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## Institutional Investors and Austrian Stocks in 2015

After a very challenging year for financial markets, international institutional investors remained the largest stakeholders in the ATX prime at year-end 2015, though with some severe shifts occurring during the year. Although domestic investors of all types – funds, banks, and insurances – were the largest detractors in the second half of the year, they were still the relatively largest buyers of ATX prime stocks in the twelve month-period of 2015. Foreign institutions on the other hand, changed from selling in the first half of 2015 back to buying Austrian stocks in the second half of the year. While especially US and UK-based as well as Norwegian investors increased their stakes, the majority of the remaining global institutional investors reduced their holdings in the ATX prime in 2015. US, UK, and Austrian institutional holders widened their positions at the top of the regional list, and therefore, Ipreo found an even higher concentration of the top three investor countries in the ATX prime. The shifts in allocation were also reflected within Europe. Norway, France, and Germany remain predominant as continental European investment regions in the ATX prime, although – with the exception of Norway – the majority of European investors from countries such as Germany, Switzerland, the Netherlands, France, and Poland showed net selling in 2015. The changes were a result of active rotation in and out of some of the largest issuers at cheap valuations in Austria, as well as an even larger exposure to passively managed funds that focus on Austrian issuers. While it was, above all, international funds which pulled money out of Europe, alternative investors and deep value institutions added liquidity. However, risk-aversion remained a major issue due to political and economic instability in global markets, with the Asian, Syrian, and oil crisis having significant impacts on asset management.

In terms of investment style, passively managed money remains close to its all-time high since Ipreo started analyzing the market eight years ago. Overall, the market attracts mainly growth-oriented strategies, which continue to rank at the top in ATX prime stocks, followed by value and index styles. Alternative investment strategies such as hedge funds, yield and specialty styles all underwent a positive dynamic, whereas growth, value and GARP-oriented strategies declined in 2015. In the previous years, the ATX prime ownership structure saw significant changes caused not only by investor changes, but also by reshuffling within the index, which resulted in issuers such as PORR and Cross Industries entering the index, while corporate actions by FACC, Raiffeisen Bank International, Telekom Austria and BUWOG impacted the free float capitalization of the ATX prime. Overall, the float-cap of the ATX prime increased again in 2015.

Ipreo's findings report that institutional investors were more active in terms of trading, with several institutions buying in and out of stocks during the calendar year of 2015 several times. Overall, the liveliest buying was identified at the alternative investor Lone Pine, followed by Fidelity Group, Capital Research as well as the Austrian investment firm Erste Sparinvest. Platinum, Aberdeen, and State Street upped their stakes especially in the second half of the year, all of them pursuing different investment philosophies. Selling was more dispersed showing that especially sovereign wealth funds pulled out of the ATX prime (China Safe, GIC, KIA) followed by global investment firms such as the Blackrock Group, First Eagle, Wellington, and MFS that all reduced their stakes significantly. Ipreo noticed that buying was more concentrated in a few issuers with low valuations, whereas selling was more widespread and showed decreases in the ATX five as well as in small cap stocks. 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, they are still underinvested in the Austrian home market.

These are the key messages of the updated study (copy date: 31 December 2015) "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 more than 80% of Austrian free float in detail.

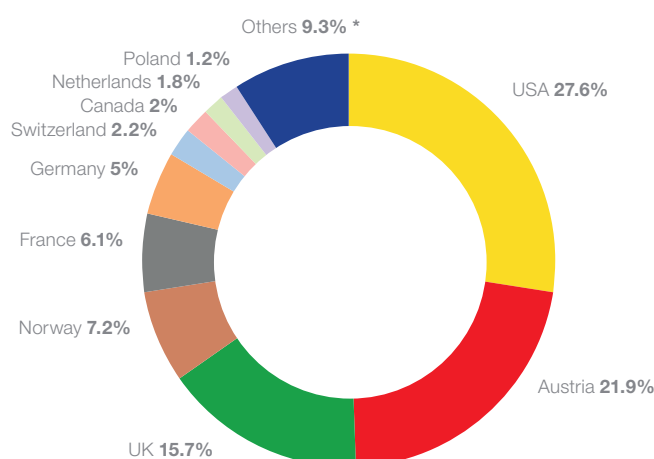
The conclusions arrived at by the detailed study on the ATX prime as of 31 December 2015 are presented below:

