

## Press release

### GAM: Junior debt will continue to deliver in a rising interest rate environment

- Attractive opportunities in the subordinated debt of investment grade companies despite rising interest rates
- Bank debt will become even more attractive as Basel III increases safety of bank bonds
- The GAM Star Credit Opportunities GBP Fund celebrates its third anniversary

Comment from Anthony Smouha, manager of the GAM Star Credit Opportunities family of funds:

London, [Date]: Traditional fixed income investors are struggling to generate meaningful returns from the current rising interest rate environment but we continue to find attractive opportunities in the subordinated debt of investment grade companies. These bonds offer attractive yields and are supported by robust businesses with strong balance sheets and the potential for capital appreciation.

#### Basel III regulation boosts financials

Financial companies present some of the most exciting junior debt investments as they continue to become safer and sounder with the introduction of capital adequacy regulations such as Basel III. Banks have managed to raise an unexpectedly large amount of capital not only via contingent convertible bonds (CoCos), but crucially they have also increased their core equity levels through retained profits and share issues. The gains seen in bank bonds are not simply a technical matter, but are based on fundamental improvements in the quality of these companies.

The effects of tighter regulations are not over with Basel III coming into effect. As the requirements are phased in over several years, with the final stage becoming fully effective in 2019, investors can benefit from another five years of further gradual improvements in the quality of these companies.

We see potential for further spread tightening in the medium term, particularly as the supply of old style subordinated debt is getting smaller as bonds are called for redemption or exchanged.

Investors assessing the asset class should diversify their holdings between high-coupon bonds, fixed-to-floaters and low-yielding floating rate notes that trade at a large discount to their par value. This mix will protect against rising interest rates, as the floating rate notes will benefit from higher rates, while the high coupons limit the downside of fixed-rate bonds.

#### GAM Star Credit Opportunities Fund celebrates its third anniversary

The GAM Star Credit Opportunities GBP fund is managed by Anthony Smouha and Gregoire Mivelaz of ATLANTICOMNIUM S. A. and has generated a total return of 44.1% since it was launched on 12 July 2011 (performance figures from 12 July 2011 – 11 July 2014). With an annualised return of 13.0% since launch, the fund has significantly outperformed its benchmark, the Barclays Sterling Aggregate Corporate Total Return Index, which posted 7.8%. The fund has assets under management of GBP 114.4 million (as at 30 June 2014).

GAM Star Credit Opportunities fund invests primarily in the fixed and floating-rate bonds of non-government issuers with high credit ratings, including convertible bonds. There are no maturity restrictions. The top positions in the portfolio include Barclays Bank PLC FRN Perp (3.1%) Scottish Amicable Finance 8.5% Perp. (3.0%) Lloyds TSB Bank PLC 11.75 Perp. (2.9%) (as at 11 July 2014).

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Notes to Editors

GAM

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<sup>1</sup> Source: GAM Holding AG as at 31 December 2013

*Past performance is not indicative of future performance. Performance is provided net of fees. These are the views of the manager at the time of writing.*