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# Turkey eyes Europe to boost fund sector

## News analysis

EU accession will bring competition and diversity, says Fiona Rintoul

The Turkish language nicely sums up Turkey's unique place in the world. It is neither Semitic nor Indo-European, but it used to be written in Perso-Arabic script and since Atatürk's 1928 reforms it has been written in modified Latin script.

This cultural mix is reflected in the country's fast-growing but still underdeveloped asset management industry. On the one hand the industry looks to European Union accession to increase competitiveness; on the other it increasingly does business with neighbours in the Middle East, Asia and the Balkans.

As the economies of the developed world crumble, Turkey, with long-term average economic growth of 5 per cent, has proved an attractive asset class on both the equity and bond side. Nearly two-thirds (65 per cent) of the Istanbul stock market is held by foreign investors, much recent interest has come from non-European neighbours, and the local fund industry participants believe the potential for new business from these regions is significant.

"Turkey is a Muslim country, but five to six years ago the total Turkish export volume to the Middle

East was only 5 per cent," says Tolon Canpolat Aydos, senior vice-president at Ak Asset Management, Turkey's second largest asset management firm. "Now it is nearly 20 per cent. This says a lot about the opportunities in the Middle East for our fund management industry."

Plans to create an Istanbul Financial Centre (IFC) – though derided by some as an election gimmick from Recep Tayyip Erdogan, Turkey's prime minister, and unworkable in a city that already has 12.6m inhabit-

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ants – are broadly welcomed by the Turkish fund industry. It sees an opportunity to turn Istanbul into a regional hub to rival Moscow, helping to attract foreign investors such as Middle Eastern sovereign wealth funds and boost the Turkish capital markets.

Istanbul has many perceived advantages over Moscow. Gürman Tefvik, chief executive of Is Asset Management, Turkey's largest fund manager, points to its young and educated population.

Ömer Yenidogan, general manager of TEB Asset Management, a joint venture with BNP Paribas Investment Partners, believes the economy and society are

more flexible in Istanbul than in Moscow and highlights Turkey's greater economic diversity.

"The Moscow stock market is dominated by energy," says Mr Yenidogan. "Turkey is very strong in financials, telecoms and automotive industries."

However, this focus on Turkey's immediate region is not exclusive. With its strong demographics and booming economy the country could perhaps be forgiven for fighting shy of its debt-ridden European neighbours, who have hardly welcomed it with open arms. But EU accession remains an important goal for Turkey and its fund industry.

It is, says Mr Yenidogan, "a social project as well as an economic project". But for the Turkish fund industry there will be many hard practical benefits.

"Turkey's EU accession would help in terms of harmonisation of investment vehicles and rules," says Mr Tefvik. "This will help speed up financial investments to Turkey."

Is Asset Management already serves European investors through its Luxembourg-based Sicav, Turkisfund. However, such ventures are necessarily more complicated and limited at the moment than they would be were Turkey in the EU. Similarly, foreign funds offered in Turkey are of negligible importance partly because they suffer from adverse taxation.

EU membership would



Turkey's Blue Mosque in Istanbul is a big tourist draw. The country hopes to attract foreign investors too

Dreamstime

bring much-needed competition, diversity and depth to the Turkish fund industry, which controlled just \$26.7bn of assets at September 2011 – equivalent to a tiny 3.4 per cent of total gross domestic product.

A first step along the way is the new Capital Markets Law, which will bring Turkish investment fund legislation closer to European standards and is due for enactment by March 2012. It is a welcome development as EU accession is not

imminent. (The Commission's latest pronouncement on the issue had a 'must try harder' flavour, particularly with regard to human rights and freedom of speech.)

Already European interest in the Turkish fund industry is strong. With the exception of Is Asset Management, most of the leading Turkish fund management groups are already controlled by European or US houses.

Citibank, Unicredit,

BBVA, ING, HSBC and BNP Paribas IP are all present in the top 10 and other companies are moving in. Franklin Templeton has formed an alliance with Ak Bank to offer a mirror of the Franklin Templeton Bric equity fund in Turkish lira, and there is talk of a similar deal between Garanti and Fidelity.

The Turkish fund industry is standing on the threshold of expansion. New and more liberal legislation is about to be enacted and the high interest rates that for years kept savers in deposit accounts and money market funds have finally come down. Mr Tefvik says he expects this to continue and to boost fund industry assets under management, as well as move portfolios away from fixed income towards equities and alternative assets.

Input from Europe in terms of know-how will certainly play an important role in the industry's future. As Mr Aydos puts it: "We have to decide to be part of somewhere. The most logical place is Europe."

But it is part of the country's strength that it faces in many directions. "Istanbul has always been an important hub for business," says Mr Tefvik. "It's right in the middle of major time zones. Istanbul's western and eastern roots, which have shaped its culture and history, present great value."

Alongside its economic and demographic robustness, Turkey's biggest attraction for European fund managers as the axis of global economic power tilts away from western Europe could be as a base to target other countries in the region.

"We've seen this in other sectors such as insurance," says Mr Aydos.

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