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Institutional Investors and Austrian Stocks in 1HY 2011



cee stock exchange group

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Apart from Austrian investors, the top investors in the ATX prime are still prominent international institutional investors from the Anglo-American region and from continental European countries such as France, Germany and Switzerland. Changes to the composition of the ATX prime¹, the much firmer EUR/USD exchange rate, constant discussions of a financial transaction tax, and some company-specific buys and sells are factors that have contributed to a significant shift in the breakdown of institutional investors in the ATX prime. Due to the current market situation, most portfolio switching in some ATX stocks was done by investors that focus on specific sectors. A breakdown by country shows that Austrian investors – institutional, non-financials and private individuals – are still the largest investor group in the ATX prime.

These are the key messages of the updated study (cut-off date: 30 June 2011) “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 almost 95% of Austrian free float in the ATX prime.

The detailed findings of the study on the ATX prime as of 30 June 2011 are presented below:

Market capitalization has been eroded by negative price effects – domestic investors hold a greater investment share

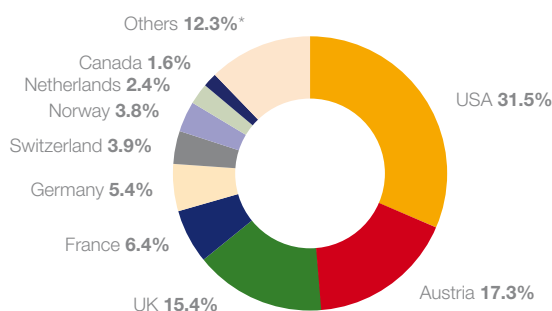
In the first half of 2011, the free float of Austrian issuers decreased from EUR 45.6 billion² to EUR 40.5 billion due to the negative effects of price and exchange rate movements and of general market developments. Austrian private investors are still the largest investor group and account for a share of EUR 9.3 billion or 23% of free float. The share held by non-financial companies surveyed for this study for the second time was EUR 7.7 billion or 19% of free float. The remaining EUR 23.5 billion (58%) are held by institutional investors. In the first half of 2011, the share held by Anglo-American investors from the U.S. and the U.K. was slightly down, while French and Canadian institutional investors were among the largest buyers of Austrian equities.

¹⁾ bwin and Eco Business Immobilien were replaced by AMAG, Lenzing and HTI.

²⁾ In comparison, the total market capitalization of domestic ATX prime issuers as of June 2011 was EUR 87.3 billion.

Institutional investors in the ATX prime by country as of 30 June 2011

EUR 21.4 billion of the EUR 23.5 billion held by institutional investors were identified and allocated in detail: EUR 17.7 billion or 82.7% are held by international investors; around EUR 3.7 billion or 17.3% by Austrian institutional investors. The latter breaks down into funds (EUR 3.19 billion), banks (EUR 0.13 billion) and insurance companies (EUR 0.38 billion).



* Among others, Poland, China, Denmark, Japan, Belgium
Source: Ipreo, June 2011

Portfolio switching in Anglo-American funds – Austrian institutional investors move up to second place in country ranking for the first time

In the first half of 2011, institutional investors continued their stock-picking strategy and, based on these company-specific investment considerations, considerably shifted their holdings in some of the leading stocks of the ATX prime and, consequently, also in the entire market. The smoldering crises in Greece, Ireland and most recently also Italy and France as well as the threat of insolvency of the U.S. has motivated many institutional investors to raise their cash holdings and to review their investments under risk considerations, especially in stocks of smaller companies. According to market feedback, the principal reasons mentioned for investing in ATX prime companies are market positioning, management track records and moderate corporate growth prospects of companies well-established and with a functioning network in the CEE markets. These reasons were behind some of the major shifts in positions in the ATX prime. One of the key findings of the current study is that of all identified institutionals, U.S. investors are still the most dominant group in the ATX prime. Despite the weaker exchange rate, they kept their share nearly unchanged at 31.5% (December 2010: 31.7%). The significant outflows by the largest investment firm in the ATX prime – Capital Group – were offset by higher investments by Artio Global, First Eagle and Royce Associate. Austrian institutional investors increased their share versus December 2010 (15.2%), and, for the first time, rank second by country at 17.3% of all identified institutional holdings. U.K. investors slipped to third place at 15.4% (-3.3%) in the ranking of all identified institutional investors. France was one of the biggest buyers apart from Austria, and

