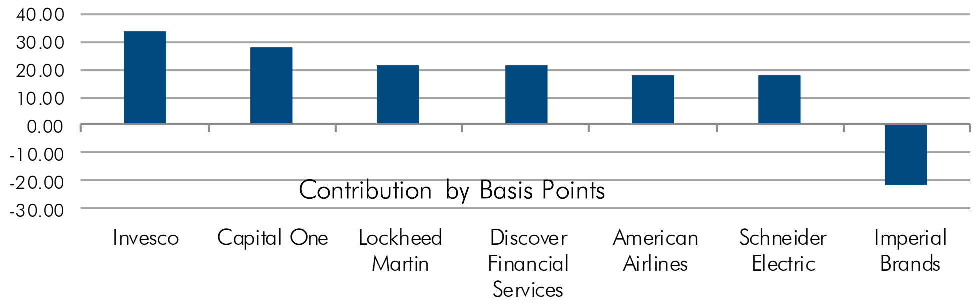
April 2019

Orchard Fund Top Movers



Invesco, + 33.68 bps

The move in Invesco this year which has seen the share price rise 15% in the first quarter hasn't been a consequence of any major news but more a realisation that things are simply not as bad as the market feared. Invesco is in a tough market with significant price pressure but strong management has so far managed to cut costs at a similar rate to declines in income. The market didn't recognise this and during the December lows, the stock traded on a P/E multiple of 6.3x earnings, a ridiculous multiple for a Company which is expected to grow its earnings by over 9% during the next twelve months. With a 5.5% dividend yield supporting us, we believe that there is significantly greater upside ahead and remain happily long this holding. We have written a January $25 call on part of the position to take the holding yield closer to 8%.

Capital One Financial , + 28.49 bps

Capital One Financial Limited is one of two credit card and banking holdings in our top movers as good quarterly earnings highlight the robust fundamentals of the business. The move from cash to electronic payment systems inexorable and we don't expect any material slowdown soon. Capital One is one of the smaller players in the market but with an increasing global footprint, it is increasing its critical mass. Most Capital One cards are white labelled for other distributors which is why the brand isn't well known other than recently being sued by Donald Trump to stop them disclosing his banking arrangements with them. Thankfully there is no question of wrong doing in the case, at least by Capital One.

Lockheed Martin, + 21.56 bps

We invested in Lockheed Martin because it is reliable, consistent and rather dull, which is why the sell off in the fourth quarter took everyone by surprise. Lockheed Martin enjoys exceptionally long term contracts and has fantastic visibility in its order book which means that it is relatively easy to look at the Company's future prospects. As such, we always believed that the cream would rise to the top and Lockheed has continued its year long rally this month rising close to our strike price at $330. Despite enjoying much of the capital appreciation that we built into writing that call, the stock is still an attractive hold as a combination of a 2.5% dividend yield and an 8% annualised option yield means that if the share price stays above $330 till our expiry in January, we will return an annualised 10% on this holding.

Top 5 Countries	
United States	71.73%
United Kingdom	13.25%
Bermuda	3.02%
France	2.87%
Canada	2.78%

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

£46.7m

Min Subscription

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

MitonOptimal

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Discover Financial Services, + 21.48 bps

The story of Discover Financial Services very much echoes that of Capital One without the involvement of the 45th President of the USA. The management at Discover have done a solid job of both increasing revenue and controlling costs despite the pressure on Net Interest Margin, which all financial companies have suffered. This work combined with share buybacks has seen a steady increase in earnings per share, which continues to support the Company's valuation. Despite solid earnings growth the stock trades on an undemanding P/E multiple of just 10 which is expected to fall to 9.25% by the end of the year. Good earnings growth combined with a low P/E multiple continues to make this an attractive holding for the Fund and we remain happily invested with a good margin of safety if circumstances change.

American Airlines, + 18.24 bps

American Airlines has suffered as a result of the Boeing 737 Max being grounded, which had seen their share price come under pressure but this month the share price soared again after quarterly earnings beat expectations primarily on reduced fuel costs. Encouragingly, an important valuation metric, "total revenue per available seat mile" TRASM, rose for the 10th successive quarter indicating that earnings growth is emanating from top line growth led by income growth rather than just cost cutting. The effect of the grounding of the 737 Max will continue to impact earnings until at least August with American cancelling around 115 flights a day, but despite this, the outlook remains robust and we remain happily long of the stock.

Schneider Electric, + 18.06 bps

This was another holding which sold off much further than we considered possible but has rebounded just as rapidly as sanity returns to the market. That sanity was endorsed when the Company released quarterly earnings which belied the volatility of the share price. Revenue grew 9% to €6.3 billion significantly ahead of expectations. The company, which makes products ranging from electrical car chargers and lighting controls to transformers and software reiterated its 2019 forecast. We remain happy to buy the stock if it falls back to €70, and are enjoying an annualised yield of above 10% while we are being patient.

Imperial Brands PLC, - 21.84 bps

Imperial Brands, whatever your moral stance on their offering, is normally an exceptionally solid company with relatively consistent earnings growth. Despite the stable fundamentals of the underlying business, the share price action is more closely correlated to news stories rather than fundamentals and this month that included the proposal to increase the minimum age for buying cigarettes in the US to 21 alongside alcohol and the fact that the volume of cigarettes sold in the US fell 8.8% in the four weeks to the 23rd March. Cigarette volumes have been falling for a while in developed countries but growth in other markets combined with growing margins have mitigated the effect on the bottom line. The healthy 8% dividend yield, which is fully covered, makes holding this stock relatively easy but we continue to watch the fundamentals.

Fund Facts

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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	£46.7m
Min Subscription	50,000 for individuals, 10,000 for platforms and designated bodies