



Report date August 2010

## TNI MENA UCITS FUND

Sub-fund of Irish domiciled open-ended investment company

Fund owner: The National Investor

Fund manager: The National Investor

### Named portfolio manager(s):

Team

Peer group: MENA

Location: Abu Dhabi

Launch date: June 2010

Fund size (June 2010): US\$30m

Contact group: +971 2619 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			

### Standard & Poor's opinion (June 2010)

Despite having managed funds since 2005, this recently launched MENA portfolio is TNI's first European domiciled vehicle.

The team is led by head of asset management Walid Hayeck who remains actively involved with the funds but is working closely with the team's two fund managers, Christian Ghandour (11 years' experience) and Ali Adou (seven years' experience). Hassan Awan and one recent joiner complete the team.

The fund will be run in a sector-neutral fashion with most risk taken at country and stock levels. This differs from the approach used in managing the S&P A rated MENA Real Estate and UAE Blue Chip funds. The benchmark awareness, focus on liquidity and style agnosticism nevertheless remain.

The team will work collegially, with Hayeck and Adou spending more time on banks which represent around half of the universe whereas Ghandour and Awan primarily focus on the rest of the market. The objective is to select the best stocks within each sector. In doing so, some help will be provided by a screening tool recently developed by Awan to highlight key company and stock characteristics, ranging from value to growth and momentum. Although this has not been fully back tested, it should allow the team to increase its knowledge, in particular of stocks that are not yet covered in depth by the two analysts.

The performance of both S&P-rated funds has been strong. A carve-out of the equities portion of the team's multi-asset portfolio also shows good returns. Although the process developments are not fully tested, and the fees of the fund are at the higher end of the spectrum, the team is experienced compared to peers. This justifies the S&P A (New) rating.

### Fund manager & team

Hayeck heads a team of five, including Ghandour, El Adou and research analysts Hassan Awan (five) and recent joiner Farouk Shaikh (two). They manage \$85m in five strategies.

Walid Hayeck - MSc economics (Beirut), ESCP Diploma (Paris), began his career at Banque Paribas, before founding the Lebanese credit rating ORT Group. Joined Shuaa Capital in 1999 as head of buy-side research and was a member of the Arab Gateway fund investment committee. In 2002, joined AFC (Beirut), before joining TNI in 2004.

Christian Ghandour - philosophy and mathematical logic, masters in econometrics, masters in finance (Sorbonne), joined from Crédit Lyonnais where he spent seven years, initially in structured products, later in derivatives as part of the convertible bond portfolio management. Started his career at Citibank and State Street.

Ali El Adou - BSc business administration (Lebanese American University), began his career in 2002 at Arab Finance Corporation. He joined TNI in 2005.

Hassan Awan - MA economics (Government College University), MBA finance & banking (Lahore School), joined TNI in 2007 on the sell-side and moved to the buy-side in January 2009.

Farooq Shaikh - MBA in Finance from Mumbai University, FRM, joined TNI in March 2010 with two years of equity research experience.

### Management style

The aim is to outpace the S&P Pan Arab index (which fits the 5/10/40 rule) through stock selection and country allocation. The goal is for an information ratio above 0.5 over the mid-/long-term within a tracking error of up to 10%.

The analysts maintain a database with macro metrics for all key world markets and with budget numbers for countries in the MENA region. A model has been developed to guide stock selection and screen stocks on value, growth and momentum metrics. This is done to identify stocks that fit certain criteria and allows the team to quickly define which names suit their market view and are worth researching in more detail. The team currently has in-depth coverage of 35% of the index and uses broker input for the rest.

The portfolio of 40-50 names is sector neutral, with up to 10% deviations for countries and 5% for stocks. Cash can reach 20%. Annual turnover is likely to be below 100%. Each stock is scored on liquidity and the focus is to be able to liquidate 90% of the portfolio within 1-2 days. The fund is priced weekly and has a 10% quarterly performance fee on price increases over the high water mark. Access to Saudi Arabia is gained through P-notes.

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STANDARD  
& POOR'S



## Portfolio & performance analysis (June 2010)

The team has been managing a model portfolio for the last couple of months. This is currently invested in 55 stocks (compared to 168 of the benchmark), with around 48% in the top 10 holdings. As expected, the portfolio is sector neutral, although the team is not likely to continuously re-balance the portfolio due to market movements. At the country level, the main bets are a 6.7% underweight in Morocco (which is an illiquid market) and a +5.4% position in Egypt. Qatar is also overweight (+5.2), whereas Saudi Arabia is neutral and Kuwait is underweight (-2.1%). In the case of both Egypt and Qatar, the country overweight is mostly the result of the team's positive view on banks. Current tracking error is estimated around 4.8%.

With the exception of index heavyweight Sabic, most deviations are kept within 2.5% from the benchmark. The position in Sabic offsets a zero-weight in a number of similar smaller plays and the overall exposure to Saudi industrial stocks is actually neutral.

In terms of liquidity, the team estimates that over 92% of the portfolio can be sold within two days.

This model portfolio has been maintained from March and has since generated returns of -4.1%, which compares well with the -5.1% of the benchmark. A carve-out of the MENA equities portion of the team's multi-asset portfolio has comfortably outperformed the MSCI Arabian markets and most peers from March 2009. Furthermore, the MENA Real Estate fund has also outperformed its benchmark, with value added through a combination of stock selection, asset and country allocation. The track record for the UAE Blue Chip fund shows consistent outperformance in both down and up markets, while keeping the portfolio reasonably close to the benchmark.

## Share class information

	Initial charge	Exit charge	Annual charge	Expense ratio	Lump sum	Savings plan	ISIN
Ord	<3%	3% first 6 months, 1% next 6 months, 0% thereafter	0.01%				IE00B5TKJM01

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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.

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### Fund-of-hedge-funds 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.

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### Absolute return fund ratings

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### Specialist fund ratings

**AAA** The fund demonstrates the highest standards of quality based on its investment process and management's consistency of performance relative to its own objectives.

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### 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.