



Turkey: Rising Star

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Partners and Alternative Investments

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BNP Paribas Investment Partners

- ❑ € 530 Billion AUM as of Dec, 2009
- ❑ 11th asset manager worldwide, N° 5 in Europe, a major player in Asia
- ❑ Global Investor named BNPP IP European Asset Management House of the year 2009
- ❑ 4,260 staff in 45 offices serving 70 markets.
- ❑ Total emerging markets AUM as end of March 2010 : 54 billion Euro across asset class, and BNPP IP and its partners....
- ❑ Leading asset manager in Brasil, China, India, Turkey, Indonesia, Korea, Russia .
- ❑ 1,5 billion Euro Turkey exposure across asset class, and BNPP IP and its partners....
- ❑ Turkey dedicated Funds and Mandates.
 - Fortis L Fund Equity Turkey
 - Parvest Equity Turkey
 - Merhaba Turkish Fund - Japan
 - Fortis Flexi III Bond Government Turkey for Japanese Clients
- ❑ Fortis Portföy Yönetimi & Teb Portföy Yönetimi are local partners in Turkey.



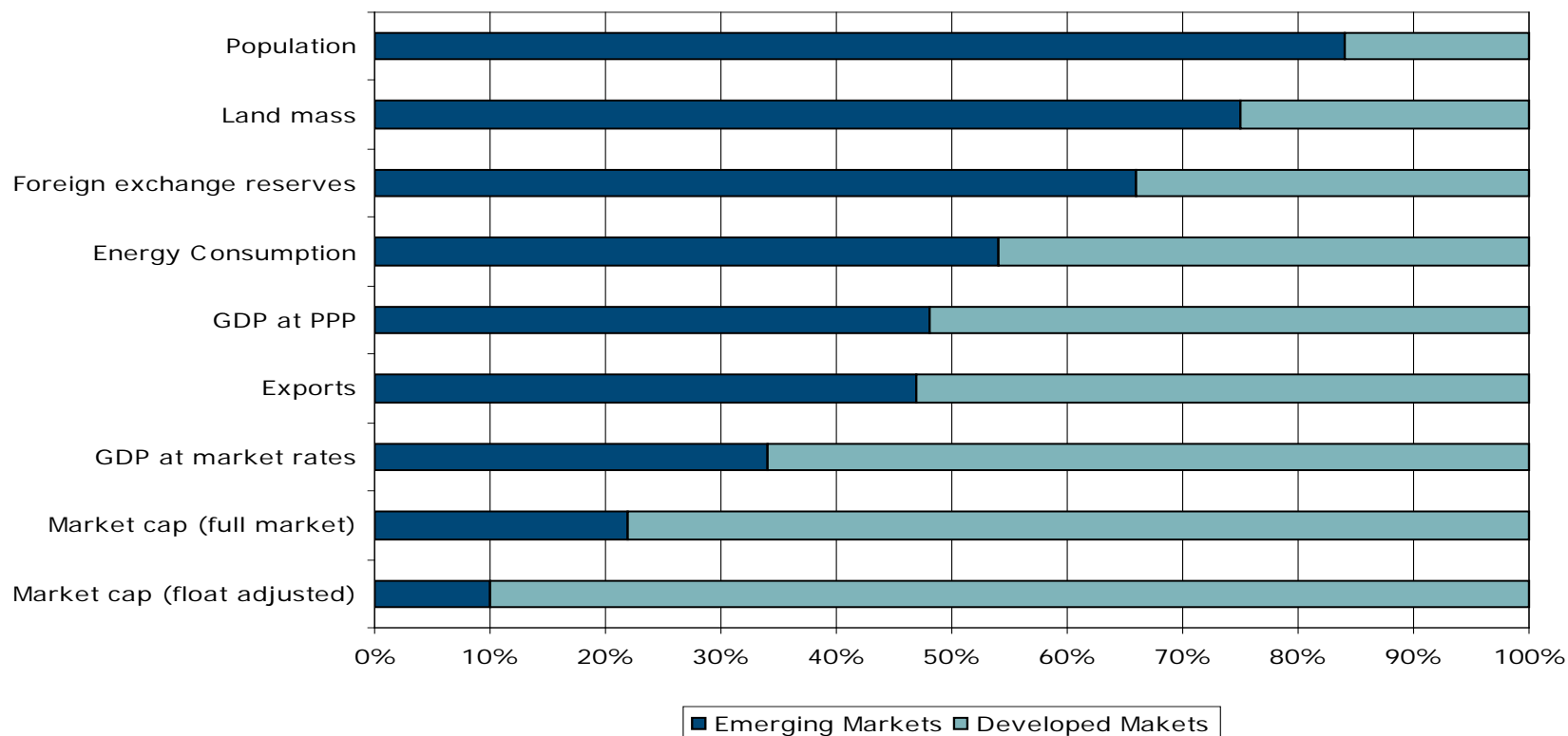


Recent Trends in Emerging Markets



Emerging markets at a glance

Emerging economies as % of total world, 2008-2009



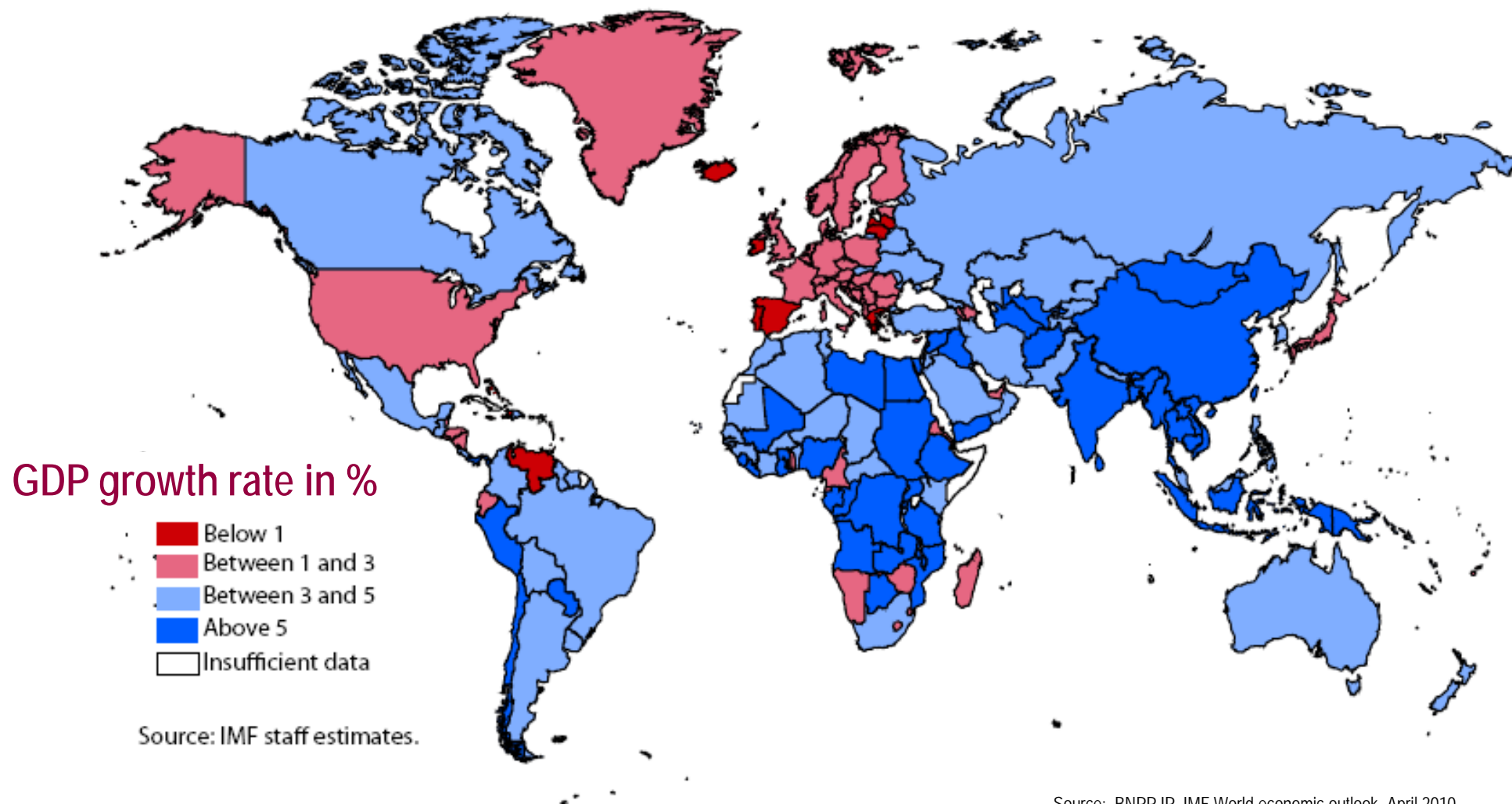
- Emerging markets (EM) = 84% of the world population, 75% of land mass and 50% of global GDP
- ...and just 10% of world equity market capitalisation

