

# **FLOW OF FUNDS REPORT**

## **TUYID Q2 2016**

August, 2016

Dear Readers,

This volume of the Flow of Funds Report, covering the second quarter of 2016, which provides important insight about the inflow and outflow of funds, as well as investment types, regions and top sellers and buyers and other important information related to the Turkish market and international investments as well as key cities for road shows, is prepared for your attention.

We, as TÜYİD and IPREO, believe that the report will be an important guide to shed light on trends with regard to international flows, which will facilitate the investor relations professional's operations.

When comparing the four countries all showed signs of negative sentiment –Turkey saw net sales of \$764M; however, this was mainly led by two North American investors which, between them, reduced their aggregated exposure by \$927M (see top sellers section on page 5). Hungary saw the least divestment in the quarter with net sales of \$7M, with Poland and Russia seeing outflows of \$108M and \$55M respectively. Growth and Value investors continued to reduce their exposure to Turkish equities, Yield investor switched direction to negative and Index investors continue to offer support.

This Report is prepared by IPREO, in cooperation with TÜYİD, using IPREO's database. We trust it will continue to provide an important insight for the market players and will be published quarterly for your attention.

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*Disclaimer: The evaluations and the information in the Report, where you can find significant statistics about the stock exchange, are prepared based on IPREO's database. Investment information, comment and advices are not in the enclosure of investment consultancy and do not comprise information for buying and selling decisions in the capital markets. The data and the information in the Report cannot be guaranteed to be correct; the content can be changed without announcing. All the data are taken from the sources thought to be reliable. The data used in this report is sourced from publicly disclosed portfolios/information and due to the reporting periods there may be discrepancies (data sources used in this report include, but are not limited to, Factset, Morningstar, SEC filings (13Fs etc.) and news sources). IPREO and TÜYİD cannot be taken responsible for the problems that might emerge out of using these sources.*

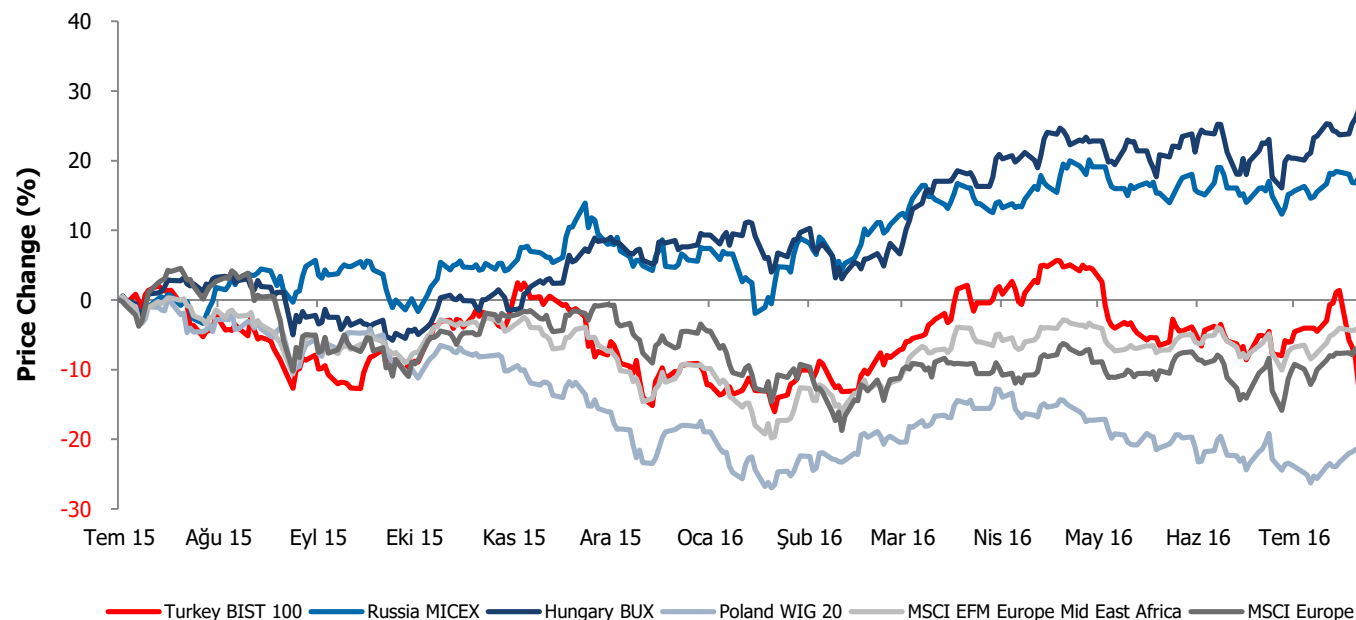
## Price performance:

