

Transformation of the Asset Management Industry in Turkey

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British Embassy
Ankara



pwc



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List of Abbreviations

•	AIFs	Alternative Investment Funds
•	AIFMD	Alternative Investment Fund Managers Directive
•	AM	Asset Management
•	AuM	Asset Under Management
•	BITT	Banking and Insurance Transactions Tax
•	CMB	Capital Markets Board
•	EFAMA	European Fund and Asset Management Association
•	EMs	EMEA Emerging Markets
•	GDP	Gross Domestic Product
•	IFC	Istanbul Financial Centre
•	OECD	Organisation for Economic Co-operation and Development
•	OEICs	Open-Ended Investment Companies
•	OEIFs	Open-Ended Investment Funds
•	PEICs	Private Equity Investment Companies
•	PEIFs	Private Equity Investment Funds
•	REICs	Real Estate Investment Companies
•	REIFs	Real Estate Investment Funds
•	SWFs	Sovereign Wealth Funds
•	TEFAS	Turkey Electronic Fund Trading Platform
•	TWF	Turkish Wealth Fund
•	UCITS	Undertakings for Collective Investment in Transferable Securities

Foreword

It is crucial to have analytical data for any sector with significant room to grow. Turkish Capital Markets is an area with great potential, which is why we put forward our recommendations for its development in a report entitled *“The Future of Capital Markets in Turkey: Unlocking the Potential”*. This report was written last year and funded by the UK government.

We are now focusing on the transformation within the AM industry in Turkey. Our report *“Transformation of the AM Industry in Turkey”* which is also supported by the UK’s Prosperity Fund 2016-2017 aims to closely analyse the ways in which Turkey could further bolster its AM industry.

We conducted a comprehensive survey, including one-to-one interviews with key representatives from the Turkish and UK AM industries. Their responses provided an analysis of various priorities, viewpoints, propositions, and expectations of relevant stakeholders, with a view to bridging the gap between what is required and how to complete these actions, transforming Turkey into a regional and international hub for asset managers.

In this report, after a quick summary of the Turkish AM industry, readers will see the medium-term expectations for the sector from global, emerging markets, and Turkish market perspectives. In addition, the emerging markets outlook section reveals the current operating environment, performance factors, and changes needed. Then, we focus on the Turkish AM industry to evaluate suggested areas for improvement and how the UK AM industry can collaborate to transform the Turkish AM industry.

We would like to express our sincere thanks to all those who participated in our survey and interviews. As we promised all participants that their names and the names of their employers and/or affiliations would be kept absolutely confidential, we cannot reveal their identities here. However, for helping us achieve extraordinary success for such a survey by supporting us reach out to the right people, we would like to express our

gratitude to the Chairman of the Turkish Capital Market Board, Mr. Vahdettin Ertaş, the President of the Turkish Institutional Investment Managers’ Association Mr. Alp Keler, and Mr. Ahmet İplikçi of Ishtar Advisory. Finally, we would like to convey our appreciation for the prosperity fund of the UK government and their support of the Turkish AM industry.

Umurcan Gago
Asset&Wealth
Management Leader
PwC Turkey

Our Methodology

We started on this report nine months ago. The key driver was the need to analyse and consolidate views on how to strategically position the Turkish AM industry in the international arena. There are varying opinions on how Turkey should be positioned when it comes to its currently modest AM industry, and on how this positioning should be accomplished.

Questions around whether Turkey even has the potential to be a regional hub in this regard, let alone an international one, needed to be addressed before focusing on how to move forward.

Equally important was that global asset managers had not even been asked to share their views on Turkey's potential future positioning in the AM space, or if such information exists, we were not able to find it in publicly available sources. We realised that there was a lack of reliable analytical studies of “what to dos” and “how to dos”, nor was there any comprehensive comparative analysis of the positioning of the Turkish AM industry.

We were unable to find any analytical feedback study of actual market players regarding certain initiatives already taken by the government, such as the establishment of the Istanbul Financial Centre and the Turkish Wealth Fund, reforms made to the Capital Market Law, reforms around building the ecosystem for alternative investment funds, and reforms to pension fund systems.

We concluded that what was needed first and foremost was a means for discovering the thoughts of various stakeholders such as regulators, domestic players, and global players. Hence we designed a survey, the details of which can be found in the following pages and which has been used as the basis for this report.

To achieve fair and honest feedback:

- We carefully selected participants, using the utmost care to be inclusive. For example, we focused on big players as well as boutique and/or specialised players. We chose not to mass-distribute the survey, which could have resulted in a much higher number of responses. Instead we used various criteria, and after a diligent consultation process, selected our participants on an individual basis mainly from among those considered to be key thought leaders in the industry.
- When we felt it necessary we interviewed our participants and walked through the survey questions with them.
- We did our best to design survey questions in the most objective way possible to prevent a manufactured outcome but at the same time encourage honest and direct answers that yield practical and concrete recommendations.



Summary of Key Findings

Turkey's potential in the AM industry stand out from that of its peers

With an AuM size of USD 35 billion as 2016 year end, both in funds to GDP ratio and fund assets per capita, the Turkish AM industry appears to be underperforming compared to comparable emerging markets. Actions taken in recent years and revision in the natural accounts data resulted in Turkey's gross domestic savings reaching 26% of GDP in 2015 and while the AuM to GDP ratio has been increasing, as of 2015 it remained below 5%. 85% of the surveyed professionals believe that **Turkish AM industry is performing "significantly below its potential"**, where only 21% believe that global industry is performing significantly below its potential. When survey respondents were asked to rank the growth potential of the AM industry for emerging countries, **Turkey was the top-ranked emerging economy**. All findings point to Turkey's potential to pull ahead of its emerging market peers in the short- and medium-term (in the eight comparable emerging markets).

Key growth areas are pension funds and AIFs: Approximately three quarters of respondents say they expect the Turkish AM industry to grow over the next five years, with pension funds, REIFs, investment advisory and financial planning, and PEIFs cited as the areas with the biggest opportunities (securities and hedge funds are considered the least promising areas). The industry has welcomed changes the government has made in these areas such as auto-enrolment in pension plans, the CMB's new rules on portfolio management companies, and the introduction of AIFs in Turkey.

One of our international respondents noted, *"AIFs is a major area of development for the Turkish market, which has substantial room for additional growth"*. AIFs are quite compatible with Islamic finance rules, and REIFs and PEIFs may also be attractive alternatives for conservative qualified investors. This is in line with the EMEA AM industry, There in PEIFs and family offices are also in the top three in terms of opportunity.

The ambition to establish the IFC is a key anchor, but a fresh and inclusive approach is needed: Most participants acknowledged the potential positive impact of the government's IFC ambition, but participants also voiced strong opinions on additional requirements. The first is the **need to change public perception**.

Participants said *"IFC should not merely be a real estate development project, but rather a strategy to transform the Turkish financial services industry into an internationally compatible financial ecosystem"*. Another recommendation is that the strategy be further improved in an inclusive manner. Our participants said *"All industry players should be part of the process, not only the regulators but also independent sector representatives, NGOs, academicians"*. Finally, clearer long-term strategies as opposed to short-term actions, and robust communication are recommended.

TWF should support the Turkish AM industry by giving external mandates and improving the governance standards of state owned assets: One of the most positively received recent contributions to the Turkish AM industry is the establishment of the TWF. This is especially true if TWF Man. Co is structured in a "slim-fit model", has more of a monitoring/supervising capacity, and gives external mandates to asset managers based in Turkey. Asset managers believe the TWF's other major role should be improving the governance standards of state-owned assets. Participants believe these mandates should be given not only for TWF assets, but that mandates to manage public funds should also be given to private asset managers operating in Turkey if there is genuine government object to improve the Turkish AM industry.

Fundamental structural reforms and improvements are needed:

Our survey shows that for the Turkish AM industry to unlock its potential, fundamental structural reforms and improvements are needed. The top three impediments to the growth of the Turkish AM industry cited were **lack of predictability, the low savings ratio and insufficient investor confidence**. For the Turkish AM industry to thrive and reach its potential, participants see the top priorities as **improved economic and political**



stability, increased government support of the Turkish private AM industry via a robust and clear strategy, and a stronger legal infrastructure (effective and fair dispute resolution, reliable legal system, etc.). They do not often cite an urgent need for industry-specific legislation. Global players in the AM industry believe a clear and robust government strategy is more important than improving industry-specific regulations or tax incentives. Therefore, focusing on a strategic plan rather than tax incentives and regulations would have more impact on the development of the industry, resulting in executives establishing/increasing operating presence.

Investor taxation is not seen as a major problem in Turkey, but a personal income tax incentive is needed for asset managers:

Our survey reveals that investor taxation, often considered to be an industry issue, is not considered to be a major impediment for the Turkish AM industry. Respondents do not favour establishing a tax free zone either. **Creating a tax free zones specifically designed for international financial transactions is not favoured.** Top global issues such as operating costs and investor taxation are not key issues for Turkey. Yet our participants expressed a need **for a new tax policy statement** from the Turkish government, presenting a long-term vision that would be a guideline for market players, lawmakers, and the tax authority. Also, many respondents favoured creating a **personal income tax incentive for asset managers** on their individual income resulting from performance (i.e. performance fees).

With specific improvements, Turkey could become a preferred location for establishing and/or increasing operating presence:

No matter where they are based, respondents indicate Turkey could become their top preference for establishing and/or increasing operating presence, and that it has the potential to become a regional hub. Due to its demographics and areas with significant room for growth (e.g. in AIFs), 42% of global asset managers who do not currently have a presence in Turkey would “very probably reconsider their position” if such improvements are made.

Enhanced macroeconomic and political stability is cited as the top areas for improvement by 95% of those who would consider establishing a presence in Turkey. A robust and clear government strategy supporting the local private AM industry, domestic savings, human capital, and personal tax incentives for asset managers are the other key areas for improvement cited. We asked our participants what the optimal positioning for Turkey in the value chain would be. Their replies indicated that both front and back offices should be positioned in Turkey, primarily serving the local clientele, and Turkey could thus be positioned as a regional and/or international hub. Three quarters of surveyed professionals state that Turkey should improve the entire range of its domestic financial products, including, but not exclusively, Islamic finance products.

UK know-how, enabled by public-private cooperation between the two countries, could transform the Turkish AM industry:

Respondents emphasised increased interaction with the UK AM industry as a potentially transformative source of change for the Turkish AM industry. When asked which areas the UK can contribute to most: know-how, capital and domestic regulations were suggested in the top three. To strengthen Turkish-UK cooperation, our respondents stated that intergovernmental collaboration is necessary, but not sufficient alone.

Intergovernmental collaboration should be complemented by increased bilateral private sector cooperation. Participants recommended that the UK AM industry and regulatory agencies and their Turkish counterparts cooperate on the design, implementation, and efficiency of institutional saving systems to transfer know-how from the UK. One example of how this could be accomplished is by establishing a partnership project team with strong private sector co-leaders from each country supported by regulators, top tier consulting firms, and associations operating in the AM industry. London is also acknowledged by the respondents to be the best benchmark for the growth of the fintech landscape in Turkey.

Turkish Asset Management Industry in a Nutshell



Asset under Management of Turkish Fund Management Industry:

USD 35 billion as of December 2016

10-years CAGR for pension funds:

34%

measured in TRY



pension fund participants



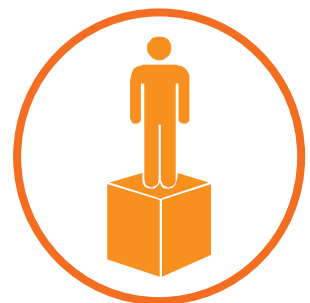
6.6 million

as of December 2016



Big changes, new opportunities:

Istanbul Financial Centre, alternative investment funds, Turkish Wealth Fund, auto-enrolment in pension funds



