



# TURKISH CAPITAL MARKETS 2018 ANNUAL REVIEW

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# FINANCIAL MARKETS OUTLOOK

Turkey has the 19<sup>th</sup> largest economy in the world with a population of 82 million and a diversified business sector. With well-functioning capital markets characterized by high liquidity and a diverse financial product base, Turkey continues to be a leading local financial powerhouse in its region.

Similar to continental Europe, Turkey has historically relied on its sound banking system to finance its growth and development. The Turkish administration is now taking steps to boost and intensify the capital markets in an effort to position Istanbul as a global financial center. Key regulatory reforms have been introduced in 2013, aligning Turkish capital market regulation with the European Union acquis. In addition, the Turkish government took action in order to establish a sovereign wealth fund in August 2016. The Fund will be active in both national and international primary and secondary markets and is expected to contribute to Turkey's long-term growth by diversifying and deepening the capital markets.

Borsa Istanbul's equity market, established in 1985, reached a market capitalization of TRY 795 billion (USD 149 billion) and a daily trading volume of TRY 8 billion (USD 1.7 billion) as of 2018, ranking 52<sup>nd</sup> and 22<sup>nd</sup> in the world respectively. There are 376 listed companies in the market and stocks, ETFs, warrants, certificates and real estates funds are traded in the equity market. The market turnover ratio, calculated as equity trading volume over the market capitalisation, is extremely high with 281% as of 2018, ranking 4<sup>th</sup> among the global equity markets.

Borsa Istanbul also has a vibrant debt securities market since its establishment in 1991

together with government and corporate bonds, asset-backed securities, Islamic bonds, and Eurobonds. The size of the daily bond trading in 2018 is TRY 2.7 billion (USD 575 million). This figure includes OTC transactions conducted outside of the exchange.

The corporate bond market in Turkey is relatively new. Falling interest rates and a more stable economic environment following the measures undertaken against the ramifications of the 2008-2009 global financial crises led to a proliferation of corporate bonds in the Turkish debt markets. As of end-2018, there are 611 corporate bonds listed at Borsa Istanbul and the value of corporate bonds outstanding is TRY 72 billion (USD 14 billion).

Established in 2005 and merged into Borsa Istanbul in 2013, futures and options on stocks, indices, gold, currencies, and commodities are also available at Borsa Istanbul. Daily futures trading volume rose to TRY 5 billion (USD 1 billion) at the end of 2018, ranking 24<sup>th</sup> in the world.

The financial assets pool in Turkey amounted to TRY 3.2 trillion (USD 602 billion), 14% of which belongs to foreign investors. 45% of international investors' holdings are in stocks whereas this ratio stands at only 4% for domestic investors.

The fund industry in Turkey has been growing steadily over the years. Total assets managed by asset management companies stands at TRY 173 billion (USD 33 billion) as of end-2018. The CAGR was 20% (in Turkish lira terms) between 2015-2019.

Most of the growth emanates from the increase in the private pension funds' assets. The private pension system was passed into

law in 2001 and went live in 2003. The system was the first of its kind in Turkey to provide a framework for the general population in order to facilitate long-term investing opportunities via mutual funds. There are currently 6.9 million enrollees in the system with assets measuring TRY 88 billion (USD 17 billion).

The Turkish government later introduced an auto-enrolment scheme within the context of private pension system in 2017, covering both private and public sector employees with the intention of boosting domestic

savings and providing participants with additional income upon retirement. The system went live in January 2017 and initially covered private sector companies with 100+ employees and most public sector employees whereas it expanded to cover all employees and companies by the end of 2018. As of end-2018, there are roughly 5 million enrollees in the auto-enrolment scheme with AUM totaling TRY 5 billion (USD 900 million). Please note that entering auto-enrolment is mandatory, although employees may opt out later should they choose not to remain in the system.

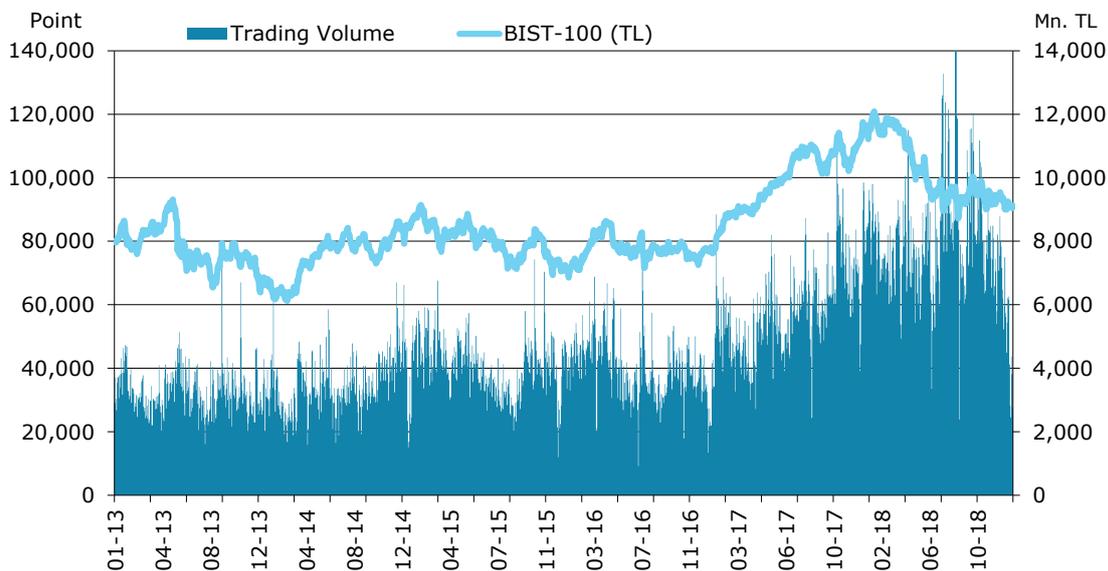
## EQUITY MARKET IN 2018

Turbulence in the international markets added onto the turmoil in the Turkish economy forced a negative impact on the Turkish equity market in 2018.

Growth of the world economy from 2017 onwards in line with the central banks' continuous hawkish stance preserved the rising

trend in the international equity markets. On the other hand, amidst fears of emerging protectionist measures around the world, international indices began to slide starting with the second half of the year.

**Figure 1: Stock Trading Volume and BIST-100**



Source: Borsa İstanbul

Financial markets maintained their relative stability in 2018. Turkish Central Bank partially reined in, keeping the Turkish lira's

value balanced by increasing interest rates in the second half of the year.