The BIST National Index fell by 7.68% over the twelve months to July, with the MSCI Europe Index falling a slightly lower 6.61%; the MSCI EFM Europe Mid East Africa Index was also in negative territory posting a decline of 4.19%. The worst performing index was the Poland WIG 20 which fell 23.26% over the same period. Only two indices showed positive results with the Hungary BUX Index and the Russia MICEX Index returning 26.30% and 18.60% respectively.

“Most emerging European equity markets fell in the second quarter. Stocks were pulled lower by political and economic uncertainty in Poland and Turkey and by fears of a possible European economic slowdown triggered by the UK’s late-June referendum to leave the European Union. In U.S. dollar terms, shares in Poland and Turkey fell 17% and 8%, respectively. Stocks in oil producer Russia rose 4%, however, as oil prices continued to rebound from 13-year lows reached in the first quarter. Also, Russia’s central bank cut interest rates in June and forecast that the economy would return to growth in the second half of 2016.”

T. Rowe Price Emerging Europe Fund - June 2016

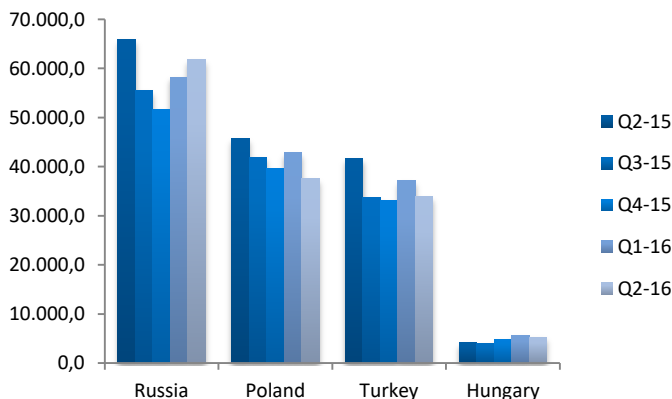
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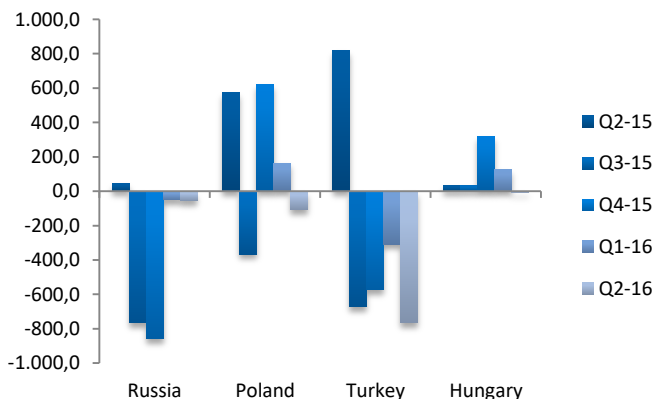
## Q2 Inflows and Outflows:

Turkish equities witnessed outflows for the fourth consecutive quarter, with investors divesting a further \$764M from the market, the highest level over the 12 months. The next largest reductions were in Poland with net sales of only \$108M, Russia saw sales of just \$55M and divestments in Hungary were relatively flat with sales of just \$7M.

