

# FLOW OF FUNDS REPORT

## TUYID Q4 2016

February, 2017

Dear Readers,

We are happy to present the Flow of Funds Report for the fourth quarter of 2016. Our report offers detailed insight on the funds flow by investment type and regions as well as top buyers and sellers in the Turkish market. We also provide key investor hubs for road shows and trust the Report will be an important asset in IR planning and investor targeting.

Investment in Turkish equities rallied in Q4-16, posting their first positive return with \$324M after six quarters of negative sentiment. It was mainly led by UK based investors that increased their position by an aggregated \$336M. North American investors also increased their Turkey exposure by \$146M. Only Russia saw higher inflows than Turkey in the region with \$2.7B, while Hungary and Poland saw net inflows of \$184M and \$26M, respectively.

This Report is prepared quarterly by IPREO, in cooperation with TÜYİD, using IPREO's database. We look forward to any feedback you may have.

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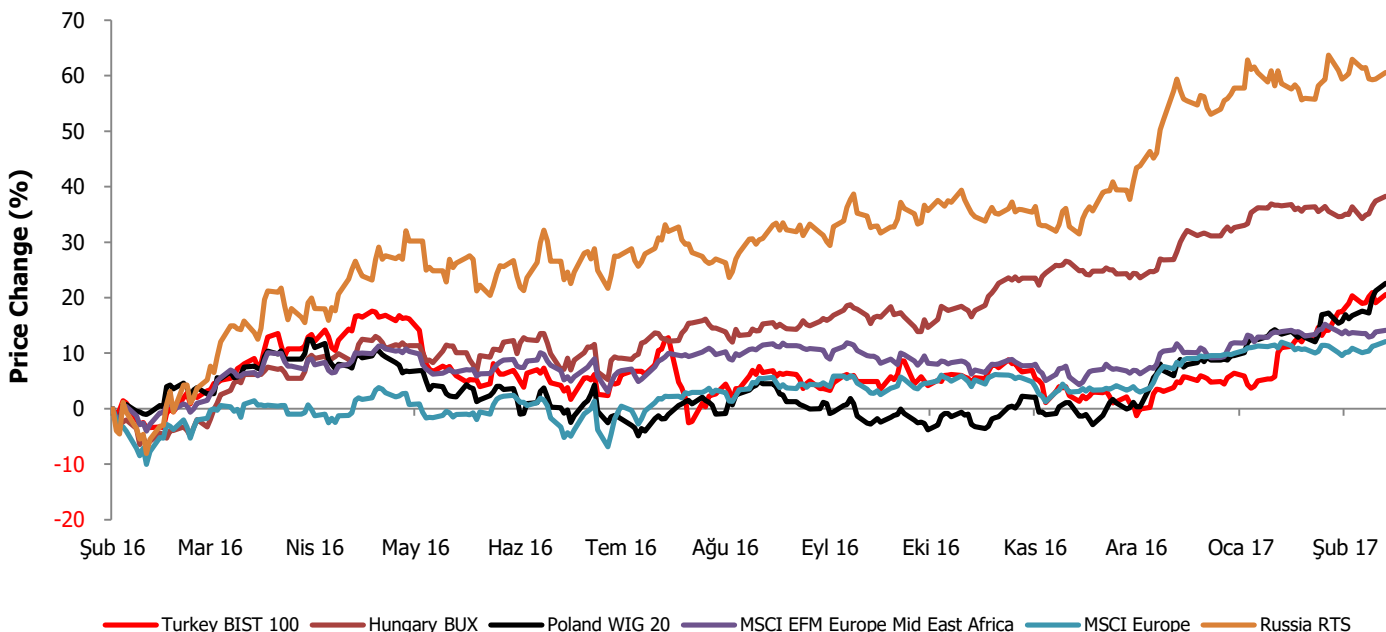
## Price performance:

The BIST National Index rose by 20.6% over the twelve months to February 2017, just slightly lower than Poland's WIG 20 Index which increased by 22.6%. The Russia RTS Index climbed the most, posting an increase of 60.6% over the period; with Hungary's BUX Index continuing to show strength and increasing by 38.3%. The MSCI EFM Europe Mid East Africa and the MSCI Europe Index are also in positive territory, though are relative laggards, with increases of 14.1% and 12.1%, respectively.