BIST-100, Turkey's major equity index, began the year around 115,000. However, the index fell down to 87,000 in August 2018. In the ensuing period, Turkish Central Bank's

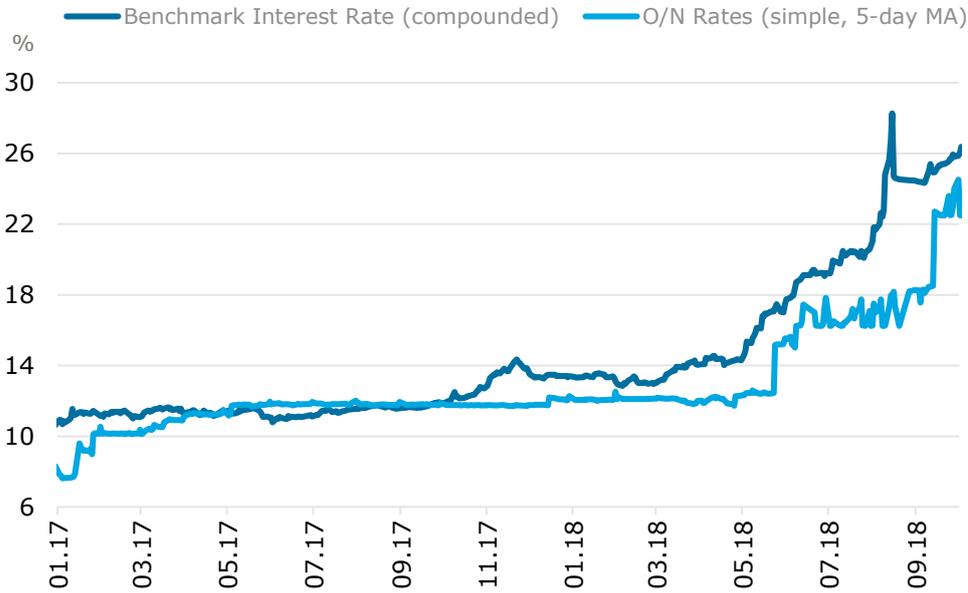
restrictive stance on monetary policy in addition to Fed's postponement of interest rate hikes resulted in BIST-100 Index's descent of 21% to 91,270 at the end of the year.

## FIXED INCOME MARKET IN 2018

As a consequence of Central Bank's restrictive policies to curb the rising inflation, volatility in the exchange rates and rambling slowing global economy, the interest rates in

the interbank money markets and Borsa Istanbul's repo market rose from 12% to 25%. Similarly, the benchmark interest rate started the year with 13%, reached 27% in September and ended the year around 20%.

**Figure 2: Interest Rates**



Source: Borsa İstanbul



# BROKERAGE COMPANIES

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## BROKERAGE ACTIVITIES

Under fluctuating market conditions, trading volumes in equities, futures and warrants have increased significantly in 2018. On the other hand, bonds and bills transactions remained stagnant, while and repo-reverse repo transactions decreased by 9%.

In the fixed income market, figures represent the sum of public and corporate bonds and

bills traded at Borsa İstanbul and OTC markets. The transactions by the Central Bank and Takasbank, Turkey's sole clearing and settlement bank, have been excluded from the table.

Table 1 shows double-sided trading volumes for all markets.

	2017	2018	% Change
<b>Equity</b>	<b>2,918,100</b>	<b>3,955,750</b>	<b>35.6%</b>
Brokerage company	2,755,434	3,594,678	30.5%
Bank	162,666	361,072	122.0%
<b>Fixed income</b>	<b>1,223,271</b>	<b>1,290,436</b>	<b>5.5%</b>
Brokerage company	195,813	193,603	-1.1%
Bank	1,027,407	1,096,833	6.8%
<b>Repo</b>	<b>7,354,019</b>	<b>6,665,865</b>	<b>-9.4%</b>
Brokerage company	1,177,446	1,141,689	-3.0%
Bank	6,176,573	5,524,176	-10.6%
<b>Futures</b>	<b>1,658,416</b>	<b>2,498,897</b>	<b>51.8%</b>
Brokerage company	1,627,695	2,424,494	49.0%
Bank	30,721	74,403	203.1%
<b>Options</b>	<b>67,534</b>	<b>48,675</b>	<b>-27.9%</b>
Brokerage company	30,633	17,688	-42.3%
Bank	36,901	30,987	-16.0%
<b>Warrants*</b>	<b>17,902</b>	<b>30,843</b>	<b>72.3%</b>
<b>Forex*</b>	<b>8,578,418</b>	<b>9,705,054</b>	<b>13.1%</b>
Client	4,666,771	4,493,825	-3.7%
Liquidity provider	3,911,647	5,211,229	33.2%

Source: Borsa İstanbul, TCMA

\*Authorized only for brokerage companies

## EQUITIES

In 2018, 54 brokerage companies and 1 investment bank traded in the equities market. The transaction volume increased by 36% compared to the end of 2017, reaching a total trading volume of TRY 4 trillion. However, sector concentration remains high as the market volume of the first 5 institutions, including the investment bank constitutes 46% of the total market volume.

According to data, compiled from the brokerage companies and an investment bank conducting securities transactions, domestic investors' equity trading volume increased by 28% whereas foreign investors' transactions doubled y-o-y whereas foreign investors' equity trading share remained at 29%.

Although 62% of the stock trading volume was generated by domestic investors in 2018, according to the Central Registry Agency records, these investors own only 19% of the traded stocks.

At the end of the year, domestic institutional investors' share in outstanding equities was 10% while only 2% of the total volume was generated by these investors. In terms of foreign investors, greatest volume was generated by foreign companies, with a share of 26%.

In Table 5, the breakdown of transaction volumes are displayed department wise. Accordingly, internet has been a favorite medium in trading for investors, as it accounted for 41% of all equity trading volume. Starting from 2018, direct market access (DMA) breakdown has been collected for the first time. This channel has been frequently used by foreign

institutional investors engaging in algorithmic and high-frequency trading. Before 2018, these transactions had been mostly classified under internet and/or the international sales and marketing department. The share of direct market access of institutions was 11%.

It can be stated that the business models in financial markets have been evolving with technological developments. The share of internet and direct market access channels together constituted 52% of total equity market volume at the end of 2018. While domestic individual investors preferred the internet, direct market access (DMA) channel has been frequently used by foreign institutional investors.

The branch network constitutes 16% of total transaction volume, great extent of this volume is created by brokerage companies' own branches.

**Table 2: Breakdown of Trading Volume by Investors (2018)**

	Equity	Fixed Income	Repo	Futures	Options	Warrants	Forex
Dom. Individuals	62.2%	5.0%	12.3%	52.9%	62.8%	42.6%	44.4%
Dom. Corporations	6.8%	28.8%	12.4%	9.0%	23.2%	36.3%	55.4%
Dom. Institutional	2.0%	65.4%	74.7%	5.2%	5.3%	0.0%	0.0%
<b>Domestic investors</b>	<b>71.0%</b>	<b>99.2%</b>	<b>99.5%</b>	<b>67.0%</b>	<b>91.3%</b>	<b>78.9%</b>	<b>99.8%</b>
Foreign individuals	0.2%	0.0%	0.1%	0.3%	1.0%	0.0%	0.2%
Foreign corporations	26.3%	0.5%	0.1%	30.3%	7.7%	21.1%	0.0%
Foreign institutional	2.4%	0.2%	0.3%	2.3%	0.0%	0.0%	0.0%
<b>Foreign investors</b>	<b>29.0%</b>	<b>0.8%</b>	<b>0.5%</b>	<b>33.0%</b>	<b>8.7%</b>	<b>21.1%</b>	<b>0.2%</b>
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: TCMA

## FIXED INCOME

Banks and brokerage companies are authorized to execute trades at the Borsa İstanbul Fixed Income Market. In 2018, the trading volume of the investment institutions (including off-exchange transactions reported to Borsa İstanbul) increased slightly to TRY 1.3 trillion. The share of brokerage companies in these transactions was 15%. Meanwhile, repo / reverse-repo transactions (including off-exchange transactions reported to Borsa İstanbul) decreased to TRY 6.7 trillion.

In 2018, 39 brokerage companies and 42 banks traded in the outright purchase and sales market.

