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Institutional Investors and Austrian Stocks in 2014

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International institutional investors remain the largest stakeholders in the ATX prime, having increased their holdings further in 2014. US-based investors showed more interest in Austrian stocks and remain atop the regional list, followed by investors located in Austria as well as UK- and Continental Europe-based institutions. Austrian funds saw a relative decrease in their regional market share[1], while active buying was driven mostly by international investors. Within Continental Europe there was high demand from institutional investors based in the "big three" (France, Norway, and Germany), followed by the Netherlands, Switzerland, and Poland. Interest for European exposure including Austrian stocks was up among international investors, while risk aversion became a major issue again, with debt worries over Austria's economy, political and economic instability in Europe and Eastern Europe being the main concerns.

In terms of investment style, growth-oriented strategies remain atop in the ATX prime stocks, followed by value and index styles. Value and index (passive) strategies saw positive dynamics in 2014, whereas growth-oriented styles generally declined. Interestingly enough, hedge funds and other alternative investors returned to the Austrian market with the highest relative increase. In 2014, the ATX prime ownership structure underwent significant changes, with corporate actions by FACC, Raiffeisen Bank International, Telekom Austria and BUWOG having an effect on the free float capitalization of the ATX prime. Significant buying was identified at global investment houses such as The Capital Group, Fidelity, Threadneedle, Delta Lloyd and Vanguard, whereas selling was less concentrated (regionally or style-wise), as it was done mostly for profit-taking. For smaller capitalized issuers, sector-specific institutions were active in special investment stories and market leaders (e.g., Schoeller-Bleckmann, Polytec, Semperit, and Wienerberger) to gain access to specific industry segments and global market leaders. Austrian investors as a whole – institutionals, non-financial institutions as well as retail holders – remain the largest investment group in the ATX prime, yet by international comparison, domestic institutional investors are still underinvested in the Austrian home market.

These are the key messages of the updated study (cut-off date: 31 December 2014) "Institutional Ownership of the ATX prime" conducted by the financial 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 of the ATX prime as of 31 December 2014 are given below:

International institutional investors with focus on ATX prime – changes in free float

In 2014, the free float of Austrian issuers fell from EUR 38.1 billion to EUR 33.7 billion[2], mostly due to the significantly reduced float capitalization of Telekom Austria after the America Movil takeover. Austrian private investors remain the largest group of investors and hold a share of EUR 6.9 billion equaling 20.5% of free float. Non-financial institutions and direct company investments account for an estimated EUR 5.1 billion or 15.1% of the free float; the remaining EUR 21.7 billion (64.4%) are estimated to be held by institutional investors.

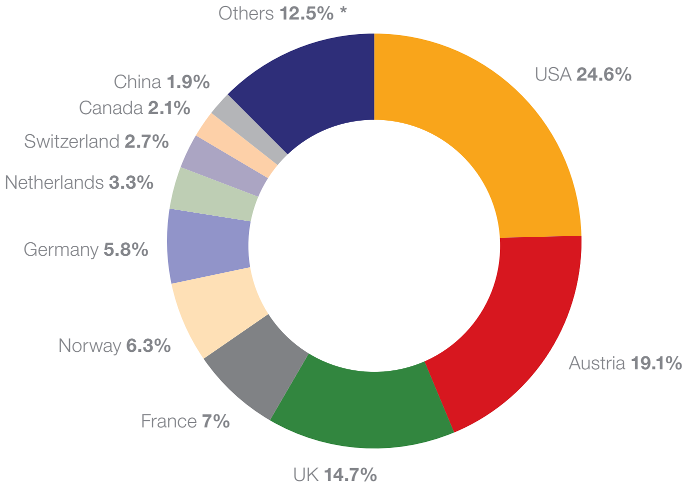
Especially US- and UK-based investors significantly increased their shareholdings in the ATX prime market in 2014, but there was also interest from Germany, France, Norway, and China which also upped their holdings. Domestic Austrian institutional investors decreased their relative ownership slightly in the same period.

