



MONTHLY REPORT

BNP Paribas L1 Equity Turkey

July 2012



Performance overview

Performance at the end of July 2012 (gross of fees - %)	July	Last 3M	YTD	Last 12M	Last 24M*	Last 36M*	Last 60M*	Since inc.,**
BNP PARIBAS L1 Equity Turkey	7.91	16.50	47.45	19.01	2.15	16.38	0.32	12.30
MSCI IMI Turkey 10/40 Net Return Index	7.09	14.26	44.49	16.42	-1.36	13.31	-0.31	8.73
Excess return	0.82	2.24	2.96	2.59	3.51	3.07	0.63	3.57

Performance History (%)	2011	2010	2009	2008	2007
BNP PARIBAS L1 Equity Turkey (full year)	-31.69	28.77	105.06	-63.06	54.97
MSCI IMI Turkey 10/40 Net Return Index (full year)	-34.06	27.80	102.31	-60.84	51.39
Excess return (full year)	2.37	0.98	2.75	-2.22	3.57
BNP PARIBAS L1 Equity Turkey (July to July)	-12.31	51.09	-15.18	-24.01	70.56
MSCI IMI Turkey 10/40 Net Return Index (July to July)	-16.43	49.59	-9.98	-24.85	65.15
Excess Return (July to July)	4.12	1.50	-5.21	0.84	5.40

Risk indicators (annualised)	Last 36W	Last 52W	Last 24M	Last 36M	Last 60M	Since inc.,**
Fund volatility (%)	25.41	29.48	27.75	30.36	39.53	39.31
Benchmark volatility (%)	24.87	28.84	27.01	29.65	40.30	39.46
Tracking error (%)	2.88	2.75	2.57	2.63	4.45	4.14
Information ratio	1.67	0.91	1.36	1.17	0.14	0.86

all figures gross of fees (in EUR)

* annualised performance

** inception date: 09/03/05 (annualised)

Past performance or achievements are not indicative of current or future performance.

Market review

- Once again, Turkey was the best performing market as the MSCI Turkey Index increased by 3.9% in July, outperforming the MSCI Europe, Middle-East and Africa (MSCI EM EMEA) Index, which rose by 2.2%, and posting an exceptional rise of 30.3% this year. The CBRT left its policy rates unchanged as the one-week rate was kept at 5.75% and o/n lending to primary dealers at 11.0%. Turkey's trade deficit narrowed at a faster pace than expected in June, signalling that the country's record current account gap, which threatened economic stability last year, is continuing to shrink. The gap declined for an eighth straight month to \$7.2 bn in June from a revised \$10.3 bn a year earlier as exports grew and imports fell. June's foreign trade deficit was below the market consensus. Exports increased by 17% YoY whereas imports decreased by 5% YoY. The share of TRY reserve requirements that can be held in FX was



raised from 50% to 55%, while the share of TRY reserve requirements that can be held in gold was unchanged at 25%. At 5.9% YoY, May's industrial production index was stronger than the market consensus of 3.5% YoY. IP increased 1.1% MoM and maintained its upward trend for the fourth consecutive month.

Fund performance

- In July, the fund outperformed its benchmark by 0.82%, increasing by 7.91% vs. an increase of 7.09% for the index. Stock picking in Industrials added the most to performance, while stock picking in Telecommunication Services detracted the most from excess return.
- The biggest two contributors to the excess return were our underweight in telecommunications systems supplier, **Netas Telecom**, and our overweight in **Anadolu Hayat**, the life insurance and pension company.
- In July, Netas pared back all the remaining gains from last month's correction of its unprecedented performance in April, which could not be justified by its fundamentals. We reported earlier that the April performance would be short-lived and that the price would eventually readjust to reflect the fundamentals. The major shareholder's decision to sell a part of its Netas holdings (744 000 shares, some 11% of the total) on the stock market was the catalyst for the correction.
- Anadolu Hayat is the only quoted company in Turkey to potentially make the most out of the lucrative growth prospects arising from Turkish pension system reforms. A recent legislative change to encourage pension?? savings in view of Turkey's chronic current account deficit problem has increased the long-term growth outlook. Every Turkish citizen who joins this system will benefit from government subsidies from 2013 onwards, whereas currently only paid employees can benefit.
- Our overweight position in **Turk Telekom**, the fixed line telecommunications operator, and our underweight in **Kardemir**, the long steel producer, were the biggest detractors from the excess return.
- While Turk Telekom's Q2 results did not disappoint, the company's main fixed line business unit is finding growth a struggle. Its defensive nature and paying high dividend yields on a consistent basis were the factors behind our position, yet in a month where cyclical outperformed, Turk Telekom fell behind the market.
- The underweight position in Kardemir was based mainly on falling long steel prices (ca 20% YTD) and corporate governance issues, as the major shareholder is one of the company's main customers.

