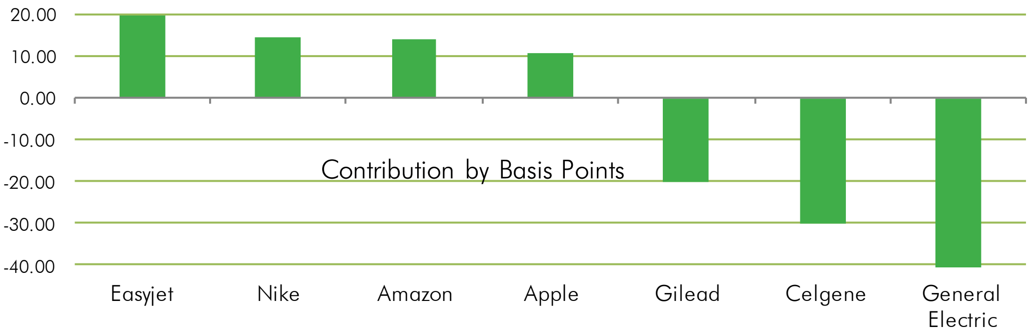
Orchard Wealth Management

October 2017

Top Movers



General Electric, – 43.18 bps

If there was a degree of surprise at the reaction of some shares to their earnings announcements, that was most definitely not the case for GE. The earnings were exceptionally disappointing and the stock opened 10% down. What was more surprising was that it then rallied to close the day up 1% before then falling over the next week to finish the month at a 5 year closing low. In addition to poor results, the market is now concerned that the Company will have to cut its dividend which is generally a negative for the firm. Those are the reasons to get out of the stock and they are significant, however, they are known. A dividend cut, normally a negative for a stock may well see the share price rise and even using negative assumptions, the current price move looks excessive. We are not looking for a big bounce but there will be significantly better opportunities to exit this stock.

Celgene, – 30.12 bps

Celgene has had the month from hell. The first blow was the decision to halt a final stage trial of a drug for Crohn's disease which was expected to become a blockbuster, that brought the share price down from $145 towards our strike of $115. However, this was soon followed by disappointing 3Q earnings and a downward revision of the outlook for future years. A 5% downward revision resulted in the stock falling almost 20% to a low below $95. Now we are not by nature excessively optimistic and recognise that any earnings miss will be punished by the market but that move looks excessive in the extreme. The Company is still enjoying double digit top line growth which given the nature of the business translated into 77% growth in EPS last year and a projected 85% growth this year. The stock trades on a forward P/E of 13.73 which even taking into account slowing growth looks undemanding.

Gilead Sciences, - 20.42 bps

For our first two fallers, the reason for the decline was clear. With Gilead, it is harder to reconcile, after reporting estimate beating 3Q earnings during which they raised the low end of their guidance for the year, the shares fell further. This was because although the earnings beat expectations by 5%, sales of their largest drug fell in the quarter and the market chose to concentrate on that aspect of the results rather than any positive aspects. In a month when so many biotech companies disappointed there will inevitably be some negative overhang but the completion of the Kite takeover and almost immediate approval of the Yescarta drug which is the first CART-T drug approved for the treatment of large B-cell lymphoma bode well for the future. The Company has net cash on the balance sheet and grew that cash by a further $5bn during the quarter.

Top 5 Countries	
United States	51.53%
United Kingdom	19.93%
France	4.11%
Jersey	3.23%
Germany	2.09%

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

£69.7m

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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Easyjet, +19.58 bps

Easyjet is a timely reminder of why we continue to hold onto stocks despite adverse market moves. Following the decision of the UK to vote for Brexit, the share price of Easyjet fell to £8.63. The markets presumed that the Company was in serious trouble and would struggle in the future, however our analysis did not support that view and we have been vindicated. At the end of the month the share price stood at £13.39 up 55% from those lows with more upside ahead. In addition, during the year we have yielded a healthy 5% dividend as well as a further 3% from writing call options. The company is sound and is benefitting from the decline of some of its peers, which has not only allowed Easyjet to buy planes and slots but has reduced price pressure on fares which will lead to greater profitability in the future.

Nike, +14.66 bps

Another stock where patience is proving to be a virtue. Whilst the risks associated with any retail product are well known and clearly outlined by Under Armour which has fallen 60% so far this year, Nike remains a stand out within the class. Under Armour posed a threat to Nike and that combined with the Amazon effect, which makes it harder for premium brands to retain their premium pricing, had driven the Nike share price lower but decent sales along with a solid offering for the new season have seen the shares recover nicely. A solid investor day which saw new initiatives launched could see Nike regain its previous lustre and move significantly higher. With the shares marginally above 55% we have written a $60 call for January.

Amazon, +13.94 bps

The FANG trade continues undiminished as stellar earnings saw the Amazon share price rise 13%, the day following their release. Amazon is a very hard stock for us to be involved with, given its exceptionally high P/E of 279, it is very difficult to find an entry level at which we would feel comfortable buying the stock. In this case, we felt comfortable buying the stock at $915 against a current market price of $1102. It means that when the share price rises we make a profit but not as much as a long only investor, whilst at the same time, when there is a set back, and be assured, at some point there will be a set back, we will not lose a significant amount of money. Amazon is an amazing business which is dominating the internet retail space. However, we would rather buy a good company at a good price rather than a great company at an excessive price as you can very quickly find it returns to a good price.

Apple +10.90 bps

Apple may be our longest continuous holding having held it for over 6 years and it still adds value. However, trees, not even Apple trees, don't grow to the sky and at some point everything gets expensive. With Apple it is not clear when that will be as they add such remarkable value to their balance sheet each year that they rarely become truly expensive. However, we have written a $160 call on Apple and with the share price currently above that, it looks like we may be finally called away. If we are, we will reassess the stock, as it remains an exceptional company with an almost sect like loyalty from its followers. The first £1000 iphone will test that loyalty further but I suspect that will not sway the die hard fans.

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