Weekly Manager Views – 25 March 2015

For accredited, professional, institutional and/or qualified persons only www.gam.com

Global & UK Equities

Chris Morrison
Investment Analyst, GAM

- GAM Global Diversified has got off to a strong start to 2015, returning 9.4% in sterling terms to 24 March. The main performance drivers have been Japanese banks, gold miners and select European cyclicals. Interestingly, the UK market, represented by the FTSE All-Share index, has begun to catch up with the performance of the MSCI World over the year to-date, despite the uncertainties surrounding the upcoming UK election.
- GAM UK Diversified is up 5.2% year-to-date, against 8.2% from the FTSE All-Share. The main theme within the fund has been a shift toward large-cap stocks, which has resulted in the number of holdings falling from around 65 to approximately 50 over the past three years or so. The fund's active share is 80. Active share is informative, but also a relatively crude measure when used on strategies that only have exposure to one market, as the corresponding country index is always going to be relatively concentrated. A bias to small-cap stocks can also distort the number. In the global fund, the active share is 95. A less popular, but no less important performance measure is sell discipline.
- We have recently sold out of our positions in GlaxoSmithKline in both funds: the stock forms a core holding in many equity funds because it is perceived as being defensive, throwing off cash that funds a reasonable dividend. Despite this, we have identified discrepancies in how profits are filtering through from cash flows, as costs are being excluded that we believe should be incorporated as standard operating expenses. The level of financial gearing coupled with this weak cash conversion brings into question the sustainability of Glaxo's dividend.
- We continue to carefully blend a contrarian and cautious approach. Our cash positions represent the caution, while our recent decision to increase our exposure to gold miners is a good example of our contrarian thinking. The stocks have underperformed the underlying commodity in both a rising and falling gold price environment for two main reasons. First, the industry geared up its balance sheets as gold prices rose from 2000 onwards, bringing on poor-quality mines, which had a negative impact when the gold price fell. Second, the investment industry also played a part, propping up loss-making companies by providing capital. The sector's fundamentals are now changing to become more balanced – last year it was oversupplied, while this year jewellery demand is strong in the US and India, offsetting weakness in China. Additionally, the Russian central bank has been buying up significant stockpiles of gold, and ETF redemptions (which distort the market) have begun to slow in 2015. On the supply side, production has begun to plateau – all promising indicators for our positioning.
- Acacia Mining is good example of a position that provides us with exposure to this trend. The company has a new management team, which has implemented significant cost cuts, building in a more attractive margin of safety relative to the gold price. The ramp-up of a third mine should also benefit the company's cash flow profile.

Pacific Equities

Kevin Chan
Investment Manager, GAM

GAM Star Asian Equity, GAM Star Asia-Pacific Equity, GAM Star China Equity, GAM Star Emerging Asia Equity

- We are approaching the end of the reporting season in China and it has become clear that companies slowly have to adapt to the 'new normal' of lower but more sustainable GDP growth rates. This is reflected in disappointing corporate earnings confirmed by the announcements over the past five weeks. Notably, companies that investors had been excited about, such as financials, telecoms and certain energy names, reported uninspiring results. Energy stocks were unsurprisingly hit hard by the drop in the oil price. Overall, expectations for earnings growth for 2015 for the MSCI China index are around 5%. In contrast, forward earnings expectations of the stocks we hold in GAM Star China Equity are around 16%.
- GAM Star China Equity had lagged behind the beta-led rally that we saw in the fourth quarter and early this year on the index level, but has since managed to outperform strongly in March, based on company fundamentals finally starting to gain the upper hand in terms of drivers of share price performance. Month-to-date, the fund has already recovered all the underperformance from January and February. We expect the dispersion between the best and the worst-performing stocks to continue to widen and volatility to increase on the back of a market that is once again more driven by fundamentals. This should bode well for our bottom-up stock-picking approach.
- Over the past few weeks, those companies that announced disappointing earnings sold off, but were largely focused in sectors that we are underweight in, namely energy and telecom services. We continue to hold a negative view on these sectors and will hence retain our underweight for the time being.
- On the other hand, our exposure to real estate did well, with the sector being a beneficiary of stimulus and easing measures. Of late, the Chinese real estate sector has generated some negative headlines with concerns over bankruptcies and defaults. However, it is important to distinguish the two sub-sectors within

