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PRU GLOBAL BASICS FUND GETS 5-STAR MERCER FUND RATING

22/12/2005

Mercer recently completed the review of PRU Global Basics Fund and accorded it a 5-star rating. This is the first time the fund has been reviewed.

Research View:

The PRU Global Basics Fund feeds into the M&G Global Basics Fund. The M&G Global Basics Fund, managed by M&G Investment Management Limited (M&G), was incepted on 17th of November 2000. The Fund aims to provide long term capital growth through investments solely in "basic" companies linked to primary industries (raw materials) and secondary industries (products and services), which are also defined by M&G as being "building blocks" of the world economy, and often described by M&G as companies that produces "anything you can eat, drink, wear, drive, smoke, etc". According to M&G, the Fund will not buy into a company that does not fall under this definition. As such, companies in the technology, financials, media, telecoms and pharmaceuticals sectors are excluded. However, the Fund is able to invest, up to 15% of the Fund's portfolio, in companies that, from M&G's perspective, are conducting businesses that are linked to the primary and secondary industries but are, for some reasons, categorised by index providers to belong to the technology, media, telecoms, financials and healthcare sectors.



Graham French is the lead portfolio manager of the Fund. French is fully involved in the management of the Fund from the idea generation (via company onsite visits and team discussions on valuation models) to portfolio construction and implementation. He is supported by other members of the team which consist of two fund managers and seven other analysts. The deputy fund manager is David Janes, who is Head of Equities Investment at M&G. Janes oversees the operations of the team and handle non-investment issues, so that French is able to be focused on managing the investments of this Fund and his other portfolios. This team is also supported by the global research team which comprises a total of 35 analysts and a portfolio risk management team.

Both fund managers and analysts are involved in supporting idea generation for this Fund. Each member of the team has to contribute a 'five-minute-pitch' of an idea to the whole team on a monthly basis. Any ideas agreed upon by the team for development of further analysis from the 'five-minute-pitch' will have to undergo a thorough research and analysis before investment decisions are made. Investment themes are also considered and researched upon.

All stocks must undergo the research process and have a formal view formulated before it can be considered for the Fund portfolio. French has the ultimate say on what stocks should be incorporated in the Fund portfolio. Essentially, French adopts a pure bottom-up stock picking approach for the Fund, with a long-term investment horizon. The stocks which he picks are the more well established, global, cash rich, fundamentally undervalued companies that are capable of generating consistently strong margins throughout economic cycles.

M&G adopts an active investment approach in managing the Fund portfolio where they aim to maximise returns from active stock positions. They also do not embrace the benchmark when managing portfolio. Considerations for liquidity and capital preservation are important when constructing the portfolio. The lead portfolio manager, French, calibrates the risk level of each stock position in the Fund to be aligned with his conviction for each stock. M&G also uses style analysis to monitor the portfolio.

Mercer views that this is a fund that is very well managed by Graham French and has strong potential for continuing long term out-performance in the future. This view is conditional on French continuing to be the lead portfolio manager of the Fund and that he remains fully involved in the management of this Fund. The Fund would be suitable for investors wishing to invest in the global basic industries sector.

16 December 2005

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