

Schwellenländer-Anleihen: Chancen nutzen und Risiken vermeiden

Institutional Investors Congress
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Product Specialist Fixed Income

Marketing material for professional/ accredited/ institutional investors only

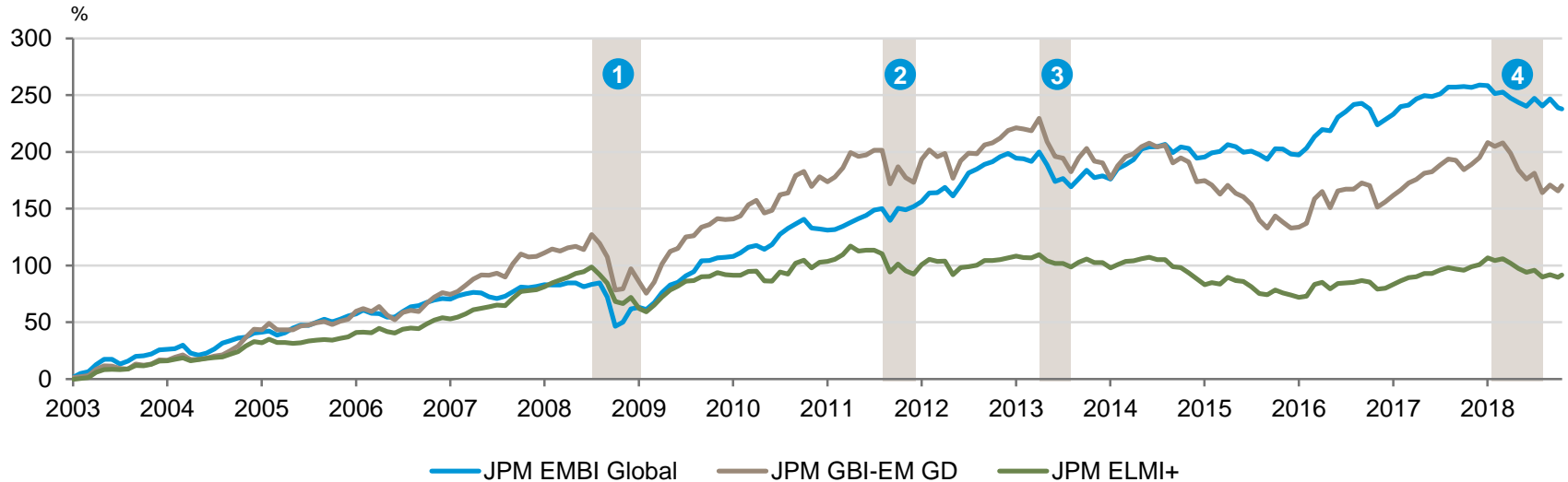
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Capital at risk. All financial investments involve an element of risk. Therefore, the value of the investment and the income from it will vary and the initial investment amount cannot be guaranteed.



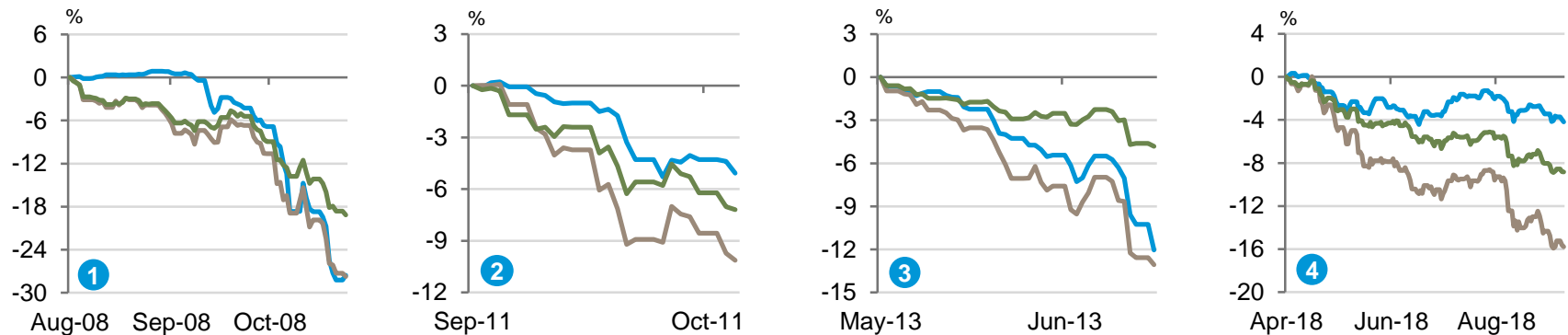
Investing in EMD – A sometimes bumpy ride

Frequent bouts of elevated volatility and sizeable drawdowns

Performance since 31 December 2002



Drawdowns

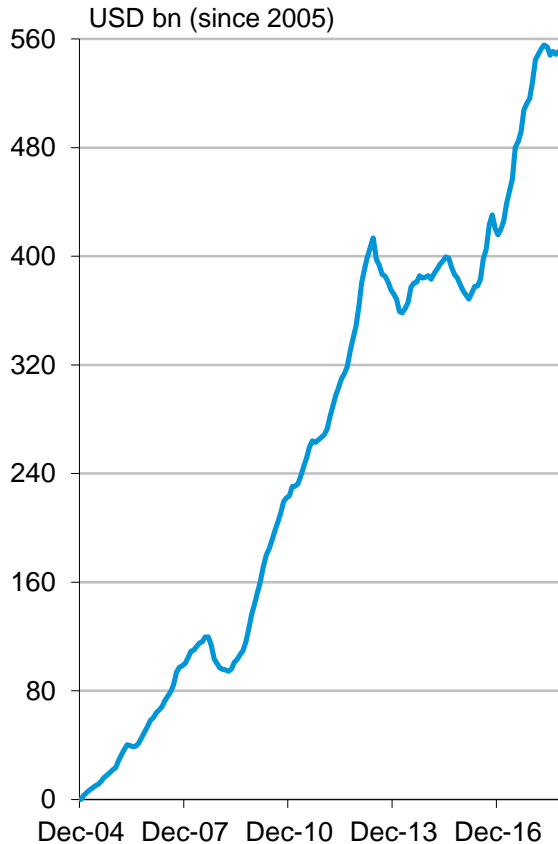


MARKET PERSPECTIVES

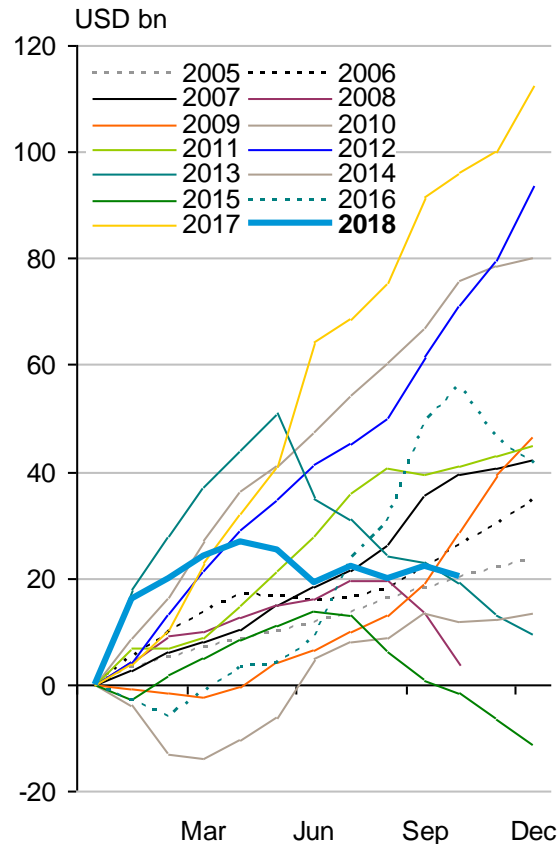
EMD flow momentum still positive for the year...

