



As the leader of Turkey's asset management industry, Is Asset Management will continue to make every possible effort along many different fronts to foster the growth and development of its industry.

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Saving behaviors need to change for Turkey's investment fund market to develop

In a global perspective, the portfolio management industry that gained momentum toward the end of 20th century; also exhibited rapid growth in Turkey by the end of 2001. One of the trigger points that accelerated the development of the industry is the fact that Turkey's regulatory framework was modified accordingly with the changing industry conditions. Within this concept, the management right of mutual funds was given both to the investment companies and asset management companies. Moreover, the management of private pension funds was solely granted to the asset management companies. Even though these developments enhanced the escalation of the investment fund industry, we still cannot say that the point that has been reached as yet fully reflects the potential in our country.

In 1974, the mutual fund industry in the USA was worth around USD 46 billion; as of second quarter of 2008, it reached a volume of approximately USD 11.7 trillion. In the European Union this figure was on the order of EUR 7.3 trillion. When the mutual fund dimensions in developed countries are compared with those in our own country, the first thing we notice is that there is still tremendous untapped growth potential in this industry in Turkey. To exploit that potential to the best advantage, it will be necessary to mobilize the dynamics of its development in our country.

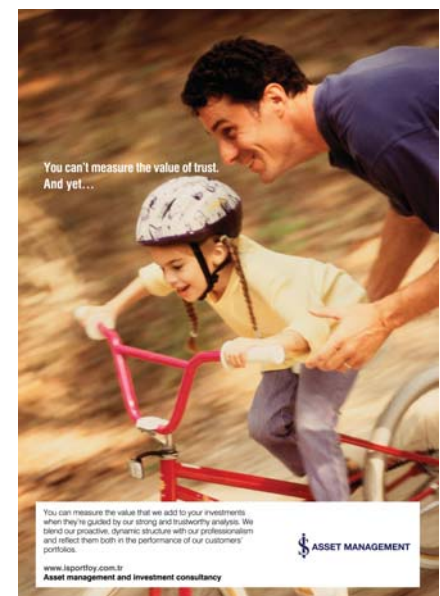
To achieve this, three things need to be done:

- Investors need to be made more aware of the importance of mutual and pension funds and their crucial role in the capital accumulation.
- Individual and institutional investors must be made sufficiently aware of the importance of turning the management of their assets over to professionals.
- Efforts must be made and regulatory changes must be introduced to bring the Turkish asset management industry into compliance with EU norms.

The mutual fund industry in Turkey

While the Turkish mutual funds industry may still be considered to be quite young, it nevertheless has been exhibiting rapid growth in recent years. **In 2002 the sector's dimensions were on the order of USD 6 billion; by June 2008, that figure had reached nearly USD 21 billion and it represented no fewer than 329 different funds and about 3.4 million investors.** As we have seen in other examples around the world, mutual funds play a very important role in adding depth to capital markets. An essential requirement for a properly developed mutual fund industry is that households also acquire the habit of investing in mutual funds. Although the mutual funds industry in our own country has been growing, we see that investors are more interested in those funds that invest in

fixed income instruments. Some 82% of Turkey's mutual funds by type consist of money-market funds. A-type funds (that is, equity funds), which must invest a prescribed percentage of their assets in company shares, account for only 2.80% of the total number. If this industry is to develop, people need to be informed about the different ways in which they can put their savings to work. In order to shift saving towards mutual funds, investors need to be acknowledged first about the importance of putting their savings to work in funds that are managed by professionals and second about the advantages of their doing so.



