



Institutional Investors and Austrian Stocks in 2017



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After an eventful year 2017, institutional investors remain the largest group of investors in the ATX Prime with a share of around 70%, albeit with some changes to the investor landscape in the past business year. Domestic and also foreign institutional asset managers recorded rising volumes of assets and higher liquidity. The positive sentiment on international capital markets together with the solid development of Austrian listed companies, BAWAG's initial public offering and several of transactions in the ATX, Austria's leading index, were the factors behind the changed composition and capitalization of the ATX Prime. Especially investors from the US and UK increased their relative investments in Austrian stocks despite the negative currency trend. Additionally, international investors from Belgium, Spain, Ireland and also countries like South Africa, Denmark and the Middle East widened their holdings in ATX Prime stocks. Austrian banks complete the list of investors that increased their holdings in major Austrian stocks.

An extremely positive climate on international capital markets supported by continued low interest rates and generally attractive earnings figures boosted many stocks to new records and attracted capital inflows. Driven by capital to international investors invested mainly in passively managed investment strategies as well as in active investment strategies, a reorientation of investment strategies was seen which also affected Austrian issuers.

The percentage accounted for by the three most important investment regions of the ATX Prime grew again last year. At 28.4%, US institutional investors ranked ahead of all identified institutional investors, followed by Austrian institutionals (20.7%) and British investors who, at relative increase of 13.3% to 15.2%, were among the key buyers as compared to 2016. Higher volumes were also invested by investors from Belgium, Spain, United Arab Emirates, Denmark, Ireland and Luxembourg, while developed markets like Norway, France, Germany, Holland or Switzerland reduced their relative share compared to the preceding year.

While in 2016 the investment decisions of institutional investors were dominated by active portfolio switching between stocks driven by divergent valuation levels, the positive trend of the global economy and the rally on stock markets was supportive of many companies listed on the Vienna Stock Exchange. Bolstered by a sustained positive earnings trend, higher liquidity and the growing interest of institutional investors, market capitalization continued to expand. Moreover, several M&A transactions changed the shareholder structure at a number of listed companies and this had an effect on overall market study.

Austrian stocks continue to be attractive primarily to investors that pursue value or growth investment strategies. Passive investment strategies that precisely track ATX Prime stock trends are growing in significance.

US, UK and Austrian investors are drivers of positive market development

Market capitalization of the free float of Austrian stocks in the ATX Prime increased over the course of the year 2017 from EUR 38.5 to EUR 55.9 billion (total market capitalization EUR 116.5 billion as at the end of 2017). This was due in essence to the extremely positive trend of Austrian stocks as well as the higher free float capitalization and the initial public offering of BAWAG.



Austrian private investors continue to account for the largest group of domestic investors in the free float, holding a share of EUR 9.6 billion or 17.1%. Investments by Austrian non-financial institutions and direct investments reached a level of EUR 7.2 billion or 13.0% of free float. The remaining EUR 39.1 billion (69.9%) are held by institutional investors.

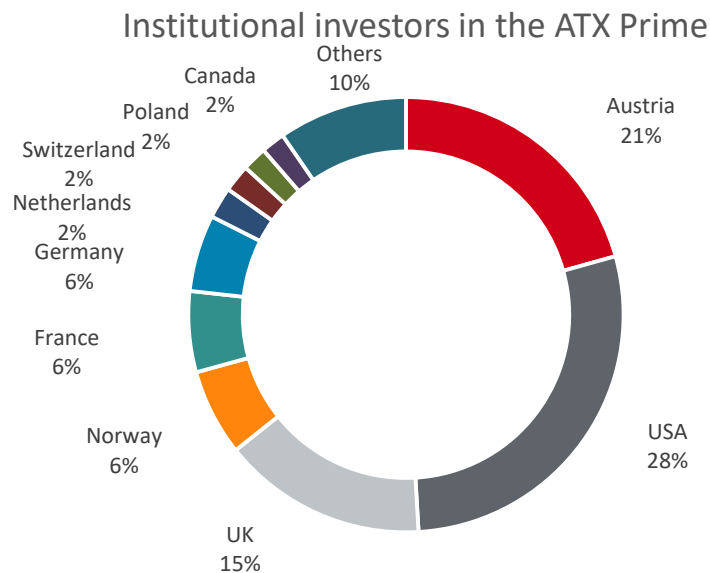
Of the EUR 39.1 billion held by institutional investors, more than EUR 33.3 billion were identified and allocated: EUR 26.4 billion or 79.3% of this amount are accounted for by international investors, with the remaining EUR 6.9 billion or 20.7% by Austrian institutionals. The latter breaks down into investment funds (EUR 3.6 billion), banks (EUR 2.1 billion) and insurance companies (EUR 1.2 billion). The investment volume of Austrian institutional investors needs a more differentiated analysis. While banks accumulated strong positions in Austrian stocks, insurance companies and funds reduced their holdings. Taking into account Austrian institutional investors together with non-financials¹ and private investors, Austrian investors account for over 42% of total free float and are, therefore, the largest investor group in the ATX Prime.

