

Breaking the mould

Since 1961 Oyak Group has been providing retirement benefits to the Turkish military. It has done so via an unusual investment model that has seen the fund grow over the last four and a half decades to become the country's largest pension fund.

Oyak – or Ordu Yardımlaşma Kurumu, to give the group its full name, which, translated, means Armed Forces Pension Fund – members consist of 230,000 military personnel, including officers, non-commissioned officers and civilian staff. At present 90% of Oyak's members are on active service; the remaining 10% are retired.

Military personnel are automatically enrolled as Oyak members when they enter military service. Members pay around 10% of their base salary into Oyak – the fund receives no employer contribution.

Oyak has conceived an unusual investment strategy, which has seen it form several joint ventures. In 1999 it set up the Axa Oyak holding company, a joint venture with insurance giant Axa France that combines the insurance activities of both companies in Turkey.

Oyak also has 51% ownership of its joint venture with Renault, which was set up in 1969. Today, Oyak Renault has the capacity to manufacture 172,000 cars a year, and exports a large number to western European countries.

INVESTMENT STRATEGY Oyak's 2005 annual report explains the fund's holding company approach to its portfolio and equity investments. Its investment stance is designed to give Oyak a high level of control over any company it invests in.

Aydin Muderrisoglu, Executive Vice President of New Business at Oyak, attributes the organisation's success to its policy of investing directly in companies and ensuring that the fund has a controlling stake in that organisation.

He says: "There are other pension funds that are similar to Oyak in that they invest in several areas quite heavily. The whole purpose of a pension fund is to extract value for the members. Providing for the members of Oyak has always been at the heart of the fund and how we run the operations.

"Where Oyak differs is the way in which it actively takes control of companies. Oyak has to be sure that the money it invests in businesses is still controlled by the fund. This is the best way to extract value for our members."

Oyak has been investing directly in companies for 45 years since it was established in 1961. It now has investments in 60 businesses across Turkey as well as some international partnerships. Oyak believes it has built a reputation as a good pension fund model that could be transferred to other regions across the globe.

In Canada and the US, two funds have a similar structure to Oyak. Teachers' Private Capital (a pension plan for teachers in Ontario) and the California State Teachers' Retirement System both have investment portfolios featuring property, partnerships and bonds.

Executive summary

- With a large, diversified portfolio and a hands-on approach to investment, pension fund Oyak has deliberately set out to attract the attention of Turks and non-Turks alike. Does Oyak's model of active ownership, diversified investments and joint ventures with well-known foreign companies offer a future model for pension funds across the globe?

While both funds possess a certain similarity, Oyak stands alone in its desire for active control and involvement in the companies that it invests in.

Oyak's 2005 financial report shows that despite a 10% fall in investment in the fund compared with the previous year, Oyak's total reserves reached \$2.82bn in 2005 – a 24% year-on-year rise.

Muderrisoglu says: "The 60 businesses that we run vary in size. They include a range of products and services from food to chemicals and cars. For instance, Oyak Bank is the ninth largest bank in Turkey and has more than 300 branches nationally."

Since Oyak's new management was appointed in 2000, the fund has worked hard to demonstrate its successes and be seen to be adopting high standards of corporate governance, business ethics and transparency.

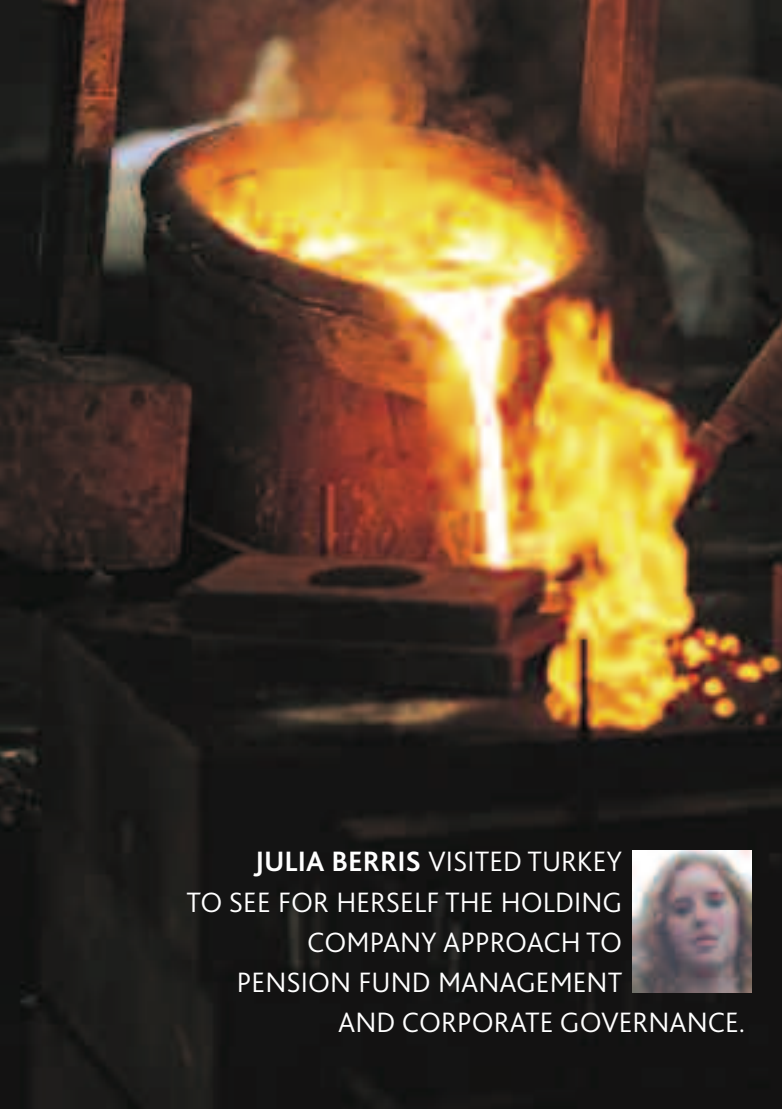
Oyak is the first holding company in Turkey to receive an investment rating from international credit rating agencies: Moody's gives it a B1 positive outlook and Standard & Poor's a BB- stable outlook. This reflects the management's determination to present Oyak's financial information and investment portfolio to the Turkish public and the international community.

