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Institutional Investors and Austrian Stocks in 2011

cee stock exchange group

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In addition to domestic investors, the top investors in the ATX prime remain international institutional investors, led by global investment firms based in the US and UK as well as from other European countries such as France, Germany and Switzerland. Following the massive turbulence on European markets in 2011, international stock exchanges underwent some extreme ownership shifts, a fact which is also true for the ATX prime. The debt crisis and further divestments, especially by US-based institutional investors, also resulted in decreasing market capitalization. Additionally, a trend from growth to value strategies was observed. Again, institutional trends were driven mostly by buying and selling of large-cap (ATX 5) issuers, as investors focused mostly on Austrian blue chips taking advantage of the higher liquidity of the largest stocks. Several US-based institutional holders with a focus on Central and Eastern Europe (CEE) and the growth prospects of this region have significantly reduced their positions and cut their exposure in companies like Erste Group Bank, Raiffeisen Bank International, Telekom Austria or Vienna Insurance Group. For smaller-capitalized issuers, sector specific institutions or funds showed interest in special investment stories (e.g. Kapsch TrafficCom, SBO, Andritz, Semperit) to gain access to specific 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 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 90% of Austrian free float.

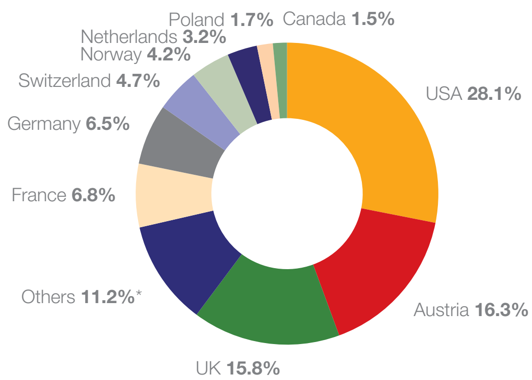
The details of the study on the ATX prime reached the following conclusions as of 31 December 2011:

US-based investors significantly reduce stakes – inflows from rest-of-world region

In the second half of 2011, the free float of Austrian issuers decreased further to EUR 33.3 billion[1], driven by negative price and exchange rate[2] effects as well as the negative overall market performance. Austrian private investors and households remain the largest group of investors with a share of EUR 7 billion equaling 21% of free float. Non-financial institutions and direct company investment amount to around EUR 6.5 billion or 19.6% of the free float, the remaining EUR 19.8 billion (59.4%) are estimated to be held by institutional investors. Especially institutional investors from the US reduced their shareholdings significantly in the second half of 2011, whereas Dutch investors and institutions based in the rest-of-world region (among others, Mexico, Australia) were among the largest buyers of Austrian equities. Home market ownership has stayed relatively consistent over the research period though Austrian institutional holders witnessed a decrease as some investment management firms cut their active exposure[3] in several ATX prime issuers in 2011.

1) By comparison, the total equity market capitalization of domestic ATX prime issuers amounted to EUR 83 billion in June 2011 and to EUR 58.7 billion at year-end 2011.
2) Investor holdings are calculated on a dollar basis and converted to euros. The dollar has become stronger versus the euro, resulting in exchange rate pressure in addition to negative price effects.
3) Funds that are not index-linked

Institutional investors in the ATX prime by country as of 31 December 2011
EUR 17.6 billion of the EUR 19.8 billion held by institutional investors were identified and allocated in detail: EUR 14.6 billion or 83% are held by international investors, EUR 3 billion or 17% by Austrian institutional investors. The latter breaks down as follows: investment funds (EUR 2.63 billion), banks (EUR 0.05 billion), and insurance companies (EUR 0.32 billion).



* Among others, Belgium, Denmark, Japan, Sweden, China
Source: Ipreo, December 2011

Rotation among US institutions – rest-of-world region is strong net buyer
US-based institutional investors significantly decreased their investments in absolute terms in ATX prime issuers, but remain the largest investment region. Several of the large international investment groups[4] have actively chosen to pull their money out of Austrian stocks for reasons including lack of growth prospects, transparency and governance. Even though CEE exposure of Austrian issuers is selectively still seen as a positive when it comes to market positioning, it does not seem to play as much of a factor as it did a few years ago. The growth factors for companies that already have an established track record and network in emerging markets were cited as the main reasons for the remaining higher investment levels at some of the ATX companies, but for pure growth-prospects institutional investors now often prefer markets such as Asia or Latin America to Austria or the CEE/SEE region. Due to the heavy weightings that the large US-investment firms previously had in ATX prime issuers, their reduction had a significant effect on the overall ownership structure. One major finding of the current study is the large rotation of investors within an investment region and the massive relative decline of US-based investment in Austrian issuers. US investors in the ATX prime declined from 31.5% of all identified institutional holders to 28.1%, mostly driven by Capital Group, Artio Global and MFS, which have especially reduced their ATX five exposure. On the other hand some of the largest buyers also came from the US, with First Eagle, Global Thematic or Earnest Partners actively having increased their stake in several large and mid-cap issuers in the ATX prime. Austrian institutional investors have surpassed UK-holders