≈ 2,000
A&WM
people



Gross domestic
savings /GDP

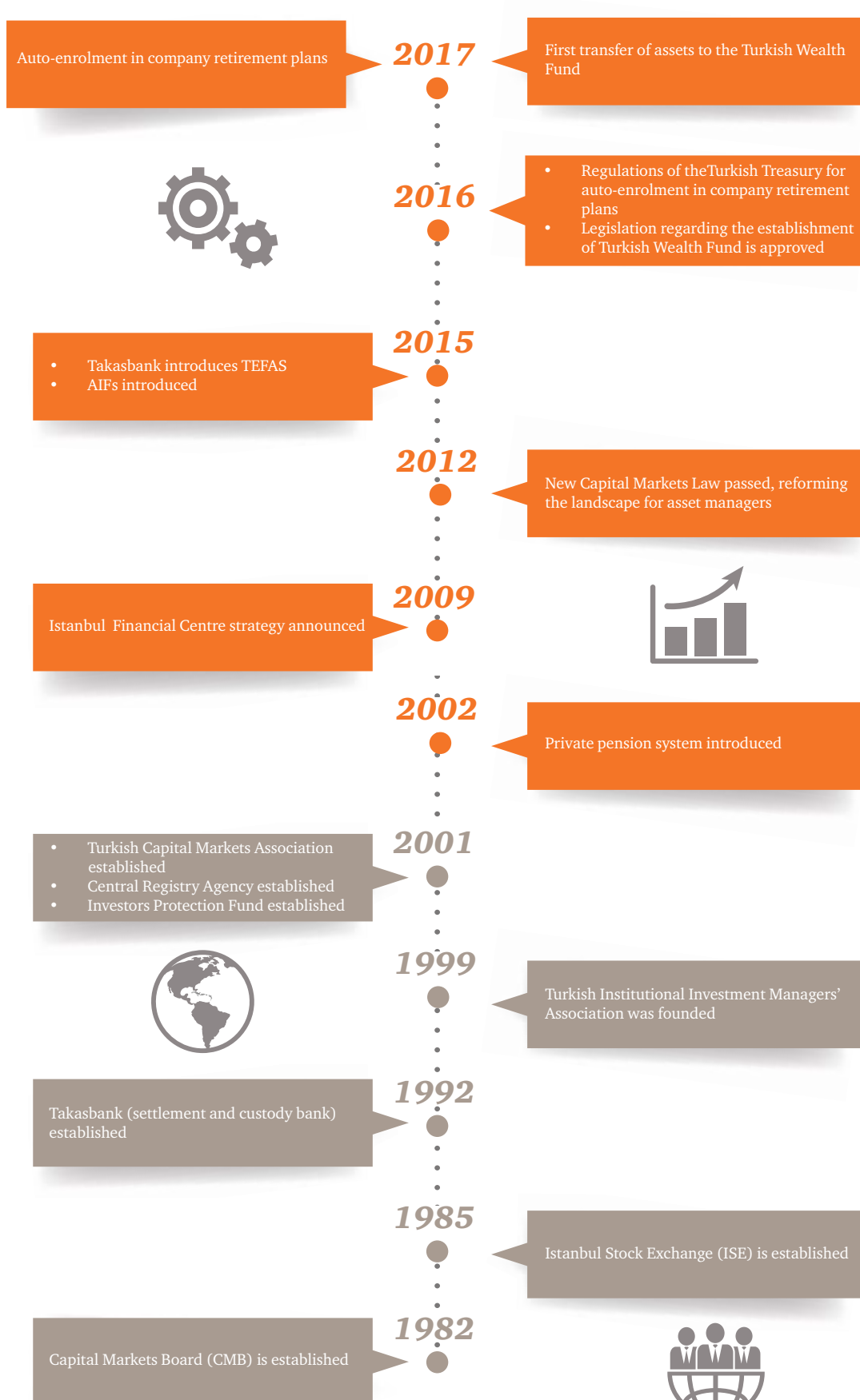
26%

Asset under

Management /GDP

4%

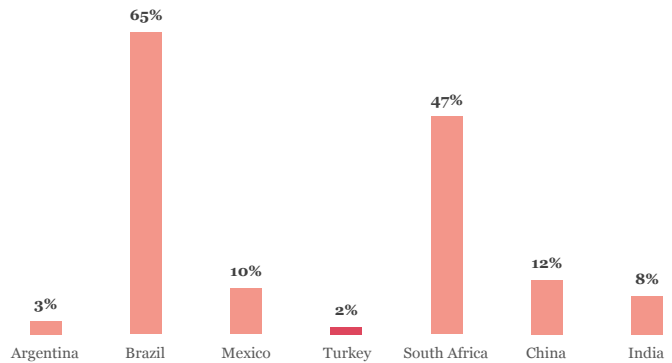
Milestones for the Turkish A&WM Industry



Turkish A&WM Industry in a Nutshell

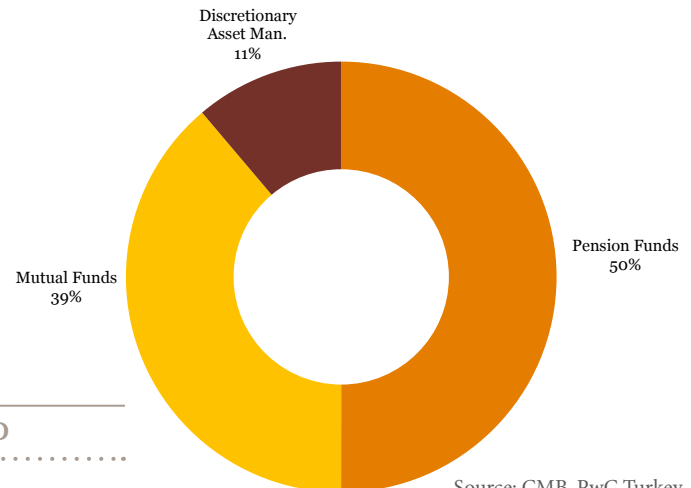
- Turkey is the 17th largest economy in the world with a GDP of USD 857 billion as of 2016. AuMs in the Turkish AM industry were around USD 35 billion as of year end 2016. Although the AuM to GDP ratio has been trending upward, it was below 5% as of the end of 2016. The ratio of total net assets of regulated open-ended funds to GDP was 2% as of the end of 2015, which shows there is significant room for growth (Figure 1).
- Collective investment schemes (mutual funds, pension funds, investment companies) comprise the biggest part of the industry with AuMs of USD 30 billion, while AuMs in the discretionary AM category (retail and institutional funds) were only USD 4 billion as of the end of 2016 (Figure 2).
- According to EFAMA data, fund assets per capita in Turkey is low compared to emerging European countries, which again reveals great potential for the AM industry (Figure 3).
- The savings to GDP ratio for Turkey is lower than that of the other emerging markets. Measures taken in recent years have helped bolstering savings. However, there is still way to go.

Figure 1: Worldwide regulated open-ended fund net assets to GDP



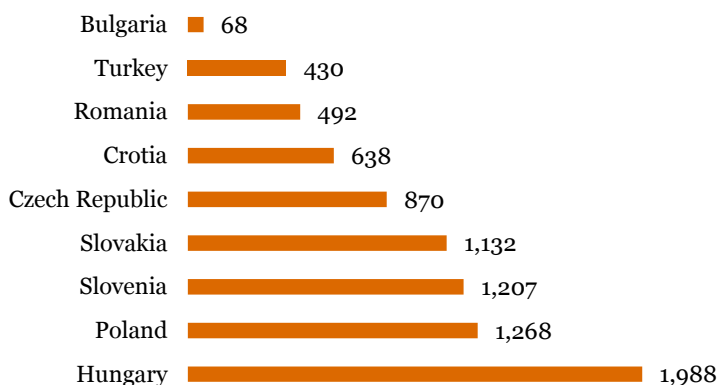
Source: EFAMA International Statistical Release 2015, The World Bank, PwC Turkey

Figure 2: Composition of AuMs



Source: CMB, PwC Turkey

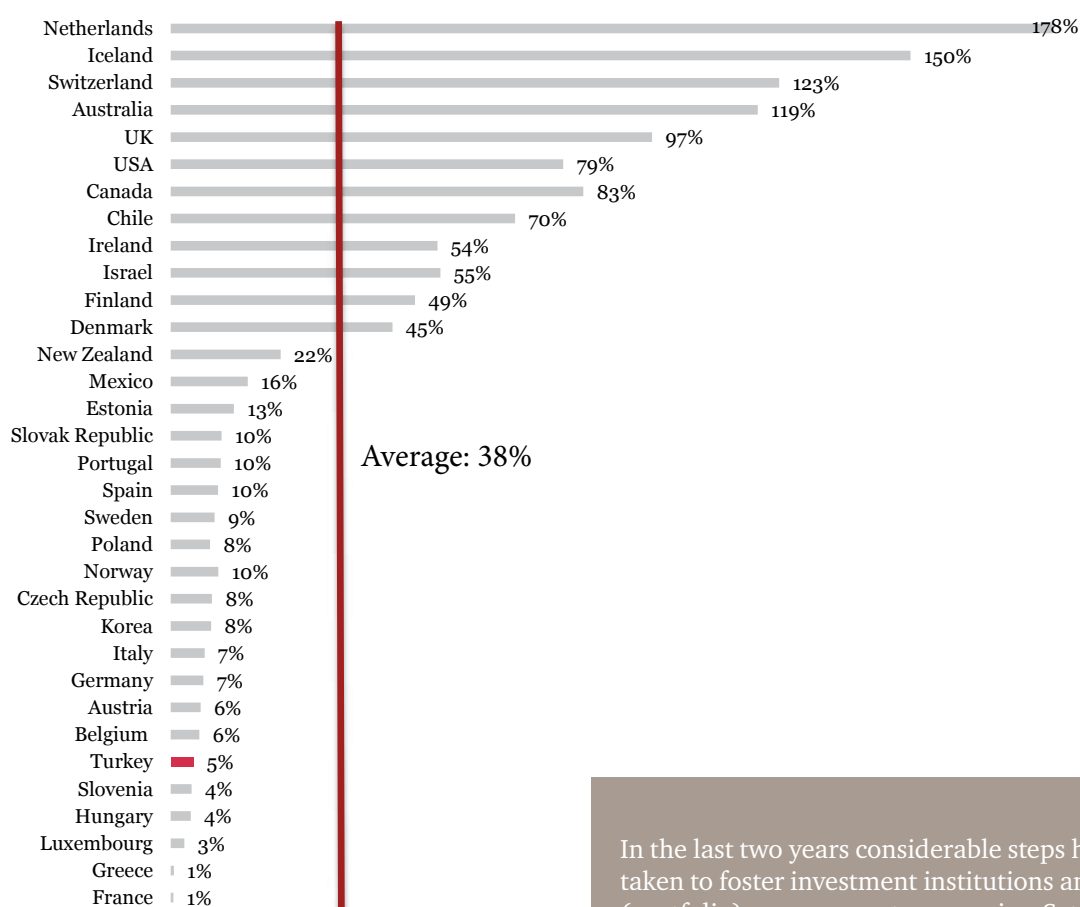
Figure 3: Fund assets per capita, 2016 H1, USD



Source: TCMA, EFAMA, PwC Turkey

- According to OECD data Turkey's pension fund to GDP ratio still lags behind that of other OECD-member countries. It comes in at around 5%, lower than that of other OECD emerging countries. This again shows a significant room for growth (Figure 4).
- There were 39 Turkish REICs and PEICs in 2016, up from nine in 2000. Their combined portfolio value increased to eight times that of 2000 (USD 0.9 billion) by 2016 (USD 7.3 billion). However this value does not include REIFs and PEIFs which have recently launched, most of which are at the fundraising stage.

Figure 4: Pension funds as a percentage of GDP, 2015



Source: OECD, PwC Turkey

In the last two years considerable steps have been taken to foster investment institutions and asset (portfolio) management companies. Setting up TEFAS to provide access to investment funds through a single platform will not only increase competition, but also enable savings to be channeled into investment funds. Recent regulations that allowed only portfolio management companies, and not banks, to found and manage funds paved the way for the development of the industry.

Advantages & Opportunities

Advantages & Opportunities

1- Istanbul Financial Center as an Anchor

The Istanbul Financial Centre Strategy and Action Plan entered into force in October 2009 and was revised in 2015. It aims to make Istanbul a regional and international financial centre, and calls for improvements in regulation, tax, infrastructure, human resources, education, and other areas, in order to develop and improve the attractiveness of the Turkish financial sector.

The primary goals and objectives of the IFC Strategy and Action Plan:

- to become one of the top 25 financial centres,
- to increase the sector's share of GDP in Turkey to 6% or higher,
- to become one of the top 30 financially developed countries

The revised strategy and action plan in 2015 includes a wide range of products and services aimed at expanding the Turkish A & WM industry.

- completing secondary legislation for OEICs,
- finalising a road map to develop the non-banking financial industry,
- completing legislation and establishing the infrastructure to allow financial institutions investing in Turkish markets to use international clearing and custody institutions' collateral management services and clearing and custody services,
- enhancing tax practices to prevent unfair tax competition among different types of financial institutions, and
- structuring new tax incentives similar to the incentives currently provided to angel investors to encourage funding entrepreneurs with Islamic finance products.

The IFC Coordination Committee was founded in November 2016. Its purpose is to determine policies and strategies to increase efficiency and collaboration, make regulatory arrangements, and follow up on execution.



Key needs highlighted in the survey and interviews:

- **Change public perception:** The IFC should not merely be a real estate development project, it should be a key part of the strategy to transform the Turkish financial services industry so it is compatible internationally.
- **Be more inclusive:** All industry players should be consulted as part of the process: not only the regulators but also independent sector representatives, NGOs, academicians.
- **Clarify strategies and improve communication:** Strategic goals and operation plans should be identified and communicated with the public.

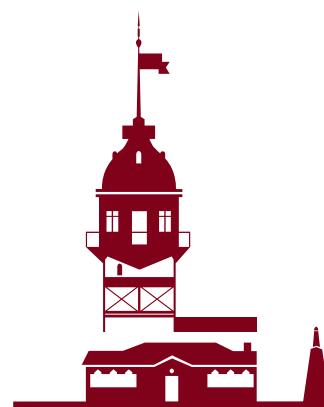
The value of access to multiple markets

Contribute
USD 24
trillion to GDP

Source: www.invest.gov.tr

Easy access to 1.6 billion customers in Europe, Eurasia, the Middle East and North Africa

A natural bridge between both east-west and north-south axes: an efficient & cost-effective outlet to major markets



32% of Turkey's population is younger than 20.

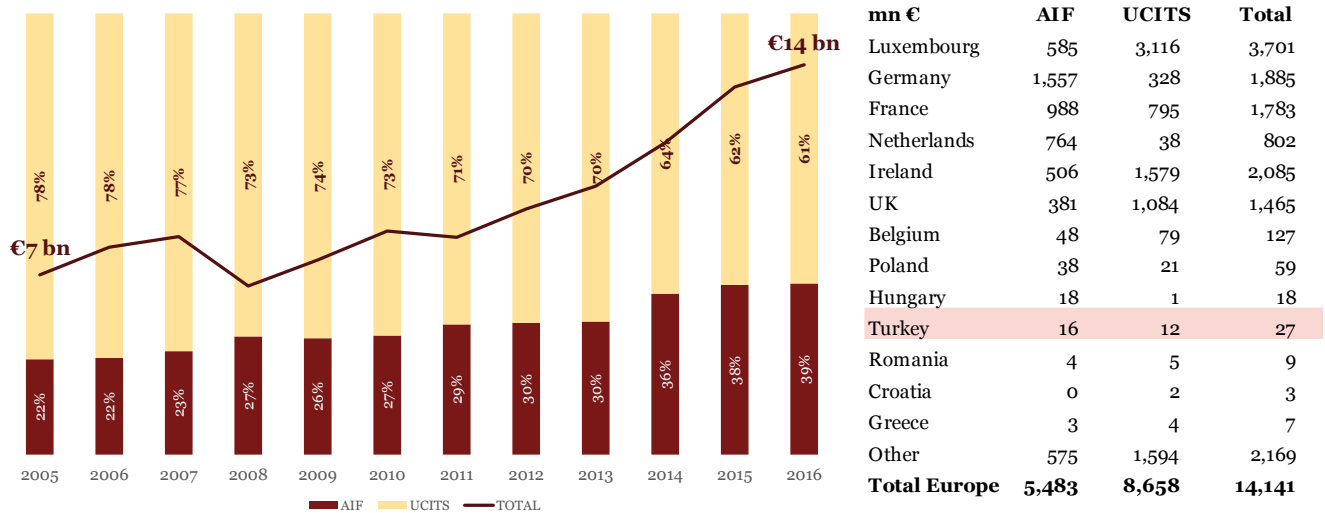
46% of Istanbul's 14.8million population is under 30.

