

## TURKISH INSTITUTIONAL INVESTMENT MANAGERS' ASSOCIATION

### TURKEY COUNTRY REPORT (January 1, 2016 – June 30, 2016)

#### ECONOMIC and FINANCIAL BACKGROUND

**Table 1: Key Economic and Financial Indicators**

	June 2015	June 2016
Population (million)	78.1	78.7*
GDP (EUR billion) Real	308.3	306
GDP growth (%)	10.4	10.5
Inflation rate (%)	7.2	7.6
Unemployment rate (%)	9.6	10.9
Stock market capitalization (EUR billion)	203.1	176.5
Stock market capitalization (% of GDP)	65.9	57.7
Bond market capitalization (EUR billion)	148.5	209
Bond market capitalization (% of GDP)	48.2	68.3
Household gross savings ratio (%)	10.6	19.4
Household financial wealth (EUR billion)	526.2	628.4
Average per capita financial wealth (EUR)	6,738	7,985

\*2015 data

#### TRENDS IN THE MUTUAL FUND SECTOR IN TURKEY

The net asset value of the Turkish investment funds decreased by 12.9% at end of June 2016. Furthermore, the net asset value of pension funds sector decreased EUR 14.5 billion, by 2.1% at the end June 2016.

In Turkey, there are three different types of investment trusts which are Real Estate Investment Trusts, Securities Investment Trusts and Venture Capital Investment Trusts, with a net asset value of EUR 15.4 billion, EUR 128 million and EUR 392 million, respectively. Net asset value of investment trusts (Real Estate, Securities and Venture Capital) rose 3.7 percent in the second quarter of 2016, compared to second quarter of 2015.

## Net Asset Value of Turkish Mutual Investment Funds

Types of Funds	Net Asset Value ( EUR million)	
	2015/06	2016/06
<b>MUTUAL FUNDS</b>	<b>13.100</b>	<b>11.405</b>
EQUITY FUNDS	361	382
BOND FUNDS	6.152	6.012
BALANCED FUNDS	1.432	1.115
MONEY MARKET FUNDS	4.700	3.566
OTHERS	388	248
FUNDS OF FUNDS	66	82
<b>PENSION FUNDS</b>	<b>14.817</b>	<b>14.501</b>
<b>INVESTMENT TRUSTS</b>	<b>15.789</b>	<b>16.368</b>
Real Estate Investment Trusts	15.182	15.848
Securities Investment Trusts	155	128
Venture Capital Investment Trusts	452	392

## MUTUAL FUNDS SYSTEM

By the end of 2015, Type A and Type B fund classification has ended. The fund classifications are made accordingly with the European classifications.

As of June 2016, the total net asset value of Mutual Funds is EUR 11.4 billion in Turkey. The breakdown of the different categories of Mutual Funds by market share are as follows; Equity funds: 3.3%, Bond funds: 52.7%, Balanced funds: 9.8%, Money Market funds: 31.3%, Funds of Funds: 0.7% and others: 2.2%.

When compared June 2016 figures are compared to June 2015 figures, the number of Mutual Funds decreased to 350 from 442.

### Number of Turkish Mutual Investment Funds

Types of Funds	Number Of Funds	
	2015/06	2016/06
<b>MUTUAL FUNDS</b>	<b>442</b>	<b>350</b>
EQUITY FUNDS	51	63
BOND FUNDS	102	99
BALANCED FUNDS	131 2	91

MONEY MARKET FUNDS	34	28
OTHERS	55	56
FUNDS OF FUNDS	6	13

## PENSION FUND SYSTEM

The current pension system in Turkey is the third pillar which is called a voluntary system. Along with the Government Contribution beginning from January 1st 2013, pension fund industry showed visible growth for the last 2.5 years. Turkish Government contributes 25% of the participant's contribution limited with the minimum wage ceiling which is yearly gross minimum wage totally. The aim of the support is making the pension system more attractive to pension savers. The purpose of the new regulations is to increase savings by Turkish investors which will help improve economic outlook and reduce current deficit of Turkey.

In Turkey the funds invest generally in traditional standard instruments namely equities, bills and bonds and deposits and to a degree futures markets. The necessity for longer term instruments is surging through the fast growing industry. The participation in the system continued to grow at a fast pace, although it is a voluntary system, the number of investors reached from 6.03 million at the end of December 2015 to 6.37 million at the end of June 2016.

