

GAM Investment Meeting Notes

For accredited, professional, institutional and/or qualified persons only

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Convertible Bonds

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- The year 2011 has been challenging, and performance for GAM Star Global Convertible Bond for the period – barring any major surprises in the concluding weeks – will ultimately be negative, echoing the returns of every relevant index. While the numbers are disappointing, the fund has performed how it is designed to – minimising losses on the downside. Our hedging strategies have been successful, with the overlay hedge adding approximately 3.6% to gross performance in the second half of the year.
- Standout investments for the year include Autonomy and Bulgari – both of which represented take-over situations in a negative market. Autonomy delivered returns of around 50% for the fund, while Bulgari returned approximately 70%.
- Aside from these names, our trading activity has focused on avoiding negative positioning. We refrained from buying into a lot of the new issuance coming out of Asia, not because the companies on offer were necessarily bad ones, but because the bonds were overpriced. One of our investment mantras is not to buy expensive paper – which proved beneficial as the Asian market underperformed significantly over the year.
- One opportunity we missed was not holding long CDS protection on the portfolio itself. We took the view that while the banking and sovereign world was under threat, corporate balance sheets were in fairly good shape – an outlook which we believe still holds true, with corporate credit reflecting a decent investment opportunity.
- Political uncertainty is delivering shocks to the market on a daily basis, ensuring volatility levels remain heightened. 2012 will likely deliver an extension of the worries we have endured over the course of this year, with conditions remaining very challenging. We believe adopting a trading-style approach to such conditions represents the best way to extract value.
- Regarding our strategy, we intend to continue our current approach – playing the overlay hedge as aggressively as possible and locking in maximum gains to generate positive performance. We are currently positioned strongly in Europe but own very few quasi-sovereign names – those implicitly guaranteed by the respective sovereign – due to the conversion restrictions written into many prospectuses.
- Despite the difficulties the year has delivered, convertibles have not had to endure the negative investor sentiment they suffered in 2008. Investor concern has been focused more on macro funds and long/short equity strategies. As a result, we have not witnessed an extreme cheapness in bond prices. We see good value in credit and fair value in volatility. The decline of proprietary trading activity within banks has impacted demand within the convertibles market, resulting in more attractive deals for other investors, such as ourselves.

Source: GAM

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