



## TNI UAE BLUE CHIP FUND

UAE domiciled open-ended investment trust

Fund owner: The National Investor

Fund manager/adviser: The National Investor

### Named portfolio manager/adviser(s):

Walid Hayeck (since launch), Ali El Adou (since June 2005) / Team

Peer group: UAE

Location: Abu Dhabi

Launch date: May 2005

Fund size (October 2011): US\$32m

Contact group: +971 2 619 2300 or www.tni.ae

Further information on S&P's fund coverage can be found at [www.FundsInsights.com](http://www.FundsInsights.com)

### Investment style

	Value	Blend	Growth
Large-cap			
Mid-cap			
Small-cap			

### Performance statistics

	Three years
Fund	-47.5%
Index**	-52.3%

\*\* S&P UAE Composite

Note: returns are cumulative

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### Standard & Poor's opinion (December 2011)

This fund provides investors with large-cap exposure to the UAE market. It has been co-managed continuously since June 2005 by head of Asset Management Walid Hayeck and Ali El Adou. El Adou is responsible for day-to-day management and Hayeck provides additional contextual input, with support from the investment committee.

The fund has established a solid track record of benchmark-relative outperformance since inception, although over that time there has been an evolution in style. Its tracking error parameters have changed markedly (from 14% historically to a current limit of 10%), and the benchmark has changed (to the S&P UAE Domestic index 10% capped, in Q2 2010). The management style has become purposely more benchmark-aware, although the low tracking error at review (3%) was also a reflection of the managers' cautious overall stance in highly challenging markets.

Over the last year, performance after fees has been slightly below-benchmark, though we note the solid stock selection. Versus peers, cash levels were relatively modest, ranging between 3% and 8%. Exposure to non-UAE countries was below 5%.

The broader team now looks more settled after a change in personnel over a year ago led to the reorganisation of analytical responsibilities. Each team member covers a sector, with El Adou responsible for covering all financials (ex real estate) in the Mena region. Intra-team debate is vigorous and the approach meaningfully collegial. We also note progress made in systems enhancements (eg, performance attribution capability). The fund comfortably retains its S&P A rating.

### Fund manager & team

Walid Hayeck heads the asset management team and chairs the weekly investment committee. 2010 saw the departure of Christian Ghandour and Hassan Awan, who were replaced by Ramzey Idriss (covering real estate and services) and Sebastian Henin (industrials and telecoms). All managers have sector responsibilities and are supported by analyst Farooque Shaikh. Ali El Adou covers financials.

Walid Hayeck - MSc economics (Université Saint Joseph, Beirut), MSc management (ESCP Europe), began his career at Paribas, before founding the Lebanese office of European credit rating ORT Group. He joined Shuaa Capital in 1999 as head of research and member of the Arab Gateway Fund investment committee. Hayeck moved to AFC in 2002 and TNI in 2004.

Ali El Adou - BSc finance (Lebanese American University), MBA (Duke university), began his career in 2002 at Arab Finance Corporation and joined TNI in 2005 to focus on the UAE Blue Chip Fund.

### Management style

The fund is managed in a team-driven fashion, seeking to outperform both the S&P UAE Domestic Capped index and the peer group, with an upper tracking error limit of 10%. The aim is for stock selection to drive returns.

The weekly investment committee meeting forms a top-down view on each exchange, deciding on asset allocation.

A screen on companies capitalised above \$250m, and with liquidity to exit in five days, reduces the universe to about 40 names. Bottom-up research focuses on sector/industry prospects, quality of management, shareholding base and board structure.

Fund managers are also analysts but may request additional research from the team analyst. There is close interaction with the sell-side. Technical analysis may be used to time the entry and exit of positions.

A portfolio of 20-25 stocks is built in a benchmark-aware fashion. Position sizes are kept to +/-5% at stock level and +/-15% at exchange and sector level. No more than 10% is allowed in a single name at purchase.

The UAE allocation must exceed 70%, with up to 30% of the fund allowed in a combination of other GCC countries, cash and pre-IPOs (up to 20%). A performance fee (with high-water mark) applies.

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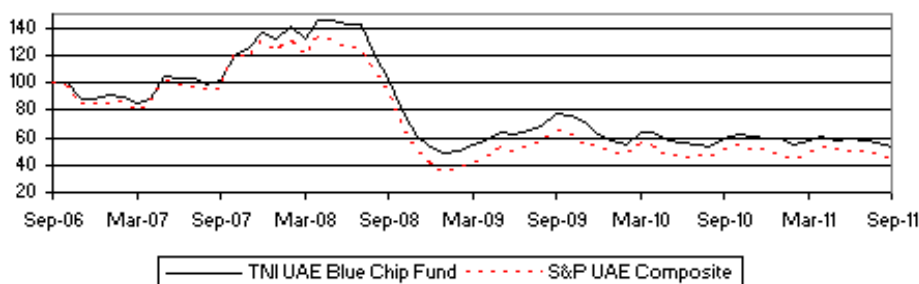
**Portfolio & performance analysis (October 2011)**

Longer-term performance has been solid under the tenure of managers Walid Hayeck and Ali El Adou, with the fund ahead of benchmark since inception. Over that time, though, there has been a change of benchmark (to the S&P UAE Domestic index 10% capped, which occurred in Q2 2010) and a marked move in the tracking error parameters. In the past they have been as high as 14% but are now targeted at 10%. The tracking error was 3% at review.