"In the end of January, Fitch became the last biggest rating agency to downgrade Turkey's rating below investment grade due to political developments. Fitch says that political environment may stabilize but security challenges are set to remain and although the agency does not expect financial crises they believe that downgrade have some negative impact on banking sector. From the positive side the Turkish central bank has acted to support the lira and foreigners are buying Turkish bonds and in the end of month there were also significantly big inflows into stock market.... Earnings season has begun in positive way for Turkish companies as banks report growing profits. Slightly positive mood may carry on into February. Turkish lira has stabilized and equity prices trade on low valuations.

Swedbank Eastern European Equity Fund - January 2017

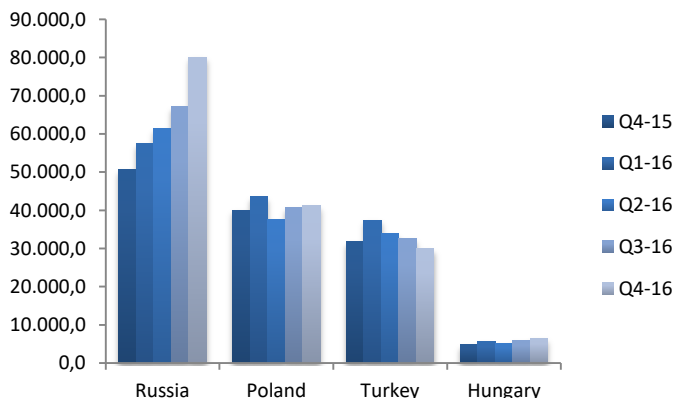
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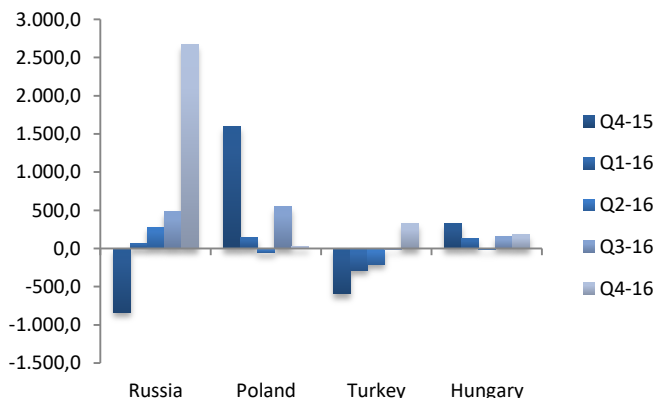
## Q4 Inflows and Outflows:

Investment in Turkish equities rallied in Q4-16, posting their first positive return after six quarters of negative sentiment to the market - \$324M. Russian equities continued to show signs of strength for the fourth consecutive quarter; while sentiment to Polish equities switched from negative with the market posting returns of \$552M. Hungarian equities remained relatively quarter-on-quarter with returns of \$184M.

Institutional Investment in Region (\$M Value)



Institutional Investment in Region (\$M Change)



## Q4 – Investment by Investor Region:

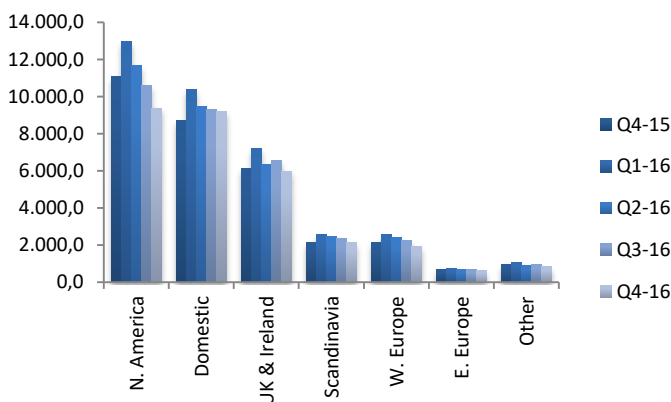
North American investors, the largest regional base of investment, switched to positive with net purchases of \$146M after four quarters of net divestment. However, it was UK based investors which offered the most support to the market for the second quarter in a row with net increases in Q4 of \$336M – this was mainly due to Silchester International Investors, LLP increasing its portfolio by \$301M making it by far the single largest buyer in the market. Scandinavian investors also offered support albeit relatively small - \$37M, while Western European investors reducing their aggregated portfolio in the market by \$69M

“Turkey continues to expect positive economic growth with attractive equity valuations given higher profitability.”

