GAM Multistock - GAM Luxury Brands Equity

Marketing material for professional / institutional / accredited investors

Market environment

In July, the S&P Global Luxury Index (EUR) experienced a slight downturn, closing 2.98% lower.

Expectations were adjusted downwards following the mid-May Paris conferences, as three fundamental trends became evident in the context of a largely stagnant sector:

1. Ongoing polarisation with no reduction in the gap between outperformers and underperformers
2. Continued weakness among aspirational consumers
3. No trend reversal in China, with declining sales but improved metrics

The ongoing polarisation effect continued to create significant disparities in Q2 corporate performance. Companies focusing on wealthier consumers or possessing the strongest brands, such as Hermès and Prada, continued to see double-digit growth. We remain focused on this segment and maintain an overweight position at the top end of the Luxury Pyramid.

Performance

The GAM Luxury Brands Equity fund (EUR, C shares) returned -2.91%, marginally outperforming the benchmark index.

On Holding (3.27% of holdings)[1], along with the non-holdings in Kering and Lululemon, were the main contributors to the fund's relative performance. Conversely, Toll Brothers (not held as at month-end), along with the the non-holdings of Tesla and Williams Sonoma, which experienced rallies during this period, was the most significant relative detractor.

Kering dragged the benchmark performance, and since we have finished selling out our holding in March, our non-holding has become the top relative performer of the month. As stated in a previous commentary, we feared that the deterioration of underlying metrics at Gucci will not revert anytime soon and there are growing concerns over management's recent strategic decisions. Toll Brothers, which was among the top three detractors to relative performance, was sold in July to reinvest in companies with higher growth potential. Polarisation has been a defining feature of the sector for approximately six years and there are no indications that it will diminish. It drives our focus towards the more resilient categories and brands that we believe will deliver stronger performance.

1 Portfolio weight as at 31 July 2024.

Porfolio changes

The only notable addition to the portfolio in July was the establishment of a new position in **Galderma** (1.71% of holdings)[2] taking advantage of share price weakness ahead of the positive results, which saw fiscal year (FY) guidance reiterated.

Galderma, a recent IPO on the Swiss market, is the only pure play in the global dermatology segment, with involvement across Injectable Aesthetics, Dermatological Skincare and Therapeutic Dermatology, constantly holding a top three global position. This resonates well with the target luxury consumer. We envisage this as a smaller position but fully compliant with our strategy of seeking out strong brands and operators in structural growth segments that retain significant appeal with the higher-end consumers that dominate luxury spend. Strong management and a clear strategy with significant growth momentum from injectables (related to the broader beauty and wellness social media-driven space and further supported by the more affordable Sculptra option in some cases), its cosmetic portfolio (principally Cetaphil), and a robust pipeline of products such as Nemolizumab, should continue to deliver a broad range of solutions for ageing and skincare conditions. Indeed, we see Galderma more as a cross between a consumer and pharma play with increasingly strong global profile and recognition as the go-to offer for the treatment of side effects of GLP-1 drugs and 'Ozempic face'.

Outlook

The sector as a whole remains volatile and fundamentally weak, with no evidence at this time of a meaningful and sustainable trend reversal. As such, there is scope for more negative surprises and further potential derating at some of the weaker names such as Burberry and Kering.

The more affluent consumer continues to deliver better metrics, as has been the case since Easter, and easier comparables in the second half of the year for the sector may offer some relief from ongoing pressures. The period from September to December

2 Portfolio weight as at 31 July 2024.

Flavio Cereda
Investment Manager

Niall Gallagher
Investment Director

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is always the most important for the sector, and we are confident of a mid-single-digit growth metric at this time. We also continue to see a return to 'normal' growth rates next year, or back in line with the average.

That said, the difference in performance between winners and losers remains at record levels, with the former still able to achieve double-digit growth. As such, our investment strategy remains focused on companies that we believe are likely to continue their outperformance, thanks to their core customer base or unique product offerings. This highlights the importance of precise stock selection, a practice that we believe will continue to drive positive results. We remain confident in our research capabilities and our dedication to identifying the best stock names through our rigorous processes, aiming to deliver attractive returns for our clients.

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