# GAM STAR MBS TOTAL RETURN

Marketing material for professional/accredited/certified investors

GAM Star MBS Total Return* actively invests primarily in US residential mortgage-backed securities (MBS). The daily dealing fund seeks returns of cash +4-6% pa[1] with low volatility, modest effective duration and low correlation to traditional fixed income and equity markets. The team's proven ability to perform strongly over three interest rate cycles has produced consistent, positive returns for the strategy since 2002[2].

## Reasons to invest

- **Large, diversified market:** The USD 8 trillion MBS market accounts for more than 23% of the US bond market[3], and MBS exposure should be considered a key part of any diversified global bond portfolio.
- **Breadth of opportunities:** The scale of the asset class ensures a variety of instruments suited to virtually every stage of the economic cycle, enabling skilled investors to add value versus the market.
- **Attractive yields:** MBS typically offer higher yields relative to US Treasuries and corporate bonds of comparable maturity and credit quality.
- **Deep, liquid market:** MBS benefits from a combination of high credit quality, large market size and diverse range of investors.

## Our edge

- **Differentiated, highly active credit approach:** seeks attractive risk-adjusted returns focusing on non-agency mortgages with an average credit rating of BBB and no or low interest rate duration.
- **Solid track record:** steady, incremental returns during times of market volatility, and low correlation to fixed income, equities and other MBS funds.
- **Highly experienced team:** Over 60 years' combined MBS investment experience and proven ability to position for changes in the market environment.
- **Focus on downside protection:** Long-established process to seek opportunities in more complex, overlooked and mispriced market segments, while focusing strongly on downside risk management.

## Investment team

The fund is managed by GAM Investments' MBS team, an exceptionally seasoned and stable investment team with deep MBS expertise, led by Investment Directors Gary Singleterry and Tom Mansley.

The strategy was launched in 2002 and the team joined GAM in June 2014 from specialist MBS manager Singleterry Mansley Asset Management, based in New York.

The team's depth of experience in all aspects of portfolio, trading and risk management, including derivatives creation and structuring, dates back to the origins of the MBS market as an investable asset class.

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* Full legal name: GAM Star Fund plc. – GAM Star MBS Total Return.
[1] There is no guarantee targets will be achieved.
[2] The strategy launched in 2002. The team joined GAM in June 2014.
[3] 'US research quarterly', The Securities Industry and Financial Markets Association, May 2017.

GAM Investments

## Investment philosophy

The team believes that a top-down, macroeconomic approach is key to understanding how changes in the drivers of three key variables – credit dynamics, interest rates and mortgage prepayment rates – impact underlying risks. They consider how the relative complexity of MBS instruments – through the various forms of securities, multiplicity of issuers and tailored nature of individual security features – presents opportunities to extract alpha.

## Investment process

The team aims to add value through actively exploiting the inherent inefficiencies of the more sophisticated US MBS strategies. A combination of top-down market analysis and fundamental, bottom-up security selection ensure risk is actively managed in a diversified portfolio. The team conducts market analysis to form views on a range of key variables, which determine the strategy's allocation to different MBS market segments. The resulting portfolio features attractively priced bonds, complemented by derivatives for the active management of exposures to interest rate movements, credit risk and prepayment risk. The team continually reassesses the market and the portfolio across the market cycle, and focuses on risk management by seeking to isolate and hedge downside risks.

## Fund facts

| | |
|---|---|
| Fund type | UCITS |
| Fund manager | Gary Singleterry and Tom Mansley |
| Inception date | 23 July 2014 |
| Currency classes [4] | USD (base), CHF, EUR, GBP classes are available |
| Index for comparison | ICE BOFA Merrill Lynch US Mortgage Backed Securities Index |
| Dealing | Each business day |
| Investment manager and sponsor fees [5] | Institutional class: 0.60%<br>Ordinary class: 1.30% |
| Performance fee | 10% on the price appreciation over 3 month Libor on a high water mark basis |

[4] Currency hedging may be employed to protect against exchange rate risk. Contact your client manager for the exhaustive list of currency classes available.

[5] Excludes fees related to the administration and the custody of the fund – please see Prospectus for further details on fees.

**1**

**Market analysis**

Form views on interest rate cycles, credit environment, prepayment expectations and housing market

**2**

**Security selection**

Determine relative attractiveness of segments and conduct fundamental analysis of securities within segments

**3**

**Portfolio construction**

Diversified portfolio reflects views on credit risk, interest rate risk and prepayment risk

**4**

**Risk monitoring**

Ongoing risk management to review consistency with market views, exposure and diversification

"The depth of the team's experience and strong skillset in assessing the impact of market, interest rate and credit cycles on residential MBS is evidenced by a 16 year strategy track record of steady, incremental returns."

**Gary Singleterry**
Investment Director

**Important legal information:**

**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.

**Counterparty risk** / **Derivatives:** 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.

**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.

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

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