Institutional Investment in Region (\$M Value)



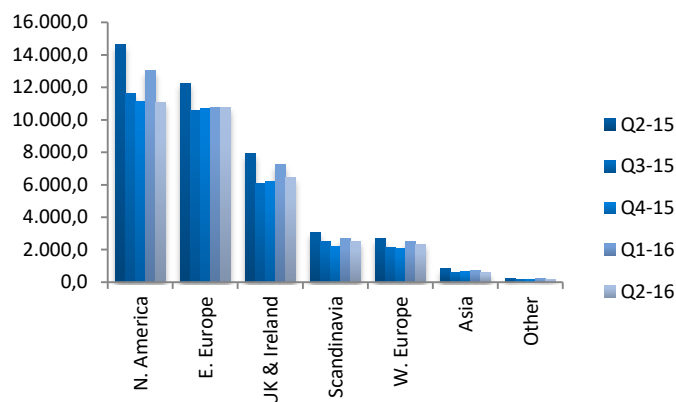
Institutional Investment in Region (\$M Change)



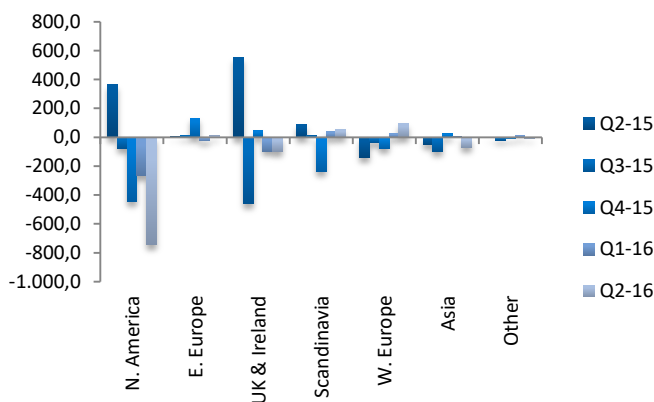
## Q2 – Investment by Investor Region:

North American investors dominated the selling of this market. Lazard Asset Management, LLC (U.S.), the third largest holder of the region, reduced its exposure by \$590M. Dodge & Cox, previously the third largest seller, moved up to second place with divestments of \$338M; while Grantham Mayo Van Otterloo & Co., LLC (previously second largest seller) dropped to fourth with sales of \$46M. UK based investors remained negative on Turkey with net sales of \$102M, and investors based in Asia reduced their exposure by a net \$71M. Western European investors were net buyers for the second straight quarter with purchases of \$97M, with Scandinavian investors following this pattern with inroads of \$53M.

Institutional Investment by Region (\$M Value)



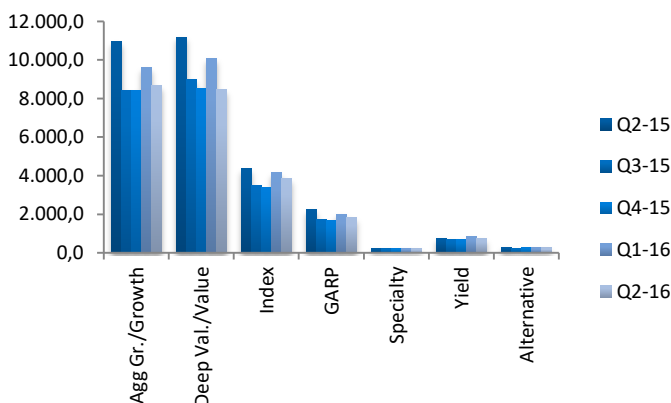
Institutional Investment by Region (\$M Change)



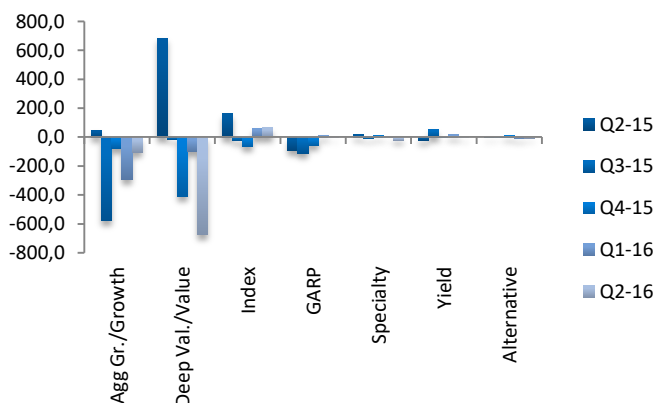
## Q2 – Investment by Style:

