Akbank Franklin European Growth Fund
Fourth Quarter 2015

For the quarter ended 31 December 2015, Akbank Franklin European Growth Fund fared worse than its benchmark, the MSCI Europe Index.

Market Review

European equity markets rebounded in the fourth quarter as optimism about economic growth and expectations for ongoing monetary support lifted markets. The European Central Bank (ECB) continued to support equity markets, cutting deposit rates further into negative territory and extended the duration of its bond-buying program. The ECB did not increase the size of its asset purchases, as some had expected, however. European economic data continued to show signs of improvement, with industrial activity picking up. The European economy has benefited from a weaker euro currency and cheaper oil prices. Electoral uncertainty in Spain hung over markets after no single party won an outright majority and terrorism concerns rose following the attacks in Paris

.

Performance Review and Contributors to Performance

During the quarter, the portfolio underperformed its benchmark, the MSCI Europe Index, as a number of UK-based Financials holdings and stocks with exposure to commodities weighed on relative returns.

UK-based Financials stocks Countrywide PLC, a property services company, and International Personal Finance PLC (IPF), a consumer lender focused on Eastern Europe, detracted from relative performance. Countrywide's share price has been weak on concerns about the pace of normalization in the UK housing market. While the rebound has not been as vigorous as expected after the country's May 2015 election, we anticipate that housing transactions will continue to recover. Meanwhile, concerns about regulatory changes in Slovakia hit shares of IPF.

In Industrials, IMI PLC, a UK-based leader in valves used in harsh and often safety-critical or performance-critical applications, was a detractor as it continues to grapple with a weak spending environment in the oil and gas industry. Despite these near-term challenges, we believe IMI is well positioned given the high barriers to entry in the market related to the critical nature of its valves, the industry segment's certification requirements and the strong customer relationships necessary.

The weak oil and gas capital spending environment also weighed on shares of Energy sector holding TGS-Nopec Geophysical Co. ASA, a Norway-based provider of geosciences data. We continue to believe the long-term picture for TGS is appealing given the demand for more advanced and expensive seismic technologies, the positive outlook for growth in exploration and production spending to maintain reserve replacement, and rising demand for new frontier market exploration.

France-based Health Care stock Sanofi, a pharmaceuticals company, detracted from relative performance after warning of expectations for flat profits over the next couple of years. The company is also looking at options for its animal-health and generics businesses as a new chief executive officer looks to refocus the company. We like Sanofi because of its leadership in diabetes treatments and its focus on niche areas that competitors do not fully cover.

Conversely, Industrials holding Mears Group PLC, a UK-based housing and social care services company, was a contributor on news of a big contract win and optimism about the company's ability to close a number of other large contracts. We believe the company is highly cash generative, has a strong balance sheet and is well placed benefit from the growth opportunities in social-housing management.

In Financials, Italy-based wealth manager Banca Generali SpA contributed to relative returns as the company continues to benefit from increased inflows and ongoing changes in the Italian banking industry. The company has been luring experienced financial advisors and private bankers, as well as wealthy Italian investors, away from traditional banks due largely to its strong brand, independent advice and convincing product offering.

Also in the sector, Italy-based Cerved Information Solutions SpA, a credit information company, contributed to relative returns on the back of strong fundamentals. Cerved is the market leader in providing services related to the collection of non-performing loans on behalf of leading Italian banks. Due to its dominant market positions, Cerved generates industry-leading operating margins and is highly cash generative due to its subscription-based business model.

Consumer Staples holding Anheuser-Busch InBev SA, a Belgium-based global beer maker, was a contributor after it made a formal offer to acquire SABMiller PLC (not a portfolio holding) to create an even bigger industry player. A deal would give Anheuser-Busch a presence in Africa and parts of Latin America. Anheuser-Busch has also been benefiting from the trend of consumers trading up to premium beers in many emerging markets where it already has a presence.

Industrials stock Compania de Distribucion Integral Logista Holdings SA, a Spain-based distributor of tobacco and other consumer products, was another contributor. We believe Logista is a high-quality business with an unmatched distribution network. Moreover, it has a strong business mix that combines a defensive tobacco distribution business, where it has nearly 100% market share, a more cyclical transportation services business and a pharmaceuticals distribution business that may offer higher growth.

Investment Outlook

We utilize a bottom-up, long-term strategy and therefore try to take advantage of market volatility to gain exposure to companies that exhibit what we view as strong and sustainable competitive advantages, solid balance sheets and substantial cash generation. We tend to be contrarian in our style, and our philosophy and process often lead us to segments of the market that are out of favour with other investors.

For 2016, we expect moderate performance for European equity markets as positive and negative factors should finely balance, in our view. Once again, we believe Euroland shares stand a good chance to perform well in local-currency terms. The effects of cheaper oil and a weaker euro, which were positive factors in 2015, should start to fade, in our view, while the headwinds coming from tighter US monetary policy and a general slowdown in emerging markets should strengthen. We believe the European consumer should show renewed vigor, aided by falling unemployment, higher wages and lower taxes. With macroeconomic factors looking to be balanced, we believe careful stock selection will be more important than in years' past.