

GAM Star Fund Plc - GAM Star MBS Total Return

Marketing material for professional / institutional / accredited investors only

Market environment

The fourth quarter was overall a strong quarter for risk assets, mainly due to strong performance in November. The Federal Reserve cut rates in December for a total of 100 basis points (bps) during 2024, but a hawkish tone led to a decline in equity markets and a rise in US Treasury rates.

The S&P 500 gained 2.40% during the quarter. US Treasury rates sold off, with the US 10-year Treasury rate finishing the quarter 79 bps higher at 4.57%. Additionally, the 30-year fixed mortgage rate in the US increased around 80 bps, finishing the quarter at around 6.9%.

US housing prices experienced a 0.2% month-over-month decrease and grew 3.6% on a year-over-year basis as at the end of October, which was the most recent Case-Shiller Home Price Index release.

Performance

GAM Star MBS Total Return (USD, Inst) achieved a net performance of 1.60% for the fourth quarter of 2024 and 8.62% annual performance in 2024. The ICE BofA US Mortgage-Backed Securities Index (USD) recorded an annual performance of 1.36% for 2024.

Performance contributors

The main contributor to the fund's performance during the quarter was the interest income generated by the fund's holdings.

Performance detractors

Given the low but positive duration, the rise in US interest rates during the quarter detracted from performance.

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.

Over 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

Our outlook for the US housing market in 2025 remains positive. We believe that home prices will continue to be stable due to the persistent lack of supply and the continued demand driven by demographic changes. The homeowner vacancy rate remains near historical lows, showing a lack of available houses.



Tom Mansley
Investment Director



Chien-Chung Chen
Investment Director

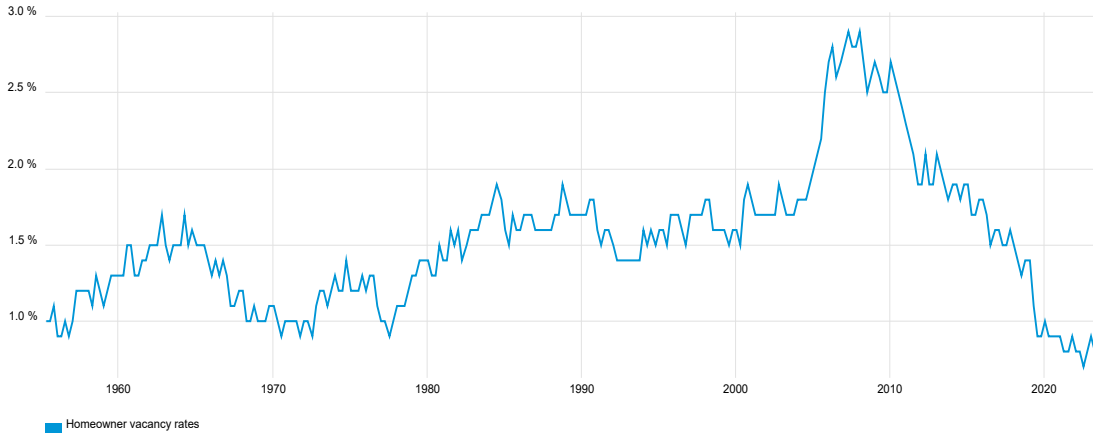


Gary Singletery
Investment Director

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Chart 1: Homeowner vacancy rates in the US
(From 31 March 1956 to 30 September 2024)

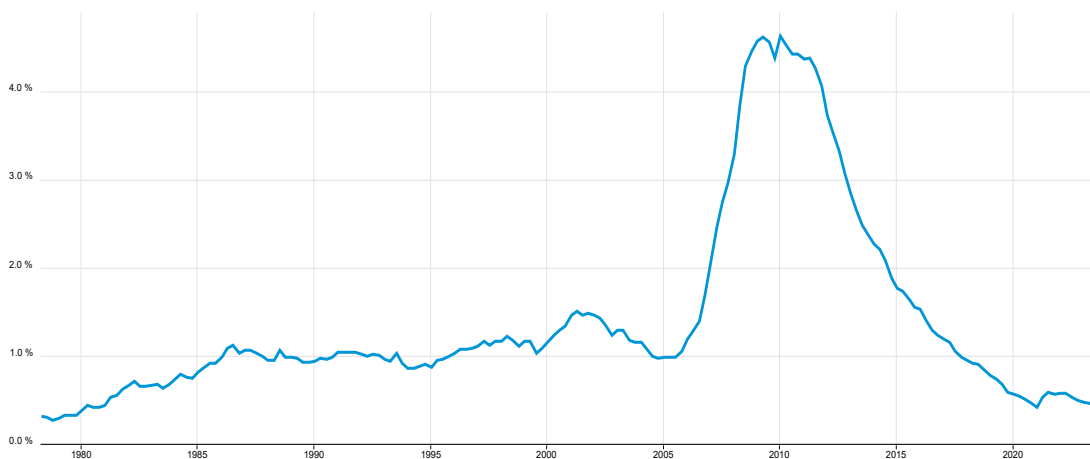


Source: Bloomberg, as at 30 September 2024.

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Continued stronger economic data in 2024 showed the resilience of the US economy and the US consumer. Unemployment remains low, and mortgage credit is performing well, with the share of mortgage loans in foreclosure continuing to hover at less than 0.5%, levels not seen in over 40 years.

Chart 2: Foreclosures as percentage of total loans not seasonally adjusted (NSA)
(From 31 March 1979 to 30 September 2024)



Source: Bloomberg, as at 30 September 2024.

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Credit spreads generally tightened in 2024 due to stronger economic data and declining inflation. For 2025, we believe that RMBS spreads should remain stable, and we continue to believe that non-agency RMBS spreads,

particularly legacy RMBS, remain attractive, especially relative to other markets such as corporate credit in the US. We believe that the portfolio yield is attractive relative to the low credit risk in 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.

For more information, please visit GAM.com

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