widened its share by 12.2% to 6.4%. Germany also increased its relative share by 0.9% to 5.4% of all identified institutional investors. Countries such as Switzerland (-6.3% to 3.9%), Norway (-0.4% to 3.8%) and the Netherlands (-19.5% to 2.4%) were the biggest sellers, but still rank among the Top 8 institutional investors in the ATX prime. In contrast, Luxembourg (+24.7% to 0.7%), Canada (+22.4% to 1.6%) and Denmark (+5.8% to 1.2%) were the biggest buyers.

Among the member exchanges of the CEE Stock Exchange Group, it is above all Budapest and Prague which have international investors, with U.S. institutional investors dominating both markets (over 60% of total free float in both cases). Investors from the U.K. were the biggest net buyers of blue chips on the two exchanges. The free float of the Ljubljana Stock Exchange remains firmly in the hands of domestic investors. Slovenian funds and pension funds own a share of 64%, although the share of international investors has increased significantly in this case as well. In June 2010, a share of 79% was held by domestic institutional investors.

Value and growth investors gain ground – lower share of alternative and yield investors

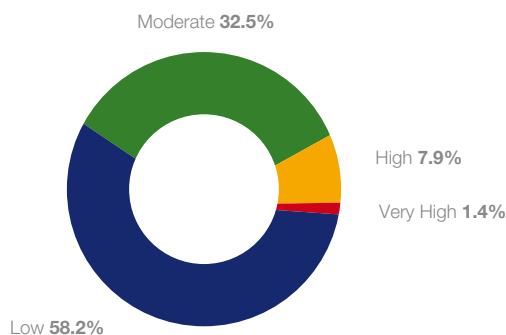
Ipreo supplemented the analysis of investment styles at the level of the parent company by an analysis of the specific investment styles of the individual funds³ invested in the ATX prime⁴ in its study updated in June 2011 for the fourth time already. As the share of GARP investors (growth at a reasonable price) grew steeply in 2010, the trend has shifted in favor of the main investment styles of "growth" and "value" this year: Value and growth styles are still the most predominant investment strategies and gained ground again. Currently, growth strategies account for 36% (+2.1%) of all identified institutional holdings, followed by value investors (+4.3% to 29.1%) and GARP strategies (-4.5% to 13.6%). Passive investors such as index trackers have decreased slightly (-1.4%) and now make up 11.6% of all identified investors. Alternative investors (include quantitative funds, hedge funds and specific investment styles) also posted outflows and lowered their investments by more than 30% to 1.7% of all identified institutional investors; the holdings of yield investors also decreased to 1.9% (-21.1%).

³ If available.

⁴ By supplementing the evaluation method of investment styles at parent company level to include funds (where possible), Ipreo has achieved much more detailed and indicative results. Therefore, a comparison by investment style in this study with earlier studies is possible only to a limited extent.

Lower Portfolio Turnover Ratio

The portfolio turnover ratio indicates how often institutional investors switch securities within their overall portfolios on average per year⁵. After the steady decline of the turnover ratio of active investors (high and/or very high turnover ratio) for the financial market of Vienna from 2007 to 2009, the ratio rose to 17.67% due to the crisis and the rally that started in early 2010. In the second half of 2010, the trend of a rising portfolio turnover ratio reversed and dropped from 14.2% in June to 9.4% in December. In the first half of 2011, the ratio remained nearly unchanged at 9.3%. However, this ratio only provides limited information on long-term strategic portfolio switching, because the trend results from buy and sell movements only with a time delay and is calculated at the level of the parent company. Moreover, the turnover ratio does not always reflect the fundamental views of an investor, as external factors such as general market movements, withdrawal of assets under management and many other factors influence the turnover ratio. Some general explanations for switching within portfolios are, for example, the entry of long-term institutional investors as well as short-term alpha-focused hedge funds⁶ that profit from current price levels.



Base: ATX prime
Source: Ipreo, June 2011

⁵ This 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.

⁶ Alpha-focused investors pursue an outperformance versus a benchmark.