The following analysis includes only brokerage companies and one investment bank, as stated above. Half of the transactions have been executed by 3 brokerage companies.

Almost all transactions executed by investment companies were generated by domestic

investors. Domestic corporate investors accounted for 65% of the total transaction volume, while domestic institutions accounted for 29%. A significant part of the transactions carried out by domestic institutions arose from proprietary trading of the brokerage companies.

Domestic sales department and branches together form 45% of total fixed income transactions volume. International sales department accounts for 15% of total fixed income

transactions set by one brokerage company who has executed domestic institutional investors' order via international sales department.

In the repo market, nearly all trading volume of investment companies has been generated by domestic investors. Institutional investors, representing mutual funds and investment trusts, generated 75% of total repo transactions.

## FUTURES

In 2018, total trading volume of futures generated by 54 brokerage companies and 8 banks increased by 52%, compared to the end of 2017 and reached TRY 2.5 trillion. The high volatility in the financial instruments prices contributed to the increase in futures volume. In addition, the Central Bank of Turkey began trading on foreign exchange futures contracts in Borsa Istanbul as of end-August.

Underlying	2017	2018
Indices	65.8%	56.1%
Currencies	31.3%	38.2%
Other	2.8%	5.7%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Source: Borsa Istanbul

Index futures constitute the major part of futures transactions. However, their share has declined by 10 percentage points in 2018 to 56%, while the share of FX contracts rose to 38% from 31%.

## OPTIONS

In 2018, 37 brokerage companies and 6 banks generated a total trading volume of TRY 49 billion in the Borsa Istanbul options market. The decline which has started in the second half of 2017 continued through 2018.

According to data gathered from brokerage companies and the investment bank, the trading volume of half of the total futures' volume has been executed by the top 5 companies.

Parallel to the equities, the market share of the domestic individual investors remains high as they constitute 53% of total futures volume. The share of domestic institutional investors is 5% of the total futures volume which is relatively high, compared to the equity market. Besides, share of domestic corporations which represent mainly proprietary trading constitute 9% of total futures volume.

Internet and direct market access (DMA) have been the most frequently used channels with a share of 20% each. These are followed by the sales and marketing department and the transactions through branches. However, the share of sales and marketing department and branches have decreased compared to 2017.

Underlying	2017	2018
Indices	8.4%	7.8%
Currencies	85.0%	84.5%
Other	6.6%	7.7%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Source: Borsa Istanbul

The breakdown of options trading volume reflected by the underlying instruments did not change substantially in 2018, and FX contracts represent 85% of all options trading volume in 2018.

In 2018, brokerage companies generated a total trading volume of TRY 18 billion. Nearly one-third of these transactions were executed by 2 brokerage companies. In 2018,

63% of the total trading volume of the brokerage companies was generated by domestic individual investors. Foreign investors' share in these transactions remained below 10%.

As illustrated in Table 6, the proprietary trading constitutes 19% of total option volume.

**Table 5: Breakdown of trading volume by departments (2018)**

	Equity	Fixed Income	Repo	Futures	Options	Warrants	Forex
Domestic Sales	9.9%	44.7%	64.7%	14.1%	35.7%	3.5%	15.9%
Branch, Bank Br., Rep. Office	15.5%	13.7%	13.4%	21.0%	26.0%	1.9%	9.0%
Branches	13.5%	3.5%	9.3%	18.3%	22.9%	1.7%	8.6%
Bank Branches	1.5%	10.2%	4.0%	1.5%	3.1%	0.1%	0.3%
Representative Offices	0.5%	-	0.2%	1.2%	-	0.2%	-
Internet	41.1%	0.3%	-	20.1%	10.4%	47.1%	21.5%
Direct Market Access	10.8%	-	-	20.3%	-	-	-
Call Center	0.2%	-	-	0.1%	-	0.2%	-
Asset Management	0.1%	0.8%	0.1%	0.5%	0.1%	-	-
Proprietary Trading	2.7%	25.8%	7.8%	6.6%	19.3%	26.1%	53.7%
International Sales	19.5%	14.7%	14.1%	17.2%	8.5%	21.1%	-
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: TCMA

## WARRANTS

Only brokerage companies are authorized to execute warrant transactions. In 2018, 44 brokerage companies executed warrant transactions mainly for individual investors.

Warrant trading volume increased by 72% y-o-y and reached TRY 30.8 billion. Nearly half

the transactions have been executed through internet, while warrant transaction volume via international sales department only represents one company. Moreover, 60% of the total warrant volume represents top 2 brokerage companies.

## FOREX MARKET

Only brokerage companies are authorized to execute forex transactions. In 2018, 34 brokerage companies offered leveraged forex transactions with the total volume increasing by 13% y-o-y. As a result of the restrictive regulations regarding forex transactions in 2017, FX volume had dropped considerably. Nevertheless, starting from the second quarter of 2018, the transaction volume started to rise.

Clients' leveraged transactions totaled TRY 4.5 trillion in 2018. On the other hand, trading volume with liquidity providers increased by 33%, mainly due to the activities of one brokerage company at the end of the year.

The forex market is highly concentrated where nearly 60% of the clients' leveraged transactions were executed by top 4 brokerage companies.

In 2018, 21% of FX transactions have been executed via internet, while 16% of these transactions were executed by domestic sales

department. Proprietary trading volume reflects transactions with liquidity providers.

## CORPORATE FINANCE

In this section, corporate finance projects carried out by the brokerage companies will be analyzed.

### INITIAL PUBLIC OFFERINGS AND BOND ISSUES

In 2018, brokerage companies completed 9 initial public offerings, raising a total of TRY 5.4 billion. TRY 5.1 billion of this sum reflects the IPO of Şok Marketler, Enerjisa Enerji and MPL Sağlık Hizmetleri A.Ş. Although this amount refers to the highest annual IPO value ever recorded, all of these public offerings took part in the first half of the year.

The secondary public offering of Aselsan also took place in the first half of the year and raised nearly TRY 3 billion.

The number and size of the corporate bonds issues have increased in 2018. The amount

raised through bonds issues increased by 39% compared to 2017, reaching TRY 179 billion.

	2017	2018
<b>Initial public offering</b>		
Number of co.	3	9
Size (mn. TRY)	1,254	5,419
<b>Secondary public offering</b>		
Number of co.	0	1
Size (mn. TRY)	-	-
<b>Corporate bond issuance*</b>		
Number of issues	1,217	1,385
Size (mn. TRY)	130,330	179,121

Source: Borsa İstanbul

\*Public issuance and private placement

### COMPLETED CORPORATE FINANCE PROJECTS

According to the data compiled by our Association, in the year 2018, brokerage companies completed 1,457 corporate finance projects of which 1,216 were bond issues.

While 9 companies went public in 2018, the number IPOs is 11 in Table 5, as those offering were underwritten by multiple companies. Similarly, number of SPOs is stated as 6 in the table as 6 brokerage companies were involved in the secondary public offering of Aselsan.

The merger and acquisition projects completed in 2018 totaled 23 whereas 9 sell-side and 2 buy-side merger projects were completed in 2018. The majority of these projects are subjected to the privatization of state sugar companies.

Other financing activities reflect the projects of one company, intermediating in providing a bank loan from abroad into a public-private partnership. Additionally, 97 other consultancy agreements covering transactions such as valuation, market making, project financing, feasibility analysis, that are generally required by securities issuers, have been completed.