Source: Turkstat

2- Alternative Investment Funds

In Europe, the share of AIFs in total net assets has been increasing since 2011. AIFs as a percentage of total net assets in Europe was 39% at the end of the year 2016 (Figure 5). However Turkish AIFs are equal to only 0.3% of Europe's total net assets according to EFAMA, which means there is significant room for growth.

Figure 5: Total net assets of UCITS and AIFs



Source: EFAMA, PwC Turkey

New Capital Markets Law No: 6362, published on 30 December 2012, harmonises with EU regulations and transforms investment funds and trusts into more competitive structures.

A new company type called a “fund management company” has been created in line with UCITS Directive Number 2009/65/EC and AIFMD Number 2011/61/EU. These directives only allow funds to be established by fund management companies, and they aim to make the fund industry, which was previously controlled by banks, more competitive.

The semi open-ended fund structure, which determined the maximum number of participation units circulated, has been changed to a completely open-ended fund structure.

Inspired by EU practices like the AIFMD, collective investment types new to Turkish law such as PEIFs, REIFs, and OEICs have been introduced, creating a legal structure familiar to international investors.

It is now possible to establish specialised portfolio management companies such as private equity and real estate management companies, as well as management companies in Turkey that focus on managing funds established abroad.

Incentives were recently introduced to support development of Turkish AIFs and capital market instruments:

- Beginning from 2018, a minimum of 10% of the assets of standard pension funds must be invested in shares of PEIFs, REIFs, capital market instruments related with infrastructure projects, and Turkish SWFs; and
- 1% of a fund portfolio must be invested in PEIFs.

Advantages & Opportunities

Custody of assets in portfolios:

Custodian services for assets in collective investment scheme portfolios have been defined for the first time, and the responsibilities of institutions have been determined in accordance with EU regulations. Because portfolio custodian services will now be provided by institutions specialised in this field, fiscal responsibility for custody of portfolio assets, ensuring that the portfolio management is made by the management companies in accordance with regulations, and declaring unit prices are the responsibility of custody institutions. AM companies are encouraged to focus on their core fields of activity, and custody of fund assets has been made more secure by dividing duties and responsibilities. In addition, new regulations have been put in place to ensure that the custodian and the asset manager act independently.

Issuance and redemption of units of investment funds in foreign currency is now permitted, as long-expected by many investors.

Investible for collective investment schemes is no longer enumerated in the regulation stated; the CMB is now authorised to determine which assets it is permissible to invest. Thus, some flexibility has been achieved.

Fund property can be pledged as collateral to leverage the fund portfolio. In addition, to protect fund property from third parties, provisions regarding separating fund property from founders' property have been clarified.

According to EFAMA, Turkish asset and wealth management ecosystem has 51 AIFs while has 396 UCITS-like funds as of the year 2016. AIFs compose of 32 REICs, 9 PEICs and 10 other. By number and variety of types, the market is far behind both developed European and some emerging Eastern Europe countries (Figure 6).

AIFs are compatible with Islamic finance rules. Thus, REIFs and PEIFs may also be attractive alternatives for conservative qualified investors.



"AIFs seem to be a major opportunity for the Turkish market, offering substantial room for growth."

Quote based on an interview with an international participant.

Figure 6: Total number of UCITS and AIF, 2016

	Hungary	Poland	Turkey	Germany	France	Luxembourg	UK	Other	Europe
Equity	8	119	65	595	1,163	3,356	1,035	3,513	9,854
Bond	4	63	101	370	592	2,440	270	2,288	6,128
Multi-asset	4	80	90	614	1,177	2,780	265	2,180	7,190
Money Market	-	41	27	16	147	200	19	251	701
Guaranteed	-	-	12	1	85	-	2	240	340
ARIS (*)	4	14	46	52	-	-	52	428	596
Other	1	5	55	106	-	1,029	317	4,352	5,865
Total of UCITS	21	322	396	1,754	3,164	9,805	1,960	13,252	30,674

	Hungary	Poland	Turkey	Germany	France	Luxembourg	UK	Other	Europe
Equity	82	97	-	184	628	406	72	964	2,433
Bond	56	65	-	653	551	660	7	915	2,907
Multi-asset	102	88	-	2,754	1,890	1,286	208	1,146	7,474
Money Market	47	16	-	2	83	73	3	13	237
Guaranteed	115	-	-	-	268	-	7	722	1,112
ARIS (*)	131	76	-	15	-	-	11	90	323
Real Estate	29	20	32	369	440	334	35	1,203	2,462
Other	25	213	19	280	3,928	1,647	635	4,093	10,840
Total of AIF	587	575	51	4,257	7,788	4,406	978	9,146	27,788

* Alternative return innovative strategies

Source: EFAMA, PwC Turkey

3- Turkish Wealth Fund

Until recently, Turkey was the only G20 country that didn't have an SWF. For this, the government first established an AM company called TWF Man. Co (Türkiye Varlık Fonu Yönetimi A.Ş.), providing a capital injection of TRY 50 million (USD 16 million). In January 2017, TWF Man. Co established the Turkish Wealth Fund (Türkiye Varlık Fonu - TWF).

As of February 2017, some companies, state institutions, licenses, and real estate which have been privatised and/or are owned by the Treasury have been transferred to the TWF (Figure 7).



According to government officials total AuM of the TWF is expected to reach USD 200 billion.

The main reasons the TWF was established:

- to increase the national growth rate,
- to accelerate growth and deepen capital markets,
- to enhance employment opportunities,
- to invest in strategic sectors abroad such as petroleum and natural gas,
- to broaden the use of Islamic finance products,
- to finance major infrastructure projects,
- to support domestic companies in the defense, aviation, and software industries.

Source: www.gsghukuk.com, "Turkish Sovereign Wealth Funds in a Nutshell", September 2016

Figure 7: Assets transferred to TWF

	Asset size (billion \$) (*)	Treasury shares (%)	Publicly held shares (%)
Companies			
Ziraat Bank	96.9	100	-
BOTAŞ (Pipeline petroleum transportation)	5.3	100	-
Türk Telekom (phone operator)	7.6	6.7	13.3
TPAO (oil and gas producer)	0.4	100	-
Çaykur (tea producer)	0.9	100	-
Türksat (cable TV & satellite operator)	0.6	100	-
Turkish Airlines	15.8	49.1	50.2
Halkbank	60.0	51.1	48.8
PTT (postal services)	1.1	100	-
ETİ Mining		100	-
BIST (stock exchange)	2.2	73.6	-
Licenses			
National lottery licenses			
Horse racing operations licenses			
Real estates			
Real estates that allocated to or actually used by the Ministry of Food, Agriculture and Livestock for the purpose of organizing horse races			
Several plots of lands in tourism regions in Antalya, Aydın, Istanbul, Isparta, Izmir, Kayseri and Mugla			
Other			
A facility of approximately \$810 million held by Turkey's Defense Industry Support Fund for a period of three months			

(*) Based on latest financial statements.

Advantages & Opportunities

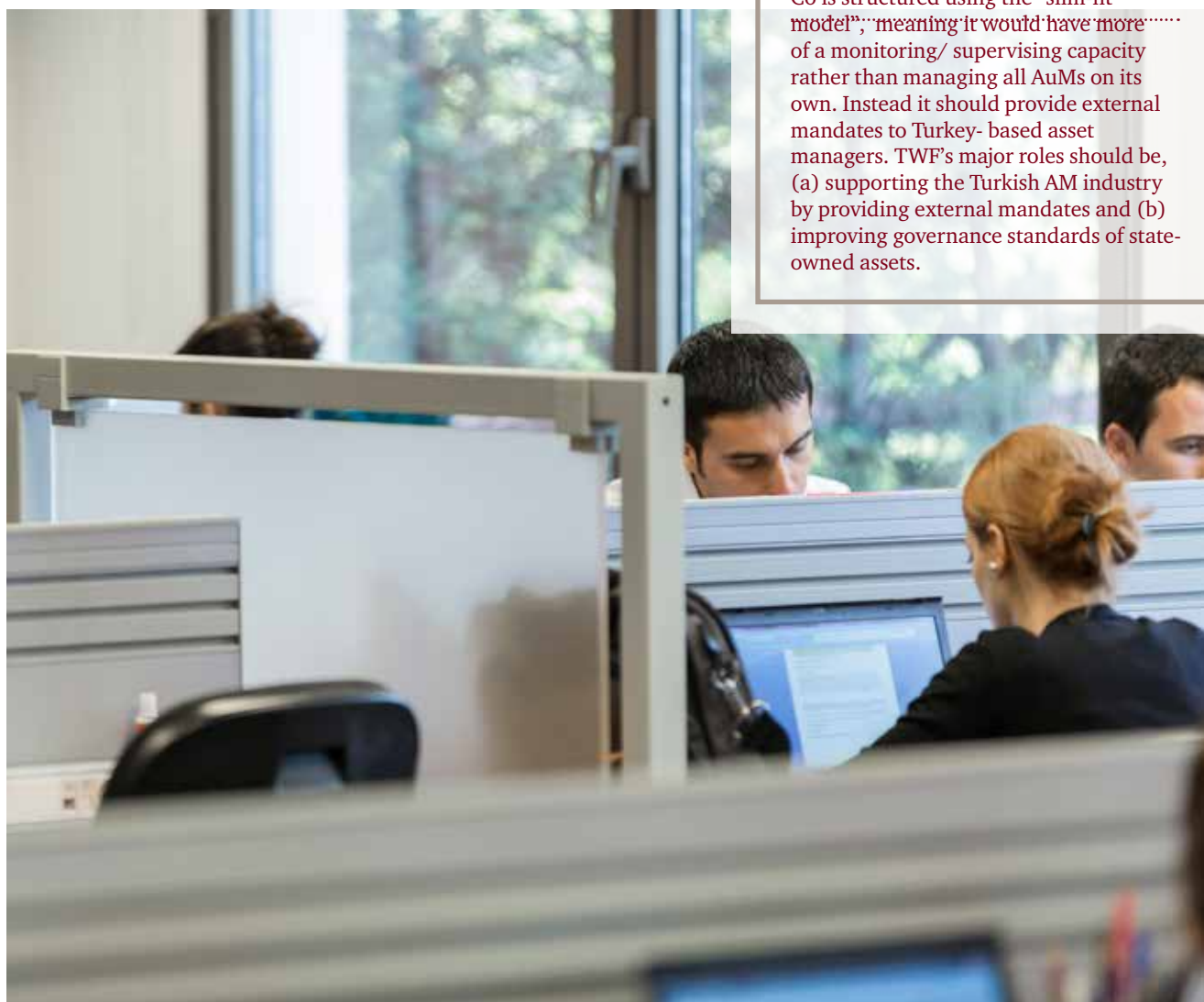
Transparency, disclosure and audit:

The financial statements and activities TWF Man. Co, the TWF and its sub-funds, and companies established by TWF Man. Co are subject to independent audit. Audit reports must be submitted to the Council of Ministers annually and financial statements must be examined annually in audit reports and be inspected by the Planning and Budget Commission of the Turkish Grand National Assembly. Further, it has been declared that TWF Man. Co shall apply the Santiago Principles.



Key findings from the survey and interviews:

As demonstrated in greater detail on pages 40 and 53, participants often stated that: Establishment of state-owned AM company TWF Man. Co, and state-owned SFW, TWF, provided substantial opportunity to improve the Turkish AM industry, especially if TWF Man. Co is structured using the “slim-fit model”; meaning it would have more of a monitoring/ supervising capacity rather than managing all AuMs on its own. Instead it should provide external mandates to Turkey- based asset managers. TWF’s major roles should be, (a) supporting the Turkish AM industry by providing external mandates and (b) improving governance standards of state-owned assets.



4- Significant growth in the pension system: auto-enrolment is the latest development

Turkey implemented a voluntary private pension system in 2003. This system provides income tax advantages, and in 2013 a contribution incentive was added, under which the state matches 25% of participant contributions up to a certain limit. The private pension scheme and savings incentive have resulted in a significant growth of the system. Both the total amount of participants and the number of funds doubled within the first three years after state contributions were put in place (Figure 8).

In addition to this, an auto-enrolment in private pension plans has recently been enacted. This is an important move which aims to boost domestic savings and the retirement savings rate.

