Turkish Asset Management Industry: Porfolio Managers' Perspective

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Abstract: This article sheds light on the Turkish asset management industry through portfolio managers' perspective. In this empirical research, we surveyed the industry professionals, i.e., the portfolio managers with a comprehensive questionnaire, and aimed to identify the development areas and the recommendation thereof within the market. We reached the following conclusions: The assets under management should be increased especially by introducing new institutional investors into the market. Returns generated by the industry should be enhanced by promoting a competitive environment based on common benchmarks per fund category and introducing new financial instruments. A performance-oriented portfolio management culture whereby portfolio managers are encouraged to seek for alpha should be created, and their individual performance should be transparently and objectively calculated, recorded, and taken into consideration in promotions and career changes. Financial literacy about fund products is very low; enriching TEFAS and creating an independent financial advisory profession licensed by the CMB could help the diffusion of fund products. In Turkey, banking is sixteen times larger than asset management (as of 2019) – a fact hindering the development of the industry – which requires positive discrimination of asset management against banking vis-à-vis the regulations. Reforming the voluntary individual pension system and enforcing a more business-friendly regulation can also help grow the industry.

Keywords: pension fund, mutual fund, portfolio managers' perspective, fees, fund returns, regulation.
JEL Classification: G23, G28.

INTRODUCTION

The asset management industry is a vital source of economic growth. It serves three essential functions for the economy: Firstly, it acts as an intermediary in the savings-investment channel by sourcing capital from where it is in surplus and converting it to equity capital in both primary (IPOs and private placements) and secondary markets, as well as credit to corporations, financial institutions, and governments - directly via corporate bonds or indirectly via money markets. Secondly, the industry is an important factor in smooth functioning of capital markets by providing liquidity. Finally, the industry provides its clientele diversification benefits via access to a range of financial instruments and markets, and helps them achieve their investment goals (Costanzo, 2011).

Financial centers do support economic growth.

"In the 19th century, London achieved its status as the world's leading financial center, because the financial sector had developed rapidly in order to serve the needs of British industry and British exporters. As it grew in order to support Britain's economic growth, it also became a major contributor to that growth -and, for that matter, to growth in other parts of the world as it exported capital and financial skills. In the 20th century, New York played a similar role in relation to the American economy. As New York developed as a financial center to serve the needs of the dynamic and rapidly growing American economy, so it developed the skills and services that could themselves be exported."[1]

And asset management is also an inherent component of a financial center. As one of the strategic aspirations of Turkey for the last decade has been to position İstanbul as a global financial center, we need to analyze, understand, and solve the problems of the Turkish asset management industry, so it can claim its position as an equally significant partner with banking in the Turkish financial markets and provide the much-needed support to the Turkish economic growth.

In this empirical research, we studied the views of portfolio managers in Turkey on the problems of the asset management industry. Portfolio managers are the industry professionals who personally face the problems. This study is the first of its kind in the Turkish academia in terms of its methodology, i.e., interviewing the industry professionals and achieving a representation rate of 30 percent, the survey questions posed, and the recommendations reported for the policy makers towards implementation. Hence the analysis is a unique and a significant work, which, we trust, will shed some light on the problems of the industry and relay suggestions for solutions from within the industry professionals.

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[1] Krueger, Anne O., "Financial Markets and Economic Growth", 29.09.2006, https://www.imf.org/en/News/Articles/2015/09/28/04/53/sp092806

1. LITERATURE REVIEW

There are academic studies which use survey analysis as a method in analyzing specific areas within the asset management industry. However, we have not noticed any that directly aims to analyze the problems of the asset management industry of a country as a whole.

Lütje (2009) studied the personal perceptions and investment behaviour of 263 asset managers in Germany by conducting a survey to 51 different asset management companies. The questionnaire focused on the differences between herding and non-herding portfolio managers regarding their risk appetites, investment horizon, working effort and usage of fundamental and technical analysis. According to findings, most of the portfolio managers considered herding therefore there was an evidence of herd behavior in German asset management sector. Lütje (2009) claimed that herding managers showed less working effort compared to non-herding managers. In this study, it was indicated that herding portfolio managers did not use fundamental information and they focused on shorter investment horizons. The study also showed that herding managers were usually more risk averse however in tournament scenarios they dared to take more risk.

Farnsworth and Taylor (2006) explored the determinants of portfolio managers compensation and bonuses in asset management industry in US. A questionnaire was delivered to 396 portfolio managers to analyze the compensation and bonus structure of the managers. According to results, investment performance of portfolio managers relative to a benchmark or peers was crucial for bonuses. Interestingly, the authors reported that that the bonuses were more affected by the profitability of the asset management company rather than the performance of the portfolio managers. The findings of the survey indicated that the portfolio managers also expected higher bonuses if they had better investment performances, however they were unsure about the size of the bonus. Additionally, in this study, it was claimed that compensation was not related with the age of the portfolio managers and different contracts were not offered to portfolio managers depending on their skills. However, it was indicated that good track records increased the portfolio managers salaries.

Acharya (2002) discussed the future of asset management industry. The author claims that the factors of the future asset management are connected with the role of government such as legislation, regulation and taxation since individual and institutional investors behavior are affected by legislation, regulation and taxation. In this paper, it is mentioned that defined contribution and benefit schemes are important, and inflation is another factor in asset management industry. Furthermore, the author also points out the importance of knowledge management in the asset management industry.

Makonko (2016) conducted a survey among 50 portfolio and compliance managers in South Africa. The outcomes of this study can be summarized as follows: Most of the managers in asset management industry were happy with the regulations in South Africa. Many believed that the main benefits of regulations in asset management sector were stability of the financial market and protection of customers' investments. 90 percent of the respondents thought that regulations were justifiable and fair. Most of the respondents (more than 80 percent) indicated that regulations had a positive effect on both economic growth and development of the sector. They (84 percent of the respondents) also believed that the benefits of regulations of portfolio managers were higher than the costs.

Gehrig, Lütje, and Menkhoff (2009) analyzed the relationship between bonus payments and behavior of fund managers by conducting a survey among fund managers in US, Germany and Switzerland. They found that bonus size was positively related to the working effort of fund managers. They also indicated that there was no significant evidence between the relationship bonus size and willingness to take risk.

2. DATA AND METHODOLOGY

A detailed survey analysis is used as the main research method in this study. We conducted a survey with the portfolio managers composed of 19 questions –of which 4 are descriptive ones about the respondents. [2]

We used *judgement (purposive) sampling* and asked a focus group of professional portfolio managers to fill out the survey. We distributed the survey both via TCMA[3] and via direct contact to either the asset management companies or to the portfolio managers themselves. The survey was available for three months from May to July 2020. We received 71 survey results which means a representation rate of 30 percent[4].

The standardized Cronbach alpha coefficient of the survey results is 0,7771, which is described a typical level by Peterson (1994), who collected and analyzed hundreds of articles and thousands of coefficients. This level of coefficient is considered a high reliability and an acceptable index (Cronbach, 1988; Hulin, Netemeyer & Cudeck, 2001). In other words, we can conclude that the survey is internally consistent and hence the results are reliable.

The descriptive data of the respondent portfolio managers reveal that they are mainly (i) men (87 percent), (ii) in between 31 to 50 of age (75 percent), (iii) with graduate (63 percent) or post-graduate degree (37 percent), and that (iv) they have diverse tenure of experiences (28 percent up to 5 years, 14 percent between 5-10, 27 percent between 10-20, and 31 percent more than 20 years). In other words, if we were to personalize the typical portfolio manager, we would be describing a man in his 40s, a university graduate with more than 10 years of experience in the market.

3. FINDINGS

3.1. Portfolio Managers' Return Perception

In this section, we shall analyze the returns perception of portfolio managers, i.e., the creators of those returns. The

[2]This study is based on a chapter of Tayfun Ozkan's PhD dissertation under the supervision of Assoc. Prof. Hakki Ozturk.

[3] TCMA: Turkish Capital Markets Association.

[4] As of September 2020, there are approximately 250 portfolio managers in Turkey. 762 employees working at asset management companies and on average one third of employees would be portfolio managers, i.e., about 250 portfolio managers.

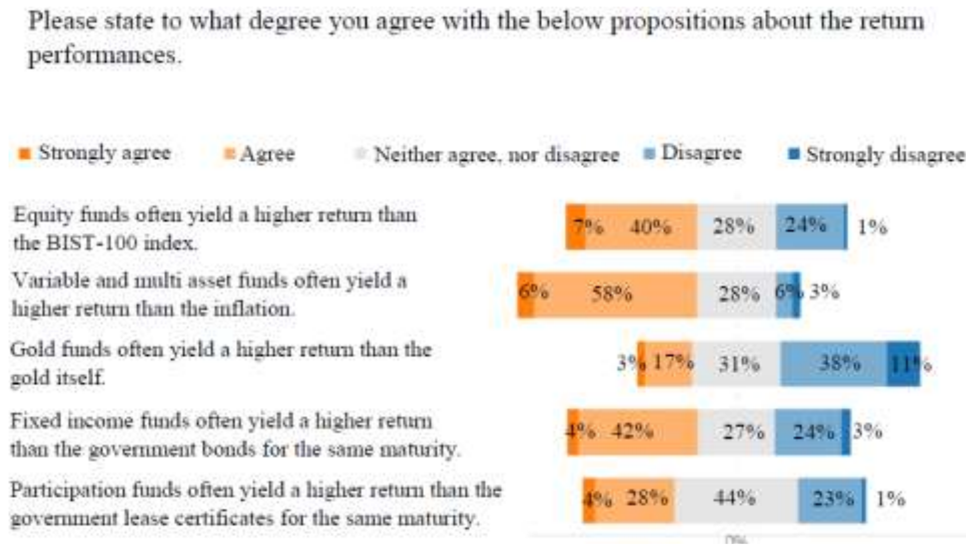
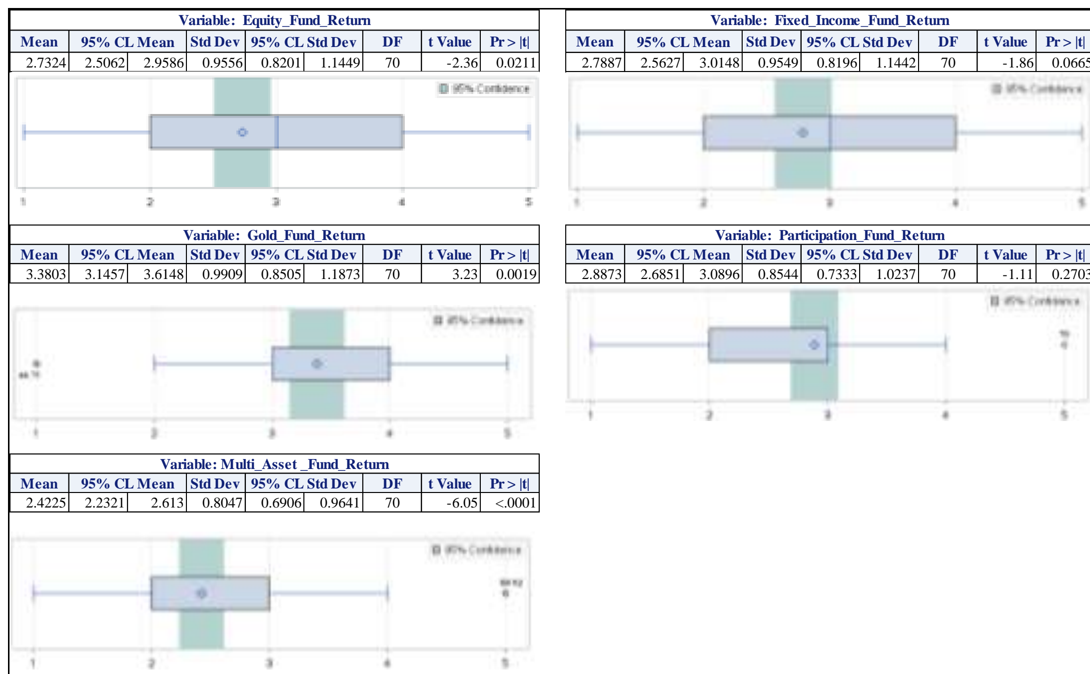


