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Institutional Investors and Austrian Stocks in 1H 2012

cee stock exchange group

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Apart from domestic investors, the top investors in the ATX prime are still international institutionals, but US and UK investors significantly reduced their stakes in the first half of 2012. Major buying, on the other hand, came from Austrian investment funds which considerably increased their stakes versus year-end 2011 and displaced US investors from their leading position for the first time. The country ranking continues with institutional investors from the UK, France, Germany, Norway, the Netherlands and Switzerland that all sold Austrian stocks. The negative macro-economic environment, uncertainties in the euro zone area as well as switching in investment portfolios and asset allocation at numerous leading investment houses are all factors that contributed to substantial outflows of funds and decreased market capitalization of ATX prime stocks. Austrian investors – institutional, non-financial institutions as well as retail customers – remain the largest investment group in the ATX prime and now hold a larger combined share. Vienna gained the position as the biggest investment center in the ATX prime. With regard to investment strategies, value and growth investing still remain the dominant styles. Additionally, passively managed funds increased significantly.
These are the key messages of the updated study (as of 30 June 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 98% of Austrian free float on the level of individual funds.

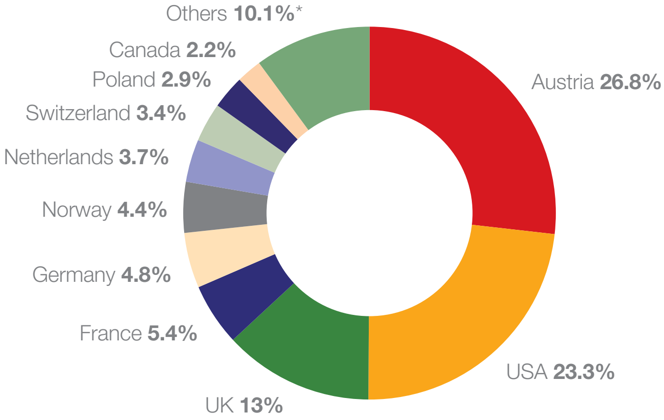
The details of the study on the ATX prime reached the following conclusions as of 30 June 2012:

Austrians are the largest investors for the first time – significant outflows of money from the US and UK as well as Germany, France, and Switzerland
Despite a more favorable exchange rate[1], the free float of Austrian issuers decreased from EUR 33.3 billion to EUR 28.3 billion[2] in the first half of 2012, driven by the overall adverse market performance and the negative price effect. Austrian private investors and households remain the largest group of investors with a share of EUR 7.3 billion or 25.8% of the free float. Non-financial institutions and direct company investments amounted to EUR 6.2 billion or 21.9% in the first half of 2012. The remaining EUR 14.8 billion (52.3%) were held by institutional investors. The first half-year saw further massive outflows of institutional money from the Anglo-American region (US and UK); significant selling also came from French, German and Swiss institutionals. On the other hand, there were positive developments, too. Countries such as Poland, Mexico, Canada and Singapore widened their stakes versus December 2011. Austrian investors increased their investment volumes over the research period and are now by far the biggest investment group in the ATX prime. This increase was seen in the case of both domestic retail investors and professional investors such as investment funds, banks and insurance companies

1) Investor holdings are calculated on US dollar basis and converted to euros.
2) By comparison, the total equity market capitalization of ATX prime issuers as of June 2012 amounted to EUR 61.3 billion.

Institutional investors in the ATX prime by country as of 30 June 2012

EUR 14.3 billion of the EUR 14.8 billion held by institutional investors were identified and allocated in detail: EUR 10.47 billion or 73.2% are held by international investors; around EUR 3.83 billion or 26.8% by Austrian institutional investors. The latter breaks down into funds (EUR 2.88 billion), banks (EUR 0.26 billion), and insurance companies (EUR 0.69 billion), thereby positioning Vienna as the by far largest investment center ranked by city.



