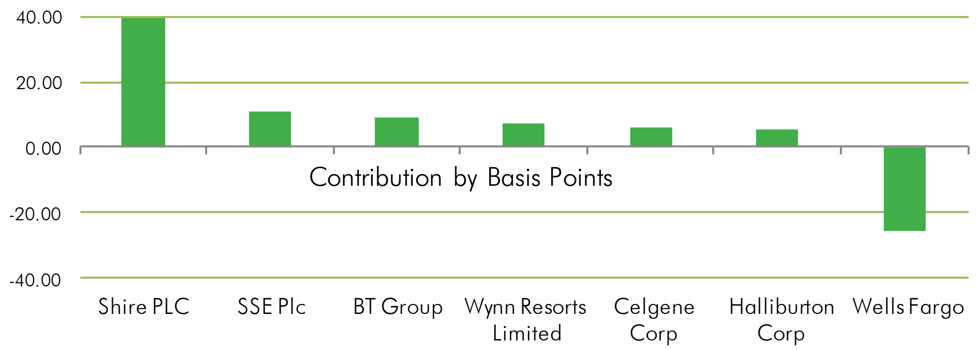
Orchard Wealth Management

March 2018

Top Movers



Shire PLC, +39.87 bps

It is always gratifying when others recognise the inherent value in a stock that you have believed in. This month, a report of a potential bid for Shire from Japanese pharmaceutical manufacturer, Takeda Pharmaceutical Co Limited saw the Shire share price rally almost 15% in the month. Although we were not surprised by this bid as we believe that Shire had become excessively cheap, we are not convinced that the deal will complete. However, the approach has moved Shire into play and the Company, along with its core rare disease division will now be reviewed by other parties to see where the value lies. Analysts believe that both Novartis and Pfizer would benefit from adding Shire to their stables and with indications that Shire would be receptive to a bid valuing the Company at in excess of $50bn, which would suggest the potential for a further 20% upside from the current share price.

SSE PLC, + 11.26 bps

Political concerns will always dog the utility companies in the UK as both sides of the political spectrum seem to have them in their sights, but the strong underlying fundamentals continue to provide support and for this month at least, the bulls won the day. SSE is one of the biggest dividend yielders in our portfolio with a 7.3% yield. The fact that we are able to enhance that with a further annualised 6% yield by writing the £13.00 call means that we enjoy a double digit annualised yield whilst we hold this stock. Utilities are not exciting and in a rising rate environment, it may seem that they are a strange sector to invest in, but everything has its price and with a running yield in excess of 10%, SSE is a very welcome part of our portfolio. The next dividend is due in July so we have written the June £13.00 call against a current market price of £12.60.

BT Group, + 9.15 bps

BT Group has been a tough stock to hold as weakness in both its underlying business and concerns around its pension obligations have weighed heavily on the stock. However, we believed that we had bought into the stock at a reasonable price and at current levels we believe that there is real value in the stock. During the month, the Company finally agreed terms with the Unions to close the defined benefit pension scheme which had been weighing heavily on the stock. Although the agreement was far from cheap, the removal of the uncertainty allows investors to re-evaluate the underlying business rather than concentrating on the pension liabilities and with that new perspective, the share price has started to enjoy better support. The focus on the underlying company will be harsh and management will need to deliver results if they are to survive some disgruntled shareholder complaints.

Top 5 Countries	
United States	64.38%
United Kingdom	19.98%
Jersey	3.39%
Bermuda	2.80%
France	2.57%

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

£63.9m

Min Subscription

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

Wynn Resorts, + 7.02 bps

Periodically, the market sees ghosts that aren't really there and projects past price action well into the future. The shares of Wynn Resorts fell very sharply after the Founder, Steve Wynn, was accused of multiple instances of sexual assault. With the share price close to $170, we agreed to buy the stock at $150 if it fell that far. For a June commitment we were paid $7.60 or over 5% for just 4 months or an annualised 15%. Since then the underlying Company continues to perform well and Steve Wynn has sold his 12.1 million shares valued at over $2billion. With Macau revenues rising and the regulatory risk diminishing now that Steve Wynn is no longer involved with the Company, the outlook is attractive with many analysts raising their price targets.

Celgene Corp, + 5.78 bps

It is rare that announcing you are spending $150 million of a new collaboration is greeted by the market as good news but Celgene's tie up with Prothena Corporation was the catalyst for a end of month rally which saw the stock close the month 2% higher and allowed the Orchard strategy to return almost 6bps of return. The issue for Celgene at the moment is to start to monetise the huge potential in their drug pipeline and this collaboration aimed at novel therapies in the neuroscience and orphan categories may be part of that solution. As we have seen with Shire, there is inherent value in some of the biopharmaceutical companies and on an undemanding forward P/E of 10, Celgene offers significant upside. We are currently long of the stock and have not yet written any calls given the current upside.

Halliburton Corp, + 5.54 bps

Halliburton continues to benefit from the shale play as it increased capacity by 700,000 horsepower as US drillers pump more crude from shale plays. Halliburton is the world's largest fracking company with almost 4m horsepower of high-pressure pumping fleets. Analysts believe that continued high demand for fracking pumps could see spot prices increase between 10% and 25% in the second quarter which would enhance an already profitable and cash generative quarter. After falling down to $40, oil has stabilised in the $60 range, a level at which multiple fracking operations remain profitable and generate satisfactory margins. Having taken a decision in 2017 to bring a lot of its idle equipment back into service, Halliburton looks well set to enjoy a lucrative 2018.

Wells Fargo, - 25.93 bps

We are very careful about investing in banks given the complexity of their balance sheets but we thought that we had found a degree of safety in Wells Fargo. Clearly we were either wrong or our timing was out. One of the factors which has been over-hanging the Wells Fargo stock and has seen it trade at a significant discount to the sector is the investigation into its retail banking sales practices. Whilst well documented, these rumours returned to the surface when it was alleged that this investigation had now spread to its wealth management division. Although these rumours have been firmly denied by Wells Fargo who explained that the interviews were part of the work of Shearman and Stirling who are undertaking an independent review on behalf of the bank, these rumours once again brought to the fore the underlying investigation.

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Dividend Policy
Distribution

Dealing Days
Daily

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