Source: S&P Global Stock Markets Factbook, 2009



Emerging versus Developed: a two speed world

- GDP Growth projections in 2010-2011



Recent trends: Who leads the world growth league?

- 2009-2010: a few EM countries expected to grow by up to 5 times faster than developed

	2008	2009	2010*	2011*	2012*
World	3.0	-0.8	4.2	3.8	4.2
United States	0.4	-2.4	2.8	2.7	3.1
Euro area	0.5	-4.0	1.0	1.2	1.8
Japan	-1.2	-5.2	2.2	2.0	1.8
Emerging Economies					
Central & Eastern Europe	3.7	-5.4	3.8	3.5	4.4
Developing Asia	6.9	5.7	8.9	7.3	7.6
Latin America & Caribbean	4.1	-2.0	4.1	4.2	4.1
BRIC countries					
Brazil	5.1	-0.2	5.9	4.8	4.3
Russia	5.6	-7.9	4.9	4.2	4.5
India	9.2	6.7	7.2	9.0	8.3
China	9.6	8.7	10.5	8.4	8.6
Turkey	0.9	-5.5	5.0	3.5	4.0

* Forecasts

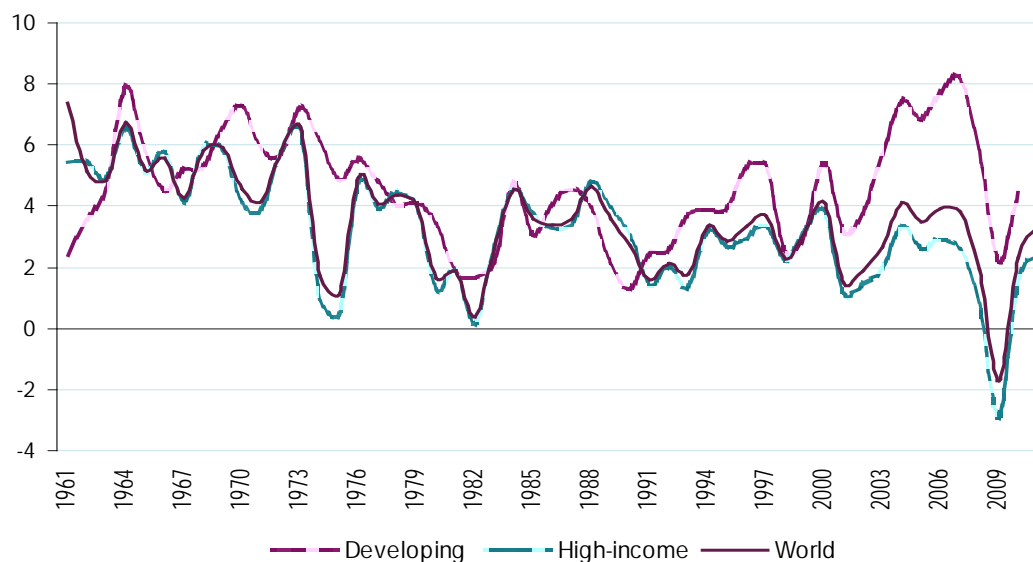
Source: BNP Paribas CIB, April 2010



What is decoupling?

- Not in terms of financial markets behaviour: portfolios are globalised, capital flows are instantaneous
- Not really in terms of valuation
- Emerging countries follow the same business cycles as developed
- Faster growth on a sustained basis implies decoupling (economies are more recession proof)

GDP Growth in Developed and Emerging countries, % y/y



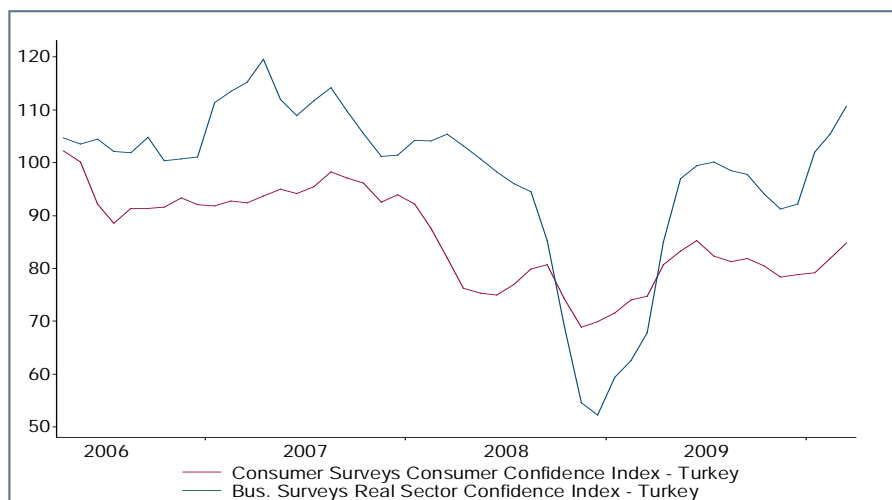
Source: BNPP IP, IMF, April 2010



Recent trends: A more balanced growth ahead

- The GDP structure in 2009 was distorted by stimulus measures
- Domestic demand will be the major GDP drivers in 2010 and onwards

