

FUNDS

In Turkey, reasons for optimism

By Agnes Lovaas

LONDON: Turkey is looking like an investor's paradise. Its local-currency bond market in October 2005 has returned 84 percent since being sold 16 months ago and the ISE 100 stock index staged 39.9 percent last year.

Eli Cengiz, head of mutual funds at Turkey's Sarban's asset management unit, said she expects the market to post more gains as Turkey enters inflation and negotiates potential entry into the European Union. The bank's Eurobond Bonds fund was the best performing European bond fund last year.

It is likely that the pace of growth will slow in Turkey, however, as the country will probably fail to reach its "ambitious" inflation target as the current account deficit swells, Cengiz said. And the government's spending rather than tax cuts will fuel the loss of long-term savings entry into the EU.

"Despite the upcoming challenges, there are plenty of reasons to be optimistic on Turkey," said Cengiz, 38, who manages \$3 billion fund, or \$4.8 billion, in assets in Istanbul. "Real interest rates are still high and inflation will continue to slow."

Cengiz's 257 million lira Turkish Bonds returned 62.74 percent last year, with Cengiz betting on longer-term bonds with maturities to 2007 or later. A \$100,000 investment in



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the October 2005 fund, which has a 20 percent capex, has earned a \$54,000 return, including the original investment and returned interest.

Cengiz is recruited from the stock stage because she is allowed to invest as much as 49 percent of her fund in equities. Since the end of 2005, the fund has returned 85 percent, compared with 47.7 percent for her benchmark. She has 65 percent of the fund's assets in government bonds, with 25 percent in short-term Treasury bills.

Cengiz favors financial stocks like Akbank, Turkey's No. 2 publicly traded bank, after it bought, because lower interest rates are leading a lending boom. Akbank shares rose 87 percent

over the past year.

Over the past three years, Cengiz has invested only in local-currency bonds because she says in the long run the dollar against the euro and the dollar proved by international demand for Turkish assets. The lira has gained 38 percent against the dollar since the end of 2002. It has depreciated an average of a near 40 percent annually in the previous decade.

"The start of EU entry negotiations will improve the economic outlook in Turkey throughout the accession period," Cengiz said. "It will be a good time to invest in Turkish bonds and equities."

Some see still unfulfilled potential. However it does not make sense for European investors to wager all their money in one fund on Turkey because of currency risk, said Richard Marshall of Fidelity Investments in Paris. Marshall said, for example, forward rates that could deter investors, which generated \$11.2 billion in revenue last year.

The International Monetary Fund, which is lending \$10 billion to Turkey, has said it would like to see the country reduce its current account deficit, which deficit widened by 47 percent in 2005, to \$2.5 billion, as the lira's rally made it cheaper to buy imported goods.

The central bank said last month that the government might struggle to meet its goal of 5 percent inflation for 2006 because of high oil prices. The bank cut rates three times last year to a record low of 12.5 percent, but left rates unchanged on Jan. 24.

But Michael Gairns, head of emerging-market research at Data Investment in Frankfurt, notes that the government has slashed inflation from more than 78 percent at the start of 2002 to 20.7 percent

Investor's paradise

Iskem from Dec. 31, 2005 through Dec. 31, 2005



Source: Bloomberg. * Turkish Bonds is a benchmark.

as it cut spending, raised taxes and curbed the supply of money. Turkey is "an incredible success story," Gairns said. "The government has changed the whole country and economy."

In 2005, Cengiz suggested for the first time her benchmark, a composite index made up of ISE 100, a measure of bond performance compiled by the Turkish Institutional Investment Managers Association, and the ISE 100 index. The benchmark returned 90.64 percent last year, Gairns said.

Cengiz's Turkish Bond Bonds has returned 159 percent over the last three years when calculated in euros, Cengiz said. She might add corporate bonds to her holdings if the financing arm of Ege Holding, which produces food and other items in Turkey, proceeds with plans to sell its discontinued bonds in the coming months.

Koc, based in Istanbul, is also the country's biggest maker of appliances, Avcik. It will be the first company to sell corporate bonds in Turkey in a decade.

Bloomberg News

Leading mutual funds: Latin America

Best performance this week ended Feb. 17.

Fund	One week	Return over		
		1 mo	3 mo	Ann. %
JF Latin Am. Bd. A (USD)	3.0%	16.2%	17.8%	20.1%
JPM Latin Am. Bd. A (USD)	3.0	16.8	16.1	19.0
JPM Latin Am. Bd. A (USD)	3.0	16.7	15.7	17.6
MGGLAM1 (USD)	3.1	17.2	16.5	19.1
Mutuo JF Latin Am. A	3.1	16.4	16.0	19.0
Mutuo Latin Am. Fund G	3.0	16.3	15.8	17.4
LCF Latin Am. Cq	3.0	16.3	15.1	17.4
JF Latin Am. Bd. A (USD)	3.0	16.2	15.9	17.4
EMM Latin Am. Cq A	3.0	16.2	15.7	17.4
Lat Am. Bond	3.0	16.2	15.6	17.4

Source: Standard & Poor's