

fund focus

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PRU Global Basics Fund

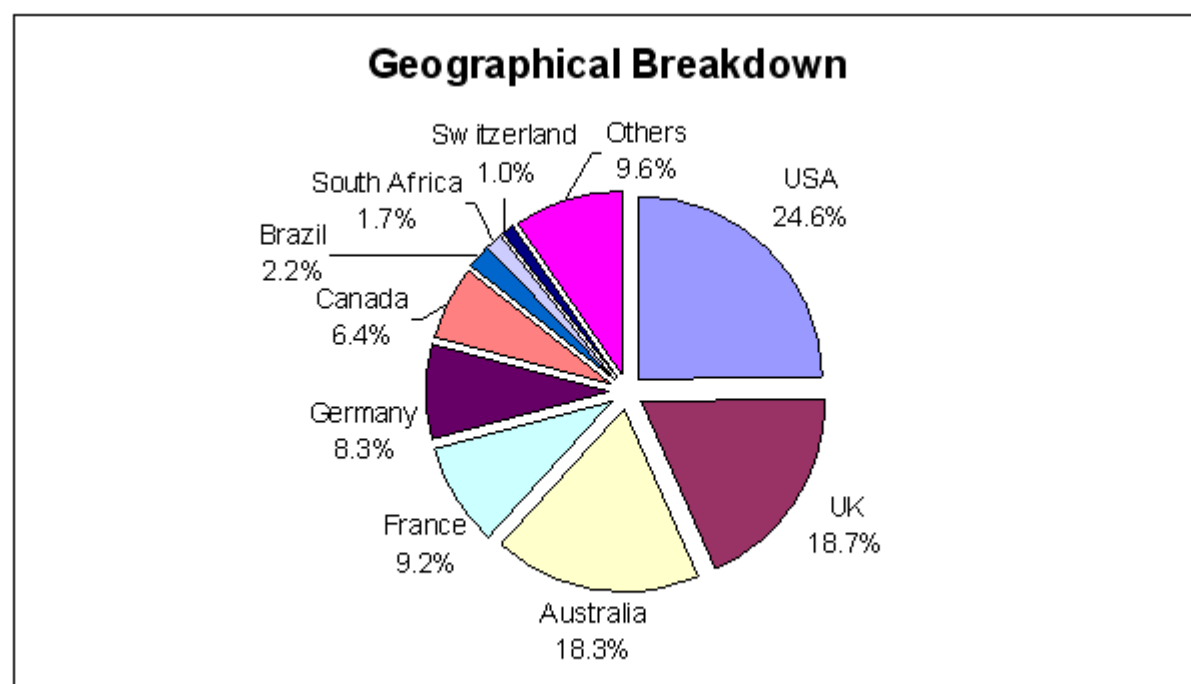
This new global equity fund aims to invest into everyday essentials. Find out more here.

by Jean Paul Wong

PRU Global Basics Fund

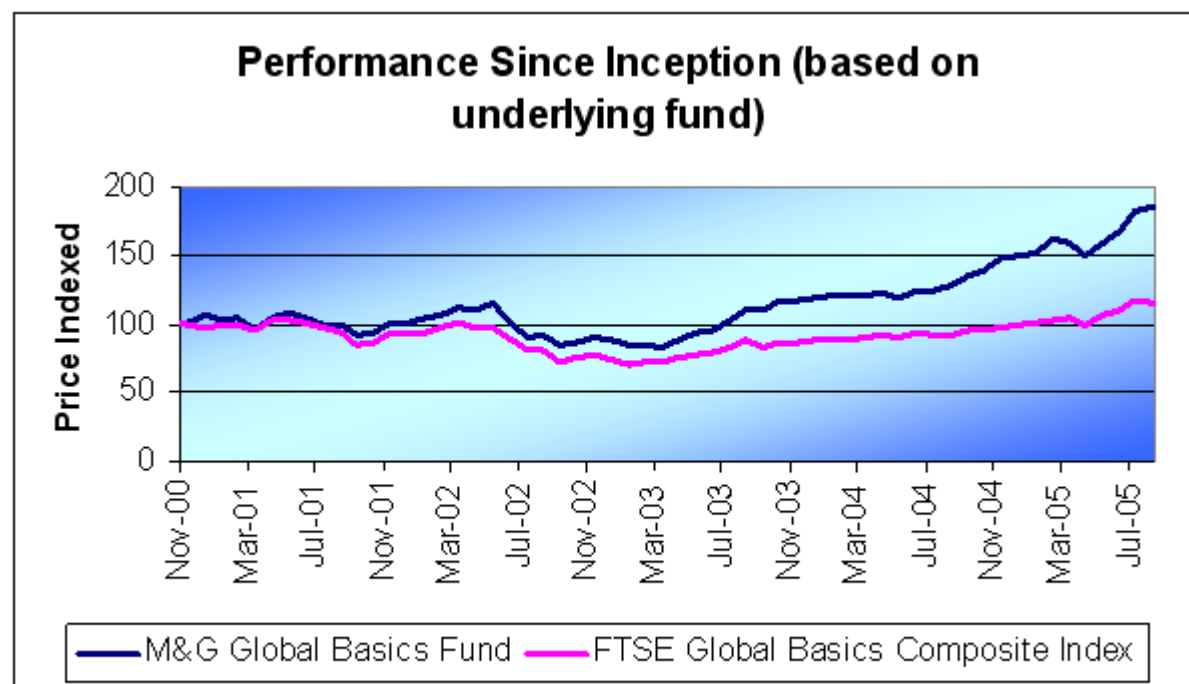
The PRU Global Basics Fund aims to invest into companies that produce "anything you can eat, drink, wear, drive etc." Something mundane, you may think, but this simple investment philosophy has translated into impressive returns for the fund. The PRU Global Basics Fund is a global equity fund which is Singapore-registered and feeds into the award-winning M&G Global Basics Fund. It is managed by Graham French, who has been at the helm since the fund's inception in November 2000. French has 16 years investment experience at M&G Investment Management Limited. The fund is rated 5-star by both Standard and Poor's and Morningstar, and has an underlying fund size of about S\$2.405 billion (as of 31 August 2005).

