



# TURKISH CAPITAL MARKETS 2019 ANNUAL REVIEW

## **TCMA RESEARCH**

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# FINANCIAL MARKETS OUTLOOK

Ceylan Anil

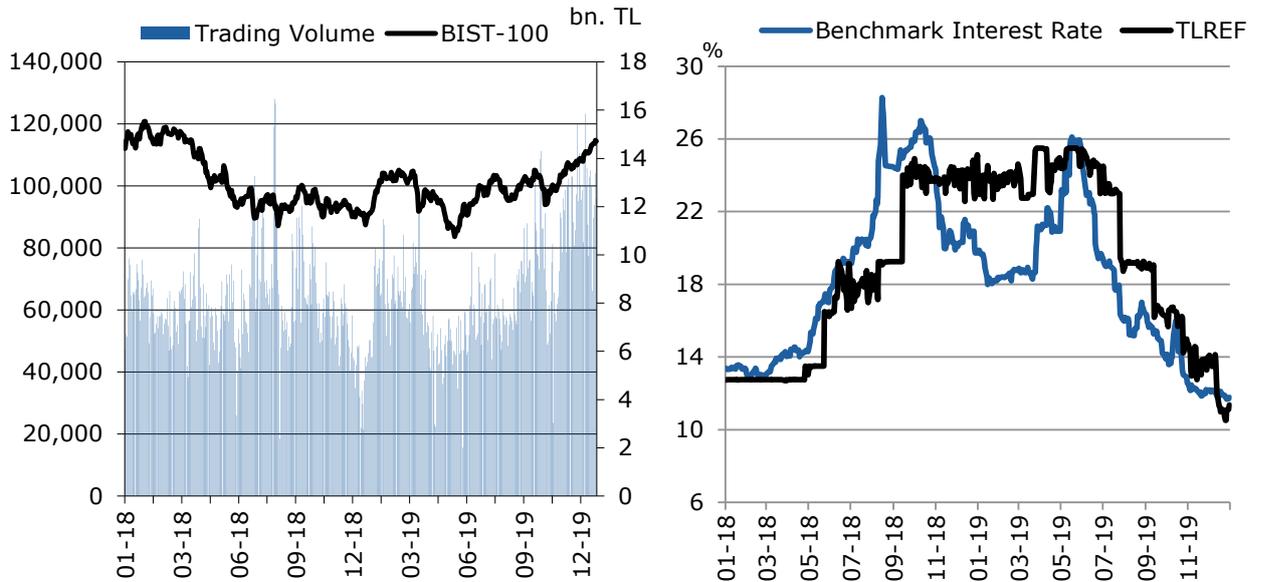
While world equity markets have posted their best year since the aftermath of the global financial crisis, the Turkish exchange Borsa Istanbul also experienced a positive return in the year 2019. In addition to favourable international financial conditions in view of US Fed's accommodative monetary policy, the decline in domestic inflation and the recovery of economic activity boosted the equity market as BIST-100, Turkey's major equity index, rose by 25% in Turkish lira terms.

Accordingly, Borsa Istanbul's equity market reached a market capitalisation of TRY 1,109 billion (USD 185 billion) ranking 31<sup>st</sup> globally according to World Federation of Exchanges data. While daily trading volume was TRY 8.5 billion (USD 1.5 billion), Borsa Istanbul was ranked 22<sup>nd</sup> in the world in terms of annual

trading volume. The market turnover ratio, calculated as equity trading volume over market cap, is extremely high with 189% as of 2019, ranking 4<sup>th</sup> among global equity markets.

Borsa Istanbul has a vibrant debt securities market where mainly government bonds are traded. Corporate bonds, asset backed securities, Islamic bonds and Eurobonds are also listed on Borsa Istanbul, although volumes are significantly lower compared to those of government bonds. The size of the daily total bond trading in 2019 was TRY 2.8 billion (USD 477 million). This figure includes OTC transactions conducted outside of the official exchange which are reported to Borsa Istanbul for supervision purposes.

**Figure 1: Equity Market** **Figure 2: Interest Rates**



Source: Borsa Istanbul, Bloomberg

The downward trend in inflation allowed the CBRT to reduce its policy rate gradually through four consecutive rate cuts from 24% to 12% during the second half of the year.

The benchmark interest rate started the year at around 20% and reached 26% in May with the rising uncertainties. Following Central Bank rate cuts, the benchmark interest rate also followed a downward trend and ended the year around 12%.

Moreover, in 2019, in light of the global quest to transition from LIBOR to alternative reference rates, Borsa Istanbul launched Turkish Lira Overnight Reference Interest Rate (TLREF) in cooperation with the Central Bank.

TLREF aims to meet the short-term reference interest rate requirement on the Turkish lira. Futures contracts based on TLREF started to be traded on the Borsa Istanbul Derivatives Market, while several companies issued TLREF indexed bonds in the following months.

The Turkish Capital Markets Association (TCMA) collects extensive data on the financials and operations of investment companies. In this report we will present an analysis of the performance of the brokerage and asset management industry in 2019.

# BROKERAGE COMPANIES 2019/12

Ceylan Anıl – Deniz Kahraman

*In this report, we will review brokerage and corporate finance activities, employee statistics and financial statements of intermediaries operating in the capital markets in 2019. Operational and financial data were obtained from 64 brokerage firms and 1 investment bank. More information on data sets can be found on [www.tspb.org.tr](http://www.tspb.org.tr).*

## BROKERAGE ACTIVITIES

In 2019, trading volumes in all markets increased except for option and forex transactions. While repo-reverse repo transactions volume quadrupled, equity transactions volume increased by 7% reaching TRY 4.2 trillion. Table 1 shows double-sided trading volumes of intermediaries for all markets.

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.

	2018	2019	% Change
<b>Equity</b>	<b>3,955,750</b>	<b>4,229,061</b>	<b>6.9%</b>
Brokerage company	3,594,678	3,874,860	7.8%
Bank	361,072	354,200	-1.9%
<b>Fixed Income</b>	<b>1,290,436</b>	<b>1,340,808</b>	<b>3.9%</b>
Brokerage company	193,603	194,463	0.4%
Bank	1,096,833	1,146,345	4.5%
<b>Repo</b>	<b>6,665,865</b>	<b>28,644,843</b>	<b>329.7%</b>
Brokerage company	1,141,689	5,658,588	395.6%
Bank	5,524,176	22,986,255	316.1%
<b>Futures</b>	<b>2,498,897</b>	<b>2,802,721</b>	<b>12.2%</b>
Brokerage company	2,424,494	2,684,113	10.7%
Bank	74,403	118,608	59.4%
<b>Options</b>	<b>48,675</b>	<b>35,803</b>	<b>-26.4%</b>
Brokerage company	17,688	22,880	29.3%
Bank	30,987	12,924	-58.3%
<b>Warrants*</b>	<b>30,843</b>	<b>31,161</b>	<b>1.0%</b>
<b>Forex*</b>	<b>9,705,054</b>	<b>7,731,626</b>	<b>-20.3%</b>
Client	4,493,825	4,121,266	-8.3%
Liquidity Provider	5,211,229	3,610,360	-30.7%

Source: Borsa İstanbul, TCMA

\*Authorized only for brokerage companies

## EQUITIES

In 2019, 54 brokerage companies and 1 investment bank traded in the equity market. The transaction volume increased by 7% compared to 2018 reaching a total of TRY 4.2 trillion. Concentration in the sector remains high as the market volume of the first 5 institutions including the investment bank constitutes 42% of the total market volume.

