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WSD Capital pioneers activism in Turkey, but volatility prevents current campaigning – Profiler

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There was no activism in Turkey before **WSD Capital Management** launched, and many people believed there was no way to do it, according to the fund's founder and portfolio manager Ertan Enginalev.

You couldn't even raise a fund by saying you want to do activist investing, Enginalev told *Activistmonitor* on a recent visit to London where he appeared on a panel at *The Deal's* corporate governance conference discussing activism in Europe.

"What you had to do was find an opportunity and then go to the investor with the opportunity, because there was no track record and no precedent (for activism)," he said on the sidelines of the conference.

The characteristics of the Turkish market - sensitivity to emerging markets, small capitalisations, low free-float and large family shareholders - meant the task was daunting.

"In Turkey you have capacity concerns about how much money you can put to work without changing the price; if you come in and (the market) hears WSD's an investor, you suddenly can't buy anymore stock."

But the untapped nature of the market was also tempting, said Enginalev, who made his name as an M&A-focused banker with **Koç Yatırım Menkul Değerler** and **Global Menkul Değerler** in Istanbul. He earned his MBA from the Miami School of Business.

His investors have all been from the US - one is an established activist investor in its own right.

His four Turkish activist investments all took the form of SPVs, each amassing between USD 20-USD 50m in capital, and each connecting just one investor with one target company.

In addition to the SPVs, Enginalev spent a year guiding another investor with USD 100m to devote to a Turkish situation, but he could not find the right opportunity. The relatively small free-float of many Turkish companies meant such a large investment could leave him in an illiquid position, he said.

His only public campaign so far kicked off with an open letter to the board of one of the largest industrial conglomerates in Turkey - **Akfen Holding** - in February 2015.

Enginalev decided to take the leap of publicising the letter without first alerting the company privately about his intentions, as activists often do.

“Why? Well, it was our first engagement, so we didn’t have any profile and our credibility was linked to my investment banking background,” he said.

Another key consideration was Akfen’s charismatic CEO whom Enginalev believed would, given the chance to pre-empt the letter’s publication, seize the advantage by appearing prominently in Turkey’s news media.

“Everybody felt like the company was a dog that just wouldn’t hunt,”he said. “We issued our letter in English and it was published for institutional investors abroad, but we had already interacted with them so we knew they were all on the same page.”

The company’s passive investors didn’t want to offend management or endanger their access to executives, but they hinted they would be supportive of WSD’s initiative, Enginalev said.

WSD sought to “eliminate the barriers to price discovery” at Akfen as there was plenty of value in its assets that was not being reflected in the stock price, he said.

The aim was to attract foreign shareholders by strengthening corporate governance, among other aspects of the business, Enginalev said. Foreign investors with longer investment horizons, rather than local investors and index trackers, would help protect the company from natural volatility in the Turkish market, he proposed.

During the period in which WSD was invested in Akfen, the company’s management adopted significant operational and capital allocation improvements in strategy and execution, according to WSD.

In the 12 months following initial engagement, Akfen outperformed the BIST100 Index by 151 percentage points, according to WSD.

One thing Enginalev didn’t expect was for the company to de-list and go private, which it did in April 2016. “I would have loved to stay with the stock,” he said.

Turkish volatility

The volatility in the Turkish market has only increased since then, meaning WSD has had to pull back from investing in the country. It exited Turkish equities in late 2016 and shifted its focus into special situations in the DACH region, across Europe, and into the US market.

“Foreign institutional investors don’t want to take the currency risk, so now we look at more credit-side opportunities where companies come to us and say I’m undervalued, what can we do?” he said.

On the investing side WSD’s website shows positions in the likes of **Nestle**, **Centrica** and **KraftHeinz**.

Enginalev likes US activist **Third Point’s** thesis at Nestle but has not had contact with the investor. He believes Nestle will eventually acquiesce to the activist’s demand to sell its **L’Oreal** stake.

He draws parallels between DACH companies and those in his home market, including **Volkswagen**, which he said is “basically like a Turkish company”. The **Porsche** family’s 52% voting position makes it difficult for any other investor to make a difference but thanks to the Dieselgate scandal, activist fund **TCI’s** investment has taken on new significance for other investors, he said.

Even if a single shareholder owns 52% of a company, it can’t do whatever it wants, and even minority shareholders can have influence, Enginalev said.

The volatility in Turkey is throwing up its own opportunities though, he said.

In January 2019, Enginalev was approached by a Turkish company seeking help to “iron out the wrinkles” in its balance sheet. He believes more opportunities will arise in helping companies struggling with over-investment and USD financing difficulties.

However, investing in the equity of such businesses is still a fraught situation given the sensitivity of emerging markets to current macroeconomic uncertainties, he said.

Enginalev approaches his activism with the concept of “benevolent hostility”, giving himself and his invested companies a dose of tough love.

This approach was tested in one of his first WSD engagements when he entered the board room of an unidentified company alone to argue his case that it was underperforming, and the founder was so agitated it appeared as if he was having a heart attack, he recounted.

Despite never getting an audience with the founder again, sometime after the investment ended Enginalev received an invitation to his daughter’s wedding. The founder thanked Enginalev for his opinions and asked him to conduct a similar “tough love” talk with his new son-in-law.

That was all the encouragement Enginalev needed to continue with his straight-talking tactics.

by William Mace