

# sticking to the basics

October 2009

**Graham French** explains why the fundamental drivers of global growth make him an optimistic long-term investor.



Driven by day-to-day investor sentiment, stock markets often have a habit of missing the bigger picture. While here in the west we continue to battle with the economic consequences of the financial crisis, concerns for many people in parts of the developing world take a very different shape. The need for basic items, such as food, electricity, toothpaste and soap, is more often the prevalent preoccupation of daily life in many parts of China and India, for example.

## changing demographics

The demographic and structural changes taking place in Asia are among the reasons why investors should remain optimistic, despite the recent upheaval in financial markets. Of course, the financial problems in the US or Europe matter, but they will not halt the economic progress taking place in the emerging world or destroy people's aspirations. The chart to the right begins to demonstrate this.

## consumer-orientated opportunities

With this in mind, I have been gradually building up exposure to consumer-orientated stocks, in order to ensure that the fund is well placed to benefit from the

transformation unfolding in developing countries. Key fund holdings in this area include Yum! Brands, Starbucks (see facing page), Colgate-Palmolive, Unilever and PZ Cussons. These are all world-class companies that understand the dynamics of the emerging world and know that with the right products, and in the right markets, the rewards will be tremendous.

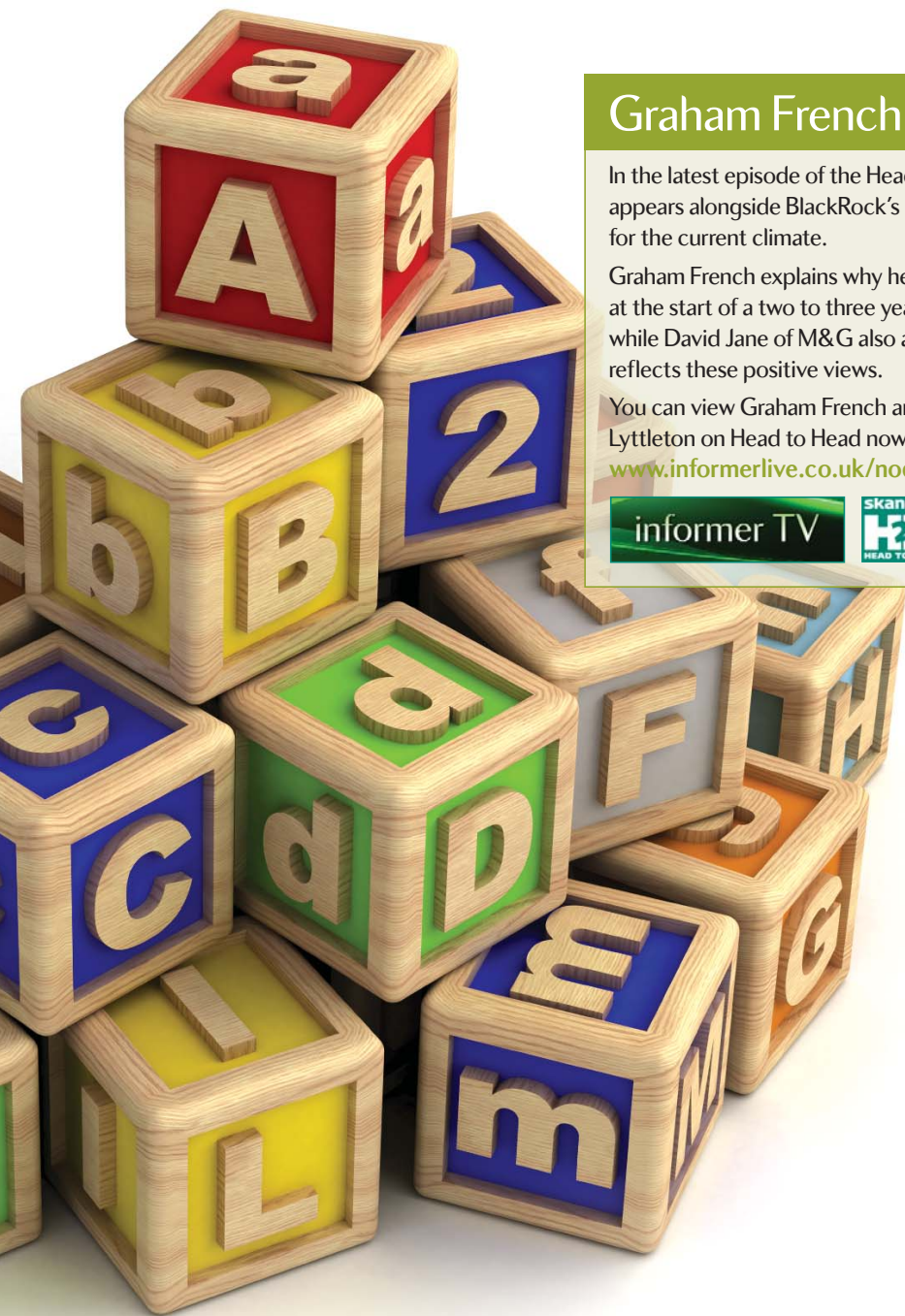
## commodity opportunities

Commodity stocks also fell out of favour at the end of last year as investors shied away from any assets perceived to be risky. Despite the strength of the rebound in recent months, I believe that selected raw

material producers continue to represent highly attractive long-term investment opportunities. Australian diversified mining giant BHP Billiton, Anglo-African platinum mining firm Lonmin and French nickel mining group Eramet are among our favoured holdings in the resources sector. Despite suffering last year because of lower demand for metals and minerals as credit availability tightened

## economic comparisons





## Graham French on Head to Head

In the latest episode of the Head to Head series on **informer TV**, Graham French appears alongside BlackRock's Mark Lyttleton to discuss investment strategies for the current climate.