Although 62% of the stock trading volume was generated by domestic individual investors in 2019, according to the Central Registry Agency's records, these investors own only 19% of the traded stocks. Including corporations and institutional investors, domestic investors' total share in the equity trading volume rose by 2 percentage points in 2019 to reach 73%.

Foreign investors' share declined to 27% from 29% in the previous year, while the bulk of this sum was generated by foreign corporations, which represents mainly financial institutions.

In Table 5, the breakdown of transaction volumes according to departments is displayed. Accordingly, the internet has been investors' favourite medium for trading as it accounted for 42% of all equity trading volume.

While domestic individual investors preferred internet, direct market access (DMA) channel has been frequently used by foreign institutional investors engaging in algorithmic and high frequency trading. The share of direct market access in the equity trading volume was 12% in 2019.

The share of internet and direct market access channels together constituted 55% of total equity market volume at the end of 2019, pointing to the digital transformation of the industry.

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

**Table 2: Breakdown of Trading Volume by Investors (2019)**

	Equity	Fixed Income	Repo	Futures	Options	Warrants	Forex
Dom. Individuals	62.3%	5.5%	6.5%	53.2%	37.8%	43.1%	52.5%
Dom. Corporations	7.4%	20.6%	12.0%	10.2%	54.4%	37.5%	47.4%
Dom. Institutional	3.0%	73.4%	81.5%	5.7%	2.1%	0.0%	0.0%
<b>Domestic Investors</b>	<b>72.6%</b>	<b>99.4%</b>	<b>99.9%</b>	<b>69.0%</b>	<b>94.3%</b>	<b>80.6%</b>	<b>99.9%</b>
Foreign Individuals	0.2%	0.1%	0.0%	0.3%	0.1%	0.1%	0.1%
Foreign Corporations	25.7%	0.0%	0.1%	28.0%	5.6%	19.3%	0.0%
Foreign Institutional	1.5%	0.4%	0.0%	2.7%	0.0%	0.0%	0.0%
<b>Foreign Investors</b>	<b>27.4%</b>	<b>0.6%</b>	<b>0.1%</b>	<b>31.0%</b>	<b>5.7%</b>	<b>19.4%</b>	<b>0.1%</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 201, the trading volume of investment institutions (including off-exchange transactions reported to Borsa İstanbul) increased slightly to TRY 1.3 trillion. Meanwhile, repo / reverse-repo transactions (including off-exchange transactions

reported to Borsa İstanbul) quadrupled to reach TRY 29 trillion. In 2019, 40 brokerage companies and 42 banks traded in the outright purchase and sales market. Share of brokerage companies' transactions accounted for 15% of total transactions.

The following analysis includes data collected from only brokerage companies and one investment bank as stated above.

Half of the transactions in the bonds market were done by 2 brokerage companies. Almost all transactions executed by brokerage companies were generated by domestic investors. Domestic corporate investors accounted for 73% of the total transaction volume, while domestic institutions' share is 21%. A significant part of the transactions carried out by domestic institutions corresponds to proprietary trading (17% share in total as laid out on Table 5) of brokerage companies.

## FUTURES

In 2019, total trading volume of futures generated by 53 brokerage companies and 9 banks increased by 12% compared to 2018 and reached TRY 2.8 trillion.

Index futures constitute the bulk part of futures transactions with 55% share in 2019. The volume in equity contracts tripled in 2019, resulting in a decrease in the share of FX contracts from 38% to 29%.

Underlying Asset	2018	2019
Indices	56.1%	54.6%
Currencies	38.2%	28.8%
Equity	4.0%	11.7%
Other	5.7%	4.9%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Kaynak: Borsa İstanbul

The following analysis includes data collected from only brokerage companies and one investment bank as stated above. Half of the total futures trading volume has been executed by the top 5 companies.

Domestic sales departments and branches together form 63% of total fixed income transactions volume. International sales departments account for 20% of total fixed income transactions, although one brokerage firm executed domestic institutional investors' orders via the international sales department.

In the repo market, nearly all trading volume of brokerage companies was generated by domestic investors. Institutional investors, which represent mutual funds and investment trusts, generated 81% of total repo transactions.

Table 2 shows the breakdown of trading volume by investors. As with equities, the market share of domestic individual investors remains high as these investors generate half of total futures volume. The share of domestic institutional investors is 6%, while the share of domestic corporations, which reflects mainly proprietary trading, constitutes 10% of total futures volume.

While internet is the most used channel with a share of 26%, it is followed by direct market access (DMA) and branches, with a share of 18% each. The total share of internet transactions rose by 6 points compared to 2018.

International sales departments constituted 13% of total transactions, while foreign investors' share in total trading volume was 31%. Foreign investors' also trade through DMA.

## OPTIONS

In 2019, 34 brokerage companies and 4 banks traded in the Borsa Istanbul options market. Total trading volume of options transactions decreased by 26% compared to 2018, to TRY 36 billion.

Underlying	2018	2019
Indices	7.8%	15.8%
Currencies	84.5%	70.8%
Other	7.7%	13.4%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Source: Borsa İstanbul

Compared to 2018, the volume in index option contracts increased by 58%, while the volume of FX option contracts decreased by 35%. As a result, the share of FX options transactions, which make up the majority of

option transactions, decreased by 14 percentage points in 2019.

In 2019, brokerage companies generated a total trading volume of TRY 22 billion. More than half of these transactions were executed by 2 brokerage companies. The following analysis includes data collected from brokerage companies.

Even though the majority of options transactions volume was generated by domestic individual investors in the previous years, the share of domestic investors declined to 38% in 2019 from 63% in the previous year. On the other hand, with rising proprietary trading transactions, the share of domestic companies reached 54%. Foreign investors' share in these transactions remains low at 6%.

	Equity	Fixed Income	Repo	Futures	Options	Warrants	Forex
Domestic Sales	9.5%	47.9%	52.8%	14.7%	15.0%	5.8%	15.3%
Branch, Bank Br., Rep. Office	16.3%	14.7%	28.3%	20.6%	25.4%	7.3%	10.3%
Branches	13.9%	3.1%	7.6%	18.1%	24.1%	1.1%	10.0%
Bank Branches	1.4%	11.5%	20.7%	1.3%	1.3%	0.0%	0.3%
Representative Offices	1.1%	0.0%	0.0%	1.3%	0.0%	6.2%	0.0%
Internet	42.4%	0.3%	0.0%	26.1%	6.5%	40.5%	27.7%
Direct Market Access	12.3%	0.0%	0.0%	18.2%	0.0%	0.0%	0.0%
Call Center	0.2%	0.0%	0.0%	0.1%	0.0%	0.1%	0.0%
Asset Management	0.2%	0.2%	0.1%	1.4%	0.1%	0.0%	0.0%
Proprietary Trading	3.0%	16.9%	6.6%	5.9%	47.3%	27.1%	46.7%
International Sales	16.0%	20.0%	12.1%	13.0%	5.7%	19.3%	0.0%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: TCMA

## WARRANTS

Only brokerage companies are authorized to execute warrant transactions. In 2019, 43 brokerage companies executed warrant transactions, mainly for individual investors.