Fig. (1). Portfolio managers' return perception.

Source: Survey on the portfolio managers' perception conducted by the authors.



Variable: Equity_Fund_Return

Mean	95% CL Mean		Std Dev	95% CL Std Dev		DF	t Value	Pr > |t|
2.7324	2.5062	2.9586	0.9556	0.8201	1.1449	70	-2.36	0.0211

Variable: Fixed_Income_Fund_Return

Mean	95% CL Mean		Std Dev	95% CL Std Dev		DF	t Value	Pr > |t|
2.7887	2.5627	3.0148	0.9549	0.8196	1.1442	70	-1.86	0.0665

Variable: Gold_Fund_Return

Mean	95% CL Mean		Std Dev	95% CL Std Dev		DF	t Value	Pr > |t|
3.3803	3.1457	3.6148	0.9909	0.8505	1.1873	70	3.23	0.0019

Variable: Participation_Fund_Return

Mean	95% CL Mean		Std Dev	95% CL Std Dev		DF	t Value	Pr > |t|
2.8873	2.6851	3.0896	0.8544	0.7333	1.0237	70	-1.11	0.2703

Variable: Multi_Asset_Fund_Return

Mean	95% CL Mean		Std Dev	95% CL Std Dev		DF	t Value	Pr > |t|
2.4225	2.2321	2.613	0.8047	0.6906	0.9641	70	-6.05	<.0001

Fig. (2). Portfolio managers' return perception t-tests.

Source: SAS results based on survey on the portfolio managers' perception conducted by the authors.

question in Fig. (**1**) above exhibits the portfolio managers' return perception in five different fund categories.

The first takeout from Fig. (**1**) above is that most (64 percent) of the portfolio managers believe that variable and multi asset funds beat the inflation. Another observation is that portfolio managers' perception that they beat the market is especially high for equity and fixed income fund categories – 47 percent and 46 percent, respectively. It is considerably low for gold and participation fund categories (20 percent and 32 percent, respectively); portfolio managers (49 percent of them) think the gold mutual funds do not perform better than the gold itself whereas they (44 percent of them) are not sure when it comes to participation funds.

In order to analyze the responses statistically, we performed a one-sample t-test for each of the five variables with the below null and alternative hypotheses:

$H_0 = \mu = 3$

$H_a = \mu < 3$ (for equity, fixed income, multi asset, and participation funds),

$H_a = \mu > 3$ (for gold funds)

Where;

1: Strongly agree, 2: Agree, 3: Neither agree nor disagree, 4: Disagree, 5: Strongly disagree

The results are summarized in Fig. **2**.

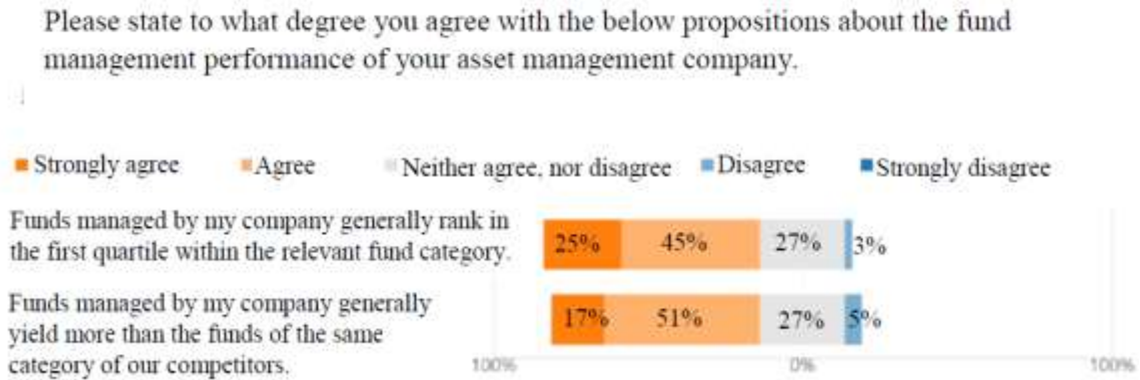
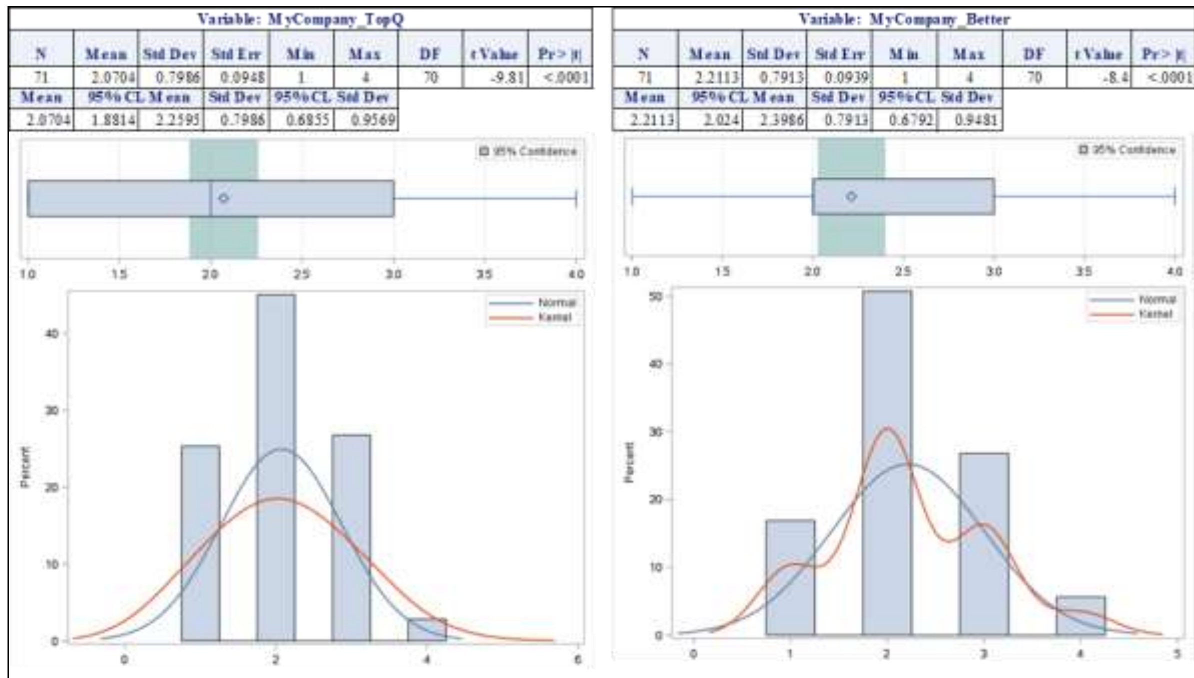


Fig. (3). Portfolio managers' return perception of their own performance.
Source: Survey on the portfolio managers' perception conducted by the authors.



Variable: MyCompany_TopQ

N	Mean	Std Dev	Std Err	Min	Max	DF	t Value	Pr > |t|
71	2.0704	0.7986	0.0948	1	4	70	-9.81	<.0001

Mean	95% CL Mean		Std Dev	95% CL Std Dev	
2.0704	1.8814	2.2595	0.7986	0.6855	0.9569

Variable: MyCompany_Better

N	Mean	Std Dev	Std Err	Min	Max	DF	t Value	Pr > |t|
71	2.2113	0.7913	0.0939	1	4	70	-8.4	<.0001

Mean	95% CL Mean		Std Dev	95% CL Std Dev	
2.2113	2.024	2.3986	0.7913	0.6792	0.9481

Fig. (4). Portfolio managers' return perception of their own performance t-test.
Source: SAS results based on survey on the portfolio managers' perception conducted by the authors.

We clearly reject the null hypothesis for equity and multi asset funds. The means being less than 3 at 95 percent confidence level, we can state that portfolio managers agree with the propositions that equity funds' and multi asset funds' returns are often higher than the BIST-100 return and the inflation, respectively. We also clearly reject the null hypothesis for gold funds; however, due to the positive sign of the t-value, and the mean being higher than 3 at 95 percent confidence level, this time it means that portfolio managers disagree with the proposition that gold funds' return is often higher than that of the gold itself. Probably because the portfolio managers are clearly aware of the high management fees at gold mutual funds eliminating any excess return. The null hypothesis for fixed income funds cannot be rejected at 95 percent confidence level, but it can be at 90 percent confidence level (the Pr>t degree is 0.0665; 1-0.0665=0.9335). We can state at 90 percent confidence level that portfolio managers agree with the proposition that fixed income funds' return is often higher than government bonds. The one null hypothesis we cannot reject at any confidence level is about participation mutual funds. The mean is not different than 3 at 95 percent confidence level which means portfolio managers neither agree, nor disagree with the proposition that participation funds' returns are often higher than the government lease certificates.