1) Driven by an unfavorable exchange rate since foreign holdings are reported and calculated in USD and – with the US dollar becoming stronger vs. the euro in 2014 – saw a relative increase in their holdings.

2) By comparison, the total equity market capitalization of domestic ATX prime issuers amounted to EUR 81.1 billion in June 2014 and to EUR 71.5 billion at year-end 2014.

Institutional investors in the ATX prime by country as of 31 December 2014

EUR 21.3 billion of the EUR 21.7 billion held by institutional investors were identified and allocated in detail: EUR 17.2 billion or some 80.9% are held by international investors, EUR 4.1 billion or 19.1% by Austrian institutional investors. The latter breaks down as follows: investment funds (EUR 2.93 billion), banks (EUR 0.39 billion), and insurance companies (EUR 0.73 billion).



* Among others, Poland, Belgium, Japan, Romania, Sweden
Source: Ipreo, December 2014

US & German investors with increased exposure – sovereign wealth funds stronger

When analyzing the relative percentage changes of the ATX prime free float, it becomes clear that institutional investors' demand varied regionally in 2014. US-based investors continued to increase their holdings in ATX prime stocks, followed by relatively strong buying by institutions in Germany, China, and the Middle East (only selectively and starting from very low levels). UK-based investors, France and Norway also showed good support of Austrian issuers, whereas Polish, Japanese and Scandinavian investors significantly reduced their stakes. Mexico dropped out of the top due to America Movil becoming a strategic-syndicated investor, hence no longer qualifying for classification as free float. US-based institutional investors remained atop as the largest investment region, with holdings from the US rising by some 8% and now accounting for 24.6% (up from 22.8% as of year-end 2013) of all identified institutional investments. Investor appetite from the US was driven by the large investment funds, which selectively increased their holdings in undervalued stocks. Unlike in other parts of Europe, this was not driven only by passive investors such as the Blackrock Group, Vanguard and State Street Corporation, which all saw significant inflows of money into their ETFs, index funds and mandates. It was also mutual and pension fund managers such as Capital Group and Fidelity that increased their stakes massively. The US is again followed by Austrian investors (slightly down from 19.3% to 19.1%) and holders from the UK, led by money managers such as M&G and Threadneedle from London, which is still considered the current location with the largest pool of investable assets both on the equity and debt side. UK-based investors currently represent 14.7% of all identified institutional money, up from 13.7%, which is an increase of 6.7% in 2014. French institutional holders showed stronger appetite again, increasing their holdings from 6.7% to 7% and rank fourth by country, while German investors increased their exposure from 5% to 5.8%. China upped its stake from 1.6% to 1.9% and Norway, which holds in the fifth place, played a bigger role again, increasing from 5.9% to 6.3%. Other investment regions such as Poland (1.9%, down from 2.9%), Japan (0.9%, down from 1.2%), Sweden (0.8%, down from 1.1%) and Denmark (also 0.8%, down from 1.1%) all saw a relative decline of their holdings by some 25% or even more in 2014. Swiss (2.7%) and Dutch (3.3%) holders continued to be a large investment group, but remained fairly stable in percentage terms in 2014.

Norway's holdings are mostly driven by the holdings of the State Pension Fund, a sovereign wealth fund of Norges Bank, which is the largest investor globally and also the dominant holder within the ATX prime, as it holds on average two percent of every stock in the ATX prime. Holdings in France, Germany, and Switzerland are wider, as several large investment houses such as Amundi, BNP Paribas, UBS, Credit Suisse, DWS, AGI or Deka have a stronger focus on Austrian equities, often also combined with their sell-side coverage.

Investors based in China and the Middle East selectively showed appetite in some of the larger capitalized ATX prime stocks and upped their stakes through their sovereign wealth fund vehicles such as China Investment Corporation (SAFE), Kuwait Investment Office, Abu Dhabi Investment Council, and Government of Singapore. As a general trend, these funds may tend to focus more on European issuers, since they are expected to place their bets on ECB quantitative easing policies. As main reasons for buying Austrian stocks, investors mentioned general asset allocation shifts to Europe, a focus on market and sector leaders, Austria's relative political and economic stability (though this view changed in late 2014) as well as stock-picking opportunities with undervalued companies in the region.