Value style investors led the selling of the market during the quarter with net sales of \$674M – a reduction of 7.39% of their aggregated exposure. This a heavily value-dominated story: growth investors slowed their selling quarter-on-quarter sharply, with sales of only \$106M. Both of these styles of investors have been retreating from the market for the last four quarters. Index investors remained positive on the market for the second quarter with investment of \$64M, with The Vanguard Group, Inc. leading the inflows with purchases of \$58M (the largest reductions from this group came from BlackRock Fund Advisors with sales of \$18M).

Institutional Investment in Region (\$M Value)



Institutional Investment in Region (\$M Change)

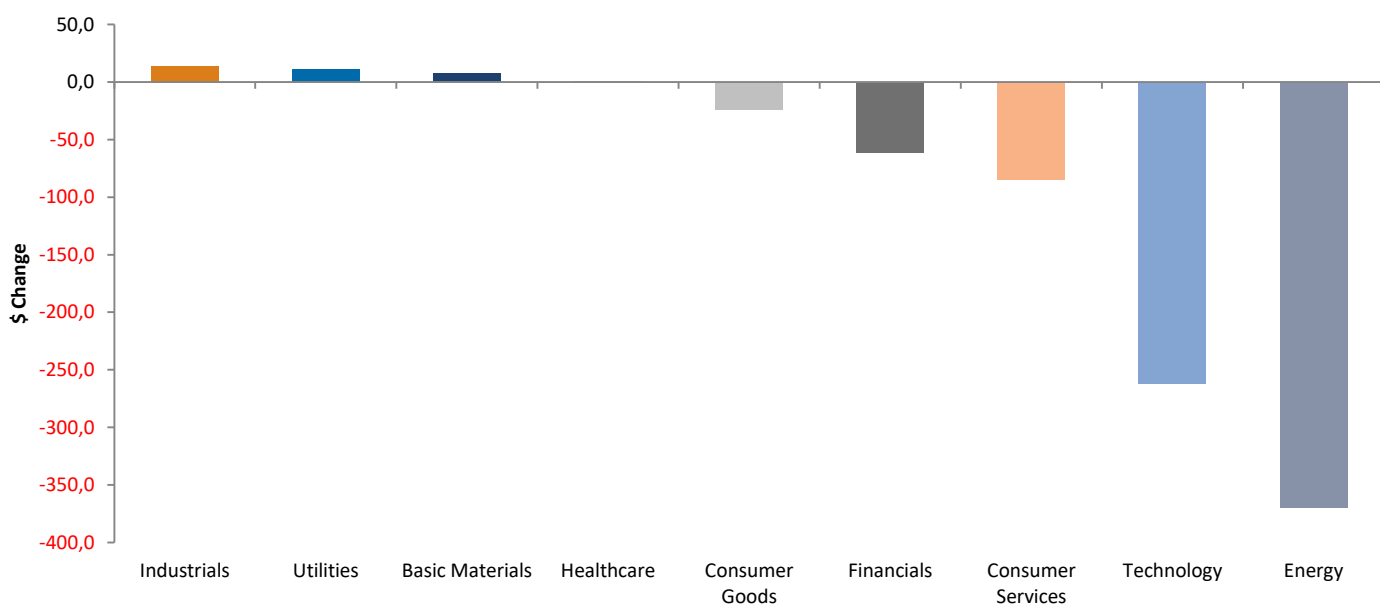


## Top Holders, Buyers & Sellers: Q2-16

TOP HOLDERS	Country	Style	Turnover	Equity Assets (\$M)	Value (\$M)	Change (\$M)	% Portfolio	% Portfolio Chg
Aberdeen Asset Managers, LTD (U.K.)	United Kingdom	Growth	Low	95,427.5	1,395.8	-13.7	1.5	-1.0
Norges Bank Investment Management (Norway)	Norway	Value	Low	512,941.7	954.6	0.0	0.2	0.0
Lazard Asset Management, LLC (U.S.)	United States	Value	Medium	75,359.7	892.2	-589.6	1.2	-39.8
APG Asset Management N.V.	Netherlands	Yield	Low	131,186.0	632.5	0.0	0.5	0.0
Genesis Investment Management, LLP	United Kingdom	Growth	Low	19,492.0	571.2	0.3	2.9	0.0
BlackRock Investment Management (U.K.), LTD	United Kingdom	Growth	Low	372,108.5	456.3	-8.4	0.1	-1.8
Dodge & Cox	United States	Deep Value	Low	147,554.5	420.7	-337.8	0.3	-44.5
J.P. Morgan Asset Management (UK), LTD	United Kingdom	Growth	Medium	95,694.0	399.3	-67.0	0.4	-14.4
OppenheimerFunds, Inc	United States	Growth	Medium	135,114.7	391.5	-15.3	0.3	-3.8
Invesco Advisers, Inc.	United States	Growth	Low	172,128.0	366.4	2.9	0.2	0.8
				<b>6,480.5</b>	<b>-1,028.6</b>			
TOP BUYERS	Country	Style	Turnover	Equity Assets (\$M)	Value (\$M)	Change (\$M)	% Portfolio	% Portfolio Chg