Emerging markets fixed income flows, as at 31 October 2018

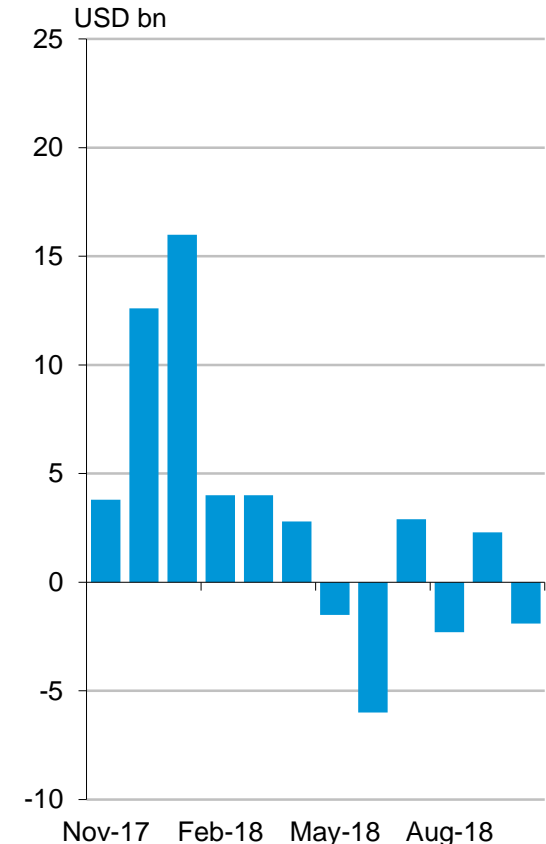
Cumulative net flows



Cumulative annual flows



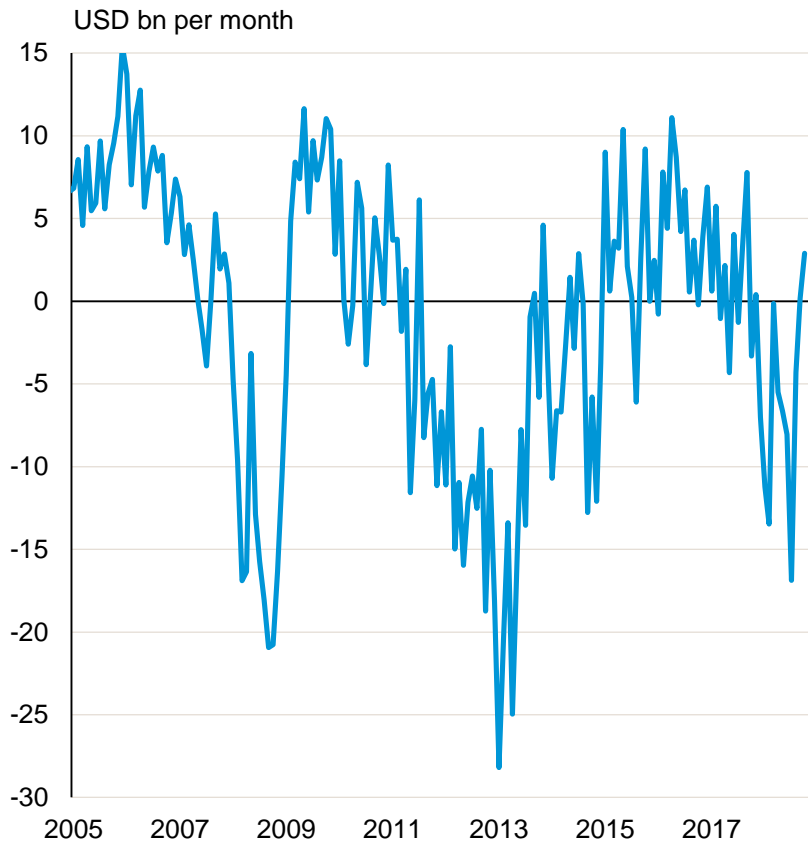
12 month rolling net flows



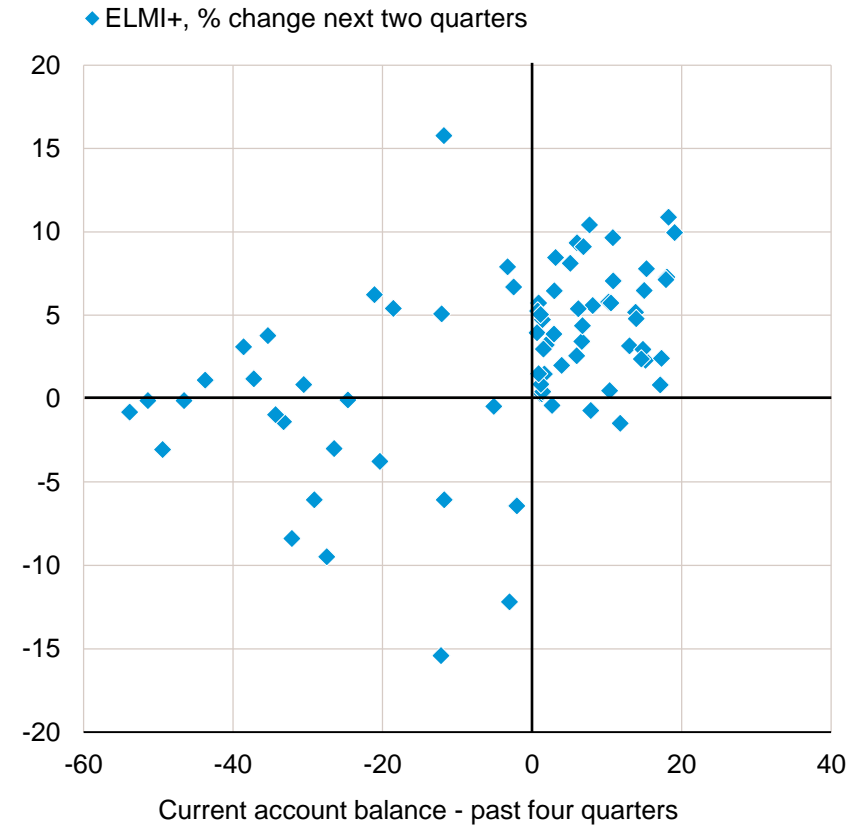
....as EM trade fundamentals strengthen again...

Current account turning positive suggests EM FX upside

EM ex China trade balance



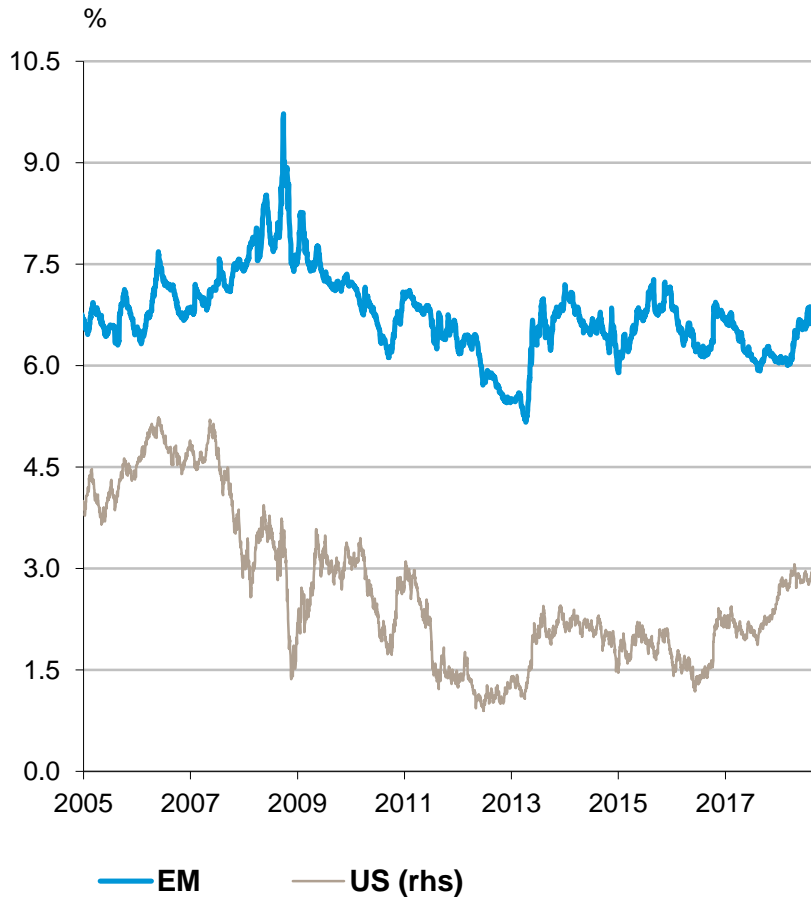
Current account and EM FX returns



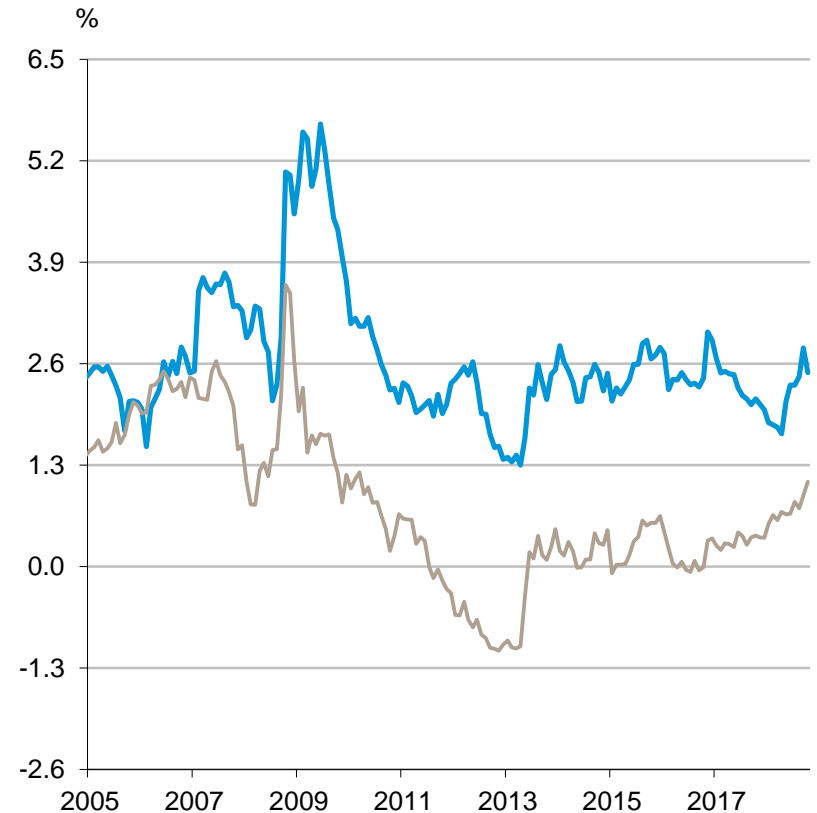
...while valuations remain attractive across rates...