	2017	2018	% Change
Initial public offering	4	11	175%
Secondary public offering	0	6	-
Debt instruments issuance	1,020	1,216	19%
Mergers & acquisitions / buy-side	10	11	10%
Mergers & acquisitions / sell-side	12	12	0%
Private equity	0	0	-
Other financing	1	5	400%
Capital increases	41	47	15%
Dividend distribution	39	41	5%
Privatization/buy-side	1	2	100%
Privatization/sell-side	4	9	125%
Other consultancy	96	97	1%
<b>Total</b>	<b>1,228</b>	<b>1,457</b>	<b>19%</b>

Source: TCMA

## ASSET MANAGEMENT

In Turkey, some brokerage companies provide wealth management services in addition to their traditional brokerage services. The number of brokerage companies, offering asset management services was 18 in 2018.

Although the portfolio size, managed by brokerage companies reached TRY 2.7 billion at the end of September, AUM decreased to TRY 2.1 billion by year-end 2018, reflecting market fluctuations.

As of the end of 2018, 18 brokerage companies provided asset management services to 4,331 individual and corporate investors. However, it should be noted that customers may have accounts in more than one institution.

The sizeable increase in corporate clients' portfolio was mostly derived from one brokerage company. Corporate clients' portfolio is still small, remaining below TRY 500 million at the end of 2018. The portfolio size of the individual investors decreased from over TRY 2 billion in the first half of the year to TRY 1.6 billion at the end of 2018, decreasing by 10% y-o-y.

	2017	2018	% Change
<b>Number of investors</b>	<b>4,085</b>	<b>4,331</b>	<b>6%</b>
Corporates	66	81	23%
Individuals	4,019	4,249	6%
<b>Portfolio size (mn. TRY)</b>	<b>1,902</b>	<b>2,133</b>	<b>12%</b>
Corporates	78	487	524%
Individuals	1,823	1,647	-10%

Source: TCMA

## MARGIN TRADING

Brokerage companies' total loan size in margin trading reached its highest level ever in March 2018 totalling TRY 2.7 billion. In the following quarters, the rise in interest rates and the fall in BIST-100 caused the balance to decrease by 32% to TRY 1.8 billion by the end of the year.

One brokerage company constitutes one over five of the total loan size. Top 10 brokerage companies constitute nearly three fourths of the total loan size.

As the number of investors served was 12.101 at the end of 2018, the average loan volume per investor fell to TRY 150,666 TRY from TRY 212,973 at the end of March 2018.

The average loan per investor ranges between TRY 13,500 and TRY 1.4 billion throughout the brokerage companies.

It is necessary to note that a client may have more than a single account at multiple brokerage companies. Moreover, the credit balance does not include companies that provide credit through banks.

	2017	2018	% Change
<b>Loan size (million TRY)</b>	<b>2,122</b>	<b>1,823</b>	<b>-14%</b>
Number of margin trading investors	10,670	12,101	13%
Average loan per investor (TRY)	198,878	150,666	-24%

Source: TCMA

## BRANCH NETWORK

In order to provide service to their customers, other than their headquarters, brokerage companies use their own branches and representative offices in addition to bank branches. Branches and representative offices are owned and staffed under the authority of the brokerage companies. As of the end of 2018, 39 brokerage companies have branch networks.

Following the FX regulation that entered into force in the first quarter of 2017, companies started to close their representative offices. In 2018, 12 branches were established by 7 companies whilst 14 branches were closed by 5 companies. In addition, 3 institutions established 8 representative offices though one institution closed 2 representative offices, increasing the total number of representative offices by 6.

While bank-owned brokerage companies work with their group banks' branches in order transmission or customer services, an independent brokerage company has signed an intermediation contract with various banks for order transmission. The number of bank branches is 8,728 at the end of 2018.

	2017	2018
Branches	291	289
Rep. offices	40	46
Bank branches	8,392	8,393
<b>Total</b>	<b>8,723</b>	<b>8,728</b>

Source: TCMA

Branches constitute a significant portion of trading volume for many financial products. Although some brokerage companies have signed an order transmission contract with banks, these branches have only been involved in reaching customers. Similarly, some liaison offices only involve in advertising activities but do not transmit orders.

## EMPLOYEES

The number of employees at the brokerage companies had decreased drastically due to the FX regulations which entered into force in February 2017. However, employment started to recover starting from the last quarter of 2017. At the end of 2018, the total number of employees in the sector including 62.

	2017	2018	% Change
Female	1,940	2,082	7%
Male	2,811	2,834	1%
<b>Total</b>	<b>4,751</b>	<b>4,916</b>	<b>3%</b>

Source: TCMA

The company with the highest increase in number of employees has been GCM Investment where the number rose to 231, from 149 in 2017. Deniz Investment, on the other hand, recorded the highest decrease (56 people) in the number of personnel.

In terms of departmental breakdown, the number of personnel employed at the branches recorded the highest increase (137 people) in the year 2018.

There is a higher concentration of the employment in branches and representative offices, domestic sales, and administrative

affairs departments as 59% of the total employees work in these three departments.

As illustrated in Table 12, the average number of personnel increased from 73 in 2017 to 78 in 2018. The average number of personnel is the highest in the domestic sales department with 15, while the number of personnel has increased from 607 to 689 in 2018.

You may access extensive data on personnel age, sex, experience, and educational levels at [www.tcma.org.tr/en](http://www.tcma.org.tr/en).

	# of Employees		Average # of Employees	
	2017	2018	2017	2018
Branches & bank branches	1,547	1,684	5	5
Branches	1,345	1,354	5	5
Bank branches	202	330	5	7
Domestic sales	607	689	14	15
Broker	84	88	2	2
Dealer	228	232	7	7
International sales	145	166	6	6
Treasury	124	131	4	4
Portfolio management	35	31	2	2
Corporate finance	129	142	4	4
Research	175	178	4	3
Financial & administrative affairs	647	664	10	10
Internal audit	177	196	3	3
Human resources	65	79	2	2
Information technology	243	247	4	5
Other	545	389	9	10
<b>Total</b>	<b>4,751</b>	<b>4,916</b>	<b>73</b>	<b>78</b>

Source: TCMA

\*Including an investment bank.

## FINANCIALS

In addition to the financial statements released to the public, TCMA compiles additional data from the brokerage companies for analysis purposes. There may be minuscule differences in the aggregate values of data obtained from public sources and the data compiled proprietarily by the TCMA. This analysis focuses on the latter as this data provides more standardized and clear information on the brokerage companies.

Merrill Lynch Brokerage transformed into the Merrill Lynch Investment Bank in 2018. In this regard, we now included Merrill Lynch's data in our report starting with the first quarter of 2018. It is important to note that 2017 figures do not include Merrill Lynch's data.

Illustrated in Table 13, the total assets of the brokerage companies decreased by 5% y-o-y to TRY 22 billion with the fall in cash and cash equivalents and short-term trade receivables. Excluding Merrill Lynch data, which is not included in previous years' figures, brokerage companies' total assets decreased by 7%. The industry has a liquid balance sheet with TRY 20 billion in current assets.

Of the total assets, TRY 11 billion are accounted as cash and cash equivalents and TRY 6 billion are short term trade receivables.