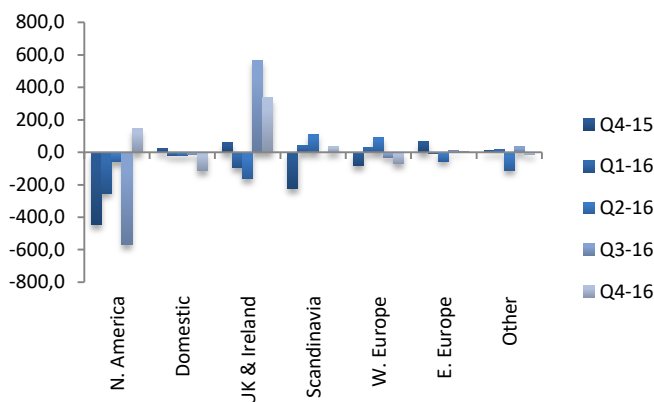
*Federated Emerging Markets Equity Fund (IS) - December 2016*

<http://www.federatedinvestors.com/FII/mutualfunds/details/commentary.do?fundshareid=12611&basketid=21543>

Institutional Investment by Region (\$M Value)



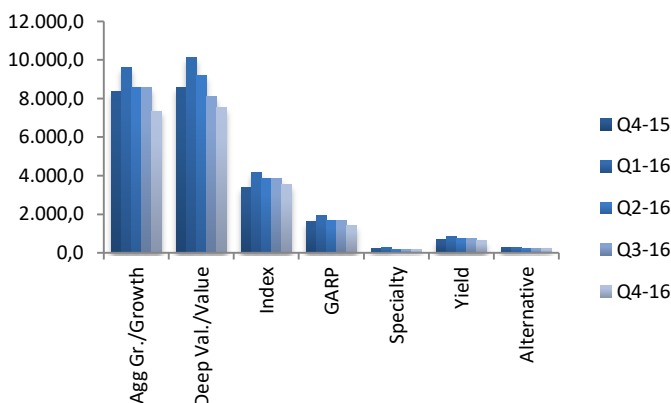
Institutional Investment by Region (\$M Change)



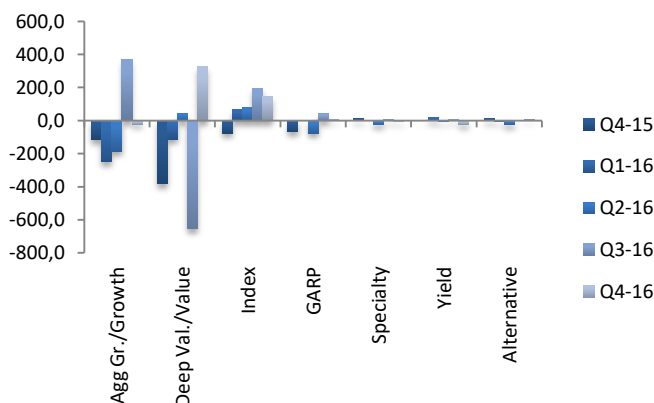
## Q4 – Investment by Style:

Growth investors' foray into the market in Q3-16 was short lived – after seeing a surge of investment they remain relatively flat posting net sales of \$22M. Yield investors were also negative on the market with net withdrawals of \$22.6M. On the other hand value investors offered the most support to the region with net increases of \$326M with the likes of Grantham Mayo van Otterloo & Co., LLC and SEB Investment Management AB joining the aforementioned Silchester in the top three buyers of Turkish equities. Support also came from index investors which continued to be net buyers with increases of \$147M, although this was some \$50M less than in the previous quarter.

