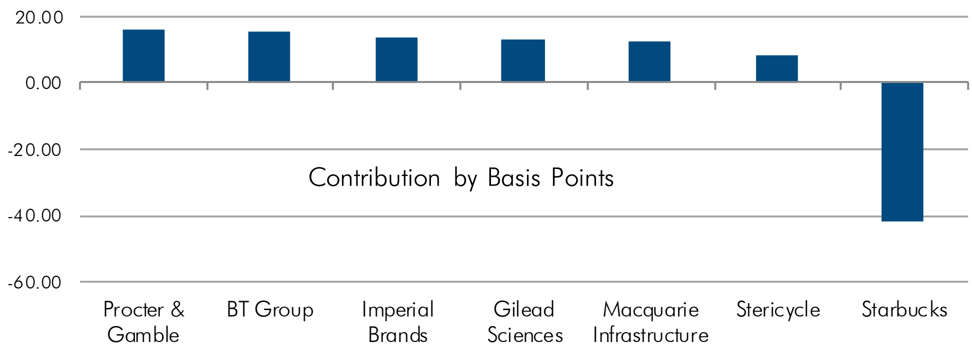
MitonOptimal

June 2018

Orchard Fund Top Movers



Procter & Gamble, +16.00 bps

P&G is one of the ultimate household names. Even if you were unaware of the Company, the extensive range of brands can be found in the majority of households. However, despite their superior brand range and excellent geographical exposure, this is a company which has fallen on hard times and until recently, looked to be in slow and steady decline. That is no longer the case. Management has recognised the problem and is starting to address it and is receiving the plaudits which it deserves for doing so. Earnings, having been in decline are plateauing and analysts are starting to become more friendly to the Company with an increasing number of upgrades being seen. We have bought the stock and have agreed to sell it at $80 until October receiving $2 for doing so. Following this months run up and with two dividends in that period of 71c that represents an annualised yield of 14.67%.

BT Group, +15.55 bps

We had expected to be writing that we had exited BT Group this month as it closed exceptionally close to our stop loss last month but a 6% rise in the share price has maintained its place in the portfolio. Sadly, part of the reason for the rally this month was the departure of CEO, Gavin Patterson after his plans to revamp BT failed to inspire the market. At a human level, it is always sad to see shares react positively to someone's departure but from a practical point of view this was the right decision for all parties. BT has a large job on its hands and the person steering the Company through those changes needs to enjoy the confidence of the Board and investors alike. Clearly, Gavin Patterson did not enjoy that support.

Imperial Brands PLC, + 13.61 bps

Imperial Brands delivered its third consecutive monthly return in excess of 4% as it enjoyed further analyst support. With the Company, and indeed sector, trading at its widest discount to the consumer staples sector in 15 years based on overly cautious concerns around the imposition of a nicotine standard by the US Food and Drug Administration. Whilst we have no doubt that this is the route of travel, the market is projecting the imposition of such restrictions in a timeframe at which the FDA seems incapable of moving. This combined with a lack of appreciation of the diversification of the offering within the Group has left the share price looking cheap. The latest diversification for the Imperial Brands Group occurred last week and saw an investment in a UK start up that is developing treatments derived from the marijuana plant, perhaps not a massive stretch for a tobacco company.

Top 5 Countries	
United States	64.09%
United Kingdom	16.91%
Jersey	3.58%
Bermuda	2.82%
France	2.81%

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
£59.6m

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

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

Gilead Sciences, + 13.30 bps

Gilead enjoyed a good month but having lost confidence in this stock, we used that strength to exit the position. There are, and always have been, significant positives with Gilead but over-hanging all of those positives is the fact that the cost of the Company's drugs is exceptionally high, and in the current political environment, that will weigh on the share price for the foreseeable future. Given that the Democrats are proposing that the government should be given authority to negotiate Medicare drug prices and will be making this one of their central platforms moving into the November midterms. Given the unpredictable nature of Donald Trump he will either reject the concept or double down. Either way, it seems like a tough six months ahead and not one that carries any significant upside.

Macquarie Infrastructure Corp, + 12.48 bps

Regular readers will recall that Macquarie Infrastructure Corp (MCI) was our biggest loser a few months ago when management abruptly announced poor margins and reallocation of resource at one of their Fuel Storage divisions after a drop off in customers renewing their contracts. At the time we noted that although the news was unwelcome, the reaction was excessive and that the new $4 dividend justified a significant upward rating to the stock. Since then the stock has slowly worked its way higher rising 14% in the last three months but with fundamentals stabilising and the dividend looking more secure, there is still significant potential upside from here. With a gross dividend yield in excess of 9% we are not writing call options against this holding at current levels.

Stericycle Inc, + 8.78 bps

As we wrote last month, this is an attractive business for us as it is relatively price inelastic as waste needs disposing of, regardless of economic conditions, and agreements are relatively long dated and reliable. As such, it should be a rather dull business but it has not been. For a relatively stable business model, the share price has been volatile and thankfully this month it has been in our favour. We do not get overly concerned about share price action instead concentrating on Company fundamentals. They are still good, so we remain long, believing that the rally over the last three months is only recovering the falls from February. In that time Company guidance and general earnings expectations have been revised higher.

Starbucks Corp, - 41.90 bps

Starbucks got hit hard this month falling sharply after missing earnings expectations but more importantly announcing the closure of 150 stores, three times the annual average. Whilst three times the normal number sounds worrying, it is perhaps more remarkable that a company with over 28,000 stores has previously only closed 50 under-performing stores. At 150 stores that represents closing less than 0.5% of stores each year whilst also opening new stores in better situations. However, this announcement may also have brought home that Starbucks is no longer the growth stock of previous years. Starbucks is now growing at low single digits rather than the 8-9% of times past. On a P/E of 20, the market took fright but we believe that the new management are making their own mark and that growth will return. The balance sheet looks robust with limited debt and an exceptional brand.

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	£59.6m
Min Subscription	50,000 for individuals, 10,000 for platforms and designated bodies