Turkey: Consumer and Real sector confidence



China: Consumer confidence & Business climate



Source: BNP CIB, Factset, April 2010

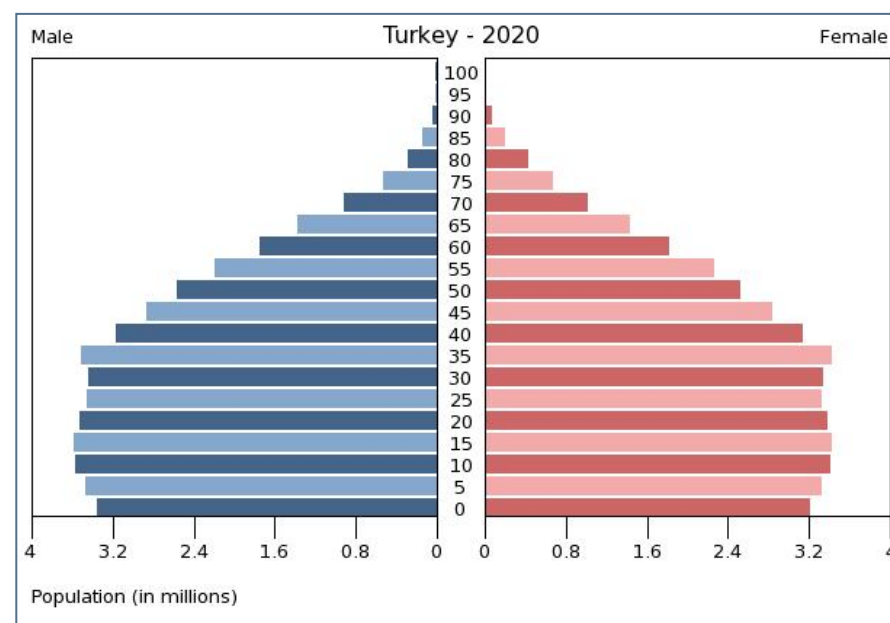
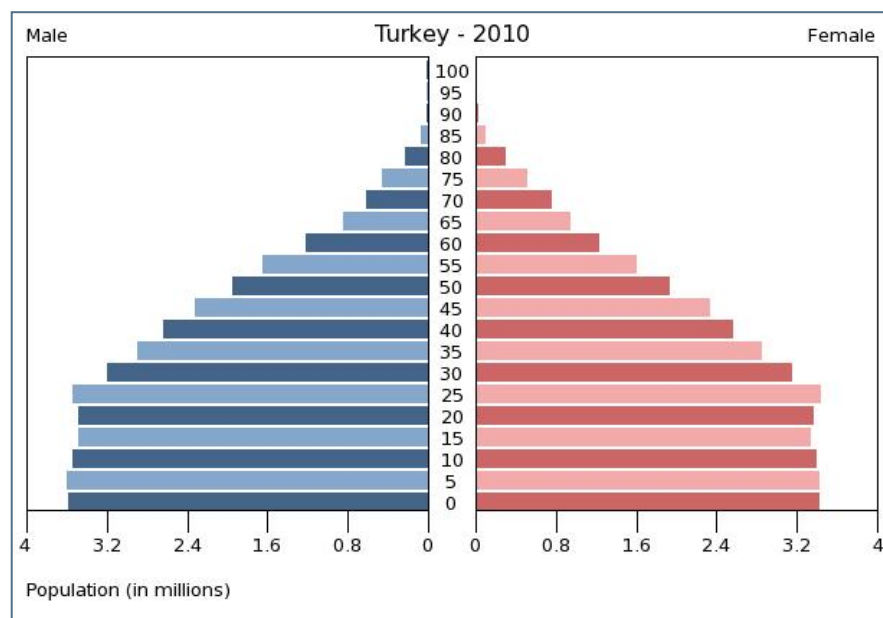


Recent trends: Rebound in private consumption

- Demography matters: Turkey has one of the best demographic profiles globally
- As young population enters into active life, both potential output and consumption are underpinned

2010-2020: Young population in Turkey will enter into active age

→ Consumption will grow



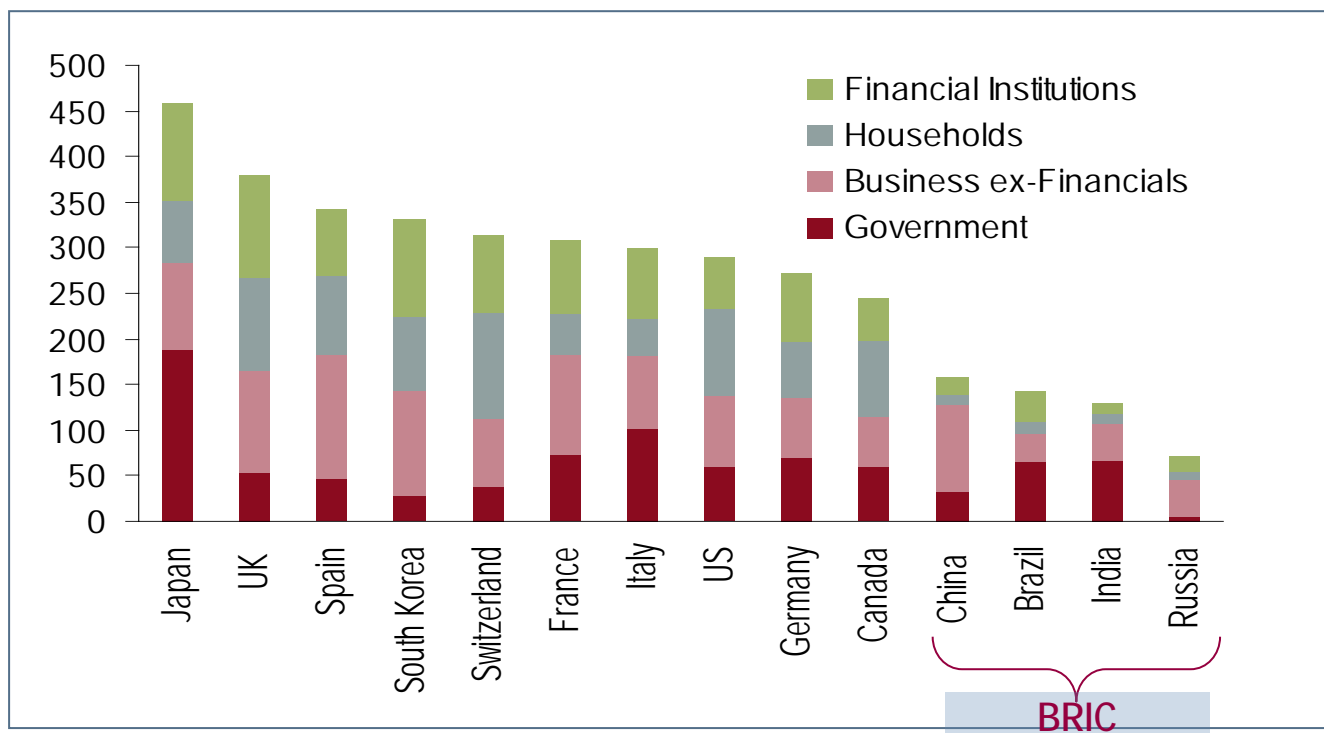
Source: BNPP AM, US Census Bureau, April 2010



