# GAM Star Fund Plc - GAM Star MBS Total Return

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## Market environment

August was a volatile month for risk assets as the S&P 500 Index fell during early August before recovering for a positive month. August started with a weak jobs report, after which risk sold off and the VIX index increased sharply, in conjunction with the unwinding of the Yen carry trade. However, the supportive message from the Federal Reserve out of Jackson Hole calmed the markets and both US risk assets and US Treasuries gained during the month.

The S&P 500 gained 2.43% during August and the US 10-year Treasury rate finished the month 13 basis points lower at 3.90%. During the month, the 30-year fixed mortgage rate in the US declined, finishing at around 6.4%.

US housing prices experienced a 0.5% month-over-month increase and grew 5.4% on a year-over-year basis at the end of June, which was the most recent Case-Shiller Home Price Index release.

## Performance

GAM Star MBS Total Return (USD, Inst) achieved a net performance of +0.9% during August.

## Performance contributors

The main contributors to the fund's performance during the month were the interest income generated by the fund's holdings, and the rally in US rates.

## Performance detractors

There were no significant detractors to the performance of the fund in August.

## Positioning

The majority of the fund is invested in non-agency residential mortgage-backed securities issued prior to the 2008-2009 credit crisis (Legacy RMBS), resulting in a more substantial home equity buffer than recently issued mortgages. Approximately 10% of the fund is invested in commercial mortgages. These investments focus on apartment complexes that are currently benefiting from low vacancy rates. We continue to avoid large retail shopping malls and office buildings, anticipating further market adjustments due to unresolved problem loans in these areas.

Approximately 95% of the securities in the fund hold the most senior position in the capital structure. We feel that this defensive positioning is appropriate given that we can still achieve an attractive yield even with a conservative portfolio. In terms of duration, we continue to maintain a low effective duration of around one year.

## Outlook

August brought additional weaker economic data which continues to point to a slowing of the US economy.  However, we continue to believe that housing credit will remain fundamentally sound even if the economy weakens. During the early part of August, when many risk assets sold off, we saw non-agency RMBS spreads remaining fairly stable.

Our outlook for the US housing market remains positive. Home prices continue to increase due to the persistent lack of supply. Mortgage credit is still fundamentally sound, as mortgage foreclosure rates are still low and the increase in home prices gives homeowners a cushion of additional equity in their houses. We believe that US housing prices will be fairly stable going forward.

Given the rate rally over the past two months, mortgage rates are now almost 100 basis points lower than the highs during the first half of 2024. However, even at current mortgage rates, most of the mortgage universe is not refinanceable, having locked in lower fixed rates during the early 2020s. Given that many of the securities in the portfolio are held at discount dollar prices, any potential increase in refinancing if mortgage rates continue to fall will be a positive for the portfolio.

The portfolio has a significant allocation to senior bonds backed by mortgages that have been outstanding for over 15 years, in which the homeowners have substantial equity in their houses. We believe that this large home equity in combination with low unemployment rates and low household debt levels should ensure the creditworthiness of the securities in the portfolio, even in the event of a recession.

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For more information, please visit GAM.com

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

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**Credit Risk / ABS / MBS:** the issuer of mortgage or asset-backed securities may not receive in full the amounts owed to them by underlying borrowers, affecting the performance of the Fund.

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