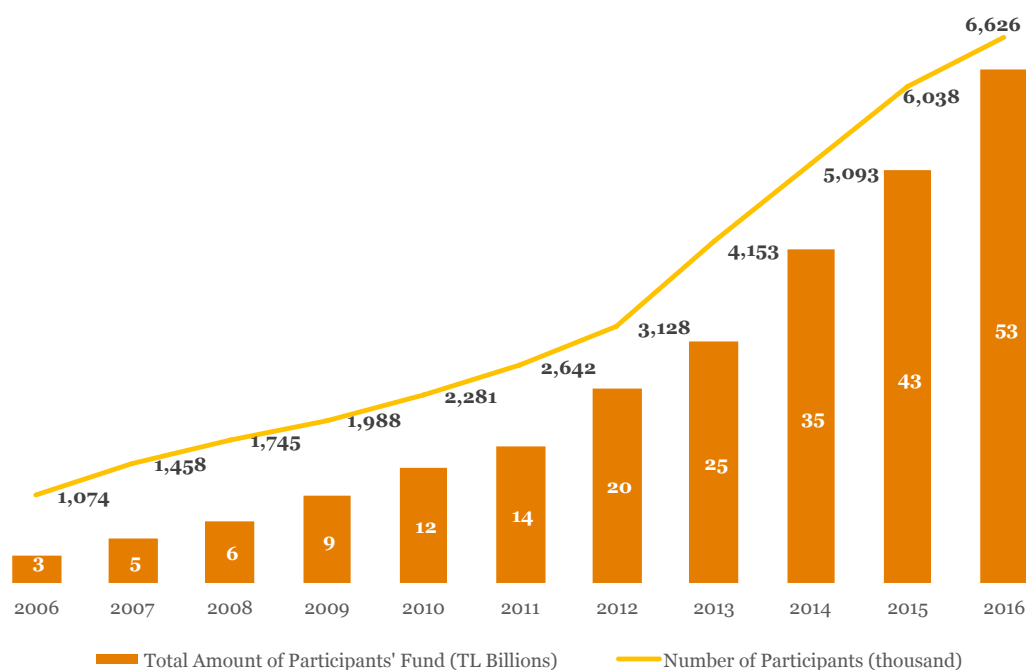
The amended Law requires all employees under the age of 45 to contribute to an employer- provided retirement plan beginning in 2017. Under the Law, employees are required to contribute approximately 3% of their annual income. However without employee contribution, it is argued that participants will leave the system as soon as it is allowed.

As you will find on pages 29 and 40 of this report, our survey and interviews revealed that participants believe pension funds offer an important opportunity:

For the EMEA AM industry, private equity investment funds, family offices and pension funds are counted as top three in terms of opportunity for growth. Pension funds are also cited as the source of the biggest scope in the near future and seen as the leading area of potential for Turkey.

Introduction of an auto-enrolment scheme for private pensions, also called an individual retirement scheme, is cited as the action that will have the second most important impact on the Turkish AM industry.

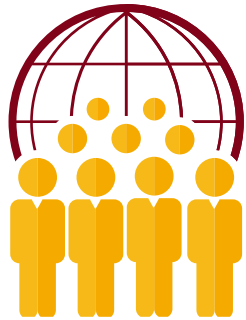
Figure 8: Total amount of participants and the number of funds



Source: Pension Monitoring Centre, Capital Markets Board

Survey & Interview Results

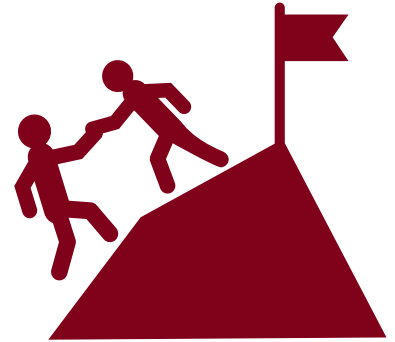
102
survey
participants



More than **30**
in-depth interviews in
Turkey and the UK.



91% of participants are
working in the private
sector.



60% participants have



In terms of AuM, 52% of
the participants have been
managing more than



Profile



102 professionals in the asset and wealth management industry responded to the survey. More than 30 in-depth interviews were conducted in Turkey and the UK. Below are the key profile characteristics of participants:

- 62% of the respondents are based in Turkey, 23% in the United Kingdom, and the remaining 16% in other locations (USA, UAE, Germany, etc.);
- the vast majority of participants (91%) work in the private sector;
- the majority of participants (60%) have been in the sector for more than 15 years, 25% have been in the sector for 7 to 15 years, and 15% for less than 7 years;
- nearly half the participants stated their role in the industry was “asset manager”, followed by “private equity executive” and “counsel”, which tied for second at 10% of respondents;
- in terms of AuM volume, 52% of survey participants manage more than USD 500 million in assets and 30% reported an AuM volume of USD 100-499 million;
- the areas of expertise most frequently reported by respondents were security funds (46%), followed by pension funds (45%), hedge funds (38%), REIFs (21%), and SWFs (20%).

Many ideas related to the AM industry have been put forward in Turkey. The survey aimed to aggregate those ideas and suggest specific steps to simplify the policy-making process and transform the AM industry in Turkey.

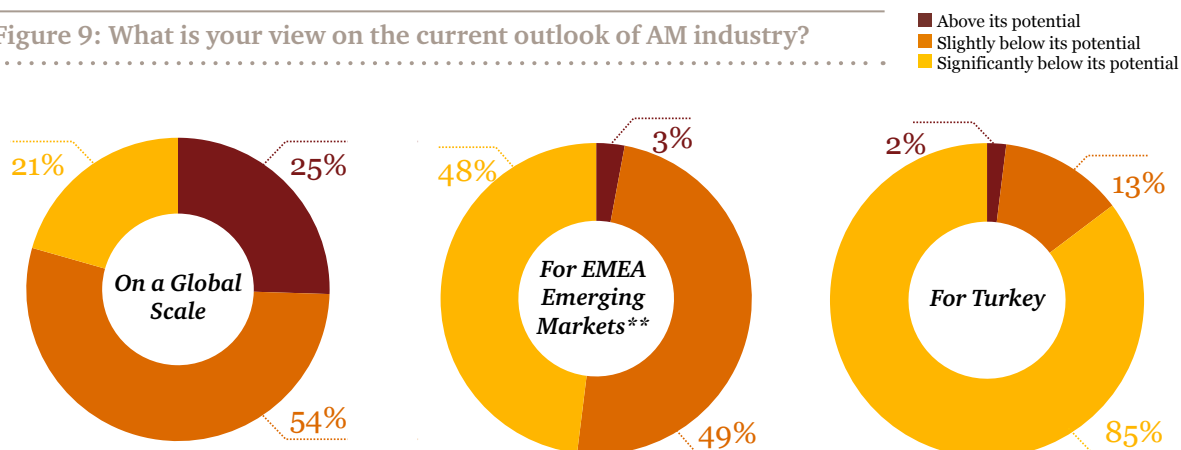
Medium Term Expectations

Medium-term Expectations

Most believe the industry is currently underperforming.

PwC's recent CEO Report* reveals great optimism across the board for the future of the global AM industry. In the past 11 years alone, global AuMs of asset managers have more than doubled, from USD 37 trillion in 2004 to USD 79 trillion in 2015. Nearly three quarters of our respondents state that the AM industry is performing below its potential globally, while 97% believe this is true for EMs and 98% for Turkey. While only 21% of respondents believe the industry is performing significantly below its potential globally, this increases to 48% for EMs and an astonishing 85% for Turkey (Figure 9).

Figure 9: What is your view on the current outlook of AM industry?



Respondent location is not the strongest determinant of AM market performance perception, but it does have an impact.

Respondents in Turkey have the most positive perception of the global AM industry and they overwhelmingly believe the local AM industry is performing significantly below potential. Furthermore, the majority of respondents in all geographies agrees Turkey is the only region which is significantly underperforming, indicating there is opportunity for medium-term growth of the country's AM industry. This point is further strengthened by the fact that almost all respondents who think the global AM industry is currently "above its potential" state that the Turkish AM industry is "significantly below its potential".

Almost all respondents who think the global AM industry is currently "above its potential" state that the Turkish AM industry is "significantly below its potential".

*20th CEO Survey/ Key Findings in the Asset and Wealth Management Industry February 2017

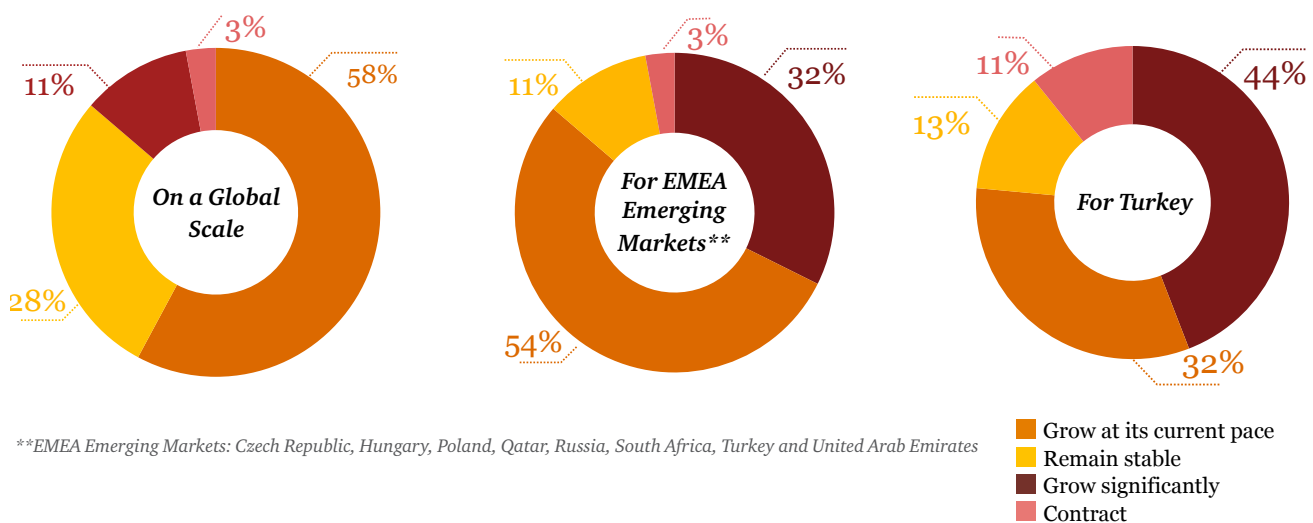
**EMEA Emerging Markets: Czech Republic, Hungary, Poland, Qatar, Russia, South Africa, Turkey and United Arab Emirates

There are different expectations for the growth of the AM industry for different regions.

The global AM industry is expected to show little change in the medium-term, with 58% of respondents anticipating growth at the current pace and 28% expecting it to remain flat. In contrast, the EMEA AM industry is overwhelmingly forecasted to grow, with 54% of respondents foreseeing growth at the current pace and 32% predicting significant growth rates.

For Turkey, 44% of participants anticipate significant growth, however 11% of respondents, mostly asset managers, expect the Turkish AM industry to contract over the next five years –considerably more than hold the same belief for the global and EMEA industries (Figure 10).

Figure 10: In your view, how will the AM industry evolve over the next five years?



In terms of areas of opportunity presented by the AM industry over the next five years, there are significant differences between the expectations for the global, EMEA, and Turkish markets.

There is no area in which the majority of respondents favour one or two segments – the AM industry is expected to be full of opportunity in the medium-term. 51% of respondents believe private equity

investment funds and trusts present the biggest global opportunity in the next five years, followed by family offices and venture capital investment funds, at 43% each.

The least popular segment is security funds, but even there 26% of respondents believe it might present the biggest opportunity. For the EMEA AM industry, PEIFs and family offices are in the top three, followed by pension funds at 54%. In Turkey, pension funds hold the lead, with nearly 72% of respondents stating they are the area of most opportunity, followed by REIFs, investment advisory and financial planning, and PEIFs. The specific structure of Turkey's AM industry appears to have heightened expectations for different segments.



Areas with the most opportunity in Turkey:

- Pension funds
- REIFs
- Investment advisory and financial planning
- PEIFs

For Turkey the least popular picks for opportunities:

- Security funds
- Hedge funds

Emerging Markets Outlook

Emerging Markets Outlook

The reasons the Turkish and EMEA AM industries perform below potential are different from the reasons the global industry underperforms.

The most frequently stated reason for the underperformance of the global market is macroeconomic outlook, highlighting the perception that the recovery of the global economy in the aftermath of the financial crisis has been feeble. This perception is consistent with findings on the short-term outlook in PwC's recent CEO Report,* which reveals that CEOs are extremely or somewhat concerned about uncertain economic growth (84%), over-regulation (79%), and increasing tax burdens (77%). Related to this view of the macroeconomic outlook is the concern that economic fragility, cited as the third most common structural factor driving low performance, could lead to further economic crisis.

High operating costs is the second biggest impediment to the development of the global AM industry, something that is not true for emerging countries like Turkey.

For the EMEA region, macroeconomic outlook, exacerbated by lack of predictability, is once again the most cited burden on AM industries.

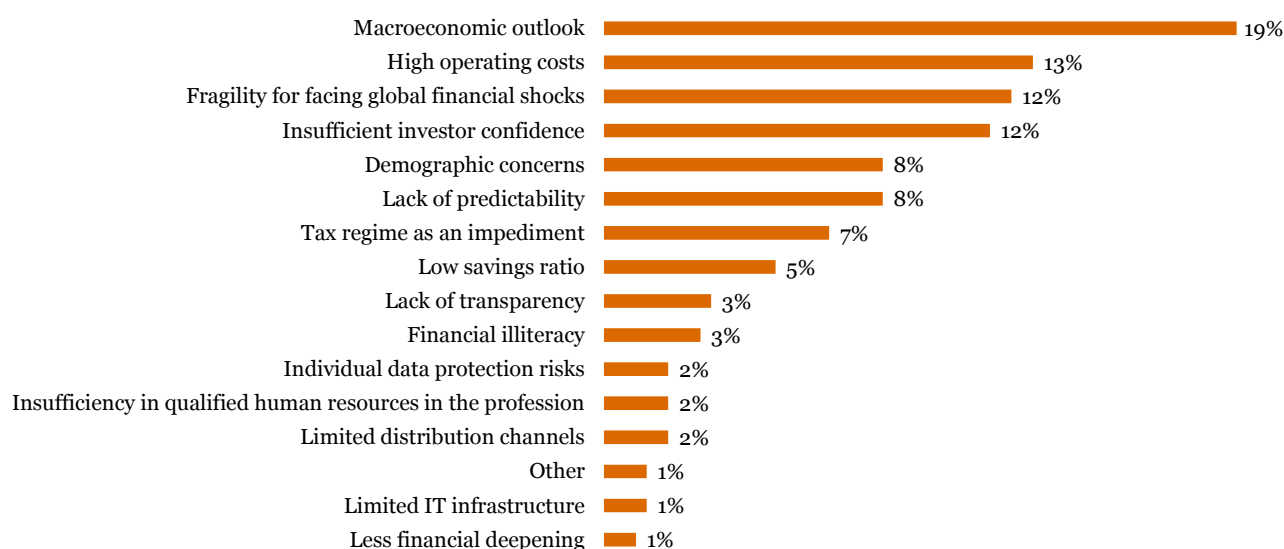
For Turkey, "the macroeconomic outlook" was listed in the top five risks, and "lack of predictability" was highlighted as the main reason the country is performing below potential. Interviewees stated that this lack of predictability is the result of recent political and institutional ambiguities. It lowers appetites for investment, leading respondents to indicate "insufficient investor confidence" as the third most important reason Turkey is underperforming. Turkey decoupled from other emerging countries and the global by its low savings ratio which is the underlying reason behind the external vulnerability.