Value and index styles with large inflows – growth and GARP investors on a decline

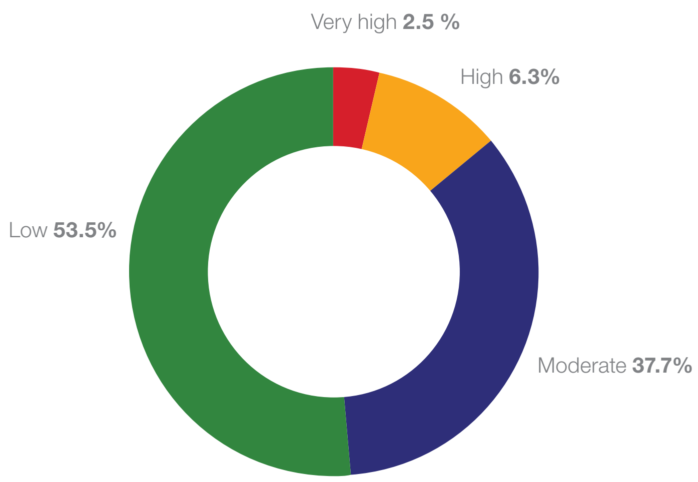
The historically dominant traditional investment styles of "value" and "growth" remain strong in terms of their investments in ATX prime issuers, though value stocks were more favored in 2014 compared to growth styles. As of December 2014, growth (37.5%, down from 39.9%) and value (35.9%, up from 33.8%) were the styles that together accounted for more than 70% of all identified institutional investment styles. Significant upward changes came from investors following index strategies (14.2%, up from 12.9%) and alternative strategies (2.2%, up from 0.8%), while yield-oriented and specialty-focused investors reduced their stakes. GARP (growth at a reasonable price) investors also dropped slightly, from 9.1% to 7.5% of all identified holdings. Other investment styles remain relatively insignificant as long-term holders of ATX prime stocks and currently account for less than 1% of all identified capital invested. Finally, the general global trend towards more passive investments via ETFs or enhanced index strategies – which globally have seen over-proportional inflows of capital – is also reflected in the current analysis of Austrian stocks, as passive strategies gained significant market share. Other major changes were driven by active, fundamentally-oriented funds that also recorded massive increases in assets under management. It moreover seems that their selected increased allocations to pan-European small- and mid-cap stocks have had a big influence on the Austrian market. At the same time, outflows were identified from strategies focused on Eastern Europe and Russia, where they had larger exposures. Risk aversion, especially when looking at political and economic risk exposure was one of the main reasons given by investors when asked about cautious investment behavior and outlook. As in previous years, Ipreo again confirmed and identified the ever-increasing importance of ESG-factors[3] 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 a greater influence on the buying and selling of shares, but also communicate more frequently with issuers directly via ongoing engagement processes or at general meetings. These factors also play a role in numerous passive strategies, as they can be used for so-called "enhanced" index strategies where issuers are excluded or over-/underweighted compared to a benchmark depending on whether they meet transparency, disclosure or 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.

3) ESG (Environmental, Social, Governance)

Turnover ratio decreased three years on average

The portfolio turnover ratio indicates how often institutional investors trade securities in their overall portfolios on average per year[4]. 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 since the data collected by Ipreo suggests that a growing portion of all trades in ATX prime stocks is conducted over the counter or via alternative trading platforms. Nevertheless, the ratio may be seen as a useful indicator for overall trends in investment activity. After the constant decline of the turnover ratio of active investors (high and/or very high turnover) for the financial market of Vienna until 2009, it climbed back to 17.7% driven by the crisis and a rally that started in early 2010. Afterwards it fluctuated widely as OTC trading became more popular and strategies often shifted between equity and debt. As of 31 December 2014, it decreased again to 8.8%, down from 13.9% in the year before.

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 recent months computed at the investment group level. In addition, external factors such as 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[5].



Base: ATX prime
Source: Ipreo, Decmeber 2014

4) 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.

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