

# PRU Global Basics Fund

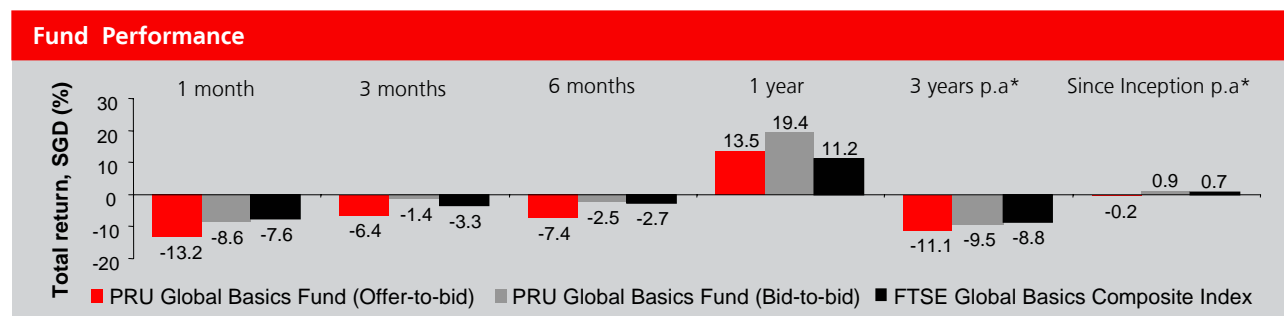
## Fund Update

**PRU Global Basics Fund** (the “Fund”) is organised as a feeder fund, which feeds into Sterling Class A shares of the M&G Investment Funds (1) – M&G Global Basics Fund (the “Underlying Fund”), domiciled in the United Kingdom. The investment manager of the M&G Global Basics Fund is the UK domiciled M&G Investment Management Limited (“M&G”).

### Commentary

#### Fund performance and market overview

Global stockmarkets fell heavily during a difficult month for equity investors as concern continued to grow that the debt crisis in the eurozone could send the economy back into recession. Although the agreement of a €750 billion support package for Greece initially helped to ease the market’s worries, Germany’s decision to ban naked short selling ignited concerns about the lack of coordination in government policy. Tensions also mounted in the Asia-Pacific region after North Korea was blamed for the sinking of a South Korean warship in March. At such an uncertain time, investors’ growing risk aversion was reflected in the relatively good performance of healthcare and telecommunications stocks. In contrast, financials and cyclical companies operating in the oil & gas and basic materials sectors were amongst the biggest losers. The Fund declined 8.6% (bid-to-bid basis) in May, while its benchmark declined 7.6%.



Source: Prudential Asset Management (Singapore) Limited and M&G Investment Management Limited. S\$; net income reinvested; Offer-bid includes 5% Initial Sales Charge. Inception date: 18 Oct 2005. \*Annualised. Past performance is not necessarily indicative of the future or likely performance of the Fund. The above performance data applies to SGD units only and not the USD and EUR classes.

#### Positive contributors<sup>1</sup>

There was a defensive theme amongst the best performing stocks in the portfolio, reflecting investors’ preference for those businesses less sensitive to the economy. For example, cashgenerative consumer goods companies such as UK-listed, but globally diversified, soap and personal care products manufacturer PZ Cussons, Russian food producer Wimm-Bill-Dann, US coffee chain Starbucks and Yum! Brands (owner of KFC and Pizza Hut) were helped by investors’ flight to quality.

The M&G Global Basics Fund (the “Underlying Fund”) also benefited from good stock selection in the industrials and oil & gas sectors, as well as a relative underweight to these cyclical areas of the market. In the industrials sector, the diversified Singaporean food, beverages and property firm Fraser & Neave (“F&N”) rebounded after a weak start to the month following news of better-than-expected earnings, related to the improving valuations on some of its property holdings.

Fund manager of the Underlying Fund, Graham French (“Graham”) continues to have strong conviction in the prospects for F&N. In his opinion, the company has made excellent progress in moving from holding a broad, but unproductive, conglomeration of assets into a much stronger entity focused on its core operations in the consumer goods and property sectors. In line with this objective, F&N sold its entire stake in glass container manufacturer Malaya Glass Products in May.

