GAM Star Fund plc – GAM Star Credit Opportunities (GBP)

Marketing material for professional / institutional / accredited investors

Macro backdrop

Subordinated debt markets were fairly strong in December, despite a large rise in interest rates on both sides of the pond. The tone was particularly strong in the first half of the month, as spreads briefly broke through 300 basis points (bps) on Additional Tier 1 (AT1) Contingent Convertible bonds (CoCos) before drifting wider, ending the month 23 bps tighter at 304 bps. Spreads were relatively immune to French political uncertainty and other geopolitical developments, despite President Macron losing a no confidence vote and a surprise downgrade of the French sovereign rating by Moody's. Central banks were again a key driver of sentiment, as the Federal Reserve and European Central Bank's (ECB) 25 bps rate cuts were delivered with a hawkish tone (or less dovish for the ECB), which, combined with concerns around stickier inflation in the US, led to rates moving materially higher. Curves steepened and 10-year government bond yields rose significantly in December, by +40 bps and +28 bps in the US and Germany respectively. Sentiment turned negative in the second half of the month, albeit the impact was muted as technicals remain highly supportive, on a combination of inflows in credit and low supply towards year-end.

Valuations and fundamentals

Regarding credit markets, spreads remain at the tighter end of historical values. This is notably the case for AT1 CoCos which are close to 300 bps above government bond rates. While this could be justified by fundamentals, we know credit markets tend to be cyclical. As such, we believe some caution is warranted. Moreover, extension risk, which looks at the percentage of AT1 CoCos priced to perpetuity or call, is currently around 10%. When market conditions are poor it tends to peak at 100% and when market conditions are very strong, like currently, this percentage tends to approach zero, indicating that valuations are at their tightest. As such, from a risk-return perspective, we believe there is currently more value in Tier 2 and senior bonds from financials.

Key news flow during the month was centred around M&A, which continues to be a positive theme for financial bonds. On the banks side, UniCredit surprised markets by announcing an all-share offer for Banco BPM (potentially creating the number two player in Italy) while raising its stake in Commerzbank to 28%. Both deals remain subject to considerable uncertainty – as both takeover approaches are hostile and political opposition (especially in Germany) is fierce. The theme of consolidation in the European banking sector remains credit positive, given the need to see the emergence pan-European champions and address fragmentation in the market. On the insurance side, Aviva's takeover of Direct Line led to strong performance of Direct Line Restricted Tier 1s, that were up circa 3% on the month, ending the year with a 26% total return.

In the insurance sector, EIOPA (the European insurance regulator) released the results of the 2024 stress test of European insurers. The results show that the sector would be resilient to an extreme adverse macro and market shock, as European insurers' aggregate Solvency II ratios would remain above minimum requirements, and all insurers would meet regulatory requirements after management actions. The average solvency ratio falls to 140% post management action from 222% (minimum of 100%), with an aggregate excess capital of close to EUR 130 billion in the stress scenario. This showcases the sector's very strong fundamentals and ability to withstand a very severe macro scenario.

Subordinated Debt

There were no new issues in December, in a seasonally quiet month. We expect supply to pick up in January as issuers take advantage of attractive funding conditions as spreads are towards historically tight levels. Issuance is expected to remain a positive technical with limited net supply as issuance is driven by refinancing of upcoming calls/maturities. Banks should remain active in managing upcoming maturities and calls by pre-financing calls/maturities early and engaging in friendly tenders.

Outlook

We remain positive going forward – with attractive yields against a backdrop of very strong credit quality. We continue to see financials as the most attractive part of the market, with rock-solid fundamentals and earnings that have benefitted from the normalisation of interest rates.

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For more information, please visit GAM.com

Important legal information:

Credit Risk / Debt Securities: Bonds may be subject to significant fluctuations in value. Bonds are subject to credit risk and interest rate risk.

Credit Risk / Non-Investment Grade: Non-investment grade securities, which will generally pay higher yields than more highly rated securities, will be subject to greater market and credit risk, affecting the performance of the Fund.