That's why the government has taken actions to improve financial stability. The new auto-enrolment scheme and supportive legislation are expected to boost savings levels and bolster the AM industry. Additional reasons cited for the underperformance of the Turkish AM industry are "lack of financial literacy" and "limited distribution channels", which appear to be unique barriers for the AM industry in Turkey. Although the tax regime and high operating costs are counted as the main reasons behind the underperformance of the global AM industry, those are not seen as significant impediments in Turkey or other emerging countries.

In addition to the choices we specified in the survey, a significant number of survey respondents and interviewees indicated an additional problem results in the Turkish AM industry to operating below potential. These respondents offered the opinion that the AM industry underperforms because the sector

*20th CEO Survey/Key Findings in the Asset and Wealth Management Industry February 2017

Figure 11: The points below are perceived to be the reasons why AM industry remains below its potential in many countries (On a global scale).





Key findings:

1. Top global issues such as operating costs and investor taxation have less bearing on Turkey.
2. Legal infrastructure (i.e. effective and fair dispute resolution, reliable legal system, etc.) and macroeconomic and political stability are leading issues, but industry-specific legislation is not stated as a big concern.
3. The domination of banks in the financial services industry is often cited as a major infrastructure problem.
4. AIFs are believed to offer substantial growth potential.
5. TWF is often perceived as a potentially positive contribution to the Turkish AM industry, especially if local asset managers will receive external mandates to manage assets under the TWF

players are dominated by bank subsidiaries. This domination by banks hampers the growth of non-bank-owned/independent asset managers. A survey participant from an international organisation suggested using the UK as a role model could help transform a bank-dominated financial sector to a more diversified one and guide the development of institutional investors. Several interviewees emphasised that there is considerable room for growth in AIFs, and thus in the development of the AM industry in Turkey. They suggested offering incentives for long-term investments,

leading investors to alter their investment choices from time deposits to longer-term alternative investment tools. Recent legislation from the Under- secretariat of the Treasury of Turkey may address this recommendation: starting from 1 January 2018, a minimum of 10% of the assets of standard funds must be invested in shares of PEIFs, REIFs, capital market instruments related to infrastructure projects, and the TWF. Moreover, 1% of a fund portfolio must be invested in PEIFs. Market reactions to this were positive, however citation the TWF on this list raised some eyebrows.

Which factors do AM professionals use to evaluate the current, potential, and future outlook of the industry?

Macroeconomic and political stability is predictably at the top of the list, given an importance of 8 out of 10 on average by all participants. Other top issues are legal infrastructure (e.g. effective and fair dispute resolution, reliable legal system, etc.), high

yield, industry-specific regulations, and demographics. However, the AM industry value chain is complex, so there seems to be no “magic factor” that can be reformed by policy makers to rapidly boost the industry’s potential in a country.

Figure 12: Please rate the factors you consider when evaluating the potential of the AM industry, in order of their importance, on a scale of 1 to 10 (From least important to most important) (Overall)

Most important

- Macroeconomic and political stability
- Legal infrastructure (i.e. effectiveness and fairness of dispute resolution, reliance on the legal system, etc.)
- High yield (real return)
- Industry specific regulations
- Demographics
- Tax incentives for asset managers
- Attractiveness of the penetration ratio
- Financial technology
- Operational costs
- Other incentives (i.e. employment incentives, etc.)
- Other

Least important



Emerging Markets Outlook

Regardless of where survey respondents reside, Turkey is ranked in the top three EM jurisdictions for the growth potential of its AM industry.

When asked to rank the growth potential of the AM industries in emerging countries, survey participants place Turkey at the top of the list. However, as AM sector representatives in Turkey were

heavily represented in this survey, results from international participants should be analysed separately. International respondents believe the three countries with the most potential

are the UAE, Poland, and Turkey, in turn. International AM industry exclusively based in the UK see Poland as the country with the biggest potential, followed by Turkey and the UAE.

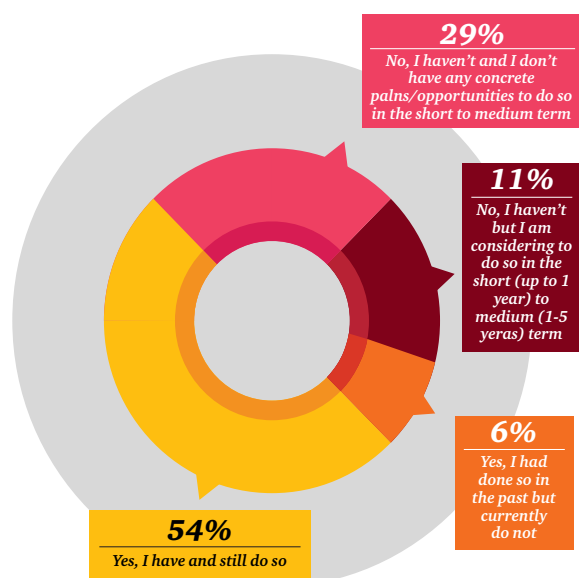
Figure 13-1: Please rank the countries below based on the growth potential of the AM industry, on a scale of 1 to 8 (From least important to most important)



Figure 13-2:

Rank	For Turkey based respondents	Rank	For international respondents
1	Turkey	1	United Arab Emirates
2	Poland	2	Poland
3	Russia	3	Turkey
4	Qatar	4	South Africa
5	South Africa	5	Qatar
6	United Arab Emirates	6	Russia
7	Czech Republic	7	Czech Republic
8	Hungary	8	Hungary

Figure 14 : Have you ever established any kind of operating presence in the Czech Republic, Hungary, Poland, Qatar, Russia, South Africa, Turkey, or the United Arab Emirates in the last decade?



So do international participants have operating presence in the emerging countries they believe have potential for growth?

The answer is yes, and this presence aligns with the ranking of potential indicated in the survey. The UAE, Poland, and Turkey are the top three countries where international survey respondents have operating presence, followed by South Africa where 15% have a presence, the same percentage as in Turkey (Figure 15).

It is critical to identify the countries in which respondents would like to establish and/or increase operating presence. International survey participants indicate Turkey is their first choice, followed by South Africa and Poland. Of the emerging countries where some have already established a presence, Poland seems to have higher share (Figure 15), but Turkey is more often preferred when considering establishing and/or increasing future presence. This may stem from the level of current operating presence in Turkey since international survey participants have a higher level of presence in Poland (Figure 16).

Figure 15: Please indicate your preference of emerging countries in which you have an operating presence (UK and other international participants combined)

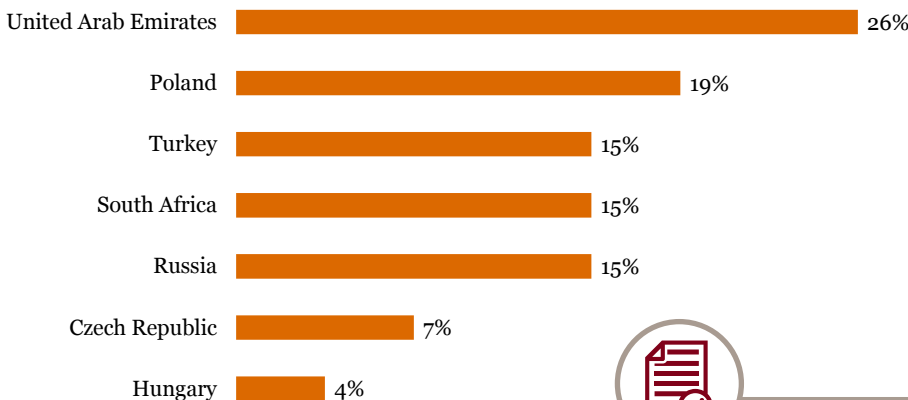


Figure 16: Top three emerging countries for establishing and/or increasing operating presence in the future (UK and other international participants combined).



Key findings:

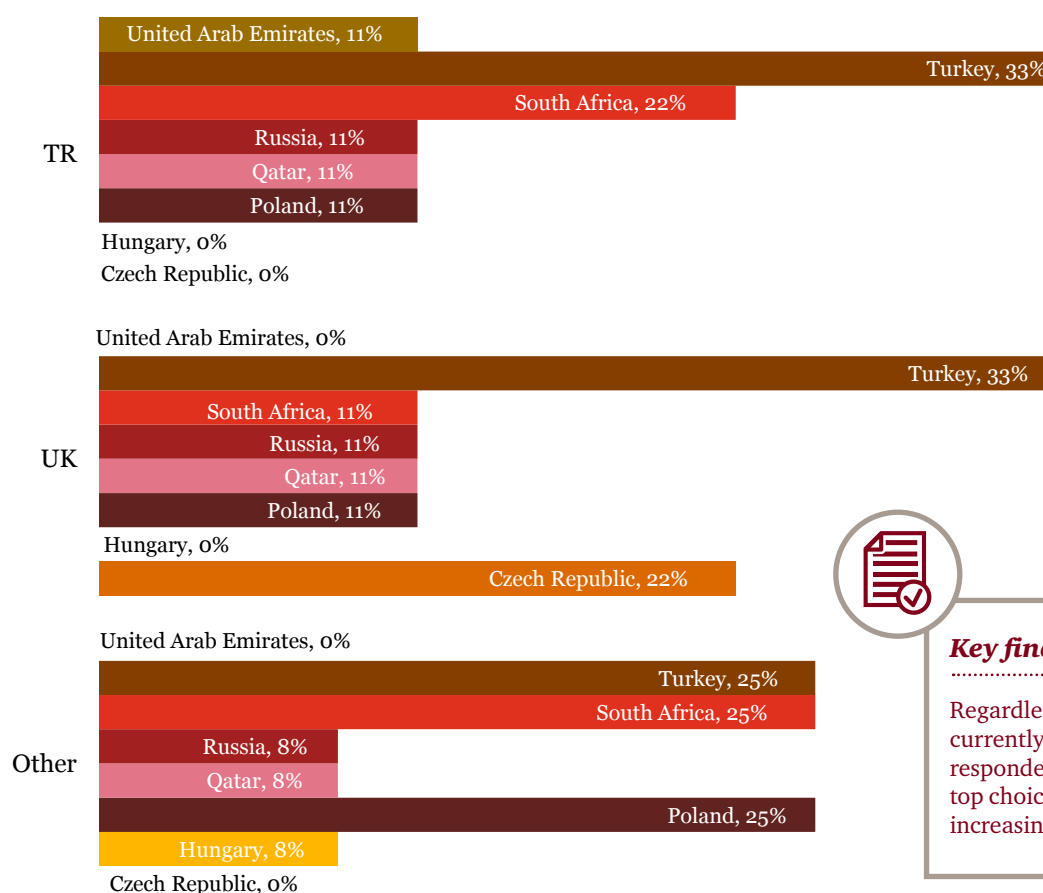
- Respondents rank Turkey at the top of a group of 8 comparable emerging markets in terms of the growth potential of the AM industry in the near future,
- 29% of respondents do not currently have an operating presence in these 8 countries, and they don't have any plans to establish a presence in the short- or medium-term.
- Respondents based outside Turkey who currently do not have an operating presence but are considering one in the short- or medium-term, rank Turkey at the top of the list of emerging countries for establishing and/or increasing operating presence.

Emerging Markets Outlook

When asked to indicate in which of the top three emerging countries they would prefer to establish and/or increase operating presence, respondents indicate Turkey as their first choice.

Regardless of where the respondent is located, Turkey is cited most often (30% of the time). 33% of respondents based in Turkey and the UK and 25% of participants elsewhere indicate that Turkey is where they would most like to establish and/or increase operational presence. Turkey is clearly cited most often by UK respondents, followed by South Africa, Poland, Russia, and Qatar which are evenly ranked. A significant majority of respondents (82%) state that they would consider establishing operations in their countries of preference in the medium-term (1-5 years).

Figure 17: Please indicate below the top three emerging countries in which you would consider establishing and/or increasing operating presence.



Key findings:

Regardless of where they are currently based, all groups of respondents indicate Turkey is their top choice for establishing and/or increasing operating presence.

