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Institutional Investors and Austrian Stocks in 2012

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 European countries such as France, Germany, and Switzerland that still hold significant stakes. For the first time since 2011, there was growing demand – domestic as well as foreign – for the Austrian stock market again that was driven by institutional investors. A slight increase in overall equity exposure as well as heightened risk appetite especially by institutional investors led to rising prices and higher market capitalization in Vienna in 2012. Specifically growth and index investors widened their stakes, while value investors slightly reduced their positions. Institutional trends were driven mostly by buying and selling of large-cap ATX stocks, yet institutionals still focus on "special stories", too. The largest changes in the ATX prime ownership structure were driven by ATX five stocks, led by significant buying by Carlos Slim, but also caused by some traditional institutional investors such as Capital Group, Nippon Life, Franklin Templeton, and Lazard that further upped their respective shareholdings. For small-cap issuers, sector specific institutions or funds showed interest in special investment stories (e.g. Kapsch TrafficCom, SBO, Semperit, Wienerberger) to gain access to specific industry segments and global market leaders. Austrian investors – institutionals, non-financial institutions as well as retail customers – 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 2012) "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.

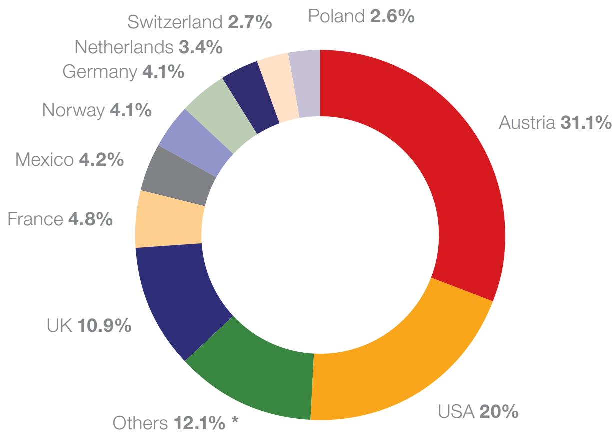
The details of the study on the ATX prime reached the following conclusions as of 31 December 2012:

US-based investors reduce stakes further – inflows from emerging markets
In the second half of 2012, the free float of Austrian issuers widened from EUR 28.4 billion to EUR 34 billion[1], driven by higher demand as well as by price and exchange rate[2] effects. Austrian private investors remain the largest group of investors and hold a share of EUR 8.4 billion equaling 24.7% of free float. Non-financial institutions and direct company investments amount to EUR 6.5 billion or 19.1% of the free float, the remaining EUR 19.1 billion (56.2%) are estimated to be held by institutional investors. Especially Anglo-Saxon investors reduced their shareholdings significantly in the second half of 2012, while the share of European investors remained largely unchanged and institutionals based in the rest-of-world-region (Mexico, CEE, Australia) were among the largest buyers of Austrian equities. Domestic Austrian institutional investors increased their ownership to a relatively large extent over the research period.

1) By comparison, the total equity market capitalization of domestic ATX prime issuers amounted to EUR 61.3 billion in June 2012 and to EUR 73 billion at year-end 2012.
2) Investor holdings are calculated on a US dollar basis and converted to euros. The dollar has become weaker versus the euro, resulting in positive price effects and, consequently, in a rise in market capitalization.

Institutional investors in the ATX prime by country as of 31 December 2012

EUR 15.1 billion of the EUR 19.1 billion held by institutional investors were identified and allocated in detail: EUR 10.4 billion or 68.9% are held by international investors, EUR 4.7 billion or 31.1% by Austrian institutional investors. The latter breaks down as follows: investment funds (EUR 3.23 billion), banks (EUR 0.62 billion), and insurance companies (EUR 0.88 billion).



* Among others, Canada, Japan, Romania, Sweden, Singapore
Source: Ipreo, December 2012

Regional rotation among institutionals – Asia, CEE, and Latin America are strong buyers

