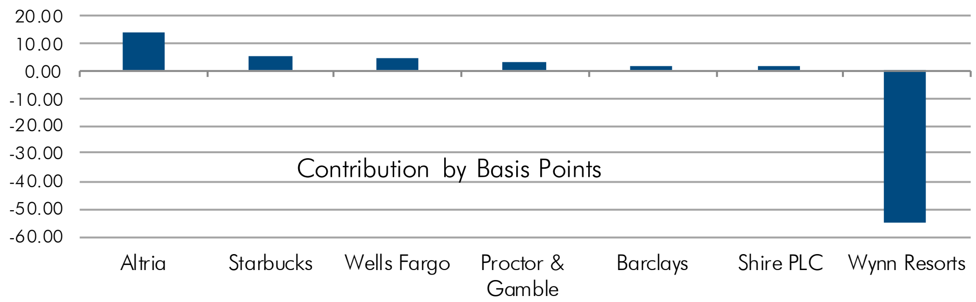
MitonOptimal

October 2018

Orchard Fund Top Movers



Altria Group, + 14.05 bps

Altria Group put in a spectacular performance this month, rising 7.84% and outperforming the S&P 500 by over 12.5% as analysts collectively called the bottom of the recent tobacco weakness. It is very easy for the negative headlines to detract from an exceptionally well run business. More importantly, not only is the business well run but they are becoming increasingly aware of their public profile actively getting ahead of issues on which they could be attacked. During the month, Altria very publicly withdrew certain vaping flavours which were considered to be attractive to youngsters and has actively supported the raising of the minimum age for smoking to 21. This more socially attractive attitude has not hurt earnings and may significantly ease the Company's ability to participate in the likely legalised cannabis industry if plans for Federal legalisation are approved.

Starbucks, + 5.03 bps

If our top two performers are anything to judge by it seems when markets become stressful, people unsurprisingly resort to nicotine and coffee. The reality is that Starbucks is a very well run company with an exceptional franchise. However, as we mentioned last month, we believe that it has run its course and we are happy to have written the January $57.50 calls which are slightly below last nights closing price of $58.27. However, the call still retains time value of $2.13 which means that so long as the position remains above $57.50 over the next two months, we will earn an annualised return of over 17%. In addition we will receive the 36c dividend payable in November to further enhance our returns.

Wells Fargo, + 4.42 bps

Higher interest rates and a steepening of the yield curve were the primary factors behind the rise in Wells Fargo this month as the US banking industry returns to a more normal state. After an extended period of Quantitative Easing which flattened the yield curve, the rise in the 10 year yield up to 3.25% has allowed banks, whose basic business is to borrow short and lend long, to significantly increase their margins. This comes as a welcome respite after a period of flat yield curves which have made it difficult for banks to make money. The silver lining is that the extended period of lower returns have caused banks to become very lean and efficient and despite a flat yield curve, Wells Fargo have grown earnings from $2.42 in 2007 to expected earnings of $4.33 this year. A steepening yield curve suggests that there could be much better times ahead.

Top 5 Countries	
United States	65.37%
United Kingdom	17.32%
Jersey	4.45%
France	3.17%
Bermuda	2.90%

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
£51.89m

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

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

Proctor & Gamble, + 3.09 bps

Procter and Gamble has survived the recent market travails well as their core offering is relatively immune to economic shocks. During the quarter the Company reported third quarter earnings, which reiterated the solid nature of the Company, and we took advantage of that rally to exit our position. Whilst we still like the company, the valuation is now fully pricing in the good outlook and on a P/E of 22 with earnings growing at 8% per annum, it no longer offers the sort of value which we need to see to give us comfort that the company can withstand any market pullback. P&G is a quality company but it no longer meets the value criteria that we look for; it will remain on our watch list but we need to see a pullback in the share price to allow us to enter again.

Barclays, + 1.97 bps

It is very trendy to write off whole business sectors which have run into problems but it is rarely the right thing to do. The UK banking sector has been in distress since 2008 and investors have been poorly rewarded for being invested with the FTSE All-Share Banks Index under-performing the wider by market by 7% per annum over that period. However, every stock has a price at which it becomes attractive and for Barclays we have finally found a level where we believe that to be the case. With yield curves steepening we have agreed to buy the stock at an average price of £162.5, a price last seen briefly during the Brexit decline of 2016. We were paid handsomely for doing so, receiving an annualised 12.67 for our commitments which expire in December. Despite October's volatility and decline in the wider market, we remain comfortable with this position.

Shire PLC, + 1.56 bps

Sometimes it is difficult to know what to write about Shire. The takeover with Takeda is still on track and the share price slowly grinds higher as that moves closer to fruition. Given there is still over 8% difference between the current share price and the offer price, we expect that it may appear once again in the November top movers but we are now trading at the level of our call and as such we can only now make the time value which is left on our option. That option, which commits us to sell at £46, is still valued at £1.70 which means that we will make another 3.69% in the next 51 days as long as the share price doesn't fall.

Wynn Resorts, - 55.26 bps

This is the second month in a row where Wynn Resorts has been our largest loser. During the month it hit our soft stop loss where we undertake a full review of the stock and document our thoughts. We concluded that the stock is now priced for Armageddon. The stock has several potential pitfalls ahead of it, but the current pricing suggests that all of these will happen. In our opinion that is wrong and the failure of any one of these issues to materialise will see the stock rally. Sometimes it can take a long time for that stance to be vindicated and we were ready to stay the course but thankfully better results from Macau and an upbeat earnings report from the Ceasars Group has seen the share price rise sharply on the first trading day of November, with the share price up almost 12%. We believe that there is significantly more upside and expect to be writing about Wynn as one of our largest gainers next month. With a 25bps gain on the first day of the month, it is certainly heading in the right direction.

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Administrator	CACEIS Ireland Ltd
Dividend Policy	Distribution
Dealing Days	Daily
Fund AUM	£51.89m
Min Subscription	50,000 for individuals, 10,000 for platforms and designated bodies