The current Turkish pension system is fund based and pension funds are managed by the portfolio management companies in Turkey. The system is complementary to the national social security system on the basis of voluntary participation. The defined contribution principle, with a view to direct individual pension savings to investment to improve the welfare level by providing a supplementary income during retirement, to contribute to economic development by creating long term resources for the economy.

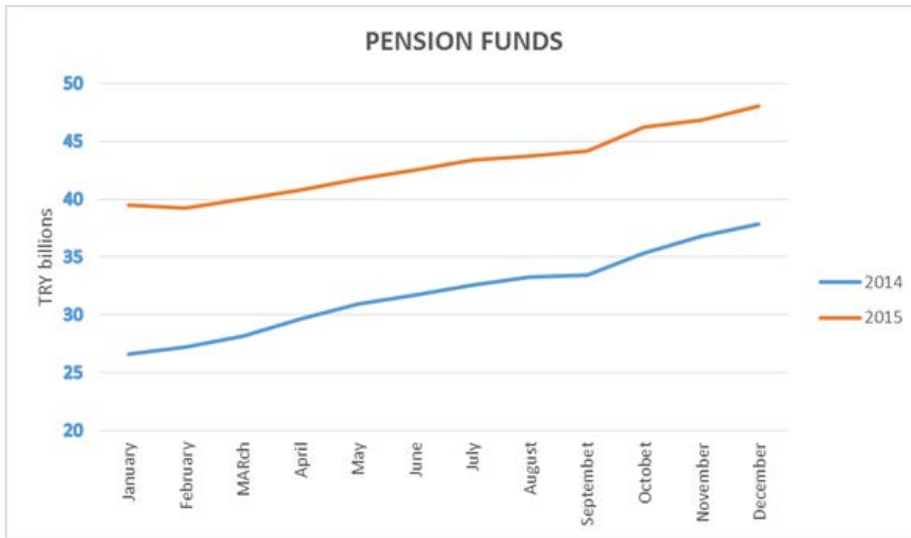
Capital Markets Board of Turkey provided opportunity for constructing longer term and alternative capital market instruments such as real estate investment funds and venture capital funds. These instruments are appropriate for longer term investment opportunities for pension fund portfolios. Infrastructure funds are also important for long term investments and portfolio diversification.

In 2013 the part of pension funds in household's investment portfolio was 4% which was developed to 6% in May 2016. Consequently, the Government support was successful. Pension system is very important tool for improving the savings. Turkish Government is working on another pillar; auto-enrollment pension system to attract more investors to the system pension system. The system is expected to come in to force in 2016. Both the government support to the voluntary pension system and auto-enrollment will add more participants to the pension system. At the end of 2012 the total amount was TRY20 billion while in 2015 the system came to TRY55 billion with about 6.37 million participants and the Government support to the system reached to TRY 6.26 billion.

Although there are many different types of pension funds with different investment strategies, the majority of assets in Turkish funds are government bonds. Withholding for income tax is applied when a participant leaves the system. The taxation rates differ depending on the participant's opting out period. The participant who stays 10 years in the system and retires from the system at the age of 56, pays only 5 percent withholding tax. On the other hand, the participant who does not stay in the system for minimum 10 years must pay 15 percent withholding tax (also for the government support) if. In addition if the participant completes 10 years in the system, and opts out before reaching 56 years of age pays 10 percent withholding tax.

The Government is currently working on a new pension system/auto-enrollment, which is expected to come in to effect at the beginning of 2017. Both public and private sector employees younger than 45 year age will be automatically included in the new pension system. The employees will desire to opt out or not in two

months' time. Participants fulfilling the conditions (staying to 56 years of age and 10 years in the system like the current system) will retire from the new system.



\*Data Provided from Pension Monitoring Center Turkey

## REGULATORY and TAXATION ISSUES

### Regulatory

At the end of 2012, the mutual funds industry has entered into new era after The New Capital Markets Law (Nr. 6362) and related regulations come into force. Investment companies and asset management companies become more important role with the new regulations in the capital markets. Turkey Electronic Fund Trading Platform (TEFAS), which is one of the most important steps for the growth and becoming wide spread of mutual funds, has been implemented. In addition, the new law allowed the Portfolio Management Companies to establish mutual funds. The ongoing process to adapt to new rules and notification has been completed and its transition process ended in 2015. Portfolio

Mutual funds are established in the form of open-end investment companies in Turkey. They do not have legal entity. They are operated in terms of the rules stated in the prospectus, which includes general terms about management of the fund, custody of assets, valuation principles and conditions of investing in the fund. Turkey closely watches the developments of the European Fund Industry and compliance of the Turkish Fund Industry with EU legislations.