Local EM government bond nominal & real yields vs. US government bond markets, as of 31 October 2018

Aggregate local EM government* nominal yields & 7-year US equivalent



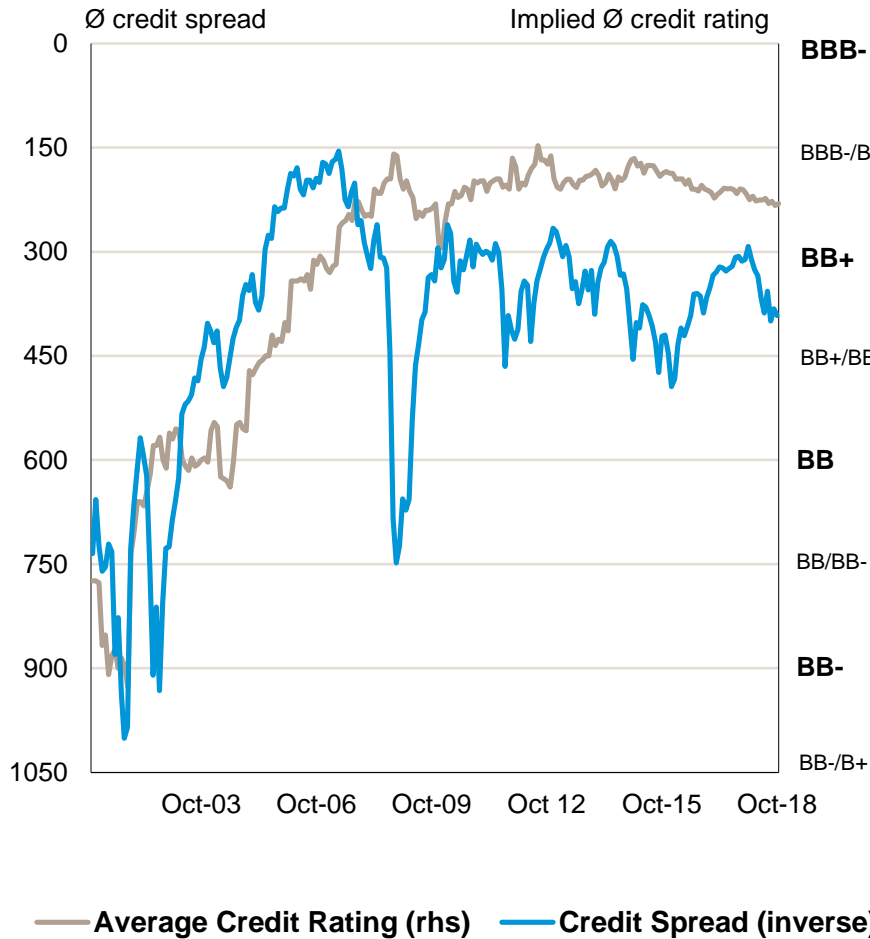
5- to 10-year local EM government** real yields vs. 5-10-year US equivalent



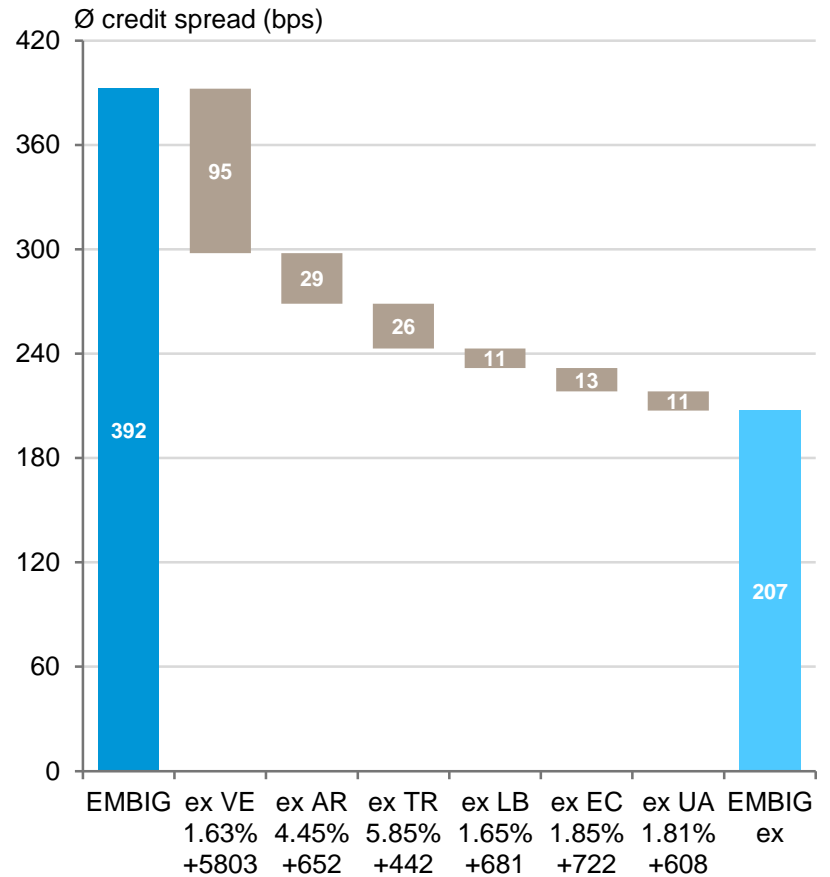
...credits – although more selectively...

Credit profile of JPMorgan EMBI Global Index as of 31 October 2018

Emerging markets sovereign spreads vs Ø credit



JPMorgan EMBI Global spread decomposition



Source: JPMorgan Securities, GAM

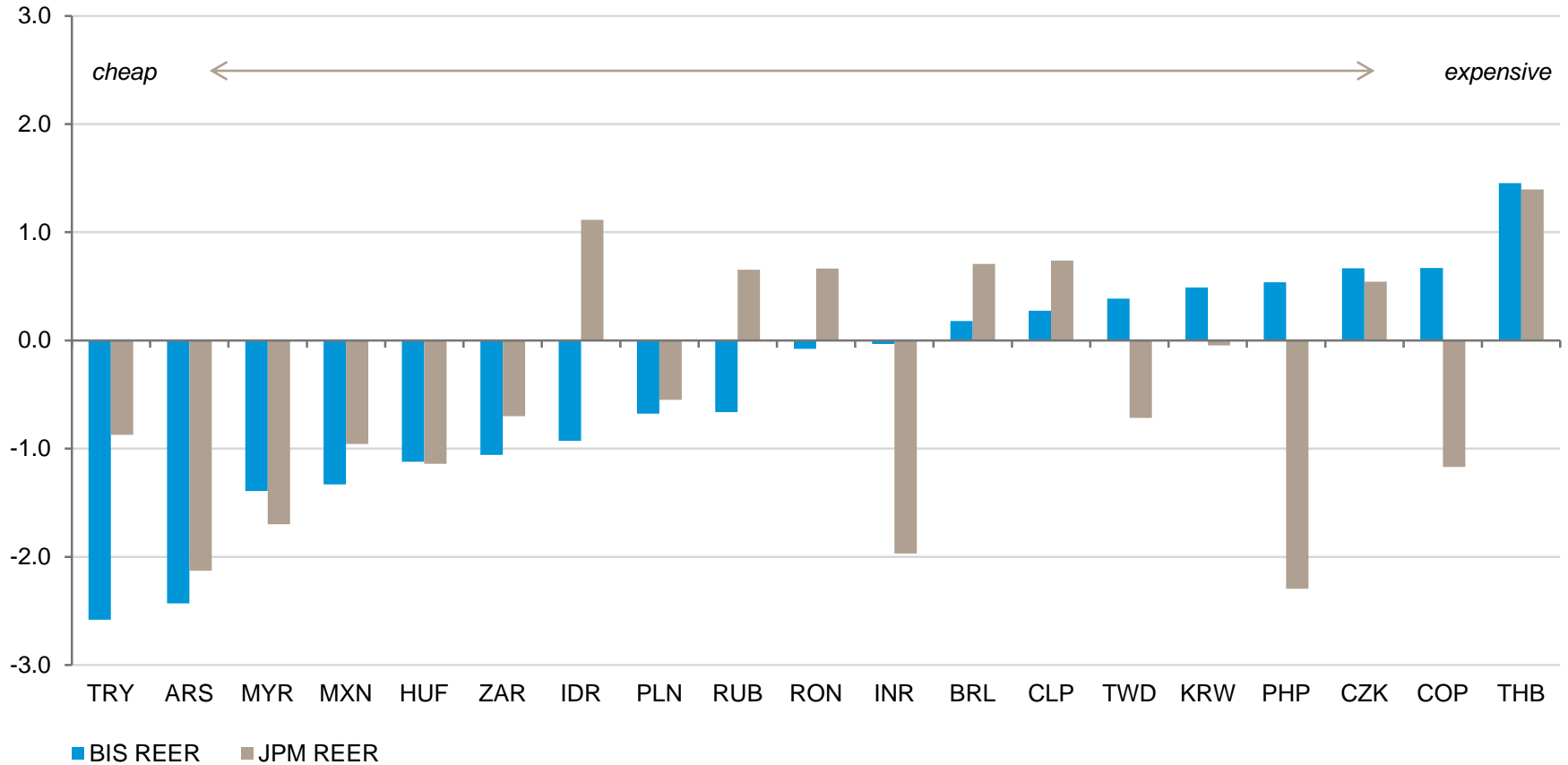
Note: [*] Weighted average credit rating based on index weights using an equal weightings methodology. S&P Ratings-based.

...while EMFX offers biggest upside...