Portfolio activity

- We switched some positions within the real estate investment sector. We increased our position in **Emlak Konut** before the launch of a blockbuster residential project. We also sold two real estate investment companies that have mixed commercial and residential portfolios and part of their revenues in foreign currency, as these latter depreciated 1.8% against the Turkish lira in Q1 2012, reversing a portion of the 20.2% gain in 2011.
- In July, none of the securities were liquidated, whereas we introduced **Ford Otosan**, the light and heavy commercial vehicle manufacturer, to reduce the underweight position as we think the economy performed better in Q2 than in Q1.
- We added to our positions in **Turkcell**, the mobile phone operator, and in **Turkish Airlines**. We believe the current margin levels in the Turkish mobile market have reached unsustainably low levels, so strong revenue growth will not necessarily help Turkcell's competitors' net profits. We think Turkcell should outperform the market given the improved outlook on margins arising from data growth being taxed at a lower rate and a pricing adjustment in the market. In addition, should there be a resolution of the shareholder dispute that is hampering dividend payments, we may see prices rise still further. Turkish Airlines should benefit from stronger passenger throughput, its improving load factor and softer fuel prices. The company has increased its capacity by 39% over the last two years, and should see the benefits of this in 2012-14. Another factor in us building our position in Turkish Airlines was that it is trading at relatively favourable price multiples – 4.6x on 2013E EV/EBITDA vs. 6x for global airlines.



Outlook & positioning

- The Turkish stock market has outperformed GEM significantly this year, and we maintain our bullish mid-term view on equities, although with greater selectivity following the recent rally. We expect the latest reduction in interest rates to trigger some earnings and valuation upgrades in the second half of this year, as it should bring mark-to-market gains and lower funding costs.
- On the other hand, we do not see current valuations in the Turkish stock market as being at fair levels. If there is a significant reduction in the country's current account deficit, it may serve as a near-term catalyst for rating Turkey's credit as investment grade. In a global context, the abundant liquidity provided by the US Federal Reserve, the European Central Bank, the Bank of Japan and the Bank of England should be supportive of markets, even though fundamentals point to fair levels of valuation. We believe the downward revisions to earnings since the start of 2011 have come to an end. However, since economic recovery may be somewhat muted, we may not see substantial positive revisions for the next 12 months. We thus expect to ride a range-bound equity market.
- Trading at 8.7x 2012E earnings and 1.3x book value, banks' valuations are less appealing now compared with at the start of the year, although they remain inexpensive from a historical perspective. Furthermore, we are looking at a better 2013 for banks' earnings. These should improve on the back of an accounting change in fee income recognition, and from benign operational cost growth related to falling inflation and record maturity mismatch gains on yield-curve movements. In the short term, however, having performed exceptionally well, Tier-1 banks are vulnerable to profit-taking when negative news arises, so we may well consider profit-taking in some names. We will not, however, go underweight on banks, preferring instead to switch between names based on likely price strengths.
- We believe the possibility of further quantitative easing by the major central banks, as well as global collective stimulus efforts, may encourage investor interest in materials, which were laggards in the recent rally. We are likely to add construction sector companies to the portfolio in view of the country's positive demographics and the sector's potential for growth. These include Turkey's 1.9% annual population growth, an average age of 29, an average income of USD 10 000 per person, a robust household formation rate, historically low housing loan interest rates, low average household debt and currently low quality housing stock.
- We believe that the tail risks are weaker than in previous months as EU policymakers move in the right direction on issues such as banking union and debt mutualisation, albeit slowly. Yet there remains the risk that eurozone problems might continue to haunt the markets occasionally, so we are inclined to hold to our cautious stance. We will thus continue to pursue our favourite themes, as covered in the portfolio activity section.



Additional Information

TOP 10 POSITIONS

Position	% of fund
Turkiye Garanti Bankasi	9.21
Turk Telekomunikasyon	6.33
Turkcell Ilestisim Hizmetle	6.28
Akbank	6.11
Tupras (T Petr Raf)	6.05
Turkiye Is Bankasi	5.13
Anadolu Efes Biracilik Ve	4.72
Turkiye Halk Banka	4.67
Koc Holding A.S.	4.41
Emlak Konut Gayrimenkul	4.36
Top 10 holdings	57.27