The industry currently has a very small portion in the country's GDP (2% of the total GDP), and it expects higher growth in the coming years, with the support of lower interest rates and changing investment behaviors in the country.

Mutual investment funds need more support from the Government for instance tax incentives for the development of the mutual fund industry. Besides that, high interest rate and volatility prevents the market development as well.

Turkey Electronic Fund Trading Platform (TEFAS) will have positive effect for development and support of the mutual fund industry in the coming years. This platform has been in operation since January 2015. CMB's new regulations is mandatory for investment funds traded through the platform. It is an important step to ensure the growth of the sector and the system to become operational.

Types of investment funds has changed in 2016 in to comply with EU standards.

<b>MUTUAL FUNDS</b>		
<b>30.06.2016</b>		
<b>Type of Funds</b>	<b>Net Asset Value (TL)</b>	<b>Market Share (%)</b>
Debt Securities	20.236.098.916	39,29
Money Market	11.943.990.291	23,19
Mixed & Variable	3.446.419.477	6,69
Equity	1.417.350.625	2,75
Alternative	13.587.693.560	26,38
Precious Metals	287.095.363	0,56
Fund of Funds	277.049.971	0,54
Sukuk	170.302.611	0,33
Diğer	137.941.595	0,27

Capital markets are gaining new investment products and asset classes for alternative type of investment funds with the new law. There are new products getting in to the market such as interest-free products (Islamic products), venture capital funds and real estate investment funds which provide variety for the market. These funds started operating in 2016.

CMB issued the related communiqués on establishing the private equity funds and real estate funds in January 2014. There are real estate investment trusts which are all closed-ended instruments in the Turkish capital markets. In 2016 some real estate investment funds began to be established.

CMB's new investment funds communique, issued under the new Capital Markets Law, entered in to force by July 1, 2014. An Investment Funds Handbook prepared by CMB, in line with this Communique, has also been issued in June 2014.

Guaranteed/Protected Funds, Hedge Funds (Free Investment Funds, ARIS) are new to the market and market share of the guaranteed and protected funds rose especially since 2008. Free Investment Funds (FIF)s are able to set any minimum investment amount (including no investment amount) to determine the number of investors. FIF units can only be sold to qualified investors.

According to the Hedge Funds communiqué published in late 2006, Hedge Funds in Turkey are regulated by the CMB. Together with the several funds compatible with the UCITS III Directives, the applications of hedge funds are made since the first quarter of the 2009.

## **Taxation Issues**

The Finance Ministry imposed equal withholding taxes on foreigners and Turkish nationals for bonds and investment funds. The current taxation system allowing both foreign and domestic investors to pay zero withholding tax on shares.

Securities and other capital market instruments, purchase/sales gains and depreciation based on the distinction between domestic and foreign investors given the application of withholding tax and capital companies (investment funds and securities and other capital market instruments exclusively in partnership with the increase in value with gains and the associated benefits rights to use the nonresident operating in mutual funds and investment trusts established in accordance with the Capital Market Law that are similar to those set out in the Ministry of Finance included) to 0% withholding tax.

For all the others:

- Withholding tax of 10 percent was removed for equity based investment funds (min 80 percent equity holding funds)
- The incomes from holding the funds which holds minimum 51% equity of the fund portfolio over a year are exempted from 10 percent withholding tax.
- The investors invest in all other type funds are subject to 10 percent withholding tax

## **CORPORATE GOVERNANCE**

Corporate Governance Principles in Turkey were issued by Capital Markets Board of Turkey (CMB) in June 2003. Therefore, the CMB has defined corporate governance principles, which can be used primarily by listed companies as well as by joint stock companies both in the private and public sector.

The Turkish Institutional Investment Managers' Association (TKYD) accepted EFAMA, the code of conduct for investment and asset management firms and therefore issued these principles as a guide to its members. Borsa Istanbul (Istanbul Stock Exchange) works on several international projects as part of EU accession process.

## **FUND STANDARDS and DISTRIBUTION**

### **Standards**

There were many initiatives taken by Turkish Institutional Investment Managers' Association (TKYD) towards transparency in the fund industry.

CMB is regulating fund performance presentation standards based on a global standard. CMB has also new initiatives for disclosure of fees and commissions. Investors are encouraged to review all disclosed information.