Recent trends: Financial stability

- Emerging countries are relatively underleveraged, as opposed to the developed world
- Low debt levels, lower interest rates & local sources of funding – conditions for sustainable growth

Total debt / GDP ratio in Emerging and Developed countries



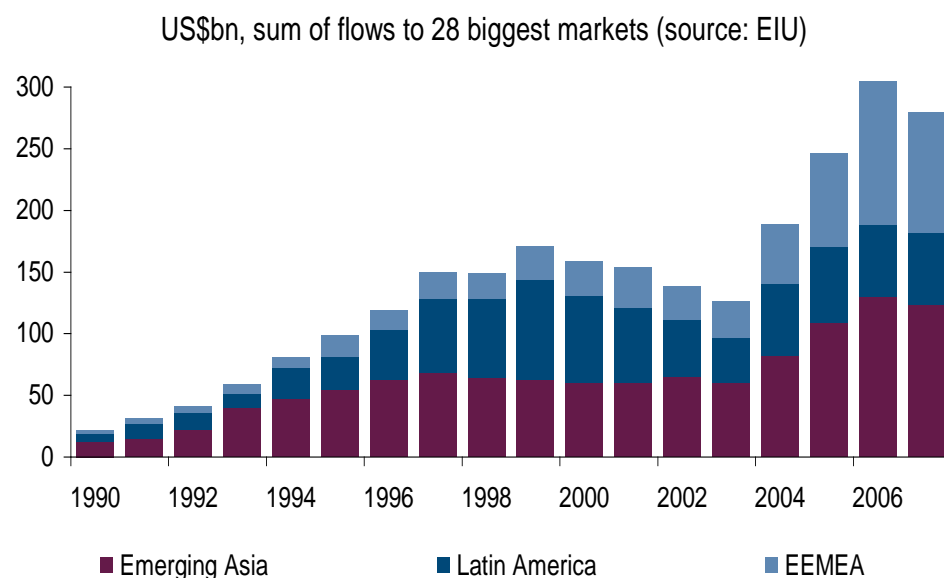
Source: IIF, Global Economic Monitor, McKinsey "Debt and deleveraging: the global credit crunch and its consequences" report, January 2010



Recent trends: Structural reforms drive Foreign Direct Investments

- Reforms have accelerated the flow of FDI (Foreign Direct Investment) into Emerging markets
- 2009: for the 1st time, FDIs into Emerging countries exceed FDIs into Developed countries

FDI flows into Emerging Markets
Quarterly, USD, bn



Source: UNCTAD, EIU, December 2009

FDI flows into Emerging & Developed Markets
USD, bn

	2007	2008	2009 (est)
Emerging Asia	298	323	235
Latin America	128	141	94
EEMEA	248	281	164
Total Emerging	674	745	493
Total Developed	1355	915	441



Recent trends: Deregulation of the asset management industry

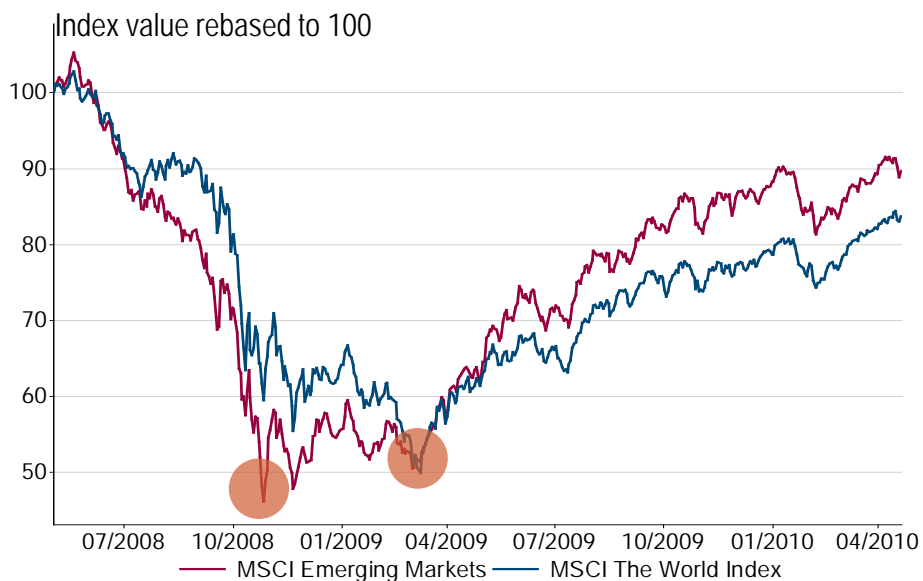
- **Domestic deregulation**
 - Pension funds scheme adopted by increasing number of EM countries
 - Greater flexibility in allocation policies (e.g. coming Russian pension reform)
- **Greater openness of domestic markets**
 - Gradual openness of China and Indian markets for non-resident investors (QFII, QDII, FII license...)
 - Saudi Arabia is considering to open its markets for offshore investors
 - Non-resident asset management companies accepted as service providers to domestic institutions in EM countries
- **Sophistication of available instruments**
 - Need for diversification → changing domestic investment practices
 - Sophistication of available instruments (e.g. futures in Shanghai launched in April'2010)
 - Emerging Markets local debt has become a true sub-asset class



