

Weathering the storm with true value

AL MAL FUND GETS FULL MARKS FROM THE EXPERTS ON RETURNS, VOLATILITY AND FEE STRUCTURE

In the UAE's equity universe, Al Mal Capital UAE Equity Fund has performed the best among five of its peers, outperforming the MSCI UAE Index quite handsomely in the last three years, according to Zawya.com's recently released ranking of the region's funds. While the fund is down 5.93 per cent between March 2007 and March 2010, the decline of its peers during the same period has ranged between 25 per cent and 64 per cent. The returns of Al Mal Capital UAE Equity Fund had a dramatic decline towards the end of 2008, but made a strong recovery in 2009.

By GAURAV GHOSE
Financial Features Editor

According to Zawya.com's four criteria of fund returns, fund volatility (the risk factor), fund compliance and fund fees, the Al Mal fund received the full 30 per cent allocated for the first and the full 20 per cent for the second as it had the lowest volatility compared to the others in the category.

In terms of fund compliance it accumulated 25 per cent out of the allocated 30 per cent as, according to Zawya.com, the fund manager administered the fund and it was not serviced independently. Finally for fund fees, it received the full 20 per cent allocated to this criteria, incorporating the lowest fee structure among its peers, the information portal said in its comments.

Gulf News spoke to the fund manager Tarek Qaqish and asked him how he weathered the storm and what lessons he learnt in the past two years. Qaqish shared some investment tips too.

GULF NEWS: How would you describe your fund? What have been the returns in the last three years?

QAQISH: The Al Mal UAE Equity Fund is a long only fund. Its main objective is to achieve medium to long-term capital growth by investing primarily in UAE listed equities. It has been a roller-coaster ride over the last few years. In 2008 the fund was down 57 per cent, and this was after a positive return of 50.4 per cent in 2007. In 2009, we made a solid recovery, gaining more than 31 per cent. Year to date we are just 5.9 per cent down against 12.3 per cent decline in the MSCI UAE Index, the benchmark. We are ahead of our peers in the three-year ranking period (see Funds Ranking box).

What kind of redemptions have you seen during the last two years of the global financial crisis?

Redemptions are one of the nightmares of fund managers. Our successful track record for more than three years in outperforming the market by over 40 per cent, the

>> FUND FACTS

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| <p>AL MAL UAE EQUITY FUND</p> <ul style="list-style-type: none"> INVESTMENT MANAGER: Al Mal Capital, Dubai FUND MANAGER: Tarek Qaqish RANKING PERIOD: March 2007-March 2010 FUND TYPE: Open-ended INCEPTION DATE: April 2006 FUND CURRENCY: UAE AED FUND SIZE: US\$23,408,500 (as of March 2010) | <ul style="list-style-type: none"> ELIGIBILITY: Open to all investors, excluding US SUBSCRIPTION & REDEMPTION FREQUENCY: WEEKLY MINIMUM SUBSCRIPTION: AED1000,000 MANAGEMENT FEE: 1.5% per annum PERFORMANCE FEE: 20% per annum (subject to hurdle rate of 10% of increase of NAV) BENCHMARK: MSCI UAE INDEX |
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Tarek Qaqish

FUNDS RANKING

Fund Name	Rank	3 year return % (from March '07 to March '10)
AL MAL UAE EQUITY FUND	1	-5.93
TNI UAE BLUE CHIP FUND	2	-24.28
NBAD UAE TRADING FUND	3	-27.34
AL NOKHITHA FUND	4	-45.55
NBAD UAE DISTRIBUTION FUND	5	-54.45
NBAD UAE GROWTH FUND	6	-64.08

Source: Zawya.com

understanding of our unit holders of long-term investments, and the continuous dialogue with our unit holders, helped us in maintaining our unit holders even during the worst financial crisis.

What have been the outflows and inflows into the fund in the last two years until March of this year?

Raising asset under management (AUM) was really a challenge during the past two years. The uncertainty of global markets and the fear of long recession have caused hesitations by investors to put money to work. Al Mal was successful in raising its AUMs, which was boosted by introducing discretionary portfolio management that attracted high net worth investors and institutions who wish to work closely with Al Mal Asset Management team.

What are the dominant sectors in your

portfolio?

The dominant sectors have been real estate, transport, banks and energy. As of now, we have allocation of 31.2 per cent in real estate, 20.9 per cent in transport and 15.9 per cent in banks. As to geographic allocations, we have a little over 50 per cent allocated to Dubai. Abu Dhabi is at 36 per cent we have 13.7 per cent in cash. (see Allocations table on extreme right)

What has been your strategy in selecting companies?