Capital World Investors (U.S.)	United States	Value	Low	542,530.3	287.1	225.2	0.1	364.0
Nordea Investment Management (Denmark)	Denmark	Value	Medium	57,328.9	335.7	95.4	0.6	39.7
RAM Active Investments S.A.	Switzerland	Value	Very High	3,125.9	213.3	73.0	6.8	52.0
Investec Asset Management, LTD (U.K.)	United Kingdom	Growth	Medium	36,299.5	119.5	41.6	0.3	53.4
J.P. Morgan Investment Management, Inc.	United States	Growth	Medium	245,743.9	96.2	28.3	0.0	41.7
Schroder Investment Management, LTD	United Kingdom	GARP	Medium	100,875.9	323.8	23.9	0.3	8.0
Goldman Sachs Asset Management, L.P. (U.S.)	United States	GARP	Medium	107,469.5	34.1	19.9	0.0	139.7
Van Eck Associates Corporation	United States	Value	Medium	29,300.3	53.9	14.4	0.2	36.4
AllianceBernstein, L.P. (U.S.)	United States	Value	Medium	136,475.1	103.9	12.2	0.1	13.3
William Blair & Company, LLC (Investment Management)	United States	Agg. Growth	Medium	47,979.9	159.2	11.8	0.3	8.0
				<b>1,726.7</b>	<b>545.8</b>			
TOP SELLERS	Country	Style	Turnover	Equity Assets (\$M)	Value (\$M)	Change (\$M)	% Portfolio	% Portfolio Chg
Lazard Asset Management, LLC (U.S.)	United States	Value	Medium	75,359.7	892.2	-589.6	1.2	-39.8
Dodge & Cox	United States	Deep Value	Low	147,554.5	420.7	-337.8	0.3	-44.5
J.P. Morgan Asset Management (UK), LTD	United Kingdom	Growth	Medium	95,694.0	399.3	-67.0	0.4	-14.4
Grantham Mayo Van Otterloo & Co., LLC	United States	Value	High	52,685.8	329.9	-45.5	0.6	-12.1
Harding Loevner, L.P.	United States	GARP	Low	24,958.7	130.9	-45.2	0.5	-25.6
Arisaig Partners (Asia) Pte., LTD	Singapore	Value	Low	3,753.8	56.5	-40.7	1.5	-41.9
SKAGEN AS	Norway	Value	Medium	8,311.1	309.1	-23.7	3.7	-7.1
Ashmore Investment Management, LTD	United Kingdom	Specialty	High	1,189.2	3.5	-16.7	0.3	-82.8
TIAA-CREF Investment Management	United States	Growth	Low	254,717.1	133.9	-16.2	0.1	-10.8
East Capital Asset Management AB	Sweden	GARP	Medium	1,034.9	138.3	-15.3	13.4	-10.0
				<b>2,814.4</b>	<b>-1,197.8</b>			

