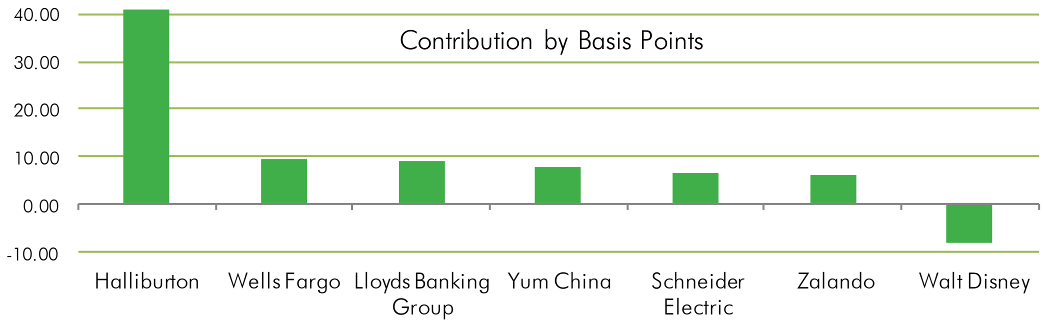
Orchard Wealth Management

September 2017

Top Movers



Halliburton, + 41.17 bps

After many months of being in investors bad books, Halliburton came storming back this month with an 18% rise. Remarkably, there was no big news item to cause this reversal but more an absence of bad news and some sound fundamentals. The most noteworthy feature of the month was that, despite the extensive worries about Hurricane Irma and the effect on the oil fields in the Gulf of Mexico, disruption was light and largely insignificant. A steady increase in the oil price also provided support but none of that justified the magnitude of the rise just as none of the negative sentiment justified the magnitude of the fall in August. It is our general philosophy that if the fundamentals of a company remain sound, we remain invested as it is impossible to predict the whims of the market at any given time. Over time, we believe that the market will recognise quality and we will be rewarded for our patience.

Wells Fargo, + 9.32 bps

Wells Fargo is one of three financials in our top movers this month as the prospect of higher interest rates on both sides of the Atlantic buoyed shares in this sector. The last nine years have been very tough for banks as the fundamental structure of their business model, borrow short and lend long, has been challenged by the ever flattening yield curve. With the prospect of rises in interest rates, however gentle those rises may be, it is becoming more likely that the prospect of banks being able to start to make a return on their core business returns to the fore, making these investments increasingly attractive. It is strange to see how the market now reacts to the prospect of a 0.25% rate rise having lived through a period when rates moved two or three percent in a single day. It is a reflection of the very different financial world we live in today.

Lloyds Banking Group, + 8.98 bps

Whilst the prospect of interest rate rises in the US has been with us for some time, September saw the first real talk about the timing of UK interest rate rises which helped boost all of the UK banks. However, there was more stock specific news which helped the Lloyds share price. For the last few years, Lloyds has been slowly repairing some of the damage inflicted in the 2008 Banking Crisis and whilst progress has been slow, it has been visible. One of the more visible evidence of this could be seen this month when Moody's upgraded the senior debt of the Bank to A3 from Baa1. Whilst this is only the seventh highest rating and still stands a long way below the levels pre 2008, this is a clear and crucial sign of the progress being made by the bank as it tries to re-establish both its balance sheet and reputation after many damaging years.

Top 5 Countries	
United States	50.56%
United Kingdom	21.96%
France	6.12%
Jersey	3.25%
Israel	2.94%

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
£70.4m

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

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Yum China, + 7.81 bps

Yum China is the holding company for the fast food restaurants KFC, Pizza Hut and Taco Bell operations in China. Spun off from Yum Brands in the fourth quarter of 2016, Yum China offers an exceptionally good means to gain exposure to the rising incomes, and appetite for US consumerism, across China. When the Company was floated we felt that it understated the inherent growth opportunity in China and the steady realisation of that potential is being reflected in broker upgrades and raised price targets. The proof of the pudding will come in the next month as the Company announces quarterly earnings on the 5th October but with our commitments to buy well over 10% below current market levels, we have a good margin of safety built into the position. We are happy to hold.

Schneider Electric,+6.62 bps

Schneider Electric is probably one of the lesser known names in our portfolio. The French based company manufactures power distribution and automation systems and is one of the leaders in its field. The Company agreed a merger early in the month with Aveva, which was well received by the market. It was deemed that there were good synergies along with reasonable cost savings which saw the shares of both parties rise. An agreed merger which the market approves of is a rare commodity these days so we were happy to be on the right side of this deal.

Zalando, +5.89 bps

We are seeing some of our lesser lights reaching the top of the table this month with another solid performance by Zalando. Zalando may not be a familiar name to our Anglo Saxon readers but it is a very well known company in Europe where it is one of the largest online clothes retailers. The very nature of the business means that we have only a small position here as this sector is still enjoying super-normal growth which attracts super normal valuations, yet despite this the company chipped in a welcome 5bps. There was no specific news to generate this positive return but the Company continues to execute well with solid growth rates. Our commitment to buy is now 10% below the current market and expires in December.

Walt Disney, - 8.03 bps

There are certain holdings which, regardless of their price action cause us very little distress and Disney used to be one of them. It is a remarkable brand with unique brand loyalty and the ability to repackage a 50 year old product and sell it all over again. It should be bomb proof. However, periodically, even these companies do something that makes you step back and ask, really? The decision by Disney to withdraw its content from Netflix in favour of asking consumers to subscribe to their own channel is a major gamble on the future of streaming and a big gamble on how vital your content is. In an increasingly congested media market, it is not wise to make your consumers follow you to a new outlet. It may work, but it is an unwelcome uncertainty which the market does not like. Given ESPN, part of the Disney Group, transmits the NFL games, a sport which President Trump has recently asked his supporters to boycott, these are not easy times at Disney and a steady hand on the tiller will be welcome. Disney is one of those companies where if nobody messes up, everybody does well. Current management would be well advised to remember that before making any more big decisions.

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