Finding convincing stories is not an easy job especially during the current crisis. Our approach during the start of the financial crisis was to capture opportunities and invest in themes that we believed would perform well even during recession time. Our tactical allocation helped us in mitigating risks based on our bias to fundamental approach; our discipline invest-



Allocations

GICS SECTOR ALLOCATION:	FUND
Real Estate	31.2%
Transport	20.9%
Banks	15.9%
Energy	8.0%
Telecom	3.7%
Others	3.9%
Diversified Financials	2.7%
Cash	13.7%

GEOGRAPHIC ALLOCATION:	FUND
Dubai	50.2%
Abu Dhabi	35.9%
Other	0.2%
Cash	13.7%

TOP PORTFOLIO HOLDINGS:	% of FUND
Emaar Properties	19.3%
National Bank of Abu Dhabi	10.4%
Dana Gas PJSC	8.0%

Source: Al Mal Capital

ment process has been successful in generating optimised risk-reward ratio.

Our team screens equity markets for opportunities, using fundamental screens and technical overlays of over thousand names, resulting in a very small "buy list" given their exacting criteria. Our decision-making process includes meeting with managements, for consistency, focus and durability. We take our work seriously. The buy decision is only the beginning of the process. It's mostly about what happens after you enter that makes the difference. It includes carefully examining company-specific developments and staying in constant contact with the management. The importance of people and strategic direction in determining company success has never been greater.

As a fund manager, what lessons have you learnt in handling this fund during the past two years as you faced the financial crisis and its impact on the region?

The crisis was devastating and it can only do so because it is complex. The most valuable lesson I learnt during this unprecedented crisis was to keep your eyes open for opportunities during those tough days. Looking at the glass as half full but keeping an eye on key macro factors helped us in participating in the 2009 equity rally and expanded our outperformance.

"Nowhere to hide": All previous analysis on low correlation of equity markets across the world failed. What most people missed is the economic correlation and the strong interaction among international financial systems. Too big to fail: This myth was

tested again and proved to be a fairy tale that should be wiped out from our thoughts.

What, if any, changes did you in your holdings as you faced the crisis?

Our tactical allocation in underweighting and overweighting asset and sectors helped us in achieving most favourable risk-return ratio. We maintained high exposure to consumer staples and transportation sectors and underweight financial and real estate sectors, and made sure to raise the cash cushion during early days of the crisis.

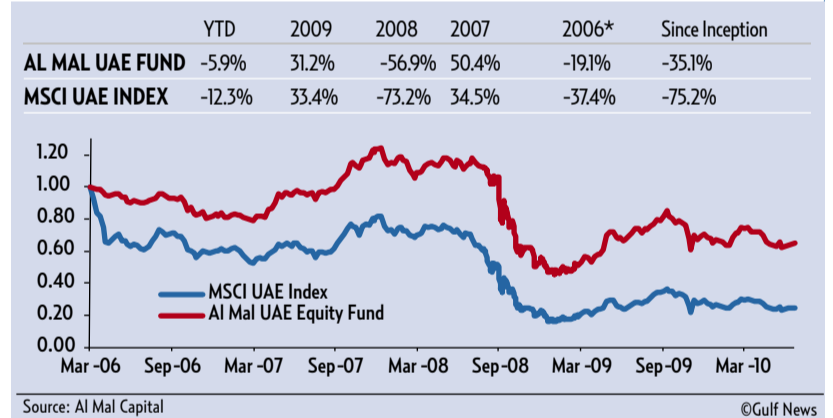
Under the current uncertainty of global markets, we look for medium-term investments horizon until things gets clearer.

And finally, what investment advice and strategy tips you have for retail investors of the region?

We advise investors to diversify their investments into different asset classes. Part of the problem that we are facing is the result of

investors' high concentration in real estate and equities multiplied by high leverage. Investors should invest only part of their totals assets in high-risk instruments and maintain a well-diversified portfolio. This is where Al Mal can help investors to construct and rebalance their portfolios.

>> Fund performance



Source: Al Mal Capital

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LOSING TRACK

Ethical funds show propensity to sell investors short on green credentials

Holdings that digress from stated criteria citing financial considerations spawn disappointment

By PATRICK COLLINSON

Oil, banking, drugs — some investors are in for a shock when they see where ethical funds are putting their cash.

Pensions company Zurich has a fund that it promises will invest in "companies and institutions which actively enhance the global environment and community". It tells savers that the Environmental Opportunities fund will seek out companies across the globe which take a positive attitude to environmental issues. So its investors may be more than a little surprised to learn 13.5 per cent of the £16 million (Dh91.6 million) fund is in shares in oil groups BP and Shell, and 4.3 per cent in Rio Tinto, one of the world's biggest mining companies.

Indeed, it's difficult to spot any names among its top 10 holdings that are conspicuously environmental. After BP, Shell and Rio, the fund's stock list is a rollcall of the FTSE 100: HSBC, Vodafone, AstraZeneca, GlaxoSmithKline, Tesco and so on. They are all names popular with investment managers, but are they what an environmentally-minded retail investor would really think their money is going into?

