

PRU Global Basics Fund

Fund Update

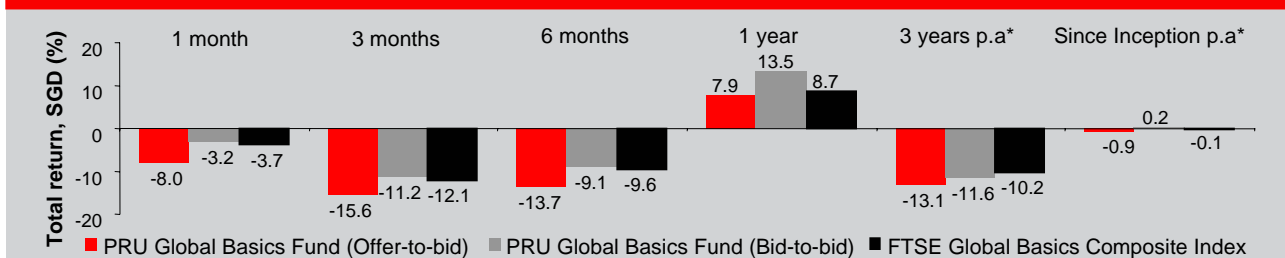
PRU Global Basics Fund (the “Fund”) is organised as a feeder fund, which feeds into Sterling Class A shares of the M&G Investment Funds (1) – M&G Global Basics Fund (the “Underlying Fund”), domiciled in the United Kingdom. The investment manager of the M&G Global Basics Fund is the UK domiciled M&G Investment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

Commentary

Fund performance and market overview

Global equity valuations came under further pressure during June due to concerns about the sustainability of the economic recovery. The sovereign debt crisis in Europe continued to weigh on investor confidence, which was further undermined by fears that significant cuts to government spending could lead to a double-dip recession in some European countries, particularly in light of the scale of the UK’s austerity budget. Sentiment was also dampened by disappointing economic data from the US and worries that policy tightening in China will hurt demand for commodities. Against this backdrop, it was no surprise that investors preferred the ‘safer havens’ of healthcare, telecommunications and utilities stocks over their more cyclical counterparts, namely industrials, technology and oil & gas. The Asia-Pacific region saw the smallest overall decline, while major raw materials producing countries such as Canada and Brazil lagged. The Fund declined 3.2% (bid-to-bid basis) in June, while its benchmark declined 3.7%.

Fund Performance



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 contributors¹

Risk-averse investors favoured stocks that are perceived as less volatile and this was beneficial for the Underlying Fund’s holdings in more cash-generative companies, such as consumer staples and food & beverages producers. UK-based personal care products manufacturer PZ Cussons, German fragrances & flavourings supplier Symrise and US oral care firm Colgate-Palmolive were amongst those that did well. In particular, the value of shares in PZ Cussons rose due to a positive reaction from investors to the company’s full-year guidance.

Elsewhere, some of the strongest returns for the Underlying Fund came through positions in Asian (excluding Japanese) companies, which generally outperformed their western counterparts during the month. Well-managed businesses benefiting from the increasing spending power of consumers in the region, such as Singaporean beverages supplier Fraser & Neave and luxury hotel operator Hong Kong & Shanghai Hotels, added value to the Underlying Fund.

Taking Fraser & Neave as an example, the fund manager of the Underlying Fund, Graham French (“Graham”) believes that the company will continue to benefit from its quality brand names and excellent distribution capabilities, not just in beer, but also in soft drinks and dairy products. Most importantly, Fraser & Neave’s management team has a clear strategy of managing capital allocation to maximise returns and maintain a

¹Source: M&G Investment Management Limited.

policy of improved dividends for shareholders.

Negative contributors¹

Higher risk aversion and concerns about the outlook for commodities demand weighed on nickel, copper and aluminium prices during June. This was detrimental for the Underlying Fund's holdings in raw materials producers such as UK-based platinum mining firm Lonmin, Australian metal recycler Sims Metal Management and French nickel miner Eramet.

The performance of Wimm-Bill-Dann Foods (WBD), Russia's biggest dairy firm, was also disappointing. Investors reacted negatively to news that the company might be interested in buying back rival Danone's 18% stake, should it become available. Graham remains positive about the prospects for WBD. The firm's management team has successfully cut costs while optimising productivity over the past year. In Graham's opinion, WBD is now well positioned to grow its market share in the dairy and baby food markets, both domestically and overseas.

Changes to the portfolio¹

Graham has positioned the Underlying Fund relatively defensively in recent months through adding exposure to established, cash-generative consumer staples businesses. In line with this objective, Graham initiated a position in Nestlé, a globally diversified Swiss-based food manufacturer that is benefiting from the rising wealth and changing consumer spending patterns across the emerging markets.

For similar reasons, Graham also added to the Underlying Fund's stakes in personal care products business PZ Cussons and leading security services provider G4S, both based in the UK, and Singapore-listed commodities trader Noble Group.

Another key transaction was the new position that Graham took in Centerra Gold, a Canada-based precious metals miner with operations in Central Asia and the former Soviet Union. Centerra's management team is focused on developing its reserves and production capabilities through exploration and the expansion of existing mines. Furthermore, the company has no significant debt and already generates strong and sustainable cashflows.

To provide some cash for these investments, Graham trimmed the Underlying Fund's holdings in cyclical names that have performed very well over the past year. These included Australian recycler Sims Metal Management, UK speciality chemicals producer Johnson Matthey and French chemicals producer Arkema. Graham also closed the positions in wine producer Constellation Brands and Schnitzer Steel, both listed in the US, and UK-based military research technology company Qinetiq.

Geographical breakdown (%)

	Fund
USA	20.5
United Kingdom (UK)	18.0
Australia	12.8
Singapore	10.2
France	7.5
Germany	4.4
Canada	4.2
Hong Kong	3.0
Others	19.4

Industry weighting (%)

	Fund
Basic Materials	26.9
Consumer Goods	24.5
Industrials	20.2
Consumer Services	9.1
Oil & Gas	4.5
Healthcare	3.6
Financials	2.1
Others	9.1

Top 10 holdings (%)

Company	Country	Industry	Fund
Fraser and Neave	Singapore	Industrials	5.0
Unilever PLC	UK	Consumer Goods	3.8
Colgate Palmolive Company	USA	Consumer Goods	3.6
Ansell	Australia	Healthcare	3.4
Tullow Oil PLC	UK	Oil & Gas	3.4
Imerys	France	Basic Materials	3.3
Eramet	France	Basic Materials	3.2
Lonmin	UK	Basic Materials	3.1
Sims Group	Australia	Industrials	3.0
Hongkong & Shanghai Hotels	Hong Kong	Consumer Services	3.0

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

Contact details

Prudential Asset Management (Singapore) Limited (Registration No. 199407631H)
30 Cecil Street #20-01 Prudential Tower Singapore 049712
Tel: 63179 618 Fax: 6536 3521
Website: www.prufunds.com.sg

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