



2016 . . . INSTITUTIONAL INVESTORS AND AUSTRIAN STOCKS

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Institutional Investors and Austrian Stocks in 2016

Institutional investors own around two thirds of free float of the stocks listed on the prime market segment of the Vienna Stock Exchange. These investors are therefore very important for the Vienna Stock Exchange and play a decisive role for raising capital and market liquidity. The challenging market conditions of the year 2016 were demanding for institutional investors and led to some major changes that affected the structure of investors on the Vienna Stock Exchange.

Brexit, Trump and Syria, and also unease over the economy in China, the development of oil prices and the interest rate policies of central banks: before this backdrop, fund managers were constantly engaged in reshuffling their portfolios and reassessing their investment strategies in 2016. A key development with respect to the Vienna Stock Exchange was the surprising Brexit vote in mid-year which resulted in heavy capital outflows for British institutional investors. As a consequence, they reduced their holdings in many European stock markets, and also in Vienna.

The share of British institutional investors on the Vienna Stock Exchange decreased by more than two percentage points to around 13% in 2016. Nonetheless, Great Britain is still the third most important home country of institutional investors in Vienna, after the US and Austria. The lower investment volumes from Great Britain were more than offset by higher inflows from the US, Germany, France, Canada, the Netherlands and Switzerland in 2016. This is a significant achievement, because the trend in the global portfolio structure (asset allocation) favored Asia and the US after the Brexit vote at the expense of Europe.

The volume invested by Austrian institutional investors decreased. While insurance companies slightly raised their holdings in Austrian stocks, banks and investment funds tended to sell. If one also adds Austrian non-financial companies and private investors to the group of Austrian institutional investors, then Austrian investors are the largest group of investors in the ATX prime in relative terms.

In the first half-year of 2016, the investment decisions of institutional investors on the Vienna Stock Exchange were driven mainly by active portfolio reshuffling between individual stocks, starting out from different valuation levels. Furthermore, there were inflows from investments in passively managed funds. Risk avoidance was motto for investment decisions, with international funds showing a tendency to reduce their investments in Europe, while hedge funds and long-term value investors increased their investment positions.

During the second half of the year, the positive development of the global economy and stock markets boosted many of the stocks of the companies listed on the Vienna Stock Exchange. Thanks to robust earnings, higher liquidity and greater interest from international institutional investors, these companies increased and their market capitalization and saw their stocks hit all-year highs.

Austrian stocks are still attractive, especially to investors who pursue value and growth strategies. Passive investment strategies that precisely track the trend of the Vienna Stock Exchange are growing in significance. At the end of 2016, the share of passively managed funds widened to the highest level ever since the Vienna Stock Exchange started analyzing in detail the investment behavior of institutional investors exchange.

The Vienna Stock Exchange has been commissioning the financial service provider Ipreo with the collection and analysis of data on the composition, investment strategies and portfolio turnover of investors on the Vienna Stock Exchange since the year 2007. The data collected refers to transactions in stocks listed in the ATX prime. Ipreo relies on its own extensive database for the analysis. Ipreo records, among other things, fund movements which it ascertains through detailed surveys of more than 2,500 institutional investors. Based on the free float identified for more than 20 Austrian ATX prime listed companies, precise information is garnered on investors in Austria which is then aggregated in anonymous form for the Ipreo studies. The cut-off date for the latest Ipreo annual study "Institutional Ownership of the ATX prime" is 31 December 2016. The survey is highly indicative, because it succeeded in identifying and allocating in detail more than 90% of Austrian free float.

Stock buying by foreign investors supports positive market development

The capitalization of the free float of Austrian stocks in the ATX prime decreased minimally in the course of 2016 from EUR 38.7 to EUR 38.5 billion, and was therefore relatively stable. The total market capitalization of the companies traded on the prime market of the Vienna Stock Exchange was EUR 88.2 billion at the end of 2016. After the decline in the first half-year to less than EUR 33 billion, a positive price trend set in and together with the inflow of funds from foreign investors (despite negative exchange rate trends) and higher market liquidity, this triggered a positive trend in the second half-year and boosted total free float market capitalization.

