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INVESTORS AND AUSTRIAN STOCKS IN 1H 2016 ... INSTIT

Institutional Investors and Austrian Stocks in 1H 2016

Institutional ownership in the ATX prime underwent some significant changes in the first half of 2016 as the challenging times for global financial markets continued. Impacted by low oil prices, the Brexit referendum, and global political concerns, investment managers faced asset outflows leading to shifts in the allocation of fund assets and in strategy, a situation that also impacted the ownership structure of the ATX prime.

Domestic funds, banks and insurance companies remain the second largest institutional investor group in Austrian equity and were supporters in the first half of 2016. Foreign institutions, on the other hand, saw relative outflows driven by institutions based in the UK and the United States. Among the largest foreign buyers in the first half of 2016 were investors from Germany and the Netherlands which increased their relative holdings in Austrian equity significantly. While US and UK-based investors remain dominant as the largest foreign investment regions in ATX prime issuers, the Brexit vote and the resulting portfolio allocation shifts seemed to be having a clear impact on Austrian ownership. Overall, global fund flows show a shift of investment strategies away from European and Asian equity to the US and Japanese markets, as well as to selected emerging market funds where fixed-income funds also saw inflows again. With UK-based institutional investors reducing their relative stake in Austria by more than 10% in the first half of 2016, both allocation shifts and asset outflows can be explain by this trend, which is also being seen in other markets. The changes in the first half of 2016 were also a result of investors actively rotating between some of the largest issuers at cheap valuations in Austria, as well as an even larger exposure to passively managed funds with a focus on Austrian issuers. While it is above all international funds that continue to pull out assets from Europe, alternative investors and deep value institutions are adding liquidity although risk-aversion remains a major issue due to political and economic instability on global markets, with the oil crisis having significant impacts on asset management.

In terms of investment style, passively managed money remains at an all-time high since Ipreo started the market analysis in 2007. Overall, the market predominantly attracts growth and value oriented strategies which remain atop in the ATX prime issuers, followed by index styles. In the first six months of 2016, alternative investment strategies such as hedge funds and GARP-styles saw a negative dynamic, whereas dividend-oriented and value strategies were on the rise.

Ipreo witnessed a still high portfolio turnover ratio, with even long-only institutions with usual holding periods of several years trading in and out of stocks during the recent months. In the first half of 2016, the liveliest buying was identified at Fidelity's US-based investment branch, followed by passive investor Vanguard Group and NNIP (formerly ING). The Sovereign Wealth Fund of Norway was the top seller of Austrian equity, cutting several holdings significantly, followed by State Street Global Advisers and BNP Paribas France. Generally, buying was concentrated on a few issuers with low valuations, whereas selling was more widespread, showing decreases in the ATX five as well as in small-caps. Austrian investors as a whole – institutionals, non-financial institutions and retail holders – remain the largest investment group in the ATX prime.

These are the key messages of the updated study (copy date: 30 June 2016) "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 conclusions arrived at by the detailed study on the ATX prime as of 30 June 2016 are presented below.

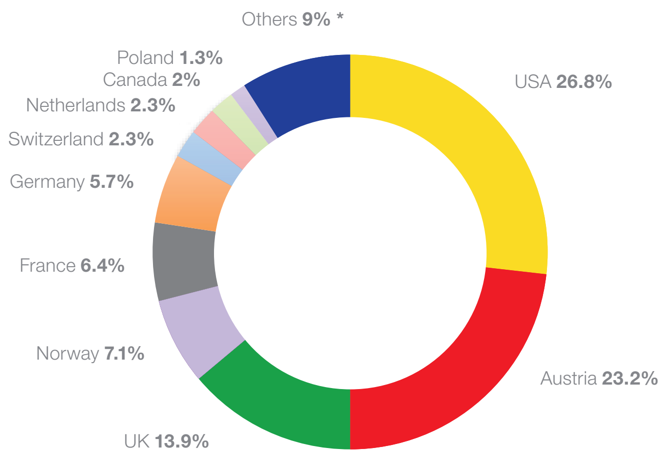
Mixed messages – domestic and German holders widen their stakes, UK with outflows

Over the first half of 2016, the free float of Austrian issuers decreased from EUR 38.7 billion to EUR 32.2 billion[1], mostly due to lower valuations and negative exchange rate fluctuations. EUR 20.3 billion (63%) are estimated to be held by institutional investors. Austrian private investors remain the largest individual group of investors and hold a share of EUR 7.2 billion equaling 22.4% of free float. Non-financial institutions and direct company investments amount to an estimated EUR 4.7 billion or 14.6% of the free float.