The fund is being named and shamed in a report by Britain's biggest firm of ethical financial advisers,

Heroes and villains



- THREE CHEERS**
- Jupiter Ecology
 - IM WHEB Sustainability Fund
 - BlackRock New Energy Technology
 - Aegon Ethical Equity Fund
 - Impax Environmental Leaders



- THREE JEERS**
- Zurich Environmental Opportunities Pension Fund
 - Jupiter Environmental Opportunities OEIC
 - Marks Spencer Ethical OEIC and Isa
 - Scottish Widows Environmental Investor
 - Prudential Ethical

Barchester Green, into the heroes and villains of the ethical and environmental investing world. "Its holdings in BP, Shell and Rio would put this fund high on an environmental investor's blacklist," says Barchester Green director Jonathon Clark.

"BP may be developing alternative energy sources, but this is a minuscule part of the business compared, for example, with the pollution caused by the Deepwater oil spill. It is difficult to see how these companies can possibly be included in a fund with this name. The remaining companies in its investment portfolio seem to embody little [if anything] in terms of environmental opportunities."

BP and Shell have faced a barrage of criticism over the environmental and financial cost of their tar sands oil exploration projects.

In a statement, Zurich

said: "We recognise the interpretation of ethical and environmental investment is subjective, which is why we offer a wide range of funds, including alternative ethical and environmental options, through our investment and pension products. We believe we need to take into account financial and non-financial considerations when making investment decisions to ensure our customers benefit in the long run."

Review

Clark also dubs MS' £14m ethical fund "very disappointing". He adds: "MS is a brand normally associated with a generally positive record in corporate social responsibility. But it turns out to have 4.6 per cent invested in Shell and 4.3 per cent invested in BP." MS has taken Clark's views, and those of other investors, on board. It said:

"MS Money regularly reviews the companies in the ethical fund to ensure they meet the criteria. A recent review has led to a downgrading of BP and Shell, meaning these no longer meet our investment policy ethical criteria and will not form part of the fund."

Other funds, such as ones from Scottish Widows and Prudential, find themselves in the "villains" list because they invest in banks. "More and more ethical investors feel a general disquiet over the behaviour of the banks, their selling practices and their lending criteria," says Clark.

But by excluding oil companies and banks from an ethical or environmental fund, are shareholders missing an opportunity to engage with these companies and change practices? Indeed, the ethically-minded Co-operative has been leading

a shareholder revolt over tar sands investments and it can only do so because it's a shareholder. Clark thinks investors in ethical and environmental funds prefer to exclude, rather than engage. "Clients are quite clear about what they don't want to be invested in, and equally clear about the things they do like." And what they like is Jupiter's Ecology fund, probably the most "deep green" fund in the UK.

Managed by Charlie Thomas, it is nearly £350 million in size and pursues a policy of screening out companies. It's up 39 per cent in five years. Its big holdings include Danish wind power firm Vestas and United Natural Foods, the biggest independent distributor of organic produce in the US. "Nothing is invested in the financial sector. It is a fund which invests in what it says. It is also one of the few environmental funds which applies ethical, as well as environmental, criteria to stock selection," says Clark. Although no individual fund from Aviva appears in Barchester's hero list, Clark says that as a fund management group it deserves "an extremely honourable mention. In a table of total overall offerings, rather than single funds, it would be our number one".

Of the other heroes, IM WHEB Sustainability invests



On the lookout

Environmental pressure groups hardly ever let a pollution incident go unnoticed.

GREEN TIPS

Creating your portfolio

- CHOOSING FUNDS:** Eiris, the Ethical Investment Research Service, offers an independent guide to 90 UK green and ethical funds at yourethicalmoney.org.
- ETHICAL OR ENVIRONMENTAL?** Traditional ethical funds screen out arms, tobacco and polluters. More recently, climate change funds investing in new energy opportunities have appealed to younger investors.
- PERFORMANCE:** They've not done well in the financial crisis, they are more narrowly invested and suffer higher

levels of volatility. In a rising market they do well, but in a bad market they can drop like a stone. Check individual performance at trustnet.com.

- DIY OR ADVISER?** You can buy cheaply direct at fund supermarkets such as Hargreaves Lansdown (h-l.co.uk). For advice, try the Ethical Investment Association at ethicalinvestment.org.uk, which has a directory of professional advisers and their contact details.

— Guardian News & Media Ltd



in companies offering alternative energy solutions and the provision of clean drinking water, through purification and conservation technologies; BlackRock New Energy Technology

specialises in solar, wind and wave power; Aegon Ethical Equity adheres to strict ethical criteria in choosing its investment portfolio and, significantly says Clark, excludes banks;

and Impax Environmental Leaders focuses on alternative energy, water treatment and pollution control/waste technologies.

— Guardian News & Media Ltd