### Higher exposure of domestic investors in ATX prime – European institutions lower holdings

In 2015, the free float of Austrian issuers increased from EUR 33.7 billion to EUR 38.7 billion<sup>1</sup>, mostly due to increased float capitalization of the issuers, changes within the index and a positive exchange rate fluctuation vs. the US dollar. Austrian private investors remain the largest group of investors and hold a share of EUR 8.2 billion equaling 21.2% of free float. Non-financial institutions and direct company investments amount to an estimated EUR 5.1 billion or 13.2% of the free float; the remaining EUR 25.4 billion (65.6%) are assumed to be held by institutional investors. Especially domestic investors, US-based and Norwegian institutions added to their shareholdings, while institutions based in Germany, France, the Netherlands, and Switzerland were among the major detractors in 2015.

### Institutional investors in the ATX prime by country as of 31 December 2015

EUR 20.8 billion of the EUR 25.4 billion held by institutional investors were identified and allocated in detail: EUR 16.2 billion or 78.1% are held by international investors, EUR 4.6 billion or 21.9% by Austrian institutional investors. The latter breaks down as follows: investment funds (EUR 3.3 billion), banks (EUR 0.5 billion), and insurance companies (EUR 0.8 billion).



\* Among others, Belgium, Sweden, China, Denmark, Finland  
Source: Ipreo, December 2015

### Increased concentration in top three investment regions

When analyzing the relative percentage changes of the ATX prime free float, it becomes clear that the trend toward wide-ranging regional demand, active trading and allocation changes in Austrian stocks continued. The largest region invested in the ATX prime, the US, is one of the few that expanded its stake consistently over the year 2015. US-based investors increased their holdings in ATX prime issuers by more than 12% in 2015 through concentrated buying into some financials. Institutional demand also came from investors based in Norway and the UK which increased their relative exposures significantly. Mixed signals came from investors based in France, Germany, Switzerland, and China that all were heavy sellers in the first half of 2015 and reversed some of the selling in fall. Dutch and Polish investors showed detraction throughout the year. While buying was more concentrated in some of Austria's largest issuers and came mostly from domestic, UK and US-institutions, Ipreo's findings showed that selling took place not only in most countries, but also across market caps.

<sup>1</sup> By comparison, the total equity market capitalization of domestic ATX prime issuers amounted to EUR 87.7 billion in June 2015 and to EUR 79.5 billion at year-end 2015.

With their increased investments, US-based institutional investors remain at the top as the largest investment region, upping their holdings by 12.4% and now accounting for 27.6% (vs. 24.6% as of year-end 2014) of all identified institutional investments. Interestingly, investor appetite from the US in 2015 was not only driven by the large investment funds. The findings show that single-stock investments led by hedge funds such as, e.g., Lone Pine in Erste Bank significantly influenced the distribution. In addition to large traditional investment firms, the continued trend towards more passive investments again showed names such as Blackrock Group, State Street Corporation, The Vanguard Group or WisdomTree (Mellon Capital) coming up as the largest buyers and holders, though trading patterns between institutions varied throughout 2015. The US is again followed by Austrian investors who have collectively largely increased their holdings and are close runners-up; they account for 21.9% of identified institutional holdings, up from 19.1% as of year-end 2014. Domestic investors increased their relative share by some 15% year on year and were the largest group of relative buyers of ATX prime stocks in 2015, although they were also among the largest relative detractors in the second half of the year. UK-based institutional investors saw small inflows, now accounting for 15.7% (up from 14.7%) of all identified holdings. While UK and especially London-based investors remain the institutions with the largest amount of investable assets, they were reluctant to place big bets on Austria in 2015, resulting in names such as Silchester, Henderson, JP Morgan, and Aberdeen ranking among the main sellers of Austrian stock. Unlike Norway (7.2%, up from 6.3%), the historically strong European countries reduced their stakes in the ATX prime. Germany (5%, down from 5.8%), France (6.1%, down from 7%), and Switzerland (2.2%, down from 2.7%) all reduced their exposure by around 15% in 2015, pulling money out of the ATX prime stocks especially in the first two quarters, but reversing this trend slightly in the second half of the year. Significant reductions were also seen among investors based in China and the Netherlands who have approximately halved their exposure. The decline of the oil price as well as the Asian market turmoil seemed to have played a big role in the capital flows. The influence was also seen in several other European markets that show similar trends such as sovereign wealth funds which made major changes to their asset allocations, reducing assets under management. Political issues such as the refugee crisis combined with the European Central Bank's quantitative easing and interest rate policy seem to have had an impact on the risk aversion of investors.

