



# Orchard Funds PLC - 28th October 2011

## Equity Income & Total Return

### 6% Targeted Annual Yield

(monthly dividends, quarterly payments – performance quoted gross prior to 2011)

Recognised by the FSA for marketing in the United Kingdom



**Objective:** Deliver positive, inflation beating returns, partly through solid income streams, without incurring significant losses. Targeting 6% dividend on distribution classes.

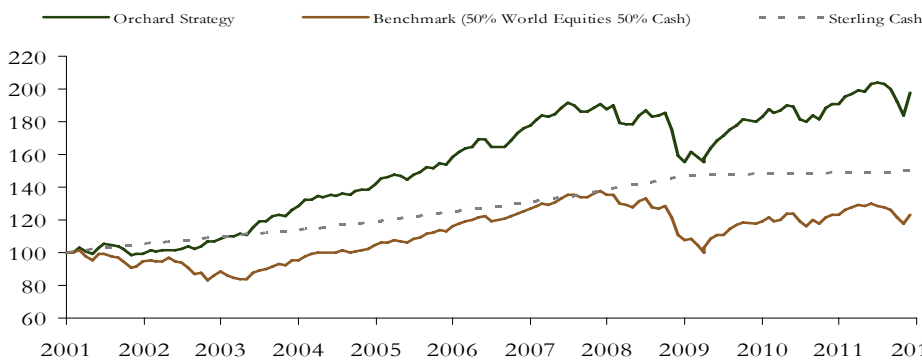
**Investment Strategy:** Long-only, international 'blue chip' equity income fund with option overlay.

**Rationale:** We believe that the way to make money begins with reducing your chance of losing it. Agreeing to buy holdings in companies at prices below their real worth builds in a margin of safety. We get paid a fee for these agreements. If we are 'assigned' the stock, we receive a great company at a compelling price. If not we continue 'writing' new agreements for upfront payments.

NAV's, Currency & Fees dependent on share class

[www.orchardwealthmanagement.com](http://www.orchardwealthmanagement.com)

|                    |                            |
|--------------------|----------------------------|
| Min Investment     | 50,000 or platform minimum |
| Dividend Policy    | Accumulation/ Distribution |
| Dealing Days       | 1st /15th                  |
| Subscription fee   | Max 5%                     |
| Redemption terms   | 5 days notice & T+5        |
| Listing/Regulation | Ireland/UCITS              |
| Custodian          | CACEIS Bank                |
| Administrators     | CACEIS Fastnet             |
| Currency           | GBP, EUR, USD, CHF         |
| Dividend Yield     | Target 6% / 2011 Est. 6.3% |



Source: Orchard Wealth Management

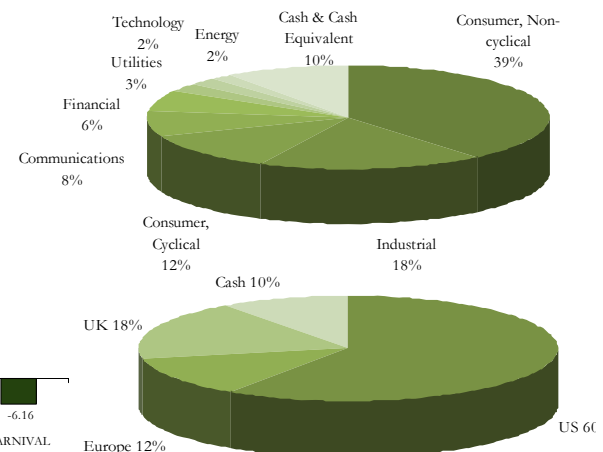
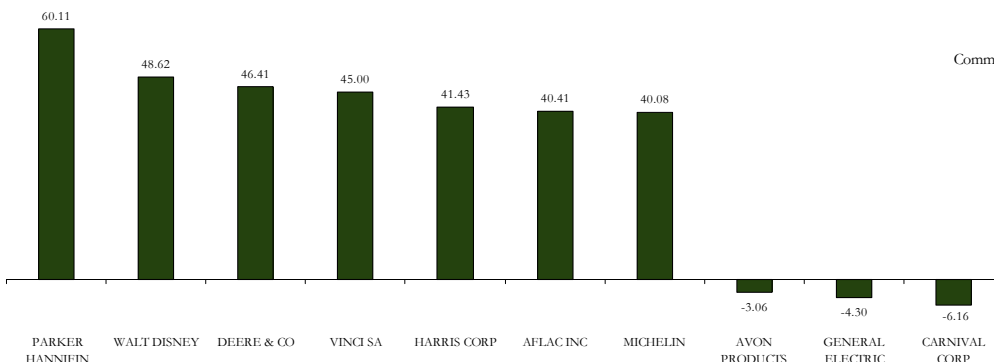
| Largest Notional Holdings (%) |     |                    |     |
|-------------------------------|-----|--------------------|-----|
| AstraZeneca                   | 4.1 | Berkshire Hathaway | 3.5 |
| Wal-Mart                      | 3.9 | Coca-Cola          | 3.4 |
| Vinci                         | 3.7 | Ralph Lauren       | 3.2 |
| Reckitt Benckiser             | 3.6 | 3M                 | 3.1 |
| Sanofi-Avensis                | 3.5 | Tesco Plc.         | 3.1 |

| Current Allocation by Asset Type (%) |      |
|--------------------------------------|------|
| Puts                                 | 47.2 |
| Stocks & Calls                       | 42.1 |
| Cash                                 | 10.7 |