Besides the general return perception in the market, we also asked the portfolio managers about their perception of their own return performance (Fig. **3**).

As it is obvious in (Fig. **3**), the statistics of t-tests, the box and whisker diagrams of means, and the histograms of distribution of observations above also acknowledge that the portfolio managers believe their companies manage funds better than their competitors (Fig. **4**).

In short, portfolio managers believe that all mutual fund categories (namely variable, multi-asset, equity, fixed income mutual funds) yield excess return than their natural benchmarks except the gold and the participation funds. Further-

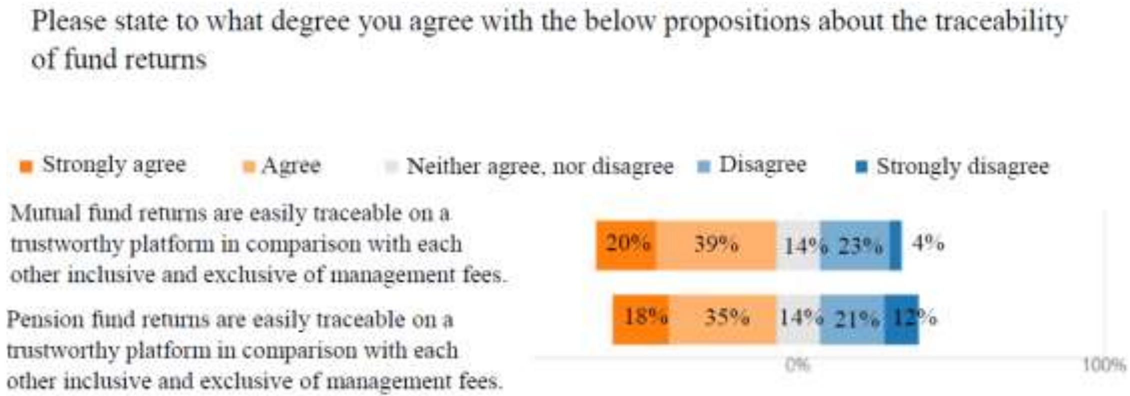
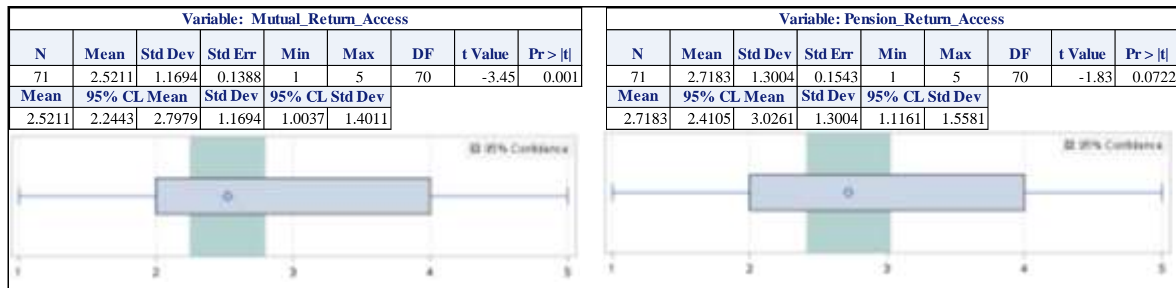


Fig. (5). Promotion of mutual and pension fund return performances.
Source: Survey on the portfolio managers' perception conducted by the authors.



Variable: Mutual_Return_Access								
N	Mean	Std Dev	Std Err	Min	Max	DF	t Value	Pr > |t|
71	2.5211	1.1694	0.1388	1	5	70	-3.45	0.001

Mean	95% CL Mean		Std Dev	95% CL Std Dev	
2.5211	2.2443	2.7979	1.1694	1.0037	1.4011

Variable: Pension_Return_Access								
N	Mean	Std Dev	Std Err	Min	Max	DF	t Value	Pr > |t|
71	2.7183	1.3004	0.1543	1	5	70	-1.83	0.0722

Mean	95% CL Mean		Std Dev	95% CL Std Dev	
2.7183	2.4105	3.0261	1.3004	1.1161	1.5581

Fig. (6). Promotion of returns performance t-tests.
Source: SAS results based on survey on the portfolio managers' perception conducted by the authors.

more, portfolio managers also believe that their companies manage funds better than their competitors.

3.2. Performance Reportıng

We also inquired portfolio managers' perception on returns reporting, i.e., whether the deemed superior performance was effectively relayed to the investors (Fig. **5**).

We performed a one-sample t-test and the results show that we can reject the null hypothesis for Mutual_Return_Access variable, but we cannot for Pension_Return_Access variable at 95 percent confidence level (but we can reject it as well at 90 percent confidence level). In other words, at 95 percent confidence level, we can say that portfolio managers think the mutual funds' return performance is successfully relayed to investors while they do not have the same opinion for pension funds' return performance (Fig. **6**).

Turkish Electronic Funds Trading Platform (TEFAS) was inaugurated by the CMB[5] in January 2015 as a mutual funds' information and trading platform with expectations to provide investors with all the required information about funds and other comparative investment instruments, increase competition and hence the fund performances, and attract more investors into the fund market[6]. We asked the portfolio managers how effective TEFAS has been after five years of operation.

As observed in Fig. **7** below, 73 percent of portfolio managers agree that TEFAS brought an activity to the market and 67 percent agree that it helped increase the assets under management ("AuM") of independent asset managers. The one-sample t-test statistics in Fig. **8** below confirm the observations in Fig. **7**: Portfolio managers believe that TEFAS has been beneficial to the fund management industry.

Although TEFAS has been instrumental in performance reporting and accessibility to all mutual funds, still, vast majority (90 percent) of portfolio managers believe that investors should receive investment advisory services for pension fund allocation and mutual fund selection (Fig. **9**).

3.3. Development Areas within the Market

We also inquired the market practitioners about their opinions on the improvement areas discussed within the fund management industry.

3.3.1. Factors Hindering the Industry's Growth

In an attempt to identify the hindering factors of growth of the fund management industry, we listed down six factors in one question and asked the portfolio managers to what degree they agreed with the propositions (Fig. **10**). The partial correlations table (Table **1**) shows that the factors we offered have low correlation with each other which means their discriminant validity is high. Also, the measures of sampling adequacy higher than 0.5 in Table **2** indicate that those factors are adequate and have high explanatory power. As a matter of fact, high (above 0.30) factor patterns (other than that of qualified workforce) also verify the adequacy of the selected factors.

[5] Capital Markets Board (www.spk.gov.tr)
[6] CMB Press Release of 7 January 2015. 2015. www.spk.gov.tr [accessed 12 January 2021].

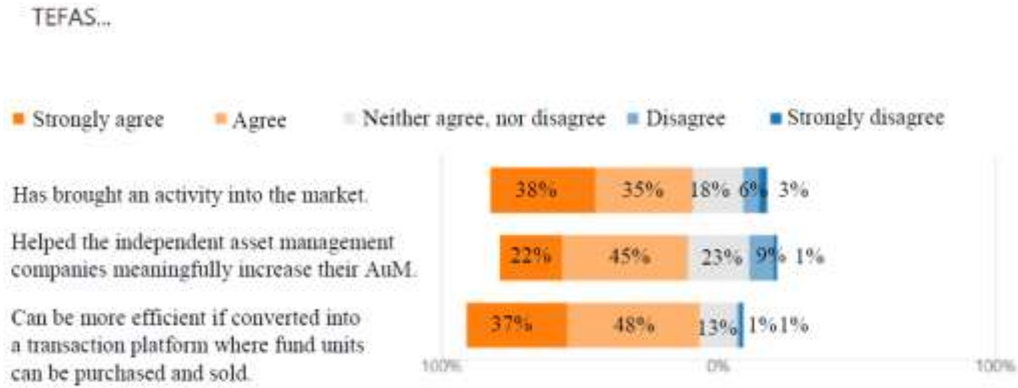
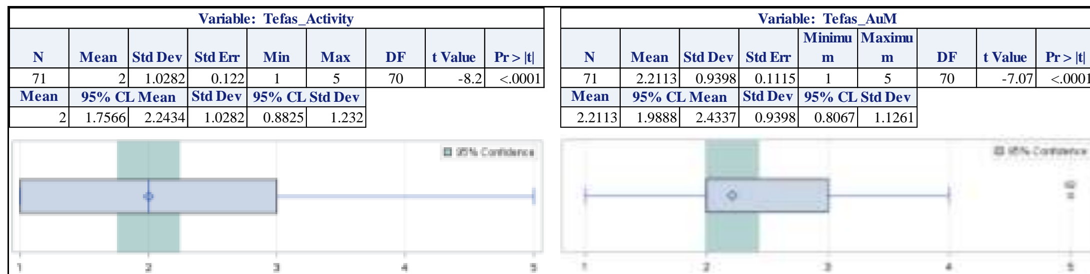


Fig. (7). Observed effects of TEFAS.
Source: Survey on the portfolio managers' perception conducted by the authors.



Variable: Tefas_Activity								
N	Mean	Std Dev	Std Err	Min	Max	DF	t Value	Pr > |t|
71	2	1.0282	0.122	1	5	70	-8.2	<.0001
Mean	95% CL Mean		Std Dev	95% CL Std Dev				
2	1.7566	2.2434	1.0282	0.8825	1.232			

Variable: Tefas_AuM								
N	Mean	Std Dev	Std Err	Minimum	Maximum	DF	t Value	Pr > |t|
71	2.2113	0.9398	0.1115	1	5	70	-7.07	<.0001
Mean	95% CL Mean		Std Dev	95% CL Std Dev				
2.2113	1.9888	2.4337	0.9398	0.8067	1.1261			

Fig. (8). TEFAS t-tests.
Source: SAS results based on survey on the portfolio managers' perception conducted by the authors.