### **Passive and alternative investors near record high – traditional styles with major outflows**

The historically dominant traditional investment styles "value" and "growth" remain strong in terms of their investments in ATX prime issuers despite the fact that they represented the investment styles that showed significant outflows for the third consecutive market study. As of December 2015, growth styles account for 37.1% (down from 37.5%), followed by value at 33.8% (down from 35.9%). Passive investment strategies stood at 15.3% (up from 14.2 %), on the other hand, and were near their all-time highs at the expense of the two main style categories, but also of GARP (growth at a reasonable price) investors (6.9%, down from 7.5%). Interestingly, passively-managed money has seen further global inflows, but the increase in the Austrian market comes from domestic and foreign institutions that follow index-linked or enhanced index strategies. In addition, alternative strategies such as hedge funds continued to rise in importance in 2015. Hedge funds showed a 66% rise to 3.6 % (up from 2.2%) of all identified holders, which is close to the record high of actually-identified holdings, with the actual investment level to be estimated even higher. Dividend-focused strategies (yield) or specialty funds (real estate) have recorded slight increases to account for 2.2% and 0.7% of all identified holdings, respectively. Other investment styles remain relatively insignificant as long-term investors in ATX prime issuers and currently account for less than 1% of all identified capital invested.

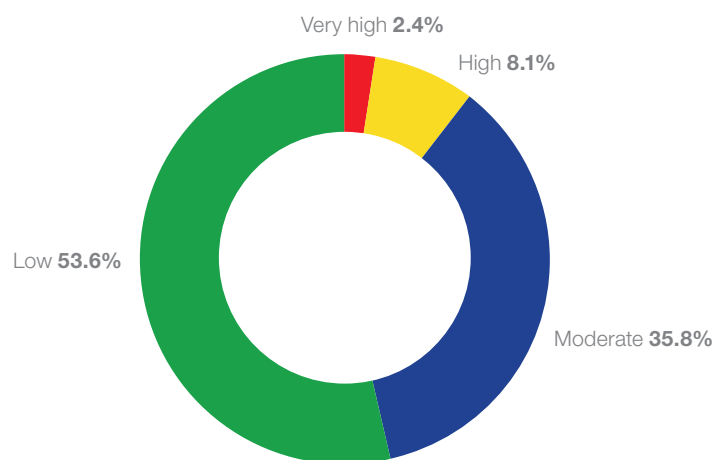
With the general global trend toward more passive investments via ETFs or enhanced index strategies – which globally have seen excessive inflows of capital – the importance of proactive communication in the competition for actively-managed capital is becoming even more important. As the share of active managers continues to decrease, single-stock investments such as, e.g., the Lone Pine market entry may cause big shifts for issuers and even affect entire markets. Along the same lines, Ipreo reconfirmed the ever-increasing importance of extra financial investment crite-

ria (ESG-factors)<sup>2</sup> which are, among others, reflected in the significant rise of signatories of the UNPRI or CDP principles, and which come into play in several investment strategies and add an extra level of complexity to the decision-making process. Corporate governance and sustainability teams at the largest investors not only have an increased influence on the buying and selling of shares, but also communicate more frequently with issuers directly via ongoing engagement processes or before general meetings. These factors also play a role in numerous passive strategies as they can be used for so-called “enhanced” index strategies in which 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 not only built these types of strategies into their mainstream funds and investment management processes, but active engagement processes have started to show up even in the Austrian market and this is resulting in an entirely new need for stakeholder communication before, e.g., general meetings.

### Turnover ratio continues to rise

The portfolio turnover ratio indicates how often institutional investors trade securities in their overall portfolios on average per year<sup>3</sup>. 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 issuers is conducted OTC 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 2010, it climbed back again throughout periods of increased volatility or even crisis. Compared to the year-end study of 2014, high turnover ratios of invested holders showed a further increase from 8.8% to 10.5% in December 2015, 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<sup>4</sup>.



Base: ATX prime  
Source: Ipreo, December 2015

2) ESG (Environmental, Social, Governance)

3) 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.

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