Past performance is not indicative of future performance. Performance is provided net of fees.

real estate, one being the state-owned developers, the other being private companies. We are only invested in the state-owned names, as they continue to be able to borrow from banks and from the bond market at attractive rates of around 4%. On the other hand, private developers are facing difficulties getting funding for their projects, and are having to resort to private channels or the so-called wealth management products, which charge in excess of 15%. With gross margins of 20–30% for the best companies, the question is whether a business is viable at borrowing costs of 15% or more.

- Technology and related names, such as internet retail, have also performed well recently, and this is where the fund has its largest sector overweights relative to the index. These are also the areas that have showed the strongest earnings growth.
- In terms of portfolio activity, we completely exited the Macau gaming sector earlier this year. The sector is still interesting on a long-term basis due to its attractive characteristics, such as the monopolistic licensing model for casinos and the fact that Macau is the only place in China where gambling is legal. However, in the short-to-medium term, the anti-corruption campaign by the government is having more of an adverse impact than we had previously anticipated. We think that this headwind is likely to dampen the prospects for casino stocks to perform well for the moment. Once we see signs of the business recovering, we will consider re-entering the sector.
- For the year to-date, the USD class of GAM Star China Equity has returned 7.3% versus 5.0% from the MSCI China index (to 24 March).

Source: GAM, unless where otherwise stated.
This material is confidential and intended solely for the use of the person or persons to whom it is given, or sent, and may not be reproduced, copied or given, in whole or in part, to any other person. **It is aimed at sophisticated, professional, eligible, institutional and/or qualified investors who have the knowledge and financial sophistication to understand and bear the risks associated with the investments described**. Nothing contained herein constitutes investment, legal, tax or other advice, nor is it to be solely relied on in making an investment or other decision. It is not an invitation to subscribe and is by way of information only. The funds are a sub-fund of GAM Star Fund plc. GAM Star Fund plc is an Irish umbrella fund with segregated liability between sub-funds. GAM Star Fund plc is authorised as a UCITS pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2011 (S.I. No.352 of 2011) and is a recognised scheme in the UK under the Financial Services and Markets Act 2000. The fund is managed by GAM Fund Management Limited which is regulated by the Central Bank of Ireland. Some of the products mentioned herein may not be registered for public sale in all jurisdictions. Therefore, no public marketing must be carried out for them. This presentation may mention sub-funds of GAM Star (Lux), registered office at 25, Grand-Rue, L-1661 Luxembourg, an umbrella investment company with variable capital (SICAV) and segregated liability between the sub-funds, incorporated under the laws of Luxembourg and authorised by the Commission de Surveillance du Secteur Financier (CSSF) as a UCITS Fund in accordance with the Directive 2009/65/EC. The Management Company for GAM Star (Lux) is Swiss & Global Asset Management (Luxembourg) S.A., 25, Grand-Rue, L-1661 Luxembourg. Some of the sub-funds may not be registered for sale in all jurisdictions. Therefore, no active marketing must be carried out for them. Subscriptions will only be received and shares or units issued on the basis of the current fund prospectus. The legal documents can be obtained in English respectively for the KIID in several languages on the internet at www.gam.com. GAM products are not available for sale in any state or jurisdiction in which such sale would be prohibited and are not aimed at persons in those jurisdictions and in those cases where the law prohibits this type of information from being provided. Investors in such products will not be eligible for the specific investor protection given under the Swiss Collective Investment Schemes Act, the German Capital Investment Act or the Austrian Collective Investments Schemes Act, in contrast to investors in products that are regulated under said acts. Subscriptions will only be received and shares or units ('Shares') issued on the basis of the current prospectus for the fund. Copies of fund's prospectus, Key Investor Information Document (KIID) and financial statements can be obtained free of charge from