For a foreign fund to be distributed in Turkey, it should not be less than three-years old and in principle, foreign fund should not invest in Turkey.

Notice periods for mutual funds are;

- One business day for subscription and two business days for redemption in Equity funds;
- One business day for both subscription and redemption in Fixed Income funds except Money Market funds.

### **Distribution**

CMB and Turkish Custody and Settlement Bank (Takasbank) has been working to improve the functions to encourage trading in Turkey Electronic Fund Trading Platform (TEFAS). TEFAS, initially launched in 2011, aims that the fund managers reach to a wider investor base. Turkish Electronic Fund Trading Platform (TEFAS) was activated on January 9th 2015. Investors should easily reach a large variety of funds in a short time with TEFAS also with low costs.

## **TRENDS IN PRODUCT DEVELOPMENT and LEVEL PLAYING FIELD ISSUE**

There are no real estate investment funds in Turkey. There are only real estate investment trusts which are all closed-ended instruments. In 2014 CMB made the arrangements to establish open-ended real estate investment funds. In 2016 asset management companies began establishing real estate investment funds and venture capital investment funds.

According to the hedge funds communiqué published in late 2006, the hedge funds in Turkey are being regulated by the CMB. Together with the several funds compatible with the UCITS III directives, the applications of hedge funds are made since the first quarter of the 2009.

## **ACTIVITIES OF THE ASSOCIATION**

When we look at the development of the portfolio management and fund industry since 2000, we see a significant improvement with the positive impacts of the approval of the private pension legislation and the integration of our country's financial institutions to the system as well as their increased reputation on the international arena as a result of the restructuring based on the lessons learned in the past.

The new legislative regulations in the investment fund industry introduced by the Capital Markets Board of Turkey (CMB) and the new products support and enhance the industry. The tax equality among the investment tools and a specific legislation on the asset management companies will both pave the way for the growth of collective investments industry in Turkey and meet the international standards. The number of asset management companies –by owners' independent from banks- have already increased in the last four years, bringing the total number of asset management companies to 46 in 2015.

CMB is working closely with TKYD to resolve many issues related to investment funds, as well as discussing certain proposals and offering solutions for some critical issues facing the industry in Turkey.

### **The activities of TKYD in 2015 can be summarized as;**

- Annual meetings of Collective Investment Fund Industry,
- TEFAS (Turkish Electronic Fund Trading Platform "Opportunities and New Expansions" Panel Discussion,
- Sector Meeting organized by TKYD in which CMB Executive Vice Chairman Tevfik Kınık and EFAMA President Christian Dargnat were speakers,
- TKYD visit to Dr. Vahdettin ERTAŞ, Chairman of CMB,
- The Asset Management Sector Conference "The Contribution of Asset Management Sector to the Turkish Economy by reaching to 100 billion Turkish Liras" in which Deputy Prime Minister Mehmet ŞİMŞEK and Chairman of CMB Dr. Vahdettin ERTAŞ were key speakers.
- Sector Meeting Namely "Cultural and Economic Dynamics Determining Policies"

TKYD has created twitter account (TKYD\_1999) and LinkedIn profile to improve communication among the sector professionals to rise of professional networking and to constitute a platform for sectoral developments which is actively used.

CMB is also in close contact with TKYD in working towards taking the necessary steps to move the Turkish investment fund sector closer to EU accession.

TKYD has 14 institutional (asset management companies, insurance companies and brokerages) and 15

individual members.

Turkish Institutional Investment Managers' Association, with an ambitious vision of enhancing the base for institutional investors in Turkey, aims at increasing the number of investors to 10 million.

TKYD publishes a quarterly magazine called "Institutional Investor" since April 2008. It is being distributed among TKYD members, institutional investors, universities and the regulatory body officials. The magazine covers all up-date developments in the Turkish Investment Fund Industry as well as several analysis, reports, introductions of the new funds in the market, interviews, new trends in the sector and developments in the global fund industry together with the relevant industry statistics.

#### **TKYD Determined 6 Priority Areas in 2016;**

- 1- Investor Protection
- 2- Improvement of Sector Standards
- 3- Capital Markets Development
- 4- Research Activities and Statistical Data
- 5- Long Term Savings Growth
- 6- Taxation

TKYD signed a partnership agreement with Borsa Istanbul in 2015 for calculation of KYD benchmark indices beginning from July 1st. The name of the indices regenerated as BIST-KYD indices. TKYD and BIST generated BIST-KYD Indices Committee which will periodically hold meetings to define new indices according to the sector's needs.