Higher concentration in top 3 regions – larger investment flows from smaller regions

An analysis of the relative changes to the ownership structure of the ATX Prime free float clearly shows the divergent trends in demand to regional and sector investments, active buying and selling as well as portfolio reshuffling in Austria stocks. These shifts were observed already in 2016 and continued last year. The last year on the stock exchange once again showed a higher concentration of investments in the home market as well as leading positions by the investment regions of North America and UK. Livelier interest was seen from UK investors who revised their outflows of the year 2016 after the Brexit decision and at an increase of 14% year-on-year they clearly widened their holdings. Institutional investors from the US continue to be the absolute largest investor group with an investment volume of EUR 9.5 billion and therefore hold double the volume of total UK investments. Nonetheless, US funds also widened their relative size driven mainly by purchases by passively managed investment funds such as Blackrock, Vanguard and also the quantitative small cap specialist Dimensional. All in all, the top 3 investment regions of the US, Austria and UK managed almost two-thirds of all identified institutional holdings in the ATX Prime stocks. Additionally, higher volumes of holdings in many regions were observed that had not been considered as belonging to the classic investment regions up to now. Above all, investors from the Middle East, South Africa as well as from within Europe like Spain and Denmark were behind the additional investment flows in a number of sectors.

Also investors from Belgium, Ireland, Luxembourg, New Zealand and Malta increased their investment volumes. By contrast, German, French, Dutch, Norwegian, Polish and Swiss investors lowered their holdings, which decreased in significance relative to other regions. The investments covered companies of all sizes.

¹ Companies whose main business is the production of goods and do not provide nonfinancial services.



* Among others, these include Belgium, Sweden, Denmark, Hong Kong, Spain, Middle East
December 2017, Source: Ipreo

Countries, regions and institutional investors: year-on-year changes in detail

The US remained the most important country of origin of international institutional investors in 2017 as well; its relative share in the ATX Prime increased by 2.5% to 28.4%. Therefore, the share of US investors in the ATX Prime is almost twice as high as that of institutional investors from UK. The increase in US holdings was driven mainly by inflows from passively managed funds such as Blackrock and Vanguard, however, several actively managed funds also increased their allocations such as T. Rowe Price, Fidelity and TIAA Cref. Generally, this also reflects the international trend, because it was, above all, North American investors who recorded enormous inflows of capital and invested these funds in passive mandates as well as in stock-picking in Europe and Asia.

Second place in the ranking by country of origin of institutional investors continues to be held by Austria. The share of Austrian institutional investors rose slightly from 19.6% to 20.7%. In this case, however, the development was more differentiated. While Austrian banks invested record volumes in equities, insurance companies and investment funds lost some ground as investors.

Institutional investors from the UK managed to solidly compensate for the outflows in the year 2016 after the Brexit vote. These investors belong to the group of the largest net buyers and reshuffled their respective portfolios after repeated inflows of capital, which also benefited many Austrian issuers. Currently, the significance of UK investors for the ATX Prime is highlighted by the rise in holdings from 13.3% to 15.2%. The purchases were made by a broad cross section of UK investors – across all sizes and industries as well as investment styles. The largest UK investors at present include JPMorgan (UK), Henderson, Investec, Schroder, FIL and Invesco.



There are major differences within the group of European investors (without Austria and UK). Relative outflows were recorded above all from developed markets. Institutional investors from Norway, France, Netherlands and Switzerland reduced their holdings by around 10%, but also German and Polish investors cut back their exposure. At present, the Norwegian sovereign fund (“Government Pension Funds” of Norges Bank) which is by far the largest individual shareholder in the ATX Prime, even if Norway’s share declined slightly to 6.4% after 7.1% in the ATX Prime. Next in ranking after the sovereign fund were investors from France (with a share that decreased to 6.0% vs. 6.6% and Germany to 5.7% vs. 6.0%). In 2017, holdings by Belgian investors were up (1.1% vs. 0.9%), Spain (1.1% vs. 0.6%) and Denmark (0.7% vs. 0.6%).