Institutional Investment in Region (\$M Value)



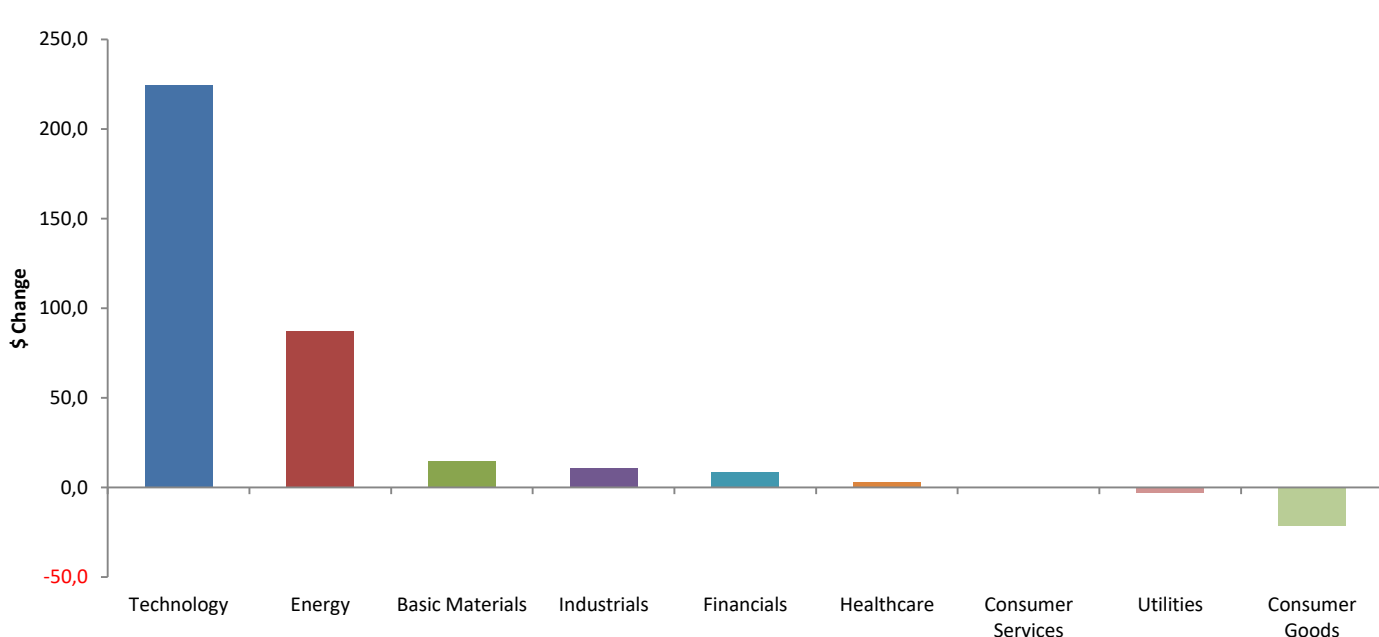
Institutional Investment in Region (\$M Change)



