GAM Star Fund Plc - GAM Star Continental European Equity

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Performance

The GAM Star Continental European Equity fund (EUR, institutional share class) fell in value by -0.14% versus a rise in value of +0.57% for the MSCI Europe ex-UK Net Index, representing an underperformance of -71 basis points (bps) in July. Year-to-date the fund is up by 12.12% versus an increase of 9.35% for the index, representing an outperformance of +277 bps.

Positive attribution (greater than +20 bps) for July included FinecoBank, CaixaBank, Prysmian, UniCredit, CRH, Saint Gobain and Kingspan while negative attributors (less than -20 bps) included STMicroelectronics, BE Semiconductor, Ryanair and Novo Nordisk.

Market conditions

European equity markets – in July, at least – were less rotational and volatile than US equity markets with the significant small/large cap divergence absent in European markets. The market overall was up (MSCI Europe ex-UK+0.57%) and the fund marginally underperformed. One area of 'rotational commonality' with the US market was in semiconductor / semi-capex stocks, with ASML, ASM International, BE Semiconductor and STMicroelectronics all down significantly; in the case of BE Semiconductor and STM Micro this was partly justified by poor Q2 earnings, but the earnings released from ASML and ASM International were in-line / good and do not explain the underperformance. We have a strong positive fundamental view on the operating prospects for these companies over the next few years but have struggled with valuations for the past few months and reduced position sizes materially to reflect the lower risk/reward. The sharp pull-back in the prices of these stocks from mid-July through early August has improved the risk/reward and we have increased position sizes as a result. The 'headline' multiples of these stocks are still high at 23-25x for ASML and ASM International but that needs to be balanced against strong double-digit revenue and earnings growth (especially for ASM International).

The largest contribution to underperformance, accounting for more than 100% of the underperformance, was another rotational impact with a very significant intra-sector dispersion within healthcare, with Novo Nordisk underperforming and many other pharma and non-pharma healthcare stocks 'catching a bid', with stocks such as Roche, Lonza, Sandoz and Fresenius seeing large price appreciation and more modest outperformance from Novartis. As this is the exact opposite of how we are positioned there was an outsized monthly negative attribution from that sector. Our view on large cap pharma has been that, excluding Novo Nordisk and AstraZeneca, these stocks are largely uninteresting – neither cheap, nor expensive but not growing much – while we still find much of non-pharma healthcare to be overvalued in view of the growth on offer.

The early part of the Q2 earnings season was broadly positive to in-line, with continued strong beats from banks, select industrials and energy and quite some weakness in consumer stocks such as spirits, food and beverage, and the low/mid end of luxury. In terms of extracting trends, probably the single biggest change to emerge from the results was a slight, but perceptible weakening of the US consumer in the results of European consumer staples and luxury; the extent of this slowdown should not be exaggerated and it is also in conflict with the broader consumer / survey data in the US and may reflect numerous factors such as the lagged impact of very significant goods price inflation, cumulative impact of interest rate rises on durable goods etc, but we will keep monitoring this. As we are deeply underweight consumer sectors we are not heavily exposed to this trend. China remains weak across the board in the results of European companies, and we are not seeing consumer weakness, or a negative trend change in Europe. Elsewhere, banks continued to outperform based on strong Q2 earnings prints and raised guidance and, in our view, remain exceptionally cheap with strong cash returns. Single stocks worth

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noting was the continued strong performance of Prysmian on excitement over electrification and grid investment, another excellent set of results from Saint Gobain and a poor release from Ryanair indicating lower summer air fares than anticipated by the company previously. We are slightly perplexed by the air fare weakness in Ryanair as it is not evident at other airlines and the broader results across the market indicate consumer robustness; this could be Ryanair-specific given changes the company has made this year to Online Travel Agents (OTA) bookings and its relationships with OTAs in general.

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4369 09/08/2024