Interest Rate Risk: A rise or fall in interest rates causes fluctuations in the value of fixed income securities, which may result in a decline or an increase in the value of such investments.

Liquidity Risk: Some investments can be difficult to sell quickly which may affect the value of the Fund and, in extreme market conditions, its ability to meet redemption requests.

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

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.

ESG-focused investing risk: The Fund is 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.

Important legal information

The information in this document is given for information purposes only and does not qualify as investment advice or as meeting any particular financial objectives, risk profiles, sustainability preferences or sustainability-related objectives of the recipient. There is no assurance that any sustainability-related objectives, if applicable, will be achieved. Further information on GAM's approach to responsible investing can be found here:

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

The investment strategy described in this document may involve the selection, prevent the acquisition of or require the disposal of securities of certain issuers for reasons other than investment performance or other financial considerations. As a result, the strategy may underperform other strategies with a similar financial objective or policy that do not utilise an ESG-focused investment strategy and may suffer investment losses if it is required to dispose of a security as a result of non-financial considerations.

The investment strategy described in this document may be reliant on sustainability-related data. The quality, timeliness, completeness and availability of sustainability-related data may not be comparable with the general quality, timeliness, completeness and availability of more standardised and traditional financial data. The implementation of the investment strategy may be adversely impacted as a result and may result in losses (including loss of opportunity) as a result of investment decisions taken in reliance on sustainability-related data which may not be accurate, complete or timely or if decisions are taken which do not correctly assess the impact of such data. Estimates, proxies and subjective judgements may be used when assessing sustainability risk or applying an investment strategy which, if incorrect, may result in losses (including loss of opportunity).

The Co-Investment Manager may rely on third parties for inputs used in its investment decisions including data vendors and ESG ratings providers. The data and ratings provided by such third parties may be impacted by the quality, timeliness, completeness, and availability of sustainability related data available to them.

ESG ratings generally assess the impact of environmental, social and governance (ESG) factors on a company and/or a company's impact on the outside world and provide an opinion, expressed as a rating, of such impacts. ESG ratings may not capture all sustainability risks or impacts of a particular company. As different ESG ratings may rely on different data sources and calculation methodologies (including the weightings applied to ESG factors), the ratings applied to one company by a ratings provider may be different to the rating applied to the same company by another provider. The businesses of ESG ratings and ESG data providers are generally unregulated. ESG ratings may be provided by third parties that have an existing relationship with the companies that are being rated (and may have been engaged by that company to provide ESG ratings), which can create a conflict of interest for the ESG ratings provider. ESG ratings providers may also not make timely changes in a rating to reflect changes to the relevant company, sustainability risks or other external events. The investment strategy may suffer losses (including loss of opportunity) and its ESG performance may be different from that intended because of reliance on data or ratings which prove inaccurate, incomplete, or out of date or if the Co-Investment Manager does not correctly assess the impact of such data.

The Portfolio ESG Rating, where applicable, stated in respect of the strategy is derived from ratings provided by a third party in respect of the investments and is designed to help investors understand the resiliency of the portfolio to long-term ESG risk and opportunities.

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.

The strategy described in this document may include sustainable investments as defined in the EU's Sustainable Finance Disclosure Regulation (EU 2019/2088) ("SFDR"). A sustainable investment is an investment in an economic activity which contributes to an environmental or social objective, which does not significantly harm any environmental or social objective and where the investee company follows good governance practices. SFDR does not provide for objective criteria to determine the contribution of an economic activity to a particular environmental or social objective or set thresholds for identifying whether an economic activity causes significant harm to an environmental or social objective. As a result, the definition of "sustainable investments" is not standardised and requires firms to make subjective decisions. Firms subject to SFDR may take different approaches to categorising such investments. There can be no guarantee that a sustainable investment will attain its environmental or social objective or avoid harm to any particular environmental or social objective. The strategy may involve investment

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