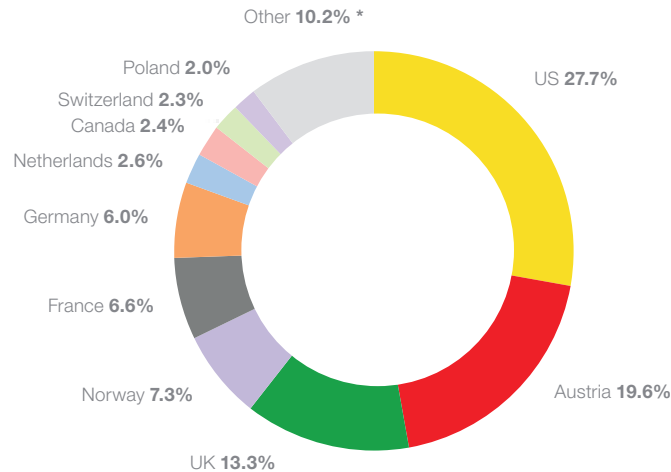
Austrian private investors are the largest investor group with a share of EUR 7.7 billion or almost 20% of free float. Investments by non-financial institutions and direct investments by companies reached EUR 4.4 billion or 11.4% of the free float. The remaining EUR 26.4 billion (68.6%) is held by institutional investors.

Of the EUR 26.4 billion held by institutional investors, more than EUR 21.4 billion were identified and allocated: EUR 17.0 billion or 79.4% are accounted for by international investors and the remaining EUR 4.4 billion or 20.6% by Austrian institutional investors. The latter breaks down into investment funds (EUR 3.0 billion), banks (EUR 0.3 billion) and insurances (EUR 1.1 billion).

Brexit, oil and politics cause changes to the investor structure

An analysis of the relative changes to the ownership structure of the ATX prime free float reveals a sustained trend towards regionally very diverse demand, active buying and selling as well as portfolio switching in Austrian stocks. The pace of development accelerated in 2016 due to Brexit, the persistent crisis on the crude oil market and political instabilities, setting off changes in the portfolios of many global institutional investors. Although institutional investors saw an inflow of capital, fund managers still observed a shift. Investors tended to search for investment opportunities in Asia and the US at the expense of investments in Great Britain and Europe. The trend towards passive, fixed income and value investing continued.

These global developments are also reflected in the development of the ownership structure of the ATX prime. Investors from the US, the most important country of origin for ATX prime investors, increased their investment share only slightly year on year in 2016, but in the second half of 2016, their relative share rose by 3.6%; this is a clear parallel to the global market trends after Brexit vote. A marked decrease of investments in Austria was seen among institutional investors from Great Britain who had to reduce their holdings in all of Europe due to the outflow of funds. Also investors from Belgium, Denmark, Australia, Czech Republic and emerging markets withdrew capital from Austria. Inflows of capital were seen by contrast from German, French, Dutch, Canadian, Polish and Swedish investors as from most countries in general. The investments were made across companies of all sizes.



* These include Sweden, Belgium, Hong Kong/China, Japan, United Arab Emirates
 Source: Ipreo, December 2016

Countries, regions and institutional investors: the changes in detail

The US remained the most important country of origin for investments in 2016 with respect to international institutional investors; their share in the ATX prime increased by 0.2% to 27.7%. Interestingly, both the largest buyers and also the largest sellers were from the US last year: passively-managed funds such as Blackrock, Vanguard and Dimensional Fund Advisors widened their positions, while Fidelity and the actively managed funds of Blackrock, Northern Cross and Franklin Templeton were the biggest sellers. This mixed attitude is representative for US investors.

In second place in the ranking by home country of institutional investors is Austria again. However, the share of Austrian institutional investors decreased again; specifically from 21.9% to 19.6%. While Austrian insurance companies invested record sums in stocks, banks and investment funds were the major sellers.

Institutional investors in Great Britain recorded significant outflows of funds in 2016 and therefore had to reshuffle their portfolios and reduce investments. This also affected investments in Austria so that the share of British investors in the ATX prime dropped from 15.7% to 13.3%. Almost all British investors engaged in selling and this affected all ATX companies regardless of size or industry.