## Top Holders, Buyers & Sellers: Q3-16

| 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       | 97,017.6            | 1,341.7      | -3.5          | 1.4         | -0.3            |
| Lazard Asset Management, LLC (U.S.)  | United States  | Value       | Medium    | 79,270.5            | 898.3        | 10.4          | 1.1         | 1.2             |
| Norges Bank Investment Management (Norway)   | Norway         | Value       | Low       | 524,660.2           | 795.8        | 0.0           | 0.2         | 0.0             |
| Genesis Investment Management, LLP   | United Kingdom | Growth      | Low       | 25,701.6            | 620.4        | 0.9           | 2.4         | 0.1             |
| APG Asset Management N.V.  | Netherlands    | Yield       | Low       | 137,037.9           | 551.9        | 0.0           | 0.4         | 0.0             |
| BlackRock Investment Management (U.K.), LTD  | United Kingdom | Growth      | Low       | 306,188.0           | 402.0        | -1.8          | 0.1         | -0.4            |
| J.P. Morgan Asset Management (UK), LTD   | United Kingdom | Growth      | Medium    | 95,404.8            | 366.8        | 25.4          | 0.4         | 7.5             |
| Grantham Mayo Van Otterloo & Co., LLC  | United States  | Value       | High      | 49,623.8            | 363.4        | 94.6          | 0.7         | 35.2            |
| Nordea Investment Management (Denmark)   | Denmark        | Value       | Medium    | 62,255.9            | 307.8        | 2.3           | 0.5         | 0.8             |
| Silchester International Investors, LLP  | United Kingdom | Value       | Low       | 17,981.3            | 307.0        | 301.2         | 1.7         | 5,188.6         |
|  |                |             |           | <b>5,955.2</b>      | <b>429.5</b> |               |             |                 |
| TOP BUYERS   | Country        | Style       | Turnover  | Equity Assets (\$M) | Value (\$M)  | Change (\$M)  | % Portfolio | % Portfolio Chg |
| Silchester International Investors, LLP  | United Kingdom | Value       | Low       | 17,981.3            | 307.0        | 301.2         | 1.7         | 5,188.6         |
| Grantham Mayo Van Otterloo & Co., LLC  | United States  | Value       | High      | 49,623.8            | 363.4        | 94.6          | 0.7         | 35.2            |
| SEB Investment Management AB   | Sweden         | Value       | Medium    | 30,178.5            | 82.3         | 34.9          | 0.3         | 73.6            |
| Harding Loevner, L.P.  | United States  | GARP        | Low       | 27,063.0            | 151.6        | 32.3          | 0.6         | 27.1            |
| J.P. Morgan Asset Management (UK), LTD   | United Kingdom | Growth      | Medium    | 95,404.8            | 366.8        | 25.4          | 0.4         | 7.5             |
| J.P. Morgan Investment Management, Inc.  | United States  | Growth      | Medium    | 252,930.7           | 94.6         | 19.4          | 0.0         | 25.8            |
| Swedbank Robur Fonder AB   | Sweden         | Growth      | Low       | 64,337.0            | 131.5        | 15.5          | 0.2         | 13.4            |
| Arisaig Partners (Asia) Pte., LTD  | Singapore      | Value       | Low       | 3,626.6             | 50.3         | 13.5          | 1.4         | 36.7            |
| Schroder Investment Management, LTD  | United Kingdom | GARP        | Medium    | 100,326.6           | 250.3        | 13.3          | 0.2         | 5.6             |
| Invesco Advisers, Inc.   | United States  | Growth      | Low       | 175,335.8           | 306.5        | 13.1          | 0.2         | 4.5             |
|  |                |             |           | <b>2,104.3</b>      | <b>563.2</b> |               |             |                 |
| TOP SELLERS  | Country        | Style       | Turnover  | Equity Assets (\$M) | Value (\$M)  | Change (\$M)  | % Portfolio | % Portfolio Chg |
| RAM Active Investments S.A.  | Switzerland    | Value       | Very High | 3,619.8             | 147.5        | -38.7         | 4.1         | -20.8           |
| Fidelity Management & Research Company   | United States  | Growth      | Low       | 799,055.0           | 195.9        | -27.5         | 0.0         | -12.3           |
| William Blair & Company, LLC (Investment Management)                                     | United States  | Agg. Growth | Medium    | 48,557.0            | 91.0         | -25.4         | 0.2         | -21.8           |
| T. Rowe Price International, LTD   | United Kingdom | Growth      | Low       | 25,548.0            | 149.4        | -25.2         | 0.6         | -14.4           |
| Seafarer Capital Partners, LLC   | United States  | Yield       | Medium    | 1,648.7             | 24.5         | -23.0         | 1.5         | -48.4           |
| Morgan Stanley Investment Management Inc.  | United States  | Growth      | Medium    | 56,229.0            | 65.6         | -20.5         | 0.1         | -23.8           |
| Fisher Investments   | United States  | GARP        | Low       | 59,767.1            | 22.6         | -18.4         | 0.0         | -44.9           |
| Amundi Asset Management S.A.   | France         | Value       | Medium    | 69,840.8            | 9.9          | -15.6         | 0.0         | -61.2           |
| Eastspring Investments (Singapore), LTD  | Singapore      | Growth      | Medium    | 15,147.6            | 65.4         | -14.5         | 0.4         | -18.1           |
| Robeco Institutional Asset Management B.V.   | Netherlands    | Value       | Medium    | 32,009.0            | 148.3        | -13.2         | 0.5         | -8.2            |
| <i>Includes Investors with EUM greater than \$100M; Excludes Passive/Index Investors</i> |                |             |           |                     | <b>920.2</b> | <b>-222.0</b> |             |                 |

