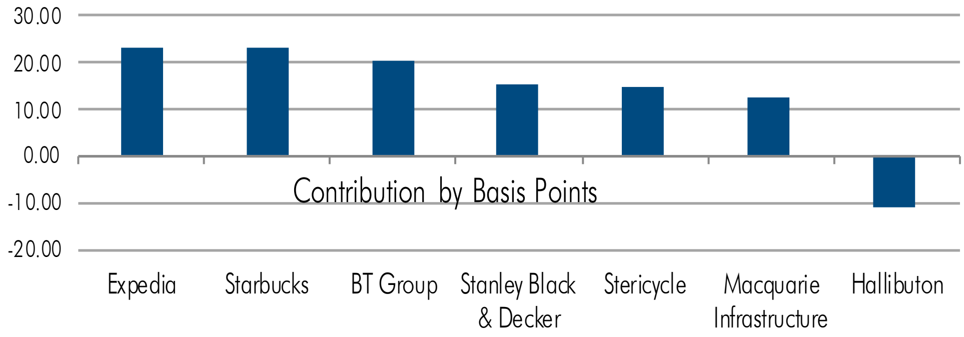
MitonOptimal

July 2018

Orchard Fund Top Movers



Expedia, + 23.21 bps

Expedia has been a classic story of keep the faith and you will ultimately be rewarded. The basic investment premise is simple. Travel bookings have moved on-line and the strong will get stronger. Expedia, in its many incarnations, is one of the strongest brands in the market and despite being marked down in previous quarters for increasing marketing spend to maintain their dominant position, we kept faith and were handsomely rewarded this month as earnings beat expectations but more importantly margins increased, boding well for the future. The stock rallied almost 10% on earnings and continues a recovery which has seen the share price rally from under $100 to almost $140. Expedia is another salutary reminder that price is what you pay and value is what you get. It can be very hard to ignore the price action sometimes, but it can be important to do so.

Starbucks, + 22.81 bps

Having been marked down last month after shutting 150 stores, Starbucks has bounced back this month as the underlying business continues to perform. Starbucks super-growth days are behind it but it remains a robust business with brand loyalty. There are times when exceptional management can make something special out of a mediocre business but we prefer to invest in a business with great fundamentals. Despite Starbucks having existed for less than 50 years, the brand and their presence in most retail outlets is now an expected sight for most Americans, increasingly at international malls, and with expected sales in excess of 4 billion cups of coffee annually this is a well established business with a strong brand. We continue to be happy holding this stock.

BT Group, + 13.61 bps

BT Group appears on our list for the second month running after releasing better than expected earnings. The share price has rallied sharply from close to our stop loss at £2.00 to nearly £2.40 this month as the torrent of negative sentiment slowly subsides. BT Group is not without its problems but in our opinion, those problems were never as great as the market imagined and we would expect this rally to continue further. However, we are always mindful that fundamentals will out and that the incumbent telecom businesses are in a tough place. At the moment, we have no calls written against this position but we are constantly monitoring this trade and would expect to be writing a call to exit the trade if the share price appreciates to above £2.50.

Top 5 Countries	
United States	65.80%
United Kingdom	16.40%
Jersey	3.70%
Bermuda	2.91%
France	2.89%

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
£58.7m

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

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

June 2018

Stanley Black and Decker, + 15.04 bps

Stanley Black and Decker is one of the premier global providers of hand tools, power tools and access and electronic security solutions. Despite the relatively mundane nature of the business and their consistent earnings record, the share price has been quite volatile so far this year falling from a high of $177 to a low of $132 which provided an opportunity for us to make a commitment to buy a quality company at a reasonable price. This month, the latest earnings report provided more solid support for the share price as the company beat earnings and reiterated its earnings guidance for the year, but for those of us who concentrate on what we as shareholders receive, the most impressive statistic is that they expect to maintain their 100% free cash flow conversion rate. Cash flow is a major indicator for our investment criteria and 100% conversion rates are a major positive.

Stericycle Inc, + 14.54 bps

Stericycle, as we wrote last month, 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. For a relatively stable business model, the share price has been volatile and thankfully this month, for the second month in a row, 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 four months is only recovering the falls from February. In that time Company guidance and general earnings expectations have been revised higher and we look forward to the forthcoming earnings report.

Macquarie Infrastructure, + 12.23 bps

Regular readers will recall that Macquarie Infrastructure Corp (MCI) was our biggest loser several 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 20% in the last four 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 and will watch the quarterly results closely.

Halliburton Co, - 10.05 bps

Oil services are by their very nature volatile and we were on the wrong end of some of that volatility this month. Despite beating expectations on their 2Q earnings, it was the outlook for the 3rd quarter and concerns about the rate of growth in the oil and gas rich Permian Basin which caused the share price to decline 8% following earnings. Thankfully, the Orchard methodology mitigates part of that decline but the stock had already been under pressure and we suffered accordingly. Whilst acknowledging the validity of those concerns, the stock still offers value and given the volatility of the sector, we are optimistic that we will soon be back in the black. In the meantime, we continue to collect the dividend and the attractive yield which we are able to receive for writing calls. We have agreed to sell the stock at $50, compared to the current share price of $42, and received an annualised yield of 10% for making that commitment.

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	£58.7m
Min Subscription	50,000 for individuals, 10,000 for platforms and designated bodies