Although the fund's investment decisions may be driven by one or more themes identified by the fund manager, it is first and foremost a bottom up fund investing in companies that are considered to be the "building blocks" of the world's economy. These comprise companies in both primary industries (involved in the extraction of raw materials) and secondary industries (involved in the conversion of materials into products and services for the consumer). The fund has 40-80 stocks, with the top 10 ideas constituting at least 25% of the portfolio. It is slanted towards larger, more established companies: small capitalisation stocks with a market value of around US\$1 billion do not make up more than 30% of the fund. The geographical breakdown for the fund shows that a large majority of the investments go into companies from the developed world.



Source: Standard & Poor's (as at 31 July 2005)

The fund manager says that the fund does not invest in the financials, healthcare and technology sectors although the fund's mandate allows it. He adds that the fund wants to focus on companies with physical assets, not paper assets. As a result, the fund's investment universe is only about 60% of the FTSE World Index. The benchmark for the fund, the FTSE Global Basics Composite Index, reflects this too: it is an internal composite benchmark which closely reflects the fund's investment universe. The performance for the PRU Global Basics Fund has been impressive: it delivered 45.28% over the last 1 year, 26.55% over the last 3 years and 13.77% since launch (returns are annualized, calculated on a bid to bid basis with net income reinvested and in Great Britain pound as at 31 August 2005).