Muderrisoglu says: "The S&P and Moody's ratings are very important because this is not common practice in Turkey. We have done something very different for us and other companies in the country."

Oyak's management says the fund has worked hard over the past six years to improve transparency, ensuring that a high standard of accurate corporate governance is a key company principle.

Although Oyak remains faithful to its longstanding investment strategy it has become more transparent to enable it to advance its international activity.

Muderrisoglu says: "I don't believe Oyak has changed in the way that it operates as a whole. However, since 2000, when the new



JULIA BERRIS VISITED TURKEY TO SEE FOR HERSELF THE HOLDING COMPANY APPROACH TO PENSION FUND MANAGEMENT AND CORPORATE GOVERNANCE.



BOX 1. The visit

Treasurer reporter Julia Berris was among a group of journalists invited to Turkey by the Oyak pension fund to learn more about its investment strategy and see the fruits of its labour at two recent investments, the Isdemir and Erdemir steel plants.

The Isdemir steel plant – in Iskenderun on the country’s Mediterranean coast – was set up in 1970 as Turkey’s third state-owned steelworks and made extensive use of Soviet technology. Today, the Isdemir plant is owned by the Erdemir plant and extensive modernisation plans are under way.

The Isdemir plant and its surroundings are a fascinating example of the Soviet model for heavy industry operations – from the machinery installed in the plant to the communities built to house the workforce of the steel mill.

The Erdemir steel plant, located in the village of Ereğli on the Black Sea coast, uses much more advanced technology than Isdemir and is the country’s largest steelmaker.

The Erdemir group, which includes Isdemir steel plant and eight other companies, employs 14,000 people.

Oyak’s investment strategy is to ensure it has direct involvement in its investments such as Isdemir and Erdemir. Both these steel plants will undergo massive modernisation programmes in the next few years which will improve their production capacities and the Turkish steel industry as a whole.

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management began, Oyak has aimed to improve the investment levels and increase targets for the company.

“We want to ensure we have good corporate governance practices and transparent business ethics.”

JOINT VENTURES Oyak’s management see the benefit of establishing the fund on an international platform. With existing successful joint ventures with Renault and Axa France, attracting new partners could be the key to international success and profile.

Muderrisoglu says: “Oyak plays an important role in investing in Turkey. Our partnerships with international companies have worked very well.”

Oyak’s latest major project was the acquisition of Erdemir Group in February 2006; the company’s assets include two steel plants.

Situated in the town of Ereğli on the Black Sea coast, the previously state-run Erdemir steel plant now has the highest output in Turkey. The nine companies in the group are scattered across Turkey and include another steel plant on the Mediterranean

coastline – Isdemir in Iskenderun. The Erdemir and Isdemir steel plants were built in 1965 and 1977 respectively.

Oyak created Ataer, a wholly owned special purpose vehicle, to enable it to acquire Erdemir for \$2.96bn. Ataer is Erdemir’s largest shareholder, directly and indirectly holding a 52% stake, giving Oyak a major say in the composition of the board of directors.

Oyak says that Turkey’s thriving steel industry makes Erdemir group a solid investment. Since the 1930s steel has been a key component of the Turkish economy. At present, the Turkish steel sector’s 21 million tons of annual crude steel production ranks it 11th in the global steel industry.

Muderrisoglu says: “We have invested heavily in improvements to Isdemir so it can become as technologically advanced as Erdemir.”

The Isdemir plant area is much larger but less advanced technologically than Erdemir. The group is currently involved in one of the world’s biggest ongoing iron and steel investments carried out in a single facility.

Muderrisoglu says: “The investments in Isdemir will make a big difference to how the plant is run and its production capacities. When work is completed in 2008, it will have cost over \$2bn.”

By investing in well-established industry sectors in Turkey, Oyak hopes to continue to succeed in providing its members with benefits, as it has done for many years. The key to Oyak’s success, as the pension fund sees it, is its individual approach to investment, which enables the fund to play a vital role in the companies, thus maintaining more control over the money it has invested.

Muderrisoglu says: “Oyak chose this method of operating because investing in capital markets was not an option in 1961. This way has worked well for us over the years so we will continue along this path.”

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