Turkey: Suggested Areas for Improvement

Turkey: Suggested Areas for Improvement

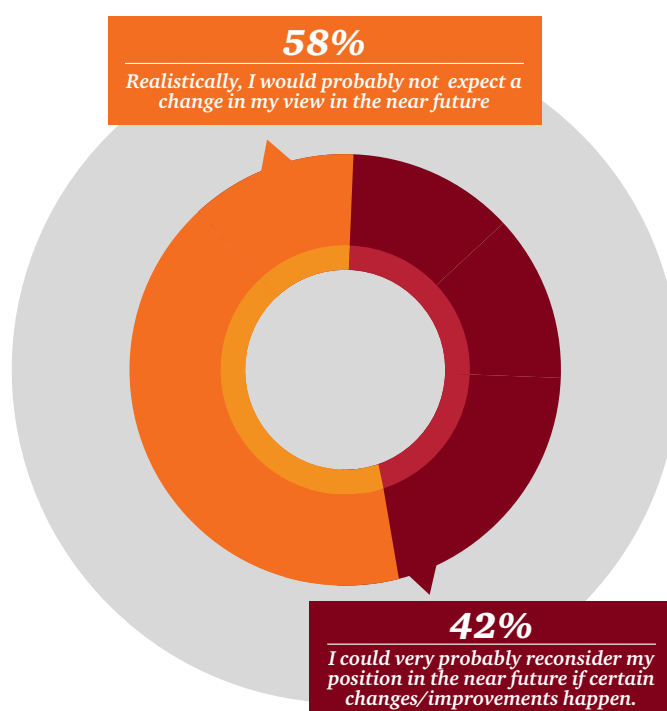
42% of respondents that are not currently considering investing in any kind of operating presence in Turkey state they could reconsider their position if certain changes occur.

Figure 18: If you are not considering investing in any kind of operating presence in Turkey (and/or have invested before but are not operating/investing now) which changes below could make you reconsider establishing a presence in the near future?

Professionals who have been in the sector for fewer than seven years indicate they are more likely to reconsider their positions if certain reforms are made (71%). The groups that are most resolute about their decisions not to invest in Turkey are respondents based in the UK (71%) and those who have been in the sector from 7 to 15 years (73%).

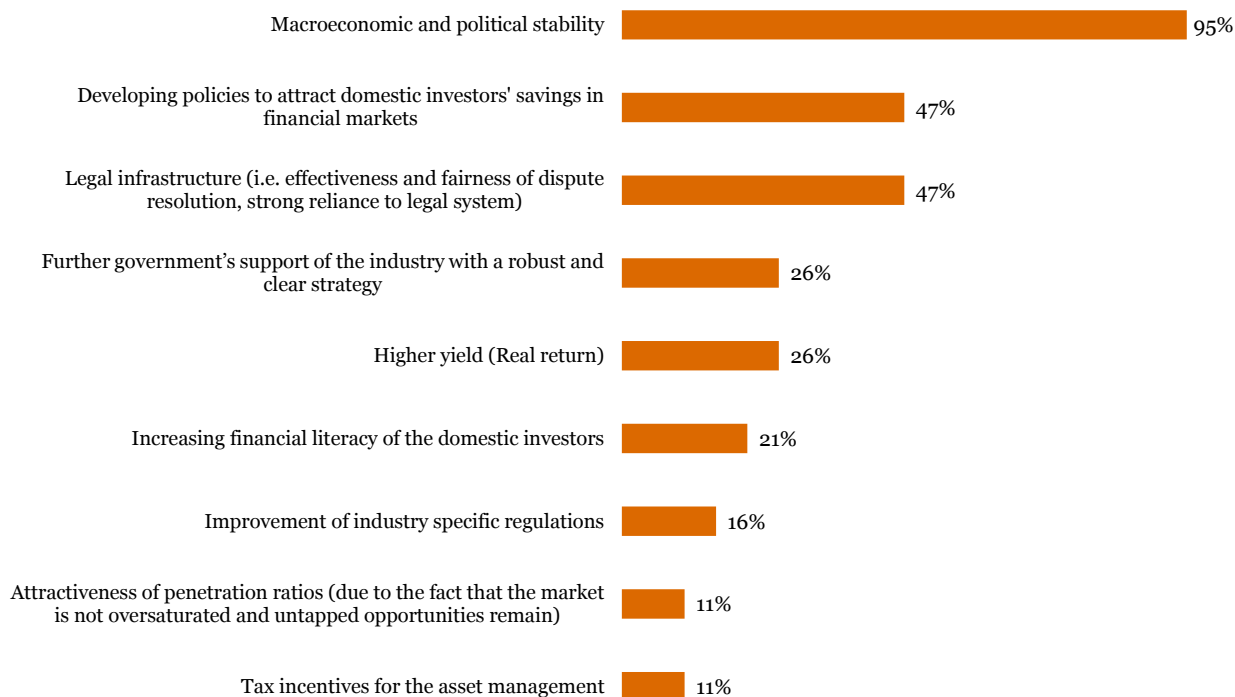
For participants who are more likely to consider investing in Turkey, the most cited areas needing improvement are **macroeconomic and political stability** (32%), **policies to attract domestic investor savings in financial markets** (16%), and **improved legal infrastructure**, such as effective and fair dispute resolution, a reliable legal system, etc. (16%). **Improvement of the legal infrastructure is most commonly emphasised by international respondents**, including but not limited to those in the UK, and is cited almost as often as macroeconomic and political stability.

Another finding is that, although respondents from the UK do not see higher real returns as a reason for reconsidering their position, international participants from other jurisdictions seem to be more opportunistic and do see higher yield as one of the top three areas where improvement would lead them to reconsider their position in the near future.



International participants (except the UK) see higher real returns as a reason for reconsidering their position in the near future.

Figure 19: Please check the top 3 areas where improvement would lead you to reconsider your position in the near future.



Key findings:

- Global players in the AM industry value a clear and robust government strategy more than improving industry regulations and tax incentives for asset managers. Thus, focusing on a strategic plan would have a bigger impact on the development of the industry than spending more time on tax incentives and regulations, and could lead executives to establish/increase operating presence in a country.
- 42% of respondents state they would reconsider establishing an operating presence in Turkey if certain changes/improvements happen.
- Enhanced macroeconomic and political stability is cited as a top three area of concern by 95% of those who would reconsider establishing a presence in Turkey.

Turkey: Suggested Areas for Improvement

The response to the positive contributions of recent and ongoing initiatives in the Turkish AM industry was ride-ranging.

25% of survey respondents thought the establishment of TWF would make a significant contribution, the largest percentage for any response. But 15% think this would only be true if mandates are provided to external portfolio managers. 10% of respondents think that irrespective of who mandates are given to, a TWF would make a positive contribution to the industry.

Introduction of an auto-enrolment scheme for private pensions, also called an individual retirement scheme, is cited as the second most important act (15%) that could have a positive impact on the Turkish AM industry. Therefore, the legislative change that will roll out between January 2017 and January 2019 may also have a positive effect on Turkey's AM industry.

Other recent or upcoming positive changes cited by participants are the new Capital Markets Law (14%), the Data Privacy Law (12%), changes to the regulation of Islamic finance (12%), automatic exchange of information (11%), and the latest tax amnesty law (11%).

Figure 20: Please rate the following steps that have been taken/are to be implemented in Turkey in terms of their positive contribution to improving the AM industry in Turkey on a scale of 1 to 10 (From least important to most important)

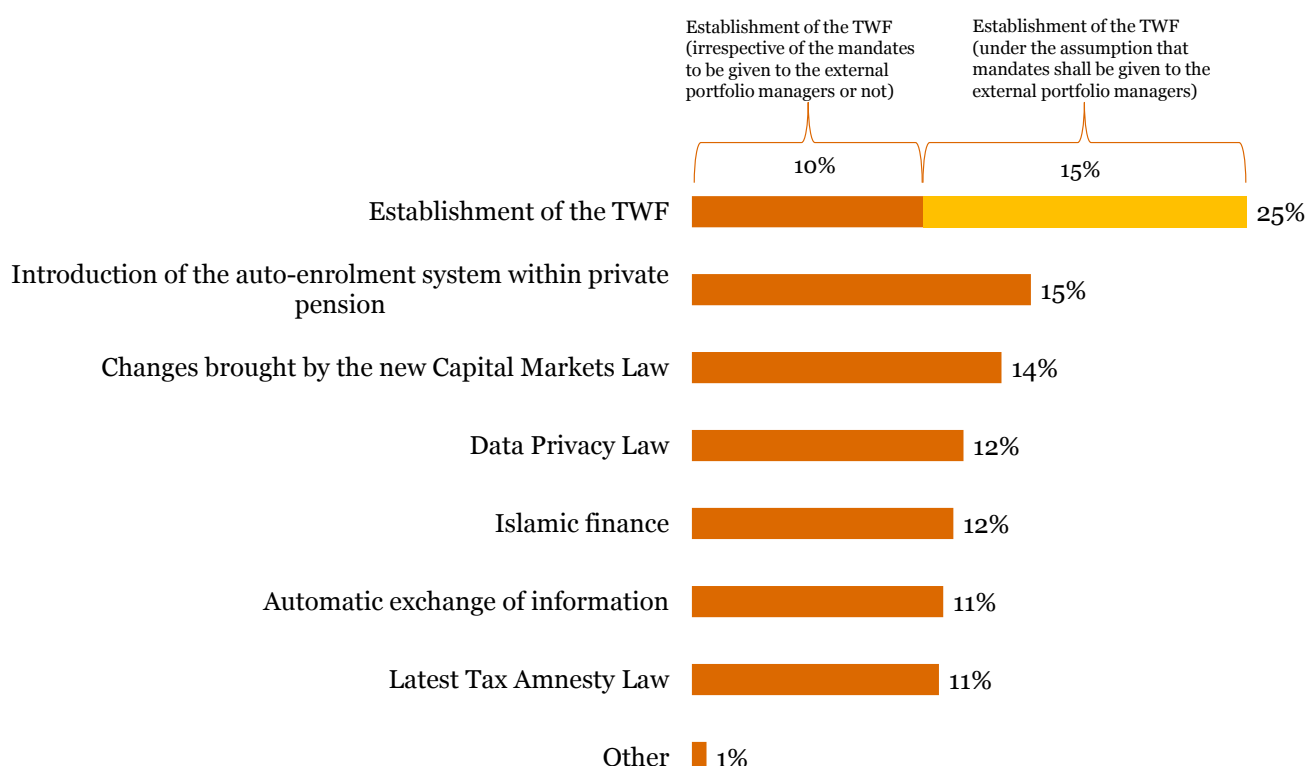




Figure 21: Please rank the following statements in the order of relative weight and significance that in your view could potentially incentivise the asset managers to have a (or to have a stronger) presence in Turkey.

Rank	
1	Policies to increase the number and volume of domestic savings in asset classes that are under the management of asset managers in Turkey
2	State support for the development of the Turkish AM industry (i.e. mandates given by the State to the private asset managers for the assets of the State (i.e. Unemployment Insurance Fund, TWF etc.))
3	Tax incentives for the asset managers
4	The presence of the leading global asset managers in Turkey
5	Development of rating services

In terms of measures for bolstering asset manager presence in the Turkish AM industry, tax incentives for asset managers was ranked third. Respondents believe it is important the state express support for the development of the industry via mandates requiring private asset managers to manage some part of state funds, such as unemployment insurance funds and social security institution funds. Mandates may be granted via bidding or based on some performance criteria. Participants from both Turkey and the UK think that the presence of leading global asset managers in Turkey would have a small effect on increasing the presence of other asset managers.



Key findings:

Participants favour state support for

- a) management of (public) funds by asset managers in Turkey and
- b) personal tax incentives for asset managers, e.g. performance incentives (see pages 42 and 43).

Transformation of the AM Industry

Taxation

As regards the tax incentives supporting development of the industry and Turkey as a regional and international hub, almost every participant suggested introducing a personal income tax incentive for asset managers based on individual performance-based income. This incentive could take various forms such as carried interest, performance-based fees, performance bonuses, etc. Incentives could be paid directly by clients (e.g., the funds they manage) or, as is more common, indirectly (e.g., the funds pay the fund management company and the management company pays its employee asset managers). Some of our respondents who are more informed about the Turkish tax system voiced the opinion that a tax neutral flow of performance-based fees from clients/funds to individual asset managers may also require an exemption from the Banking and Insurance Transactions Tax (BITT) for the performance-based fees paid to management companies, as much as it is paid on the relevant asset managers. Almost without exception our respondents stated that without tax incentives for individual asset managers, it is unlikely Turkey can become an attractive regional or international AM hub. A couple respondents added that

despite the introduction of a UK-type investment manager exemption to the Corporate Tax Law in 2012, this and other important and courageous steps taken recently in tax law are insufficient without incentives for asset managers. On the other hand, while some of our respondents and interviewees stated that the tax incentive should be 0% taxation (as in some alternative hubs), others stated that even a low, flat tax rate (e.g., 10%) might be sufficient if a 0% rate is not possible.

We asked respondents and interviewees for their views on creating a tax free zone specifically designed for international financial transactions, a model largely inspired by Dubai. Only a few respondents favoured this model. Generally it was not considered sustainable for the long-term, was considered to “stretch Turkey’s international commitments against unfair tax competition”, and was said to be “too complicated to implement” as it would create problems in drawing a line between domestic and international financial transactions. A number of our interviewees commented that from a macroeconomic and strategic positioning perspective, hubs traditionally considered to

be “city-states” (e.g., Singapore, Hong Kong) or “free zones in no income tax countries” (e.g., Dubai) were not compatible models for Turkey. They believe Turkey would be better served by studying “organic”, conventional models to improve its position as a regional and international hub, using its experiences in the Eurozone, the site of most of Turkey’s economic relations, particularly financial investments.



On the matter of tax, we did not find much difference between answers from local respondents and international respondents. It is worth noting that most international respondents asked about or criticised the lack of a clear tax policy statement from the Turkish government for the financial services industry in general and for the AM industry in particular, what is often called a “tax strategy paper”. Regarding the tax measures stated in the IFC Strategy Action Plan, most of our respondents addressing this issue stated that such measures appear to address details and don’t provide a holistic, long-term, strategic plan from the government on tax policy for the financial industry.

In the words of one respondent: *“These seem like a list of actions, not much interlinked, not very systematic, some are more wishful thinking whilst some represent the more specific and short-term needs of the industry. Besides, it is far too long for a strategy paper and the fact that you have tried to capture the issues of all segments within the financial industry, e.g., banking, capital markets, insurance, and AM, at the same time, within the same document, does not help the market players in any one of*

those segments much. Looking at this I still do not get what the Turkish government’s tax policy is for the AM industry. I guess that is the same thing you would hear if you asked someone in another sector of the financial industry the same question”.