The last 12 months have been challenging, with poor domestic and international sentiment weighing on markets and reducing trading volumes. Stock selection in telecoms and financials contributed to fund outperformance on a gross basis, but net of fees the fund was 1 percentage point behind its benchmark over the period. Versus peers, cash levels were relatively low compared to peers, ranging between 3% and 8% (8% at our snapshot). Turnover indicates some topping and tailing as the managers sought to take advantage of market volatility.

The fund grew from \$23.3m to \$31.9m over the review period, reflecting net investor inflows, though holding numbers only increased slightly from 25 to 28. The portfolio shape changed little, although in 2011 year to date the managers have taken the portfolio closer to the benchmark, reflecting their cautious overall stance on markets. The top 10 accounted for 66% of the total as against 68% a year earlier, with nine of the 10 names identical. Non-UAE exposure was small (below 5%) with the main holding being Qatar Electricity & Water Supply (2% of the fund); Doha Bank was sold. Off-benchmark positions in the UAE included real estate finance vehicle Tamweel (1%), retained on valuation grounds.

**Cumulative performance**



**Calendar year performance**

	2007	2008	2009	2010	YTD October 2011
	%	%	%	%	%
Fund	54.7	-60.6	16.2	-5.2	-9.0
Index**	55.4	-67.9	27.8	-6.2	-10.7

\*\* S&P UAE Composite  
 Fund benchmark: S&P UAE Domestic Capped index  
 Share class screened: N/A (ord)

**Portfolio characteristics (October 2011)**

No. of holdings	28
% in top 10	65.6
Turnover ratio (%)	100

**Top 10 holdings**

	%
Emirates Telecom *	9.2
National Bank of Abu Dhabi	8.7
Emirates National Bank of Dubai *	8.7
Emaar Properties *	8.5
First Gulf Bank *	8.5
DP World *	5.3
Abu Dhabi Commercial Bank *	5.0
Union National Bank	4.4
Abu Dhabi Islamic Bank	3.9
Dubai Islamic Bank *	3.4

\* In top 10 holdings a year ago

**Sector allocation**

	%
Banking & finance	44.4
Other	17.6
Real estate	17.9
Telecommunications	11.7
Cash	8.4

# STANDARD & POOR'S

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## Symbols and Definitions

### Long-only fund ratings

- AAA The fund demonstrates the highest standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.
- AA The fund demonstrates very high standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.
- A The fund demonstrates high standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.

### Fund-of-hedge-funds ratings

#### Absolute return fund ratings

#### Specialist fund ratings

- AAA The fund demonstrates the highest standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.
- AA The fund demonstrates very high standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.
- A The fund demonstrates high standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

### Ucits III flexible beta fund ratings

- AAA The fund demonstrates the highest standards of quality based on its investment process, risk awareness and consistency relative to its own objectives and relative to comparable flexible beta funds.
- AA The fund demonstrates very high standards of quality based on its investment process, risk awareness and consistency relative to its own objectives and relative to comparable flexible beta funds.
- A The fund demonstrates high standards of quality based on its investment process, risk awareness and consistency relative to its own objectives and relative to comparable flexible beta funds.

### All fund ratings

- Not Rated (NR) Funds designated as Not Rated currently do not meet the requisite performance standards and/or the minimum qualitative criteria to achieve a fund rating.
- Under Review (UR) Ratings are placed Under Review when significant management changes occur at the fund manager or fund management team level and Standard & Poor's Fund Services has not had the opportunity yet to evaluate their impact on the qualitative appraisal.
- (New) Signifies where a major event has occurred for which there is no fund-specific track record available. This includes: funds recently launched, the implementation of a new investment process or mandate and may include structural changes within a fund team.
- Tenure Review (TR) The fund manager/team involved in the management of the fund does not currently have the minimum 12 months relevant investment management experience required to be eligible to be considered for a rating.
- Long-term fund management rating The fund has been rated in the A/AA/AAA fund rating band for five consecutive years or more, and continues to hold a rating.

### Bond fund volatility ratings

The bond fund volatility rating is our current opinion of a fund's sensitivity to changing market conditions. Volatility ratings evaluate the fund's sensitivity to interest rate movement, credit risk, investment diversification or concentration, liquidity, leverage and other factors. For V1-V4 categories, risk is considered relative to a portfolio composed of government securities and denominated in the base currency of the fund.

- V1 Bond funds that possess low sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing within one to three years, and denominated in the base currency of the fund. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising the highest quality fixed income instruments with an average maturity of 12 months or less. Within this category, certain funds are designated with a plus sign (+), indicating extremely low sensitivity to changing market conditions.
- V2 Bond funds that possess low to moderate sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing within three to seven years, and denominated in the base currency of the fund.
- V3 Bond funds that possess moderate sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing within seven to 10 years, and denominated in the base currency of the fund.
- V4 Bond funds that possess moderate to high sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing beyond 10 years and denominated in the base currency of the fund.
- V5 Bond funds that possess high sensitivity to changing market conditions. These funds may be exposed to a variety of significant risks including high concentration risks, high leverage, and investments in complex structured and/or less liquid securities.
- V6 Bond funds that possess the highest sensitivity to changing market conditions. These funds include those with highly speculative investment strategies with multiple forms of significant risks, with little or no diversification benefits.

### Absolute return fund N ratings

The N rating is Standard & Poor's indication of a fund's potential capital stability in normal markets. It is a qualitative rating but is based on annualised weekly downside deviation. N1 is the most stable and N9 the least.