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MY GREATEST FAILURE

Expecting inflation that never came

Private equity pro recounts the plan that disappointed

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Rajaa Mekouar, outgoing CEO of the Luxembourg Private Equity & Venture Capital Association, describes one of her business failures - and what it taught her.

PHOTO: Lex Kleren

(This article is the third in the "My Greatest Failure" series where businesspeople speak out about moments they saw their hopes dashed. Earlier stories can be read [here](#) and [here](#).)

Two years in the making and countless hours studying the options, it seemed like a great plan. More than 200 candidates were trimmed and winnowed to the last, best investment target – farmland in South America.

The stopwatch was already counting down to the start of an explosion in inflation expected to follow the financial crisis more than a decade ago. That threat pointed investment portfolio manager Rajaa Mekouar to the agricultural land as a smart move.

But the explosion never came.

“I think it was a good idea at the wrong time and then the wrong time frame” for the expected payoff, said Mekouar, 46. “It was not such a good idea, after all, to bet on inflation.”

Instead, the surge in prices that she and other economic observers predicted never came. Central bankers using unprecedented tools even pushed interest rates to below 0% to encourage spending activity that then seemed ready to lock up and halt. The resulting flood of easy money ran away from bonds and other investment classes to chase big returns in stock markets, driving share prices higher year after year.

A lesson in disappointment

The missed prediction and timing added up to the notable failure of her business career, Mekouar said. The CEO of the Luxembourg Private Equity & Venture Capital Association until she steps down in September shared her misfire with the *Luxembourg Times* in hopes it offers a useful lesson for Luxembourg’s growing cadre of entrepreneurs.

Mekouar came to Luxembourg in late 2015 from London, and joined a private investment firm specialised in food and other consumer companies, for example the Quick and Burger King hamburger restaurant franchises in Luxembourg and Belgium. The avid amateur pianist has been working in private equity since a 2000 internship during her MBA studies at INSEAD, the business school based outside Paris.

Since last year, Mekouar has been head of private equity for what is called a family office, an industry term for a private wealth-management operation for very rich individuals or families.

There, she directs money to both venture capital funds and direct investments in companies involved in non-cyclical sectors where timing is less of an issue. The target companies are in healthcare or focused on the world's aging population, for example a company that distributes hearing aids. These investments are virtually immune to economic cycles since they are "must have" products and services, she said.



Private equity pro Rajaa Mekouar PHOTO: Lex Kleren

Mekouar was still at a previous investment firm in London when she was involved with scouring hundreds of potential deals in Africa, Australia, the

United States and Asia. They decided they'd found their match in South America, pumping capital into an agricultural group wanting to expand production on 100,000 hectares of farmland that it owned or managed in Paraguay, Uruguay, Brazil and Argentina, she said. The area translates to almost 40% the size of Luxembourg.

"Real assets like land and buildings are good to hedge against inflation," Mekouar said the thinking went. "Increasing productivity of agriculture would also be very good. And last but not least, it's a good diversifier away from typical asset classes. So on paper, it was great."

Central bankers move

But she and others involved didn't anticipate that central banks would act so aggressively, and the South American farmland's profitability hasn't been as stellar as anticipated, she said.

"We totally underestimated the power of government intervention," Mekouar said. "We didn't think enough of the big picture around us ... which was how government can change the game, the rules."

Mekouar likes saying that the two most powerful warriors are patience and time. What lesson could a younger associate at her firm learn from the farmland experience?

"Focus on opportunities where you can control different outcomes because you know the rules and they will not change during the time of your investment. And make sure that you look at all the forces at play," she said, "because timing in the markets can be a lot longer than you expected."

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