





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INVESTING IN THE "BUILDING BLOCKS" OF THE GLOBAL ECONOMY

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by Alex Nicholas Lee

Find out more about the PRU Global Basics Fund, launched here recently.

Prudential Asset Management Singapore recently launched the [PRU Global Basics Fund](#), a unique fund that feeds into the M&G Global Basics Fund.

Mr Graham French, both a director at M&G Investment Management Ltd., and the fund manager for the M&G Global Basics Fund, has received a AAA manager rating by Citywire, and is the only fund manager in the UK with 3 funds in the top 100 funds.

The M&G Global Basics Fund itself has also been given a 5 star rating by S&P as well as a 5 star rating by Morningstar. It is not surprising then to see that this fund, which invests in "anything you can eat, drink, wear and drive", has an immense size of SGD 2.406 billion under management.

In a recent interview with finatiQ, Mr French outlined his investment outlook on global equity markets as well as shared on his investment process for the PRU Global Basics Fund.

The Russian Phenomenon

Mr French has identified a global economic trend that he terms the "Russian Phenomenon". Throughout the 1990s, Russia was producing constant and large supplies of commodities such as platinum, copper, nickel and Brent crude. At the turn of the century, it came to a point where Russia had run out of excess commodities for export at a time when demand for commodities from China and India was rising.

According to Mr French, China alone consumes 40 per cent of the world's cement, 50 per cent of the world's steel and 30 per cent of the world's copper. China is the second largest energy user in the world and is the second largest producer of electricity today.

He believes that this has resulted in the current high level of oil prices today, platinum prices reaching a 40 year high, and demand for iron ore rising 70 per cent in just the last year alone. Growth in demand for copper has been over 300 per cent in the last decade, during which time, the world has not found one new major copper mine.

In light of the Olympics being held in China in 2008, Mr French says that it is extremely unlikely that the Chinese government will let the economy slow down or run out of steam before then. High commodity prices are here to stay; it is just a matter of how to position oneself so as to take advantage of the situation.

The Emerging Consumer

Mr French believes that the next big opportunity in the global equity universe is what he calls the 'Emerging Consumer'. With the rise of China and India, he sees that consumers in these emerging markets will travel a well trodden path that consumers in developed countries have previously gone down.

He says the trend is so intuitive that even a child would be able to identify the transitions undertaken by consumers going from emerging to developed markets. The basic necessities are first food and shelter, then basic infrastructure. As the population becomes more affluent, they begin to demand consumer durables and better housing. Later, one would expect to see increased expenditure on cars, leisure and travel. Finally, would be strengthening of demand for branded good, branded foods, personal care and jewellery.

As the Chinese and Indian populations move up the consumer food chain, Mr French believes that it is simply a matter of identifying the right companies within that framework that will be feeding into potentially 2 billion new consumers, as opposed to the 250 million US consumers currently.

His Investment Strategy



Mr French adopts the strategy of investing in the 'building blocks' of the global economy. The fund invests in a broad and diverse universe, from chocolates to gold mines, with focus on primary (raw materials) and secondary (products and services) industries in line with macroeconomic trends.

On a micro level, he looks for well established, cash generative, dividend paying companies, with attractive tangible assets, a strong competitive edge with sustainable market share, a proven business model, financial strength, low valuations and the ability to generate consistent strong margins throughout economic cycles.

The fund is actively managed and is benchmark aware but unconstrained so as to allow it to be dynamic enough to change investment approaches when the need arises.

That being said however, Mr French does not believe in short term trading. The average holding period of the fund is 5 years.

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