Real effective exchange rates, as of 31 October 2018

Real effective exchange rates, EMFX

Standard deviation Ø 2003-2018 YTD



...also given a very low starting base

JPMorgan GBI-EM Global Diversified FX Return Index, as of 31 October 2018

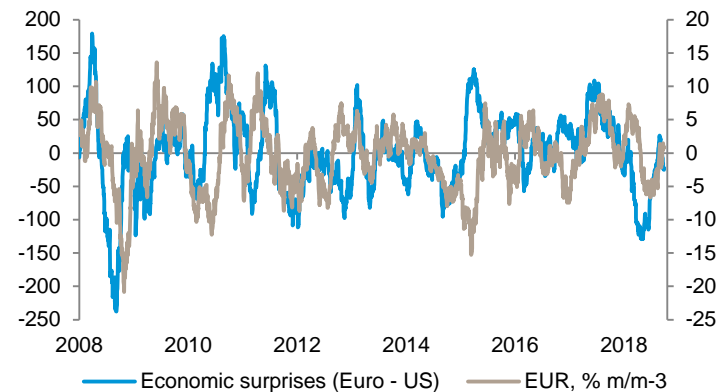
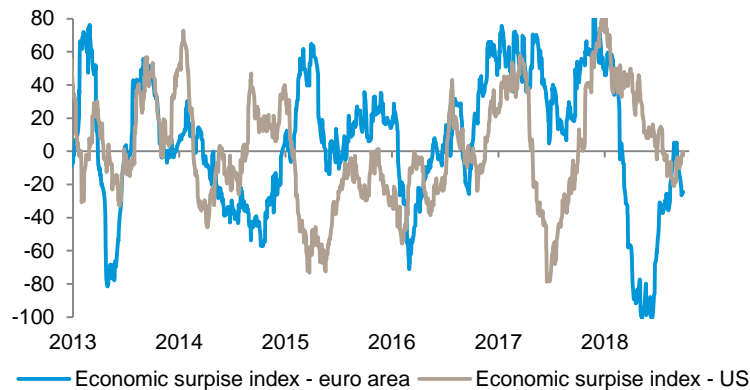
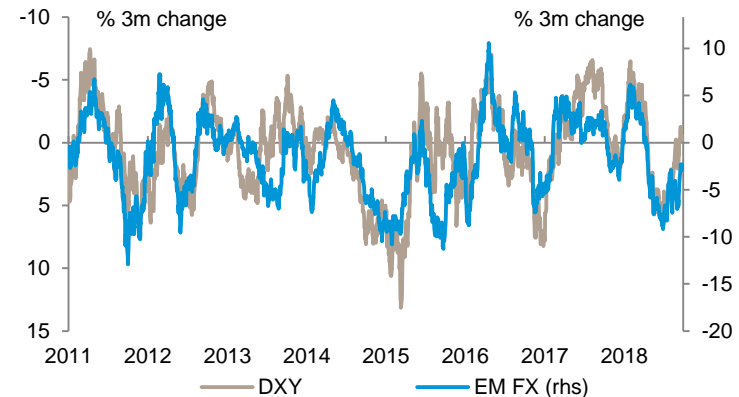
EMFX performance vs USD post start of US Fed's taper tantrum talk



Risks remain – however, fears for further USD appear overdone...

The USD and the growth differential

- Developments in the USD are the main driver of EM FX performance, and the recent USD strength has caused a sharp weakening since April.
- Part of the USD strength might have been due to upside growth surprises in the US and disappointments in the euro area. As expectations moderate and euro area growth strengthens, we expect the USD to move sideways.

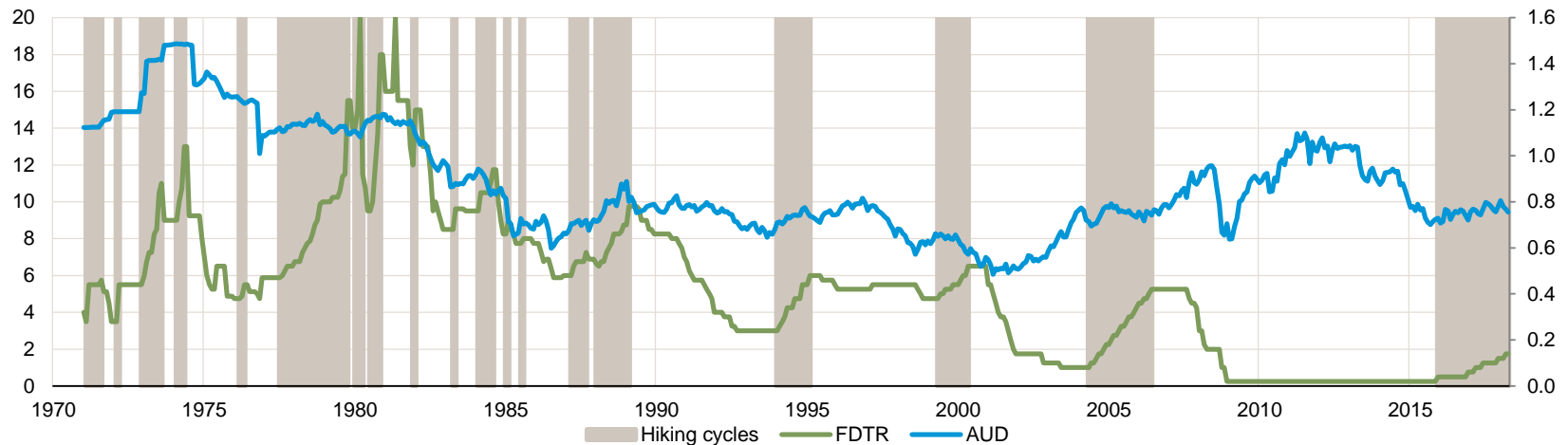
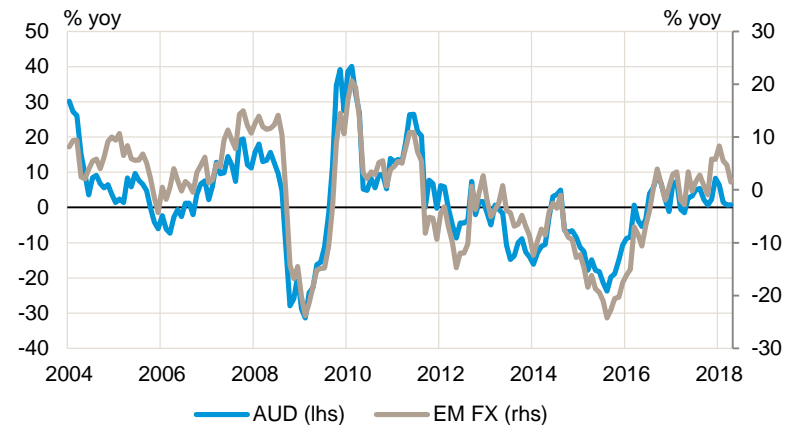


...as are concerns for higher US yields and hiking cycle

Fed communication is key

- EM FX is very well correlated to the AUD (similar shocks – commodity prices, USD)
- To assess how EM FX might behave during a Fed tightening cycle, we can look at the past performance of the AUD
- AUD is mildly positively correlated with Fed hikes – on average it rallies slightly during the hiking cycle
- Of the nine more protracted hiking cycles, the AUD rallied on six occasions and weakened on three

EM FX and the AUD well correlated



EMERGING MARKET
RATES
STRATEGY

Our Emerging Market Rates strategy

Ideally suited for investors targeting absolute positive and superior risk-adjusted returns or wishing to trade EMD from a more defensive risk angle

What?

The strategic aim of the strategy is to

- capture at least 70% of local EMD market upside while
- avoiding at least 80% of local EMD market downside at
- less than ½ of local EMD market volatility, thereby
- delivering sustainable positive absolute and
- superior risk-adjusted returns across the cycle

How?

In order to achieve these objectives, we follow an unconstrained, flexible & dynamic approach towards EM fixed income markets encompassing

- directional bottom-up longs
- directional macro or micro shorts
- long/short (relative value)

Who?

- Highly experienced and stable team with Ø 16 years investment experience and Ø 9 years affiliation
- Multi-award winning 5-strong London-based investment team collaborating closely with 4-strong Zurich-based EMD team
- A leading player within the asset class with AuM ~USD 9.5 billion and one of the largest and longest established single local EMD funds globally

How?

High conviction macro-based, value-driven, best ideas strategy

- collaborative team approach with clearly defined responsibilities
- covers Rates, FX and Credit strategies
- Focus on sovereign and supranational credit risk and liquid, non-exotic as well as scalable derivatives
- multi-dimensional, efficiently diversified and highly liquid portfolios

☑ Strategic objective #1: «Deliver superior positive returns from EMD across the market cycle»

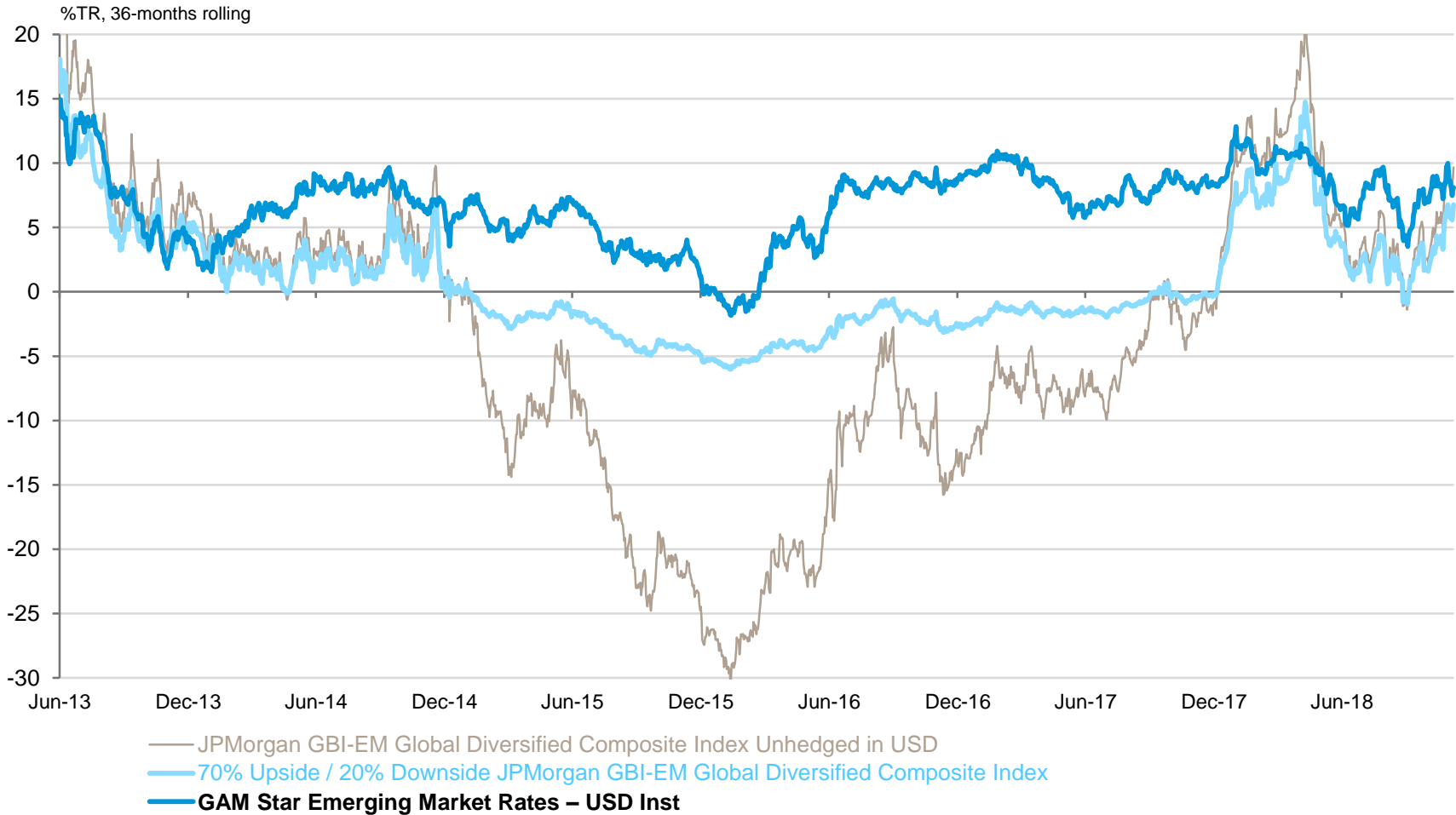
Cumulative net performance since launch, as of 15 November 2018



