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Institutional Investors and Austrian Stocks in the first half of 2009

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The top investors in the ATX prime are still international investors, primarily from the UK and US as well as from the neighboring countries of Switzerland and Germany. Investors with a high exposure to Eastern Europe have further cut their positions sharply, and together with passive investors[1] are among the largest sellers: These are the key messages of the updated study (cut-off date: 30 June 2009) "Institutional Ownership of the ATX prime" conducted on behalf of the Vienna Stock Exchange by the market intelligence company Ipreo. The survey is highly informative, as it succeeded in identifying and allocating in detail 90% of Austrian free float.

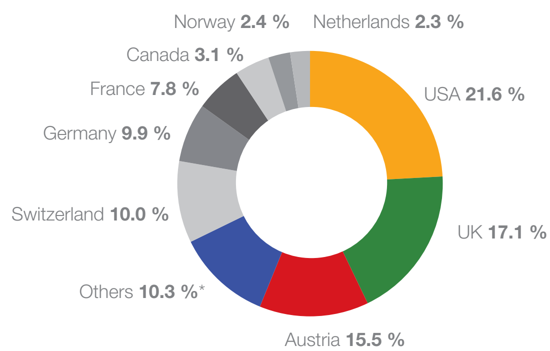
The details of the study on the ATX prime reached the following conclusions as of 30 June 2009:

Positive price effect raises free float – private investors are net investors in 2009 as well

The free float of Austrian listed companies increased to USD 40.9bn (year-end 2008: USD 37.9bn) in the first half of the year, driven by the positive price effects and the rally since mid-March. A share of 90% of the volume or USD 36.8bn were identified and regionally allocated. A volume of USD 11bn is owned by Austrian private investors, while USD 25.8bn is held by institutional investors. Private households that had bought into the major ATX stocks – especially in the second half of 2008 – remained net buyers in the first half of 2009 as well.

Institutional investors in the ATX prime market by country as of 30 June 2009

The USD 25.8bn that can be allocated to institutional investors breaks down as follows: USD 21.8bn or 84.5% are held by international investors, around USD 4bn or 15.5% by Austrian institutional investors. The latter breaks down into investment funds (around USD 2.6bn), banks (around USD 0.6bn) and insurance companies (around USD 0.8bn).



* Includes among others Belgium, Poland, Sweden, Denmark
Source: Ipreo, June 2009

[1] Passive investors do not actively manage their money, but follow, for example, index-linked strategies, ETFs or computer-supported – so-called quantitative – investment strategies.

Institutional investors from Switzerland and France raise allocation in ATX prime

In the first half of 2009, Austrian institutional investors moved up to third place again with an identified free float share of 15.5% in the country ranking (2008: 10.1%)[2]. Institutional investors from the US (21.6%) and UK (17.1%) stayed in the top ranks of places one and two, but there were some substantial outflows by these countries (adjusted for price effects minus ca 50% each). By contrast, significant gains were recorded by institutional investors from Switzerland (from 7% to 10.0%) and France (from 6% to 7.8%) and they ranked in place four and six by increasing the weighting in some ATX stocks. Place five was attained by investors from Germany that held 9.9% of the identified share of free float as of the end of June 2009. The largest net sellers in the first half-year 2009 were the Netherlands and Poland (adjusted for price effects, around minus 75%). For the first time over a longer period, Poland has dropped out of the group of the top ten countries investing in the ATX prime.

US investors remain top targets for Austrian issuers

Despite the general outflow of foreign capital from the European markets, the presence of US investors in the ATX prime remained far below the average. The percentage of US investors is much lower– despite their leading share of 21.6% within the ATX prime – as measured by their investment share of 48.0% in the rest of Europe (adjusted for the home market). On the other hand, international investors from the rest of Europe are still overrepresented in the Austrian market. This is especially true for investors from the UK, Germany, Switzerland and France. It also applies to the Group stock exchanges of Prague and Budapest as well as to large financial markets like Milan, Frankfurt and Zurich. Generally, the flows of US investment funds in Vienna and other Eastern European marketplaces are very similar.

Analysis of investment style

As regards investment style, it is remarkable that growth investors still predominate with a share of over 50%. Therefore, the expanding trend of this investor group – in 2007 it reached 31.5%[3] – is continuing; the share of growth investors in the ATX prime is still far above the European average of 42.9% despite the currently lower allocations in Eastern Europe in international portfolios. The expansion of this group of investors is also seen in the financial markets of Budapest, Prague and Ljubljana where growth investors even account for a share of 55.6% to 71.1% of all institutional funds. Value investors, which represent the second traditional investment style, accounted for only 22.7% in Vienna in the first half of 2009 (vs. 25.7% at year-end 2008) and are slightly underrepresented in European comparison (benchmark 24.3%). Also slightly down is the group of GARP investors

2) The clear shift in the percentage in favor of Austrian institutional investors is not due to net buying, but mainly to higher prices. Foreign investors by contrast, have sold off more and have therefore profited less from the rising stock prices.

3) This is due partly to the reclassification of the funds, and partly, to specific additional buying.

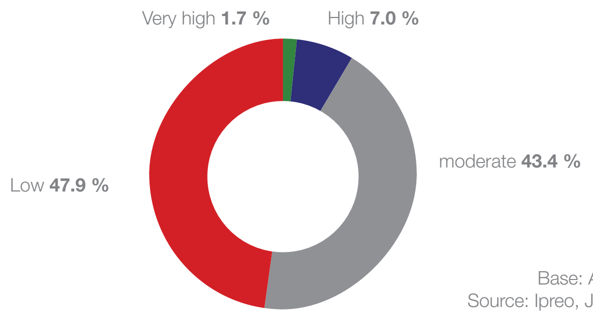
(growth at a reasonable price) from 8.5% in 2008 to 7.1% in June 2009. GARP investors pursue both a growth and value investment style and combine elements of the two strategies mentioned above. Index investors remain one of the largest investment groups in the ATX prime. In the first half-year 2009, index-linked investment strategies (Tracker, ETFs, etc.) retained a share of 10.9% of institutional capital despite the much lower allocations in East European markets. Hedge funds, sovereign wealth funds and other actively-managed strategies account for currently negligible shares of less than 2% with respect to the overall market, and are usually only of significance for individual issuers.

Portfolio turnover ratio up again

The portfolio turnover ratio indicates how often institutional investors switch securities within their overall portfolios on average per year[4]. While the turnover ratio of active investors (high and/or very high turnover rates) for the financial market of Vienna dropped from 10.5% in the year 2007 to 3.1% in 2008, the ratio went up to 8.7% in the first half of 2009 driven by the financial and economic crisis and the rally that started in March.

Generally, switching within portfolios can be explained by the entry of long-term institutional investors but also of hedge funds with a short-term alpha focus[5] that want to profit from current price levels. However, in the present market environment, this ratio is scarcely indicative – just like the current changes in investment style – of long-term strategic portfolio switching, because investors are currently often confronted with the need to switch their positions without consideration of the fundamental aspects. The predominant type of investor still has low to moderate turnover ratios, which implies that the positioning in the ATX prime is generally long-term.

Portfolio turnover ratio of institutional investors in the first half of 2009



Base: ATX prime
Source: Ipreo, June 2009

[4] 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.
[5] Alpha focused investors pursue an outperformance with respect to a benchmark.

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