Moreover, the top 2 brokerage companies represent 59% of total warrant volume.

Warrant trading volume remained at TRY 31 billion in 2019 rising by only 1% compared to 2018. Nearly half the transactions were executed through the internet.

## FOREX MARKET

Only brokerage companies are authorized to execute leveraged forex transactions. In 2019, the total volume of these transactions decreased by 20% y-o-y to TRY 7.7 trillion. While transactions with clients declined by 8%, transactions with liquidity providers, which constitute 47% of the total volume, declined by 30% (proprietary transactions on Table 5).

The forex market is highly concentrated. Nearly 60% of the clients' leveraged transactions were executed by the top 5 companies.

In 2019, 28% of leveraged transactions were executed through the internet, while 15% of these transactions were executed by domestic sales departments.

## CORPORATE FINANCE

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

In 2019, brokerage companies completed 6 small sized initial public offerings and raised a total of TRY 263 million. There were no secondary public offerings in 2019.

The number of corporate bond issues has slightly decreased compared to 2018 to reach 1,330, while their total size increased by 17% to TRY 210 billion.

Investment banks can also intermediate in bond issuance. However, out of the 1,330 bonds issued, 1,145 were issued by brokerage companies.

**Table 6: Equity Offerings and Bond Issuance**

	2018	2019
<b>Initial Public Offering</b>		
Number of Co.	9	6
Size (mn. TRY)	5,437	263
<b>Secondary Public Offering</b>		
Number of Co.	1	0
Size (mn. TRY)	2,989	0
<b>Corporate Bond Issuance*</b>		
Number of Issues	1,385	1,330
Size (mn. TRY)	179,121	210,322

Source: Borsa İstanbul

\*Public issuance and private placement only

According to the data compiled by our Association, as shown in Table 7, brokerage companies completed 1,362 projects in 2019, of which 1,145 were bond issues.

**Table 7: Corporate Finance Activities (Completed Projects)**

	2018	2019
Initial Public Offering	11	6
Secondary Public Offering	6	0
Debt Instruments Issuance	1,216	1,145
Mergers & Acquisitions / Buy-Side	11	2
Mergers & Acquisitions / Sell-Side	12	17
Private Equity	0	0
Other Financing	5	1
Capital Increases	47	34
Dividend Distribution	41	41
Privatization/Buy-Side	2	1
Privatization/Sell-Side	8	2
Other Consultancy	97	113
<b>Total</b>	<b>1,456</b>	<b>1,362</b>

Source: TCMA

19 M&A projects and 3 privatization projects (related to the privatization of public sugar companies and State Electricity Generation Corporation) were completed in 2019.

Other financing activities on Table 7 reflect the project of one firm intermediating to provide bank loan from abroad to a public-private partnership.

## ASSET MANAGEMENT

In Turkey, brokerage companies may provide wealth management services in addition to traditional brokerage services. The number of brokerage companies offering asset management services stood at 19 in 2019.

The portfolio size managed by brokerage companies increased by 78% y-o-y and reached TRY 3.8 billion. As of the end of

Additionally, 113 other consultancy agreements covering transactions such as valuation, market making, project financing, and feasibility analysis, which are generally required by securities issuers, were completed by brokerage companies in 2019.

2019, 19 brokerage companies provide asset management services to 4,931 individual and corporate investors. However, while evaluating customer numbers, it should be noted that there may be customers with accounts in more than one institution.

	2018	2019
<b>Number of Investors</b>	<b>4,331</b>	<b>4,931</b>
Corporates	82	131
Individuals	4,249	4,800
<b>Portfolio Size (million TRY)</b>	<b>2,133</b>	<b>3,780</b>
Corporates	487	1,710
Individuals	1,647	2,071

Source: TCMA

## MARGIN TRADING

In Turkey, only brokerage companies may provide margin trading services.

Brokerage companies' total loan size in margin trading reached its highest level ever in 2019, totalling TRY 2.8 billion by the end of the year.

Top 5 brokerage companies constitute nearly half of the total loan size. Top 11 companies constitute three fourths of the total loan size.

While the total loan size increased, the number of investors decreased by 206 compared

to 2018. As a result, the average loan volume per investor increased by 54% during the same period. Nearly half of the increase was due to 2 brokerage companies. Meanwhile, the average loan per investor ranges between TRY 25,000 and TRY 1.8 billion across brokerage companies.

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

**Table 9: Margin Trading**

	2018	2019
<b>Loan Size (mn TRY)</b>	<b>1,823</b>	<b>2,752</b>
Number of Margin Trading Investors	12,101	11,895
Average Loan per Investor (TRY)	150,666	231,348

Source: TCMA

## BRANCH NETWORK

In order to service 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 by brokerage companies.

As of the end of 2019, 40 brokerage companies have a branch network. While bank owned brokerage companies work with their group banks' branches for order transmission or customer services, 2 independent brokerage companies have signed an intermediation contract with various banks for order transmission. The number of bank branches is 9,332 at the end of 2019, decreasing by 55 compared to 2018.

**Table 10: Branch Network**

	2018	2019
Branches	289	277
Rep. Offices	46	64
Bank Branches	9,387	9,332
<b>Total</b>	<b>9,722</b>	<b>9,673</b>

Source: TCMA

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

## EMPLOYEES

At the end of 2019, the total number of employees in the sector increased by 49 to 4,965.

The company with the highest increase in number of employees has been Info Investment where the number rose to 128 at the end of 2019, from 75 in 2018. Garanti Investment, on the other hand, recorded the highest decrease (29 people) in the number of personnel.

**Table 11: Number of Employees**

	2018	2019
Female	2,075	2,121
Male	2,841	2,844
<b>Total</b>	<b>4,916</b>	<b>4,965</b>

Source: TCMA

There is a high concentration of employment in branches and representative offices, domestic sales departments, and administrative affairs departments, as more than half of total employees work in these three departments. In terms of department breakdown, the highest increase in number of personnel was recorded at branches in the last quarter.

As illustrated in Table 12, the average number of personnel decreased from 78 in 2018 to 76 in 2019. This decrease is mainly due to 2 newly established brokerage companies. The average number of personnel is the highest in the domestic sales department with 19 employees, followed by administrative affairs department with an average of 10 staff.

