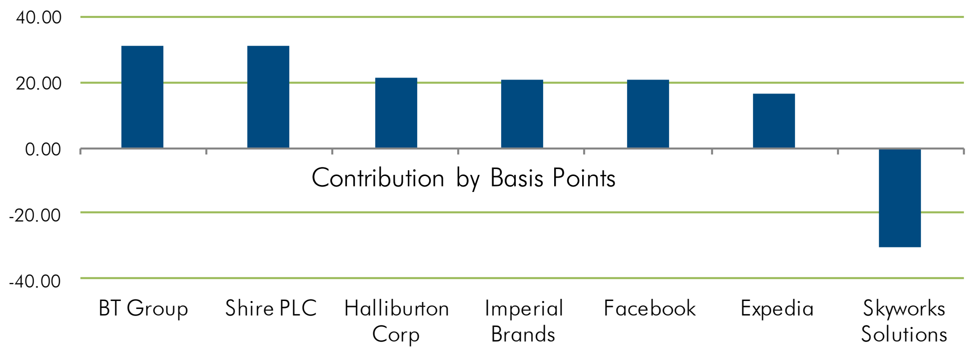
MitonOptimal

April 2018

# Orchard Fund Top Movers




## BT Group, + 31.44 bps

Having been more likely to appear as the last entry on the report in previous months, this is the second month which BT Group appears as one of our biggest gainers. Last month we noted that they had finally agreed terms for the closure of their defined benefit pension structure whilst this month the positive news is that they have appointed Jan du Plessis as Chairman and that the take up on fibre continues to exceed expectations. The agreement with Sky to show each other's Premier League games will hopefully dampen the ever escalating cost of obtaining the rights to Premiership games. None of these factors are compelling in their own right, but when combined give a strong indication that the rate of change is increasing. Analysts are slowly revising their targets on BT and the prospect of further gains looks significant.

## Shire PLC, + 31.01 bps

We are clearly still in the camp of show me the money as far as Shire is concerned. Despite five takeover offers from Takeda Pharmaceutical Company Limited, the last of which values Shire at £49 a share, the share price still languishes below £40. That reflects the lack of confidence that the market has that Takeda can finance the deal or that the Shire shareholders will vote for a deal of which over £20 is in an ever devaluing Takeda stock. However, the Takeda offer has highlighted the value inherent in Shire and it will no doubt have caused others to consider the value of Shire to their own franchises. The game is still afoot and it is difficult to accurately predict what happens next but we are well positioned with stock that will benefit if the takeover progresses and close to the money puts for June which are currently yielding an annualised return in excess of 30%.

## Halliburton Corp, + 21.54 bps

This is the first time since we started running the Orchard Fund that the top three movers in a month had all featured as the largest movers the previous month. This is slightly surprising as there can be a long term change in price action when sentiment on a stock turns. In the case of Halliburton, it is strength of oil which is providing the underlying support. With WTI trading significantly and consistently above $60 demand for rigs remains high and 1st quarter results which confirmed the underlying thesis, solidified the story. The outlook for demand from fracking is strong with the market currently in deficit. Having bought the stock at $45, we will realise a 11% capital gain as well as having enjoyed a significant income yield if the stock is called away at $50 in June. In the meantime, that commitment is earning us a 17.5% annualised time value.

| Top 5 Countries | |
|---|---|
| United States | 69.19% |
| United Kingdom | 20.39% |
| Jersey | 3.60% |
| France | 2.74% |
| Bermuda | 2.69% |

## 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**
£64.3m

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

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## Imperial Brands, + 20.91 bps

Imperial brands changed its name from Imperial Tobacco to reflect the changing nature of that group, and it is those changes which have affected the share price this month. In their quarterly earnings update, Imperial Brands upgraded their forecast for next generation products from £1 billion to “substantially more than £1 billion”. This is a very encouraging sign from a company whose core business continues to erode with month on month declines in sales of cigarettes in the developed markets. The news on their Glo product in Japan was equally encouraging with market share rising to 4.3% despite capacity constraints. The future of Imperial Brands is becoming increasingly tobacco free but their wide range of other offerings provide plenty of free cash flow to support their dividend.

## Facebook, + 20.61 bps

It may seem surreal in a month when Facebook was front and centre with bad news that the share price should do so well. However, it was the fact that despite all the negative news which has surrounded Facebook for the last few months, their quarterly earnings report once again beat street expectations and showed the robustness of the business model. It seems that despite lawmakers indignation that users data was being used by Cambridge Analytica, and that Facebook knows much more about us than our own parents, users are addicted to social media and nothing will break that habit. Advertisers are largely morally agnostic in these circumstances.

## Expedia, + 16.36 bps

Expedia, like many of the other growth companies out there, is particularly susceptible to quarterly earnings announcements. This quarter, that worked in our favour as the shares rose 8.2% in response to a better than expected outlook. It is important to recognise that this is a relatively modest correction after declines in the last two quarters saw shares fall from $160 to less than $100. We do not like the markets obsession with quarterly earnings and prefer to concentrate on a well run business with good market opportunities and attractive margins. These are the characteristics which will serve the Company well and with the percentage of the travel market moving on-line growing constantly, we believe Expedia will perform well for some time to come.

## Skyworks Solutions, - 30.19 bps

There is now an almost quarterly cycle where analysts start to predict the demise of the iPhone and the subsequent demise of the suppliers for whom Apple are a significant client. It is part of that cycle that Apple then beats those expectations and both the Apple stock and all their suppliers recover. Apple is a significant client for Skyworks Solutions with Skyworks filling four of the design slots in the iPhone 8 and five in the iPhone X. With Apple reporting earnings on the 1st May and Skyworks Solutions reporting on the 3rd May, it is highly possible we will be writing about Skyworks again next month as one of our largest winners. Sentiment on this stock seems to be on a bit of a rollercoaster but the underlying business remains sound and that is what we are invested in. Sometimes, we have to ignore the noise and concentrate on the fundamentals and for the moment at least, they remain sound.

## Fund Facts

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|---|---|
| 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 | £63.9m |
| Min Subscription | 50,000 for individuals, 10,000 for platforms and designated bodies |