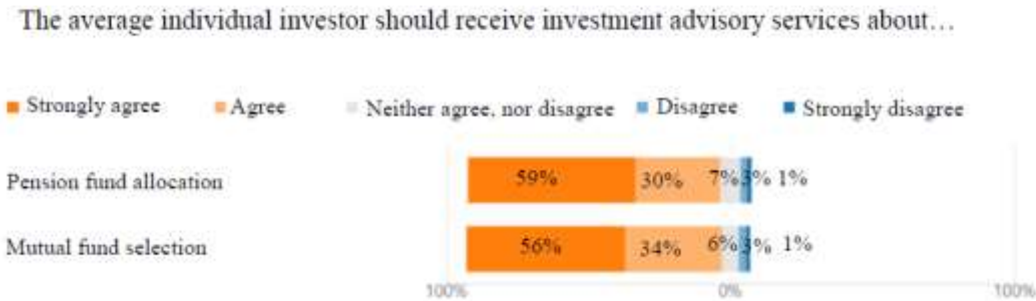


Fig. (9). Investment advisory services.
Source: Survey on the portfolio managers' perception conducted by the authors.

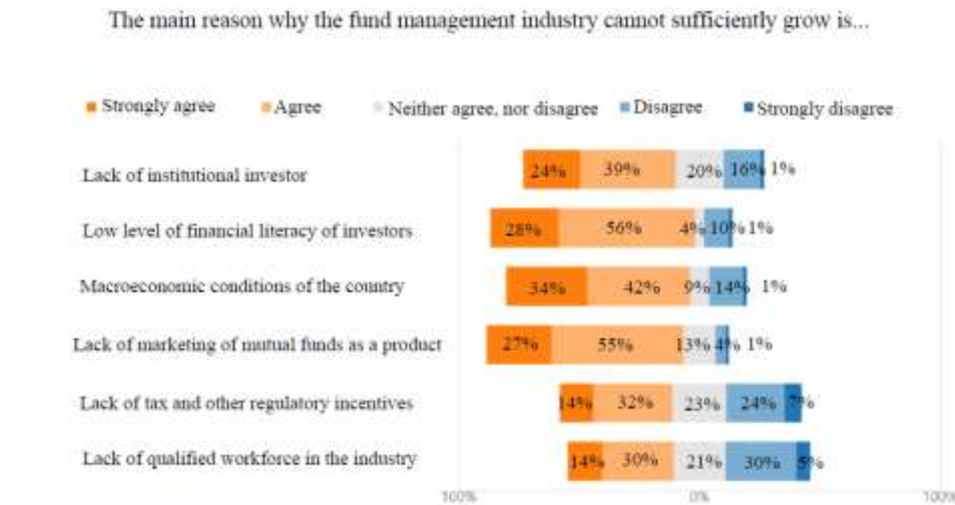


Fig. (10). Factors hindering the industry's growth.
Source: Survey on the portfolio managers' perception conducted by the authors.

Table 1. Partial Correlations Among Hindrance Factors.

Partial Correlations Controlling all other Variables						
	Corporate Investor	Financial Literacy	Macro economy	Marketing	Tax &Regulation	Qualified workforce
Corporate Investor	1	0.13367	-0.06334	0.45014	-0.11181	-0.30574
Financial Literacy	0.13367	1	0.2289	0.25968	-0.03561	0.00877
Macroeconomy	-0.06334	0.2289	1	0.20492	-0.10186	0.05287
Marketing	0.45014	0.25968	0.20492	1	0.3601	0.12894
Tax &Regulation	-0.11181	-0.03561	-0.10186	0.3601	1	0.15817
Qualified workforce	-0.30574	0.00877	0.05287	0.12894	0.15817	1

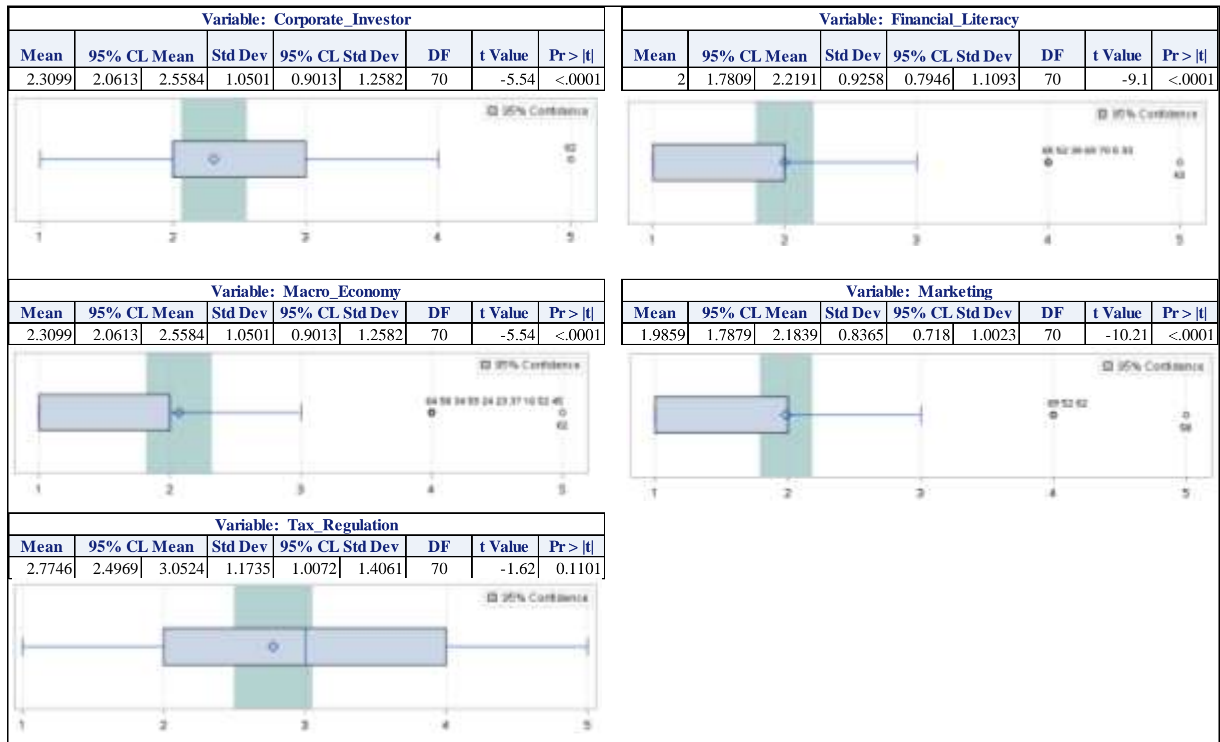
Source: SAS results based on survey on the portfolio managers' perception conducted by the authors.

Table 2. Factor Pattern and Measure of Sampling Adequacy.

Factor Pattern	
Corporate Investor	0.65398
Financial Literacy	0.71726
Macroeconomy	0.52321
Marketing	0.84488
Tax &Regulation	0.35167
Qualified workforce	-0.00035

Kaiser's Measure of Sampling Adequacy: Overall MSA = 0.58327759					
Corporate Investor	Financial Literacy	Macro economy	Marketing	Tax &Regulation	Qualified workforce
0.54866029	0.7341689	0.6462085	0.573619	0.48900825	0.46728156

Source: SAS results based on survey on the portfolio managers' perception conducted by the authors.



Variable: Corporate_Investor								
Mean	95% CL Mean		Std Dev	95% CL Std Dev		DF	t Value	Pr > |t|
2.3099	2.0613	2.5584	1.0501	0.9013	1.2582	70	-5.54	<.0001

Variable: Financial_Literacy								
Mean	95% CL Mean		Std Dev	95% CL Std Dev		DF	t Value	Pr > |t|
2	1.7809	2.2191	0.9258	0.7946	1.1093	70	-9.1	<.0001

Variable: Macro_Economy								
Mean	95% CL Mean		Std Dev	95% CL Std Dev		DF	t Value	Pr > |t|
2.3099	2.0613	2.5584	1.0501	0.9013	1.2582	70	-5.54	<.0001

Variable: Marketing								
Mean	95% CL Mean		Std Dev	95% CL Std Dev		DF	t Value	Pr > |t|
1.9859	1.7879	2.1839	0.8365	0.718	1.0023	70	-10.21	<.0001

Variable: Tax_Regulation								
Mean	95% CL Mean		Std Dev	95% CL Std Dev		DF	t Value	Pr > |t|
2.7746	2.4969	3.0524	1.1735	1.0072	1.4061	70	-1.62	0.1101

Fig. (11). Factors hindering the fund management industry's growth.

Source: SAS results based on survey on the portfolio managers' perception conducted by the authors.

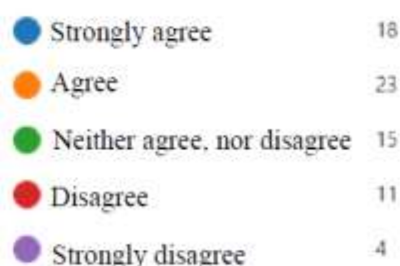
Now that the statistical results verify the adequacy of the factors together, we then analyze each one (other than Qualified_Workforce variable, which has extremely low and negative factor pattern) by one-sample t-test with the approach we have applied thus far, i.e., determining to what extend portfolio managers agree or disagree with the propositions, in this case the hindrance factors put forward. The null and alternative hypothesis are as follows:

Table 3. Asset Managers by Ownership.

AuM (million TL)	**2015**	**2016**	**2017**	**2018**	**2019**	**Nov. 2020**
Bank Subsidiaries	79,212	97,475	125,676	137,340	259,293	311,817
Non-bank Asset Managers	19,188	24,703	32,664	35,717	24,786	44,552
Total	**98,400**	**122,178**	**158,340**	**173,057**	**284,079**	**356,369**
Bank Subsidiaries	81%	80%	79%	79%	91%	87%
Non-bank Asset Managers	19%	20%	21%	21%	9%	13%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: CMB.

The fact that the largest asset management companies are a bank subsidiary is one of the main reasons of the asset management industry remaining rather small.



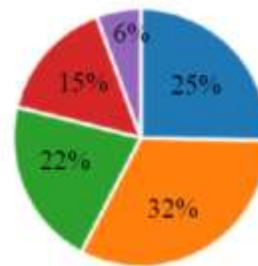


Fig. (12). Largest asset managers being bank subsidiaries.

Source: Survey on the portfolio managers' perception conducted by the authors.

$H_0 = \mu = 3$

$H_a = \mu < 3$

Where;

1: Strongly agree, 2: Agree, 3: Neither agree nor disagree, 4: Disagree, 5: Strongly disagree

Based on the above t-test results (Fig. **11**), at 95 percent confidence level, we reject the null hypotheses for the first four factors, namely Corporate_Investor, Financial_Literacy, Macro_Economy, and Marketing. The average mean in all these factors lie around 2, which means portfolio managers clearly "agree" with the propositions put forward. In other words, lack of institutional investors, low level of financial literacy of investors, specific macro-economic conditions of Turkey, and lack of marketing of mutual funds as a product are listed as main hindrance factors of growth of the fund management industry by the portfolio managers.

We cannot reject the null hypothesis for the Tax_Regulation variable because the average mean lies between 2.4969-3.0524 at 95 percent confidence level. Professionals of the sector do not list lack of tax and other regulatory incentives as one of the main hindrance factors. It is worth mentioning, because when representatives of any industry are asked about any betterment in their industries, normally the first area they mention is decreasing or lifting the existent tax and levies and providing additional regulatory conveniences. We know that at the time of the survey, there were unfair taxes applied to revenues generated by investors in the fund management industry compared to the interest revenues generated in the banking sector. Still, professionals of the fund management industry did not consider the tax and regulatory issues as a priority.

Lack of qualified workforce is not seen as a hindrance factor at all. The higher level of education (35 percent post-graduate degrees) and the relatively good number of internationally recognized portfolio managers (i.e., 270 CFA® Charterholders[7]) in the industry justify this survey result.

Another hindrance factor, a significant one, has been identified as the dominance of the banking industry over the fund management industry. This dominance is exercised by banks' asset management subsidiaries. As exhibited above in Table **3**, market share of bank subsidiary asset managers has been around 80 percent for the last five years and reached 87 percent as of November 2020[8].

Banking and asset management are in competition with each other in respect of both collecting funds from savers and channeling collected funds to short or long-term investments. Therefore, it is a conflict of interest for banking to be involved in asset management business (Ingves et al. 2004, p.7-8). We asked portfolio managers whether they view the banks' dominance a hindrance to the fund management industry's growth (Fig. **12**).

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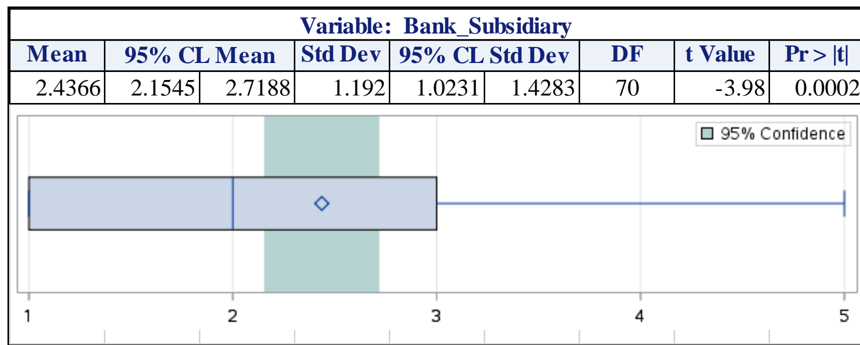
[7] Official announcement by the CFA Society İstanbul. https://www.cfasociety.org/istanbul/Pages/About.aspx [accessed 6 January 2021]

[8] The market share increase in 2019 is due to a specific increase in Money market mutual funds (from 13 billion in 2018 to 40 billion in 2019) due to a withholding tax rate amendment for a temporary period.

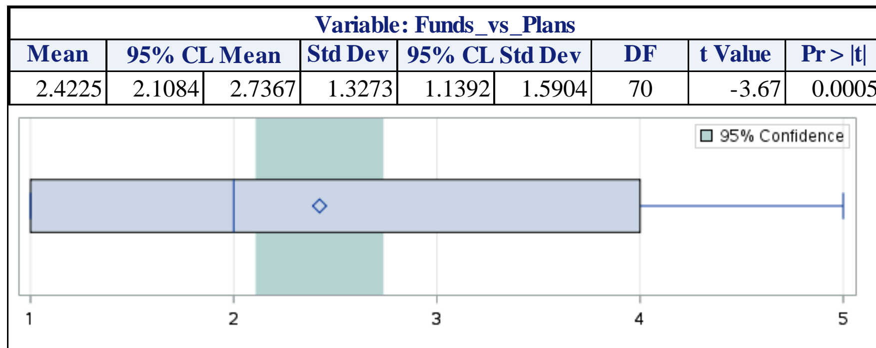


Variable: Bank_Subsidiary							
Mean	95% CL Mean		Std Dev	95% CL Std Dev		DF	t Value	Pr > |t|
2.4366	2.1545	2.7188	1.192	1.0231	1.4283	70	-3.98	0.0002

Fig. (13). Largest asset managers being bank subsidiaries, t-test.
Source: SAS results based on survey on the portfolio managers' perception conducted by the authors.

There are already mutual funds corresponding to each pension fund in the market. Therefore, pension funds can be removed (i.e. merged with the existing mutual funds pursuing the same investment strategy). Pension companies can form "pension plans" by selecting mutual funds and can market these plans as financial products instead of establishing pension funds. By this way, funds will be much larger and costs will decrease with economies of scale enabling a return increase in the system.

Fig. (14). Pension plans vs pension funds.
Source: Survey on the portfolio managers' perception conducted by the authors.



Variable: Funds_vs_Plans								
Mean	95% CL Mean		Std Dev	95% CL Std Dev		DF	t Value	Pr > |t|
2.4225	2.1084	2.7367	1.3273	1.1392	1.5904	70	-3.67	0.0005

Fig. (15). Pension plans vs pension funds, t-test.
Source: SAS results based on survey on the portfolio managers' perception conducted by the authors.

Based on the below one-sample t-test results (Fig. **13**), at 95 percent confidence level, we can state that portfolio managers agree that the largest asset managers being a bank subsidiary is a hindrance to the growth of the industry.

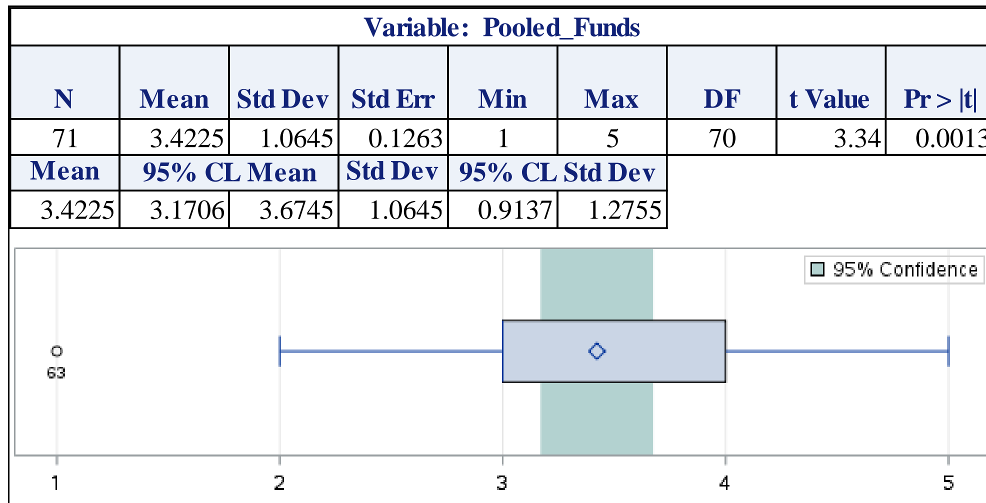
3.3.2. Pension Funds vs Mutual Funds

A macro regulatory discussion topic in the fund management industry is the duality of mutual and pension funds. In other words, besides the mutual funds in the market established by the asset management companies, there are also the pension funds with the same investment strategy established by the pension companies and managed by the asset managers. The distinguishing factor is basically the management fees applied –which are expected to be lower in pension funds. In line with international practice, there has been a recommendation by the fund management industry to eliminate the pension funds and get the pension companies to create pension plans formed of mutual funds that are already available in the market. We asked the portfolio managers to what extend they agreed with this recommendation (Fig. **14**).

Based on the above one-sample t-test results (Fig. **15**), at 95 percent confidence level, we can state that portfolio managers statistically significantly agree with the proposed recommendation.

Fig. (16). Management of pooled funds.

Source: Survey on the portfolio managers' perception conducted by the authors.



Variable: Pooled_Funds								
N	**Mean**	**Std Dev**	**Std Err**	**Min**	**Max**	**DF**	**t Value**	**Pr > |t|**
71	3.4225	1.0645	0.1263	1	5	70	3.34	0.0013

Mean	**95% CL Mean**		**Std Dev**	**95% CL Std Dev**	
3.4225	3.1706	3.6745	1.0645	0.9137	1.2755

Fig. (17). Pooled funds t-test.

Source: SAS results based on survey on the portfolio managers' perception conducted by the authors.

3.3.3. Management of Pooled Funds

One growth area of the fund management industry is the private and public pooled funds[9] which are not managed by the industry. The portfolio managers believe that these funds are not managed professionally (Fig. **16** and **17**).

Also, vast majority (86 percent) of the portfolio managers agrees that public pooled funds should be managed by the fund management industry rather than the government itself (Fig. **18** and **19**).

3.3.4. Individual Performance Reporting

We asked portfolio managers the following two questions in Fig. **20** to understand how their individual performances are tracked and whether it is a critical factor in their promotion and transfer to another asset management company.

Portfolio managers responded that they did not believe their individual performances were properly tracked and recorded (47 percent of the responses) and that their individual performance was not the main factor in their promotion (35 percent of the responses). Based on the above one-sample t-test results (Fig. **21**), we cannot reject the null hypotheses, because the means of the variables are, at 95 percent confidence level, within 2.926-3.4402 and 2.8291-3.3399, i.e., not statistically significantly different than 3 which corresponds to "neither agree nor disagree".

3.3.5. Fees

For any industry to survive and flourish, the revenues generated out of the main business should be satisfactory and sustainable. There are two main revenue types in fund management industry internationally: management fees and performance fees. The international rule of thumb is 2-20 which means 2 percent management fee levied over the AuM and 20 percent performance fee levied over the excess return (in excess of a pre-defined benchmark).

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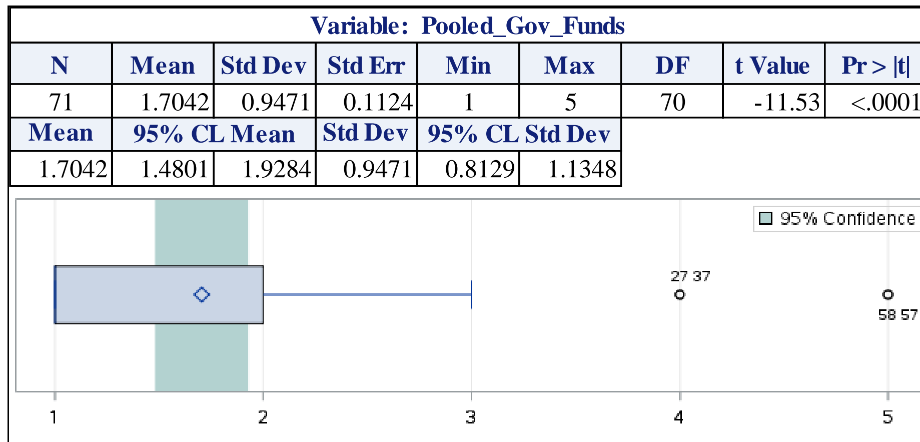
[9] Pooled funds are established (and continue to grow) both by private companies or government (public) by collecting a monthly membership contribution from its members –where the membership, hence paying the monthly contribution is generally compulsory (such as personnel solidarity funds, unions, chambers of professions, private bank pension endowments as examples of private ones and savings insurance fund, unemployment insurance fund, compulsory earthquake insurance fund as examples of public ones where the dues are generally withdrawn out of the salaries).

Funds (other than taxes) which are collected by the government from citizens for a specific purpose such as unemployment insurance, mandatory earthquake insurance, social help and solidarity fund, savings insurance should be managed by the sector.

Fig. (18). Management of pooled funds by the government sector.

Source: Survey on the portfolio managers' perception conducted by the authors.



Variable: Pooled_Gov_Funds								
N	Mean	Std Dev	Std Err	Min	Max	DF	t Value	Pr > |t|
71	1.7042	0.9471	0.1124	1	5	70	-11.53	<.0001

Mean	95% CL Mean		Std Dev	95% CL Std Dev	
1.7042	1.4801	1.9284	0.9471	0.8129	1.1348

Fig. (19). Pooled funds under government control.
Source: SAS results based on survey on the portfolio managers' perception conducted by the authors.

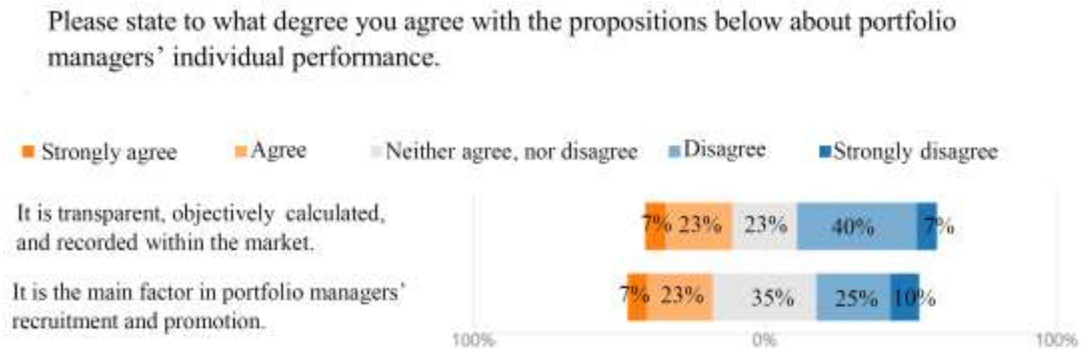
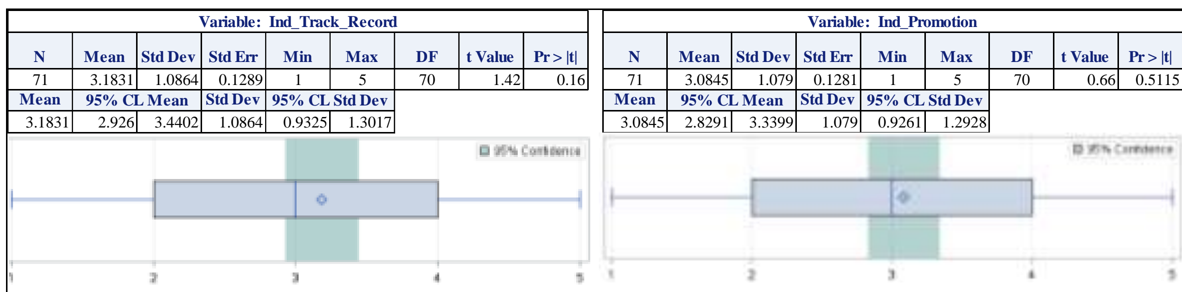


Fig. (20). Portfolio managers' individual performance.
Source: Survey on the portfolio managers' perception conducted by the authors.



Variable: Ind_Track_Record								
N	Mean	Std Dev	Std Err	Min	Max	DF	t Value	Pr > |t|
71	3.1831	1.0864	0.1289	1	5	70	1.42	0.16

Mean	95% CL Mean		Std Dev	95% CL Std Dev	
3.1831	2.926	3.4402	1.0864	0.9325	1.3017

Variable: Ind_Promotion								
N	Mean	Std Dev	Std Err	Min	Max	DF	t Value	Pr > |t|
71	3.0845	1.079	0.1281	1	5	70	0.66	0.5115

Mean	95% CL Mean		Std Dev	95% CL Std Dev	
3.0845	2.8291	3.3399	1.079	0.9261	1.2928

Fig. (21). Individual performance t-tests.
Source: SAS results based on survey on the portfolio managers' perception conducted by the authors.

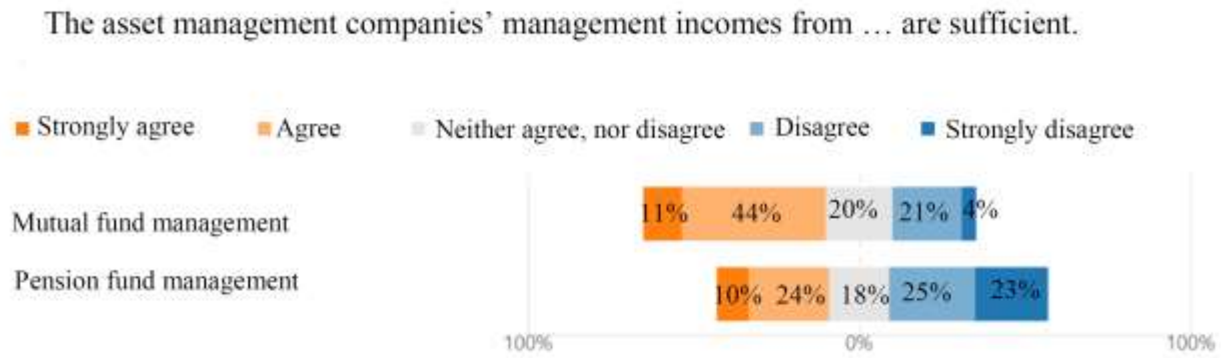
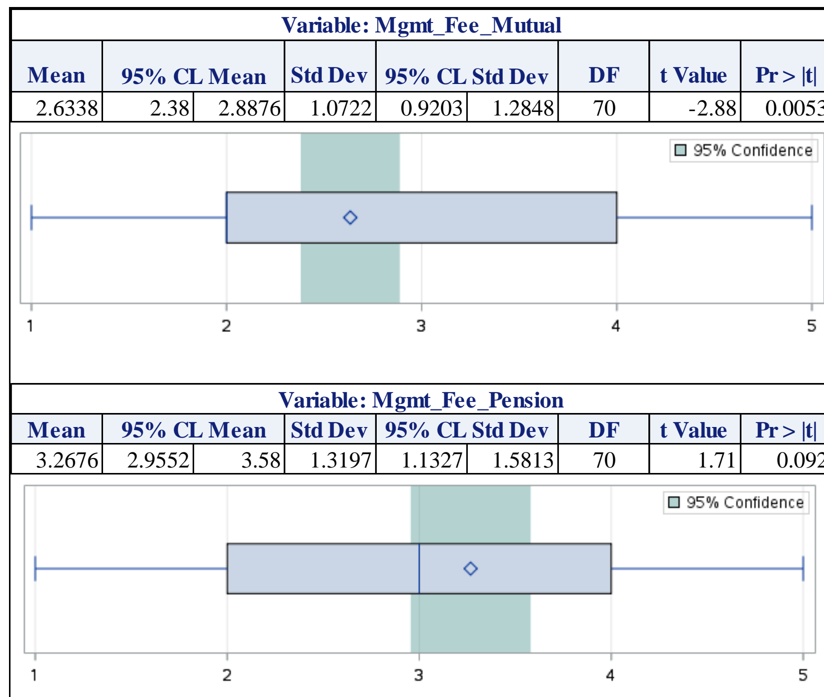


Fig. (22). Management income revenues of asset management companies.
Source: Survey on the portfolio managers' perception conducted by the authors.



Variable: Mgmt_Fee_Mutual							
Mean	95% CL Mean		Std Dev	95% CL Std Dev		DF	t Value	Pr > |t|
2.6338	2.38	2.8876	1.0722	0.9203	1.2848	70	-2.88	0.0053

Variable: Mgmt_Fee_Pension								
Mean	95% CL Mean		Std Dev	95% CL Std Dev		DF	t Value	Pr > |t|
3.2676	2.9552	3.58	1.3197	1.1327	1.5813	70	1.71	0.092

Fig. (23). Management fee income from mutual and pension funds.
Source: SAS results based on survey on the portfolio managers' perception conducted by the authors.

Management Fees

Therefore, we asked portfolio managers whether the level of management fee income generated from mutual and pension funds were sufficient to sustainably grow the fund management industry. Fig. **22** exhibits that while 55 percent of portfolio managers agree that the management fee income generated from mutual funds are sufficient, this percentage of agreement decreases to 34 percent in pension funds.

Based on the below t-test results (Fig. **23**), at 95 percent confidence level, we can state that portfolio managers statistically significantly agree with the proposition that management fee income out of mutual funds is sufficient. However, we cannot state the same for pension funds at 95 percent confidence level. Even, we can state the contrary at 90 percent confidence level: portfolio managers disagree with the proposition that management fee income out of pension funds is sufficient.

Performance Fees

Performance fees are levied especially in alternative investment funds such as private equity, venture capital, and real estate investment funds. As these products do not yet comprise even 5 percent of the total AuM in the fund management industry, performance fee is also not significant at all. We asked portfolio managers whether performance fee should be paid more attention to increase the revenues of the industry (Fig. **24**).

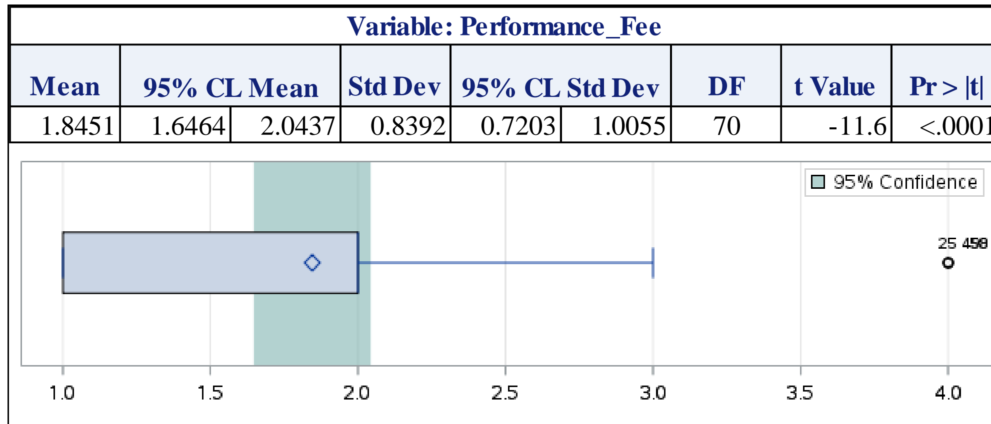
As observed above in Fig. (**24**) and statistically supported in (Fig. **25**) by the standard one-sample t-test, we can say that vast majority (83 percent) of portfolio managers agree that share of performance fee should be increased in the fund management industry.

3.3.6. Regulation

Asset management industry is a well-regulated industry all over the world. Doing business is very much dependent on

The performance fee should be paid more attention to increase the revenues of the fund management industry.

Fig. (24). Performance fee.
Source: Survey on the portfolio managers' perception conducted by the authors.



Variable: Performance_Fee								
Mean	**95% CL Mean**		**Std Dev**	**95% CL Std Dev**		**DF**	**t Value**	**Pr > |t|**
1.8451	1.6464	2.0437	0.8392	0.7203	1.0055	70	-11.6	<.0001

Fig. (25). Performance fee.
Source: SAS results based on survey on the portfolio managers' perception conducted by the authors.

The regulatory agencies closely examine the problems within the market and cooperate with the market participants to resolve any issues with open communication.

Fig. (26). Regulatory authorities.
Source: Survey on the portfolio managers' perception conducted by the authors.

regulations and often the flexibility provided by the regulators. Therefore, we asked portfolio managers whether the regulatory agencies, mainly the CMB, have been business-enabling (Fig. **26**).

The responses do not provide a clear picture: 44 percent agree, 32 percent disagree, and 21 percent neither agree nor disagree. So, we ran a one-sample t-test (Fig. **27**). According to the results at 95 percent confidence level, we cannot reject the null hypothesis, i.e., we cannot say that portfolio managers agree or disagree with the proposition that the regulators closely examine the problems within the market and cooperate with the market participants to resolve any issues with open communication.

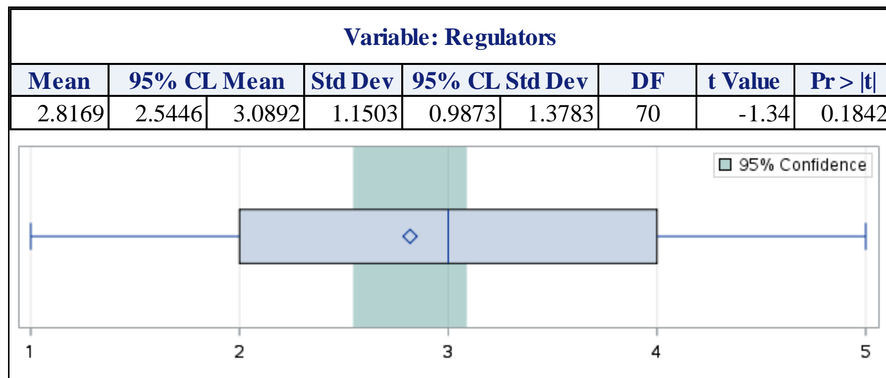
Professional associations play an important role via self-regulations, i.e., setting standards of professional conduct. We asked portfolio managers whether they find the TCMA[10] effective.

The responses in (Fig. **28**) and the one-sample t-test in (Fig. **29**) show that the professional association representing the industry is not as effective as the portfolio managers require.

4. RESULTS AND RECOMMENDATIONS

Portfolio managers' perception about fund returns per fund categories are as follows: (i) Majority of portfolio managers

[10] Turkish Capital Markets Association (www.tspb.org.tr).

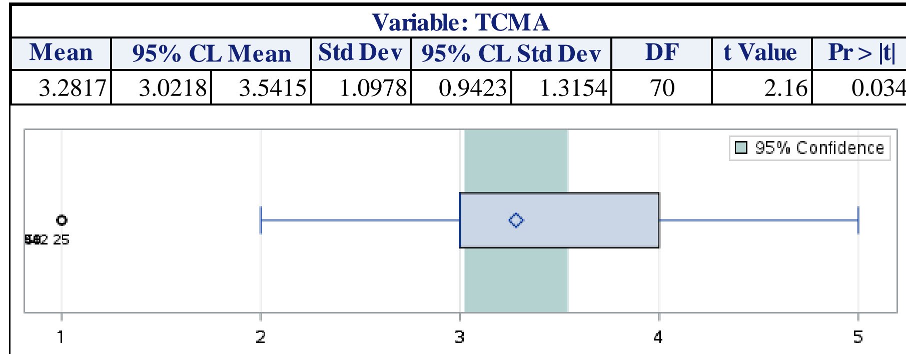


Variable: Regulators							
Mean	95% CL Mean		Std Dev	95% CL Std Dev		DF	t Value	Pr > |t|
2.8169	2.5446	3.0892	1.1503	0.9873	1.3783	70	-1.34	0.1842

Fig. (27). Regulatory authorities' cooperation.
Source: SAS results based on survey on the portfolio managers' perception conducted by the authors.

I think that the TCMA works effective and efficient enough to improve the sector.

Fig. (28). TCMA's effectiveness.
Source: Survey on the portfolio managers' perception conducted by the authors.



Variable: TCMA								
Mean	95% CL Mean		Std Dev	95% CL Std Dev		DF	t Value	Pr > |t|
3.2817	3.0218	3.5415	1.0978	0.9423	1.3154	70	2.16	0.034

Fig. (29). TCMA.
Source: SAS results based on survey on the portfolio managers' perception conducted by the authors.

believe, they often generate higher returns than the BIST-100 index and the inflation in equity funds and multi asset funds, respectively. (ii) Though less but still most of them trust, they often generate higher returns than government bonds in fixed income funds. (iii) About the participation funds' returns, portfolio managers are indecisive whether they return higher than the government lease certificates' returns. (iv) About the gold fund category though, majority of portfolio managers believe that they fail to achieve higher returns than that of the gold itself. However, most of portfolio managers think that their companies provide higher returns in every fund category than their competitors.

Portfolio managers confirm the importance of returns reporting to investors. It is acknowledged that TEFAS has been beneficial to the industry especially to independent (of banking groups) asset management companies. Still, portfolio managers think that pension fund returns are less well interpreted by investors. Therefore, portfolio managers state that investors had better receive investment advisory services especially for their pension funds.

In this respect, we investigated development areas within the market and formulated some policy and practical recommendations to develop the market as part of our study vis-à-vis the surveys conducted.

4.1. Increasing the AuM Base Especially *via* Institutional Investors

Institutional investors are crucial to growth and stability of the asset management industry. We have experienced this

very fact when pension funds were introduced and more than quadrupled the AuM in the industry in about seven years especially after the inauguration of 25 percent state support for every lira invested in the system by the pensioners in 2013.

There are opportunities of introducing new institutional investors into the market. There are public and private so-called "pooled funds" in the economy. Public pooled funds are funds collected by the government out of the tax regulations, such as mandatory earthquake insurance, unemployment insurance, savings insurance, social help and solidarity fund, etc. The total funds in just the first three of these pooled funds are 184 billion TL[11] as of end of 2019, i.e., 65 percent of the AuM in the industry as of the same date. Private pooled funds are established by private companies or professional associations where a monthly contribution is mandatory, such as personnel solidarity funds, unions, chambers of professions, private bank pension endowments, etc. There are no academic studies as to the total AuM managed by these private pooled funds. However, as per the authors' market insight, it is safe to assume that the AuM in the asset management industry would be more than doubled if both public and private pooled funds could be managed by the industry. As per the survey results, the portfolio managers view the management of public and private pooled funds as problematic. This is also a key finding in a research conducted by PWC in 2017 with 102 professionals in the asset management industry (PWC 2017, p.41).

In line with the portfolio managers' view, we recommend that pooled funds should be managed by the asset management industry. All collective investment schemes under professional associations, cooperatives and solidarity societies, and the like should be managed either by the asset management industry or by in-house licensed portfolio managers. This is also in line with the spirit of the capital market regulations which stipulate that managing other people's money is subject to regulation, i.e., requires certain certifications and licenses, organizational and operational infrastructure, etc. The CMB can issue a secondary legislation (e.g., a communique) requiring every organization managing its members' money either to employ enough people with relevant capital markets licenses or to engage with asset management companies. The Treasury Ministry can mandate the asset management industry to manage the pooled funds under its administration.

4.2. Enhancing the Fund Returns

The prerequisite for investors to entrust their savings in the hands of the portfolio managers is that they trust their fund would be managed better by the professionals. First and foremost, "better" means a higher return than the investors themselves could achieve without active management. However, the "higher" should be communicated clearly both ex-ante and ex-post. We recommend that a category benchmark be defined for each fund category (ex-ante agreement)[12] and each individual fund's performance should be measured and reported against these benchmarks by an independent organization based on internationally accepted performance presentation standards (ex-post measurement). The TCMA would be the best suitable organization to set these benchmarks and standards as part of a self-regulation in the market.

Secondly, we recommend that the high management fees which wipe out the excess returns should be decreased in the industry. Growth of the AuM base, as explained above, should allow the industry to decrease the level of management fees because if the AuM increases at least as much as the decrease of the management fees, then the management revenues would not be affected.

A third recommendation in increasing the fund returns may be broadening the investment instruments available in the market with new and innovative investment instruments based on SME funding (e.g., fixed income or quasi-equity), real estate revenues, regular income streams of infrastructure assets, etc.

4.3. Highlighting the Performance Fees

In line with most of portfolio managers' views, we recommend putting an emphasis on performance fees in the market. Both via self-regulation and regulation by the CMB, portfolio managers should be encouraged to seek for alpha. In order to keep risk consciousness intact, risk-adjusted performance measures should be taken into consideration in formulation of the benchmarks.

4.4. Promoting Individual Portfolio Managers' Performance

Portfolio managers require certain CMB licenses which must be kept up-do-date with online trainings. The average education level of portfolio managers' is also high with 65 percent of the respondents having a master's or PhD degree. This is a qualified workforce who do not think that their individual performance is transparently and objectively calculated and recorded or taken into consideration in promotions or transfers in the market.

We recommend that the individual performances of portfolio managers should be recorded independently and made available to relevant people to be taken into consideration in promotions or transfers among the asset management companies. The implementation of this recommendation is simple as there is already a system at Capital Markets Licensing Registry and Training Agency Inc. whereby the individual managers of each investment fund is recorded.

4.5. Marketing the Funds

Lack of marketing of mutual funds as a product is listed as one of the main hindrance factors of growth of the asset

[11] The total funds invested in financial assets in mandatory earthquake insurance, unemployment insurance, and savings insurance are 10 billion TL, 131 billion TL, and 43 billion TL, respectively, as of 31 December 2019.
https://www.dask.gov.tr/faaliyet-raporlari.html,
https://www.iskur.gov.tr/yayinlarimiz/issizlik-sigortasi-bulteni/
https://www.tmsf.org.tr/tr/Rapor/YillikRapor [accessed 28 March 2021].

[12] IOSCO's Principles for Financial Benchmarks should be taken into consideration in formation and administration of the benchmarks.

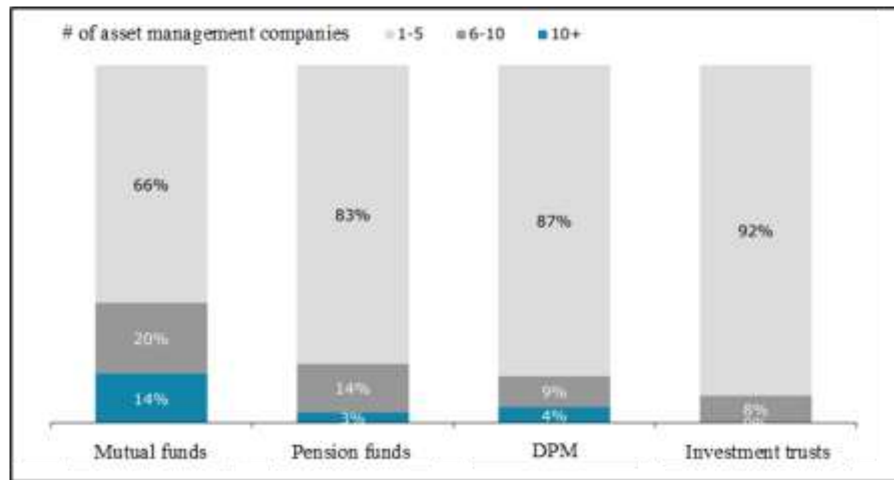


Fig. (30). Asset management's concentration (Sep. 2020).
Source: CMB.

management industry by majority (82 percent) of the portfolio managers. This finding is astonishing considering that one of the major advertisers in the media is the financial industry until one notices that the financial products that are advertised are mainly banking products. We recommend that mutual funds are promoted by the TCMA as a financial product on every media available. The TCMA can allocate a budget specific to raising awareness about mutual funds in the market. This kind of a promotion will sometime later set the stage for individual asset management companies to promote their own mutual fund products once the investors are informed by the TCMA's advertorials about the features of different types of mutual funds and how they can benefit from professional money management services based on their return expectations and risk profiles.

We also recommend creating independent financial advisory profession licensed by the CMB. The independent financial advisors (the IFAs) help especially retail investors in their selection of both mutual funds and pension funds based on their risk and return profiles, liquidity requirements, time horizon, tax status, legal and regulatory status, and other unique circumstances. The Financial Planning Association[13] is founded in 2014 in Turkey and promotes the international Certified Financial Planner (CFP®) certification[14] with relevant adaptations to Turkish regulations. The IFAs may play a crucial role in raising awareness about funds, informing the investors, marketing funds, improving financial literacy, preventing mis-selling of financial products, and broadening the investor base as well as creating self-employment.

4.6. Enriching TEFAS

The Turkish Electronic Funds Trading Platform (TEFAS) was founded in January 2015 which enabled investors to access all investment funds in the market through their investment accounts at any bank. Since then, TEFAS is successfully serving the intended purposes. However, a majority (85 percent) of portfolio managers agree that TEFAS can be more efficient if converted into a trading platform where fund units could be purchased and sold. Hence, we recommend enriching TEFAS by additional functions and features such as converting it into a trading platform.

The fund types included in TEFAS broadened since its inauguration and this trend should be continued until no fund type is left outside the platform. Alternative investment funds, namely real estate investment funds (REIFs) and private equity investment funds (PEIFs) should also be covered by TEFAS. The returns of REIFs may be presented in comparison to property price increases released by TUIK.

TEFAS can also act as a gateway for investors about everything related with the FMI. Investors may be presented with informative blogs by industry experts, links to international articles on fund management, advertorials by sector players, etc. We also believe that TEFAS should grant researchers access to all statistical data about the funds so that more research could be conducted for better policy recommendations.

4.7. Positively Discriminating Asset Management Against Banking

There are two dimensions to positively discriminating asset management against banking: (i) asset management vs banking, and (ii) independent asset management companies vs bank subsidiaries. Although banking and asset management complement each other in financial intermediation market especially in respect of allocating funds within the economy, i.e., at the users-of-funds end, they also compete with each other especially while collecting funds from the savers, i.e., at the providers-of-funds end. In Turkey, this competition is clearly won by banking (being sixteen times larger than asset management as of 2019). We recommend positive discrimination of asset management against banking vis-à-vis the regulations. Some examples of positive discrimination are as follows:

1) Taxation of revenues from asset management products and services may be set at a lower rate than those applied on banking products and services.

[13] http://fpd.org.tr
[14] https://www.cfp.net

2) The investment limits for Turkish citizenship application may be kept at a lower amount for asset management products than banking and real estate products.

As observed in Fig. (**30**) above, there is a clear concentration in asset management in Turkey: about 90 percent of assets in all asset types are managed by 10 companies. and about 90 percent of the AuM as of the date of this study is managed by asset management companies that are bank subsidiaries.

Banks' domination in the market is viewed as a hindrance to the industry's growth by portfolio managers. And the portfolio managers are right in their judgement given that (i) more than half of investors prefer to invest in mutual funds managed by an asset management company that is the subsidiary of their main bank, and (ii) that one third of investors confirm that their bank account manager plays a key role in their mutual fund selection process. We recommend positive discrimination of independent asset management companies against bank-subsidiary asset management companies. Some examples of positive discrimination are as follows:

1) The representation of non-bank-subsidiary asset management companies at the TCMA should be strengthened by allocation of seats at the Board of Directors and arrangement of equal voting rights at study groups.
2) The authorization to utilize outsourcing for all the non-core activities such as risk management, research, fund accounting, transfer agency, etc. basically anything other than portfolio management at all levels of AuM.
3) A radical recommendation may be separating banking and asset management altogether by banning banks from owning asset management companies and vice versa. Same shareholders may own banks and asset managers separately, but not via one another.

4.8. Reforming Individual Pension System

Portfolio managers think that the management fee revenues generated by pension funds are not sufficient. The reason is as follows: Pension companies[15] are the only authorized companies to establish pension funds, but they cannot manage those funds; they must mandate an asset management company. Pension companies basically dictate the price of those mandates, and the practice is about 5 percent of the management fee of the pension fund. Considering the management fees of pension funds between 0.8-1.8 percent, 5 percent translates into 4-9 bps[16] (about 5 percent of an average of 1.7 percent management fees in the market for mutual funds). Given the AuM of pension funds, this level of fee percentage translates into unsatisfactory fees in monetary terms.

We recommend that the pension fund concept be replaced with pension plans. Pension funds can be converted into mutual funds and merged with existing ones. The different (essentially a lower) level of management fees for pensioners can be managed by the creation of different classes within the mutual funds. Majority (68 percent) of portfolio managers agreed (even 27 percent strongly agreed) with this recommendation. We expect to achieve economies of scale in costs and expenses and a higher rate of return just because of those savings.

In dept analysis of pension system is beyond this study. Nevertheless, we can elaborate a bit more on a potential new design: (i) Pension companies can market the pension plans that they would bundle based can on their research and analysis about funds and their managers. (ii) Besides the pension companies; unions, professional cooperation and solidarity societies, and companies themselves may also be allowed to offer pension plans. (iii) Additional capital adequacy, organizational structures, and reporting may be required of those asset management companies which wish to accept pension funds (i.e., pensioners' money from their pension accounts). (iv) Existing pension companies may be granted the choice to become asset management companies.

4.9. Creating Effective Regulatory Environment

Regulation is of paramount importance in asset management. We believe, business-friendly regulation is better than merely restrictive one. Akgiray (2019), who also acted as the chairman of the CMA between 2009-2012, states that "The guiding principle must not be 'who can do what and how?' as today, but instead 'what can be done and how?'" in his recent book, Good Finance (p.124). Portfolio managers find the CMB's approach and regulations adequate. However, they think the TCMA can do better. The TCMA's role as a professional association representing the asset management industry is critical in gathering and channeling information to the regulator (CMB) especially when the employees of the regulator are not from within the industry as is the case in Turkey. However, banks are also members of the TCMA, which is not healthy for an efficient functioning of the markets. We recommend restructuring the TCMA's membership and management organization to empower asset management companies more than the banks in order to make the TCMA a better bridge between the market participants and the regulator.

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[15] Pension companies are licensed by the Finance and Treasury Ministry. There are 15 pension companies active in the market as of 31 March 2021.

[16] Basis points. 1 bps = 0,0001.

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