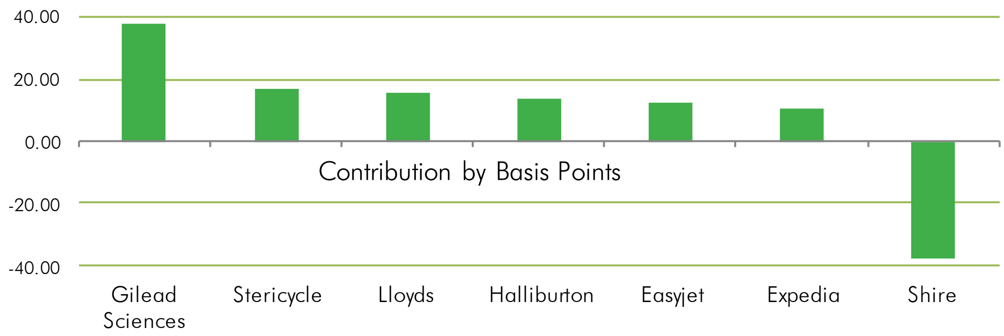
Orchard Wealth Management

January 2018

Top Movers



Gilead, + 37.68 bps

Gilead has been a core holding in the portfolio for many years and has appeared in this report, too often on the negative side, on many occasions, despite that we kept faith. Normally we are able to do so because of a solid dividend yield but in the case of Gilead it was because of solid fundamentals and a high level of volatility which allows us to generate significant returns from option writing. Those fundamentals reasserted themselves in January despite their being no single news item to change investor mentality. For a long time investors have worried that Gilead's exceptionally successful Hepatitis-C treatment will lose momentum and basically, that material erosion has failed to happen. Even after rising 16% in the month, the shares trade on a modest 9 times earnings and the company has net cash on its balance sheet despite the recent purchase of Kite Pharmaceutical. We remain happy holders.

Stericycle, + 17.15 bps

Waste management is not a great dinner table conversation but this month in particular, it has been a very lucrative investment. Stericycle rose 10% on the month as like Gilead, it benefitted from the Tax Reform passed in the US. However, that is only part of the story. Tax reform is a one off hit but in the case of Stericycle, the fundamentals of the business seem to have turned more positive with both quantity and pricing edging in the right direction. One of the criteria we use at Orchard is the concept of an economic moat which in simple terms measures how easily a competitor can steal your business. For Stericycle, that is not easy given the capacity constraints for dealing with certain medical wastes and whilst there will be ups and downs in the earnings cycles, that lack of capacity gives a good underpinning to future earnings. It is likely to be volatile but worth holding.

Lloyds Banking Group, + 15.84 bps

Sometimes even we are surprised by the entrants into the top six and Lloyds certainly surprised us this month. We regard Lloyds as a good long term rebuilding story which was unlikely to make any significant moves in the short term. As such, we were long the stock but wrote the 71p call to enhance yield. For most of its life that call looked a safe bet until a run up in the Lloyds share price in the week before expiry, saw the stock called away. We were fine with that as we had established a price at which we were willing to sell and as such were comfortable to lose the stock. We will be patient and await a setback to invest again, when the value is right and the odds are better placed that we will be successful. Patience is a severely under-rated virtue in investing, and patient we must be.

Top 5 Countries	
United States	65.52%
United Kingdom	26.01%
Jersey	2.98%
France	2.21%
Bermuda	1.45%

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

Fund AUM
£68.7m

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

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

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Halliburton, + 13.54 bps

Halliburton was once again a beneficially of a rising oil price as higher crude oil has been reflected in significantly enhanced refining margins. Since the beginning of January Hallibuton has risen almost 40% and whilst it has now come off the top, this was more than we had expected. As such we had written the June $50 call, for $2, which not only allowed us to receive Halliburtons dividend yield but enhances that yield by an annualised 8%. If we are called away at $50, we will await another opportunity to buy this quality stock at a reasonable price. Everything is worth buying at some price but when you buy quality companies it means that you can buy with a much greater level of confidence.

Easyjet, + 12.35 bps

Easyjet is a wonderful example of why patience is a virtue in investing. We bought Easyjet just before the Brexit vote and subsequent collapse in the value of the Pound which saw the easyjet share price fall below £9 having previously been above £19 a share. We understood the concerns at the time but also understood what a remarkable brand Easyjet have developed and their strength, particularly when compared to some of their European peers. Over the last eighteen months, our confidence has been repaid as Easyjet reported a variety of solid numbers and benefitted from higher fares as weaker competitors fall out of the market. The recent strength in Sterling has reduced their oil costs and given the stock another boost to provide it with another entry in our top movers report.

Expedia, + 10.45 bps

Expedia, you may recall was one of our largest fallers in November when the company missed the markets expectations for their third quarter earnings. Although we were disappointed by the quarters miss and the subsequent share price action, we do not invest for a quarter but for the longer term and in reviewing the Company, we found that our thesis remained sound and that we were happy to be patient holders, indeed, taking the advantage to make further commitments to buy at the lower levels. As the frenzy around the quarterly earnings subside, the stock has gravitated higher to return 10bps during the month. Approaching the February earnings release it is now well placed to move higher if we see a more stable quarters earnings.

Shire Pharmaceuticals, - 37.57 bps

Shire is a conundrum to us, and apparently most of the investment community. It trades on an exceptionally low forward P/E of 9, generates £3bn of free cash flow each year, grows its earnings each year and has an average analyst price target over the next twelve months of over £50, some 60% above the current market price, yet despite this, the share price keeps falling. Undoubtedly, the rhetoric of Donald Trump is putting pressure on the whole biotech sector but Shire seems to be suffering worse than most. This month they reduced their 2020 guidance of $20bn in sales, which had always seemed optimistic, and was the catalyst for the latest round of selling. We believe when something is trading on a P/E of 9 we don't need double digit growth rates to justify maintaining our position.

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