

The issue of \$ 8.5 Billion US Loan Agreement has been finalized in September which helped to ease the pressure on financial markets to some extent. Lower inflation rates and other positive macroeconomic data are contributing to the stability in the markets and long-time concerns over the debt rollover and redemption schedule of the government seem to be under control for the time being. Istanbul Stock Exchange index which was down since the early months of 2001, has finally moved upward above its long-time resistance level with the help of lower interest rates and encouraging macroeconomic news. On the other hand, total industrial production is increasing which is largely triggered by the strong demand and exports.

Although Turkish Lira is currently appreciated against the USD and Euro, the export levels are still high. In addition, weaker USD is continuing to increase the level of imports. Trade deficit is increasing eventually as a result of the current fx rates. Lower interest rates are very much welcomed in the local financial markets which are currently increasing the total demand and production levels in Turkey. According to latest foreign trade figures in September, automotive and white goods are currently the main export materials and with the help of strong TL against USD and Euro, luxury goods on the other hand are also on the rise as main import materials.

On the budget front, government is trying every way to reduce its costs and decrease the investment expenditures, but in spite of considerable amount of revenues, the total expenditures are still high which does not help the current accounts balance.

Investment Funds

During the month of September, B Type T.Bill & Bond investment funds and B Type Variable Funds were among the top performing investment funds in Turkey. A Type funds also did quite well indeed in September as a result of positive trend in ISE. According to the data available at the end of September 2003, the highest rate of return **year to date** among all A Type investment Funds has been recorded as 48.19 % and the highest rate of return **year to date** among all B Type investment funds has been posted as 44.84 %. After a long period of time, A type funds had better year to date returns as a result

of the recent increase in ISE. As of September 30, most of the B Type investment funds that invest in foreign securities were in the negative zone according to their year to date returns. For the first time since June 2003 monthly return of the B type fund index shows a slight decrease. However, the monthly return of the A type fund index is still upward since June.

As of September 2003, A Type '*Variable*' Funds are making the largest portion of A Type funds according to their total net asset values. On the same date, B Type '*Liquid*' funds are the largest fund type according to total net asset values, with B Type *T.Bill & Bond* Funds in the second place. As of August 31, 2003 the total asset allocation in A type funds is as follows; 58 % equities, 23 % reverse repo and 19 % treasury bills & government bonds. As of the same date, the asset allocation of B type funds is, 40 % reverse repo and 60 % treasury bills & government bonds.

KYD Fund Indices

Some of the index returns in **KYD A** Type Fund index as of September 30, 2003 are as follows :

Daily	Weekly	Monthly	3 Months	6 Months	Annual	Year to Date
-2.14 %	-2.26 %	10.84 %	17.04 %	30.40 %	39.30 %	28.18 %

Some of the index returns in **KYD B** Type Fund index as of September 30, 2003 are as follows :

Daily	Weekly	Monthly	3 Months	6 Months	Annual	Year to Date
0.03 %	0.38 %	2.33 %	7.73 %	17.25 %	38.87 %	26.90 %

KYD Bond Indices

Some of the index returns in **KYD Bond** Indices as of September 29, 2003 are as follows :

Daily	Weekly	Monthly	Year to Date
0.12 %	0.45 %	4.04 %	46.56 %

According to data at the of September 2003 the total net asset value of all A and B Type funds in Turkey has reached 11,837.25 (Million) USD. Total number of funds in KYD A and B type fund indices is currently 242.

KYD Eurobond Indices

KYD Turkish Eurobond indices reflect returns since the beginning of 2003. Eurobond index values as of September 29, 2003 are as follows:

Eurobond Indices (As of 29/09/2003)					
	Value	Daily Change	Weekly Change	Monthly Chg.	Year to Date Chg.
USD	116.66	-0.82	-0.05	4.60	16.66
USD-TL	97.95	0.01	1.76	3.39	-2.05
EUR	112.21	-0.50	0.22	1.52	12.21
EUR-TL	102.57	-0.27	1.56	4.98	2.57

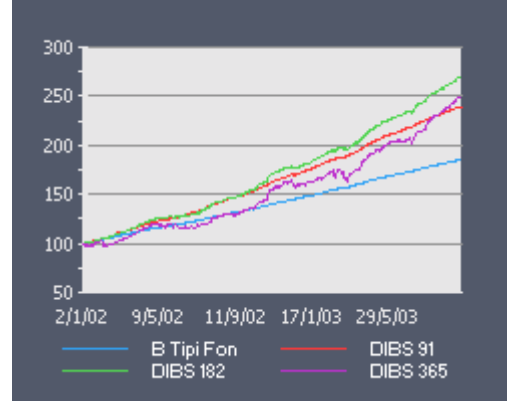
Comparison Charts

KYD A&B Type Fund Indices Jan 1st 2000=100



A Type Fund Index ISE 100 Index

KYD Gov. Debt Sec. Indices Dec 31st 2001=100



B Type Fund Index G.Debt Sec Index (91d)
G.Debt Sec Index (182 days) G.Debt Sec Index(365d)

Investment Trusts

As of September 30, 2003 there are a total of 22 A type investment trusts in Turkey and no B type investment trusts. At the same period the NAV of all investment trusts is approximately 159,4 Trillion TL. On the other hand, as of the same date the total market cap of all investment trusts is 89,4 Trillion TL. The difference points out that investment trusts are still trading at a discount to their NAV. And the total asset allocation of these investment trusts is as follows; 48 % equities, 12 % reverse repo and 40 % T. bills and government bonds.