[4] E.g. Capital Group, Julius Baer, MFS, Fidelity, Blackrock Group, Deutsche Bank Group, Allianz Global, State Street, etc.

for the first time in the June 2011 report and remain in second place currently holding 16.3% of all institutional holdings. UK-based investors remain in third place and increased their relative share slightly to 15.9% of all identified institutional investors since June 2011. The largest investment centers within Continental Europe remain unchanged: France remains fourth, currently accounting for 6.8% (up from 6.4%) of all identified institutional holdings, followed by Germany (6.5% from 5.4%), Switzerland (4.7% from 3.9%) and Norway (4.2% from 3.8% as of June 2011). New entries and strong buying from previously low levels came from investors based in Australia, Mexico, Saudi Arabia and Turkey. A majority of investors based in these countries bought Austrian stocks via their sovereign wealth or government or state pension funds (or kept exposure constant) whereas other regions saw their mutual funds reduce their Austrian equity stakes. These findings continue to closely mirror the data for the entire CEE Stock Exchange Group, where US-based institutions continue to form the largest investment region (33.6% from 34.5%) but have declined at the expense of the UK as a growing source of investment (18.8% from 18.3%). On a group level the US and UK are followed by Austria (9.8% from 10.1%), France (5.3% from 4.3%) and Germany (4.7% from 4.3%).

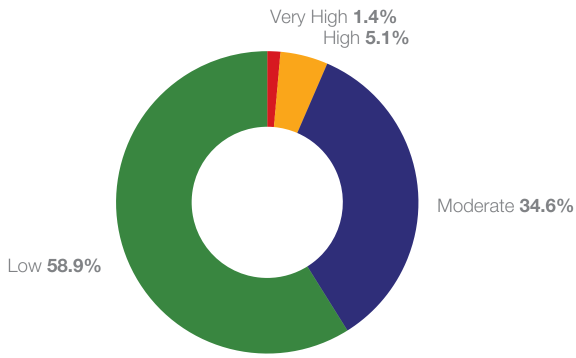
Traditional investment styles most popular – index and non-financial strategies gaining importance

The traditional investment styles "growth" and "value" remain the dominant styles for investments in ATX prime issuers. As of December 2011, growth (35.3%) and value/deep value (34.5%) styles together make up almost 70% of all identified institutional styles, with GARP (growth at a reasonable price, 13.4%) and index (12.3%) strategies trailing the major styles significantly. Similar to passive investment strategies such as index or ETF-investing, specialty styles (1.3%) also strongly increased their stake while yield focused investors slightly reduced their stake to 2.2%. This is a general trend in Europe as passive investments have seen a major inflow in capital as well as active, fundamentally oriented managers struggle to outperform benchmarks as most of the trading happens in bundles or with stocks of high correlation. Overall, Ipreo further confirmed and identified the increasing importance of non-financial or ESG-factors[5] which come into play in 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 before general meetings. These factors also play a part in numerous passive strategies as they can be used for so-called "enhanced" index strategies where issuers get excluded or over-/underweighted compared to the benchmark depending on whether they meet transparency, disclosure and governance requirements. Several of the large institutional management groups have started to build and include these types of strategies into their mainstream funds and investment management process, a trend to watch out for and monitor.

[5] ESG (Environmental, Social, Governance)

Turnover ratio declining further

The portfolio turnover ratio indicates how often institutional investors trade securities in their overall portfolios on average per year[6]. It is also a measure based on publicly available information and comes with a certain time lag, ignoring OTC or dark pool trading. Therefore, the numbers will tend to understate the actual trading activity within portfolios and investors, but give a good indication on general investor activity. After a consistent decline of the turnover ratio of active investors (high and/or very high turnover) for the financial market of Vienna in 2009 it climbed back to 17.7% driven by the crisis and a rally that started in early 2010. This trend towards a higher portfolio turnover reversed at the end of 2010 and has remained relatively low since then at levels between 8% to 14% of all institutional investors. As of December 2011 the ratio declined further from 9.3% in June 2011 to currently 6.5%. This reduction is in line with the general trend in Europe, where Ipreo has seen a decline in active institutions from over 8% to 6.1% over the last two years. However, this ratio only partially sheds light on long-term strategic portfolio turnover, as it is a slightly delayed function of buying and selling movements in the most recent months that were computed at investment group level. As investors have to re-position their portfolios irrespective of their fundamental views, the latest activities are likely to be reflected in the next study. General explanations for switching within portfolios are, e.g., the entry of long-term institutional investors, inclusions or exclusions in portfolios due to non-financial criteria, redemptions or market capitalization issues but also of short-term alpha-focused hedge funds[7] that profit from current price levels.



Base: ATX prime
Source: Ipreo, December 2011

[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. Additionally, these figures are calculated with a time lag and do not include OTC or dark pool trading.

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

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