LWM Consultants Ltd
Meeting the fund manager

M&G Global Basics Fund

The M&G Global Basics Fund has been part of the portfolios since 2009. It has had a strong commodity play which has benefited performance but this is now shifting towards goods, food and agriculture.

The fund was established in 2000 and now has assets of over £5 billion. Since launch it has performed exceptional well on the back of commodities and this update with the manager was a chance to understand whether a fund which has benefited from commodity performance can continue to deliver in different sectors and at a much larger size.

There was an interesting discussion I had with a fund manager recently as to why they like small or mid cap investing, their response was simply that if they wanted to invest in a particular area or region then small / mid cap companies give them that exposure and expertise whereas a mega cap company would have a broader exposure and not necessarily the exposure to the particular area they wanted.

This is what we have to consider with the portfolios going forward. So for example does a global fund provide the broader exposure to the global markets which to some extent this fund does but then blend this on the higher risk scale with more specialist funds offering expertise in the areas of bio technology, agriculture as well as resources.

The discussion I think includes some interesting thoughts from the fund manager.

Overview

The main benefit of the fund is the flexibility to move the exposure to sectors depending on the team's view of the market. So historically they have had a commodity / material play on the back of emerging market growth however they feel these economies are shifting towards consumer led economies which will drive future growth.

This means re-engineering the fund towards goods, food and agriculture. They still have around 4% of the fund in assets which they are working to remove or gain value from but these are challenges at the current moment in time. So for example Aquila Resources has lost over 50% of its value and is effectively a stranded mine unless infrastructure is put in place but as large shareholders they need to work with the team to work towards a solution rather than walking away.

Another larger holding which detracted performance last year was G4S, the Olympics fiasco caused problems for the fund but the share price is now at an all-time high. The company is one of the world's largest global employers and they believed the Olympics were a short term issue. Rather than walking away or calling for the resignation of the CEO they supported him because they believe he is the right person to lead the company.

So moving the fund assets has dented performance however Graham believes the fund is now positioned to drive performance going forward. The types of companies which they now favour are the likes of the Kerry Group, Monsanto and PZ Cussons. These all address the need for food and are cash generative, high yielding and asset rich businesses.

He believes the thirst for commodities will dry or be more specific whereas there are opportunities as we have mentioned in the likes of food supply. Consider that the world population has increased by 2 billion since 1990, average grain land per person has halved between 1950 and 2007, severe weather has impacted on global crop production and there is constrained supply.

Moving goods needs global ports and DP World is one of the largest port operators in the world. It has 60 terminals in six continents and has 10 new developments in 9 countries. It is run independently with a high focus on returns.

So going forward the focus of the fund is changing and will likely change again in the future. Graham is very upbeat on equities. He believes the pattern is similar to the early nineties where we saw a 70% recovery in equity markets. We also have a cleaner banking system and low interest rates, if the banks start to lend then this will drive growth.

Turning to Asia it shows what can happen, they suffered their banking crisis in 1997 and whilst Europe is slow Asia appears to be busy with good growth figures. If we can move to this position then this will be positive for the markets.

In summary although we concur with the comments made more specialist funds can still benefit from commodities, clearly we are seeing the potential for agriculture stocks and this will be something we watch carefully going forward.

Conclusion

The fund has clearly benefited from the commodity sector and has spent time re-positioning itself whether it can capitalise on this going forward will be a wait and see game.