

SHINING A LIGHT ON..... M&G GLOBAL BASICS FUND

At a glance

The M&G Global Basics Fund is somewhat of a wounded star. The fund was launched in 2000 with the concept being to invest in the 'building blocks' of the world's economy.

After a relatively strong period of performance, it started to slip. From 2006 to November 2013 the fund started to significantly underperform the FTSE World Index. This underperformance eventually led to the fund manager leaving M&G in November 2013 and retiring from Fund Management. At the time the fund had over £4.2 billion of assets and this has slipped to £2.5 billion.

The fund management was passed to Randeep Somel who had worked with Graham French (the founder of the strategy and previous manager) since 2005 becoming a dedicated analyst on the fund in 2008 and deputy manager in 2010. This is effectively his first management role and since 2013 the fund has continued to underperform the index.

With this background it is very hard to be positive about this fund. However, there is something for potential investors to consider. Firstly any new fund manager will take time to stamp their style on the management of the fund and therefore for this to come through into the performance, and secondly as French admits he felt it was time for fresh blood to come in.

The point being is that this fund has the potential to deliver, the past paints a very gloomy picture and Randeep has a chance to reverse that. It is a risk for investors, and potential investors must have a belief in him. The problem is that there is no track and so it is a case of believing in the process and pure blind faith! The fund assets have nearly halved since he took over the management of the fund and therefore it shows that many are not prepared to back Randeep.

In this update we will share some of the thoughts from Randeep and potential investors will need to consider whether this is enough to consider this fund as part of their portfolio

Who are the team behind the fund?

Randeep Somel became fund manager of the M&G Global Basics Fund and the M&G Managed Growth Fund, having previously been deputy fund manager on both funds since 2010. In 2008, he was promoted to dedicated analyst on the M&G Global Basics Fund, the M&G Managed Growth Fund and the Vanguard Precious Metals & Mining Fund. Randeep joined M&G in 2005 as a fund managers' assistant on the M&G Equities team. Prior to joining M&G, Randeep worked for State Street in a fund accounting role. He graduated from Birmingham University with a degree in economics in 2003.

Morningstar state "Randeep Somel has a very good understanding of the stocks in the fund, but he has yet to prove himself as a portfolio manager."

Fund highlights?

The concept behind the fund is sound.

It invests in companies considered to be the 'building blocks' of the world's economy. A key aspect to the stock selection process involves the assessment of structural trends in the global economy and the identification of those companies that are positioned to benefit.

This approach is illustrated by the M&G Global Basics 'curve of economic development' concept, which represents the changing needs of an economy at different stages of development. As the structural shift in economic power towards emerging markets continues to build momentum, the rising incomes and increasingly sophisticated demands of the consumer combine to create an emerging middle class. As nations 'move up the curve', basic demands for food and shelter are accompanied by increasing appetite for additional goods and services.

The fund can gain exposure to such themes by investing in best-in-class international companies with a durable competitive advantage that enables them to capitalise on such trends through their global operations.

So on paper this is a thematic global fund, and in theory if the fund manager can identify the right themes and select the right companies it should offer a point of difference within the global fund sector. Going deeper into the fund it is more diversified in that it has less weighting to the US (26%) with a wider spread to Japan, Asia and Emerging Markets as well as the UK and Europe. It is a multi-cap fund with a focus more towards the mid-cap sector and is concentrated at below 50 holdings with the top ten making up nearly 50% of the portfolio.

Randeep explained some of the underperformance since he took over the fund – part of this is due to the underweight to the US and part is due to the exposure to mid-cap which haven't responded in the same way as large cap investments.

So considering what has gone against Randeep since he took over we wanted to explore some of the stocks he holds. Two companies he mentioned have been subject to takeovers which have had an impact on performance – Elizabeth Arden and Publicis. Elizabeth Arden were close to agreeing a deal with a South Korean company which would have helped its expansion into Emerging Markets however following profit warnings this company pulled out of the deal. Over 12 months the share price has fallen by nearly 50%. The fund continues to hold Elizabeth Arden as they believe a recent partnership provides them with the opportunity to expand into Emerging Markets and therefore the share price will correct.

Publicis was also subject to a merger / take-over with a US firm, however cultural clashes brought the merger to a halt. During the takeover the business lost some important bids however the share price over 12 months has remained positive and Randeep believes going forward it remains a sound investment.

He went onto explain that what he is looking for are companies which have a tangible asset – so a mine, a product etc. He then looks at how strong the brand is, the earnings power and the value within this. Another example of a recent acquisition is BHP Billiton. Recent management changes, with a focus on improving efficiencies in the business, make this an attractive business even with falling Iron Ore prices. The fall in prices has actually benefited the company as smaller poor quality businesses have been forced out of business. The share price is down nearly 20% over 12 months but up nearly 10% in the last three months.

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Other ideas for the fund include Microsoft which has seen its shares rise from a low of \$15 to a high of nearly \$50 and BP. On the curve the fund is positioned towards industrials, consumer goods / services and food / agriculture.

On paper the strategy looks good, and in the early days the fund delivered on this. However, clearly the original fund manager and person behind the strategy struggled to make it work latterly. The new manager to date hasn't been able to reverse this trend, and the concern is that if an investor wants to benefit from emerging markets why not invest in an emerging markets fund? Or if someone wants to invest globally, then why not invest in a globally diversified fund? It could be that fresh blood can revive the fortunes of the fund, and that Randeep can do this. However, he has no track record as a manager and it will take time to stamp his personal style on the fund. He has obviously started to do this but investors interested in this fund may either want to drip feed into the fund, perhaps look at other options or wait for a three year track record.

Fund performance

Performance vs M&G Global Basics Fund and FTSE World Index since launch on 13 November 2000 to 28 February 2015 is shown below:

	2011	2012	2013	2014	2015*	Since launch**
M&G Global Basics Fund	-12.33%	1.04%	3.18%	-0.10%	4.96%	247.22%
FTSE World TR GBP	-5.79%	11.83%	22.36%	11.29%	4.83%	90.96%

	1 Year	3 Years	5 Years	10 Years	Since new manager***
M&G Global Basics Fund	5.76%	-0.12%	21.23%	118.53%	3.17%
FTSE World TR GBP	17.12%	47.86%	70.11%	146.21%	15.99%

*Up to 28/02/2015

**Launch 13/11/2000

***From 19/11/2013

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

Conclusion

On paper a really sound investment idea and since launch the fund has significantly outperformed the index. However, over the last ten years it has underperformed the index. The new manager is yet to prove himself as a manager. It is clear that he is making changes to the portfolio and only time will tell if he can make the fund a success. Potential investors will have to consider carefully whether they wish to back this on the hope that he can deliver, or whether to wait and see how he does.

The source of information in this note has been provided by M&G and is correct as at March 2015. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. 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 note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well rise.