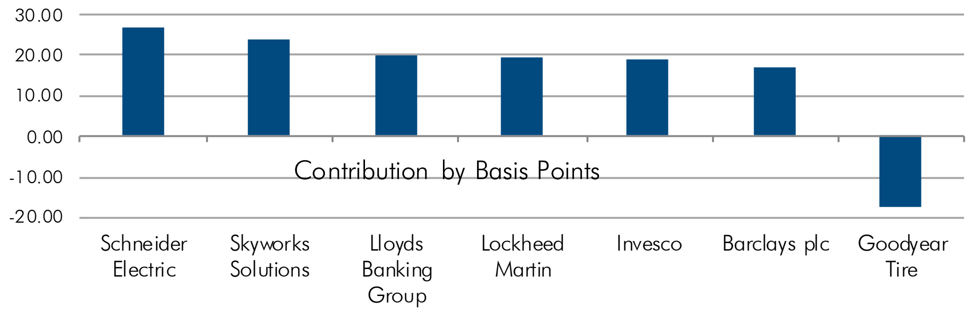
MitonOptimal

February 2019

Orchard Fund Top Movers



Schneider Electric, + 26.93 bps

The gains in Schneider this month, in common with many of our other top gainers, simply reflect that fact that the fears were significantly overdone. At the height of the December sell off, Schneider Electric fell to €57.58, a price which seemed to reflect a collapse in future profitability which we simply couldn't understand. This month, the Company reported earnings which beat expectations but also provided guidance for the year ahead that earnings would rise at 3-5% rather than the 2% which analysts expected. Following January’s recovery, this news boosted the share price to €68.42, just below the €70 at which we have agreed to buy the shares. Our commitment, which expires in June, is currently worth €5.37 which means that if the share price rises above €70 we will make an annualised 25% and if it stays where it is, we will make 17.6%. We remain happy to be exposed to this solid company.

Skyworks Solutions, + 23.98 bps

This is another end of the world story that was completely dismissed by the Company’s results and outlook. Skyworks is a significant supplier to Apple and consequently, with the slowing down of iPhone sales, the market had feared the worst. They were wrong and a solid set of results and healthy outlook saw the shares rise 11% following the earnings announcement. Despite this rise, which was greater than we expected, we still have more upside potential for this holding having written the January $85 call against the current share price of $81.66. This option means that our annualised yield on Skyworks rises from the 1.79% dividend yield to a much healthier 10% per annum. Even if we don’t enjoy the capital appreciation, that is a very healthy running yield which keeps us invested.

Lloyds Banking Group, + 19.79 bps

Lloyds is the first of two UK banking stocks in our top movers despite only being an underweight position in the portfolio. Again, the realisation that the end of the world wasn't happening (in this case, the chances of a hard Brexit diminishing) combined with better than expected results saw the shares rise 9.7% on the month. We took advantage of that rise to sell a call option at 68p (against the current market price of 63p) which increases our yield from an already acceptable 5% to over 8.7% annualised. We believe that the resolution of the Brexit difficulties, whenever that finally occurs, will see a further re-rating of the stock which would see us realise further capital gains. If we see it rise over 68p, that will give a total return for the year close to 40%.

Top 5 Countries	
United States	60.60%
United Kingdom	18.54%
France	3.37%
Bermuda	2.49%
Canada	2.41%

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

£48.5m

Min Subscription

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

February 2019

Lockheed Martin, + 19.19 bps

Lockheed Martin is the first of our holdings to appear in each of the first two top movers of 2019 as it continued its solid recovery in February. We invest in Lockheed Martin because the underlying company, if not the share price, is relatively predictable and less cyclically exposed than many companies but of late the share price has not shown such stability. We are relatively relaxed as the underlying business remains robust and while the P/E ratio which the market is willing to pay for those earnings changes, so long as the business remains solid, we will remain invested. We have written a January $330 call which increases our yield from the 2.7% dividend yield to a running yield of 7.2% per annum as well as giving us a potential 6.7% capital appreciation from current levels.

Invesco, + 18.90 bps

Invesco and indeed all asset managers came under the cosh in 2018 with the P/E ratio falling from almost 16x earnings at the beginning of 2018 to almost 6x earnings in December. Whilst the outlook for these companies undoubtedly deteriorated during the year, that sort of decline was pricing in a doomsday scenario which we simply did not believe. The recovery in equity markets has seen that ratio recover to 8.3 x earnings which has generated this profit this month. Invesco have done a good job at reducing costs which has meant that although AUM has fallen, profits continue to rise and although at some point AUM will need to start rising again to ensure that rise in profitability can continue, the low rating on which these shares are trading gives us plenty of confidence that there is further upside from here. This is reflected in the fact that Invesco is the only holding on which we have not written calls.

Barclays PLC, + 16.82 bps

Like Lloyds, Barclays has been a beneficiary of a stronger Pound and the removal of a modicum of uncertainty around the direction of Brexit. Also like Lloyds, they produced quarterly earnings which whilst less impressive than Lloyds, were better than expected and did include the promise to return additional capital to shareholders. Indeed, with increased bonus pool revisions and share buybacks on the agenda, it would be easy to believe that the banking system had returned to robust health and that the good old days were back. They are not. Banking is a very different business to that of before 2008 but it is a business with much better safety margins and as such, we find it a much better investment.

Goodyear Tire, - 17.87%

After the pleasure last month of not having a single losing stock, we return to normal service this month reporting on our largest loser in the portfolio which this month was Goodyear Tire. Goodyear severely disappointed us and the market with quarterly earnings which were significantly below market expectations, missing on both earnings and revenues. The market responded by punishing the Goodyear share price marking it down 9% on the day. Some of Goodyear's issues stem from trade tensions with China being a particularly bleak spot but fundamentally the Company is in a tough spot. However, the market has largely priced in these concerns and the stock now trades at a level at which we believe there is significantly more upside than downside. As such, we have taken delivery of the stock, written a deep out of the money call and are happy to be patient. While we do so, we are enjoying a 7% running yield and have the potential for a 16% capital appreciation.

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
£48.5m

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