*Includes Investors with EUM greater than \$100M; Excludes Passive/Index Investors*

## Sector Inflows/Outflows:



## Road show:

London continues to be the dominant investor hub for Turkish equities both in dollar terms (\$4.2B) and with the number of active managers (75). New York remains in second place but is the main selling investor centre largely attributed to Lazard Asset Management, LLC (U.S.) with San Francisco being the second largest selling hub (mainly Dodge & Cox). Los Angeles based investors contributed the most to Turkish equities during the quarter with the bulk of this coming from Capital World Investors (U.S.) which increased its portfolio in Turkey by \$225M.

Country / City	Most Invested			
	Total Equity Assets (\$M)	Value (\$M)	Activity (\$M)	# Firms
United Kingdom (London)	1,501,279.5	<b>4,242.5</b>	<b>-90.5</b>	75
United States (New York)	2,231,508.9	<b>1,951.4</b>	<b>-558.8</b>	40
United Kingdom (Glasgow)	99,536.9	<b>1,401.7</b>	<b>-15.0</b>	2
Norway (Oslo)	533,866.5	<b>969.4</b>	<b>-2.5</b>	3
United States (Boston)	1,925,685.6	<b>808.2</b>	<b>-70.9</b>	18
Netherlands (Amsterdam)	136,525.6	<b>634.3</b>	<b>-0.9</b>	4
United States (Los Angeles)	1,008,381.6	<b>610.9</b>	240.3	9
Sweden (Stockholm)	195,134.4	<b>500.1</b>	<b>-13.7</b>	12
United States (San Francisco)	272,240.1	<b>472.5</b>	<b>-339.0</b>	5
United States (Atlanta)	267,596.4	<b>423.0</b>	<b>-6.6</b>	3
Turkey (Istanbul)	389.2	<b>373.2</b>	0.8	10
Denmark (Copenhagen)	81,780.2	<b>366.2</b>	95.6	6
Poland (Warsaw)	18,411.3	<b>337.9</b>	0.0	22
Norway (Stavanger)	8,311.1	<b>309.1</b>	<b>-23.7</b>	1
Germany (Frankfurt)	226,671.7	<b>292.5</b>	19.5	11
Switzerland (Geneva)	83,122.8	<b>279.9</b>	59.9	8
Bahamas (Nassau)	39,901.4	<b>244.0</b>	<b>-0.6</b>	1
Netherlands (Rotterdam)	28,110.0	<b>240.8</b>	10.1	1
Singapore (Singapore)	87,674.2	<b>239.5</b>	<b>-54.8</b>	9
United States (Chicago)	150,276.7	<b>206.6</b>	6.0	11
<i>Excludes Passive/Index Investors</i>		<b>14,903.9</b>	<b>-744.9</b>	252