Other respondents commenting on this suggested that the Turkish government should issue a new and to-the-point tax strategy paper representing a much longer-term perspective, which would give a clear message to the industry and work as a guideline for the tax authority and lawmakers evaluating the compatibility of future actions with the strategy.

Key findings:

- Many respondents favoured creating a personal income tax incentive for the performance-based income of asset managers.
- Creating a tax free zone specifically designed for international financial transactions is not favoured by many.
- International respondents want a tax policy statement for the AM industry from the Turkish government stating a long-term vision that acts as a guideline for market players, lawmakers, and the tax authority.

Turkey: Suggested Areas for Improvement

For the Turkish AM industry to thrive and reach its potential, which reforms and improvements should be prioritised?

In the survey we have asked respondents to grade areas from 1 to 10 in terms of their potential positive impact on the AM industry. In this context, economic and political stability were rated highest (averaging 8.4), followed by the need for government's support of the Turkish AM industry with a robust and clear strategy and legal infrastructure (i.e. effectiveness and fairness of dispute resolution, reliability of the

legal system, etc.), averaging 7.7 and 7.6, respectively. The areas where there appear to be sizable perception differences based on the location of the respondents are financial literacy of domestic investors (which is rated higher by respondents based in Turkey) and improving living standards to attract international talent (rated higher by respondents based in the UK).

Figure 22: In order of relative weight and importance, please rate the areas requiring improvement for the Turkish AM industry to thrive and reach its potential.

Most important

- Economic and political stability
- Government's support of the Turkish private asset management industry with a robust and clear strategy
- Legal infrastructure (i.e. effectiveness and fairness of dispute resolution, strong reliance to legal system)
- Developing policies to attract domestic investors savings in financial markets
- Improving financial planning concept (ways and means for domestic investors)
- Improvement in the industry specific regulations
- Financial literacy of the domestic investors
- Improving living standards (transportation, education, expat opportunities etc.) to attract international talent
- Tax incentives for the asset managers
- Financial technology
- Other incentives (i.e. employment incentives etc.)
- Other

Least important

In conversations related to reforms and areas of improvement we asked for comments on Turkey's IFC strategy, as lack of government support for the Turkish AM industry was often cited as an area of concern.

One of our international respondents defined the ambition to become a centre as a "journey" and highlighted the importance of fundamentals saying:



Key findings:

Aside from the survey results, a clear and effective government strategy and bolstering savings in financial markets were the main topics of discussion during interviews. Although there is a strong belief that all the factors mentioned above will help the Turkish AM industry develop, there is also a belief that a strategy plan based on inclusive consultation would have more impact on the transformation of the industry in the short-term.

“Realistically, becoming a regional financial centre is not a task that can be accomplished overnight, it is a journey. There is neither a magical solution nor one single formula that applies unilaterally. There is no doubt all the fundamentals, such as rule of law, stability, appropriate human capital, infrastructure, etc. must be fully in place.

These fundamentals are not only necessary for the financial services industry but across a wide range of industries, perhaps all. Actually, the journey can only proceed based on strong fundamentals”.

One respondent in the UK emphasised the importance of a strong local market and competitive edge, saying *“In any industry, if a country or a city has any serious ambition to become a regional or international hub, it has to focus on what it can offer that others can or do not. In that regard the first question one should ask is how strong the local market is. Without having or building a strong local market and ecosystem, one should not expect to attract others”.* On the matter of international competitive edge, a global asset manager from the AIFs space said he knows asset managers who manage assets in the region from London or Dubai, including Turkish assets, who fly in and out as Istanbul offers good international flight connections, and who do not have an established presence in Turkey even if such a presence would be of help. He then asked *“Why should they start managing such assets from Turkey, what is Turkey’s international competitive edge, what is it Turkey offers that others do not”?* We asked him what edges Turkey might have, and after citing the importance of fundamentals, strategy, and a strong local market he said:

“It is important to offer certain incentives for businesses but also for individuals. AM is an industry in which individuals are very important. For example, if an asset manager pays 40% personal income tax on his performance income in one city and 15% in another, other conditions such as ease of life, transportation, economic conditions, etc. being the same, it is quite natural for him to opt for the most economically viable option. I am not saying Turkey should follow Dubai. Every city has its own pros and cons affecting its pricing, thus tax rates and Istanbul in general compare well to other locations. All I am saying is that perhaps you should start thinking about how you can change the game in Turkey, and taxes could be low hanging fruit. But don’t get me wrong. I don’t mean to say that is enough on its own. It can only be a meaningful short-term win if supported by a robust long-term strategy”.

Another UK-based asset manager defined what a financial centre really means for the market and underlined the importance of human capital in that regard. He said, *“It’s not bricks that make a financial centre. It’s people. People’s trust in law, fair competition, open markets, stability; talent and know-how; people’s desire to go and live there. Does Istanbul offer this? To me it definitely is a very attractive city, though not a very easy place for everyone to live and perhaps today not as cosmopolitan as other financial centres. Yet it has great potential, and with the right long-term strategy communicated consistently at the top and applied with patience, and shared political and public support, I would say why not”?*

Turkey: Suggested Areas for Improvement

When we asked for comments on areas of improvement in the Turkish AM industry, once again, in addition to the need for a robust and clear strategy built upon strong fundamentals, the emphasis was on the need for a strong domestic market. In the words of a UK-based emerging markets specialist of a global AM company:

“For any emerging economy to become a regional financial hub in the AM space, there are some basic must-haves, such as macroeconomic and political stability, a strong and reliable legal system, good assets, good regulations, fair competition, etc. Yet to be a regional centre of attraction the key is to have a very strong domestic market. In my role here in this global asset and wealth management company, I see that what is often missing is that strong domestic market element. That is also true for Turkey. A clear and effective strategy is needed to change saving preferences from conventional assets such as cash and real property, which are often cultural saving preference tools in that part of the world, to financial assets. And I don’t think it should be terribly difficult if that is truly what is desired. You would just need to develop the right policies to achieve such a strategy. Pension funds are often seen as good tools to make that happen.”

An international respondent who has been in charge of covering EMs including Turkey voiced his concerns on the matter of mixed signals coming from Turkey, which not only surprise the markets but also often create confusion:

“Lately I’ve been hearing rumours from Turkey that some thought is being given to turning over the management of some pension funds and some kinds of state controlled financial assets to the state or some kind of state controlled management companies. That would be completely to the detriment of the AM industry in Turkey. Actually, to build up a competitive internal AM industry, the way the government can help is to do the exact opposite, giving these management mandates to private asset managers.

The state should instead be acting as a regulatory, supervisory, and oversight body. I am, of course, not sure how true such rumours are. But I guess I would be happier

for Turkey if I had been hearing rumours of the opposite. This late TWF news for example. It could potentially be a very positive thing for the AM industry and Turkish capital markets if it is properly designed, and if it gives external mandates to private asset managers in Turkey. If, however, it is positioned as a ‘fat’ state controlled management platform that performs business which normally private asset managers can do, pension fund management for example, that could send a negative message to the market.

Yet it is too early to comment I guess, as the strategy has not been articulated and communicated yet.”

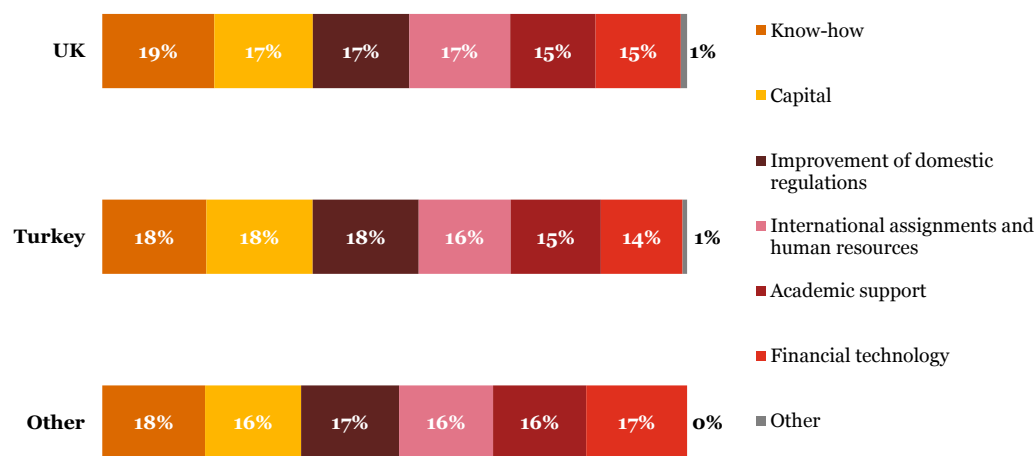


Key findings:

- Fundamentals such as macroeconomic and political stability, legal infrastructure, etc. are needed.
- There is a need for a robust and clear government strategy supporting:
 1. the local private AM industry,
 2. a strong domestic market for assets (domestic savings),
 3. development of human capital,
 4. personal incentives (e.g., tax) for asset managers.
- A strategy based on inclusive consultation is needed.

When asked to rate areas where the UK can contribute significantly to the enhancement of the AM industry in Turkey, respondents placed similar importance on multiple areas.

Figure 23: In order of relative weight and significance, please rate the areas where the UK could significantly contribute to the enhancement of the AM industry in Turkey.



The areas rated highest were know-how, capital, and improving domestic regulations. However it is worth noting that regardless of the location of the respondent, there were no areas rated significantly higher than others.

These responses indicate that increased UK visibility and involvement in the Turkish AM industry would translate into positive impact across multiple areas (Figure 23).

Turkey: Suggested Areas for Improvement

How can the UK and Turkey cooperate?

Almost all participants believe the UK and Turkey can partner to promote the Turkish AM industry. They strongly believe in bilateral cooperation not only on a governmental basis but also between private sector representatives. One specific suggestion they put forward is that a legitimate partnership project team be established with strong private sector co-leaders from each country and the support of the Ministry of Finance, capital market regulators, central banks, the treasury, top tier consulting firms, and associations operating in the AM sector.

Most participants believe that in its attempt to become a financial hub, Turkey can benefit significantly from UK know-how, which is held to reflect best practices. From regulation to governance models, from academic collaborations to secondments of Turkish asset managers in the UK, they believe that acquiring this know-how would aid in the transformation of the industry in Turkey.

One respondent recommended taking steps to establish a joint research operation as an example of bilateral cooperation, creating a local back-office presence to demonstrate the potential of cross-border collaboration in foreign direct investment.

Considering the recent changes in the private pension system and the creation of the TWF, participants recommended the UK AM industry and regulatory/supervisory agencies and their Turkish counterparts cooperate on designing, implementing, and ensuring the efficiency of institutional saving systems.

The presence of UK-based AM firms in Turkey is considered to be crucial for the transfer of know-how, providing mutual benefits to the UK and Turkey. Asset managers in the UK suggested there is significant room for growth in alternative investment funds where private equity and real estate investment funds

provide a great deal of opportunity. And considering the geographic position of Istanbul, the potential for becoming a regional AM hub is huge. However, the necessary conditions to attract UK-based AM firms must be established. One of the survey respondents asserted a proper international legal dispute resolution mechanism is a must, and there were strong recommendations that expat living conditions be improved.



Key findings:

- A legitimate partnership project team should be established, with strong private sector co-leaders from each country, and they should be supported by regulators, top tier consulting firms, and the associations operating in the AM sector.
- The transfer of UK know-how would be valuable and can be achieved by various means such as academic collaboration, using the UK governance system as a model, secondment of Turkish asset managers in the UK, etc.
- To strengthen Turkey-UK cooperation, respondents believe intergovernmental collaboration is necessary but not sufficient in itself. Intergovernmental collaboration should be complemented by increased private sector cooperation.
- UK-based asset managers believe that alternative investment funds, especially private equity and real estate investment funds, have significant room for growth in Turkey.
- To attract more UK-based AM firms, which would facilitate and accelerate transfer of UK know-how, respondents stressed the need to improve local living conditions.

Head of business development, UK-based AM company

“To support the Turkish AM industry, the UK can contribute to the ‘management’ side, but the more critical aspect is the ‘asset’ side, i.e. assets under management. Turkey needs to attract assets in order to attract management specialists and management firms. The only ways to attract assets are to develop long-term savings via pension schemes and establish a robust and credible regulatory framework. The UK model for a leading worldwide financial hub is difficult to emulate in Turkey.

That model is based on centuries of having a financial services industry, rule of law, financial inclusion, a trading mentality, the necessary culture and language, as well as the physical presence of ancillary services such as lawyers, accountants, IT services, etc. The UK AM industry manages assets from around the world which converge into that hub. In Turkey, the first impulse to expand the AM industry must be endogenous, centred on local long-term savings that should be ring fenced and managed in the country. Turkey should follow the South African model of having a local pool of savings underpinning a robust AM industry. Then it could evolve to attract savings from neighbouring countries that would find Turkey a more stable environment with stronger expertise in managing savings”.

Director, international organisation based in France

“Considering the recent changes in the private pension system and the creation of a sovereign wealth fund in Turkey, the UK AM industry and regulatory/ supervisory agencies and their Turkish counterparts could cooperate on issues related to designing, implementing, and ensuring the efficiency of institutional saving systems”.



Turkey: Suggested Areas for Improvement

When asked how they would consider positioning themselves in the Turkish AM industry, 63% of respondents stated they see Turkey as a regional hub crucial to the outlook of the industry

63% see Turkey as a regional hub and 54% would consider positioning themselves in Turkey to serve the local client base. 71% of participants believe for the Turkish AM industry to become a regional/international hub, it should be positioned as both a front office and back office location, whereas 23% believe the Turkish AM industry should take the front office route. 32% of participants based in the UK think Turkey would be better positioned to become a regional or international hub if it took the front office route.