Recent trends: Equity market outlook

- 2010: earnings growth the main driver

Emerging & Developed markets: performance in 2008 – end 2009



Source: MSCI, BNPP AM, April 2010

Emerging markets in 2008-2009: performance factors

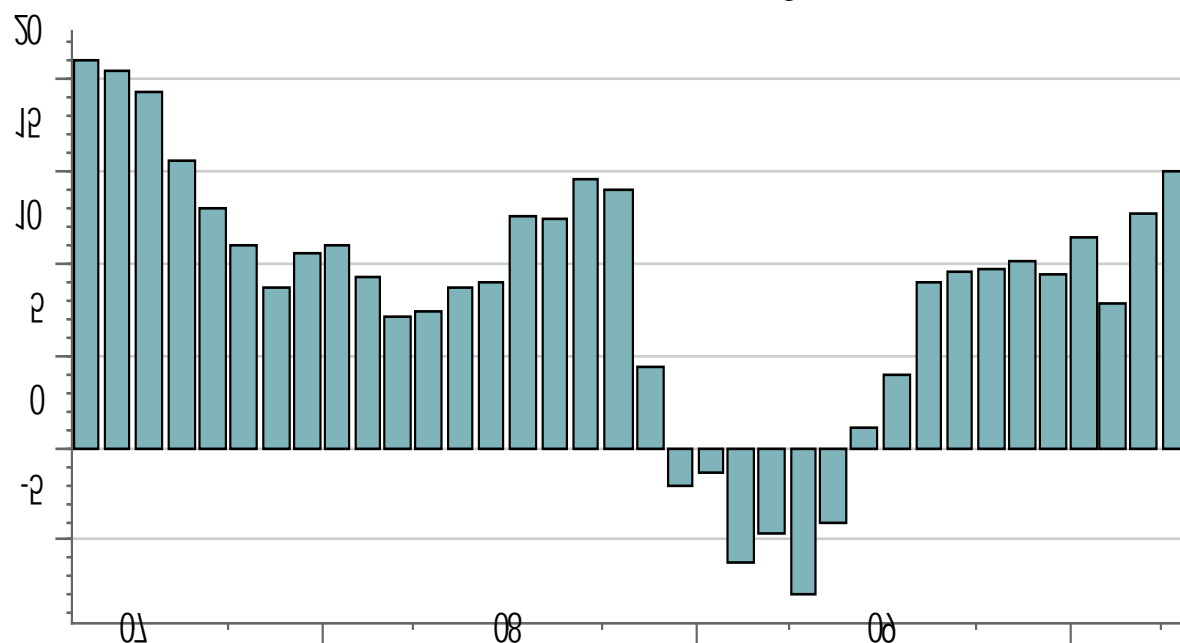
Time	Factor
Q4'08 - Q2'09	Liquidity
Q2'09	Improving macro expectations
Q2'09 - Q3'09	Earnings growth revisions
Q1'10 - Q4'10	<u>Corporate Earnings Growth to surprise on the upside</u>



Recent trends: Earnings growth drives EM markets growth

- A spectacular earnings growth recovery is underway
- Turkey: The momentum is positive: earnings revisions are on the upside

MSCI Turkey : Expected earnings growth 12 Months forward EPS growth



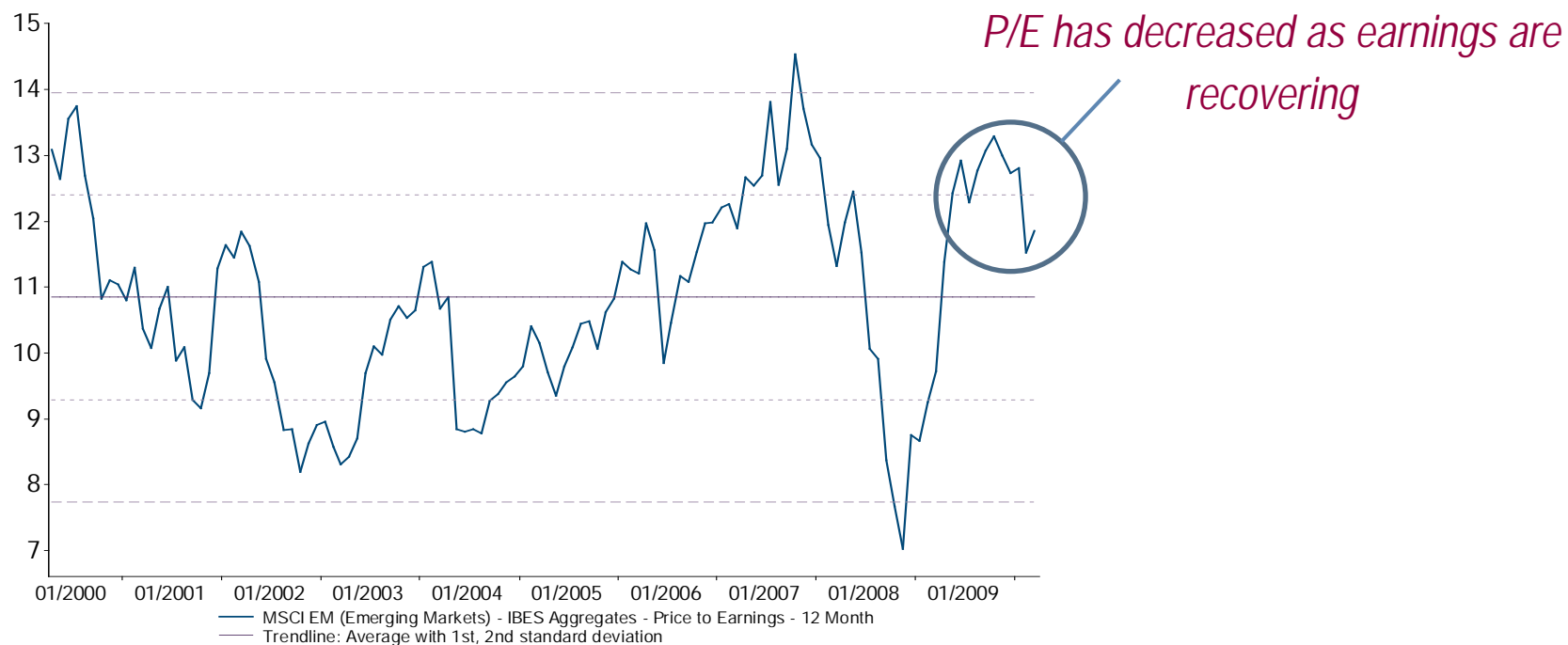
Source: Factset / IBES, April 2010



Recent trends: No market overheating

- 2008: valuations reached distressed levels
- 2009: valuations returned to their historical average
- 2010: earnings growth prevents overheating

EM MSCI Price-to-Earnings ratio



Sources: BNPP AM, MSCI, Factset, IBES, April 2010



Recent trends: EM out-performance

- Over the past 10 years, Turkey has outperformed Developed countries by >200%
- Turkey: strong out-performance, but also higher volatility (higher beta)

MSCI Indices: Developed countries vs GEM and Turkey
indexed performance 2000 – 2010



