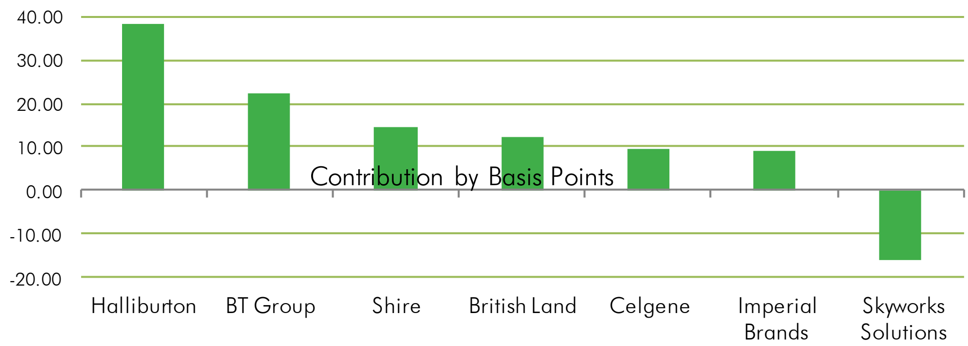
Orchard Wealth Management

December 2017

Top Movers



Halliburton, + 38.28 bps

Halliburton has benefitted from a renewed interest in the oil sector during the month as the underlying strength of their earnings stream was recognised by the market. This underpins a basic tenet of the Orchard strategy namely to generally ignore share price movements and concentrate on the fundamentals. The fundamentals for Halliburton have always been good and with the prospect of pricing and demand for their US land related services likely to rise sharply during 2018, the outlook remains promising. We have agreed to sell Halliburton at $50 until June 2018. That commitment pays us an annualised 12.9% which when combined with the 1.47% dividend gives us an annualised running yield of 14.37% and the potential of a further 2.26% upside in the next six month. That combination of the potential for a small capital appreciation alongside an exceptional running yield makes this an easy hold.

BT Group, + 22.48 bps

BT Group is another unloved holding where the fundamentals never fully justified the sell off in the stock. Subsequently, we held our nerve and were well rewarded for our patience. Whilst the fundamentals for BT are challenging, their is light at the end of the tunnel. A recent report from Bank of America indicated that the pension deficit which has dogged BT for some time may be overstated and that in fact, there may be positive news in this regard, the sentiment towards the stock has turned more positive with some analysts looking for a 12 month price target above £4. We are a little less optimistic and are willing to sell some stock at £3.10 and some at £3.20. This is 12.7% and 16.3% above the current market price and when combined with the dividend yield of the stock, gives us an annualised yield of over 8.5%. A combination of a solid yield and good upside makes this another solid holding for the Fund.

Shire, + 14.48 bps

It is sometimes difficult to understand why Shire moves higher other than to say that it shouldn't be anywhere near the current price. We have written before how bullish we are on this stock which has an exceptionally attractive profile. Trading at a modest P/e for 2017 of 10 which is expected to fall further in 2018 and generating in excess of £3 billion of free cash flow each year, this company deserves a much higher rating and we could easily see a 15% price appreciation in the next twelve months. Indeed, we have set our ambitions slightly higher having sold the December 2018 £46 call. This option enhances our holding yield on the stock from a modest 0.62% dividend to a much more comfortable 7% whilst allowing us the potential of a 17.9% upside. Given an average analyst 12 month price target of £51, we remain a comfortable holder.

Top 5 Countries	
United States	62.76%
United Kingdom	25.50%
Jersey	3.38%
Germany	2.43%
France	2.23%

Fund Facts

Launch Date
14 January 2003

Fund Manager
Richard Harwood (since inception)

Fund Structure
UCITS V

Domicile
Dublin

Currencies
GBP, USD, EUR, CHF

Administrator
CACEIS Ireland Ltd

Fund AUM
£69.1m

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

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

British Land, + 12.37 bps

British Land appears in our top movers list for the second month in a row as it continues its march higher. In November, we stated that we could not see any immediate catalyst for the share price to move higher and there hasn't really been one but with modest progress in the UK's Brexit negotiations combining with a highly attractive shareholder yield of over 11.54%, that was reason enough for the stock to move higher. We are increasingly utilising shareholder yield as a measure of value as companies continue to combine share buybacks with dividend payments, as it also highlights companies who are issuing debt to pay dividends. British Land isn't doing anything wrong and enjoying the price action it deserves. We continue to be happy holders.

Celgene, + 9.60 bps

Celgene is a surprise entry into our top movers list in a month where it suffered more negative news than positive. The biggest disappointment was the failure of their drug Revlimid to produce any noticeable benefit in patients with follicular lymphoma. This drug had reached stage III testing for this illness which had led analysts to start to build positive assumptions into their projections. However, despite this setback, the Shire share price has moved steadily higher during the month as investors focus on the underlying strength of the existing product line. Celgene has plenty of positives which contribute to a solid story but needs some positive news to emerge from the pipeline to see this stock realise its full potential. In the meantime the significant option premium we are able to generate allows us to continue holding the position.

Imperial Brands, + 9.10 bps

Whatever your stance on tobacco, it is impossible to argue with the strength of earnings generated by the tobacco companies. Trading on a P/E multiple of 12 and generating over £2 billion of free cash flow each year this is a solid company which, despite the clear health concerns, continues to grow both top and bottom lines. Indeed the growth of the profitability of the firm continues to excel with gross profit margins continuing to exceed 40%. Imperial Brands rewards its shareholders handsomely for their patience with a 5% dividend yield and debt repayments giving it solid fundamentals and a strong shareholder yield. There will always be concerns around tobacco stocks and the inherent issues with their offering but despite these issues, the stocks currently offer value. Given the obvious risk of litigation, albeit much reduced from previous years, we retain a cautious exposure to this sector.

Skyworks Solutions, - 16.21 bps

Skyworks is one of the more unknown names in our portfolio but that is simply a branding issue. As a components manufacturer for Apple, Samsung, Huawei, HTC and ZTE most of you will have used their produce in at least one device if not more. Skyworks has grown steadily with the growth of mobile devices and has managed to keep gross profit margins above 50% in doing so. However, if you live by the growth of a market you will also suffer if there is any sense of a decline in that industry. Despite no significant downgrades, sentiment has turned against Skyworks as rumours of faltering interest in the iPhone X circulate. However, as noted above, we are less concerned about price action than fundamentals and the fundamentals remain strong. We are happy to ignore the noise and continue to hold the stock.

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Dividend Policy	Distribution
Dealing Days	Daily
Fund AUM	£69.1m
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