M&G Global Basics Fund

Performance update

4 July 2008

It is noteworthy that the performance of the M&G Global Basics Fund has in recent days been weak, particularly on Thursday 3 July 2008, when the fund underperformed an already extremely weak market. To put this into perspective, this recent decline comes on the back of a long period when the fund's performance has been phenomenally strong, even against a backdrop of very difficult financial markets so far this year. Such short-term corrections in the market and in the fund are to be expected as investors take profits and react to news in the marketplace.

Fund manager Graham French's investment approach remains consistent, as it has been throughout the history of the fund, that is, to invest in well-managed companies with undervalued assets across a range of 'basic' industries supported by powerful thematic tailwinds.

A number of the fund's holdings suffered sharp declines as investors succumbed to concerns about the strength of the global economy and took profits in economically sensitive areas following strong runs in recent months. The two main negative impacts on fund performance have been the share-price performance of French miner Eramet and the underperformance of the fund's coal holdings following a correction in the coal price.

The share price of French nickel and manganese producer Eramet, the largest holding in the fund, has come off its recent highs, partly due to profit taking but also due to rumours on Wednesday that the Duval family, who are the company's main shareholders, are reducing their stake – a rumour since denied by the company. Eramet formed almost 7% of the fund before the share price decline and now forms roughly 6% as at 4 July 2008. Graham has been taking profits from the position in Eramet for some time. The company still constitutes a significant part of the portfolio, so substantial moves in the share price will still have a significant impact on the performance of the M&G Global Basics Fund.

Coal producers Peabody Energy (2.5% of the fund), Consol Energy (2.5%) and Centennial Coal (1.1%)* have all declined sharply this weak following a sharp fall in the coal price. Coal is a commodity that has enjoyed an extraordinarily strong run based on growing global energy demand and constraints on the supply side. This recent correction, in our view, represents the kind of short-term volatility that is commonplace in the price behaviour of any commodity, especially following substantial price appreciation and when there is uncertainty about the economic outlook. It does not detract from the structurally strong long-term case for coal as an alternative energy source to oil, and specifically, the fund's investments in a number of well-managed coal producers.

Other metal/mining-related holdings to have suffered in the past week include platinum miner Lonmin, metal recyclers Sims Group and Schnitzer Steel and commodities supply chain Noble. The fund's construction related holdings in Wienerberger and Imerys have also been hurt by their perceived cyclicality.

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**Data as at end-June 2008.*

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