The private pension system

I believe that another important factor capable of changing people's saving behavior and of contributing towards the growth and development of our industry in Turkey is the private pension system. In the designing of Turkey's private pension system (PPS), practices in Europe and the United States were studied and the best practices of both were used in the creation of our own. In that respect then, we can say that Turkey has one of the best thought-out private pension systems in the world. The PPS is a system that allows everyone to win: participants are able to take advantage of significant tax incentives on their investments; the government is able to sell its long-term borrowing instruments to the system; the private industry is able to tap the system for the long-term resources that it needs. In every country where the public-owned social security system is insufficient to meet needs, private pension systems have proven to be successful alternatives. In 2007 the ratio of PPS assets to GNP among members of the developing country category as Turkey was 4.6% in the Czech Republic, 9.7% in Hungary, and 11.1% in Poland. Turkey's private pension system was launched in October 2003. It was the object of intense interest and since then it has continued to grow faster than expectations. Despite this however, the ratio of PPS assets to GNP is less than 1%. This shows that the system still has a long way to go in terms of the benefits that it provides compared with the examples that we see in other countries.

Discretionary portfolio management

Whenever "institutional investors" are mentioned in the asset management industry what most people immediately think of are mutual funds and pension funds. The fact is that the portfolio management services provided to institutional investors such as investment trusts, insurance funds, foundations and etc. other than mutual funds and pension funds are also of great importance from the standpoint of the industry's development. Unfortunately we have seen that institutional investors' attitudes towards asset management are quite different from those in the United States and Europe. In many countries with well-developed capital markets, an institutional investor that has funds to be managed on hand auctions its assets between various professional asset management companies and obtains the best offer, which is embodied in a portfolio management agreement. The firm that is awarded this contract becomes responsible for managing the client's funds for a specified period of time. This practice has also begun in Turkey but it



is still not at the level that it should be. While there are some companies in our country that put their investments to work in this way, the habit is still not very widespread. Nevertheless global volatilities and market uncertainties in the period ahead will steadily increase the need to manage corporate capital professionally. Institutional customers will have recourse to professional asset management companies in order to focus all of their attention on their core business while their assets are put to work for them by those who take advantage of the very best market opportunities available. Because the volume of funds under professional management will grow rapidly, the role of asset management companies in capital markets will also become increasingly more important.

The asset management industry in Turkey's EU accession process

In terms of its existing infrastructure, the investment fund industry stands foremost among all sectors in Turkey in terms of its ability to accommodate itself the most easily and with the least difficulty to the European Union. To give just one example of what is meant by "infrastructure", our parent Isbank recognized the importance of globalization in the mutual funds industry rather early on and had the foresight to set up Turkisfund in Luxembourg in November 1997. **Turkisfund (SICAV) fund is the first and only international open-end fund that maintain 11-year track record, available for sale in Euros and launched in Europe that exclusively invests in Turkey's capital markets.** Turkisfund is composed of three sub-funds that regard risk, return and liquidity balances; Equities, Bonds and Eurobonds. Turkisfund is a high performance product for both Turkish investors located abroad and foreign investors for diversification purposes. Turkisfund's portfolio is managed by our company, Is Asset Management.

Turkisfund (SICAV), widely regarded in international markets as a prestigious and successful product, was brought into compliance with the most recent EU regulations governing collective investments in transferable securities (UCITS III). This compliance is tantamount to an EU "passport" that makes shares in these funds accessible to investors in all EU member countries. Turkisfund (SICAV) sub-funds are licensed for sale to corporate and individual investors in Luxembourg, Germany, the UK, and Holland. The importance that our company gives to globalization was shown once more when it became a member of the European Fund and Asset Management Association (EFAMA). This membership not only raises our international recognition but also brings with it a host of new perspectives and potential collaborations.

Why international investors should prefer local asset management companies

Looking at the matter from the standpoint of international investors, we believe that local information is very important in the business of asset management. We can also grow and develop this industry of ours by explaining the value of our local knowledge to international investors. I believe that the advantages that local asset management companies like ourselves have are these:

- **We have more insight** as to the impact of global parameters on our own country and their implications for its money and capital markets.
- **We have a better understanding** of our country's economic and political circumstances, which enables us to take the right positions at the right times.
- **We adhere to the best practices** in line with the legal and regulatory requirements of our own country.
- **We respond more effectively** to capital market investors' needs and return/risk preferences.
- **We maintain clear communication with local agencies**, which allows us to get our views across more efficiently.

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