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

	# of Employees		Average # of Employees	
	2018	2019	2018	2019
Branch, Bank Br., Rep. Office	1,684	1,672	5	5
Branches	1,354	1,287	5	5
Bank Branches	330	385	7	6
Domestic Sales	689	787	16	19
Broker	88	82	2	2
Dealer	232	222	7	7
International Sales	166	153	6	5
Treasury	131	133	4	4
Portfolio Management	31	36	2	2
Corporate Finance	142	138	4	4
Research	178	179	4	4
Financial & Admin. Affairs	664	662	11	10
Internal Audit	196	203	3	3
Human Resources	79	69	2	2
IT	247	253	4	4
Other	389	376	7	7
<b>Total</b>	<b>4,916</b>	<b>4,965</b>	<b>78</b>	<b>76</b>

Source: TCMA

## FINANCIALS

In addition to the financial statements released to the public, TCMA compiles additional data from 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 TCMA. This analysis focuses on the latter as this data provides more standardized and clear information on the brokerage companies.

Illustrated in Table 13, the total assets of brokerage companies increased by 24% y-o-y to TRY 27 billion with financial assets and short-term trade receivables. The industry has a liquid balance sheet with TRY 25 billion in current assets. Of the total assets, TRY 11 billion are cash and cash equivalents and TRY 10 billion are short-term trade receivables.

In 2018, 35% of brokerage companies' assets were denominated in foreign currency. This figure decreased to 20% by the end of 2019. On the other hand, foreign currency denominated liabilities make up less than %10 of total liabilities of brokerage companies. These liabilities stood at 8% in 2018 and decreased to 7% as of the end of 2019.

Cash and cash equivalent assets decreased by 2% to TRY 10.8 billion. The considerable increase in short-term trade receivables compared to last year is attributable to the rise in settlement receivables and receivables from margin trading customers. Sharp decrease in the long-term liabilities is attributable to one brokerage company's long-term loan obtained from its foreign subsidiary.

<b>Table 13: Balance Sheet (million TRY)</b>			
	<b>2018</b>	<b>2019</b>	<b>Change</b>
<b>Current Assets</b>	<b>20,302</b>	<b>25,147</b>	<b>23.3%</b>
Cash and Cash Equivalents	11,004	10,810	-1.8%
Financial Assets (Short-term)	1,770	2,890	63.3%
Trade Receivables (Short-term)	6,240	10,061	61.2%
Others	1,287	1,386	0.9%
<b>Non-Current Assets</b>	<b>1,576</b>	<b>2,048</b>	<b>37.4%</b>
Financial Assets (Long-term)	896	1,165	29.9%
Others	680	883	48.7%
<b>TOTAL ASSETS</b>	<b>21,878</b>	<b>27,195</b>	<b>24.3%</b>
<b>Short-Term Liabilities</b>	<b>14,564</b>	<b>19,251</b>	<b>32.2%</b>
Financial Liabilities (Short-term)	8,251	8,648	4.8%
Trade Payables (Short-term)	5,526	9,452	71.0%
Others	786	1,152	46.5%
<b>Long-Term Liabilities</b>	<b>1,152</b>	<b>341</b>	<b>-70.4%</b>
<b>Equity</b>	<b>6,162</b>	<b>7,603</b>	<b>23.4%</b>
Paid-in Capital	2,444	2,567	5.0%
Adjustments on Equity	246	246	-0.3%
Shares Premiums/Discounts	8	8	0.0%
Non-Classified to Profit or Loss	307	438	42.5%
Income or Expenses Classified to P/L	613	655	6.9%
Retained Profit/Loss	1,201	1,962	63.4%
Net Profit/Loss	1,343	1,728	28.7%
<b>TOTAL LIABILITIES</b>	<b>21,878</b>	<b>27,195</b>	<b>24.3%</b>

Source: TCMA

As illustrated in Table 14, repo and deposits of TRY 10 billion make up the largest portion of brokerage companies' short-term assets (consisting of cash and cash equivalent and short-term financial assets).

Brokerage companies' short-term assets increased by 6% y-o-y to TRY 13 billion by the end of 2019. The most important reason for this, is the rise in other financial instruments

where one brokerage company classifies deposits with a maturity exceeding 3 months.

As of the end of 2019, brokerage companies' repo and deposits stand at TRY 10,1 billion. Public bonds and bills portfolio doubled to TRY 568 million. While, corporate bonds and bills portfolio decreased by %24 y-o-y to TRY 612 million, equity investments increased by %66 to TRY 695 million.

<b>Financial Instruments</b>	<b>2018</b>	<b>2019</b>	<b>Change</b>
Repo and Deposits	10,555	10,143	-3.9%
Public Bonds & Bills	280	568	102.8%
Corporate Bonds & Bills	810	612	-24.4%
Equities	418	695	66.1%
Other	262	1,015	287.8%
<b>Total</b>	<b>12,325</b>	<b>13,033</b>	<b>5.7%</b>

Source: TCMA

Going back to Table 13, brokerage companies' total liabilities of TRY 20 billion consist of TRY 9 billion short-term financial liabilities and TRY 10 billion short-term trade payables reflecting collateral posted by brokerage companies for securities and settlement positions.

Brokerage companies' short-term liabilities are comprised of TRY 4 billion of money market debt, TRY 3 billion of fixed income instruments, and TRY 1.7 billion of bank loans.

Money market debt fell by TRY 1.3 billion, while bank loans rose by 1.3 billion compared to the previous year.

Brokerage companies' short-term borrowings via fixed income instruments increased by TRY 208 million in 2019 compared to the previous year-end.

Total shareholders' equity reached TRY 7.6 billion as a result of an increase in retained earnings.

## **INCOME STATEMENT**

In 2019, brokerage companies' revenue grew by 20% y-o-y to TRY 4.3 billion. The significant increase in total revenue is attributable

to the sharply rising proprietary trading revenues.

	<b>2018</b>	<b>2019</b>	<b>Change</b>
Brokerage Commissions	1,928	1,986	3.0%
Proprietary Trading	343	900	162.4%
Corporate Finance	323	344	6.5%
Asset Management	59	67	13.8%
Interest Revenue from Customers	585	616	5.3%
Other	318	351	10.1%
<b>Total</b>	<b>3,557</b>	<b>4,264</b>	<b>19.9%</b>

Source: TCMA

In 2019, brokerage commissions made up 46% of all revenues. This figure increased only 3% y-o-y.

industry's effective average commission rate for equities is 0.0285%.

As illustrated in Table 16, the revenue from equities trading fell by 4% in 2019 although equity trading volume rose by %7. The

Forex trading volume with clients (excluding proprietary trading) decreased 8% y-o-y in 2019 whereas revenue generated through forex transactions only fell by 1%.

**Table 16: Breakdown of Brokerage Commissions (million TRY)**

	2018	2019	Change
Equities	1,218	1,169	-4.1%
Derivatives	308	363	17.7%
Fixed Income	29	77	161.3%
Foreign Securities	44	53	21.5%
Forex	328	325	-1.2%
<b>Total</b>	<b>1,928</b>	<b>1,986</b>	<b>3.0%</b>

Source: TCMA

Revenues from the brokerage companies' corporate finance activities increased by 7% in 2019 to TRY 344 million. As illustrated in Table 17, corporate bond and IPO revenues rose by 4% y-o-y to TRY 255 million.