Past performance is not indicative of future performance. Performance is provided net of fees. Funds do not have the security of capital that is characteristic of a bank deposit.

☑ Strategic objective #2: «Capture 70% of underlying local EMD market upside, avoid 80% of the downside»

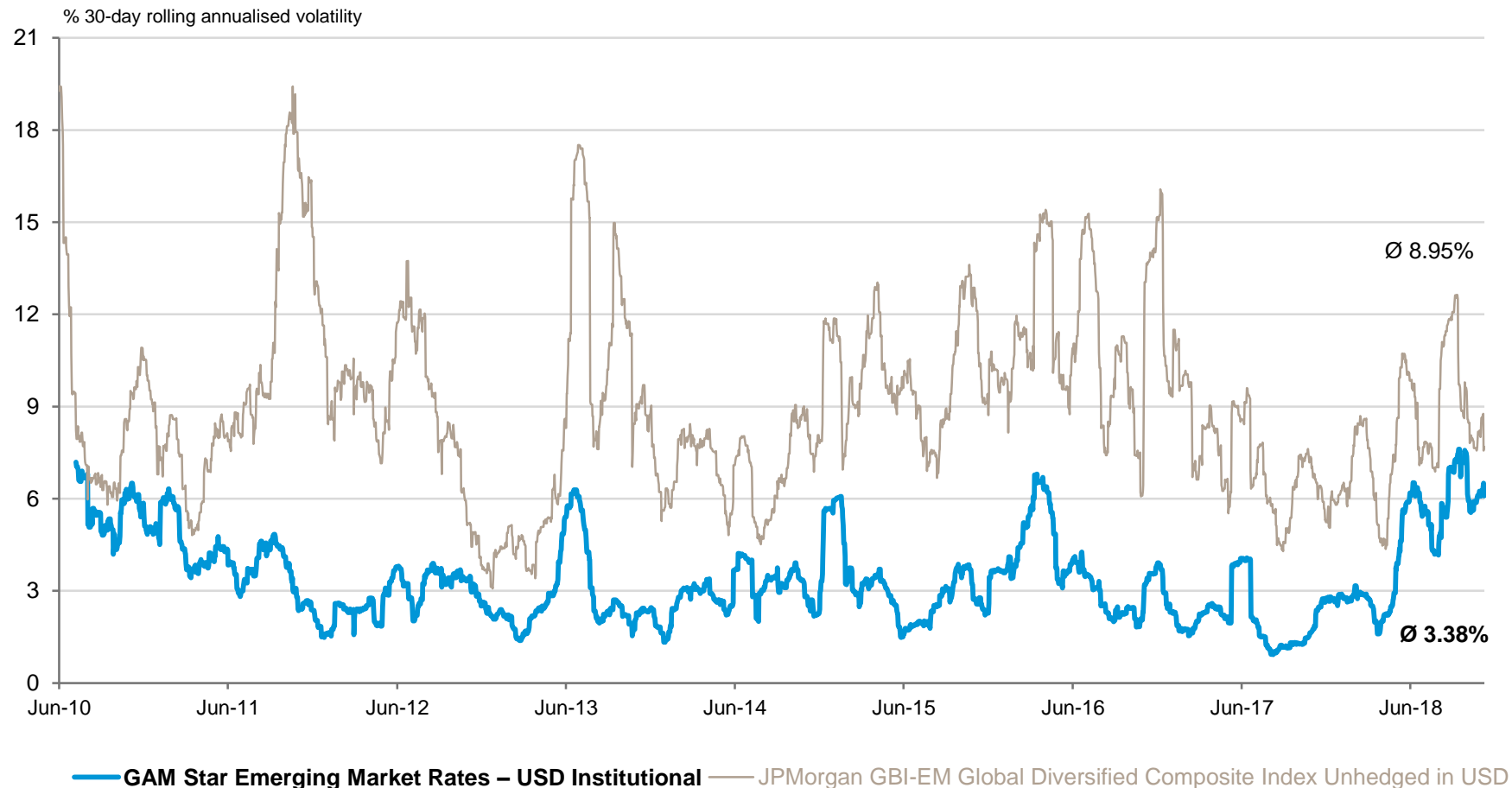
Rolling net performance since launch, as of 15 November 2018



Past performance is not indicative of future performance. Performance is provided net of fees. Funds do not have the security of capital that is characteristic of a bank deposit.

☑ Strategic objective #3: «Generate returns at less than ½ of underlying local EMD market risk»

Rolling 30-day annualised volatility, as of 15 November 2018



Past performance is not indicative of future performance. Performance is provided net of fees. Funds do not have the security of capital that is characteristic of a bank deposit.

INVESTMENT TEAM & APPROACH

Highly experienced, stable EMD team with long-standing track record

With over 16 years' average investment experience, managing ~USD 9.5 bn



Paul McNamara

Lead Manager, Investment Director

- 21 years' investment experience
- Masters degree in Economics, London School of Economics
- Joined in 1997



Michael Biggs

Macro Strategist, Investment Manager

- 17 years' investment experience
- PhD & MPhil in Economics, University of Cambridge
- MComm & BComm in Economics, University of Cape Town
- Joined in 2013



Denise Prime

Co-Lead Manager, Investment Manager

- 13 years' investment experience
- CFA charterholder
- BA in Economics, Bryn Mawr College, PA
- Joined in 2010



Markus Heider

Macro Strategist, Investment Manager

- 18 years' investment experience
- PhD in Economics, University of Bordeaux
- Joined 2018



Sujata Pradhan

Assistant Investment Manager

- 11 years' investment experience
- MSc in International Banking & Finance, Metropolitan University
- BSc in Mathematics, Kings College
- Joined in 2011

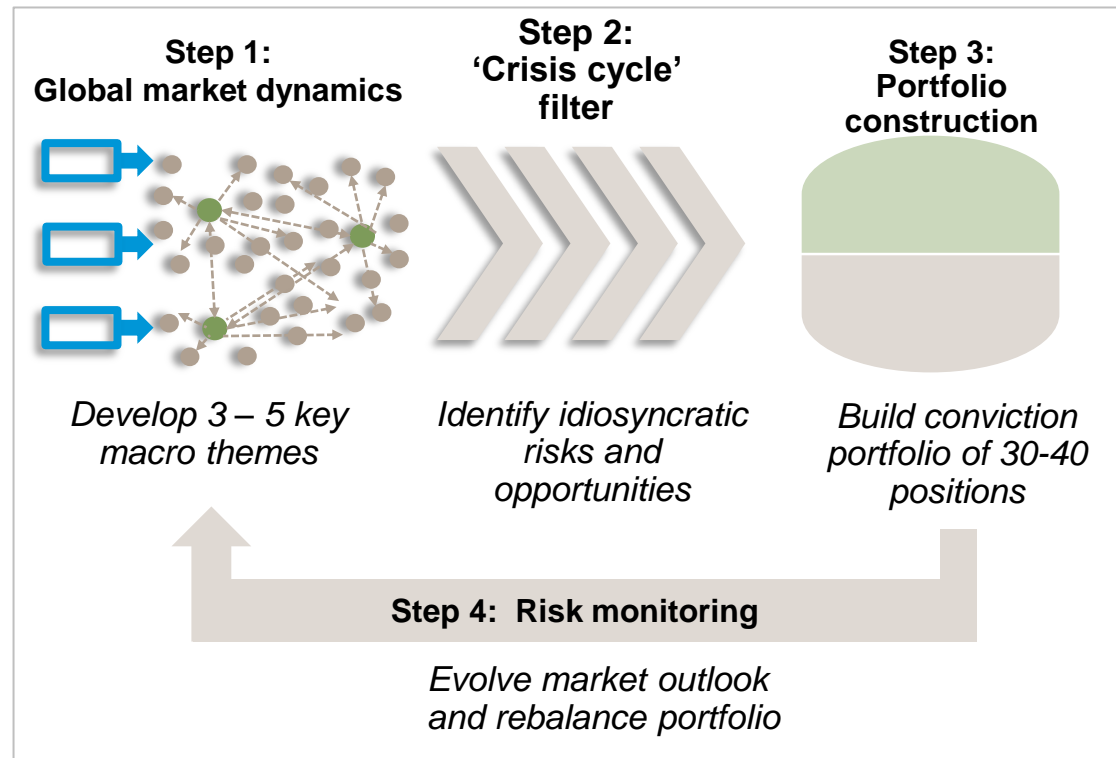
Investment approach and process overview

