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Institutional Investors and Austrian Stocks in 2009



cee stock exchange group

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The top investors in the ATX prime are still international institutional investors, mainly from the US and UK as well as from the neighboring countries of Germany and Switzerland, but also from other European countries like France and Norway. Investors that follow a value investment strategy accounted for large inflows in 2009; but also institutional investors with a focus on Central and Eastern Europe (CEE) increased their positions slightly. Moreover, Austrian investors – institutionals as well as retail customers – enlarged their positions. These are the key messages of the updated study (cut-off date: 31 December 2009) "Institutional Ownership of the ATX prime" conducted by the information provider Ipreo on behalf of the Vienna Stock Exchange. The survey is highly indicative, as it succeeded in identifying and allocating in detail over 80% of Austrian free float.

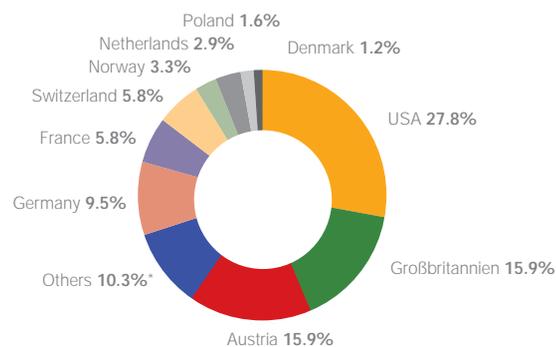
The details of the studies on the ATX prime reached the following conclusions as of 31 December 2009:

Market capitalization rose due to positive price effects – rekindled interest of US investors

The free float of Austrian issuers increased to USD 52.5bn in the second half-year (June 2009: EUR 40.9bn), driven by the positive price effects. Austrian private investors remain the largest group of investors with a share of USD 12.6bn or 24% of free float. The remaining USD 39.9bn (76.0%) is held by institutional investors. Especially institutional investors from the US and Austria raised their shareholdings in the second half-year 2009. Additionally, the home market was supported by slightly more buying on part of Austrian private investors.

Institutional investors in the ATX prime by country as of 31 December 2009

USD 28.8bn of the USD 39.9bn held by institutionals could be identified and allocated in detail: USD 24.22bn or 84.1% of the identified share is held by international investors, around 4.58bn or 15.9% by Austrian institutional investors. The latter breaks down into investment funds (EUR 3.64bn), banks, and insurance companies (each approx. USD 0.47bn).



* Others include Bermuda, Belgium, Sweden and Japan
Source: Ipreo, December 2009

Institutional investors from the US and Austria widen positions in ATX prime

The most remarkable finding of the current study is the substantial enlargement of the share held by US investors in the ATX prime from 21.6% (June 2009) by 6.2 percentage points to 27.8%. For the first time, US investors regained the level they had held on 31 December 2007 – they had ranked first since year-end 2007 in the country ranking, but in relative terms their share steadily decreased. Overall, US investors have increased their share since June 2009 by around 44% to USD 8.04bn. It should be mentioned, however, that a large portion of the increase was due to one company alone – Capital Group – which is the largest investor in the Viennese market.

Austrian institutional investors advanced slightly in the second half-year vs. June 2009 (15.5%) and again ranked third place with 15.9% in the country ranking.

Institutional investors from the UK (second place with 15.9%) and Germany (fourth place with 9.5%) increased slightly in *absolute* figures and are still in the top ranks, but in *relative* terms, there were outflows in the second half-year 2009 from the UK (-6.7%) as well as from Germany (-3.2%).

Switzerland dropped from fourth place to sixth place in the country ranking due to heavy outflows (-42.7%), and as of year-end 2009 reported only 5.8% (vs. 10% in June 2009). France also recorded significant outflows of -25.4% and dropped from 7.8% to 5.8% during the same period. However, it moved up from place six to place five in the country ranking, because Switzerland lost even more in relative terms.

The rise in investments from Norway is also remarkable in this context; the country increased its share in the ATX prime through government investments of the Sovereign Wealth Fund Vehicle by over 38% to 3.3%.

Value investing on the rise

In this analysis dated 31 December 2009, Ipreo for the first time compared the specific investment styles of the individual funds invested in the ATX prime to the general investment styles of their parent companies and arrived at some interesting findings¹. In the past, growth strategies of the parent companies had accounted for a share of over 50%, while an analysis of the investment funds reveals that a very large share of the investments in the ATX prime also follow a value approach. Despite a 30% decline, growth investors remained the largest investment style group in the ATX prime (33.7%), but only by a narrow margin compared to the value approach (31.2%), which advanced by 37.8%. Index investors remained an important investor group with 13.4% (+23%), followed by the mixed form GARP

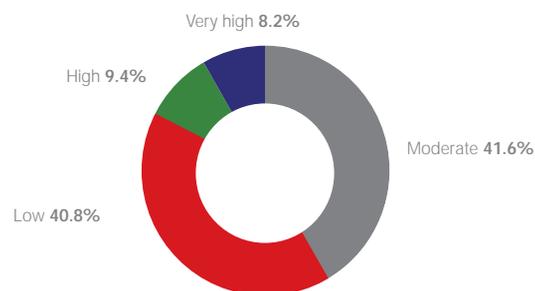
¹ Due to the change in the recording method of the investment style from the parent company level to the fund level, the results are now more detailed and indicative. A comparison of investment styles in this study with those of earlier studies is therefore possible only to a limited extent.

("growth at a reasonable price") with 11.1% (+ 57%). Dividend strategies such as "income" or "yield" with 3.4% accounted for a relatively small share despite the quite steep increase (+357%) just like the "alternative" investors (hedge funds) that accounted for 2.5% (-0.4%) of the shares identified.

Investors become active again – portfolio turnover ratio on the rise

The Portfolio Turnover Ratio indicates how often institutional investors switch securities in their overall portfolios on average per year². While the turnover ratio of active investors (high and/or very high turnover) for the financial market of Vienna declined from 2007 to 2008 from 10.5% to 3.1%, at the beginning of 2009, it climbed back to 8.7% driven by the crisis and a rally that started in March. In the second half of 2009, this trend towards a higher portfolio turnover continued; the ratio for the period June to December 2009 went up to 17.6%. This is far above the average of other European equity markets (9.6%). It was mainly substantial purchasing by international institutional investors that was responsible for this increase. However, this ratio only partially sheds light on long-term strategic portfolio switching, the same as the investment style in the current market situation, because investors have to re-position their portfolios irrespective of their fundamental views at present. General explanations for the switching within portfolios are, e.g., the entry of long-term institutional investors, but also of short-term alpha focused hedge funds³ that profit from current price levels.

Portfolio turnover ratio of institutional investors 2009



Base: ATX prime
Source: Ipreo, December 2009

²This permits one to draw general conclusions on the behavior of companies; still, some investment fund turnover ratios (e.g. CEE funds) may show higher rates.

³Alpha focused investors pursue an outperformance with respect to a benchmark.