<b>Table 13: Balance Sheet (million TRY)</b>			
	<b>2017</b>	<b>2018</b>	<b>Change</b>
<b>Current assets</b>	<b>21,863</b>	<b>20,302</b>	<b>-7.1%</b>
Cash and cash equivalents	12,245	11,004	-10.1%
Financial assets (short-term)	1,616	1,770	9.6%
Trade receivables (short-term)	7,100	6,240	-12.1%
Others	902	1,287	42.7%
<b>Non-current assets</b>	<b>1,194</b>	<b>1,576</b>	<b>32.0%</b>
Financial assets (long-term)	743	896	20.7%
Others	451	680	50.6%
<b>Total assets</b>	<b>23,057</b>	<b>21,878</b>	<b>-5.1%</b>
<b>Short-term liabilities</b>	<b>18,185</b>	<b>14,564</b>	<b>-19.9%</b>
Financial liabilities (short-term)	11,634	8,251	-29.1%
Trade payables (short-term)	6,094	5,526	-9.3%
Others	457	786	71.9%
<b>Long-term liabilities</b>	<b>146</b>	<b>1,152</b>	<b>690.6%</b>
<b>Equity</b>	<b>4,726</b>	<b>6,162</b>	<b>30.4%</b>
Paid-in capital	2,313	2,444	5.7%
Adjustments on equity	253	246	-2.6%
Shares premiums/discounts	10	8	-12.7%
Non-classified to profit or loss	179	307	71.6%
Income or expenses classified to P/L	551	613	11.3%
Retained profit/Loss	621	1,201	93.3%
Net profit/Loss	799	1,343	68.0%
<b>Total liabilities</b>	<b>23,057</b>	<b>21,878</b>	<b>-5.1%</b>

Source: TCMA

In 2017, 37% of brokerage companies' assets were denominated in foreign currency. This figure decreased to 20% in September and later rose to %35 by the end of 2018. This fluctuation is attributable to the Turkish lira's slump vis-à-vis hard currencies in the second half of 2018. On the other hand, foreign currency denominated liabilities make up less than %10 of total liabilities of brokerage companies. These liabilities stood at 5% in 2017 whereas rose to 8% as of the end of 2018.

Other short-term current assets' considerable increase compared to last year's is attributable to the rise in deposits and collateral.

Brokerage companies transfer funds, raised through money markets, to deposits. In the last quarter of 2018, parallel to the rising interest rates, brokerage companies borrowed less from money markets, resulting in the deposits decreasing by TRY 740 million.

Growth in the long-term liabilities is attributable to one brokerage company's long-term loan obtained from its foreign subsidiary.

Illustrated in Table 14, repo and deposits of TRY 12 billion make up the largest portion of brokerage companies' short-term assets consisting of cash and cash equivalent together with short term financial assets.

Brokerage companies' short-term assets decreased by 10% y-o-y to TRY 11 billion. The most important reason for this is the fall in repo and deposits. Two brokerage companies refrained from their usual tendency of borrowing short term to invest in deposits which resulted in a 12% fall in repo and deposits. As of the end of 2018, brokerage companies' repo and deposits stand at TRY 10.5 billion. Corporate bonds and bills portfolio increased by 30% y-o-y to TRY 810 million.

<b>Financial Instruments</b>	<b>2017</b>	<b>2018</b>	<b>Change</b>
Repo & deposits	11,941	10,555	-11.6%
Government bonds & treasury bills	231	280	21.1%
Corporate bonds & bills	621	810	30.4%
Equities	489	418	-14.3%
Other	275	262	-4.6%
<b>Total</b>	<b>13,556</b>	<b>12,325</b>	<b>-9.1%</b>

Source: TCMA

Going back to Table 13, brokerage companies' total liabilities of TRY 15 billion consist of TRY 8 billion short term financial liabilities and TRY 6 billion short term trade payables, reflecting collateral posted by brokerage companies for securities and settlement positions.

Short term liabilities comprise TRY 5 billion money market debt, TRY 3 billion fixed income instruments, TRY 440 million bank loans. Money market debt fell by TRY 2.5 billion compared to the previous year.

Brokerage companies' short-term borrowings via fixed income instruments decreased by TRY 911 million in 2018 compared to last year.

Although the number of brokerage companies decreased from 66 to 63, the total shareholders' equity rose by 30% to TRY 6.2 billion. TRY 401 million is due to Merrill Lynch Investment Bank which is included in the 2018 figures and excluded in 2017.

## INCOME STATEMENT

In 2018, brokerage companies' revenue grew by 42% y-o-y to TRY 3.6 billion. The significant increase in the total revenue is attributable to the rise in the trading volume as well

as the surge in interest income and other income (depository services, other advisory income).

	2017	2018	Change
Brokerage commissions	1,435	1,925	34.1%
Proprietary trading	302	343	13.6%
Corporate finance	240	323	34.4%
Asset management	47	59	25.4%
Customers' interest	332	585	76.1%
Other	153	321	109.7%
<b>Total</b>	<b>2,510</b>	<b>3,557</b>	<b>41.7%</b>

Source: TCMA

In 2018, brokerage commissions construct make up 54% of all revenues. This figure increased by 34% y-o-y.

from these transactions fell even further, depressing the effective average commissions in comparison with 2017.

Illustrated in Table 16, the revenue from equities trading rose by 42% in 2018 whereas the value of equities trading rose by %47.

In 2018, commissions from derivative trading rose by 42% to TRY 308 million with the increase of 53% in the value of derivatives trading.

The industry's effective average equity commission is 0.0317% whereas this figure is 0.0127% for derivatives.

Forex trading volume with clients (excluding the company's' proprietary trading) increased 15% y-o-y in 2018 whereas revenue generated through forex transactions rose by 13%.

In the last quarter of 2018, both the value of equity and derivative trading declined compared to the previous year. The commissions

	2017	2018	Change
Equities	861	1,218	41.5%
Derivatives	217	308	42.0%
Fixed income	22	27	24.4%
Foreign securities	45	44	-3.9%
Forex	290	328	13.1%
<b>Total</b>	<b>1,435</b>	<b>1,925</b>	<b>34.1%</b>

Source: TCMA

Revenues from the brokerage companies' corporate finance activities increased by 34% in 2018 to TRY 323 million. Illustrated in Table 17, corporate bond and IPO revenues rose by 57% y-o-y to TRY 244 million.

activities. Two-thirds of all corporate finance revenue generated this year has been earned in 1H2018.

The turbulent economic conditions during the second half of 2018 severely reduced the income generated by the corporate finance

Two companies specializing in mergers & acquisition transactions cover %70 of the industry's total revenue at TRY 39 million in

2018. One brokerage company specializing in other advisory- related corporate finance activities generated TRY 20 million this year.

**Table 17: Breakdown of Corporate Finance Revenues (million TRY)**

	2017	2018	Change
Initial public offering	155	244	56.9%
Mergers & acquisitions	58	39	-32.8%
Other capital increases	-	20	-
Corporate actions	2	4	102.4%
Others	8	16	95.7%
<b>Total</b>	<b>224</b>	<b>323</b>	<b>44.3%</b>

Source: TCMA

Going back to Table 15, interest income of the clients rose by 76% to TRY 585 million as a result of increasing interest rates. This is a direct result of the steep rise in clients' credit balance in the first quarter and rising interest rates in the second quarter.

Brokerage companies provide discretionary asset management services to individuals and corporate clients. Due to the increase in the assets under the management, companies' income rose by 25% to TRY 59 million.

The increase of 110% under the other income in Table 15 is attributable to one brokerage company's income from the advisory and market research services provided to its parent company abroad.