<sup>1</sup>Source: M&G Investment Management Limited.

Shares in Anglo-Irish oil & gas supplier Tullow Oil also steadied during May, and therefore outperformed the market, after enduring a steep fall in April. The Underlying Fund also benefited from its significant underweight to oil & gas producers at a time when the sector has lagged the market.

## Negative contributors<sup>1</sup>

Stock selection in the basic materials sector was the main reason for the Underlying Fund's underperformance. Commodity stocks in the portfolio came under pressure on fears that the debt crisis in Europe, and official steps to cool property speculation in China might hinder the global economic recovery, leading to weaker demand for raw materials. Consequently, copper, nickel, platinum, aluminium and steel prices fell sharply.

French nickel miner Eramet was the biggest single detractor, due in part to the weakness of the euro. Australian coal & iron firm Aquila Resources, Canadian nickel & coal miner Sherritt International and Anglo-African platinum group Lonmin also lagged the market and therefore weighed on the Underlying Fund's relative return. Nonetheless, Graham believes that the long-term growth outlook for these mining businesses outstrips any concerns about short-term demand.

Outside of the commodities sector, holdings in Pilgrim's Pride disappointed. The US chicken producer gave back some of its recent stellar gains in the early stages of the month after the company's management team announced its intention to bring back three plants to operation by early 2012. Investors were worried that boosting production would put pressure on meat prices. In Grahams' opinion, this short-term negative news-flow overlooks the quality of the corporation's assets and his conviction about the long-term potential of the business remains strong.

## Changes to the portfolio<sup>1</sup>

During the month, Graham initiated a position in Heinz, a manufacturer of consumer products including condiments, sauces, frozen foods and baby food. Graham believes that Heinz is an undervalued franchise that has changed dramatically in recent years. Heinz has undergone a successful transformation from a wide-ranging, but low-returning, food conglomerate to a far more focused business with a portfolio of profitable brands and impressive distribution capabilities. The company's management team has shown a strong commitment to prioritising shareholders and paying down a reasonably high, but affordable, level of debt. Furthermore, Heinz has established positions as a leader in key emerging markets, including China.

As part of his ongoing efforts to reduce the Underlying Fund's exposure to more cyclical parts of the market, Graham took advantage of a recent share price rally to complete the sale of the position in airplane and military equipment manufacturer European Aeronautic Defence & Space (EADS), a long-term holding in the portfolio, and Australian coal miner Alliance Resources Partners. He also sold positions in US-based dental products supplier Dentsply International and materials producer Minerals Technologies following a period of strong returns. In Graham's opinion, there are better opportunities elsewhere.

Graham used some of the proceeds from this sales activity to add to existing positions in Irish food ingredients firm Kerry, Australian construction materials supplier Boral, Dubai-based port operator DP World and UK-listed global security services provider G4S. These are companies with attractive assets that are investing shareholders' money wisely, have good earnings visibility and healthy cashflows.

## Geographical breakdown (%)

	Fund
USA	24.2
United Kingdom (UK)	18.3
Australia	13.4
France	9.1
Singapore	7.4
Germany	4.1
Canada	3.4
Austria	3.2
Others	16.9

## Industry weighting (%)

	Fund
Basic Materials	28.5
Consumer Goods	28.0
Industrials	18.8
Consumer Services	9.3
Oil & Gas	4.7
Healthcare	3.5
Financials	2.1
Others	5.1

## Top 10 holdings (%)

Company	Country	Industry	Fund
Fraser and Neave	Singapore	Industrials	4.6
Unilever PLC	UK	Consumer Goods	3.8
Tullow Oil PLC	UK	Oil & Gas	3.7
Colgate Palmolive Company	USA	Consumer Goods	3.6
Sims Group	Australia	Industrials	3.5
Lonmin	UK	Basic Materials	3.5
Ansell	Australia	Healthcare	3.4
Eramet	France	Basic Materials	3.3
Imerys	France	Basic Materials	3.2
Starbucks	USA	Consumer Services	2.9

Source: Prudential Asset Management (Singapore) Limited.  
All of the above refer to the data of the M&G Global Basics Fund.

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