Thematic, macro-driven process with fundamentals and risk management at its core

Investment approach

- Global macroeconomics drive emerging markets
- Extrapolating global influences to emerging markets reveals themes
- Valuations and specific country traits determine viable opportunities
- 'Crisis cycle' filter identifies idiosyncrasies
- Structure trades appropriately
 - Upside vs downside potential
 - Liquidity
 - Price movement capture
- Highly active portfolio management

Investment process



Themes and positioning

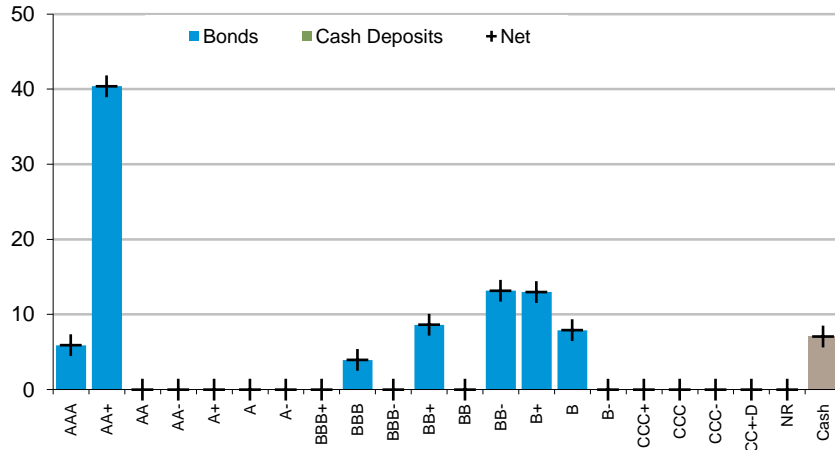
GAM Star Emerging Market Rates

Theme	Opportunity
Long the adjustment/rebound countries	<p>We look to go overweight those countries where demand has adjusted and current account balances have improved.</p> <p>We are long the bonds and FX in Russia and Brazil</p>
Long EM on the growth rebound	<p>The EM growth recovery should benefit the asset class as a whole.</p> <p>In addition to the positions listed above, we are long bonds in South Africa, and long the FX in South Africa and Colombia</p>
Short the ‘crisis cycle’ risk countries	<p>Based on the crisis cycle filter, we go short countries we believe could be vulnerable to crises.</p> <p>On this basis we are short Turkey</p>
Diversifying the funding currencies	<p>As a hedge against USD strength, we go short other DM currencies</p> <p>We are short EUR, CAD, GBP and AUD</p>

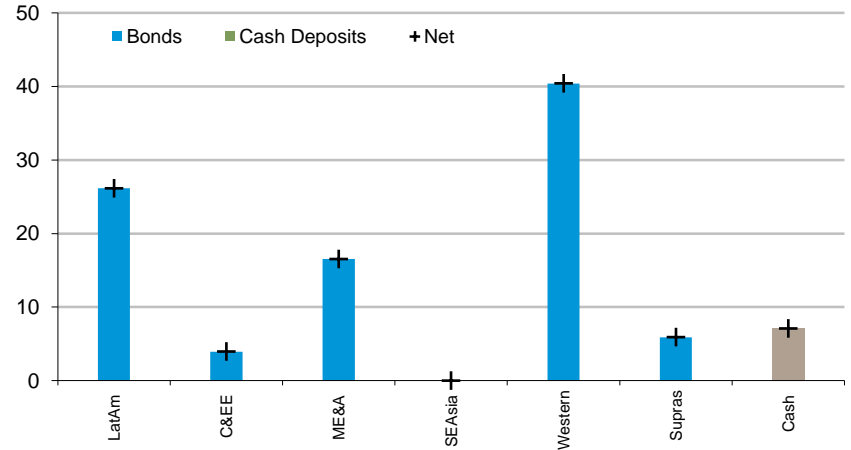
Asset allocation

as of 31 October 2018, absolute allocations, all values as % of fund volume

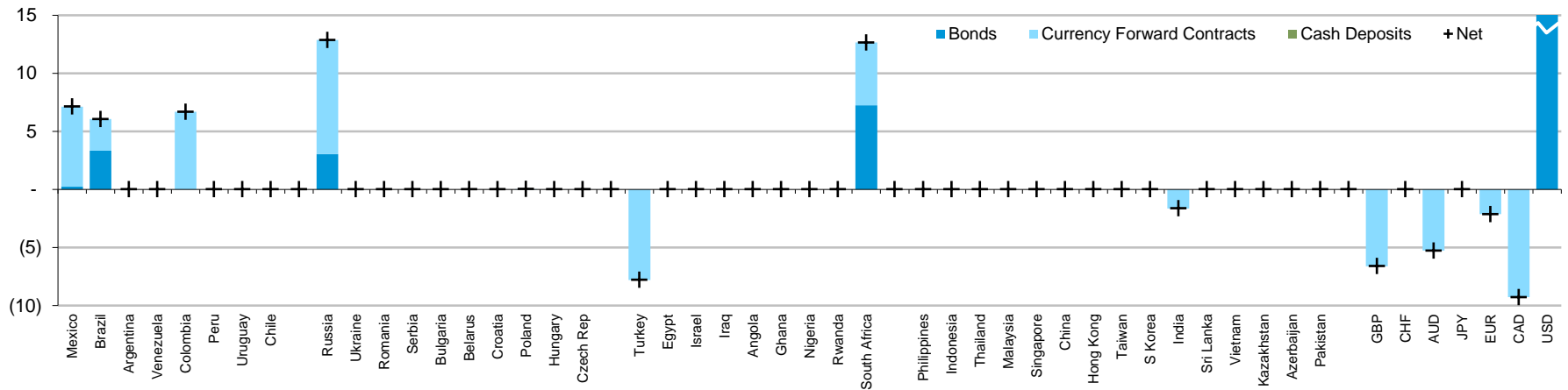
Credit (bonds & cash, incl. CDS)



Issuer domicile (bonds & cash, incl. CDS)



Currency (bonds & cash net of cash deposits & forward contracts*)



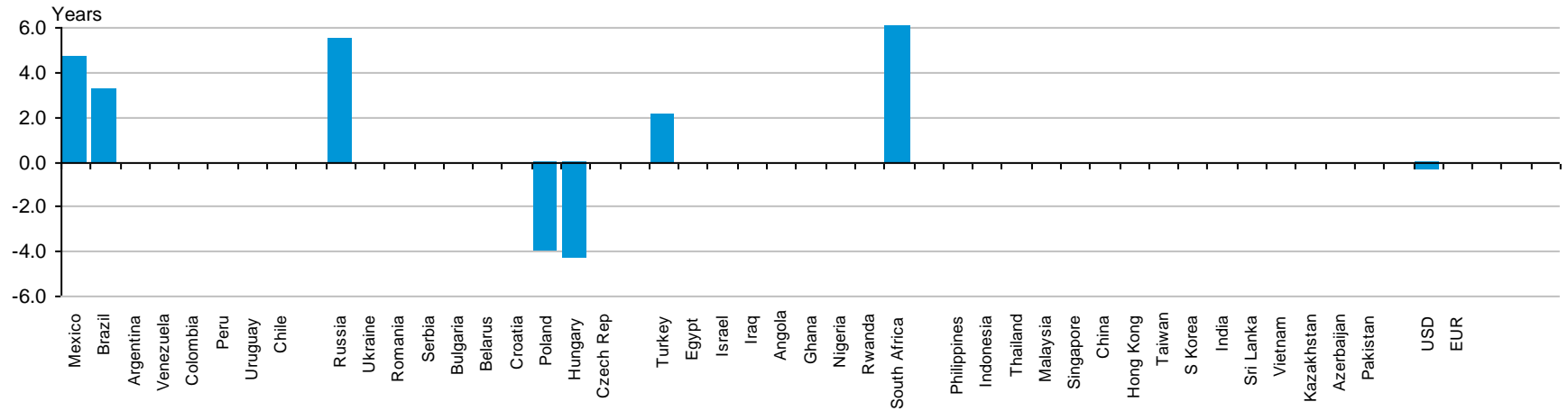
Source: GAM

Note: FX forwards valued at mark-to-market of contract notional. CDS valued at mark-to-market of contract notional.