|      | Total Returns % |       |       |       |       |       |       |       |       |       |       |      |        |
|------|-----------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|--------|
|      | Jan             | Feb   | March | April | May   | June  | July  | Aug   | Sep   | Oct   | Nov   | Dec  | Year   |
| 2001 | 3.47            | -2.72 | -1.75 | 4.53  | 2.20  | -1.33 | -0.08 | -1.77 | -3.60 | 0.53  | 0.16  | 1.98 | 1.28   |
| 2002 | -0.59           | 0.91  | -0.21 | -0.07 | 1.23  | 1.23  | -1.43 | 1.69  | 2.40  | 0.67  | 1.28  | 1.02 | 8.37   |
| 2003 | -0.04           | 1.48  | -0.60 | 4.05  | 2.89  | 0.05  | 2.25  | 0.45  | -0.75 | 4.19  | 0.69  | 2.83 | 20.99  |
| 2004 | 1.79            | 1.81  | -0.90 | -0.36 | 0.17  | 2.23  | -2.71 | 0.23  | 1.42  | 1.39  | 3.30  | 3.48 | 9.64   |
| 2005 | 0.59            | 1.13  | -0.42 | -1.80 | 2.33  | 1.06  | 1.92  | -0.30 | 2.09  | -0.68 | 2.73  | 2.16 | 12.04  |
| 2006 | 1.95            | 0.89  | 2.69  | -0.23 | -2.66 | 0.27  | -0.31 | 2.77  | 2.48  | 2.07  | 0.70  | 2.06 | 12.72  |
| 2007 | 1.40            | -0.61 | 0.88  | 2.23  | 1.61  | -0.66 | -2.23 | 0.36  | 1.10  | 1.22  | -1.78 | 1.24 | 4.59   |
| 2008 | -5.35           | -0.45 | -0.10 | 2.82  | 1.81  | -2.14 | 0.33  | 0.86  | -5.30 | -9.22 | -2.36 | 3.78 | -14.99 |
| 2009 | -1.89           | -1.61 | 1.27  | 3.77  | 3.11  | 1.78  | 2.17  | 1.43  | 2.03  | -0.79 | 1.83  | 2.50 | 16.56  |
| 2010 | -1.24           | 0.89  | 1.57  | -0.56 | -4.09 | -0.92 | 2.39  | -1.22 | 3.67  | 1.37  | -0.33 | 2.44 | 3.80   |
| 2011 | 0.53            | 0.90  | -0.37 | 1.81  | 0.22  | -0.29 | -1.90 | -4.18 | -4.75 | 7.28  |       |      | -1.24  |

Performance between 2001 and 2002 was from managed accounts. Performance from 2003 is the gross performance of the Orchard Funds PLC Class A; Net performance quoted from January 2011

#### Highlights of Contribution by Holding



Past performance is no guide to the future, Investments can go down as well as up and investors may not get back the whole amount they invested. For full disclosure of the risks and warnings please visit our website.

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There is an old Chinese curse which goes “may you live in interesting times” and rarely has that curse been as apt for equity investors and managers as the last three months. Having spent the last two commentaries noting how cheap the market was, we should not have been surprised that it rallied, nor were we. However, the fact that the S&P 500 rallied 14% in 15 trading sessions between the 3rd and the 24<sup>th</sup> October took us, and indeed most managers, somewhat by surprise

So it could be thought that given we were surprised by the viciousness of the sell off and then surprised by the speed of the rally it would not bode well for the performance of the strategy. Thankfully that could not be further from the truth. One of the significant benefits of the Orchard strategy is that we do not try to make the big macro calls which build or destroy reputations. Instead, we agree to buy quality companies at prices which we believe they offer attractive long term value in the sure and certain knowledge that at some point the market will value the company at less than we think and at other times it will price it higher than we believe. Our job is to hold our nerve when the market moves against us and have the courage of our convictions. Thankfully in the recent volatility we largely did so and this is why the strategy bounced back so strongly in October.

That is not to say we do nothing when our stocks fall. We analyse the moves carefully and try to understand if it is simply a market move in which case we can remain sanguine, or if something has gone wrong with the company. Where we believe the latter to be the case, we will exit positions immediately as the surest way to make big losses is to ignore small ones.

Thankfully that has largely not been the case. The majority of falls during August and September were market rather than Company specific and as such we have remained steadfast. Despite the recent rally, some of those positions remain offside but we have analysed each one and still believe that they are appropriate for the portfolio. Although volatility, which affects the value of our options, has fallen sharply from September it is still at elevated levels which bode well for future returns.

In the September fact sheet we wrote about two options which were expiring in October, namely Intel and Microsoft. At the time of writing the September report they had only 17 days to go but were close to the levels at which we wrote the options, the ‘Mark to Market’ effect. Unsurprisingly, given the market rally, both of these options expired worthless and we have held back this money awaiting new opportunities which will undoubtedly present themselves in the days and months ahead.

Whilst we make no attempt to make the big macro calls we try to adjust our exposure to the market by refining the levels at which we are willing to buy stocks to reflect the macro economic outlook. At the moment we have 10% of the portfolio in cash awaiting better opportunities to make commitments to buy. Given the current situation in Europe and the uncertainties this presents we are more than comfortable having this spare capacity. At some point, for better or worse, the European debt crisis will be fought out and the large global companies we invest in will still be there on the other side.