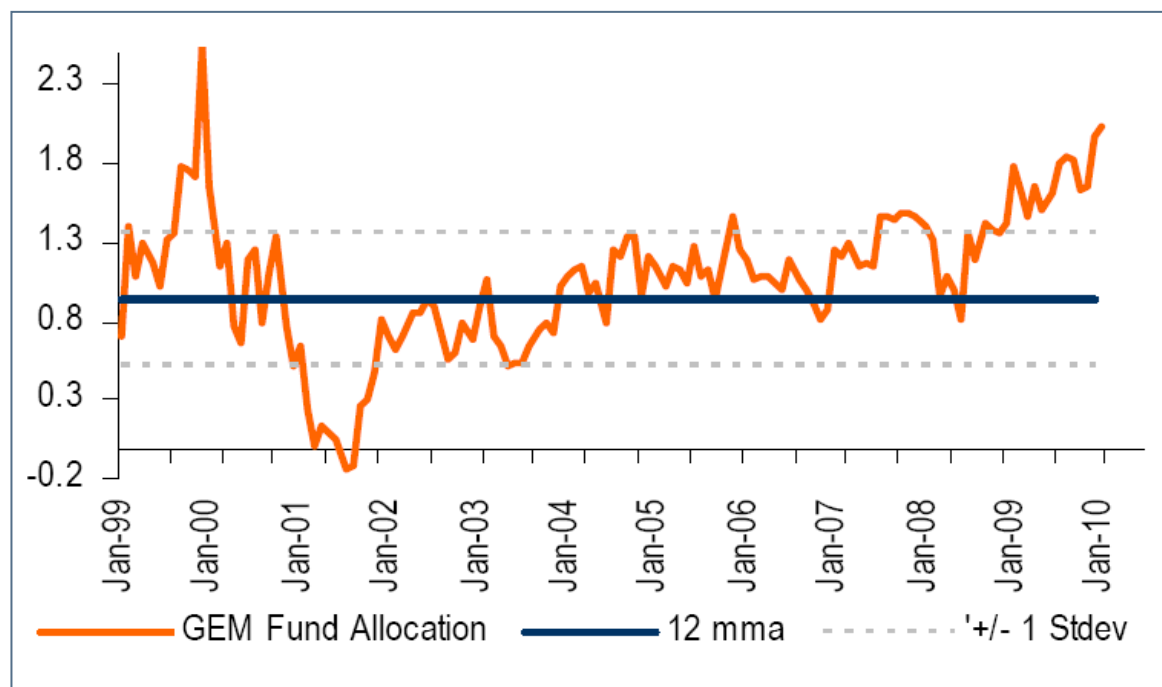
Source: BNPP AM, MSCI, April 2010



Turkey in the global EM portfolios

- More than 70% of Global EM funds are overweight on Turkey (April 2010)
- Turkey is on a rising trend

Long term trend: Turkey in the Global EM portfolios

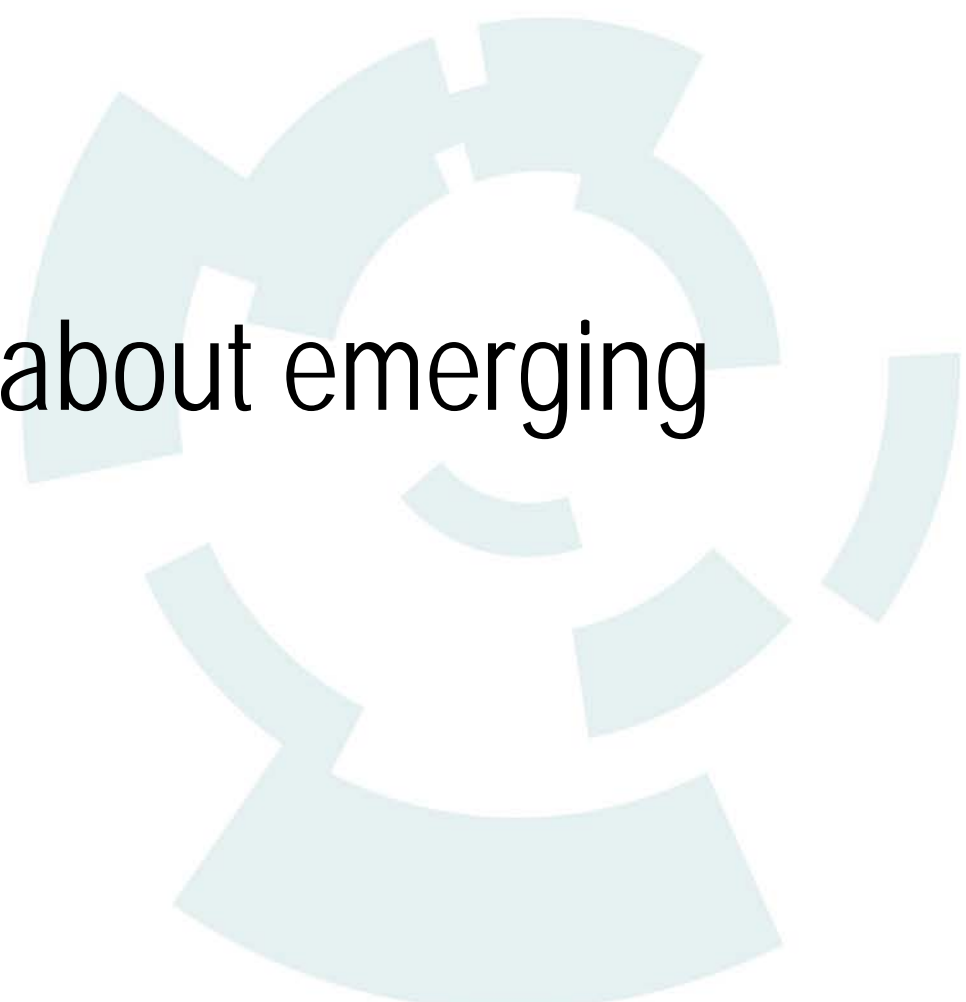


Source: BNPP AM, ML on EPFR, April 2010





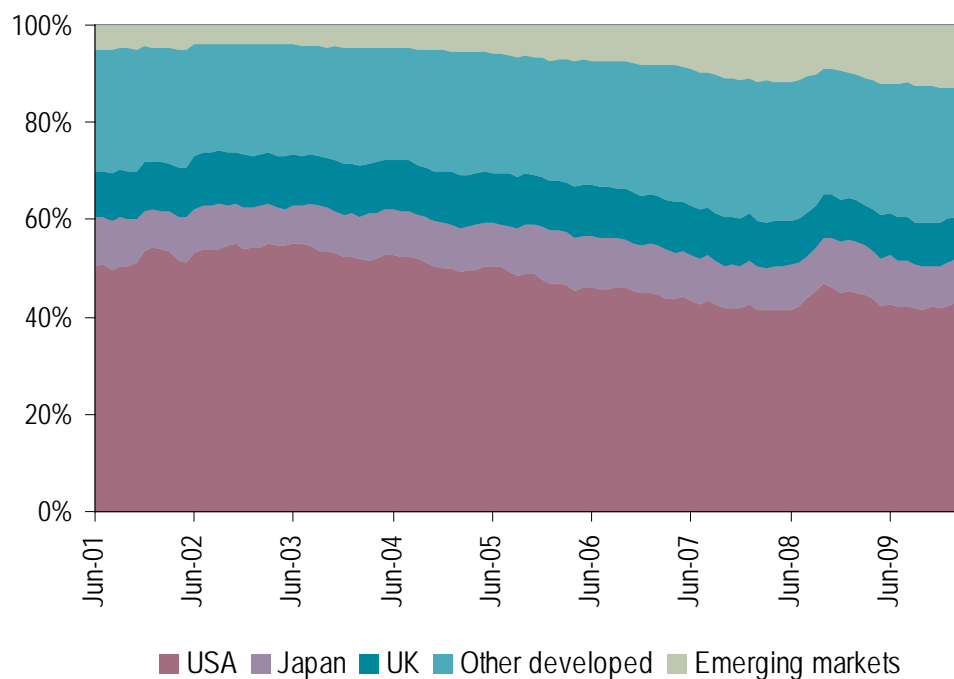
Why do investors care about emerging markets?



Why do investors care about emerging markets?