No major shifts in institutional ATX prime market ownership were recorded in 2012 in absolute terms as compared to previous surveys; however, there was a significant rotation within the institutional investor base. This is the first year-end analysis in which Austrian institutionals constitute the biggest investment region, with 31.1% of all identified stocks being held by domestic funds, banks, and insurance companies. Investment regions such as the US, UK, France, Germany, and Switzerland that had held much higher investment levels in previous years significantly reduced their respective holdings in the second half of 2012, whereas investors from emerging investment regions such as Mexico, Romania, Japan, China, New Zealand, and South Africa considerably increased their relative shares – mostly as a result of selective investments in just one or two stocks. Although US institutional engagement in ATX prime issuers significantly lost ground in absolute terms, US investors are still the largest foreign investment region, ranking second after domestic investment firms. They continued to shift their overall exposure in emerging markets to Asia and to selectively invest in Austrian stocks on a stock-picking basis. Even though CEE exposure of Austrian issuers is still seen as a positive when it comes to market positioning, for many of the large investment firms[3] it does not play as much of a role 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 keeping higher investment levels in some of the ATX companies, but many Anglo-Saxon institutional investors have shifted their allocations towards value and dividend-focused strategies. This is why the share in ATX prime ownership held by US investors slumped to 20% of all identified money, down from 28.1% as of year-end 2011. This decrease was driven mostly by Global Thematic, Hardig Loevner and Fidelity, which have strongly reduced their ATX five exposure. UK investors, too, considerably lowered their institutional holdings, and at 10.9%, currently rank third as an investment region, down from 15.9% as of year-end 2011. The largest investment centers within Continental Europe remain relatively unchanged: France ranks fourth, currently accounting for 4.8% (down from 6.8%), followed by Norway (4.1%, previously

3) E.g. Global Thematic, Fidelity, TIAA Cref, M&G, Harding Loevner, NJ DoI

4.2%), Germany (from 6.5% to 4.1%), and the Netherlands (from 3.2% to 3.4% as of year-end 2012). New entries and strong buying from previously low levels came from investors based in Mexico (Carlos Slim's investment in Telekom Austria resulted in an increase from 0.6% to 4.2% of all institutional holdings), followed by countries such as Japan (from 0.9% to 1.3%), Romania (from 0.03% to 1%), China, New Zealand, and South Africa that all disproportionately increased their relative stakes. A majority of investors based in these countries bought Austrian stocks via their sovereign wealth funds, government and state pension funds (or kept exposure constant), while other regions saw their mutual funds reduce their stakes in Austrian equities.

These findings closely mirror the data for the entire CEE Stock Exchange Group (CEESEG) for which US-based institutions continue to form the largest investment region although the share has significantly declined (26.9% from 33.5%), just like UK investors. On a Group level, the US is followed by Austria (17.3% from 9.8%), UK (14.9% from 18.8%), France (4.8% from 5.3%), Norway (4.1% from 4%), and Germany (3.8% from 4.7%).

Growth investors and passive styles are gaining importance – focus on yield and extra financial strategies

The traditional investment styles "value" and "growth" remain the dominant styles for investments in ATX prime issuers. As of December 2012, growth (37.2%) and value/deep value (32.7%) styles together accounted for almost 70% of all identified institutional styles, with growth strategies – unlike value investors – gaining ground. Significant shares are also held by investors following GARP (10.8%) and index (14.4%) strategies. Similar to passive investment strategies such as index or ETF-investing, "yield" strategies also gained importance (often combined with value strategies) and slightly increased their stake to 2.4%. This is a general trend in Europe as passive investments – often combined with value styles – have seen major inflows of capital while active, fundamentally-oriented funds recorded a decrease in assets under management. Minor differences in performance offset by huge cost savings are the main drivers behind this trend. A survey conducted among several hundred institutional investors further revealed the growing importance of dividend payments when it comes to asset allocation in yield strategies. Ipreo further confirmed and identified the increased importance of extra financial or ESG-factors[4] 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 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 where issuers are excluded or over-/underweighted compared to the 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.

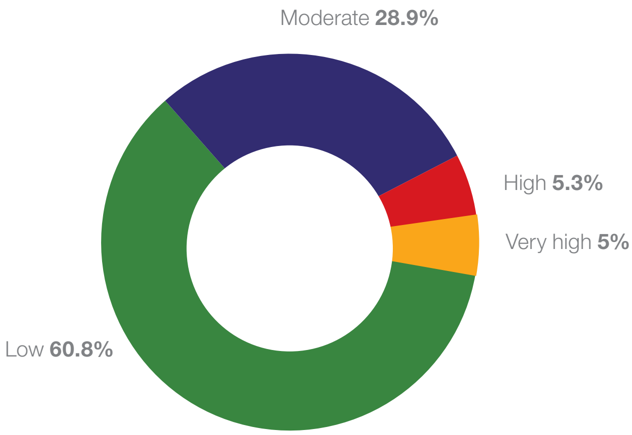
Turnover ratio declines further

The portfolio turnover ratio indicates how often institutional investors trade securities in their overall portfolios on average per year[5]. 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, especially since data collected by Ipreo suggests that a growing portion of all trading 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

4) ESG (Environmental, Social, Governance)
5) 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.

investors (high and/or very high turnover) for the financial market of Vienna until 2009, it climbed back to 17.67% 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. As of December 2012, it stood at 10.3%, due to higher trading volumes and shifting within portfolios.

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. In addition to that, 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[6].



Base: ATX prime
Source: Ipreo, December 2012

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