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Institutional Investors and Austrian Stocks in 2010



cee stock exchange group

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The top investors in the ATX prime are international institutional investors, led by global investment houses based in the US and UK as well as from other European countries such as France, Germany and Switzerland in addition to domestic investors. After markets stabilized following massive outflows in 2008 and 2009, institutional ownership within the ATX prime has again shifted slightly from value towards growth strategies. Institutional trends were driven mostly by buying and selling of large-cap issuers, as investors focused mostly on blue chips. Hence numerous institutional holders with a focus on Central and Eastern Europe (CEE) increased their positions through their exposure in companies like Erste Group Bank, Raiffeisen Bank International, Wienerberger or Vienna Insurance Group. For smaller capitalized issuers, sector specific institutions have shown interest in special investment stories (e.g. RHI, SBO, Andritz) to gain access to special industry segments. Austrian investors – institutional, non-financial institutions as well as retail customers – remain the largest investment group in the ATX prime, holding their combined share relatively consistent.

These are the key messages of the updated study (cut-off date: 31 December 2010) “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 more than 90% of Austrian free float.

The details of the study on the ATX prime reached the following conclusions as of 31 December 2010:

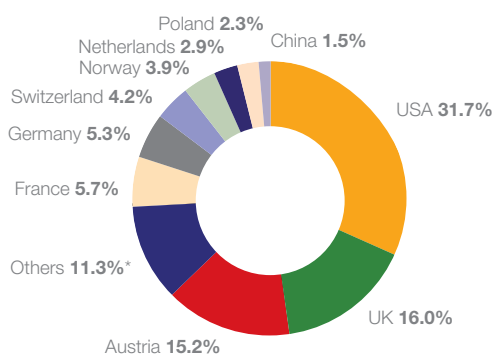
Year-end rally lifts ATX prime market capitalization – stable domestic ownership level

In the second half of 2010, the free float of Austrian issuers increased to EUR 45.6bn¹, driven by positive price effects and the overall market performance. Austrian private investors and households remain the largest group of investors with a share of EUR 9.8bn equaling 21.5% of free float. Non-financial institutions and direct company investment, researched for the first time in this study, amount to around EUR 7.1bn or 15.6% of the free float, the remaining EUR 28.7bn (62.9%) are estimated to be held by institutional investors. Especially institutional investors from the US and UK raised their shareholdings in the second half-year 2010, whereas German and French holders were among the largest sellers of Austrian equities. Home market ownership has stayed relatively consistent over the research period. Austrian institutional holders witnessed a slight increase at the expense of domestic retail shareholders.

¹⁾ By comparison, total equity market capitalization of domestic ATX prime issuers amounted to EUR 83.8bn at year-end 2010.

Institutional investors in the ATX prime by country as of 31 December 2010

EUR 24.24bn of the EUR 28.7bn held by institutional investors were identified and allocated in detail: EUR 20.55bn or 84.8% are held by international investors, EUR 3.69bn or 15.2% by Austrian institutional investors. The latter breaks down into investment funds (EUR 3.16bn), banks (EUR 0.12bn), and insurance companies (EUR 0.41bn).



* Among others, Canada, Sweden, Denmark, Belgium, Japan
Source: Ipreo, December 2010

US institutions focus on ATX five – German investors largest sellers of Austrian equity

Institutional investors have increased their stock picking activities in the second half of 2010, with numerous large international investment groups² increasing their exposure in a few larger ATX prime issuers. Even though CEE exposure does not play as much of a factor as it did two years ago, the market positioning and also growth factors for companies that already have an established track record and network in emerging markets were cited as the main reasons for higher investment levels at some of the ATX five companies. Due to the heavy weightings of these issuers in the ATX prime, this obviously had a significant effect on the overall ownership structure. One remarkable finding of the current study is the substantial relative increase of the share held by US investors in the ATX prime from 28.5% to 31.7% of all identified institutional holders, mostly driven by Capital Group and Dodge & Cox. US-based investors have stabilized again above 30%, the level they had at the peak of 2007; they had ranked first since year-end 2007 in the country ranking, but in relative terms, their share steadily decreased. UK-based investors remain the second-largest group and increased their share by 0.5% to 16.0% of all identified institutional investors. Austrian institutional investors also increased their exposure by 8.8% in the second half-year vs. June 2010 (14.0%) and remain in third place in the country ranking with 15.2%.