From KYD

Reuters is planning to publish KYD indices as part of its coverage. And also Bloomberg which has already been publishing KYD newsletters, has now decided to put the KYD indices in its coverage as well. In the near future Bloomberg is also considering to publish the complete database of all investment funds in Turkey.

Global Investment Perspective

High Free Float and Institutional Ownership

One of the main differences between the stock markets of developed countries and developing countries is the existence of higher free float rates in developed countries and their shareholder structure. The typical nature of institutional ownership and high free float ratios increase the liquidity in developed markets to a great extent and this eventually helps to maintain long term stability in these markets. No doubt, along with better institutionalization and higher free float ratios, current legislations , rules & regulations also play an important role in the development of all financial markets.

On the other hand, stock markets in developing countries usually have relatively lower free float ratios and the corporate structures are quite different. In fact, family ownership and the overwhelming management capacity of the company founders are typical hurdles for institutionalization in many developing countries. That's why the importance of institutional investors can be understood much better in developed markets. The simple nature of individual shareholders can become much more sophisticated only through the use of institutional investors since all shares will eventually be transferred to individual investors if investment funds can have an intermediary role in the financial markets. Institutional investors such as investment (mutual) funds and investment trusts are supposed to act on behalf of their clients and eventually they can raise their voice for better corporate governance. Since they aim to act in the best interest of their clients, they can be considered as a powerful tool for stability in the markets.

In order to better understand the importance of institutional ownership and high free float ratios, we can just take a quick look at the US market. The average free float ratio in US is around 90 %. And a very large portion of the publicly available part of the companies in fact belong to institutional investors. The free float ratios of some of the US companies with the highest market cap can be shown as follows;

Company Name	Free Float Ratio
General Electric :	99 %
Microsoft Corp. :	83 %
Wal-Mart Stores :	61 %
Pfizer :	99 %
AOL Time Warner :	96 %
SBC Communications:	99 %
Verizon Communications:	99 %
Coca-Cola Co. :	87 %
Procter & Gamble Co. :	99 %
Berkshire Hathaway :	60 %
Abbott Laboratories :	99 %

Many other US firms also have similar high free float ratios. More important than that, the major part of the remaining company shares other than the 10 -15 % owned by the founders and managers, belong to institutional investment firms. For example more than 10 % shares of *General Electric* is actually owned by Barclay's Global Investors, Fidelity Management & Research and State Street Global Advisers. And they are followed by hundreds of other institutional investors including Vanguard and Northern Trust. In some cases, the remaining part of the shares are allocated for ESOP or similar other plans owned by the employees. In another example, more than 10 % of *Microsoft* is again owned by Fidelity, BGI, State Street Global Advisers and they are followed by Vanguard, Alliance and many other large institutional investment firms. This nature of institutional ownership increases the prestige among institutional investors and also contributes in maintaining a long-term investment perspective. Since total assets owned by these institutional investors cannot easily be traded using short term strategies, they usually tend to hold these shares with long term perspective in order to maintain stability in the markets.

We can also see very interesting results if we examine the same issues from the institutional investors' point of view. For example, *Fidelity Management & Research* which is one of the largest institutional investment firms in the US and holds alone between 8% - 2% of Microsoft, Citigroup, General Electric,

Pfizer, Merck, Johnson & Johnson and many other US firms. These amounts translate into very large assets when they are compared with the market caps of these large US corporations. Similarly *Putnam Investment Management* also holds very large portions of assets of these similar corporations. Along with these institutional investors, some major local and state pension plans in the US also own shares in these big firms.

This structure can also be seen in many other developed markets. Stability and liquidity which are badly needed in developing countries' financial markets such as Turkey can be established by the help of institutional investors. As in the US example, institutional investors as a whole can actually own almost the majority of a company's shares in many cases. The issues of corporate governance, transparency and accountability can easily be achieved in this way. The existence of institutional investors will certainly be helpful in order to protect individual investors' rights and maintain stability in the markets. But one of the essential steps to be taken here by the companies, is to increase their publicly available shares. And institutional investors then can take the next step by owning these shares with long term perspective on behalf of their own clients.

In Turkey, institutional investors can probably work more effectively if they can own larger portions in the companies they invest in. Since institutional investors are supposed to make investments in the best interest of their clients, all of the assets they own actually belongs to their clients. In the bigger picture, individual investors are the real owners of the assets. As far as total assets are concerned, these equity holdings in fact belong to individual investors through investment (mutual) funds or other institutional investors. In the long term the company ownership will be transferred to individual investors. In this way, companies are supposed to work more efficiently since their profits and investment decisions will effect individual investors rather than management and founders themselves. And eventually total capital investments can be allocated more effectively. Long term investment perspective can be achieved more easily. Individual investors own money will then be used in order to create profits for themselves.

