantage of it but we should never lose sight of the fact we have lived through some exceptional times and that the sun can't shine forever. For the moment hopefully the forecast is just for a few cloudy days before the sun shines again.

Fund Facts

Launch Date

14 January 2003

Lead Fund Manager

Richard Harwood
(since inception)

Fund Structure

UCITS V

Domicile

Dublin

Currencies

GBP, USD, EUR, CHF

Administrator

CACEIS Ireland Ltd

Dividend Yield

Target 6.0%
2017 Est 6.25%

Dividend Policy

Distribution

Dealing Days

Daily

Fund AUM

£68.7m

Min Subscription

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

