

# GAM Star Fund plc - GAM Star Cat Bond

Commentary October 2023

For professional intermediaries only

## Management team



**FERMAT**  
CAPITAL MANAGEMENT

Fermat Capital Management, LLC

## Monthly performance

Returns were very strong this month. Seasonally adjusted spreads have actually started widening in many bonds with all the new issuance coming to the market, but marks still needed to make up from the lags in August and September.

## Portfolio changes

There was very little portfolio activity in October. While the rest of the year will be extremely active, we do not anticipate major changes to the portfolio's risk profile. We are expecting to see an unusually high six cyber insurance deals and six European-exposed deals in the next two to three months (along with issuances in the more typical programs and perils), but we do not foresee significant changes in the portfolio's exposures to these perils at this time. Cyber insurance exposure in the traditional insurance / reinsurance markets continues to grow at a fast pace, and it is only a matter of time before it becomes a big peril in the insurance linked securities (ILS) markets as well.

## Catastrophes

While October saw several hurricanes in both the Atlantic and the Pacific basins, Hurricane Otis in the eastern Pacific Ocean was the only notable storm.

Hurricane Otis underwent rapid intensification going from a tropical storm to a Category 5 hurricane within a period of around 12 hours, making landfall near Acapulco on the western coast of Mexico on 25 October. Significant damage to life and property has been reported in and around Acapulco with initial insured loss estimates in the low to mid billions.

The only position in the portfolio impacted by Hurricane Otis is the International Bank for Reconstruction and Development (IBRD) Capital Adequacy Ratio (CAR) 128 Class D notes. There is USD 125 million outstanding notional of this bond in the market, and the portfolio only has a minor position. The market is currently pricing in a 50% principal loss (so this has been taken into account in the October performance), which we believe is conservative.

## Market conditions

Only one USD 230 million new issuance catastrophe bond deal closed in October, and there was only one maturity (of USD 100 million). However, there were many deals announced during the month and many more are expected to be announced in November. November should be one of the busiest months of the year in terms of number of deals priced. Investor demand still appears quite strong (especially in the index triggered bonds), but we believe the new issuance supply will be more than sufficient to satisfy it.

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