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Institutional Investors and Austrian Stocks in the first half of 2010



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 other European countries such as Germany, France and Switzerland in addition to domestic investors. Sovereign wealth funds (government funds) as well as sector-specific investors widened their positions the most, while passive investors¹ belong to the group of the biggest sellers – these are core messages of the updated study (cut-off date: 30 June 2010) “Institutional Ownership of the ATX prime” conducted by the information provider Ipreo on behalf of the Vienna Stock Exchange. This study is highly indicative as it succeeded in identifying and allocating in detail almost 85% of Austrian free float in the ATX prime.

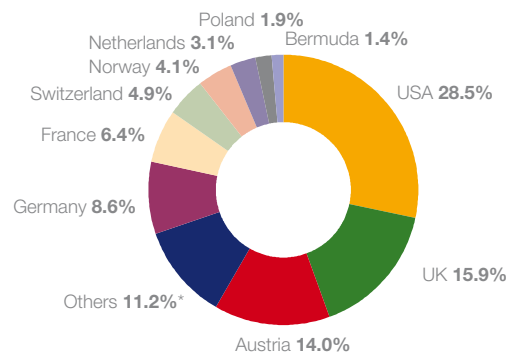
The detailed findings of the study on the ATX prime reached the following conclusions as of 30 June 2010:

Negative price effect and M&A activities reduce free float

Free float among Austrian issuers decreased to EUR 34.3 billion in the first half-year of 2010 due to negative price effects², and substantial changes and reductions in the index composition caused by M&A activities³. Austrian private investors that had especially increased their holdings in the larger ATX stocks over the past two years remained the most important pillar of support for the ATX prime in the first half of 2010. Despite some outflows, these investors account for EUR 8.1 billion or 23.5% of Austrian free float, and therefore constitute the largest investor group. The remaining EUR 26.2 billion (76.5%) are held by local and international institutional investors.

Institutional investors in the ATX prime by country as of 30 June 2010

EUR 20.9 billion of the EUR 26.2 billion held by institutionals could be identified and allocated in detail: EUR 18 billion or 86% are held by international investors; around EUR 2.9 billion or 14% by Austrian institutional investors. The latter breaks down into investment funds (around EUR 2.4 billion), banks (around EUR 0.15 billion), and insurance companies (around EUR 0.35 billion).



* Includes among others Canada, Belgium, Denmark, China, Sweden
Source: Ipreo, June 2010

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

² Lower stock prices and the firmer USD vs. EUR

³ E.g., takeover of Immoeast by Immofinanz, merger of CA Immobilien Anlagen AG with CA Immo International, takeover of ECO-Business Immobilien by conwert, Constantia Packaging squeeze-out, etc.

Institutional investors from the US, Norway and France increase holdings in ATX prime

Austrian institutional investors again made third place in the country ranking for the first half-year 2010 with an identified free float share of 14% (2009: 15.9%, 2008: 10.1%)⁴: Institutional investors from the US and UK continued to dominate the top ranks in first and second place. While the share of UK investors remained unchanged at 15.9% versus year-end 2009, increased flow of funds came mainly from the US as large investors such as Capital Group, Alliance Bernstein/AXA and JP Morgan widened their holdings in some ATX prime companies⁵. Institutional investors from Scandinavia, China and France also enlarged their investments, with the sovereign wealth funds and sector funds as well as special funds ranking in the top segment.⁶ Investors from Germany came in fourth place behind the US, UK and Austria with a share of 8.6% (previously 9.5%) followed by France (up from 5.8% to 6.4%), Switzerland (from 5.8% to 4.9%) and Norway (from 3.3% to 4.1%). Outside of the group of the top nations, investors from Canada (+70%), China (+200%) and Poland (+12%) were the biggest net buyers in the first half of 2010; by contrast, investors from Ireland (-30%), Japan (-42%) and Hungary (-12%) reduced their positions.

Current trends and regional comparison by investor origin

A regional comparison by home country of investors reveals the ATX prime within the range of the European average, with only slight underweighting in the UK and in the US versus the European reference indices⁷. The regional shifts are explained largely by the following trends in the last half-year: The attractive valuations of the ATX stocks with the highest market capitalization retained their appeal for the largest global investor groups and sovereign funds, with more investing and higher transparency resulting in a greater share of identified investments within the ATX prime⁸. At the same time, the share of the large index investors decreased due to lower overall market capitalization and there was a significant amount of portfolio switching, especially in the direction of sector-specific investments shown by the trend of investors moving out of micro and small caps and also into and out of the different sectors for cyclical and strategic reasons⁹. The share of Austrian investors – both retail and institutional – remained high at 32% of total free float and corresponds to the European trend, which Ipreo has observed, above all, at the supranational level during the past crisis years due to the home market bias. After the general pullout of foreign capital, the presence of US investors in the ATX prime dropped to slightly below average. US investors – despite their leading share of 28.5% within the ATX prime – were not as strongly represented as in the rest of Europe where they hold an average investment share of 30.6%. At the same time, international investors from the rest of Europe were slightly overrepresented on the Austrian market. This was especially true for investors from the Netherlands, Germany and Switzerland.

