## GAM Star Fund Plc - GAM Star Continental European Equity

Marketing material for professional / institutional / accredited investors only

## **Performance**

The GAM Star Continental European Equity fund (EUR, institutional share class) fell in value by -1.07% versus a fall of -0.40% for the MSCI Europe ex-UK Net Index, representing an underperformance of -67 basis points (bps) in September.

Year-to-date the fund is up by 12.24% versus an increase of 10.86% for the index, representing an outperformance of +138 bps.

Positive attribution (greater than +20 bps) for September included Inditex and Kingspan while negative attributors (less than -20 bps) included AstraZeneca, Novo Nordisk and Shell.

## **Market conditions**

September was another volatile macro/factor-driven market, book-ended at both ends by significant moves, down then up, with a roughly flat overall outcome. The tug of war between the deflation versus inflation narrative continues in the US and Europe, while a large(ish) monetary and fiscal intervention in China ignited Chinese equities and those European equities most exposed to China.

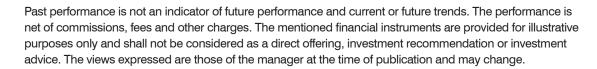
Recent data in Europe confirms continued economic weakness in Germany and France, but with more robustness on the periphery, especially Spain and Ireland, while inflation prints have been universally lower than expected. This has led to decline in bond yields and a reasonably significant drop in market implied interest rates, with the terminal 'dot' now below 2%, perhaps driven by policymaker comments in addition to those weak inflation prints. This led to share price weakness in those banks perceived to be the most interest rate-sensitive (Ireland and Spain). For a number of reasons, we are fairly sceptical about all of this - in our view inflation will remain volatile, hence it will likely go down as well as up as we progress through time. But there are far more inflationary forces present in modern economies than in the earlier part of this century, as we have discussed at great length over the last three years, namely:

the end of deleveraging, tighter energy markets, the enormous costs of the energy transition, bottlenecks (everywhere) in energy transition industries, ageing demographics / tight labour markets, strategic onshoring / global decoupling and geopolitical conflict (wars are inflationary). While we think it likely that recent inflation undershoots may bring front-end rates down more quickly than anticipated before the summer, the presence of structural inflationary forces will keep interest rate 'cycles' going. Taking this view one step further, we are also sceptical that this will lead to serious income damage for the banks we own - what caused serious net interest margin damage in the period from 2008-2021 was interest rates falling to zero (and below), and staying there for a long time. Banks hedge interest rate risk (they have been doing this in various forms for hundreds of years) and net interest margins, for most banks are less directionally exposed to interest rate movements than is commonly assumed; bank stock prices also remain very fundamentally undervalued. What would cause us to change our view on banks? It would have to be a view that rates would likely fall significantly below 1-1.5% and stay there for several years.

We have less to say about China macro developments, as there are others in a far better position than us to comment, but one of our team spent 10 days in China meeting luxury companies and industry contacts and came back incrementally more cautious. Luxury is a sector we continue to likely strategically, for the long-term, but have been tactically more cautious over the last 15 months, and remain so for the short/intermediate period. We are not tempted to buy luxury stocks following the 'reflexive' bounce following the China macro news.



Niall Gallagher Investment Director of GAM Star Continental European Equity





## Important legal information

**Currency Risk - Non Base Currency Share Class:** non-base currency share classes may or may not be hedged to the base currency of the Fund. Changes in exchange rates will have an impact on the value of shares in the Fund which are not demoninated in the base currency. Where hedging strategies are employed, they may not be fully effective.

Equity: investments in equities (directly or indirectly via derivatives) may be subject to significant fluctuations in value.

Capital at Risk: All financial investments involve an element of risk. Therefore, the value of the investment and the income from it will vary and the initial investment amount cannot be guaranteed.

**Concentration Risk:** Concentration in a limited number of securities and industry sectors may result in more volatility than investing in broadly diversified funds.

**Counterparty** / **Derivatives Risk**: If a counterparty to a financial derivative contract were to default, the value of the contract, the cost to replace it and any cash or securities held by the counterparty to facilitate it, may be lost.

**ESG-Focused Investing Risk**: Subject to the risk that adherence to the Sustainability Exclusion Criteria detailed in the Appendix to the Supplement may result in the exclusion of securities of certain issuers for reasons other than investment performance considerations. As a result, the Fund may underperform other funds that do not utilise sustainability exclusions. Successful application of the Fund's Sustainability Exclusion Criteria will depend on data from third party sources and there can be no assurance that the strategy or techniques employed will be successful.

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https://www.gam.com/en/corporate-responsibility/responsible-investing https://www.gam.com/en/policies-and-disclosures#sfdr

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The strategy described in this document may be intended to have an ESG-related impact. Any impact will be calculated based on sustainability-related data, and will be subject to the data limitations outlined above. Any ESG-related impact may not be as expected and there is no assurance that any ESG-related impact will be achieved.

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