- Last 10 years: EM weight in the MSCI AC index has increased from 5% to 13%
- EM' ratio Market cap / GDP: a huge room to grow to catch up with developed countries
- → IPOs to play a major role in this process

MSCI AC Global: Market capitalization per region



← Emerging markets weight has increased from 5% to 13%

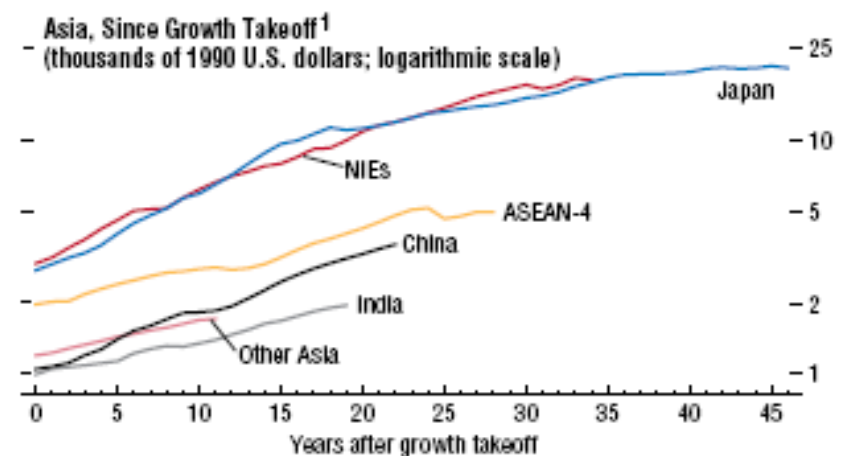
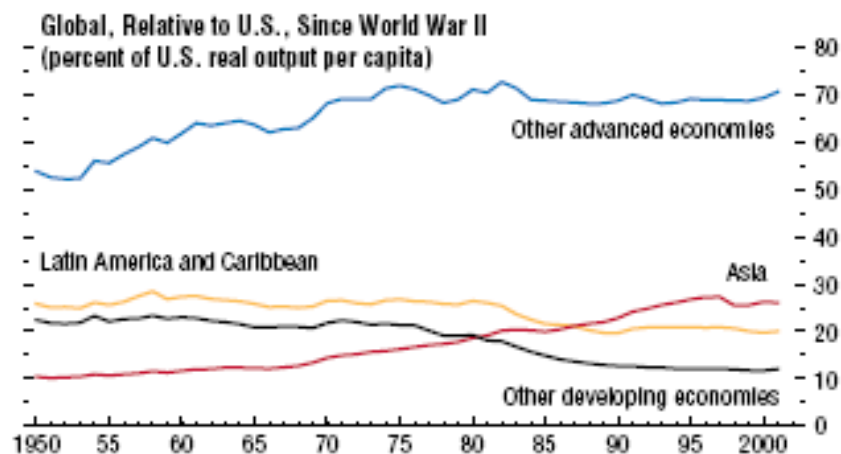
Source: BNPP AM, Factset, MSCI, April 2010



The growth story

Figure 3.1. Output Per Capita

Asia's real income per capita rose sevenfold between 1950 and 2005. As a result, its income gap relative to the United States was significantly reduced.



Source: IMF

Sources: Maddison (2003); and IMF staff calculations.

¹The growth takeoff is defined as occurring in 1955 for Japan, 1967 for the newly industrialized economies (NIEs), 1973 for the ASEAN-4 (Indonesia, Malaysia, the Philippines, and Thailand), 1979 for China, 1982 for India, and 1990 for other Asian economies.



Why do investors care about emerging markets?

- Diversification
- Sustained faster growth (structural development)
- Attractive valuation versus growth profile
- Possibility of currency appreciation
- Economies with a lower level of debt
- High pool of savings which will be managed in an increasingly sophisticated way
- The new era: “a bi-polar world” (US and Asia) versus the old era (which was dominated by the US)
- In some cases, high interest rates with room for decline
- In some sectors, new global leaders



Good to keep in mind

- Role of governance standards

A critical question is whether improvements in corporate governance quality have “real” effects.

Aggregate economic activity and industry growth may be affected through several channels. For example, improvements in the quality of corporate governance may affect growth by **lowering firms’ cost of funds** and **increasing the supply of credit**, thereby encouraging investment. Industries that rely more on outside finance are likely to benefit most from this channel. Better governed firms may **align managers’ and stakeholders’ interests more closely, providing stronger incentives for managers to attain improvements in firms’ productivity.**

De Nicolò, Laeven, and Ueda (2006) assess the relevance of these effects ... **Their results indicate that improvements in corporate governance quality indeed have a positive and significant effect on GDP and productivity growth, as well as on the relative growth of those industries dependent on external finance, consistent with the notion that well-governed firms are better able to attract outside financing.**

Source: IMF, World Economic Outlook, Sep. 2006



Looking into the future

- Markets will evolve with structural changes in EM economies :
 - In, 2000 China banks weight in the MSCI index was 1%. Now – 37% (!)
 - Consumer discretionary sector in China – still only 5%. A huge potential lies here
 - Market depth: Brazil market capitalization in 2000 – \$107, now – \$540 bn
- Turkey: Great potential ahead
 - MSCI Turkey market capitalization now is \$53 bn – similar to China 10 years ago (\$66 bn)
 - Banks dominate Turkish investment universe
 - Turkey equity market will diversify and grow thanks to IPOs