Illustrated in Table 18, brokerage companies' aggregate expenses rose by 23% to TRY 2.2 billion in 2018. Marketing, sales, distribution, and R&D TRY 388 million of all expenses. 64% of TRY 388 million constitutes exchange payments, settlement and custody services related to equity, fixed income and derivatives trading.

57% of administrative expenses is salaries and fringe benefits. The industry employs 4,916 personnel and the average personnel expense in 2018 rose by 25% to TRY 17,851. Total personnel expense increased by 17% to TRY 1 billion compared to last year.

**Table 18: Breakdown of Expenses (million TRY)**

	2017	2018	Change
<b>Marketing, sales, distribution and R&amp;D</b>	<b>308</b>	<b>388</b>	<b>26.1%</b>
Trading commissions paid to exchanges	191	279	46.0%
Other marketing, sales, distribution, and R&D	117	109	-6.5%
<b>Administrative</b>	<b>1,479</b>	<b>1,817</b>	<b>22.9%</b>
Salaries and fringe benefits	883	1,034	17.1%
Depreciation expenses	42	47	11.8%
Depreciation expenses on intangible assets	6	10	70.0%
Membership fees and contributions	11	13	13.9%
Commissions and other service charges	32	42	34.6%
Taxes and other legal dues	68	105	54.3%
Other administrative expenses	437	565	29.5%
<b>Total</b>	<b>1,786</b>	<b>2,205</b>	<b>23.4%</b>

Source: TCMA

Gross income rose by 42% y-o-y to TRY 3.6 billion as a result of the increase in interest gain from the clients and other income.

Illustrated in Table 19, the operating income increased by 84% to TRY 1.4 billion due to the limited growth in expenses compared to revenues.

<b>Table 19: Income Statement (million TRY)</b>			
	<b>2017</b>	<b>2018</b>	<b>Change</b>
Sales revenues (net)	149,028	163,040	9.4%
Cost of sales	-146,518	-159,484	8.8%
<b>Gross profit/loss</b>	<b>2,510</b>	<b>3,557</b>	<b>41.7%</b>
Marketing, sales & distribution expenses	-307	-388	26.1%
Administrative expenses	-1,479	-1,817	22.9%
Research & development expenses	0	-0.6	33.9%
Other operating income	287	628	118.8%
Other operating expenses	-237	-558	135.5%
<b>Operating profit/loss</b>	<b>774</b>	<b>1,422</b>	<b>83.8%</b>
Income from investment activities	7	4	-46.3%
Expenses from investment activities	0	0	-93.4%
Profit/loss from participations	15	14	-4.0%
<b>Profit/loss before tax from fin. expenses</b>	<b>796</b>	<b>1,440</b>	<b>81.0%</b>
Financial income	1,338	2,134	59.5%
Financial expenses	-1,158	-1,881	62.5%
<b>P/L before tax from cont. operations</b>	<b>976</b>	<b>1,692</b>	<b>73.4%</b>
<b>Cont. Operations tax income / expense</b>	<b>-177</b>	<b>-350</b>	<b>97.5%</b>
Current tax income / expense	-137	-371	171.3%
Deferred tax income / expense	-40	21	-153.1%
<b>Profit /loss from continuing operations</b>	<b>799</b>	<b>1,343</b>	<b>68.0%</b>

Source: TCMA

Profitability fell sharply in the last quarter of 2018. Parallel to the turbulence in the economy in the fourth quarter of 2018, brokerage companies' operating profit dropped down to TRY 264 million, 31% below of last year's average quarterly operating profit. The decline in operating profits is mainly attributable to the losses originating from the exchange rates. As a result of the volatility in the exchange rates in the last quarter of 2018, the increase in financial expenses surpassed that of financial income whereas, profits before taxes decreased sharply to TRY 190 million on a quarterly basis.

Despite the significant plunge in 4Q2018, net financial profits rose by 40% to TRY 252 million on an annual basis, due to the increase in deposits as a result of the rising interest rates.

In conclusion, brokerage companies' profits increased by %68 to TRY 1.3 billion with rising income from operations.

<b>Table 20: Profitability of Brokerage Companies</b>		
	<b>2017</b>	<b>2018</b>
<b># of companies</b>	<b>65</b>	<b>63</b>
# of companies with profits	54	53
# of companies with losses	11	10
<b>Net profit (million TRY)</b>	<b>799</b>	<b>1,343</b>
Total profit (Million TRY)	818	1,366
Total losses (Million TRY)	-19	-23
<b>Profitability</b>	<b>32%</b>	<b>38%</b>
<b>Return on equity</b>	<b>18%</b>	<b>19%</b>

Source: TCMA

\*Net Profit/Gross Profit

Investment, and Deniz Investment) roughly half of the industry's revenue. Of the 62 brokerage companies and one investment bank, 53 turned a profit in 2018. The ROE of the industry rose by 1 percentage point in 2018 compared to the previous year's figure of 19%.



# ASSET MANAGEMENT COMPANIES

Onur Salttürk

Turkish Capital Markets Association collects and analyzes the asset management industry's data on a quarterly basis.

In this report, we will review the mutual and pension funds' portfolio sizes, employee

statistics and the asset management companies' financial statements respectively. More information on datasets can be accessed at [www.tspb.org.tr](http://www.tspb.org.tr).

## ASSET MANAGEMENT

Asset management companies' main activity is to establish and manage funds. Aside from managing investment funds, pension funds and investment trusts, asset management companies' also provide discretionary asset management services for individuals and corporations.

There are 54 asset management companies operating as of December 2018. One of these companies is managing assets conjointly with a financial company domiciled abroad hence has no direct assets under management. Four other asset management companies have just started operations. As a result, 49 companies had assets under management in 2018.

Asset management companies are classified as 'restricted' and 'unrestricted' as per the applicable regulations. Restricted companies are confined to managing solely real estate and venture capital investment funds.

The number of asset management companies has been on an uptrend. This is largely due to the rise in the real estate and venture capital asset management companies, which are required to have more relaxed minimum capital requirements. In the year 2018 alone, 4 alternative asset management companies initiated their operations. As of the end of 2018, there are 10 real estate and venture capital asset management companies.

	Number of Companies	Number of Funds/Clients	Assets under Management (mn. TRY)
Mutual funds	47	516	56,920
Pension funds	28	407	93,206
Discretionary management*	31	2,543	22,776
Investment trusts	7	12	515
<b>TOTAL</b>	<b>49</b>	<b>3,478</b>	<b>173,416</b>

Source: TCMA

\* Individuals and corporates under discretionary management may have more than one account

The swift rise in the total assets under management (AuM) the industry slowed down in 2018 parallel to the shrinking size of the mutual funds. The total AuM increased by 9% y-

o-y to TRY 173 million due to the pension funds and discretionary asset management.

Pension funds make up more than half of the total AuM. Indeed, the asset growth of TRY 14 billion out of the TRY 15 billion in total AuM in 2018 is attributable directly to the pension funds.

In 2018, 5 largest asset management companies (İş Asset Management, Ak Asset Management, Yapı Kredi Asset Management,

Garanti Asset Management and Ziraat Asset Management) by AuM constitute 66% of the entire market.

Azimut Asset Management, the largest independent asset management company in the industry, manages 3% of the total AuM of the industry.

	2017	2018
Mutual funds	59,287	56,920
Pension funds	79,543	93,206
Discretionary management	19,297	22,776
Individuals	4,614	5,334
Corporates	14,683	17,442
Investment trusts	508	515
<b>TOTAL</b>	<b>158,635</b>	<b>173,416</b>

Source: TCMA

## Mutual Funds

47 companies are managing mutual funds as of the end of 2018. The size of the mutual funds decreased by 4% to TRY 57 million compared to the end of 2017.

