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

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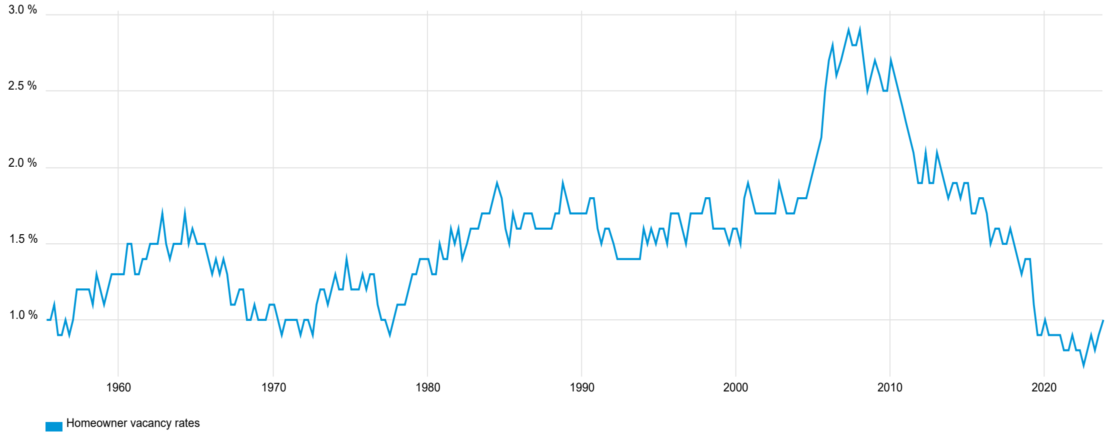
The performance is net of commissions, fees and other charges. The views are those of the manager and are subject to change. The mentioned financial instruments are provided for illustrative purposes only and shall not be considered as a direct offering, investment recommendation or investment advice. Allocations and holdings are subject to change. There is no guarantee forecasts or investment objectives will be achieved. Please see "Disclosures" at the end of this commentary.

GAM Investments

Chart 1: Homeowner vacancy rates in the US

(From 31 March 1956 to 30 September 2024)

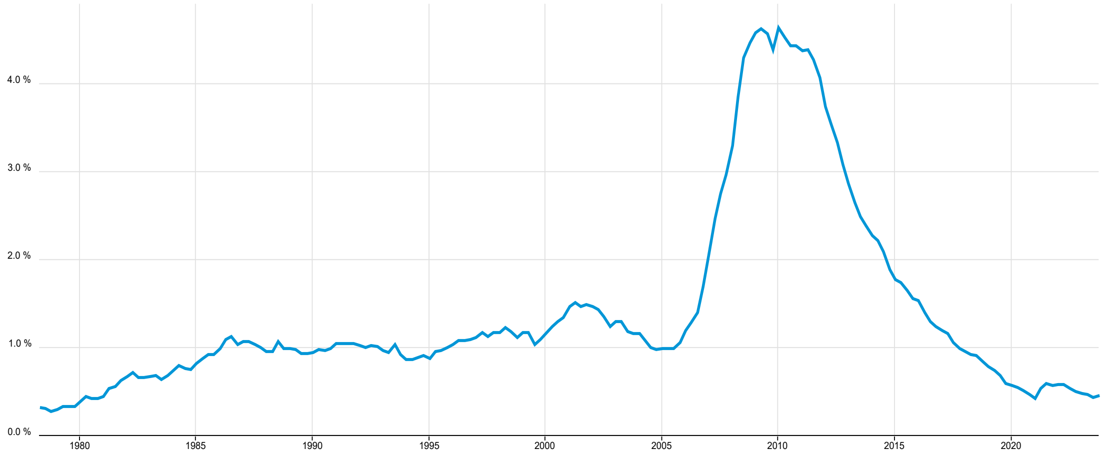


Source: Bloomberg, as at 30 September 2024.
Past performance is not an indicator of future performance and current or future trends.

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.
Past performance is not an indicator of future performance and current or future trends.

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

Important disclosures and information:

Counterparty / Derivatives Risk: if a counterparty to a financial derivative contract were to default, the value of the contract, the cost to replace it and any cash or securities held by the counterparty to facilitate it, may be lost.

Leverage Risk: derivatives may multiply the exposure to underlying assets and expose the Fund to the risk of substantial losses.

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.

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.

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.

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 its ESG-focused investment strategy may select or exclude securities of certain issuers for reasons other than investment performance considerations. As a result, the Fund may underperform otherfunds that do not utilise an ESG-focused investment strategy. Certain ESG-focused investments may be dependent on government policies and subsidies, which are subject to change or elimination. Successful application of the Fund's ESG-focused investment strategy will depend on the Co-Investment Manager's skill in implementing its due dilligence system, and there can be no assurance that the strategy or techniques employed will be successful.

Disclosures:

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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.

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