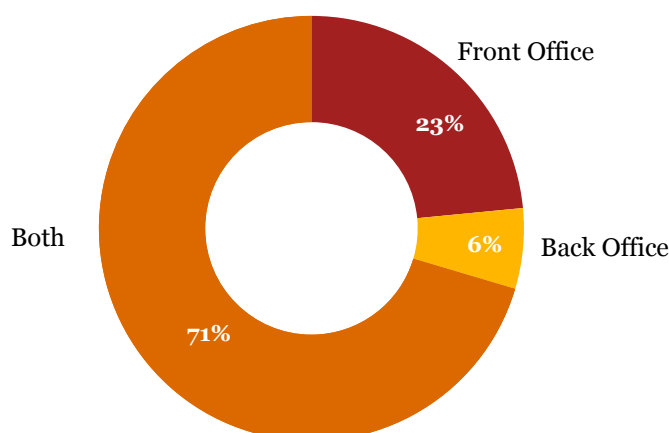
In meetings, sector representatives displayed an awareness of Turkey's potential to become a regional hub. Not only its demographic attractiveness, but also the significant room for growth in alternative investment funds leads global asset managers to think about establishing a presence in Turkey if some improvements are made.



Key findings:

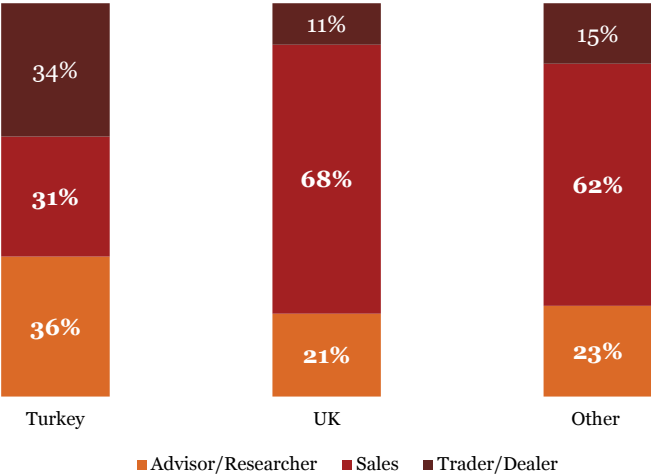
1. Turkey has the potential to become a regional hub. Not only its demographic attractiveness, but also the significant room for growth in alternative investment funds leads global asset managers to think about establishing a presence in Turkey if some improvements are made.
2. The optimal positioning for Turkey in the value chain is for it to be positioned as both a front and back office location, primarily serving local clients, and as a regional and/or international hub.

Figure 24: For the Turkish AM industry to become a regional/international hub, how should it be positioned in the value chain?



For front office services, 42% of all respondents and 68% of those based in the UK state that Turkey’s highest potential is in sales

Figure 25: In which line of front office-related services do you think Turkey has the most potential?



The next highest potential is seen to be advisor/ researcher potential (31%) followed by trader/ dealer potential (27%). To increase the Turkish AM industry’s front office quality, 36% of respondents state that evaluating service standards should be prioritised, followed by standardising the creation and implementation of service standards (30%), and benchmarking front office organisation (28%).



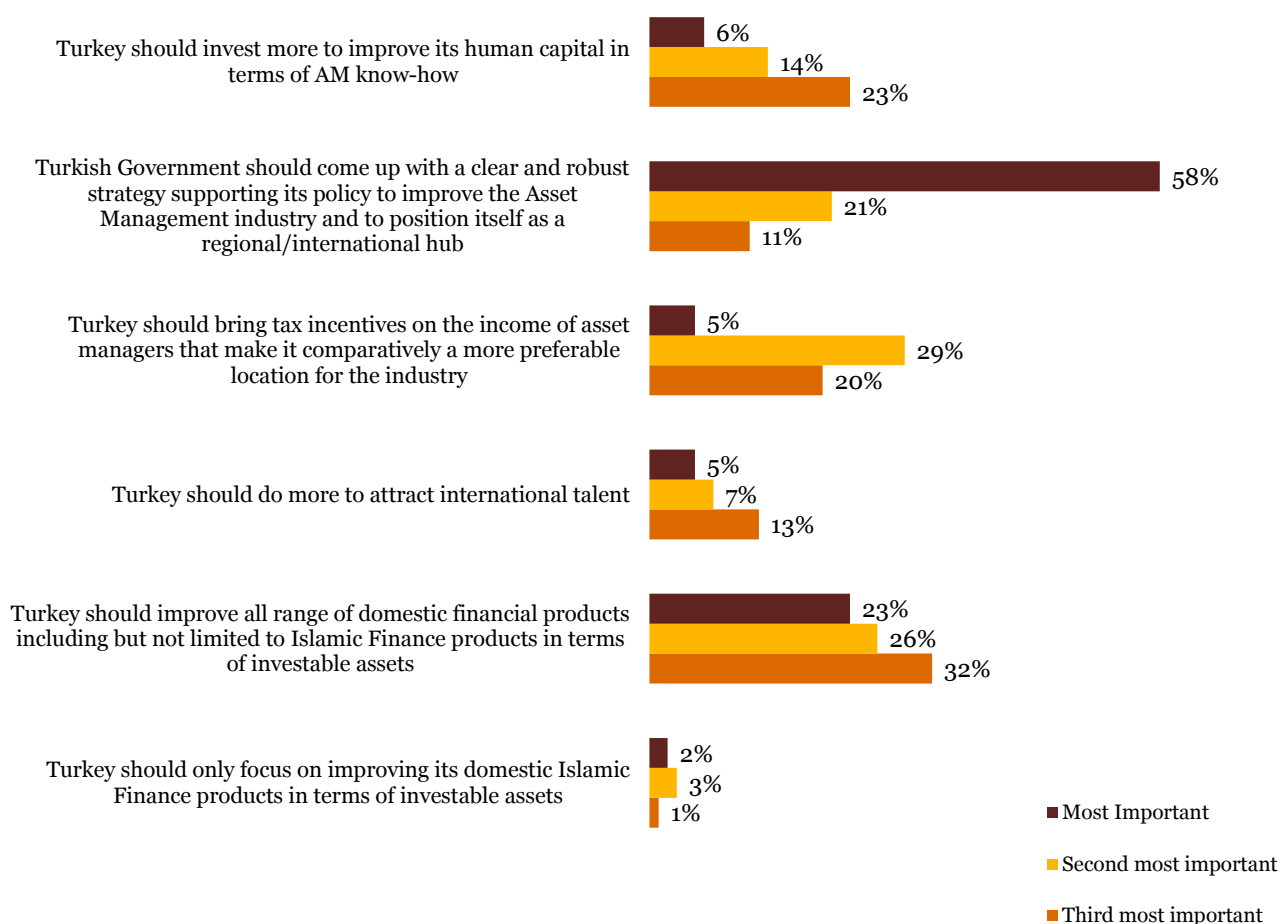
Turkey: Suggested Areas for Improvement

Most sector representatives believe that focusing only on improving domestic Islamic financing would have a minor impact on improving the Turkish AM industry and positioning Turkey as a regional/international hub.

Instead, respondents overwhelmingly suggest that first a clear and robust government strategy to improve the AM industry is needed. 58% of the respondents note this as the top priority for improving and positioning the Turkish AM industry as a regional/international hub. Next is the need to improve the entire range of domestic financial products in terms of investable assets, including but not limited to, Islamic finance products; this is indicated as a top three priority by 81% of the respondents. The third most significant

change Turkey can make according to respondents is to provide tax incentives for the income of asset managers so that the country is a preferred location. The importance of investing in human capital in terms of AM know-how, and adopting measures to attract international talent are ranked fourth and fifth, respectively. Last on the list of suggestions is exclusive focus on improving domestic Islamic finance products in terms of investable assets, which was marked as a priority by only 5% of respondents.

Figure 26: Improvement areas



The major role of the TWF should be supporting the Turkish AM industry by giving external mandates and improving the governance standards of state-owned assets.

We asked respondents their perceptions of the importance of the potential strategic objectives of the TWF. Overall, they stated from their perspective that the most important function of the TWF would be to support development of the Turkish AM industry by giving mandates to Turkish asset managers, a position also held by almost all sector representatives that we interviewed in the UK. This	was closely followed in importance by improving governance standards of state-owned assets. In terms of the effective management of TWF assets, 51% of respondents state the governance mechanism should be designed in a way that gives the majority of the mandates for AuMs to private asset managers to manage the fund, while also creating an in-	house AM team. However, 30% of the respondents stated that for effective management, mandates should be provided exclusively to private asset managers with no in-house management team. The least important function of the TWF according to participants in all geographies is to increase the domestic use of Islamic finance instruments.
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Figure 27: Which of the following strategic objectives should the TWF primarily serve, in order of importance?

Most important

- Support development of the Turkish asset management industry by giving mandates to Turkish asset managers
- Improve the governance standards of state-owned assets
- Stabilise the domestic markets to protect against price volatility and externalities
- Support large government infrastructure projects
- Support domestic companies in strategic industries such as defense, aviation, gas, and software
- Invest in strategic sectors abroad such as petroleum and natural gas
- Increase the domestic use of Islamic finance instruments

Least important

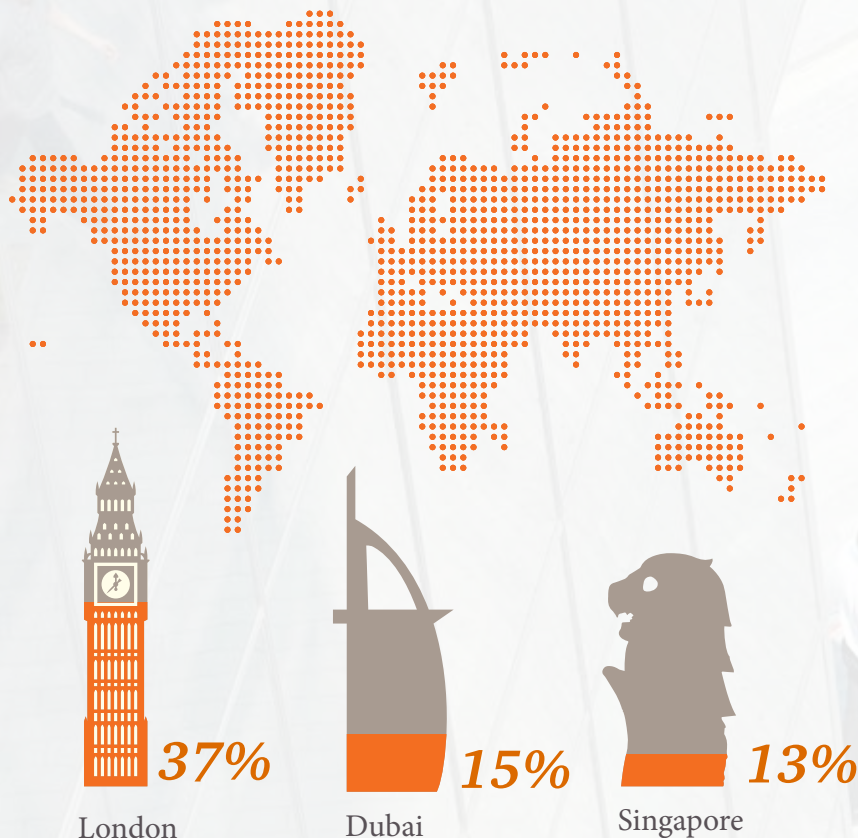
Turkey: Suggested Areas for Improvement

According to 37% of global respondents, London represents the best benchmark for the growth of the fintech landscape in Turkey

London was selected more than any other hub by participants based in Turkey (37%) and participants based in the UK (52%). For AM professionals in Turkey, Dubai comes in second (18%), followed by Singapore (13%). For participants based outside Turkey and the UK, Singapore is the most cited answer at 29%, followed by London and Dubai (14% each).

Hence, participants' emphasis on the untapped bilateral cooperation potential between UK and Turkey in AM industry also holds true for the FinTech landscape. Suggested partnership models and mechanisms between UK and Turkey to enhance the Turkish AM industry (academic collaboration, governance system emulation, secondment of Turkish professionals, increased private sector interaction, establishing a partnership project team etc.) should therefore be evaluated for their applicability to FinTech landscapes of the two countries as well.

Figure 28: Which financial hub presents the best benchmark for Fintech landscape growth in Turkey?





Conclusion

The survey and in-depth interview results presented in this report have strong implications for the future of the Turkish AM industry. Sector professionals overwhelmingly perceive the Turkish AM industry to be performing significantly below its potential, which indicates significant room for growth. So, the important takeaways are the steps that should be taken to unlock the sector's potential.

Lack of predictability was noted as the most important underlying reason for the underperformance of the Turkish AM industry. Following from this, for the sector to thrive in Turkey respondents stress the need for political and economic stability, increased government support for the Turkish AM industry demonstrated by a robust and clear strategy, a stronger legal infrastructure, and the development and implementation of policies to attract more domestic investor savings in financial markets. 42% of asset managers who currently do not have an operating presence in Turkey state they may very well consider investing in Turkey if such changes occur.

In terms of internal dynamics, the recent changes that are expected to contribute most to the AM industry in the near future are the establishment of the TWF, the introduction of an auto-enrolment system for private pensions, and changes brought by the new Capital Markets Law. These developments greatly enhance Turkey's competitiveness with the countries we compared it to. Currently, 63% of respondents envision having a future presence in Turkey as a hub for a regional/international client base. Because 58% of all participants believe that to strengthen the AM industry and position Turkey as a regional/international hub the government should clarify its strategy, strong, clear messages from the government and robust short-, medium-, and long-term plans are sure to have a game-changing effect.

According to the experts, the UK's potential contributions to the Turkish AM industry would have considerable impact in multiple areas. Almost all participants believe a UK/Turkey partnership would support the development of the Turkish AM industry. Bilateral cooperation is recommended not only between governments but also between private sector representatives.

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