SECTOR BREAKDOWN

Country	Portfolio weight (%)	Benchmark weight (%)
Financials	41.82	43.20
Industrials	20.77	14.88
Consumer Staples	12.00	10.76
Telecoms	12.28	8.73
Energy	6.20	3.91
Materials	3.05	8.23
Consumer Discretionary	1.34	8.40
Utilities	0.00	0.54
Health Care	0.00	0.85
Information Technology	0.00	0.49
[Cash]	2.61	0.00

As of 31/07/2012, source: BNPP IP

ISIN Codes:

Cap: LU0212963259

Dis: LU0212963689

Instit: LU0212964141

N-class: LU0212964570

P-class: LU0531774502

Total AUM as of end of reporting date: EUR 213.5 mn

For more information, please contact:

Marc Frippiat

Investment Specialist - Emerging Markets Equities

Marc.frippiat@bnpparibas.com

Phone number +33 (0)1 58 97 20 01





Performance details

Performance at the end of (net of fees C share - %)	July	Last 3M	YTD	Last 12M	Last 24M*	Last 36M*	Last 60M*	Since inc.,**
BNP PARIBAS L1 Equity Turkey	7.71	15.86	45.60	16.44	-0.03	13.92	-1.73	12.63
MSCIIMI Turkey 10/40 Net Return Index	7.09	14.26	44.49	16.42	-1.36	13.31	-0.31	11.23
Excess return	0.61	1.60	1.11	0.02	1.33	0.61	-1.42	1.40

Performance History (%)	2011	2010	2009	2008	2007
BNP PARIBAS L1 Equity Turkey (full year)	-33.16	26.10	100.84	-63.77	52.14
MSCIIMI Turkey 10/40 Net Return Index (full year)	-34.06	27.80	102.31	-60.84	51.39
Excess return (full year)	0.89	-1.70	-1.47	-2.93	0.75
BNP PARIBAS L1 Equity Turkey (July to July)	-14.17	47.98	-16.94	-25.39	67.47
MSCIIMI Turkey 10/40 Net Return Index (July to July)	-16.43	49.59	-9.98	-24.85	65.15
Excess Return (July to July)	2.27	-1.61	-6.97	-0.54	2.31

Risk indicators (annualised)	Last 36W	Last 52W	Last 24M	Last 36M	Last 60M	Since inc.,**
Fund volatility (%)	25.40	29.47	27.71	30.29	39.45	39.08
Benchmark volatility (%)	24.87	28.84	27.01	29.65	40.30	39.30
Tracking error (%)	2.87	2.75	2.57	2.62	4.45	4.18
Information ratio	0.64	-0.01	0.52	0.23	-0.32	0.34

all figures gross of fees (in EUR)

* annualised performance

** inception date: 25/04/05 (annualised)

TER: 1.75%

Past performance or achievements are not indicative of current or future performance.

Performance at the end of (net of fees I share - %)	July	Last 3M	YTD	Last 12M	Last 24M*	Last 36M*	Last 60M*	Since inc.,**
BNP PARIBAS L1 Equity Turkey	7.81	16.18	46.53	17.73	1.08	15.17	-0.70	11.19
MSCIIMI Turkey 10/40 Net Return Index	7.09	14.26	44.49	16.42	-1.36	13.31	-0.31	8.73
Excess return	0.71	1.93	2.04	1.31	2.44	1.86	-0.40	2.46

Performance History (%)	2011	2010	2009	2008	2007
BNP PARIBAS L1 Equity Turkey (full year)	-32.40	27.47	102.99	-63.44	53.39
MSCIIMI Turkey 10/40 Net Return Index (full year)	-34.06	27.80	102.31	-60.84	51.39
Excess return (full year)	1.65	-0.32	0.68	-2.60	2.00
BNP PARIBAS L1 Equity Turkey (July to July)	-13.21	49.57	-16.04	-24.78	68.84
MSCIIMI Turkey 10/40 Net Return Index (July to July)	-16.43	49.59	-9.98	-24.85	65.15
Excess Return (July to July)	3.23	-0.01	-6.07	0.07	3.68

Risk indicators (annualised)	Last 36W	Last 52W	Last 24M	Last 36M	Last 60M	Since inc.,**
Fund volatility (%)	25.41	29.48	27.73	30.33	39.50	39.28
Benchmark volatility (%)	24.87	28.84	27.01	29.65	40.30	39.46
Tracking error (%)	2.87	2.75	2.57	2.62	4.45	4.15
Information ratio	1.16	0.46	0.95	0.71	-0.09	0.59

all figures gross of fees (in EUR)

* annualised performance

** inception date: 09/03/05 (annualised)

TER: 0.75%

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DISCLAIMER

On 1 September 2010, Fortis L Fund Turkey was renamed BNP Paribas L1 Turkey

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