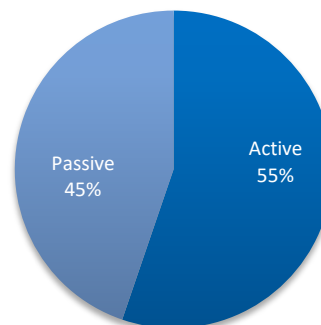
Country / City	Most Investors			
	Total Equity Assets (\$M)	Value (\$M)	Activity (\$M)	# Firms
United Kingdom (London)	1,501,279.5	4,242.5	<b>-90.5</b>	<b>75</b>
United States (New York)	2,231,508.9	1,951.4	<b>-558.8</b>	<b>40</b>
Poland (Warsaw)	18,411.3	337.9	0.0	<b>22</b>
United States (Boston)	1,925,685.6	808.2	<b>-70.9</b>	<b>18</b>
Japan (Tokyo)	387,901.5	111.0	0.2	<b>16</b>
Canada (Toronto)	403,512.4	195.5	0.3	<b>14</b>
South Korea (Seoul)	37,567.2	17.8	0.0	<b>14</b>
France (Paris)	197,628.5	149.2	12.5	<b>13</b>
Sweden (Stockholm)	195,134.4	500.1	<b>-13.7</b>	<b>12</b>
Germany (Frankfurt)	226,671.7	292.5	19.5	<b>11</b>
United States (Chicago)	150,276.7	206.6	6.0	<b>11</b>
Finland (Helsinki)	16,286.4	103.9	7.5	<b>11</b>
Turkey (Istanbul)	389.2	373.2	0.8	<b>10</b>
Taiwan (Taipei)	11,712.0	14.1	<b>-3.9</b>	<b>10</b>
United States (Los Angeles)	1,008,381.6	610.9	240.3	<b>9</b>
Singapore (Singapore)	87,674.2	239.5	<b>-54.8</b>	<b>9</b>
Austria (Vienna)	8,620.1	194.1	2.3	<b>9</b>
United Kingdom (Edinburgh)	296,081.5	85.1	10.1	<b>9</b>
Switzerland (Geneva)	83,122.8	279.9	59.9	<b>8</b>
Hong Kong (Central)	52,017.6	94.9	<b>-5.7</b>	<b>7</b>
<i>Excludes Passive/Index Investors</i>		10,808.3	<b>-439.0</b>	<b>329</b>

## Active vs. Passive investors:

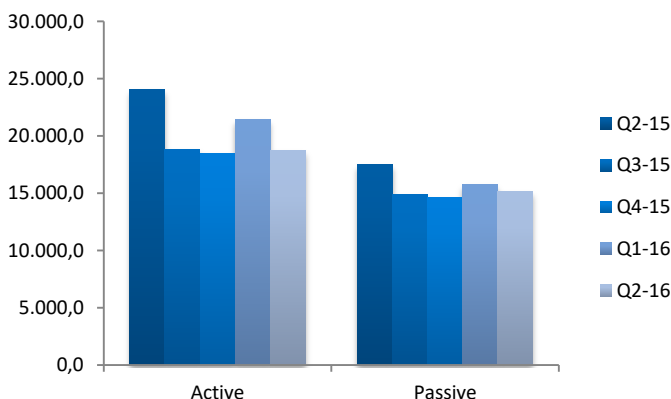
Active investors increased their divestment from the market with net sales of \$806M in the quarter – an increase on the previous quarters where the selling trend was reducing. Passive institutions continued to offer support to the market for the second consecutive quarter.

The active:passive split remains at a difference of 10%, though actively managed investments dropped to 55%, from 56%, of the total money invested.

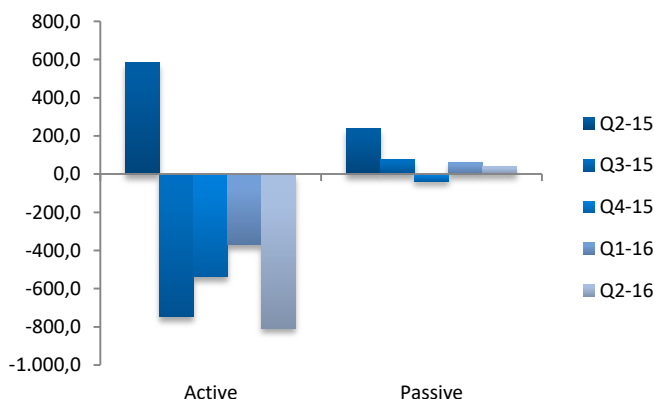
Active vs Passive Split



Active vs Passive (\$M Value)



Active vs Passive (\$M Change)



## GLOSSARY

### Institutional Investment Styles

**Aggressive Growth** – Investors in this category invest in companies that have very high revenue, EPS growth rates and multiples relative to the overall market. These companies usually do not pay any dividends and are at the early stages of growth. Aggressive Growth investors exhibit a higher portfolio turnover than other styles of investors.