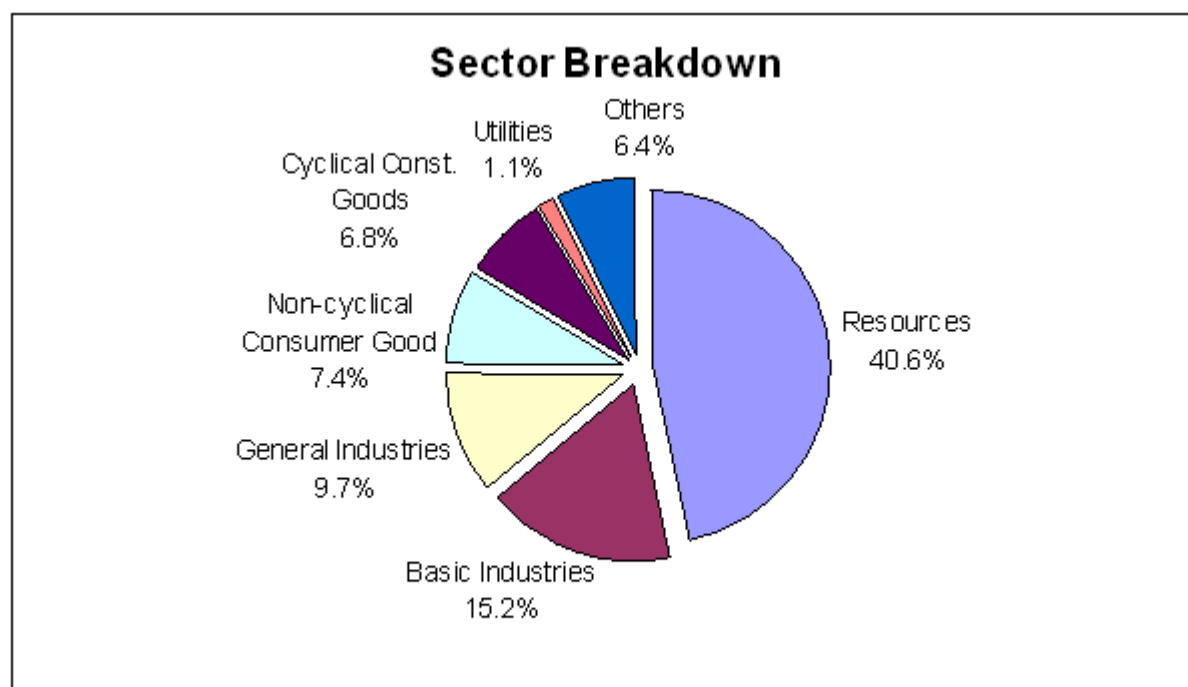


Source: Bloomberg & Prudential Asset Management (Singapore) Limited

Despite being a bottom up fund, stock picks generally are part of a bigger theme, such as companies benefiting from demand for raw materials or consumer goods in Asia. This means that the fund is likely to exhibit strong sector or common factor bias.

Commodities Sector: An Important Theme

For the past three years, one of the prevailing themes driving the fund has been the commodities sector. This is reflected in the sector allocation of the fund, which has about 40% of its holdings in resources companies as at end-July 2005. The commodities sector has added a kicker to the returns for the fund, which has benefited from the strength of commodity prices over the last three years. Energy stocks, in particular coal, like Peabody Energy and Consol Energy from the US, have been among the best performers for the fund this year. Non-resources stocks which have performed well year-to-date include Falconbridge (steel), BPB (plasterboard) and Goodrich (aerospace and defence). Falconbridge has benefited from the Asian demand story. Some other strong performers outside the top ten include several familiar names including Reebok and Allied Domecq, which have both been bid for this year.



Source: Standard & Poor's (as at 31 July 2005)

Outlook: Commodities Demand To Remain Strong

The current exposure of 40% to the commodities sector may raise some eyebrows as some investors wonder if commodity prices will take a tumble after having had such a strong run. Given the exceptionally strong returns produced by resources stocks over the last two years, French admits that he ought to be more apprehensive. But regular meetings with company management from the commodities sector have reassured him that there is still much more to come.

French quotes the example of Rio Tinto, an international mining company from Australia. He says that despite being a notoriously conservative company, Rio Tinto's CFO commented that he has never seen anything like the levels of demand that they are currently experiencing. He saw no evidence of a slowdown in demand from China. Shipping rates have crept up even though many new ships continue to come on stream, as there is insufficient supply to satisfy demand. The same applies to railways – they are at full capacity. French has heard similar comments from the CEO of BHP Billiton, another bellwether in the resources sector. An additional bright spot concerns merger and acquisition (M&A) activity in the commodities sector. This year, the fund has benefited from bids for WMC Resources (from BHP Billiton), and Falconbridge (from Noranda Inc.), and the prospect of further M&A activity continues to underpin prices.

Besides surging demand from China, India and other emerging markets, demand is further supported by Japan and Europe, which together account for around 40% of global demand for commodities. The fund house believes that the latter economies are showing signs of recovery after long periods of underperformance. On the supply side, the fund house expects it to continue to be tight. Russia is facing serious under-investment in production and exploration of natural resources and the fund house believes that it will be many years before Russian mineral output becomes a major factor in global markets again.

The bullish assessment on the commodities sector means that the fund expects to maintain its exposure to commodities at about 40% in the foreseeable future. At the same time, the largest risk for the fund inevitably comes from its concentration in the sector, but the fund manager feels confident that the largest out-performance will come from there.

Stock Selection

Before putting a stock in the portfolio, the fund manager takes into account the following characteristics:

- A proven business model
- Well-established brand with global appeal
- Financial strength (strong balance sheet, good revenue growth, natural barriers to entry)
- Successfully managed by experienced management teams with strict levels of corporate governance
- Strong cashflow and attractive valuations
- Great distribution and marketing capabilities
- Ability to generate strong margins throughout economic cycles

Where Does This Fund Belong To In An Investment Portfolio?

The PRU Global Basics Fund can be part of the core portfolio for the long-term investor (click [here](#) to read about our core and supplementary portfolio). Global equity funds have a FundsUPERMART risk rating of 7 - click [here](#) to view our risk rating system. We encourage investors to diversify (click [here](#) to read an article on the importance of diversification).

If you wish to find out more about the fund, register for the talk [here!](#)

This article is not to be construed as an offer or solicitation for the subscription, purchase or sale of any fund. No investment decision should be taken without first viewing a fund's prospectus. Any advice herein is made on a general basis and does not take into account the specific investment objectives of the specific person or group of persons. Past performance and any forecast is not necessarily indicative of the future or likely performance of the fund. The value of units and the income from them may fall as well as rise. Opinions expressed herein are subject to change without notice. Please read our [disclaimer](#)

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