



LWM Consultants Ltd

Meeting the Fund Manager

M&G Global Basics Fund

The M&G Basics Fund is a pure equity play of around 60 stocks and has been managed by Graham French since launch. During that time it has seen every possible crisis – 9/11, Afghanistan, WorldCom bankruptcy, SARS, Iraq, Lehman’s collapse and credit crisis, European Sovereign Debt crisis, Japan earthquake and tsunami and Middle East unrest - but it has stuck to its principle theme which is to invest in the building blocks of the global economy.

Originally these themes really covered anything that we use but these have morphed into a central theme which includes raw materials, basic infrastructure, housing / urbanisation, food / agriculture, travel and transport, consumer goods, branded goods, lifestyle and environment. Graham has the flexibility to move up and down the curve depending on factors at any given point in time. Effectively although this might be a theme based fund, most global funds will invest in these types of companies and in reality it just installs a more disciplined approach.

M&G are very team based and Graham is keen to install the principle of the fund to all the team and involve them in the process. In the meeting I met two members of that team – Ben Constable-Maxwell and James Mievillie.

Investment objective and profile

The Fund aims to deliver growth by investing wholly or mainly in companies operating in basic industries (‘primary’ and ‘secondary’ industries) and also in companies that service these industries. It is a global fund.

Managing the fund

In the discussion around the fund it was interesting to understand the core values of the fund. There are seven drivers or beliefs – they believe in:

1. Investing for the long-term
2. Simple, long-only investment approach
3. Strong corporate governance
4. Constructive company engagement
5. Strict valuation discipline
6. Focusing on the underlying investor

The turnover reflects this at around 32 / 33% and a holding period of 3 to 5 years. We discussed price as a driver to buy or hold, this is mentioned by many. This was an interesting discussion clearly with many companies they have a good relationship so there is always that tug between longevity, loyalty and pragmatism. Sometimes the fund will sell when it is difficult to sell (i.e. the fundamentals are still good), so cutting back winners and sometimes the fund may cut back too early.

The point is that the price is not always the target, an example was Goldcorp, a good company and a good valuation but for the price of Goldcorp the fund could invest in four other equally good companies and there are other examples so it's a question of deciding whether the money can be put to better use even if it means passing by what seems a good opportunity.

As a company M&G share ideas across teams, and look to meet all companies that they invest in. It comes down to strong balance sheets and healthy well run businesses which can sustain whatever is happening around them. Graham is also looking beyond China to where there might be new opportunities – for example in the likes of Africa and India.

This was an interesting discussion to get a feel for some of the holdings – PZ Cussons is a UK listed company with a variety of well-known brands; it derives around 60% of its revenue from emerging markets. Where Graham sees a lot of value is that the company has been in Nigeria for 100 years and this is seen as a big growth market, many companies are looking to get access to the market whereas PZ Cussons already has that access.

Another interesting company was an Indian company called Marico which is a leading Consumer Products and Services company. 1 in 3 Indians use their products and one of those is a unique shampoo using coco. As a growing market this offers a lot of opportunities and this is a well-managed company with a good team in place. So as such it is understanding the market opportunities, the geographical impact and the company itself.

In summary this is a global fund exploiting global opportunities. When we consider the statement by JP Morgan that 85% of the world want what 15% of the world have you can see how this fund plays well into this. M&G quoted this “for anything emerging markets make, prices will fall. For anything emerging markets need, prices will go up.”

Conclusion

As a holding in the portfolio this provides a good balance giving global exposure to quality companies playing in the changing demands of the world and we continue to think this is a good holding. It has delivered stellar performance since launch and we believe that the structure around Graham would ensure the fund would continue to deliver should Graham ever retire from managing the fund.

The source of information in this note has been provided by M&G and is correct to the end of April 2012. These are notes from meeting the fund manager 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 also note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise.