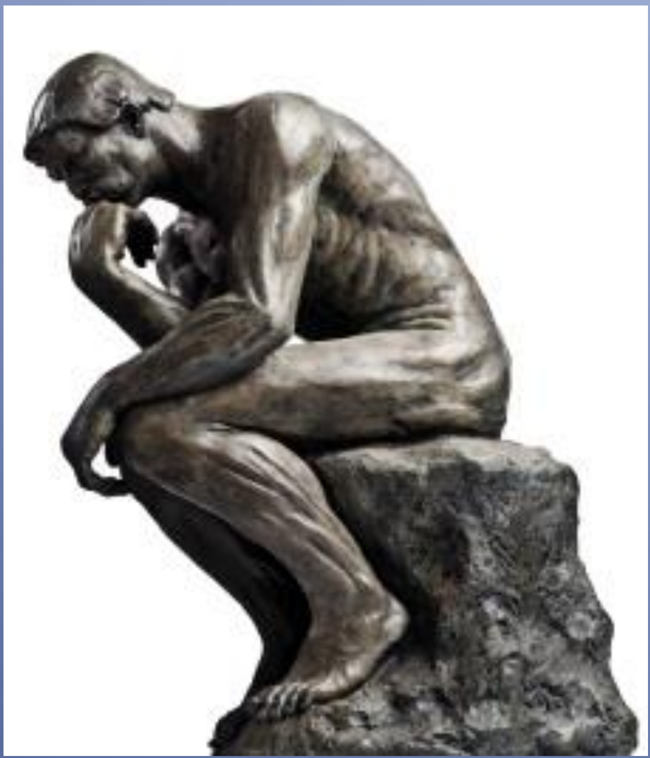

Fund Bites

GAM Star Continental European Equity Fund

The GAM Star Continental European Equity Fund is not part of our portfolios. The fund is domiciled in Dublin and currently we are unable to hold this within the portfolio, we are hopeful this will change over the next twelve months. This "fund bites" is a summary of the recent meeting we had with the fund manager, Niall Gallagher.

Introduction

We currently use the GAM North American Equity Fund in our portfolio; this is a conviction driven fund and has a concentrated portfolio of stocks. For this reason we arranged a meeting with Niall Gallagher who is the manager of the European Fund and follows a similar approach.

As we were leaving the meeting Niall mentioned he began his career as an economist at the Bank of England, clearly to hold such a position is no easy task! By the time we were leaving the meeting we were already impressed by his approach so this was just confirmation of his pedigree.

For him Europe is clearly a global play, half of revenues come outside of Europe and it is expected that emerging markets and the US will be around 60% of revenues by 2015. This provides an indication of the type of companies he is looking for.

On a macro level he is fairly bearish about Southern Europe. The write down on deposits for Cyprus is a worry; if a similar situation occurred in Italy or Spain this could cause a run on the banks. Northern economies are in a better position.

Niall believes you are not buying into Europe because of the macro picture but because it is a global asset class that is mispriced. This leads on nicely to explaining the fund and the style of management.

The Fund

This is a conviction lead unconstrained portfolio so you wouldn't expect to see the fund to follow a set benchmark of European stocks.

The range of holdings can vary from between 30 and 50; currently he is holding 35 companies and feels that this focused approach enables him to know the companies well.

In this environment there are always companies that will make money. An example of this is Paddy Power which is based mainly in the UK, Ireland and Australia. It is growing in a market which didn't exist before, i.e. by bringing people into the market who weren't there before. The business produces high returns, has good cash flow and the ability to grow.

One area I often hear talked about is the value of meeting management and Niall says that management is important but they will only give you numbers. More value is placed on what the industry thinks and this is through suppliers and former employees as this gives a real feel for the business.

An example of this is Roche; they took a position in the stock when the value was low. It is a cash generative business and invests heavily in research and development. When looking to invest Niall spoke to other companies who said that what Roche did was very hard to replicate and it was this that was underestimated by the market. Shares have started to go up now and really nothing has changed. Of course he could have been wrong but this demonstrates his conviction based approach.

Another example is Anheuser Busch the market view is that it couldn't grow market share. It is a mix of businesses in Latin America and Europe. It cut costs and ripped out wasted expenses. In addition it has been able to grow market share in Brazil and Europe against market expectations. For Niall this is a cash machine with the ability to deliver 10% p.a. returns year on year.

We talked about Inditex which is a holding Artemis have sold, again Niall feels this is a great business but the value is a little high he has therefore cut exposure to this but if the opportunity arises he will build his exposure back up.

With Banks he feels that deleveraging in Europe has some way to go when compared to the US. Combined with almost zero interest rates trying to get good returns will be hard. He likes SocGen but very few others.

The fund doesn't look to take on risk, it hunts in the large cap ground so they are looking to buy the best companies they can find but valuation is crucial. If it is high they won't pay.

There are around 70 to 80 companies that Niall actively follows. The turnover on the fund is low and it is a long term holding approach.

The other aspect of the management I liked was the supportive structure which doesn't look to replace managers who underperform as long as they stick to what they know. This means that managers don't try to chase short term performance.

The fund has an excellent track record and certainly would be one that we would consider holding. However at this stage we cannot access this fund for the portfolios but we are hopeful that this will change.

Conclusion

Niall is the type of fund manager we like and we will continue to monitor the fund carefully.

Clearly when approaching Europe it is more about considering it is an opportunity to invest in global companies which are cheap!

The source of information in this note has been provided by GAM and is correct as at 24 April. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase this fund. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise.