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Turkish Sovereign Wealth Fund: what you need to know

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In August 2016, Turkey joined the rest of the G20 countries and met the concept of sovereign wealth funds when it passed a law establishing the Turkey Wealth Fund Management Joint Stock Corporation (the "Corporation") and mandating the establishment of the Turkish Sovereign Wealth Fund (the "Fund"). The Fund now owns key Turkish public assets and the Corporation will manage those assets and use them to grow and stabilize the Turkish economy. It may also use those assets as collateral to secure funding for Turkey's major infrastructure projects.

Target

Law no. 6741 (the "**Law**") sets forth the purpose and targets of the Turkish sovereign wealth fund (the "**Fund**"). The Fund was created to help grow the Turkish economy and to address some of its structural problems.

The government has set the initial target for the asset size of the Fund at USD 200 billion amounting to approximately 28% of Turkey's 2015 GDP, according to World Bank data.

The Law establishing the Corporation sets forth ambitious targets for the work of the Fund, including:

- Contributing to the growth rate by 1.5% annually over the next ten years;
- Providing financing for strategic mega-projects such as the third Istanbul international airport and nuclear power plants;
- Accelerating the growth and deepening of the capital markets;
- Popularizing the use of sukuk and other Islamic finance instruments;
- Encouraging local companies involved in strategic technology-based sectors such as defence, aviation and software to become global players by supporting them through equity investments and financing on a project basis; and
- Creating additional employment;
- Creating the opportunity for direct investments by the Corporation outside of Turkey in strategic sectors including oil and gas.

Funding Sources

The main funding sources of the Fund consist of the following:

- the cash surplus, entities and assets to be transferred to it from the Privatization Administration and the Turkish Treasury;
- revenue, resources and asset surpluses under the control of governmental institutions which the Council of Ministers decides to transfer to the Fund;
- management fees collected from funds and portfolios managed by the Corporation;
- resources procured from national and international capital and money markets; and
- other resources to be provided other than through the money and capital markets.

In order to enhance the growth of the Corporation, certain key public assets previously held by the Treasury or the Privatization Administration have been transferred to the Fund in the first quarter of 2017. For so long as Turkey does not have a savings surplus, the Fund's resources may be expected to consist primarily of non-liquid assets, such as these holdings. Hence, we can expect that the Fund will either sell some of its assets to generate cash or use those assets as collateral to secure much needed funding, especially for large-scale infrastructure projects.

To date, the following state assets have been transferred to the Fund's ownership:

Financial Institutions		
100.0% stake of the Turkish Treasury in Ziraat Bank *Turkey's largest bank by assets*	51.1% stake of the Turkish Treasury in Halkbank *SME-focused bank*	73.6% stake of the Treasury in Borsa İstanbul *Sole securities exchange in Turkey*
Oil & Gas and Transportation		
100.0% stake of Turkish Treasury in Türkiye Petrolleri *Oil and gas producer*	100.0% stake of Turkish Treasury in Botaş *National oil and gas pipeline operator*	49.1% stake of the Treasury in Turkish Airlines *National airline carrier*
TMT and Communications		
6.68% stake of Turkish Treasury in Turk Telekom *Phone and GSM operator*	100.0% stake of Turkish Treasury in Turksat *Cable TV and Satellite Operator*	100.0% stake of Turkish Treasury in Posta ve Telgraf Teşkilatı A.Ş *National postal, cargo, logistics provider*
Other Entities		
100.0% stake of Turkish Treasury in Çaykur *Tea producer public economic enterprise*	100.0% stake of Turkish Treasury in Eti Maden *Mining public economic enterprise*	

“The asset value of the stakes transferred to the Fund to date was USD 160 billion with expected future dividend income of approximately TRY 1 billion (approximately USD 280 million)”.

Osman Çelik, the Undersecretary of the Turkish Treasury, February 2016

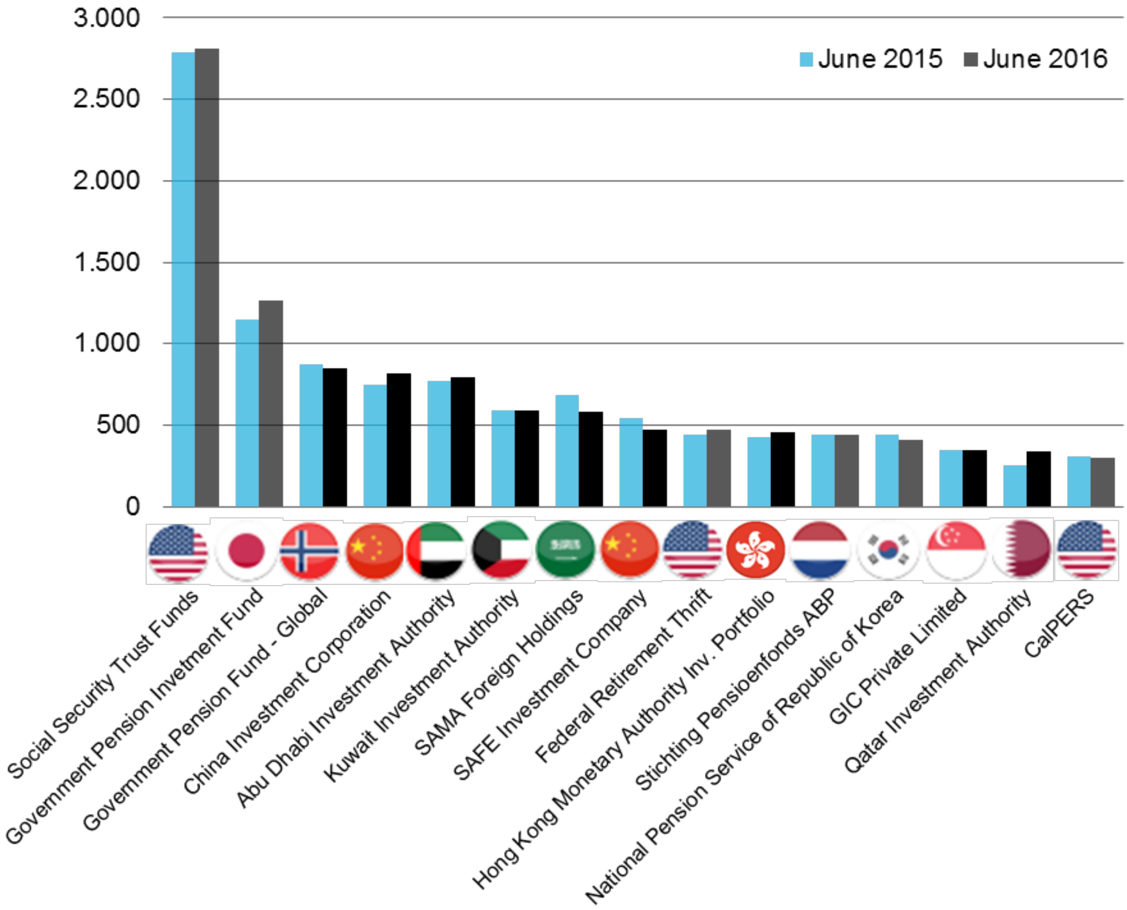
In addition to the stakes in the entities above, several plots of lands in tourism regions and the licenses for the national lottery and horse racing operations (for a period of 49 years) have been transferred to the Fund. In addition, the Defence Industry Support Fund, a fund managed by the Undersecretariat of Defence Industries, has transferred the sum of TL 3 billion (approximately USD 811 million) to the Fund to be repaid within three months.

According to the latest news, Turkey also plans to transfer hydroelectric power plants with a combined capacity of approximately 1,000 megawatts from EÜAŞ (the state-owned electricity generation company) to the Fund.

Global Comparison

Until the establishment of the Fund, Turkey was the only G20 country without a sovereign wealth fund. The aggregate portfolio size of all 82 wealth funds worldwide reached nearly USD 7.4 trillion as of February 2017

The table below shows the top 15 sovereign wealth funds, pension funds and other public funds in the world as of June 2015 and 2016 (*Source: Sovereign Wealth Fund Institute, March 2017*).



Source: Sovereign Wealth Fund Institute, March 2017

As noted above, Turkish officials have stated that their current target for the Fund’s asset size is USD 200 billion. If that target is reached, it would place the Fund close to the top 15 sovereign wealth funds.

International Collaboration

In March 2017, the Russian Direct Investment Fund ("**RDIF**") and the Fund signed a memorandum foreseeing the establishment of a Russia – Turkey Investment Fund in which both parties will invest up to USD 500 million each. Although details of the partnership have not yet been announced, according to published reports, it is likely that the Russia – Turkey Investment Fund will invest in the healthcare and tourism sectors.

According to recent news, the sovereign wealth funds of two other countries are expected to sign memoranda of understanding with the Fund in the near future.

Other Features

Management and Strategy

There will be no change in the legal status of any of the banks or companies transferred to the Fund. In other words, whatever was their legal status prior to the transfer, that status continues despite the change in their ownership. Prime Minister Binali Yıldırım has also announced that the management of these assets, their operational policies and their business plans will continue in accordance with their existing strategies.

The law requires that the board of directors of the Corporation prepare and submit to the Prime Ministry for approval a 3-year strategic plan for the Fund which will guide the Fund's activities, but this plan has not yet been submitted and approved.

According to public statements, we understand the Fund will be managed and governed in accordance with the Santiago Principles, which are 24 generally-accepted principles and practices voluntarily endorsed by the members of the International Forum of Sovereign Wealth Funds. The purposes of the Santiago Principles are, among others, to help maintain a stable global financial system and free flow of capital and investment and to comply with all applicable regulatory and disclosure requirements in the countries in which sovereign wealth funds invest.

The Corporation

The Corporation, which was formed with founding capital of TRY 50 million (approximately USD 15 million), is a joint stock corporation that is subject to private law and that is required to be managed in compliance with professional governance principles. The sole shareholder of the Corporation is the Privatization Administration of the Prime Ministry of the Republic of Turkey.

The Corporation is responsible for managing the Fund and its assets in order to meet the objectives in the Law and in the Fund's strategic plan. The Corporation has broad authorities that include the rights to undertake the following in national or international primary or secondary markets:

- Purchase and sale of shares of national and foreign corporations, debt instruments, capital markets instruments, derivative instruments, and other instruments;
- Conduct money market transactions;
- Use real estate and other related rights;
- Develop any kind of projects and secure funding for such projects; and
- All other kinds of commercial and financial activities.

Using Assets as Security

The Fund's assets and the assets and rights transferred to the Corporation to be managed are separate from the assets of the Corporation and may be collateralised, pledged, or otherwise encumbered to raise financing for the activities within the scope of Fund's and its sub-funds'. However, the assets of the Fund may not be attached or be made subject to interim injunction or bankruptcy proceedings even for the collection of public receivables. Therefore, the assets transferred to the Fund can now be used as collateral to secure funding for Turkey's large and ambitious infrastructure projects with the goal of securing attractive financing terms.

Regulatory Exemptions

Both the Corporation and the Fund are exempt from taxes and charges on their activities including stamp duty, income and corporate taxes, tax deductions and the fees of Borsa Istanbul. They are also not subject to certain regulations and restrictions including the following:

- *Privatization Law no. 4046*, enabling the Corporation to directly dispose of its stake in various companies through bilateral negotiations without following the privatization and bidding process;
- *Capital Markets Law no. 6362*, enabling the Corporation and the Fund to issue securities without prior regulatory approval and exempting them from certain regulatory requirements during acquisition such as mandatory tender offers;
- *Public Procurement Law no. 4734* and *State Procurement Law no.2886*, enabling the Corporation to obtain services (such as consultancy) without a public procurement process; and
- *Competition Law no. 4054*, enabling the Corporation to acquire enterprises without prior Competition Board Approval.

Audit

There is a three stage audit procedure foreseen for the Corporation and its subsidiaries as well as the Fund and its sub-funds and the Corporation must also comply with the corporate governance principles in Law No. 6362 (the Turkish capital markets law) and its corporate governance communique.

Independent Audit	• Annual audit by an independent auditor in accordance with the Turkish Financing Reporting Standards
Expert Review	• Audit by at least three central auditing specialists to be appointed by the Prime Minister • Submission of the audit report to the Council of Ministers in every June
Parlimentary Review	• Audit by the Planning and Budget Commission of the Parliament in every October

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