Top 10 institutional Investors

1	Norges Bank Investment Management (Norway)
2	The Vanguard Group, Inc. (USA)
3	BlackRock Fund Advisors (USA)
4	Fidelity Management & Research Company (USA)
5	Dimensional Fund Advisors, L.P. (USA)
6	Erste Asset Management GmbH (Austria)
7	Erste Sparinvest Kapitalanlage GmbH (Austria)
8	J.P. Morgan Asset Management (UK)
9	Raiffeisen Kapitalanlagegesellschaft mbH (Austria)
10	T. Rowe Price Associates, Inc. (USA)

* Basis ATX Prime, December 2017

Source: Ipreo

Investment style: value and growth strategies dominate – passive and alternative styles on the rise

The historically significant investment styles value and growth retained their prominent position also in 2017. At the end of the year, growth investment styles accounted for 35.5% (35.8% in the previous year) of investments in the ATX Prime, and value investments for 30.8% (32.7%) of investments. Further increases were seen in the share of passive investment strategies: these rose from 16.3% to a new record level of 16.5%. The share of GARP investors (growth at a reasonable price) that pursue a combination of value and growth strategies rose again slightly to 6.8% currently. Also worth mentioning are the deep value strategy (long-term value increase), which accounts for a share of 3.0%, and the yield strategy (focus on dividends) with 1.9%. After a steep decline before, hedge funds started investing again (from 2.4% to 3.8%) in the Vienna Stock Exchange in connection with mergers and acquisitions. Another relatively steep rise was seen in sector-specific investment strategies (speciality), which nearly doubled from 0.9% to 1.6%.

In line with the global trend toward passively managed investments through ETFs (index funds traded on the stock market) or optimized (enhanced) index strategies – which from a global perspective have been seeing excessive inflows of capital for years – proactive communication on the theme of corporate governance is gaining significance in an effort to attract actively managed funds. As the share of active fund managers is

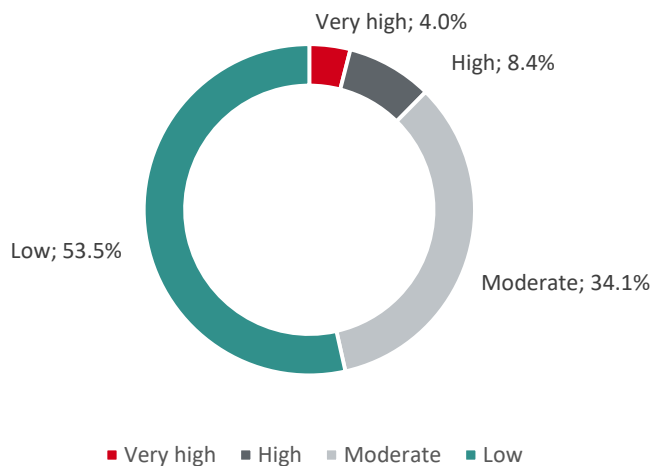


steadily decreasing, investments by prominent institutional investors in individual stocks based on ESG criteria present an opportunity for companies to engage in targeted investor relations activities.

Portfolio turnover ratio at a high level

The portfolio turnover ratio indicates how often institutional investors reshuffle their overall portfolio on average once a year. This indicator is derived from data made available to the public with a time lag and does not contain OTC trading or dark pool trading. For this reason, actual portfolio switching within portfolios and investment firms is likely to be higher. Still, the figure is a key indicator of the general trend in investment activity. After the steady decline of active investors (with a higher and/or very high turnover ratio) on the financial market of Vienna until the year 2010, the turnover ratio started rising again during phases of higher volatility and also during times of crisis. The volume recorded in December 2017 shows a renewed rise at 12.4% (up from 8.9%), and therefore, remains at a relatively high level historically.

Portfolio Turnover Ratio in the ATX Prime



Basis: ATX Prime, December 2017

Source: Ipreo

About the Study

Since the year 2007, the financial service company Ipreo has been conducting surveys for the Vienna Stock Exchange on the composition, investment strategies and portfolio turnover of investors on the Vienna Stock Exchange. The data collected refers to transactions in stocks in the ATX Prime. For the analysis, Ipreo relies on its large proprietary database that contains, among other information, the fund flows from direct contacts with more than 2,500 institutional investors. The cut-off date for the most recent Ipreo annual study entitled “Institutional Ownership of the ATX Prime” is 31 December 2017. The survey is highly informative, as it succeeds in identifying and allocating in detail more than 90% of Austrian free float.