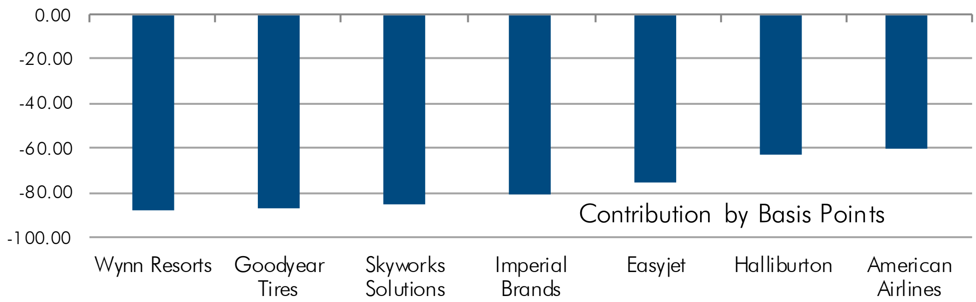
May 2019

Orchard Fund Top Movers



Wynn Resorts, - 88.41 bps

The most important thing to know about Wynn Resorts is that despite their high profile offering in Las Vegas and their recently confirmed resort in Boston, 75% of their income is generated in Macau. As such, the investment community is considering the current US-Sino trade conflict and projecting that unless there is a resolution, the Wynn licence could be under threat when it comes up for renewal in 2022. We believe that is overly pessimistic and that the gunshot diplomacy will have been terminated well before that time. That is not to say that we believe that the share price will imminently return to its former glories as the trade wars have had an impact on VIP gambling in the region with take only returning to positive year on year numbers in May after a disappointing March and April. However, we believe that the stock is far too cheap at current levels and await a bounce.

Goodyear Tires, - 87.55 bps

A combination of industry headwinds and individual company decisions have seen the Goodyear share price pummelled this month falling over 30%. This has left the stock on an exceptionally cheap P/E ratio of just 7 despite earnings being expected to riseover 20% in 2020. Cash flow from operations are nearly 30% of the current market value and whilst there is a debt overhang that needs paying off these are numbers which are compelling for any long term investor. Strong May car sales re-iterate the fact that at the current market price this stock is simply too cheap to sell and a lessening of trade tensions would be expected to see a sharp rally in the Goodyear share price

Skyworks Solutions, - 85.78 bps

Skyworks Solutions was directly in the firing line of the US-Sino trade war as Huawei are one of their larger customers. As such, the ban on trading with Huawei hit the company hard and immediately with the share price falling precipitously. However, Huawei accounted for only 12% of Skyworks revenues yet the share price immediately fell by more than that. Despite the Company revising their financial estimates to show both revenue and profits being reduced by around 9%, the market has punished the firm for fear that the trade war could escalate and ultimately destroy the ability to produce certain electronic products in America. As we have noted in other commentaries, we believe that more sensible voices will prevail and that the Armageddon scenario currently being priced in will not come to pass. We hope for the best but have plans in place to reduce exposure if that doesn't come to pass.

Top 5 Countries	
United States	78.08%
United Kingdom	13.13%
France	3.34%
Bermuda	3.16%
Panama	1.66%

Fund Facts

Launch Date
14 January 2003

Fund Manager
Richard Harwood
MitonOptimal Jersey Ltd
(since inception)

Fund Structure
UCITS V

Domicile
Dublin

Currencies
GBP, USD, EUR, CHF

Administrator
CACEIS Ireland Ltd

Fund AUM
£40.8m

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

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

MitonOptimal

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Imperial Brands, - 80.85 bps

Imperial Brands was hit, along with other tobacco companies, by indications that the rate at which smokers are quitting or moving to alternative products rose sharply in May. This is a concerning trend as US tobacco sales are an important part of the profitability of the Imperial Brands Group, but accounting for around 27% of the Groups profitability, the reaction looks extreme. The markets are currently extrapolating that figure forward and across all geographical locations and that does not make a huge amount of sense. It also totally ignores the ability of tobacco companies to continue to increase profits despite falling number of users. The dividend of Imperial Brands has risen to an unsustainable 9.7% which will need to be cut, but even at this exceptional level, it is 90% covered by income from operations. We continue to believe there is material value in this holding.

Easyjet, -76.11 bps

Easyjet has been hit by a combination of higher oil prices and the weaker pound but primarily it has been hit by Brexit uncertainty. The share price has fallen to levels last seen in the days following the Brexit referendum when it fell from £20 to £8.50 before rallying back to £18. It is now back at £8.50 as investors perceive that the core European market will slow significantly and British people will reduce the number of short term trips to the continent. Both of these are possible short term possibilities but we believe that Easyjet has a brand and business model which will serve it well for many years to come and has established itself as the pre-eminent short haul airline business in Europe. They have built a solid base which should serve them well in years to come and we will continue to be patient.

Halliburton, - 63.62 bps

Hallibuton services the engineering and construction industries but their fortunes are primarily linked to the oil sector. As such, there is always a higher volatility around their share price as it fluctuates with the oil price. The underlying business of Halliburton is sound but the market has been taking a very hard view of the Company. This has left the company trading on an undemanding forward P/E ratio of 10 x earnings and offering an attractive dividend yield of 3.3%. This stock may take some time to recover, but with an average 12 month price target of $38, compared to the current share price of $21.29, this was not the time to cut this exposure.

American Airlines, - 60.99 bps

American Airlines continues to suffer from having had to ground its 737 Max airlines after the recent crashes and that weighs on both earnings and investor sentiment. However, the balance of the business is robust and despite earnings expectations being downgraded because of those difficulties, the stock trades on a remarkably cheap P/E ratio of just 7 times earnings. With earnings expected to rise 15% this year and rise again in 2020, that makes this an exceptionally attractive asset to hold. We are always mindful of the capital demands for the airline industry, but American Airlines is now approaching the point where a significantly higher proportion of those cash flows are flowing down to investors, which will result in higher share buybacks and increased dividends going forward. This stock should enjoy significantly better days going forward.

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Distribution

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