TCMA has been collecting mutual fund data since the end of 2013. Mutual funds grew by

16% between 2014 and 2016, and by 26% in 2017.

Of the 47 companies managing mutual funds, 3 companies (İş Asset Management, Yapı Kredi Asset Management, and Ak Asset Management) make up 47% of the entire total.

	2017	2018	Change (%)
Mutual funds	50,064	44,727	-10.7
Real estate investment funds	2,535	3,994	57.6
Venture capital investment funds	394	804	104.1
Exchange-traded funds	152	182	19.7
Hedge funds	6,142	7,213	17.4
<b>TOTAL</b>	<b>59,287</b>	<b>56,920</b>	<b>-4.0</b>

Source: TCMA

Funds can be categorized as mutual funds, real estate investment funds, venture capital investment funds, exchange-traded funds, and hedge funds.

Traditional funds continue to make up the bulk of the total mutual funds with 79% as of the end of 2018. However, mutual fund size started to shrink beginning with the second quarter of 2018. The most dramatic decrease occurred in fixed income and money markets

funds between August and October 2018. During this period, TRY 7 billion flowed out of fixed income funds whereas the net outflow from the money market funds measured TRY 4 billion. The reason behind this significant outflow was the government's temporary reduction of taxes to 0% for Turkish lira bank deposits and Islamic participation accounts.

Real estate and venture capital investment funds' asset size has been on the rise since 2016. Together with hedge funds, the total value of alternative investment funds increased by 32% compared to last year's figures of TRY 12 billion.

At their infancy in 2016, 3 real estate investment funds had a total portfolio value of TRY 85 million. By the end of 2018, the number of real estate investment funds reached 32 and the portfolio size TRY 4 billion.

Initially established in 2016, the number of venture capital investment funds increased to 11 by the end of 2018. These funds' total assets under management measure TRY 804 million.

The number of hedge funds rose to 116 from 94 in 2017 and the portfolio size of these funds increased by 35% to TRY 7 billion.

The total value of private funds, set up by the asset management companies and marketed to designated private and legal persons, is TRY 6.5 billion.

## Pension Funds

28 asset management companies manage pension funds as of the end of 2018. Pension funds have been progressively increasing in value due to government subsidies, initiated in 2013. The total portfolio of the pension funds reached TRY 93 billion.

Going live in 2017 and gradually expanding, the auto-enrolment system now constitutes

TRY 4.6 billion of all pensions. 5 million employees under the age of 45 joined the auto-enrolment system in 2018 and the total portfolio size grew by TRY 2.8 billion.

Concentration among asset management companies managing pension funds continues. The first five companies are managing 68% of all pension funds.

## Discretionary Asset Management

31 asset management companies provide discretionary asset management services as of end-2018. Asset management companies manage TRY 22.8 billion for 2,308 natural and 235 legal persons. It is important to note that clients may have accounts in more than a single company.

The average portfolio size of individuals is TRY 2.3 million whereas, for corporates, this figure stands at TRY 74 million. More than half of the investors receiving discretionary asset management services from asset

management companies are clients of three asset management companies.

Starting with 2018, our Association started collecting discretionary asset management numbers data by decomposing them into collective investment securities and other securities. In this regard, 30% of TRY 2.3 billion belonging to 2,308 individuals is invested in collective investment securities. The same ratio is 6% for the corporates' portfolio size of TRY 17 billion.

## Investment Trusts

Assets of investment trusts, receiving third-party asset management services are handled by asset management companies. Of the 49 investment trusts, 12 are the clients of the asset management companies. 92% of the total portfolio value of all investment trusts belong to securities investment trusts.

Investment trusts' portfolio managed by asset management companies grew slightly to TRY 515 million. There was a significant drop in the value of real estate investment trusts compared to 2017. The fall of TRY 28 million in real estate was compensated by the increase of TRY 23 million in venture capital investment trusts and 12 million in securities investment trusts.

	2017	2018
Securities investment trusts	460.1	472.0
Real estate investment trusts	40.4	12.2
Venture capital investment trusts	7.7	31.1
<b>TOTAL</b>	<b>508.2</b>	<b>515.3</b>

Source: TCMA

## EMPLOYEES

The number of employees is on a slight up-trend parallel to the development of the industry. The total number of employees rose by 42 to 777 in 2018. 279 of these are female.

Of the 54 companies in the industry, the number of employees of three asset management companies, employing more than 50 people (İş Asset Management, Yapı Kredi Asset Management, and Ak Asset Management) make up one-fourth of all employees in the sector. On the other hand, there are 15 companies that employ less than 5 people each. The average number of employees in the industry is 14.

36% of employees in the asset management companies hold a master's degree. In addition, roughly half of the employees have 15+ years of experience.

The employees at asset management companies, broken down by department is exhibited in table 9. asset management companies must, by regulation, have in-house or out-source a risk management and fund services unit. There are 26 companies in the industry

with a risk management department and 27 without.

26% of all employees (205 people) are employed in portfolio management by the end of 2018. CEOs act as portfolio managers in 11 asset management companies, with no portfolio management personnel.

There are 17 asset management companies in the industry that are authorized for investment advisory services as of the end of 2018. However, 11 of these do not employ specific investment advisory personnel and other departments provide financial advisory services.

Two asset management companies have international sales departments and 4 and 1 personnel are employed in these departments respectively.

You may access extensive data on personnel age, sex, experience and educational degree criteria at [www.tspb.org.tr/en](http://www.tspb.org.tr/en)

	# of Employees		Average # of Employees	
	2017	2018	2017	2018
CEO	49	54	1	1
Portfolio management	212	205	5	5
Domestic sales	81	81	4	4
Financial advisory	20	17	2	2
International sales	4	5	4	3
Research	39	41	2	1
Risk management	31	34	1	1
Fund service unit & operations	58	68	2	3
Financial & Administrative affairs	106	127	2	3
Internal audit	59	65	2	2
Human resources	5	5	1	1
Information technology	10	12	2	2
Other	61	63	3	3
<b>TOTAL</b>	<b>735</b>	<b>777</b>	<b>15</b>	<b>14</b>

Source: TCMA

## FINANCIALS

The total assets of asset management companies as of the end of 2018 is to TRY 918 million. The industry's assets are mostly liquid with 94% of the assets in current assets. Shareholder's equity constitutes 88% of

assets. 24% of all assets in the industry belong to two asset management companies (İş Asset Management and Garanti Asset Management).