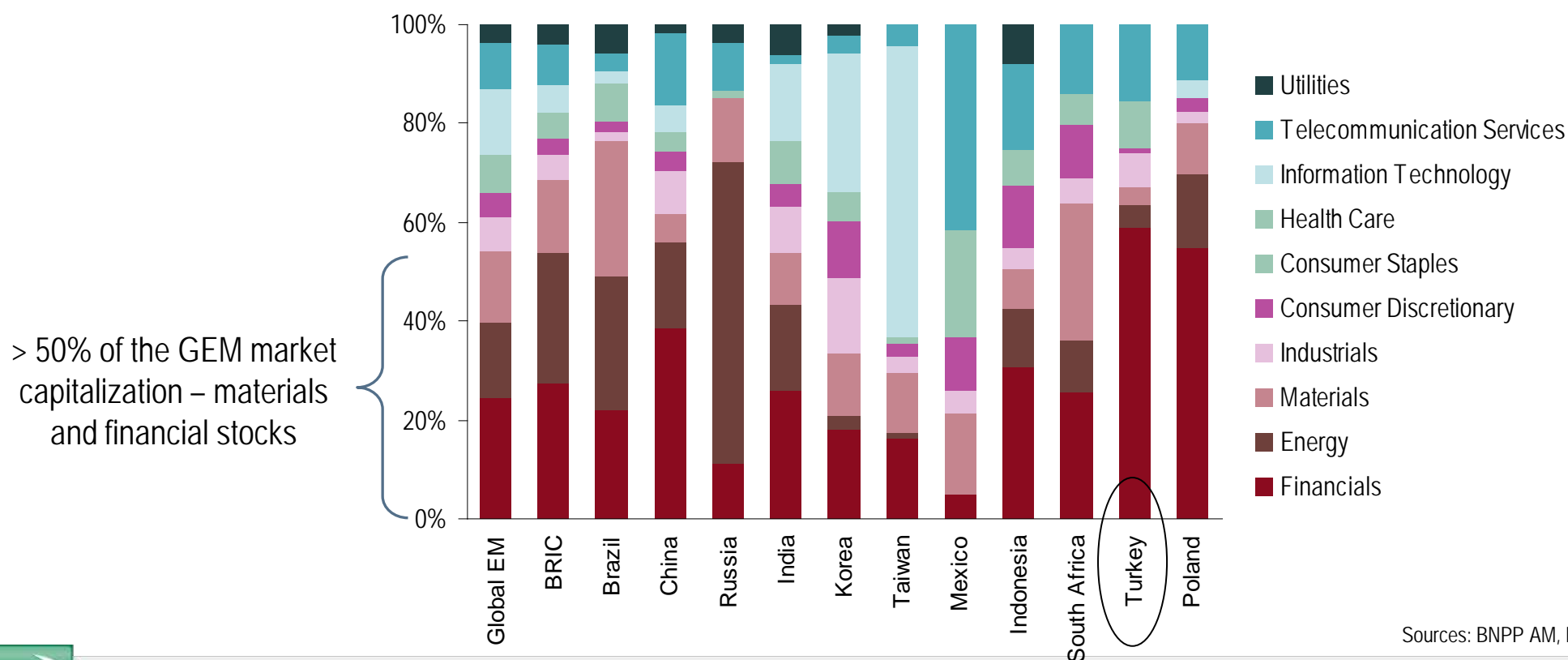
Investing in Emerging markets



Top down sector allocation

- Two biggest sectors in the EM universe: Energy & Materials (30%) and Financials (25%)
- Turkey: Banks dominate

EM markets sectors specialization per country



Sources: BNPP AM, MSCI, end 2009

Bottom-up stock selection

- Our investment style is largely bottom-up: up to 90% of Alpha generation
 - Exploiting under-researched segments of the market (Mid caps)
 - Local presence of analysts and investment teams
- Two types of inputs: Quantitative screening and fundamental research

Quantitative

- Earnings growth / Margins
- Wealth creators (*ROE, ROCE*)
- Valuations (*P/E, P/E growth, Discounted Cash Flow [special cases]*)

Qualitative

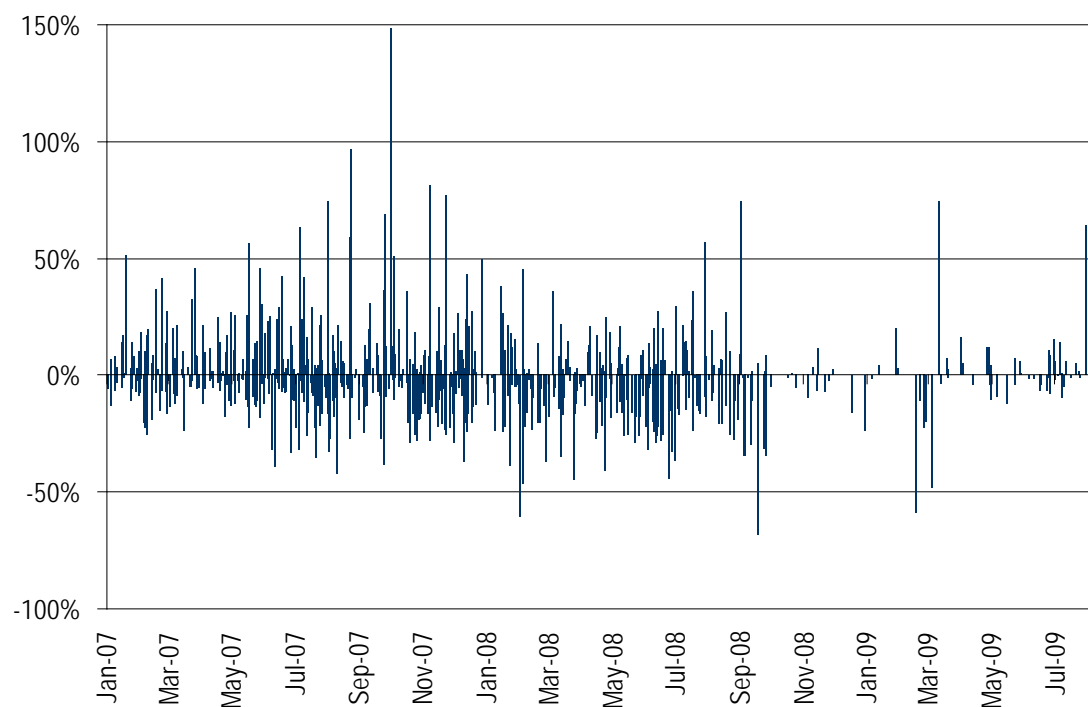
- Sector potential and theme identification
- Management quality
- Corporate governance
- Strategy & market position



IPOs: no free-lunch

- Difficult arbitrage between attractiveness and post-listing volatility
- 1300 emerging markets IPOs in 2007-2009 (chart): Huge dispersion of short term returns

Emerging Markets IPOs: price variation in the 1st week after listing
2007 – 2009



Huge dispersion of returns
during first days after listing

Source: BNPP AM, Dialog, April 2010



What makes an IPO attractive?

- Make sure there is a good solid business reason for the IPO. Cashing out management or financial buyers without a clear use for the capital is a bad idea.
- Make sure the company's infrastructure is solid. Good accounting controls, experienced CFO and other senior managers paint a good picture. Having someone in senior management that has either been through an IPO or has worked at a public company lends a great deal of comfort to your new shareholders.
- Work hard with the underwriters to come up with a defensible valuation. The best way to a successful IPO is to leave a little something on the table for the new investors..
- Transparent corporate governance is imperative these days.
- Hire good quality accounting and legal advice. Don't skimp here.
- Have the management team agree to a long enough lock-up so as to give comfort to the new shareholders that management believes in the future opportunity of the company.
- Having someone on the management team that can handle investor relations
- Choose underwriters that will really be committed to providing good quality research and trading after the IPO.



What makes an IPO attractive?

- Turkey is still a very small, undeveloped equity market (1.6% of GEMs) and dominated by financials (+/- 65% of the index) partly due to a lack of offerings.
- Listed companies are still closely held by the government and/or private groups and generally trade at low P/Es as a result.
- Large offerings (\$5-10bn) that would increase the representation of non-financial companies (i.e. consumer, industrials) would be welcome.
- Recent IPO's in Emerging and particularly in Brazil have been poor performers for several reasons including small market cap/float, short operating history, poor cash flow and business models which will require annual equity offerings to finance growth.
- So we would suggest the following for a successful IPO: if there are growth opportunities raise a lot of cash (don't come back in six months), have a decent track record operating the company with good management and communication with investors and please, price it at an appropriate multiple.



Blog

- NL <http://williamdevijlder.bnpparibas-ip.com/nederlands>
- EN <http://williamdevijlder.bnpparibas-ip.com/english>
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