## Sector Inflows/Outflows:



## Road show:

In dollar terms (\$5.3B) and in terms of number of investors (78), London continues to be the dominant investor hub with this investment centre also increasing its exposure by \$268M. New York remains second with Lazard Asset Management, LLC (U.S.) being the largest investor while J.P. Morgan Investment Management posted the largest increases in Turkish equities (\$19.4M) from that centre. Geneva based investors withdrew the most money (\$40.2M) but this was mainly represented by one investor - RAM Active Investments S.A., which made net sales of \$38.7M with four other investors reducing by a combined \$1.5M.

| Country / City                          | Most Invested             |                 |                |         |
|---|---------------------------|-----------------|----------------|---------|
|   | Total Equity Assets (\$M) | Value (\$M)     | Activity (\$M) | # Firms |
| United Kingdom (London)                 | 1,695,690.0               | <b>5,246.8</b>  | 268.0          | 78      |
| United States (New York)                | 2,027,287.9               | <b>1,702.2</b>  | -8.7           | 39      |
| Norway (Oslo)                           | 548,350.3                 | <b>805.4</b>    | -2.4           | 3       |
| United States (Boston)                  | 1,973,234.8               | <b>650.5</b>    | 58.3           | 15      |
| Netherlands (Amsterdam)                 | 141,676.6                 | <b>555.0</b>    | 1.3            | 4       |
| Sweden (Stockholm)                      | 202,789.9                 | <b>460.4</b>    | 38.8           | 13      |
| United States (San Francisco)           | 309,999.9                 | <b>371.9</b>    | -24.6          | 4       |
| Singapore (Singapore)                   | 117,637.0                 | <b>358.5</b>    | -5.4           | 16      |
| United States (Los Angeles)             | 1,042,913.5               | <b>353.9</b>    | 9.7            | 8       |
| United States (Atlanta)                 | 186,590.3                 | <b>343.4</b>    | 12.1           | 2       |
| Denmark (Copenhagen)                    | 77,343.2                  | <b>332.0</b>    | 2.3            | 4       |
| Turkey (Istanbul)                       | 304.7                     | <b>290.3</b>    | 6.7            | 8       |
| Norway (Stavanger)                      | 7,973.0                   | <b>262.8</b>    | -0.8           | 1       |
| Germany (Frankfurt)                     | 247,531.2                 | <b>235.3</b>    | 4.2            | 9       |
| Poland (Warsaw)                         | 16,150.8                  | <b>218.2</b>    | -1.3           | 19      |
| Bahamas (Nassau)                        | 40,886.6                  | <b>213.1</b>    | 0.0            | 1       |
| Switzerland (Geneva)                    | 81,468.7                  | <b>193.9</b>    | -40.2          | 7       |
| Australia (Sydney)                      | 32,032.8                  | <b>172.6</b>    | -1.5           | 3       |
| United States (Chicago)                 | 190,050.9                 | <b>155.5</b>    | -10.6          | 12      |
| Canada (Toronto)                        | 433,759.2                 | <b>154.8</b>    | 1.3            | 14      |
| <i>Excludes Passive/Index Investors</i> |                           | <b>13,076.8</b> | 307.1          | 261     |