	2017	2018	% Change
<b>Current assets</b>	<b>698.3</b>	<b>863.0</b>	<b>23.6%</b>
Cash and cash equivalents	475.8	518.6	9.0%
Financial assets (short-term)	126.6	195.8	54.7%
Other current assets	95.9	148.6	54.9%
<b>Non-current assets</b>	<b>41.3</b>	<b>54.8</b>	<b>32.7%</b>
Tangible assets	10.4	12.3	18.8%
Financial assets (long-term)	14.0	22.6	61.5%
Other non-current assets	17.0	20.0	17.4%
<b>Total assets</b>	<b>739.6</b>	<b>917.9</b>	<b>24.1%</b>
<b>Short-term liabilities</b>	65.9	86.7	31.7%
<b>Long-term liabilities</b>	10.0	22.5	125.3%
<b>Equity</b>	<b>663.8</b>	<b>808.7</b>	<b>21.8%</b>
Paid-in capital	378.6	422.2	11.5%
Adjustments on equity	9.9	10.0	0.9%
Share premiums/discounts	5.3	5.3	0.0%
Other comprehensive income	-1.5	-2.6	75.1%
Reserves on retained equities	81.7	79.7	-2.4%
Retained profit/loss	25.2	61.7	144.7%
Net profit/loss	165.1	232.4	40.8%
<b>Total liabilities</b>	<b>739.6</b>	<b>917.9</b>	<b>24.1%</b>

Source: TCMA

## Operating Income

Asset management companies' income stream can be split into three categories; portfolio management commissions, consultancy fees, and fund sales revenues. In practice, nearly all of the income is generated by portfolio management commissions.

Although income generated through pension funds fell by 18% compared to 2017, the loss was compensated by the increase in income generated from the mutual funds and real estate investment funds. In 2018, the mutual fund commissions increased by 20% to TRY 264 million and this made up of 74% of all fund commissions.

The expansion in mutual fund commissions despite the concurrent decline in mutual funds' total portfolio value is due to the decrease in money market and fixed income funds. With an increase of 58% in 2018, real estate investment funds made up 16% of total mutual fund commissions.

As a result, portfolio management commissions of the asset management companies increased by 20% to TRY 499 million compared to 2017.

Consultancy fees and fund sales revenues have not constituted a significant portion of the firms' revenues.

	2017	2018	% Change
<b>Portfolio management commissions</b>	<b>430</b>	<b>494</b>	<b>19.2%</b>
<b>Collective portfolio management</b>	<b>406</b>	<b>461</b>	<b>18.5%</b>
Pension funds	121	99	-18.3%
All mutual funds	282	358	34.2%
Mutual funds	236	264	19.7%
Real estate investment funds	23	57	247.9%
Venture capital investment funds	2	6	253.8%
Exchange traded funds	1	1	-1.1%
Hedge funds	21	30	57.9%
Investment trusts	3	4	41.6%
<b>Discretionary portfolio management</b>	<b>24</b>	<b>32</b>	<b>32.9%</b>
Retail	13	16	13.2%
Corporate	11	16	57.4%
<b>Investment consultancy revenues</b>	<b>4</b>	<b>5</b>	<b>78.3%</b>
<b>Mutual fund sales revenues</b>	<b>0</b>	<b>0</b>	<b>-</b>
<b>Total</b>	<b>434</b>	<b>499</b>	<b>19.5%</b>

Source: TCMA

Revenue generated through mutual funds compiles 72% of the total revenue of asset management companies. The revenue derived from real estate investment funds and venture capital investment funds, established in 2016, rose by nearly 250% in 2018, parallel to the development of alternative investment funds. Illustrated in Table 8, our Association calculates annual average commissions by dividing the commissions charged for the last 12 months by average portfolio size. Asset management companies' commission rate for mutual funds was 0.59% in 2018.

	Total
Mutual funds	0.59%
Pension funds	0.12%
Discretionary asset management	0.16%
Investment trusts	0.75%
<b>TOTAL</b>	<b>0.26%</b>

Source: TCMA

\* Last 12 months asset management revenues divided by 12 months average portfolio value

Although pension funds' portfolio size is greater than that of mutual funds, revenue from pension funds is lower. The portfolio size of the pension funds increased by 17% compared to last year whereas the revenue gained from the management of these funds fell by TRY 22 million to TRY 100 million. This is thought to be a direct consequence of the regulations put in place in 2018 that restrains a single asset management companies to manage more than 40% of a pension company's total assets.

The industry generated a total of TRY 32 million out of discretionary asset management

services in 2018. As of the end of 2018, among the asset management companies providing discretionary asset management services, the average commission rate was 0.16%.

Only a limited fraction of investment trusts are managed by asset management companies. The industry generated TRY 3.7 million revenue in 2018.

Asset management companies managing investment trust portfolios charged an annual average rate of 0.75% in 2018.

## Expenses

In 2018, asset management companies' administrative expenses rose by 15% y-o-y to TRY 332 million. Personnel expenses represent 57% of these expenses.

The average number of employees stood at 720 in 2017 and increased to 761 in 2018. Monthly average personnel expense calculated by dividing personnel expenses by the

average number of employees measured TRY 20,646 in 2018, only 4% higher than the previous year's level.

On the other hand, annual average net income per employee rose by 43% y-o-y to TRY 33,936, parallel to the increase in profitability.

Table 9: Income Statement of Asset Management Companies (million TRY)			
	2017	2018	% Change
Sales revenues (net)	711.7	606.3	-14.8%
Cost of sales	-272.5	-89.4	-67.2%
<b>Gross profit/loss</b>	<b>439.2</b>	<b>516.9</b>	<b>17.7%</b>
Marketing, sales & distribution expenses	-7.0	-9.1	30.0%
Administrative expenses	-289.1	-331.7	14.7%
Salaries and fringe benefits	-171.0	-188.5	10.2%
Research & development expenses	0.0	-0.1	309.5%
Other operating income	27.5	19.8	-27.9%
Other operating expenses	-5.4	-7.9	47.4%
<b>Operating profit/loss</b>	<b>165.2</b>	<b>188.0</b>	<b>13.8%</b>
Income from investment activities	24.1	42.0	74.5%
Expenses from investment activities	-10.8	-13.4	24.7%
<b>Profit/loss before financial expenses</b>	<b>178.5</b>	<b>216.6</b>	<b>21.4%</b>
Financial income	31.7	88.7	179.7%
Financial expense	-1.5	-3.4	128.7%
<b>Profit/loss before tax from operations</b>	<b>208.7</b>	<b>301.9</b>	<b>44.7%</b>
Current tax income / expense	-46.6	-61.3	31.5%
Deferred tax income / expense	3.0	-8.2	-377.0%
<b>Net profit/loss</b>	<b>165.1</b>	<b>232.4</b>	<b>40.8%</b>

Source: TCMA

## Profitability

The growth in the revenues of asset management companies surpassed the increase in expenses in 2018, which resulted in a y-o-y 41% rise in the bottom line. Net profitability and return on equity increased accordingly.

The industry's net operating profits rose by 14% to TRY 188 million in 2018. On the other hand, asset management companies' proprietary investment and financial revenues increased to TRY 114 million, significantly boosting the bottom line. The investment and financial revenues trended above last year's figures throughout the year with a significant

bounce in the third quarter of the year when interest rates surged and Turkish lira took a deep dive against the US dollar.

In 2018, 35 companies turned a total profit of TRY 254 million while 19 companies made losses of TRY 22 million which resulted in an industry net profit of TRY 232 million.

The most profitable companies (Ak, Yapı Kredi, Garanti and İş Asset Management) generated a profit of TRY 131 million which constituted 58% of the entire asset management industry.

**Table 10: Profitability of Asset Management Companies**

	2017	2018
<b># of companies</b>	<b>48</b>	<b>54</b>
# of companies with profits	28	35
# of companies with losses	20	19
<b>Net profit (million try)</b>	<b>166.4</b>	<b>232.4</b>
Total profit (million try)	187.6	254.3
Total losses (million try)	-21.2	-21.9
<b>Profitability</b>	<b>38%</b>	<b>45%</b>
<b>Return on equity</b>	<b>29%</b>	<b>33%</b>

Source: TCMA

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