Within European investors (ex Austria and Great Britain), there were remarkable differences from country to country. Among the developed markets it was especially German investors that invested more capital again in Austrian stocks (6.0% up from 5.0%), with the buyers being institutional investors such as Blackrock Germany, AGI, DeAWM and MEAG. This is good news ultimately for smaller issuers on the Austrian market, because these investors often concentrate on smaller and medium-sized companies and pursue active investment strategies. Despite minor selling by the Norwegian sovereign fund (Government Pension Funds of Norges Bank), Norway remains the largest European investor with a share of 7.1% in the ATX prime, followed by France (share increased from 6.1% to 6.6%) and Germany. Increases were also seen in 2016 in the shares held by the Netherlands (2.6% after 1.8%), Switzerland (2.3% after 2.2%) and Poland (2.0% after 1.2%).

Top 10 institutional investors

1	Norges Bank Investment Management (Norway)
2	Erste Asset Management GmbH (Austria)
3	The Vanguard Group, Inc. (US)
4	BlackRock Fund Advisors (US)
5	Dimensional Fund Advisors, L.P. (US)
6	Fidelity Management & Research Company (US)
7	Raiffeisen Kapitalanlagegesellschaft mbH (Austria)
8	Northern Cross, LLC (US)
9	BlackRock Advisors, LTD (Great Britain)
10	State Street Global Advisors, LTD (Great Britain)

Basis: ATX prime
Source: Ipreo, December 2016

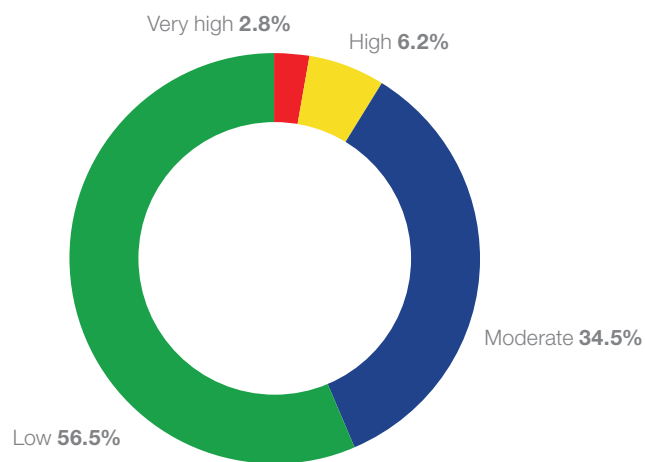
Investment style: value and growth – and passive

The historically significant investment ‘value’ and ‘growth’ styles retained their dominant position in 2016 as well. At year-end, growth styles accounted for 35.8% (37.1% in 2015) of investments in the ATX prime, and value styles for 32.7% (33.8%) of investments. The share of passive investment strategies increased again from 15.3% to a new record level of 16.3%. The share of GARP (growth at a reasonable price) investors who pursue a combination of value and growth strategies decreased once again – to 6.4% now. Also worth mentioning are the strategies ‘deep value’ (long-term appreciation) with a share of 3.3%, ‘alternative’ (hedge funds) with 2.4% and ‘yield’ (dividend oriented) with 2.1%. After the previous steep decline, hedge fund investors increased their investments in the Vienna Stock Exchange in connection with mergers and acquisitions in the second half of the year 2016.

In line with the worldwide trend towards passive investments through ETFs (exchange-traded index funds) and optimized (“enhanced”) index strategies – which globally have been recording enormous volumes of capital inflows for years – proactive communication in efforts to win over actively managed funds is becoming more important. As the share of active fund managers is constantly decreasing, investments by prominent institutional investors in individual stocks could be an opportunity for targeted investor relations activities.

Portfolio turnover at a high level

The portfolio turnover ratio (frequency of portfolio switching) indicates how often institutional investors reshuffle their overall portfolios on average per year. This indicator is computed using data that is available publicly with a time delay and does not include OTC trading or dark pools. The indicator points out general trends in investment activity. After the steady decline in active investors (with high and/or very high portfolio turnover ratios) on the marketplace in Vienna until the year 2010, the frequency of portfolio switching is rising again in times of heightened volatility and also crisis. The figure for December 2016 of 8.9% does not show any further increase, but is still at a historically relatively high level.



Basis: ATX prime
Source: Ipreo, December 2016