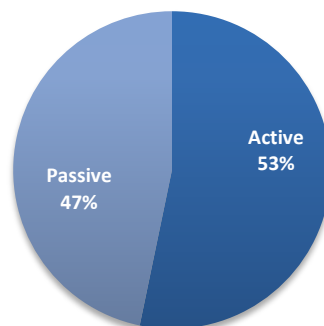
| Country / City                          | Most Investors            |             |                |            |
|---|---------------------------|-------------|----------------|------------|
|   | Total Equity Assets (\$M) | Value (\$M) | Activity (\$M) | # Firms    |
| United Kingdom (London)                 | 1,695,690.0               | 5,246.8     | 268.0          | <b>78</b>  |
| United States (New York)                | 2,027,287.9               | 1,702.2     | -8.7           | <b>39</b>  |
| Poland (Warsaw)                         | 16,150.8                  | 218.2       | -1.3           | <b>19</b>  |
| Singapore (Singapore)                   | 117,637.0                 | 358.5       | -5.4           | <b>16</b>  |
| United States (Boston)                  | 1,973,234.8               | 650.5       | 58.3           | <b>15</b>  |
| Japan (Tokyo)                           | 543,137.2                 | 83.3        | 0.1            | <b>15</b>  |
| Canada (Toronto)                        | 433,759.2                 | 154.8       | 1.3            | <b>14</b>  |
| Sweden (Stockholm)                      | 202,789.9                 | 460.4       | 38.8           | <b>13</b>  |
| France (Paris)                          | 193,177.0                 | 128.3       | -16.4          | <b>13</b>  |
| United States (Chicago)                 | 190,050.9                 | 155.5       | -10.6          | <b>12</b>  |
| South Korea (Seoul)                     | 34,629.4                  | 11.4        | -2.7           | <b>11</b>  |
| Finland (Helsinki)                      | 17,594.9                  | 63.7        | 5.1            | <b>10</b>  |
| Taiwan (Taipei)                         | 10,324.6                  | 10.4        | -0.5           | <b>10</b>  |
| Germany (Frankfurt)                     | 247,531.2                 | 235.3       | 4.2            | <b>9</b>   |
| Austria (Vienna)                        | 8,994.7                   | 147.5       | -6.5           | <b>9</b>   |
| United States (Los Angeles)             | 1,042,913.5               | 353.9       | 9.7            | <b>8</b>   |
| Turkey (Istanbul)                       | 304.7                     | 290.3       | 6.7            | <b>8</b>   |
| Switzerland (Zürich)                    | 223,650.9                 | 121.7       | 4.4            | <b>7</b>   |
| Switzerland (Geneva)                    | 81,468.7                  | 193.9       | -40.2          | <b>7</b>   |
| Hong Kong (Central)                     | 66,781.3                  | 56.7        | -8.5           | <b>7</b>   |
| <i>Excludes Passive/Index Investors</i> |                           | 10,643.4    | 295.8          | <b>321</b> |

## Active vs. Passive investors:

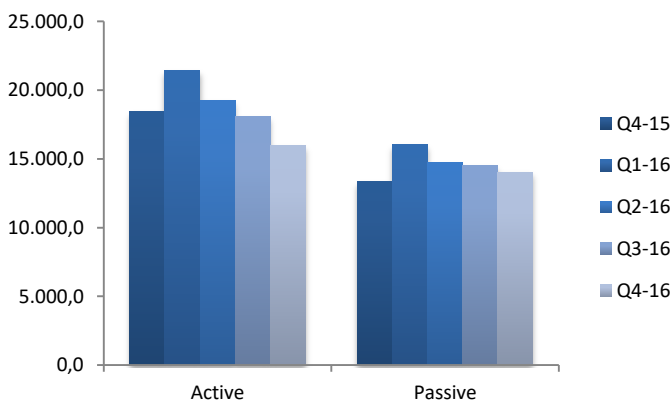
Active investors showed signs of positive sentiment and switched to positive in Q4 increasing their positions by \$159.2M – just short of the \$164.5M that their passive counterparts made, although the latter orientation of investor slowed their purchases from the \$237.1M bought in the previous quarter.

The active:passive split narrowed to 6% (from 10% in Q3) with active investors representing \$16B vs the passive \$14B.

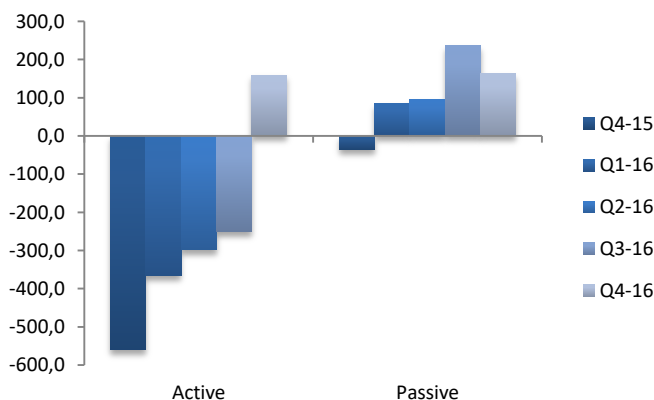
Active vs Passive Split



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)