Two companies specializing in mergers & acquisition transactions make up %79 of the industry's total revenue of TRY 38 million in 2019. One brokerage generated TRY 29 million revenue from capital increase related to corporate finance activities this year.

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

	2018	2019	Change
Initial Public Offering (IPO)	244	255	4.4%
Mergers & Acquisitions	39	38	-3.7%
Other Capital Increases	19	29	48.2%
Corporate Actions	4	5	20.9%
Others	16	18	8.8%
<b>Total</b>	<b>323</b>	<b>344</b>	<b>6.5%</b>

Source: TCMA

Going back to Table 15, despite the increase in clients' credit balance, due to the decrease in interest rates, interest income from clients rose by only 5% to TRY 616 million.

Brokerage companies provide discretionary asset management services to individuals and corporate clients. Although AUM rose by 78%, the impact of revenues remained limited because the increase occurred towards the end of the year, and brokerage companies' income from asset management services rose by only 14% to TRY 67 million.

The TRY 351 million of other income in Table 15 is attributable to one brokerage company's income from advisory and market research services provided to its parent company abroad and another company's high frequency trading commission revenue from its clients.

Illustrated in Table 18, brokerage companies' aggregate expenses rose by 13% to TRY 2.5 billion in 2019. Marketing, sales, distribution and R&D make up TRY 449 million of all expenses. 71% of the TRY 449 million constitutes payments for exchange, settlement and custody services related to equity, fixed income and derivatives trading.

%56 of administrative expenses is salaries and fringe benefits. The industry employs 4,965 personnel and the average personnel expense in 2019 rose by 10.4% to TRY 19,598 while average CPI rose by 15.2%. Total personnel expense increased by 11% to TRY 1,2 billion compared to the previous year.

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

	2018	2019	Change
<b>Marketing, Sales, Distribution and R&amp;D</b>	<b>388</b>	<b>449</b>	<b>15.7%</b>
Trading Commissions Paid to Exchanges	279	318	14.1%
Other Marketing, Sales, Distribution and R&D	109	131	19.6%
<b>Administrative</b>	<b>1,817</b>	<b>2,046</b>	<b>12.6%</b>
Salaries and Fringe Benefits	1,034	1,151	11.3%
Depreciation Expenses	47	102	114.0%
Depreciation Expenses on Intangible Assets	10	15	52.3%
Membership Fees and Contributions	13	13	5.2%
Commissions and Other Service Charges	42	53	25.8%
Taxes and Other Legal Dues	105	114	8.6%
Other Administrative Expenses	565	598	5.8%
<b>Total</b>	<b>2,205</b>	<b>2,495</b>	<b>13.2%</b>

Source: TCMA

Gross income rose by 20% y-o-y to TRY 4.3 billion as a result of the increase in proprietary trading income.

Illustrated in Table 19, due to the limited growth in expenses compared to revenues, the operating income increased by 30% to TRY 1.8 billion in 2019.

**Table 19: Income Statement (million TRY)**

	2018	2019	Change
Sales Revenues (net)	163,040	570,847	250.1%
Cost of Sales	-159,484	-566,583	255.3%
<b>Gross Profit/Loss</b>	<b>3,557</b>	<b>4,264</b>	<b>19.9%</b>
Marketing, Sales and Distribution Expenses	-388	-449	15.7%
Administrative Expenses	-1,817	-2,046	12.6%
Research & Development Expenses	-1	-0.4	-33.0%
Other Operating Income	628	447	-28.9%
Other Operating Expenses	-558	-373	-33.1%
<b>Operating Profit/Loss</b>	<b>1,422</b>	<b>1,842</b>	<b>29.5%</b>
Income from Investment Activities	4	4	-11.1%
Expenses from Investment Activities	0	0	900.4%
Profit/Loss From Participations	14	21	45.8%
<b>Profit/Loss Before Tax From Fin. Expenses</b>	<b>1,440</b>	<b>1,866</b>	<b>29.6%</b>
Financial Income	2,134	2,211	3.6%
Financial Expenses	-1,881	-1,910	1.5%
<b>P/L Before Tax From Cont. Operations</b>	<b>1,692</b>	<b>2,167</b>	<b>28.1%</b>
<b>Cont. Operations Tax Income / Expense</b>	<b>-350</b>	<b>-440</b>	<b>25.7%</b>
Current Tax Income / Expense	-371	-484	30.4%
Deferred Tax Income / Expense	21	44	108.1%
<b>Profit /Loss From Continuing Operations</b>	<b>1,343</b>	<b>1,728</b>	<b>28.7%</b>

Source: TCMA

Net financing revenues rose 19% y-o-y to TRY 302 million. Although interest income from deposit accounts decreased, there was a remarkable increase in the money market,

repos, and swap income. Furthermore, the increase in other income and profits due to an institution's derivatives position supported the increase in net financing income.

In conclusion, brokerage companies' profits increased by 29% to TRY 1.7 billion with rising income from operations.

The most profitable brokerage company in 2019 was İş Investment with TRY 379 million. The top six most profitable companies (İş

Investment, Garanti Investment, Ak Investment, Deniz Investment, Yapı Kredi Investment and Merrill Lynch Investment Bank) make 57% of the industry's revenue. Of the 64 brokerage companies and 1 investment bank, 52 posted a profit in 2019.

<b>Table 20: Profitability of Brokerage Companies</b>		
	<b>2018</b>	<b>2019</b>
<b># of companies</b>	<b>63</b>	<b>65</b>
# of companies with profits	53	52
# of companies with losses	10	13
<b>Net Profit (million TRY)</b>	<b>1,343</b>	<b>1,727</b>
Total Profit (Million TRY)	1,366	1,768
Total Losses (Million TRY)	-23	-40
<b>Profitability</b>	<b>37.8%</b>	<b>40.5%</b>
<b>Return on Equity</b>	<b>23.6%</b>	<b>25.1%</b>

Source: TCMA



# ASSET MANAGEMENT COMPANIES 2019/12

Onur Salttürk

Turkish Capital Markets Association collects and analyzes the asset management industry's data on a monthly and quarterly basis. In this report, we will review the assets under management, employee statistics and the asset management companies' financial statements respectively. More information on data sets can be found on [www.tspb.org.tr](http://www.tspb.org.tr).

## ASSET MANAGEMENT

Asset management companies' main activity is to establish and manage funds. Apart from managing investment funds, pension funds and investment trusts, asset management companies also provide discretionary asset management services for individuals and corporations. As of December 2019, there are 49 asset management companies in the market. One of

these asset management firms is managing assets conjointly with a financial firm domiciled abroad and accordingly has no direct assets under management. On the other hand, five companies have not started managing assets yet. As a result, the number of asset management firms actively managing assets in 2019 is 43.

	Number of Firms	Number of Funds/Clients	Assets Under Management (mn. TRY)
Investment Funds	41	553	127,292
Pension Funds	25	406	127,577
Discretionary Management*	26	2,427	28,713
Investment Trusts	7	12	644
<b>Total</b>	<b>43</b>	<b>3,398</b>	<b>284,225</b>

Source: TCMA

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

Total assets under management (AUM) of these companies increased by 64% compared to the end of 2018 and reached TRY 284 billion. 406 pension funds make up 45% of the total portfolio size.

