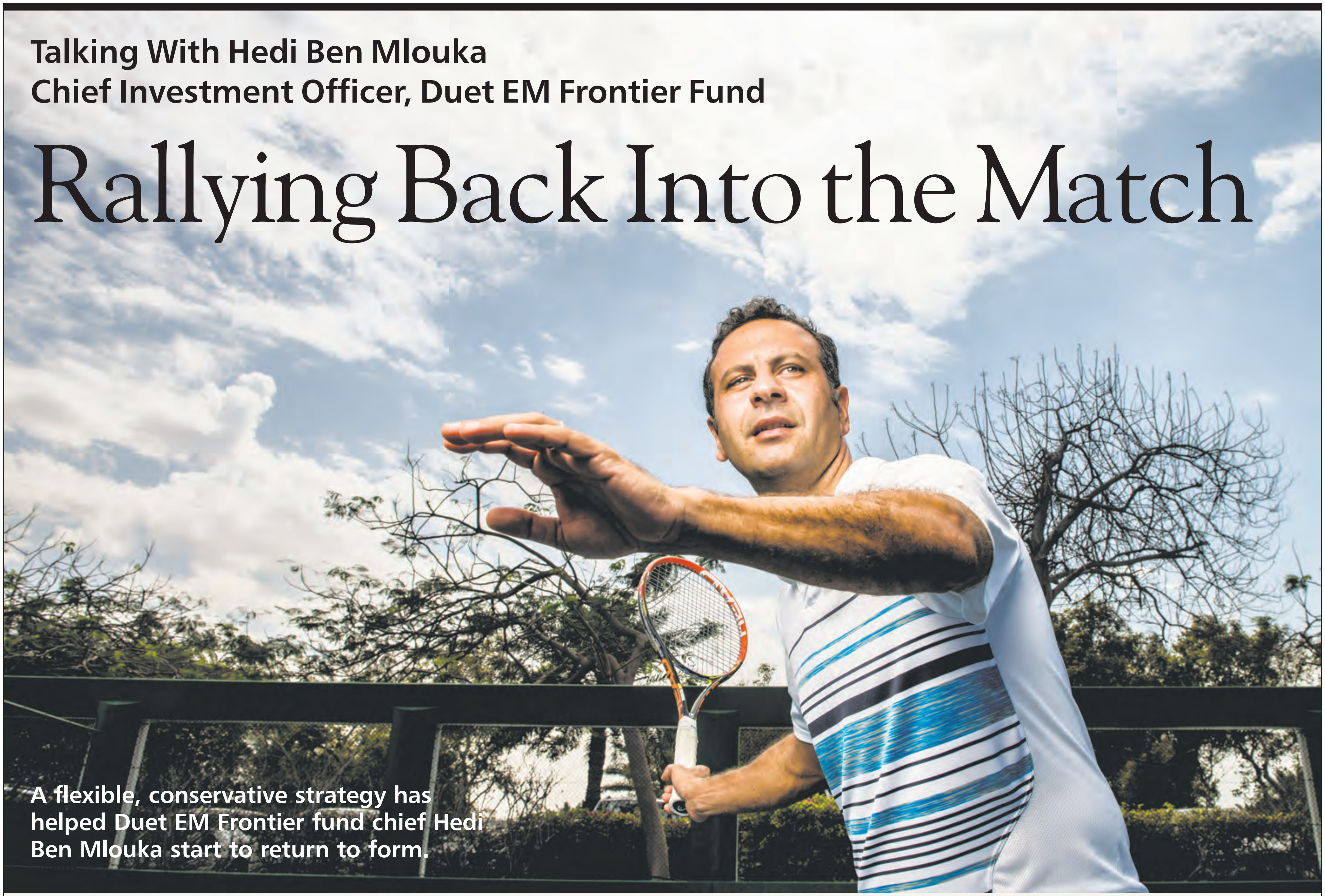
Talking With Hedi Ben Mlouka
Chief Investment Officer, Duet EM Frontier Fund

Rallying Back Into the Match



A flexible, conservative strategy has helped Duet EM Frontier fund chief Hedi Ben Mlouka start to return to form.

Siddarth Siva for *Barron's*

by Eric Uhlfelder

HEDI BEN MLOUKA WAS ONE OF THOSE KIDS WHO ALWAYS had a tennis racket in his hand. By the time the Tunis native graduated from college, he was a top-ranked player in Tunisia and a member of its national team. Playing on the junior international circuit allowed him to travel to Egypt, Morocco, and parts of Europe and gave him the experience to appreciate some of today's greats. "What differentiates the Djokovics and Federers from the rest of the field," he observes, "is their ability to anticipate opponents' shots, superb vision of the ball, and the ability to calmly alter their game when their usually reliable shots aren't working."

Ben Mlouka, now 37, sees some similarities between the attributes of the world's top tennis players' and those of the world's best money managers. "Understanding where a company and markets are heading, being proactive so as to be ahead of events, and knowing that at times one needs to alter even the best-laid plans is at the core of sound investing." These are especially helpful qualities when you run a frontier hedge fund as Ben Mlouka does and have to adapt to challenges like the markets' recent downdraft.

After working on foreign-currency and equity-derivatives desks at BNP Paribas in Paris and Merrill Lynch in London, Ben Mlouka in 2008 joined London-based asset manager Duet to start a frontier investment unit in Dubai. The 13-year-old parent firm now has $5.5 billion in total assets, with $1.5 billion in frontier-related vehicles. Ben Mlouka oversees the $250 million Duet EM Frontier fund.

