

## TNI MENA UCITS FUND

Sub-fund of Irish-domiciled open-ended investment company

Fund owner: The National Investor

Fund manager/adviser: The National Investor

Named portfolio manager/adviser(s):

Team

Peer group: MENA

Location: Abu Dhabi

Launch date: June 2010

Fund size (October 2011): US\$25.17m

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			

### Performance statistics

	Launch
Fund	-4.8%
Index**	3.7%

\*\* S&P Pan Arab Large Mid Cap  
Note: returns are cumulative

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

TNI follow a team-based approach to this fund. It is co-managed by Ali El Adou, Sebastian Henin and Ramzey Idriss. The latter two joined in August and November 2010 respectively, replacing Christian Ghandour and Hassan Awan who left earlier in the year. Each manager also has analytical responsibilities split by sector. They are supported by analyst Farooque Shaikh; plans to add a further analyst have been shelved temporarily.

The team has gelled well. Debates are vigorous and the approach meaningfully collegial, and stock knowledge appears solid. Although clearly confident in the three managers' decision-making, head of asset management Walid Hayeck is still involved with the fund - he holds veto power and chairs the investment committee.

It was the committee's decision to raise cash and keep it at 14% from June 2011. This ran counter to the intention of primarily driving returns by stock selection, but we acknowledge that it was a decision taken pragmatically to try and preserve capital in the face of deteriorating international sentiment, using the flexibility afforded by the mandate. Stock selection itself was positive, notably in telecoms and industrials. Both elements contributed to the fund's gross outperformance of the benchmark over the last 12 months but, after fees, it still slightly trailed its benchmark, as it has done since inception.

We note the collegial environment and the managers' increased expertise, but this has yet to translate into performance. The fund's underperformance of the benchmark since inception means it does not yet achieve an S&P 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.

Sebastian Henin - BSc (University of Bordeaux), started his career at CFG Gestion in 1997 as a bond trader then became an equity manager in 2003. In 2006, he joined EIIC as manager for Mena ex GCC, a role that he kept at Invest AD from 2007 until August 2010 when he joined TNI.

Ramzey Idriss - MBA (London Business School), BSc (Lebanese American University), worked as a broker and in discretionary portfolio management at Shuaa Capital 2002-2006. He re-joined Shuaa in 2008 to help set up an alternative investments division and moved to TNI in November 2010.

### Management style

The aim is to outpace the S&P Pan Arab index (which fits the 5/10/40 rule) primarily through stock selection, though country allocation should also feature. The goal is an information ratio above 0.5 over the medium/long term within a tracking error of up to 10%.

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

A model screens the whole stock universe on value, growth and momentum metrics. The aim is to identify stocks that fit certain criteria and allow the team to identify which names are worth researching in more detail. The analysts currently cover around 75% of the investable universe by market cap and have detailed internal models on around half of those names.

The final portfolio of 40-50 names is sector-neutral, with +/-10% and +/-5% deviations versus index for countries and stocks respectively. Cash can reach 20% but typically does not exceed 15%. Each stock is scored on liquidity; the aim 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 via P-notes.

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# STANDARD & POOR'S

STANDARD  
& POOR'S

NR

FUND MANAGEMENT RATING

## Portfolio & performance analysis (October 2011)

The fund was launched in June 2010 and specifically aimed at the European market. Over the last 12 months the fund size has remained relatively stable at \$25m (previously \$28m).

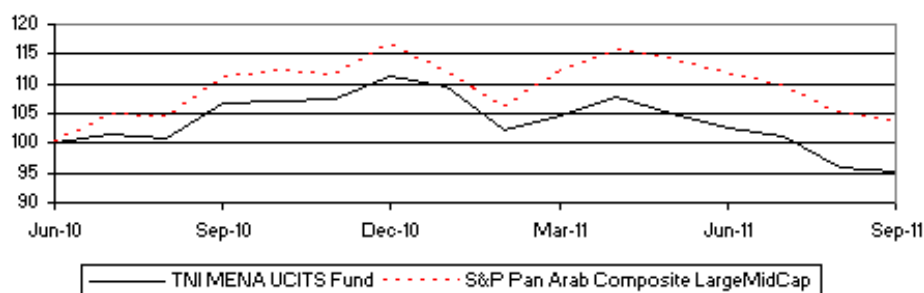
The fund has lagged its benchmark in the one-and-a-half years of its existence. Over the last 12 months, it did outperform the benchmark on a gross basis, driven partly by solid stock selection in telecoms and industrials but also by a tactical asset allocation to raise cash from the more liquid areas of the market. Cash peaked at 14% in June 2011 and was still at that level at our snapshot (October 2011). Net of fees, though, returns were slightly below benchmark.

The increase in cash levels meant that most markets - with the exception of Qatar, Egypt and the UAE - were underweight relative to benchmark. Qatar Electricity and Water Supply and Qatar Industries both featured in the top 10 holdings; Qatari banks were also liked for their growth potential. Exposure to Egypt, which at last review had been 14%, was cut, but the managers took advantage of market falls to get back into Mobinil and Orascom, which took the weighting to 7% at review. In the UAE, the fund retained exposure to distressed real estate finance vehicle Tamweel on valuation grounds.

Saudi names accounted for 30% of the fund, down from 35% previously, though banks still featured prominently, liked for their domestic exposure; two cement plays (Saudi Cement and Yamamah Saudi Cement) were held as beneficiaries of increased domestic infrastructure spending.

Structurally, the fund remained well diversified across 57 names (previously 61) with a top-10 concentration of 39%, almost unchanged from last year's 40%.

## Cumulative performance



## Calendar year performance

	2007	2008	2009	2010	YTD October 2011
	%	%	%	%	%
Fund	-	-	-	-	-14.5
Index**	-	-	-	-	-14.1

\*\* S&P Pan Arab Large Mid Cap

Fund benchmark: S&P Pan Arab

Share class screened: IE00B5TKJM01 (Ord)

## Portfolio characteristics (October 2011)

No. of holdings	57
% in top 10	39.4
Turnover ratio (%)	89

## Top 10 holdings

	%
Al Rajhi Bank *	6.4
Saudi Basic Industries Corporation (SABIC) *	5.5
Qatar National Bank *	5.4
National Bank Of Kuwait *	3.8
Mabane Co.	3.5
Qatar Industries	3.5
Samba Financial Group *	3.4
Etihad Etisalat	2.9
Qatar Electricity & Water Supply	2.6
National Industrialization	2.4

\* In top 10 holdings a year ago

## Geographical allocation

	%
Bahrain	1.7
Egypt	7.2
Jordan	3.1
Kuwait	14.6
Lebanon	1.4
Morocco	2.3
Oman	1.1
Qatar	16.6
Saudi Arabia	30.4
Tunisia	0.0
UAE	7.4
Cash	14.2

# 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.