The investment funds' assets also increased by 124% in the last year, making

it 45% of the total portfolio at the end of 2019. This rate was 33% at the end of 2018.

As of the end of 2019, 14 of the 43 asset management companies are of bank origin. Bank-based institutions manage 91% of the total portfolio.

	Number of Funds/Clients		AUM (million TRY)	
	2018	2019	2018	2019
Investment Funds	56,920	127,292	56,920	127,292
Pension Funds	93,206	127,577	93,206	127,577
Discretionary Management	22,776	28,713	22,776	28,713
Individuals	5,334	8,007	5,334	8,007
Corporates	17,442	20,705	17,442	20,705
Investment Trusts	515	644	515	644
<b>TOTAL</b>	<b>173,416</b>	<b>284,225</b>	<b>173,416</b>	<b>284,225</b>

Source: TCMA

As of the end of 2019, the top 5 asset management firms (Ziraat Asset Management, İş Asset Management, Ak Asset Management, Yapı Kredi Asset Management and Garanti Asset Management respectively) with the highest portfolio size account for 74% of the total assets under

management. The acquisition of Vakıf and Halk asset management companies by Ziraat Asset Management increased the concentration in the sector even further in 2019. The top five companies share in total AUM rose to 74% in 2019, from 65% in 2018.

### Investment Funds

As of the end of 2019, there are 41 companies that manage investment funds. Managed fund size has increased by 124% compared to the end of 2018 and reached TRY 127 billion.

Among the companies that manage funds, 47% of total portfolio of investment funds are managed by 3 companies (İş, Ziraat and Ak Asset Management).

There was a net capital inflow of TRY 22 billion in investment funds in 2019. While 41% of this increase was sourced from money market funds, 22% was due to hedge funds in the last quarter of the year.

According to Central Securities Depository data, the total number of investment fund investors increased by 4% compared to the previous year and reached 3 million. A significant part of these investors consists of individual investors, which account for 75% of the total investment fund portfolio size.

	2018	2019
Mutual Funds	44,276	98,635
Real Estate Investment Funds	3,994	6,842
Venture Capital Investment Funds	1,255	1,516
Exchange Traded Funds	182	364
Hedge Funds	7,213	19,936
<b>Total</b>	<b>56,920</b>	<b>127,292</b>
<i>Private Funds</i>	<i>6,488</i>	<i>13,444</i>

Source: TCMA

Investment funds consist of mutual funds, real estate investment funds, venture capital investment funds, exchange traded funds and hedge funds.

Mutual funds constitute 77% of total investment funds as of the end of 2019. Even though the mutual funds started to shrink in the second quarter of 2018, the cut in withholding taxes for deposits reversed this trend at the end of August 2019. Offering a more attractive return in contrast to bank deposits, the money market funds rose significantly to the historical peak of TRY 127 billion in 2019.

In 2019, the number of hedge funds increased by 55 to 171, while the portfolio size of these funds increased by 176% to TRY 20 billion. As both interest rates declined rapidly in the second half of 2019, investors continued to search for alternative investment instruments. In this period, hedge funds mainly denominated in foreign currency offered an attractive alternative for investors.

When real estate investment funds first came to the market in 2016, 3 real estate investment funds' total portfolio stood at TRY 85 million. The number of real estate investment funds managed by 13 asset management companies increased to 39 as of the end of 2019, and the size of these funds reached almost TRY 7 billion.

The number of venture capital funds, first established in 2016, increased to 18 in the same period. The total size of these funds is TRY 1.5 billion.

The Central Securities Depository (CSD) publishes monthly net capital inflows and outflows for mutual funds adjusted for the price effect. Since the funds of asset management companies established abroad are not included in CSD data, the portfolio size (TRY 122 billion as of the end of 2019) presented in Table 5 is lower than the amount compiled by our Association (TRY 127 billion).

	Asset Size December 2018	Net Capital Inflows January – December 2019	January – December 2019 Capital Gains	Asset Size December 2019
Money Market Funds	12,848	21,413	5,642	39,903
Debt Securities Funds	17,891	5,991	3,611	27,493
Hedge Funds	6,964	11,543	3,363	21,870
Variable Funds	3,585	5,457	1,111	10,153
Real Estate Funds	3,117	2,308	980	6,405
Participation Funds	1,539	3,681	551	5,771
Equity Funds	2,290	516	990	3,796
Fund of Funds	1,496	721	435	2,652
Venture Capital Funds	1,270	53	262	1,585
Precious Metal Funds	530	470	225	1,225
Capital Protected Funds	501	224	194	919
Blend/Mixed Funds	484	-42	124	566
<b>Total</b>	<b>52,514</b>	<b>52,335</b>	<b>17,488</b>	<b>122,337</b>

Source: CSD

As illustrated in Table 5, the biggest increase in investment funds in 2019 was in money market funds with an increase of TRY 21 billion. This was a direct result of money markets funds outperforming bank deposits in returns.

Due to the intense interest of investors in hedge funds, these funds also registered a significant inflow of TRY 12 billion during the year.

The size of the private funds which are set up exclusively by asset management companies and allocated privately to individuals and/or institutions rose by 107% to TRY 13.4 billion compared to the previous year. The number of these funds increased from 72 to 113 in this period. A significant part of these newly established private funds were hedge funds.

The composition of securities that the mutual funds invest in are illustrated in Table 6. Real estate and venture capital investment funds are not included in this data.

## Pension Funds

As of the end of 2019, 25 asset management firms are managing pension funds. The asset size of pension funds is growing steadily due to the state contribution scheme introduced in 2013. In 2019, pension funds grew by 37% compared to 2018 reaching TRY 128 billion. This figure includes automatic enrollment system funds as well. There are currently 11.4 million unique investors with TRY 119 billion of assets. TRY 17 billion of this figure consists of state contributions.

In terms of pension funds portfolio, the top five institutions (Ziraat, Ak, İş, Garanti and Yapı Kredi Asset Management) manage 83% of the total asset size.

A closer look at the data reveals that a significant portion of mutual funds invests in short term instruments.

**Table 5: Mutual Funds' Portfolio (TRY mn.)**

	2018	2019
Repo	4,097	25,076
Deposits*	2,210	23,640
Corporate Bonds	18,335	20,487
Eurobonds	8,290	13,485
Government Bonds	3,893	10,517
Equity	4,172	8,837
Sukuk**	205	5,932
Gold	568	611
Other***	6,446	5,460
<b>Total</b>	<b>48,216</b>	<b>114,046</b>

Source: Takasbank (Settlement and Custody Bank)

\* Includes participation accounts

\*\* Government and corporations

\*\*\* Includes Takasbank money market, other funds shares, cash collateral for futures

The weight of deposits, which was 5% at the end of 2018, increased to make up 21% of the total assets. Similarly, repo balance rose to 22% of the total portfolio size with an increase of TRY 21 billion.