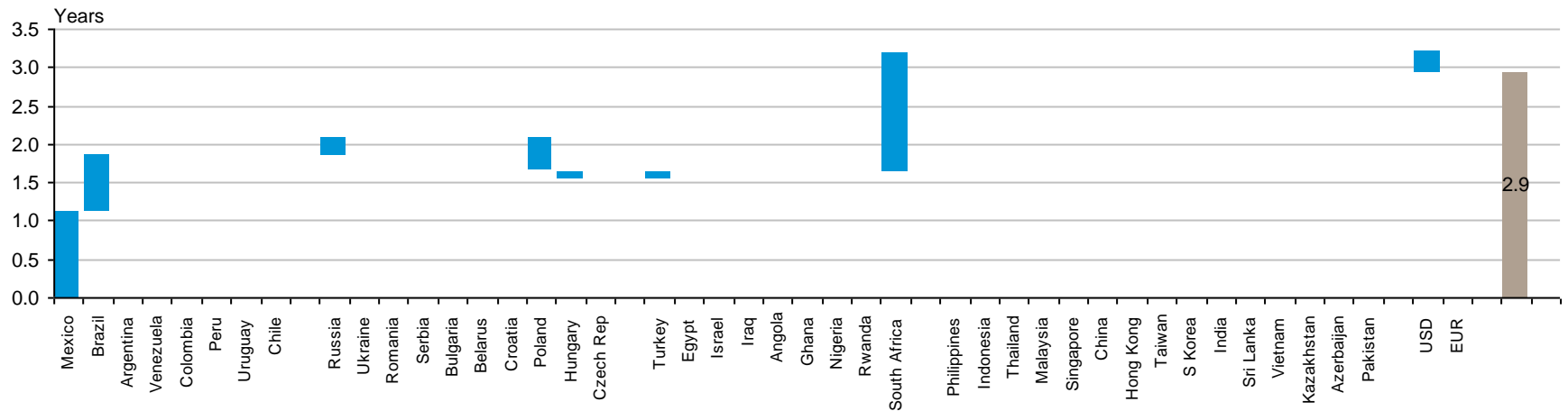
Modified duration profile

as of 31 October 2018

Weighted average modified duration by market



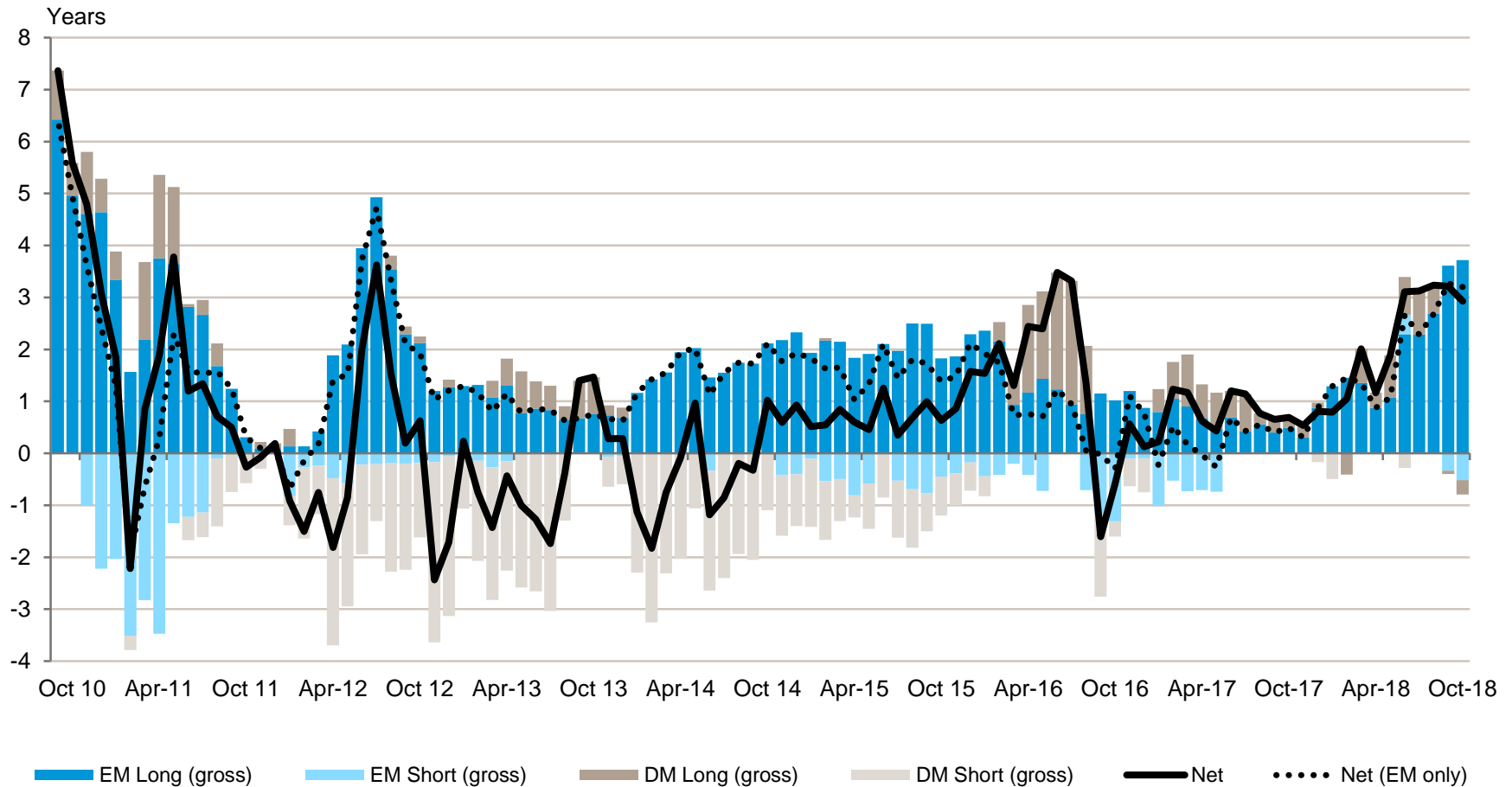
Marginal contribution of single markets to portfolio modified duration



Investment style: Rates

Marginal contribution of markets to portfolio modified duration, as of 31 October 2018

