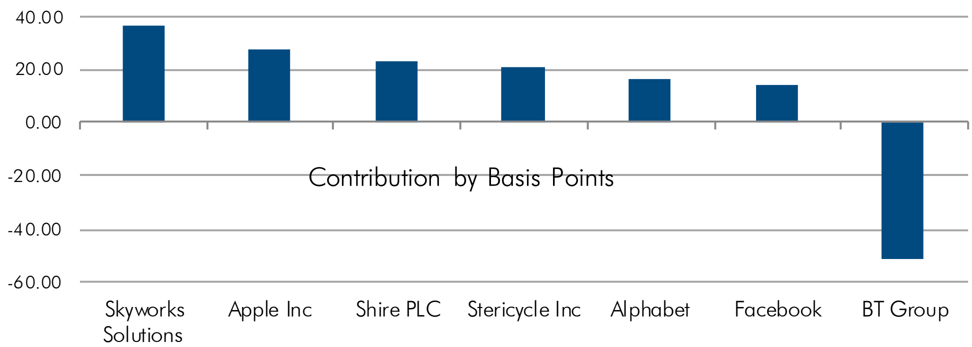
MitonOptimal

May 2018

Orchard Fund Top Movers



Skyworks Solutions, + 36.91 bps

It is rare that a prediction comes right quickly but it is even rarer that it does so on time, but having predicted that Skyworks Solutions would be one of our largest gainers in last month's commentary, it appears at the top of the pile in just the next month. As we noted last month, the mood around iPhone sales and the implications for its component manufacturers has a well established cycle and after last months negativity, good iPhone sales combined with a decent quarterly earnings announcement saw the stock recover all of last months losses and add an additional 6 points on top. The fundamentals for this company remain sound and despite prophecies to the contrary, the sales of iPhones continue to progress well. Our commitment to buy runs until August and has a current running yield of in excess of 14%. It is not always an easy ride, but Skyworks is a good stock and justifies its place in the portfolio.

Apple Inc, + 27.64 bps

The quarterly trend of Apple's share price declining into earnings and then rallying after earnings continued with a 13% rally in the share price following declines of 5.81% and 1.50% in the previous two months. This is slightly more exaggerated but very much in line with the 6.38% rally following losses of 1.06% and 1.52% in the last quarter. The reasons are also the same. Certain investors believe that Apple's best days are behind them and that iPhone sales have peaked. They predict an earnings miss and subsequent share price collapse only for Apple to surprise on the upside and for those investors to have to buy back the shares they shorted. To be fair, it is unlikely that Apple, or indeed any other company, will ever reproduce the success of the iPhone, but while the company keeps generating in excess of $10 bn of free cash flow each quarter, and $25bn some quarters, there are few reasons to sell.

Shire PLC, + 23.49 bps

We wrote last month that 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. This month the share price made steady if spectacular headway rising a further 6.05% but still someway below the £49 Takeda offer at £41. There is still significant uncertainty around this stock and as such, we trimmed our exposure by buying back the June £40 puts at a handsome profit. There are times when we are not sure what the market is thinking and at times like that we choose to reduce our exposure.

Top 5 Countries	
United States	71.14%
United Kingdom	17.39%
Jersey	3.26%
France	2.84%
Bermuda	2.76%

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
£62.9m

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

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Stericycle Inc, + 20.91 bps

Stericycle is one of our lesser known names but is a robust company is a wide margin business. The Company provides regulated medical waste management services in the US, Canada, Mexico, Argentina, the UK and Ireland with more than a million clients worldwide. 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.

Alphabet, + 16.40 bps

Quarterly earnings are again the main reason for Alphabet's 8% share price rise this month. The stock has been tracking sideways for a few months despite the upwards earnings trajectory continuing. This is good news for the strategy as time value erodes in sideways markets but the real boost comes when the time value erodes and the share price goes up as happened this month. With cash on the balance sheet of over $100 bn and rising at a rate of $25bn a year, the stock is not expensive on a P/E of 21 for 2018, Alphabet is still a growth stock, but it is not being priced as such and it seems probable that at some point, Alphabet will follow Apple down the dividend achievers root of declaring a small dividend then raising it every year. When they do, the share price will enjoy a further boost.

Facebook, + 13.90 bps

This move vindicated our thesis to ignore the noise and concentrate on the underlying business. During the recent media frenzy around Cambridge Analytics and the use of personal data, it would have been easy to believe that the Facebook business model was irreparably broken. Those who believed the hype sold their stock and drove the share price down to $152 in March. Just two months later following good earnings and a normalisation of the news cycle, the shares are back at $190, some 25% higher in just two months. The hastag DeleteFacebook seems to have made precious little difference despite its high profile supporters and user numbers continue to rise as does revenue. Ultimately share prices are driven by earnings and in Facebook's case, these are still rising.

BT Group, - 51.86 bps

Having been a top winner for the last two months, BT Group staged a massive reversal this month falling over 50bps after disappointing first quarter results were paired with an announcement of 13,000 job losses and a need to top up its pension deficit. The new strategy will attempt to save £1.5bn in costs but will incur an additional £800m in restructuring costs. The announcement was combined with further bad news for shareholders that there will be no further increase in the dividend. The markets reaction to this plethora of bad news has placed significant pressure on CEO Gavin Patterson with the feeling that this may be his last chance to turn the company around. We are now very close to our stop loss on this position and unless fortunes turn in the next few weeks, we will be exiting this position.

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