**Table 6: Pension Funds' Portfolio (TRY mn.)**

	2018	2019
Government Bonds	30,423	38,184
Equity	11,176	18,539
Sukuk*	963	17,469
Eurobonds	12,965	16,774
Repo	4,425	10,715
Corporate Bonds	13,711	10,114
Deposits**	10,277	6,016
Gold	7,003	4,845
Other***	2,244	5,031
<b>Total</b>	<b>93,187</b>	<b>127,687</b>

Source: Takasbank (Settlement and Custody Bank)

\* Including sukuk issues by the government in 2019

\*\* Includes participation accounts

\*\*\* Includes Takasbank money market, other funds shares, cash collateral for futures

The pension fund portfolio composition as per Takasbank data is presented in Table 6. Please note that sukuks issued by the Turkish Treasury were included under government debt securities in 2018. In contrast, these securities were moved to the "sukuk" category in 2019 as illustrated in

Table 6. Accordingly, the weight of sukuks in pension funds comes in third place with a share of 14%. The weight of equities is 15% in pension funds, approximately twice the amount of equity in mutual funds (8%).

## Discretionary Asset Management

As of the end of 2019, there are 26 asset management companies that provide individual portfolio management services. In this period, the portfolio of 2,202 real persons and 225 legal entities totaling TRY 29 billion is managed by asset management companies. It is important to note that an investor may have multiple accounts in several firms.

services turned to one of the three asset management companies (Yapı Kredi, Azimut and Ak Asset Management).

While investors' interest in mutual funds increased, discretionary asset management growth remained at 26%. In 2019, more than half of the investors who received discretionary asset management

Discretionary asset management data is divided into collective investment securities (mutual funds, etc.) and other securities (equities, bonds etc). When analyzed along these lines, 49% of the investments of TRY 8 billion belonging to 2,202 natural persons are invested in mutual funds. This figure stands at 13% for the portfolio of TRY 21 billion belonging to legal entities.

	Collective Investment Securities	Other Securities	Total
Real Persons	3,924	4,084	<b>8,007</b>
Legal Entities	2,647	18,058	<b>20,705</b>
<b>Total</b>	<b>6,571</b>	<b>22,142</b>	<b>28,713</b>

Source: TCMA

## Investment Trusts

Currently, 12 of 49 investment trusts receive asset management services from asset management companies. 90% of the total investment portfolio consists of securities investment trusts.

The increase of TRY 95 million in the securities investment trusts constituted 74% of the total increase in assets.

The portfolio of investment trusts managed by asset management companies reached TRY 644 million in 2019, with an increase of TRY 129 million compared to the previous year.

Compared to the end of 2018, there was no significant change in real estate investment trusts. In the same period, there was a 107% increase in venture capital investment trusts' assets.

Table 8: Investment Trusts' Portfolio Value (TRY million)		
	2018	2019
Securities Investment Trusts	472.0	566.5
Real Estate Investment Trusts	12.2	12.8
Venture Capital Investment Trusts	31.1	64.5
<b>TOTAL</b>	<b>515.3</b>	<b>643.8</b>

Source: TCMA

## EMPLOYEES

With the end of Halk and Vakıf Asset Management's activities in 2019, the number of employees in the sector decreased by 39 to 738. Women constitute only 36% of the total number of employees in the asset management industry.

Among the 49 asset management companies, İş, Yapı Kredi and Ak Asset Management, which have 50 or more employees each, employ one fourth of the total number of employees in the industry. On the other hand, there are 14 institutions that have 5 or less than 5 employees. Looking at the sector in general, the average number of employees per company is 15.

36% of employees in asset management companies have a postgraduate degree (master and doctorate). 46% of employees have 15 or more years of experience.

Distribution of employees in asset management companies by department is given in Table 10. Asset management companies may have in-house risk management and fund service departments, or they can outsource these services from third parties. There are 23 asset management companies with a risk management department and 25 asset management companies with a fund service unit.

	# of Employees		Average # of Employees	
	2018	2019	2018	2019
CEO	54	48	1	1
Asset Management	205	204	5	5
Domestic Sales	81	76	4	4
International Sales	5	2	3	2
Financial Advisory	17	15	2	2
Research	41	39	1	2
Risk Management	34	33	1	1
Fund Service Unit and Operations	68	67	3	3
Financial & Administrative Affairs	127	108	3	2
Internal Audit	65	61	2	2
Human Resources	5	5	1	1
Information Technology	12	14	2	2
Other	63	66	3	2
<b>TOTAL</b>	<b>777</b>	<b>738</b>	<b>14</b>	<b>15</b>

Source: TCMA

As of the end of 2019, 28% (204 people) of the employees work in the asset management department. In 11 asset management companies that do not have a portfolio management department, the general manager assumes this task.

Only one institution has an overseas sales and marketing unit. 2 people are employed in this department.

## FINANCIALS

In 2019, total assets of asset management companies increased by 24% compared to the end of the previous year and reached TRY 1.1 billion.

The industry is liquid with 91% of the sector assets consisting of current assets. Equity constitutes 86% of total assets.

58% of total assets in the collective balance sheets of asset management companies belong to five companies (Ak,

Garanti, İş, Ziraat and Yapı Kredi Asset Management).

In 2019, cash and cash equivalents across the sector decreased by 19% compared to the previous year and fell to TRY 419 million. In line with the fall in deposit rates, institutions shifted their assets to short-term financial investments in 2019. As a result of this preference, short-term financial investments increased by 114% reaching TRY 418 million compared to the previous year.

Table 10: Balance Sheet of Asset Management Companies (million TRY)			
	2018	2019	% Change
<b>Current Assets</b>	<b>863.0</b>	<b>1,034.3</b>	<b>19.8%</b>
Cash and Cash Equivalents	518.6	419.4	-19.1%
Financial Assets (Short-term)	195.8	418.4	113.7%
Other Current Assets	148.6	196.4	32.1%
<b>Non-Current Assets</b>	<b>54.8</b>	<b>104.7</b>	<b>90.9%</b>
Tangible Assets	12.3	26.0	111.8%
Financial Assets (Long-term)	22.6	14.6	-35.4%
Other Non-Current Assets	20.0	64.1	220.8%
<b>TOTAL ASSETS</b>	<b>917.9</b>	<b>1,139.0</b>	<b>24.1%</b>
<b>Short-term Liabilities</b>	86.7	74.1	-14.5%
<b>Long-term Liabilities</b>	22.5	47.3	110.5%
<b>Equity</b>	<b>808.7</b>	<b>981.8</b>	<b>21.4%</b>
Paid-in Capital	422.2	383.4	-9.2%
Adjustments on Equity	10.0	7.4	-25.8%
Share Premiums/Discounts	5.3	7.7	45.1%
Other Comprehensive Income	-2.6	0.1	-103.7%
Reserves on Retained Equities	79.7	83.5	4.6%
Retained Profit/Loss	61.7	181.9	195.0%
Net Profit/Loss	232.4	317.9	36.8%
<b>TOTAL LIABILITIES</b>	<b>917.9</b>	<b>1,139.0</b>	<b>24.1%</b>

Source: TCMA

## Operating Income

Income stream of asset management companies can be split into three categories: portfolio management commissions, consultancy fees and fund sales revenues. However, in practice, nearly all income is

generated by portfolio management commissions.