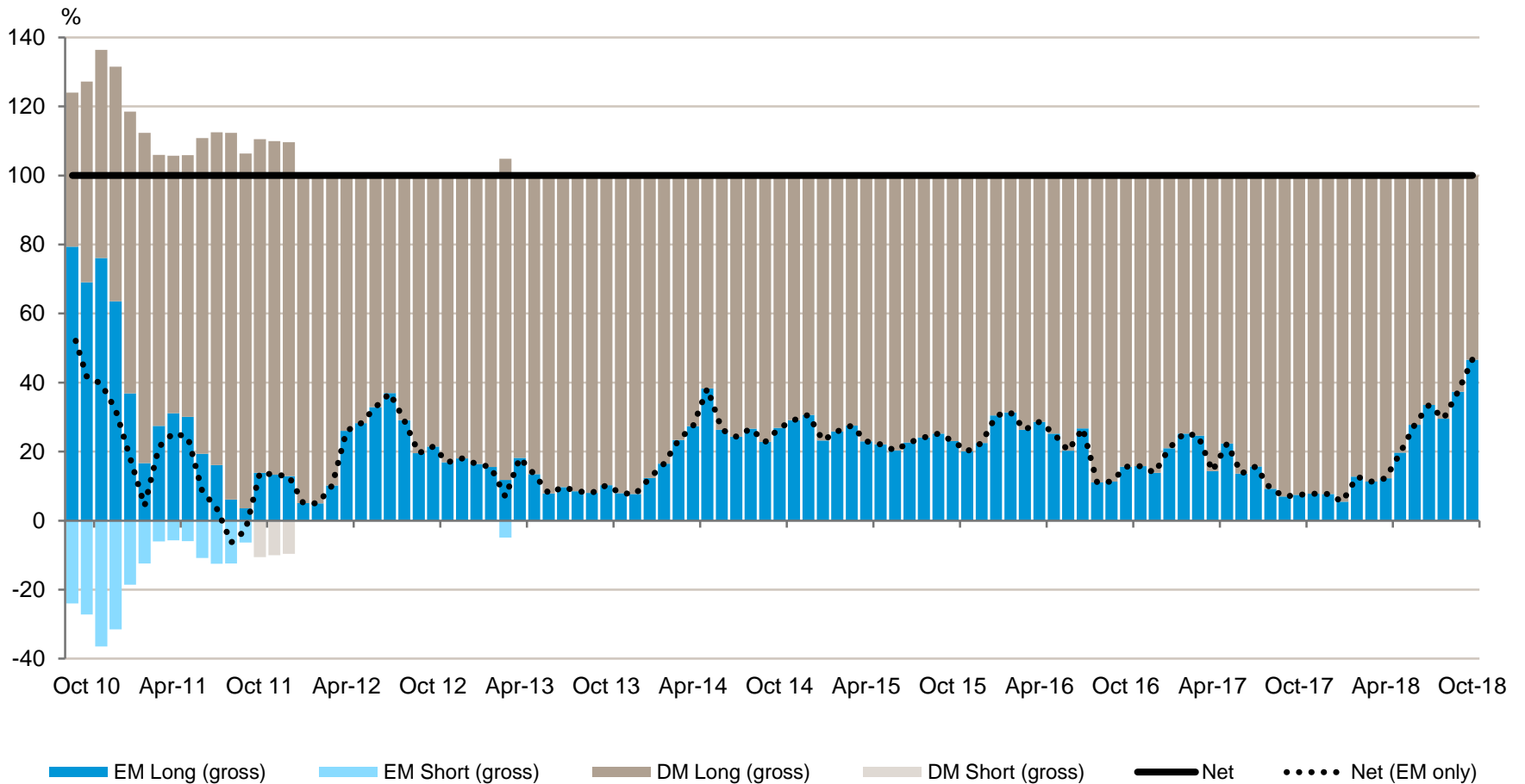
Regional rates exposure



Investment style: Credit

Including cash & cash equivalents, as of 31 October 2018

Regional credit exposure



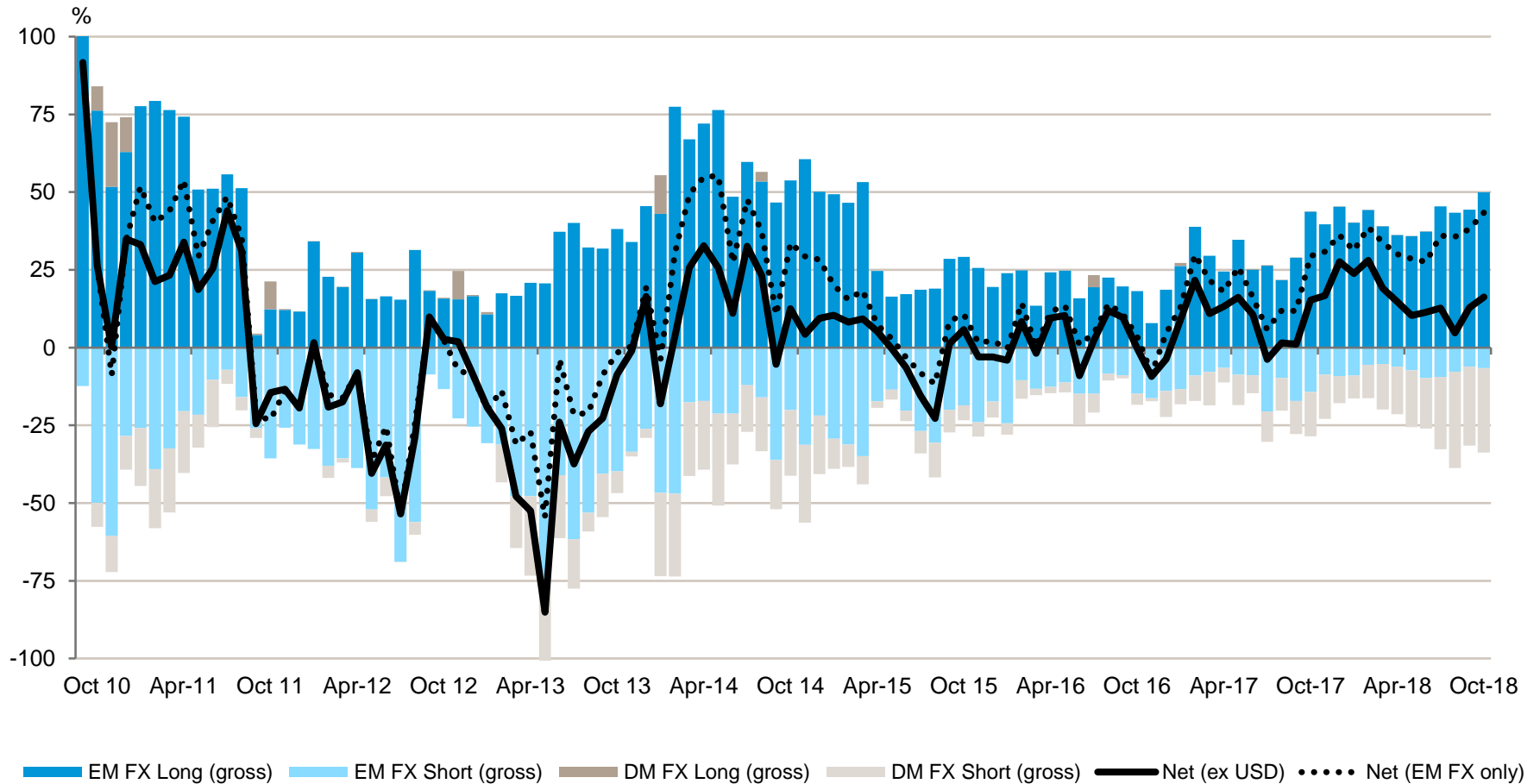
Source: GAM

Note: Weighted average credit rating of financial instruments held by the fund based on equal weights, non-default risk-adjusted ratings scale. Credit derivatives valued at mark-to-market of notional value.

Investment style: FX

FX exposure, all values as % of fund volume, as of 31 October 2018

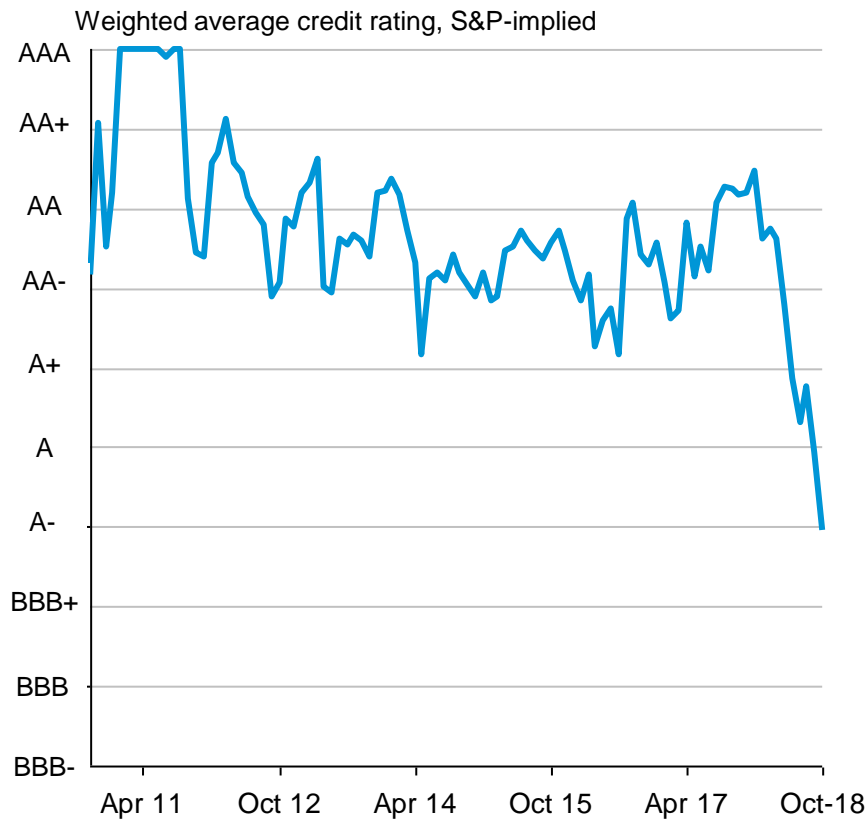
Regional FX exposure (ex fund reference currency USD)



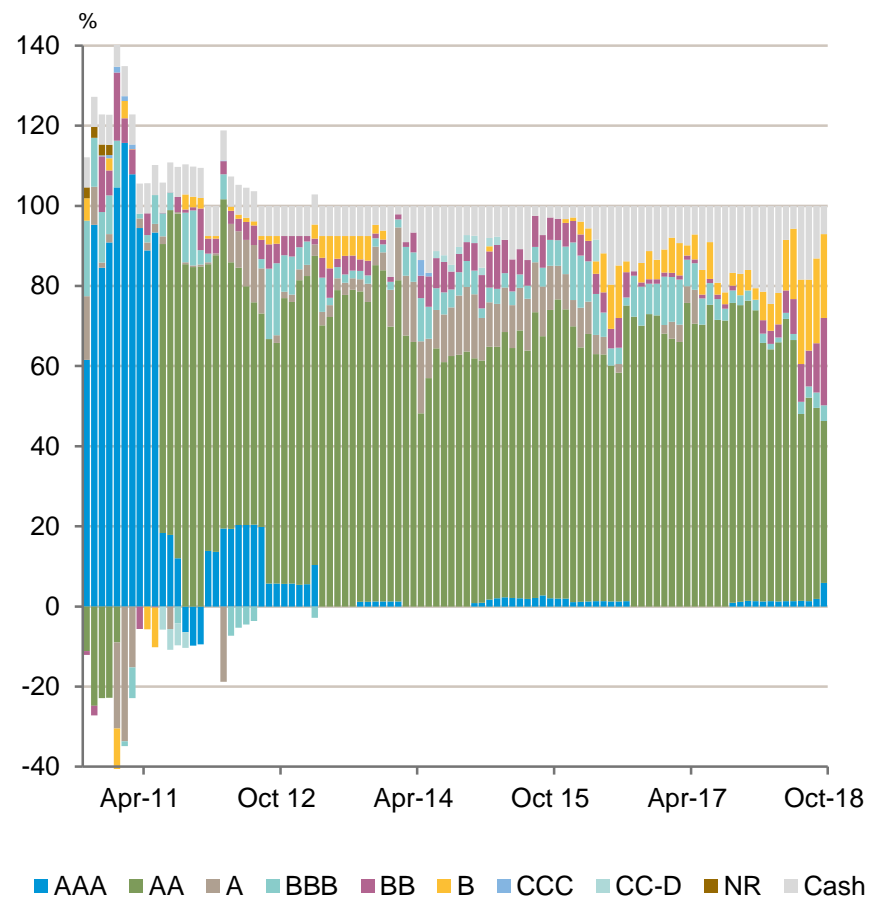
Investment style: Credit

Including cash & cash equivalents and CDS, as of 31 October 2018

Average credit rating (incl CDS)



Credit structure (incl CDS)



GAM Star Emerging Market Rates

Fund facts

Investment objective	Absolute returns within a tightly risk controlled environment. Utilises local and hard currencies and a fundamental, top-down, diversified approach to create a primarily relative value portfolio of global emerging market fixed income securities, currency and derivatives.
Fund type	UCITS
Fund managers	Paul McNamara and Denise Prime
Inception date	13 Apr 2010
Currency classes ¹	CHF, EUR, GBP and USD classes are available
Index for comparison	3 Month Libor
Dealing day	Any business day
Investment manager and sponsor fees ²	Institutional class: 1.00% Ordinary class: 1.50%
Performance fee	10% over 3 Month Libor on a high watermark basis.

Source: GAM.

¹ Active currency positions are integral to the manager's investment approach, however he seeks to prevent unintended currency exposure by hedging back to the base currency of the fund

² Excludes administration and custodian fees – please see Prospectus for further details on fees.

- 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.
- 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.
- 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.
- Currency Risk – The value of investments in assets that are denominated in currencies other than the base currency will be affected by changes in the relevant exchange rates which may cause a decline.
- Market Risk / Emerging Markets – Emerging markets will generally be subject to greater political, market, counterparty and operational risks.

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