He and a team of nine professionals focus on nascent markets—Egypt and Nigeria are examples—which are less developed, less regulated, less researched, and less liquid than more-established emerging economies such as Mexico and Turkey.

That might seem like a prescription for risk and volatility, but it hasn't been over time. Since EM Frontier was launched in January 2013, its dollar-based annualized returns have run nearly 7% through February of this year. That's more than 11 percentage points a year better than the MSCI Frontier Emerging Market Index and more than 15 points ahead of the MSCI Emerging Markets Index. It even tops the returns of all but a handful of developed markets.

Right now, Ben Mlouka favors Vietnam, the Philippines, Pakistan, Egypt, and Saudi Arabia, which account for nearly two-thirds of his fund. As disparate as they are, these countries all fea- *continued on page S7*

Not So Fearsome Frontier

Despite investor images of wildly volatile markets, Duet EM Frontier fund has posted solid gains since inception.

Fund/Index	AUM (mil)	Returns 12 Mos.	3-Year	Since Inception*
Duet EM Frontier	$250	-5.76%	7.26%	6.86%
MSCI EM Frontier Index	—	-20.21	-5.29	-4.53

All data through February 2016. *January 8, 2013. Source: BarclayHedge; Bloomberg

ture growing middle-class populations that are eager consumers who create more investment opportunities. The countries are in the early stages of privatizing businesses and very gradually lifting restrictions on foreign shareholders.

Within these markets, EM Frontier focuses on businesses driven by domestic demand or those addressing gaps in service or industry. "Power producers, health care, and food retailers," says Ben Mlouka, "are more stable growth stories, less exposed to cyclical forces associated with energy and agricultural exports."

Ben Mlouka is well aware of the risks. He sticks to publicly traded shares with substantial free floats (typically more than 50%) and significant liquidity. He typically limits investments to 2% of a company's market valuation. Ben Mlouka normally shorts 20% of his portfolio with swaps that replicate baskets of local stocks. An added protection: While he tries to steer clear of countries with substantial macroeconomic risks, Ben Mlouka hedges part of his currency risk.

Another risk-reduction method is to avoid commodities-based companies.

Sometimes good research puts an investor in the right spot to hit an unexpected winner. Back in 2014, EM Frontier liked Al Noor Hospitals, which operates nearly a third of Abu Dhabi's private hospitals and clinics. Al Noor is a beneficiary of an emerging shift from public to private health-care facilities as incomes rise and private health insurance expands. New management began to ramp up clinic visits in a bid to increase demand for all of its services. The strategy's success was pushing both revenues and profits higher at Al Noor.

Just after Ben Mlouka finished putting 7% of EM Frontier's assets in Al Noor last October, a bidder showed up. **Mediclinic International** (MEI.South Africa), a private hospital group with units in Southern Africa and Switzerland, bought the hospital for $2.3 billion. Duet's fund sold out last month, pocketing a quick 23% gain.

Despite electric-power-generation capacity estimated at more than 23,000 megawatts, Pakistan in reality produces only about 60% of that figure, owing to chronic fuel shortages, plant inefficiencies, and bill collection and related credit problems. But in 2013, Islamabad secured a $6.6 billion loan from the International Monetary Fund in part to promote privatization and energy reform. Ben Mlouka saw the deal as a boon for the country's independent power producers, which already benefit from government guaranteed returns.

In the middle of 2014, EM Frontier allocated 5% of its assets to **Nishat Power** (NPL.Pakistan) and **Nishat Chunian Power** (NCPL.Pakistan). Ben Mlouka projected that trailing price/earnings ratios would expand from about four times to seven or eight, making them more comparable to other independent frontier power producers' valuations. The market soon pushed the shares of both companies higher.

But late in 2015, Ben Mlouka sensed that political support for more reform was waning, so he took profits. He lost a bit on the currency but still registered a net gain of 40%.

One play with current potential is Bangladeshi biscuit maker **Olympic Industries** (Olypmpi.Bangladesh), which has a 30% market in this local staple. Last September Ben Mlouka bought Olympic after it announced plans to enter the higher-margin premium-biscuit market. So far, its pricier Nutty and Twinkle Twinkle biscuits are a hit, and Olympic is ramping up production and lifting guidance. EM Frontier's holding has risen 9% in value in just a few months.

Ben Mlouka has adjusted his game since global markets began to gyrate wildly last summer, and performance sputtered. He raised cash from 7% to 35% in early January, and got rid of some losing positions—including Motswana (Batswana) grocery chain **Choppies Enterprise** (CHP.South Africa)—that had indirect exposure to commodities. Despite early-2016 losses of about 7%, according to Duet, EM Frontier is now nearly back to break-even this year. "We can't avoid global selloffs," explains Ben Mlouka, "but our domestically driven investments are insular by nature, which helps them rebound faster than other markets."

With more-benign central-bank policies and a recent decline in volatility, Ben Mlouka feels good about the rest of the year. "Companies have healthier balance sheets, with less leverage; hold more cash; and trade at valuations that are 10% to 15% above the lows reached during the financial crisis, when forward P/Es fell to nine," he notes. Despite the challenges, there's still time for Ben Mlouka to rally. ■