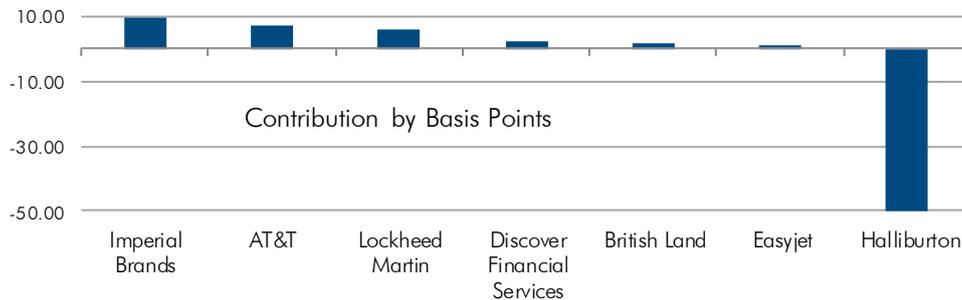


# Orchard Fund Top Movers



## Imperial Brands, +9.99 bps

Imperial Brands tops the top movers for the second month in succession following up its 13% rise in July with a 1% rise in August, which when combined with its 31 pence dividend produced almost 10bps of return for the Fund. Given the unit size of just over 3%, this highlights the benefit of the strategy. Of that 10bps return, 4 was due to price movement, 4 was due to dividend but the balance was simply caused by the erosion of time value and a reduction in volatility. Whilst a 2bps return is not going to change the world on its own, when that expands over 35 stocks, that suggests a 70bps return from time value alone, which is a nice base from which to build a portfolio. If that could be combined with positive momentum for value stocks it would make for an intoxicating mix.

## AT&T, +7.06 bps

AT&T is another stock where a healthy dividend backed up by strong cash flows has allowed the stock to be insulated against the draught this month. Although they are not the most exciting of stocks, the telecom companies have consistent revenues which generate decent profits, but importantly for income investors, very high levels of free cash flow as those profits have been significantly reduced by a large depreciation charge. In 2018, that depreciation charge was more than double the dividend, which means that even if the Company was unable to make profits, it would still be able to handsomely cover the dividend out of free cash flow. The share has risen sharply this year and stands close to our \$35 call option strike.

## Lockheed Martin, +5.85 bps

After a somewhat surprising initial setback, Lockheed Martin has performed totally in line with expectations remaining largely immune to market tribulations as its performance is insulated by long term contracts and a strong order book. Although it is not cheap trading on a P/E of 18 times earnings, we have built a significant margin of safety into this position with our exposure being over 10% below the current market price. With analysts continually revising their earnings higher, that seems a long way away, but if we were able to take on the stock at that level we would be very happy to do so. Defence businesses are amongst the most reliable investments with solid steady returns combined with occasional share price volatility, which makes for an attractive proposition for the Orchard strategy.

Top Countries	
United States	57.63%
United Kingdom	12.96%
Bermuda	3.15%

## Fund Facts

<b>Launch Date</b>	14 January 2003
<b>Fund Manager</b>	Richard Harwood MitonOptimal Jersey Ltd (since inception)
<b>Fund Structure</b>	UCITS V
<b>Domicile</b>	Dublin
<b>Currencies</b>	GBP, USD, EUR, CHF
<b>Administrator</b>	CACEIS Ireland Ltd
<b>Fund AUM</b>	£34.1m
<b>Min Subscription</b>	50,000 for individuals, 10,000 for platforms and designated bodies



### Discover Financial Services, +2.19 bps

Discover Financial Services is a credit card issuer and electronic payment services provider based out of Illinois in the US. It issues under its own name but also licences the Diners Club brand, which is accepted in more than 185 countries. The credit card business is one that enjoys a long term tailwind as the western world moves progressively closer to a cashless society, and the company's results reflect that tailwind. Trading on an undemanding P/E multiple of 10, this is a solid company with good earnings. It pays a modest but growing 2% dividend, which is well covered by free cash flow. We have a decent margin of safety built into this position yet still enjoy a healthy annualised yield of over 8% while we are being patient. Nothing is certain in investing, but the general trend towards plastic over cash is one of the things that we can rely upon.

### British Land, +1.65 bps

Although it only generated the most modest of profits during the month, the fact that it did so in the face of the full force of Brexit says a lot about this holding. British Land sold off significantly which allowed us to enter a position at a level where it was trading at a massive 38% discount to EPRA NAV. Whilst we accept some discount is appropriate because of their exposure to retail, such a massive discount primarily reflects uncertainty around Brexit. This is why it has been so gratifying to see the Company trade on its own fundamentals rather than simply reflect the ongoing uncertainty around Brexit. The share price has risen 10% since its lows in the middle of the month and it finally seems to be enjoying positive sentiment.

### Easyjet, +1.11 bps

This is another stock that has suffered from the ongoing uncertainty around Brexit as it incurs the double hit of expectations of lower load factor as the British public is expected to travel less and fuel costs move higher associated with a weaker pound. Whilst both of these factors may occur, we believe that the current share price factors this bad news, and significantly more, in and that any positive news on Brexit will see a bounce. We particularly believe that the risk of lower load factors is overdone as it will take a serious recession and much higher unemployment to wean the British public off their foreign trips.

### Halliburton Co, -49.86 bps

Halliburton along with all other oil service companies was hurt by the maturing of the US shale industry and spending cuts by oil and gas customers. As a consequence, the largest US supplier of fracking services to oil and gas producers expects its third-quarter results will be at the lower end of its earlier forecasted range. Despite this slowdown, the Company remains comfortably profitable with analysts expecting earnings to rise significantly in the future. Trading on a P/E of 12 which is expected to fall to 10 in 2020, this is a cheap play in an industry which can see sharp rises if there is a sustained move higher in the oil price. Any company whose primary offering is linked to a commodity price will be more volatile than the majority of the market, but that volatility offers opportunities and we would expect those to play out in the months and years ahead.

### 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

#### Dividend Policy

Distribution

#### Dealing Days

Daily

#### Fund AUM

£34.1

#### Min Subscription

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