**Alternative** – Primarily used to classify hedge funds that use various strategies that fall outside the traditional investment strategies that can be categorized as the above. A catch-all for lightly regulated investment vehicles that have the ability to "go-anywhere" and invest long or short in any type of security – equity, debt, commodity, options, currency, etc. Hedge funds seek to earn above market returns for their clients while at the same time controlling risk factors. Hedge funds have grown in prominence over the years as their returns net of fees (typically 2% management, 20% incentive) have outperformed mutual fund and pension managers performance. Recently, many hedge funds have gained notoriety as "activists" demanding change (leadership or strategic) at companies in North America, Europe and Asia.

**Asset Allocation** – Asset allocation managers allocate their investments among stocks, bonds, and cash equivalents, among others. It is primarily dictated by the various needs of clients and used by many smaller firms and banks.

**Deep Value** – Investors in this category employ an extreme style of value investing where they invest in companies with very low valuations versus their own historic valuation, and in relation to the overall market. Usually the companies or the industries they are in have been out of favour in the marketplace for an extended period of time.

**GARP** – These institutions seek to add growth stocks to their portfolios, but will not pay a premium price to obtain the securities. Thus, investors of this type are categorized as GARP, or "growth at a reasonable price," investors. Investors utilizing this investment approach will use methodologies and indicators favoured by both growth and value investors, but neither of the aforementioned styles dominates the process.

**Growth** – These institutions place the greatest emphasis in their selection process on the growth prospects of a company's earnings. Growth investors prefer companies where bottom line growth will average at least 15% annually and are willing to pay above market average multiples for a stock. At the first sign of an earnings slow-down, however, growth investors are often the quickest to sell.

**Index** – These institutions strive to match the performance of an equity index such as the MSCI EAFE Index or the S&P 500 Index, while at the same time keeping trading costs at a minimum. An institution accomplishes this by holding the stocks that comprise the index in its portfolio at the same proportion as the index. Indexing is a passive style of investing; stocks are bought and sold based upon their inclusion in an index and not on their fundamentals. Please note, index investors are not familiar with the companies in which they have made investments and are therefore considered investor relations immune.

**Other** – This style is applied to companies that are not investment firms, such as public companies.

**Private Equity** – This style is applied to firms that are private equity investors and their public equity holdings are the result of pre-IPO holdings.

**Specialty** – Applied to firms with investment strategies that cannot be categorized due to the specific nature of their focus. Industry or sector specific focus is the most common example of a Specialty investor.

**Value** – Value-oriented institutions prefer stocks that are trading at undervalued levels relative to some valuation such as a stock's intrinsic value or a company's free cash flow. Value investors tend to have longer-term investment horizons than their growth counterparts as they wait for the convergence of value and price.

**Venture Capital** – This style is applied to firms that are venture capital investors and their public equity holdings are the result of pre-IPO holdings.

**Yield** – Yield investors are sensitive to a high dividend yield and invest in companies with yield levels very high compared to the market yield, and have a history of paying and increasing dividends over time.

### Orientation

**Active** – Indicates that the final investment decision making process at an institution is enacted by a portfolio manager or analyst. While computer screening models may be used in the investment process they are not utilized to make the final investment decision.

**Passive** – This category primarily captures index and quantitative investors. These investors utilize computer models to define an investable universe and make final portfolio decisions. Investor relations officers cannot influence these investment decisions.

### Turnover

Portfolio Equity Turnover is the measure of how frequently a portfolio buys or sells securities over a 12 month period. It is calculated as the sum of the dollar values of buys and sells over a given period, divided by the sum of the beginning and ending equity assets over the same period, reported as an annualized percentage.

A portfolio with a turnover rate of 100% replaces its entire portfolio throughout the course of a 12-month period, whereas, a portfolio with a turnover rate of 50% replaces half of its holdings during the same time.

- Low Turnover (0-33.3% per year)
- Medium Turnover (33.3 -66.6% per year)
- High Turnover (66.6-100% per year)
- Very High Turnover (Over 100% per year)