⁴ The marked shift in shares held since 2008 in favor of Austrian institutional investors, however, is not based on net buying, but primarily on the positive effect of higher prices. By contrast, foreign investors have been more active in selling and have consequently benefited to a lesser extent from the rising stock prices.

⁵ E.g. Erste Group Bank and Telekom Austria

⁶ E.g. real estate funds, sustainability funds and pension funds

⁷ DAX, CAC40, FTSE, SMI, MIB, WIG

⁸ Especially by Norges Bank and China Investment Corporation

⁹ E.g. real estate stocks (CA Immo, Immofinanz, ECO Business, conwert, etc.) or Pharma (Intercell)

An international bias prevailed at the member exchanges of CEESEG, above all, in Budapest and Prague, with US institutional investors dominating both markets (over 60% of total free float in both cases). Investors from the UK were the biggest net buyers on both stock exchanges and widened their shares by five and nine percentage points, respectively. The free float of the Ljubljana Stock Exchange remained firmly in the hands of domestic investors: Slovene funds and pension funds hold almost 79%.

Analysis of investment style

An analysis of the investment style based on a comparison of funds¹⁰ revealed growth investors as the largest investor group with a share of 37.2% (+10.4%), followed closely by value investors which together account for 35.3% of free float. The greatest percentage of outflows was seen among passive investors, e.g. index-linked investment strategies (Tracker, ETFs, etc.) which decreased by 15.1% to 11.4% due to the lower level of market capitalization of the ATX prime companies. The group of GARP investors (growth at a reasonable price) also gained some ground and currently accounts for 11.7% of institutional investors in the ATX prime. Further investment styles such as yield (dividend focus) or hedge funds are strongly represented in some listed companies, but only play a minor role in the overall index. Sovereign funds and funds with a special ESG focus¹¹ are invested to a large extent in the biggest Austrian listed companies with a focus on international activities; furthermore, they hold larger shares in individual sectors such as real estate, utilities and industry.

In European comparison, value investors remain underweighted in Austria, though it has to be stressed that fund-specific investment styles often differ from the investment strategies of the parent companies. At the three partner stock exchanges of the CEE Stock Exchange Group (CEESEG) – Prague, Budapest and Ljubljana – growth investors are the largest investor group, and, despite the continued small size of allocations in Eastern Europe in international portfolios, all account for over 40% of identifiable institutional investors. Value investors as the second traditional investment style constitute the second-largest group with an average of approximately 26%.

Portfolio turnover ratio on a decline

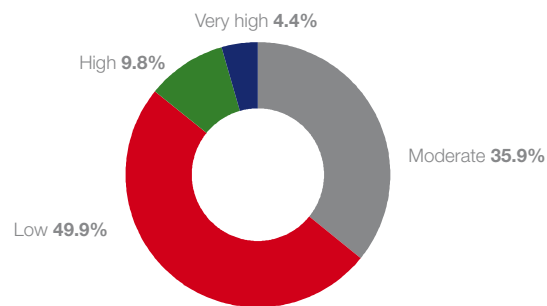
The portfolio turnover ratio indicates how often institutional investors switch securities in their overall portfolios on average per year¹². The turnover ratio of active investors (high and/or very high turnover ratios) for the financial market of Vienna decreased slightly in the first half of 2010 at 14.2% vs. the figures of year-end 2009 (17.6%), following the steep rise from 3.1% to 17.6% in the years 2008 and 2009 originating in the crisis.

¹⁰ Please note that funds' specific investment strategies often diverge from the strategies of their parent companies; in Austria especially in favor of value and dividend payout focused investment styles.

¹¹ Environmental, social, governance

¹² Even though this makes it possible to derive general conclusions on the behavior of companies, the portfolio turnover ratios of some funds (e.g. CEE funds) may nonetheless indicate a higher portfolio switching frequency

Generally, all portfolio switching activity of significance can be explained by the entry of long-term institutional investors as well as by short-term hedge funds with an alpha focus¹³ whose intention is to take advantage of current prices. However, in the market environment of the past two years, this indicator reveals only to a limited extent – just like the current changes in investment style – the rationale behind the long-term strategic portfolios switching, because investors often have had to switch positions irrespective of their fundamental views. Nonetheless, investors with lower or moderate turnover ratios still predominate, which is an indication that any positioning in the ATX prime is basically driven by a long-term strategy.



Basis: ATX prime
Source: Ipreo, June 2010

¹³ Alpha-focused investors pursue a strategy of outperformance versus a benchmark.