Despite reduced exposure (-10.8%) France overtook Germany and regained fourth place in the country rating (with 5.7%) mostly due to heavy selling by German investors. Germany was the top seller in the second half of 2010, with DWS, AGI and

2) E.g. Capital Group, Blackrock Group, Deutsche Bank Group, Allianz Global, State Street, etc.

several other investment groups significantly reducing their exposure. This led to a relative 38.3% decline in institutional holdings by German investors which now account for 5.3% of all identified institutional holdings. Countries such as Switzerland (-14.6% to 4.2%), Norway (-6.7% to 3.9%), and the Netherlands (-4.6% to 2.9%) were also among the top selling regions but remain among the top 8 countries in terms of institutional holdings in the ATX prime. In addition to the increase in relative exposure of the US and UK in 2010, Poland (+19.6% to 2.3%), China (+34.9% to 1.5 %) and Sweden (+21.3% to 1.1%) were identified as the leading buyers of Austrian equities. A majority of investors based in these countries bought Austrian stocks via their sovereign wealth or pension funds (or kept exposure constant) whereas other regions have reduced their Austrian equity stakes.

A similar development was also witnessed at the member exchanges of the CEE Stock Exchange Group (CEESEG) where international institutional investors seem to have bought into Budapest, Ljubljana and Prague in the second half-year, mostly through emerging markets-focused funds. In Ljubljana, e.g., US-based investors increased their exposure from 14.7% to 15.2%, though American holders remain underrepresented compared to Prague and Budapest, where US investors hold 53.8% and 31.0% respectively.

Shift from value to growth – alternative and GARP strategies on the rise

The December 2010 analysis marks the third time Ipreo researched the specific investment styles of the individual funds³ invested in the ATX prime in addition to the general investment styles of their parent companies⁴. After institutions with a value focus appeared to be gaining ground in 2010, the trend shifted and now shows GARP (growth at a reasonable price) and alternative strategies being major buyers, while growth and value continue to be top investment styles. Growth investors now account for 35.2% (-5.2%) of all identified institutional holders, followed by value investors (-11.3% to 27.9%) and GARP strategies (+21.3% to 14.2%). Passive investment strategies such as index or ETF-investing has also slightly increased (+3.8%) to 11.8% of all identified investors, but largest relative buying came from alternative investors (incl. quantitative funds, hedge funds, specific investment styles) which upped their holdings by more than 300% to 2.6% of all identified institutional shareholders.

Major drivers of these changes were Capital Group, which bought through some GARP-focused vehicles as well as alternative investors such as DIAM International, Meditor Capital, Coatue Management or Lansdowne Partners. Overall, Ipreo also identified the increased importance of ESG-factors⁵ which come into play into several investment strategies and add an extra level of complexity to the decision-making process. Corporate Governance Teams at the largest investors not only have an increased influence on buying and selling of shares, but also communicate more frequently with issuers directly or at general meetings.

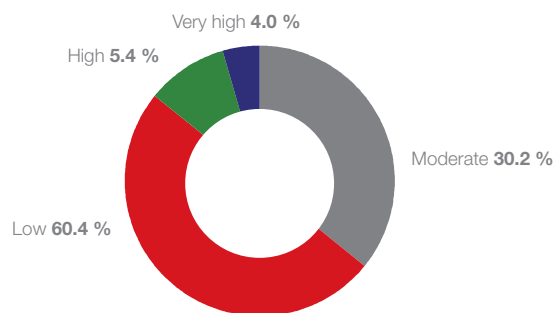
³ where applicable

⁴ Due to this change in the recording method of the investment style from the parent company level to a (partial) 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.

⁵ ESG (Environmental, Social, Governance)

Turnover ratio on decline

The portfolio turnover ratio indicates how often institutional investors trade securities in their overall portfolios on average per year⁶. After a consistent decline of the turnover ratio of active investors (high and/or very high turnover) for the financial market of Vienna from 2007 to 2009 it climbed back to 17.67% driven by the crisis and a rally that started in early 2010. In the second half of 2010, this trend towards a higher portfolio turnover reversed again as the ratio for the period June to December 2010 declined from 14.2% to 9.4%. This reduction is in line with the general trend in Europe, where Ipreo has seen a decline in active institutions from 7.7% to 6.6%. However, this ratio only partially sheds light on long-term strategic portfolio turnover, as the ratio is a slightly delayed function of buying and selling movements and computed at investment group level. The portfolio turnover ratio does not always reflect fundamental views of investors either, since external factors such as, e.g., the overall market development or the withdrawal of assets under management may have an influence on it. General explanations for switching within portfolios are e.g. the entry of long-term institutional investors, but also of short-term alpha-focused hedge funds⁷ that profit from current price levels.



Basis: ATX prime
Source: Ipreo, December 2010

⁶ 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.

⁷ Alpha focused investors pursue an outperformance with respect to a benchmark.