In the first half of 2016, especially Austrian, German and Dutch investors enlarged their shareholdings, whereas institutions based in the UK, the United States, Norway, France, and Canada were among the largest detractors.

Institutional investors in the ATX prime by country as of 30 June 2016

EUR 18.6 billion of the EUR 20.3 billion held by institutional investors was identified and allocated in detail: EUR 14.3 billion or 76.8% are held by international investors, EUR 4.3 billion or 23.2% by Austrian institutional investors. The latter breaks down as follows: investment funds (EUR 3.1 billion), banks (EUR 0.43 billion), and insurance companies (EUR 0.82 billion).



* Among others, Belgium, Sweden, China, Denmark, Finland
Source: Ipreo, OeNB, June 2016

Brexit vote, oil crisis and allocation shifts impact Austrian ownership

When analyzing the relative percentage changes of the ATX prime free float, the dynamic for varied regional demand, active trading and allocation changes continued in Austrian stocks. In the first half of 2016, it was intensified by events such as the Brexit vote, the ongoing oil crisis and political instability, all factors that impacted portfolio shifts at many global institutional investment firms. In general, investors faced asset outflows, a shift from European and Asian markets to more US-focused investments as well as a shift toward passive, fixed income and yield strategies. This was also reflected in the changes in the ATX prime ownership structure. The largest investment region into the ATX prime, the US, decreased its holdings in ATX prime issuers by 3.2% in the first half of 2016, which is a clear change versus the active buying in the second half of 2015. Similar signals came from investors based in the UK, for which the Brexit vote was a major factor, and especially the equity outflows led to overall detractions in UK and European investments. Outflows were also recorded by mostly large pension and sovereign wealth funds from Norway and Canada. Buying, on the other hand, was more concentrated in some of Austria's largest issuers and came mostly from Austrian, German, and Dutch investors. Ipreo's findings showed that selling occurred not only at most countries, but also across all market caps.

1) By comparison, the total market capitalization of domestic ATX prime stocks amounted to EUR 79.5 billion at year-end 2015 and to EUR 71.4 billion as of 30 June 2016.

Despite cutting back their holdings, US-based institutional investors remained at the top as the largest investment region, reducing their ownership by 3.2%, but still accounting for 26.8% (down from 27.6%) of all identified institutional investments. Interestingly, the two largest buyers of ATX prime equity, Fidelity FMR and The Vanguard Group, are based in the US, which indicates that selling within the US investment community was dispersed and across all strategies. The US is again followed by Austrian investors, which have seen a slight, relative increase to a close second, and now account for 23.2% (up from 21.9%) of identified institutional holdings. Domestic investors recorded active buying by insurance companies, with overall investment fund activity being recorded as mostly stable across the market. UK-based institutional investors saw overall outflows in assets, leading to fund detractions and changes in allocation policies, which also affected Austrian issuers. UK-based holders now account for 13.9% (down from 15.7%) of all identified holdings; this is a minus of 11.1%, the steepest drop within a six month period since Ipreo started the ownership analysis. Some of the big outflows came from the UK-based investment branches of State Street Global Advisors, Genesis UK, Fidelity UK, T. Rowe Price, and Investec.
Within Europe, the analysis shows different investment dynamics between countries. Especially German investors are still coming back more actively into the Austrian equity market. They widened their stake by 15.1% from 5% to 5.7%, with buying activity coming from many institutional investors such as Shareholder Value, Assenagon, DeAWM, W&W, and Loys. This is a positive message also for several smaller Austrian issuers, as these investors often focus on small and mid-caps and take active stock-picking approaches. Norway (7.1%, down from 7.2%) remains the largest European investment region for Austrian equity, despite slight selling by Norway's sovereign wealth vehicle. Norway is followed by France (6.4%, up from 6.1%), Germany (5.7%, up from 5%), and Switzerland (2.3%, up from 2.2%). Overall, the Brexit vote and the oil price turmoil were cited as the main reasons for the market dynamic. Political topics such as the refugee crisis from Syria combined with the Central Bank's quantitative easing and interest rate policy seemed to fuel the risk-averse trend among investors.