GAM Fund Management Ltd, George's Court, 54-62 Townsend Street, Dublin 2, from the centralising agent for France, BNP Paribas Securities Services, 66 rue de la Victoire, 75009 Paris, from its representative in Switzerland GAM Anlagefonds AG, Hardstrasse 201, CH-8005 Zurich, from the information agent in Germany Bank Julius Baer Europe AG, An der Welle 1, D-60322 Frankfurt am Main, from the information agent in Austria, UniCredit Bank Austria, Schottengasse 6 - 8, A-1010 Vienna. Paying Agent in Switzerland is State Street Bank GmbH, Munich, Zurich Branch, Beethovenstrasse 19, CH-8027 Zurich. **In Italy, this document is destined exclusively for institutional or qualified investors and shall not be passed on to third parties. SWITZERLAND:** The Fund mentioned herein has appointed a Representative and Paying Agent in Switzerland in accordance with Art. 120 para. 4 in relationship with Art. 120 para. 2 letter d) CISA. Representative in Switzerland is GAM Anlagefonds AG, Hardstrasse 201, Postfach, CH-8037 Zurich. Paying Agent in Switzerland is Bank Julius Baer & Co. AG, Bahnhofstrasse 36, Postfach, CH-8010 Zurich. The legal documents can be obtained in English, free of charge, from Representative. For qualified investors who have acquired the shares of the Company sold in Switzerland, the place of performance has been established at the registered office of the representative in Zurich and the court of jurisdiction has been established as Zurich. In Spain, the legal documents can be obtained, free of charge, on the internet at www.gam.com. In Hong Kong, this material is restricted to professional investors (as defined in the Securities and Futures Ordinance (Cap 571)) only. In Singapore, this material is limited to institutional investors (as defined in the Securities and Futures Act (Cap. 289)) ('SFA') only. The fund is not authorised or recognised by the Monetary Authority of Singapore and Shares in the fund are not allowed to be offered to the retail public in Singapore; and any written material issued in connection with the offer is not a prospectus as defined in the SFA and, accordingly, statutory liability under the SFA in relation to the content of prospectuses would not apply. In other countries in Asia Pacific, this material should only be distributed in accordance with the applicable laws in the relevant jurisdiction. In Japan, the fund mentioned herein shall not be disclosed publicly pursuant to the Financial Instruments and Exchange Law (the "FIEL") nor registered for public sale or private placement pursuant to the Law on Investment Trusts and Investment Companies. Therefore, none of the shares of the fund mentioned herein may be solicited in Japan or to residents in Japan. This material is intended for circulation to professional, institutional and/or qualified investors only. Any person in receipt of this material is not allowed to distribute it to residents in Japan nor communicate to residents in Japan about the fund mentioned herein. Particularly, this document shall not be used as advertising material for public distribution or any other kind of public offering of the funds, their sub-funds or share categories. Please consult the Prospectus and the KIID prior to any investment. The documents are available on www.gam.com or can be obtained from local distributors. Shares of the fund have not been registered under the US Securities Act of 1933, as amended (the "Securities Act") and the fund is not registered under the US Investment Company Act of 1940, as amended (the "Company Act"). Accordingly, unless an exemption is available, such shares may not be offered, sold or distributed in the United States or to US persons. However, pursuant to an exemption from registration under the Securities Act and the Company Act, the shares may be sold or resold in the United States or to certain qualified US investors in transactions that do not constitute a public offering. The views expressed herein are those of the manager at the time and are subject to change. There is no guarantee targets will be achieved. **The price of shares may go down as well as up and the price will depend on fluctuations in financial markets outside GAM's control. As a result an investor may not get back the amount invested. Past performance is not indicative of future performance** and reference to a security is not a recommendation to buy or sell that security. Holdings and allocations are subject to change. Prices quoted refer to accumulation shares, unless otherwise stated. Historic data may be subject to restatement from time to time. Within the UK, this material has been issued and approved by GAM London Ltd, 20 King Street, London, SW1Y 6QY, authorised and regulated by the Financial Conduct Authority.