GAM Star Fund Plc - GAM Star European Equity

Marketing material for professional / institutional / accredited investors only

Performance

The GAM Star European Equity fund (EUR, Inst) fell in value by -2.03% vs. a fall of -1.56% for the MSCI Europe, net index representing an underperformance of -47bps. Year-to-date Star Europe is up by 11.42% vs 8.83% for the index representing an outperformance of +260bps.

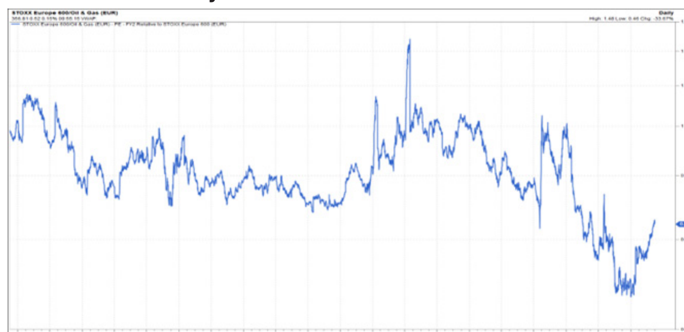
Positive attribution (greater than +20bps) included Equinor, Atlas Copco and Shell whilst negative attributors (less than -20bps) included Zalando, Ashtead, Pernod Ricard, Kingspan, BE Semiconductor and FinecoBank. The Energy sector added 67bps to relative performance in September.

Market conditions

European equity markets continued to trade down in September based on numerous adverse macro factors [this was a non- reporting month so little stock- specific news to drive share prices] such as souring economic expectations for Europe and China, rising oil prices and some very significant 'break- outs' in nominal and real bond yields (see below). The MSCI Europe index was down by -1.6% in Euro terms – and the Euro was down against the US Dollar – but this slight decline masked some very significant sector and factor divergences under the surface of the market with the energy sector +7%, the IT -6% and the Consumer Discretionary sector -5.8%, reflecting the impact of higher energy prices, reduced demand expectations from China and the influence of higher bond yields on growth- equity valuations. The Luxury goods sector was particularly hit by these numerous factors and as a favoured sector we expect more to come.

Of note regarding our investment performance, the fund benefitted from a heavy overweight position to the energy sector – based on our non-consensual view that oil & gas prices are likely to remain higher than recent year levels for the foreseeable future and the higher realised oil & gas prices of the last few months. Despite the strong appreciation in energy share prices over year- to-date, one, two and three-year time periods (Shell is up by +217%, Equinor +204%, BP +186% and Total +158% in the three years to 29 September 2023) energy stocks remain cheap vs. history and relative to the market on 6-7x current year earnings and close to 15% equity free cash flow yields. Whilst we cannot identify a catalyst that will lead to a sector re-rating, we are content to sit on energy stocks providing an annual 13-15% total return through dividends and buybacks (at a constant valuation).

European oil & gas sector PE multiple relative to broader European market – still at a large discount vs. history Source: Factset



The breakout in (nominal) bond yields received much commentary, but we think the breakout in real bond yields is far more significant. Expectations of the path of future inflation levels differ – ours is that the balance of inflationary and deflationary forces has clearly tipped to inflationary – and this will determine a part of the path of future interest rates, but the rise in real interest rates is far more interesting. Our hypothesis and investment view for some time has been that the quantum of funding required for the 'energy transition to net zero' is far more significant than many economists, investors and commentators realise – being more akin in scope to a global version of the rebuilding of Europe after the second world war – and that investment of this magnitude will potentially be enough to tip the global balance of supply and demand of savings and investments, thereby pushing up real interest rates. The clearest example of this is in the US where government fiscal programmes like the Inflation Reduction Act, CHIPS Act and Infrastructure and Jobs Act are leading to gigantic fiscal deficits that are

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GAM Investments

sucking in the increasing amounts of the world's savings to finance US infrastructure spending, pushing up real bond yields on US Treasuries (TIPS). The fact that decarbonisation and the transition to net zero are a required global initiative will globalise this phenomenon; whether such investment is financed by governments through government spending / grants and debt issuance, or the private sector, the net effect will be the same on real interest rates with upward pressure. We think large parts of markets globally are yet to process this insight and this has very significant implications for the performance of various asset classes and sector performance within equity markets. Structurally higher bond yields (and real interest rates) are not good for long-duration, highly valued "quality growth" equities but should be very good for high free cash flow, lowly valued sectors such as banks and energy whilst select construction & industrial stocks will benefit from the investment spend to facilitate the transition to net zero.

US 10-year TIPS yield (real yields). Consider how much this has moved in the last 2 years and how low real yields were in the period 2008-2021 Source: Bloomberg

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

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A strategy with a high Portfolio ESG Rating implies that its investments are perceived to have a strong or improving management of financially relevant ESG risks and may be more resilient to disruptions from ESG events. However, the investments of a strategy with a high Portfolio ESG Rating may still create significant negative externalities on environmental or social factors such as pollution and poor labour practices. Further, a strategy with a high Portfolio ESG Rating does not necessarily achieve or seek any positive ESG or sustainability impact. There can be no assurance that the Portfolio ESG Rating correctly represents the strategy's exposure to financial loss because of ESG risks.

The strategy described in this document may invest in economic activities which are aligned with the EU Taxonomy. Alignment of investments with the EU Taxonomy is calculated by specific metrics (such as revenue or expenditure) and determined by data most recently disclosed or provided by investee companies or collected by third parties in relation to those economic activities. Such metrics are calculated and disclosed, provided, or collected as at a point in time for each investee company and are based on the activities of those investee companies which may vary over time or be impacted by external events. As a result, any taxonomy-alignment of the strategy will be indicative only and will not be a true reflection of the taxonomy-alignment of the strategy as at a point in time or over a particular reference period. The strategy may involve investment decisions based on the taxonomy alignment of an investment and the impact of such decisions may result in the strategy generating lower financial returns than if the taxonomy alignment were not considered.

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