Graham French explains why he believes we are at the start of a two to three year bull market, while David Jane of M&G also appears and reflects these positive views.

You can view Graham French and Mark Lyttleton on Head to Head now at [www.informerlive.co.uk/node/803](http://www.informerlive.co.uk/node/803)



## seeing value in Starbucks

As well as establishing a presence in Asia, Starbucks is working equally hard to improve its prospects in the US and Europe. After achieving meteoric growth in both regions over the past decade, sales had started to wane as weakening economic conditions prompted customers to cut back on cappuccinos, mochas and lattes. Sentiment in the business had therefore soured. Determined to make sure the company can survive the loss of appetite for its high-end beverages, Starbucks' management team, reinvigorated by the return of founder Howard Schultz, have been focusing on getting the business back on track and capitalising on the company's phenomenally strong brand. A rationalisation programme is also in place to strengthen the focus of the businesses Asian operations.



during the financial crisis, the longer-term prospects of all three firms are still very much intact.

Clearly, we have to bear in mind the economy when it comes to investing in the resources sector, but in our view the financial strength and the quality of a company's assets are equally as important. BHP, Lonmin and Eramet – as with all of the commodity companies in the fund – have world-class assets, are undervalued and should benefit from solid long-term demand for their products. Platinum, for example, has a variety of uses in catalytic converters, electronics, dentistry and jewellery. What's more, as one of the world's largest platinum miners, Lonmin is strategically placed to take advantage of the scarce supply of platinum – there are only two major deposits of the rare metal in the world, in South Africa and Russia.

## exciting developments emerging

As an ardent believer in the industrialisation of the emerging world and the need for basic goods, I am confident that investors should be optimistic about the longer-term picture. Looking beyond the near-term concerns about Western economies, investors will find it hard to overlook the dramatic changes taking place in the emerging economies, especially as a broad range of 'basic' companies really start to see their returns transformed as a result of these exciting developments. ●

*Graham French is manager of the M&G Global Basics Fund.*

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