Passive investors at record high – value and growth strategies still strong

The historically dominant traditional investment styles "value" and "growth" remain strong in terms of their investments in ATX prime issuers. As of June 2016, growth styles accounted for 36% (down from 37.1%), followed by value investors at 36.4% (up from 33.8%). Passive investment strategies continued to rise, reaching an all-time high of 16.1% (up from 15.3%), at the expense of mainly alternative and GARP ("growth at a reasonable price") strategies. Interestingly, despite overall detractions in assets under management, passively managed money has received further global inflows both on the equity and fixed income side. In addition, alternative strategies such as hedge funds, specialty funds, deep value and GARP strategies showed outflows in the first part of the year. On the other hand, dividend-focused strategies ("yield") grew by 8.3% to 2.4% of all identified strategies.
With the general global trend toward more passive investments via ETFs and enhanced index strategies – which globally saw extremely high inflows of capital over the last years – the importance of proactive communication in the fight for actively-managed capital remains prominent. As the share of active managers continues to decrease, single stock investments as, e.g., several of the top institutional investors and buyers (NNIP, Moneta, Shareholder Value, Earnest Partners, etc.) mean opportunities for proactive investor relations.

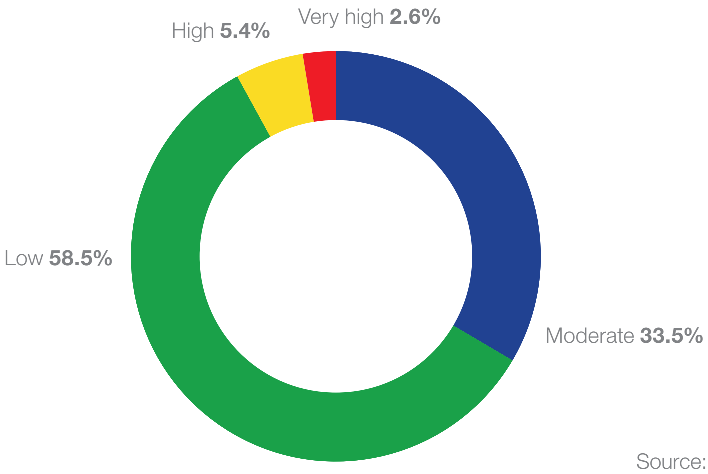
Turnover ratio decreased, but still at high level

The portfolio turnover ratio indicates how often institutional investors trade securities in their overall portfolios on average per year[2]. It is also a measure based on publicly available information and comes with a certain time lag, ignoring OTC and dark pool trading. Therefore, the numbers will tend to understate the actual trading activity within portfolios and investors, especially in volatile markets, as we experienced in the first half of 2016. Nevertheless, the ratio may be seen as a useful indicator for overall trends in investment activity. After the constant decline of the turnover

2) This permits one to draw general conclusions on the behavior of companies although some investment fund turnover ratios (e.g. CEE funds) may show higher rates.

ratio of active investors (high and/or very high turnover) for the financial market of Vienna until 2010, it climbed back up again throughout periods of increased volatility or even crisis. Compared to the year-end study of 2015 (10.5%), high and/or very high turnover ratios decreased to 8%, which is still a high rate, meaning that the portfolios of these investors trade at least once per calendar year.

However, this ratio only sheds some light on long-term strategic portfolio turnover, as it is a slightly delayed function of buying and selling movements in the most recent months computed at investment group level. In addition, external factors such as, e.g., general market movements and the withdrawal of assets under management may have an influence on the turnover ratio; hence, it does not always necessarily reflect the fundamental views of investors. General explanations for switching within portfolios are, e.g., the entry of long-term institutional investors, but also of short-term alpha-focused hedge funds that profit from current price levels[3].



Base: ATX prime
Source: Ipreo, June 2016

3) Alpha-focused investors pursue outperformance with respect to a benchmark.