	2018	2019	% Change
<b>Portfolio Management Commissions</b>	<b>493.6</b>	<b>640.7</b>	<b>29.8%</b>
<b>Collective Portfolio Management</b>	<b>461.3</b>	<b>601.1</b>	<b>30.3%</b>
Pension Funds	99.5	108.2	8.7%
Investment Funds	358.1	488.0	36.3%
Mutual Funds	263.9	367.3	39.2%
Real Estate Funds	57.4	52.6	-8.3%
Venture Capital Funds	6.1	15.7	158.1%
Exchange Traded Funds	0.8	1.1	34.3%
Hedge Funds	29.9	51.3	71.6%
Investment Trusts	3.7	4.9	32.1%
<b>Discretionary Portfolio Management</b>	<b>32.3</b>	<b>39.6</b>	<b>22.5%</b>
Retail	16.3	16.3	-0.3%
Corporate	16.0	23.4	45.6%
<b>Investment Consultancy Revenues</b>	<b>5.1</b>	<b>3.9</b>	<b>-23.7%</b>
<b>Mutual Fund Sales Revenues</b>	<b>0.0</b>	<b>0.0</b>	<b>-</b>
<b>TOTAL</b>	<b>498.7</b>	<b>644.6</b>	<b>29.2%</b>

Source: TCMA

Compared to 2018, pension fund revenues of asset management companies exceeded TRY 100 million with an increase of 9%. In contrast, parallel with the increase in total assets under management, revenue from investment funds increased by 36% and nearly reached TRY 500 million. As a result, revenues from asset

management companies' activities increased by 29% to TRY 645 million in 2019.

Similar to previous years, consultancy fees and fund sales revenues did not constitute a significant portion of firms' revenues in 2019.

## Investment Funds

In 2019, revenues from investment fund management increased by 36% to TRY 488 million, accounting for 76% of total revenues.

In 2019, income from mutual funds, which make up 77% of total investment fund assets, increased by 39%, while revenue from venture capital funds increased by 158% to TRY 16 million. The decrease in revenues from real estate funds is due to the uncollectibles from 2018 of a single

asset management company, which as a result underperformed in 2019.

The average annual commission charged by asset management companies can be calculated by dividing the last 12-month revenues by the average 12-month portfolio value. The average commission rate for investment funds is 0.55% (Table 12). In 2018, this figure was 0.59%.

Rates*	Total
Investment Funds	0.55%
Pension Funds	0.10%
Discretionary Asset Management	0.16%
Investment Trusts	0.88%
<b>TOTAL</b>	<b>0.29%</b>

Source: TCMA

## Pension Funds

Although the size of the investment funds and pension funds is similar, the income from pension funds is considerably lower.

Although the pension fund size increased by 37% in 2019 compared to the previous year, revenues from the management of these funds increased by only TRY 9 million (9%) to TRY 108 million. Asset

## Expenses

In 2019, general administrative expenses increased by 14% compared to the previous year and reached TRY 379 million.

management companies made an annual 0.10% commission from pension funds.

## Discretionary Asset Management

Revenue from discretionary asset management increased 23% in 2019 across the sector, reaching TRY 40 million.

In 2019, the annual average commission rate of companies providing discretionary asset management services is 0.16%.

## Investment Trusts

Only a small portion of investment partnerships are managed by asset management companies. The revenue generated by the investment trusts in 2019 is TRY 5 million. In this period, annual average commission charged by asset management companies is 0.88%.

57% of these expenses are personnel expenses.

	2018	2019	% Change
Sales Revenues (net)	606.3	722.8	19.2%
Cost of Sales	-89.4	-56.6	-36.7%
<b>Gross Profit/Loss</b>	<b>516.9</b>	<b>666.2</b>	<b>28.9%</b>
Marketing, Sales and Distribution Expenses	-9.1	-15.0	64.5%
Administrative Expenses	-331.7	-378.6	14.1%
<i>Salaries and Fringe Benefits</i>	-188.5	-215.6	14.4%
Research & Development Expenses	-0.1	0.0	-94.6%
Other Operating Income	19.8	30.7	55.2%
Other Operating Expenses	-7.9	-13.7	74.1%
<b>Operating Profit/Loss</b>	<b>188.0</b>	<b>289.6</b>	<b>54.0%</b>
Income from Investment Activities	42.0	63.5	51.2%
Expenses from Investment Activities	-13.4	-16.8	24.8%
<b>Profit/Loss Before Financial Expenses</b>	<b>216.6</b>	<b>336.4</b>	<b>55.3%</b>
Financial Income	88.7	70.6	-20.3%
Financial Expense	-3.4	-3.6	7.6%
<b>Profit/Loss Before Tax</b>	<b>301.9</b>	<b>403.4</b>	<b>33.6%</b>
Current Tax Income / Expense	-61.3	-84.7	38.1%
Deferred Tax Income / Expense	-8.2	-0.8	-90.4%
<b>Net Profit/Loss</b>	<b>232.4</b>	<b>317.9</b>	<b>36.8%</b>

Source: TCMA

The average number of employees, which was 761 in 2018, decreased to 747 in 2019. By dividing personnel costs by the average number of staff, it is possible to find the monthly average cost of an employee.

## Profitability

As a result of the increase in mutual fund portfolio size, the revenue that asset management companies earned from their activities increased significantly in 2019. In this period, gross profit increased by 29% compared to the previous year and reached TRY 666 million.

In 2019, this amount increased by 16% compared to the same period of the previous year and reached TRY 24,040. On the other hand, in parallel with the increasing profitability, the average monthly profit per employee increased by 39% to TRY 35,491 in 2019.

Compared to the previous year, there is a significant change in operating expenses relative to gross profit. Along with the increasing portfolio size, there was a significant increase in sales revenues while expenses did not grow at the same rate. Operating profit of the sector increased by 54% to TRY 290 million in 2019 as a result of the rising revenues.

Table 14: Profitability of Asset Management Companies		
	2018	2019
<b># of companies</b>	<b>54</b>	<b>52</b>
# of companies with profits	35	34
# of companies with losses	19	15
<b>Net Profit (million TRY)</b>	<b>232.4</b>	<b>317.9</b>
Total Profit (million TRY)	254.3	330.4
Total Losses (million TRY)	-21.9	-12.5
<b>Profitability</b>	<b>45.0%</b>	<b>47.8%</b>
<b>Return on Equity</b>	<b>33.2%</b>	<b>38.3%</b>

Source: TCMA

Net income from the asset management companies' own investment activities rose by 64% to TRY 47 million. After taxes, net income reached TRY 318 million, an increase of 37% compared to 2018. Net profitability and equity profitability also increased in line with the increase in revenues.

While 34 institutions made a profit of TRY 330 million in 2019, 15 institutions lost a total of TRY 13 million. Ak, Yapı Kredi, Ziraat, Garanti and İş Asset Management, which were the most profitable companies in 2019 respectively, accounted for 72% of the sector's total profit, with a total profit of TRY 230 million.

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