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) rose in value by +5.52% versus a gain of +6.97% for the MSCI Europe ex-UK Net Index, representing an underperformance of -145 bps in January.

The main negative attributors for January included Kingspan (on concern that tariffs on raw materials could drive up costs for the construction materials firm), STMicroelectronics and BE Semiconductor (in both cases, this reflected concerns over the effect of tariffs and unease that the emergence DeepSeek could weigh on semiconductor demand).

The main positive attributors included BBVA (which announced a 25% jump in net profits in 2024), Volvo (which reported good fourth quarter and full-year 2024 results) and Deutsche Telekom (as a large share buyback programme bolstered already-positive investor sentiment).

Market conditions

European equities began 2025 on strong note, outperforming other regions. January marked a clear shift from the trends of the past two years, with European equities outpacing their US peers, and value stocks outpacing their growth counterparts. The return of President Trump to the White House, along with his “America First” policy agenda, provided a boost to US equities. However, with the spotlight falling on Chinese AI company DeepSeek and its low-cost, open-source AI model, doubts over the potential impact on the earnings growth prospects for more familiar AI-related names, such as Nvidia, Microsoft and Google, triggered a short-lived selloff across the US tech sector.

The MSCI Europe ex-UK Index’s near 7% surge reflected a combination of multiple factors, including a migration from expensive US tech stocks and some better-than-expected eurozone economic data, albeit from a low base. After eurozone Q4 2024 data confirmed that the economy had stagnated at the end of the year, the European Central Bank cut the deposit rate by 25 basis points to 2.75%, as expected, However, the eurozone composite Purchasing Managers’ Index (PMI) edged up to 50.2 in January, the first expansionary reading since August 2024, raising optimism over the prospect of further ‘green shoots’ into spring.

During the month we added a small position in LVMH, reflecting our view of a modest improvement in the outlook for luxury firms in 2025. In the final quarter of the year, LVMH surpassed investors’ expectations, mirroring the improved performance of Burberry and Richemont, the owner of Cartier, both of which also exceeded forecasts as 2024 came to a close.

Elsewhere, we topped up our holdings across several of our favoured financials, taking the view that valuations still did not adequately reflect the earnings growth outlook, adding to CaixaBank, BBVA, UniCredit and FinecoBank.

However, we trimmed our position in Novo Nordisk, as the company continues to be a drag on relative performance following a disappointing update on its phase 3 results for its CagriSema injectable drug. Elsewhere within healthcare, we trimmed exposure to Haleon but added to our weightings in AstraZeneca and Straumann.

Our main overweights in sector terms are IT (we favour names such as SAP, Infineon, STMicro), energy (key overweights are Shell and TotalEnergies) and materials (via Linde, and CRH). Our main underweights at the sector level are consumer discretionary (avoiding Richmont and Hermes but overweight in Inditex and now closer to neutral in LMVH), utilities (no exposure) and consumer staples (zero weightings in Nestle and Danone, partly offset by overweights in L’Oreal and Beiersdorf).

Europe as a stock market region is a continent compromised of over thirty countries with active stock markets, and we continue to witness some strong differential economic performances across the continent, with some countries, such as Spain, Ireland and Poland, enjoying growth comparable to that of the US, far outpacing sluggish economic activity in the UK, Germany and France. We therefore maintain our view that

GAM Investments

European equities as an asset class offer outstanding idiosyncratic opportunities and valuable diversification from historically expensive US equities. Our focus remains on stock selection to maintain a high-conviction portfolio featuring many of what we see as Europe's winners on the global stage, continuing to invest in what we regard as the most compelling prospects at the most appropriate valuations.

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The MSCI Europe ex UK Index captures large and mid cap representation across 14 Developed Markets (DM) countries in Europe. With circa 335 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.

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