* Among others, Mexico, Japan, Sweden, Belgium, Singapore
Source: Ipreo, June 2012

Significant selling also by EU countries – buying from Canada, Mexico, and Poland

In the first half of 2012, the trend observed in 2011 continued. Several of the large international investment groups have actively chosen to pull their money out of Austrian stocks to a sizable extent for reasons that include lack of growth prospects, transparency and governance. This trend was exacerbated by a general shift in asset allocation strategies at some of the big investment firms that moved their growth funds out of the CEE/SEE region to Asia, Africa, and Latin America. Even though the CEE exposure of Austrian issuers is in some cases still seen as a positive when it comes to market positioning, only selected Austrian stocks are included and overweighted in portfolios on a stock-picking basis because of their growth prospects. Due to the heavy weighting of Anglo-American investment firms in ATX prime stocks their retreat had a significant impact on the overall ownership structure. One of the key findings of the recent survey is without doubt the massive outflow of funds from the traditional major investment countries in the ATX prime (Germany, France, Switzerland, and Netherlands) that in the first half-year all withdrew or shifted their funds out of Austrian equities, in many cases, to increase their holdings in their respective home countries.

This is the first time since this market analysis was launched that Vienna ranked first as financial center, leaving the global investment centers behind by a large margin. Just one year ago, financial centers such as London or New York had had a dominant position with a clear lead over the Austrian market. The most recent survey identified Vienna-based investors accountable for an investment volume of all institutional investors of more than EUR 3.5 billion or almost 23% of ATX prime free float. This translates into a relatively massive shift in favor of Austrian institutional investors whose share in the country ranking rose from 16.3% to 26.8%. US investors significantly decreased their holdings by EUR 1.9 billion and thus dropped from 28.1% to 23.3% to second place in the country ranking. UK investors lost 18.1%, but at 13% of all identified institutional investors still rank third, followed by France (-20.7% to 5.4%), Germany (-25.9% to 4.8%), and Norway (+4.2% to 4.4%) ranked fourth to sixth. Significant selling was further witnessed from countries such as Switzerland (-27.9% to 3.4%), Denmark (-50.5% to 0.5%), and Belgium (-28.6% to 0.8%). Buying and, therefore, a positive development was seen from the investment regions Poland (+72.3% to 2.9%), Mexico[3] (+220.2% to 1.9%), and Canada (+43.8% to 2.2%) that all slightly increased their stakes in absolute terms[4].

Among the member exchanges of the CEE Stock Exchange Group, it is above all Budapest and Prague which have international investors, with Anglo-Saxon institutional investors dominating both markets (over 55% of total free float in both cases). Despite this, there are widely divergent investment patterns within the Group. While US and UK investors widened their holdings in Hungary massively, they significantly cut their exposure in stocks on the Prague Stock Exchange. The free float of the Ljubljana Stock Exchange remains firmly in the hands of domestic investors. Slovene funds and pension funds own a share of 57.7%, although the share of international investors has notably increased in this case as well. In June 2010, a share of 79% was held by domestic institutional investors.

Value and growth investors remain stable – passive styles are gaining importance

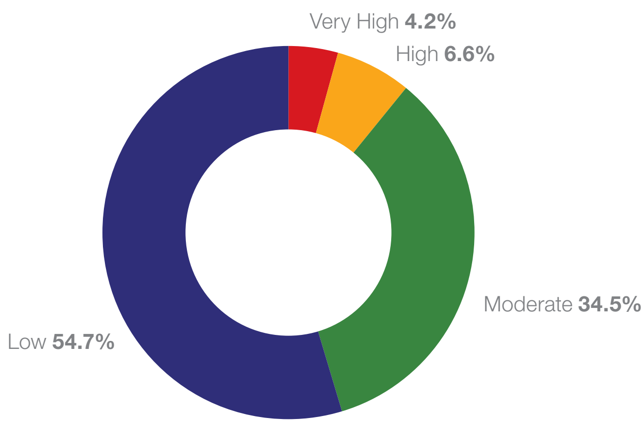
The traditional investment styles "value" and "growth" remain the dominant ones for investments in ATX prime issuers. As of June 2012, growth (35.2%) and value/deep value (33.3%) styles still made up almost 70% of all identified institutional styles. Passive investors moved up to third place for the first time since this market analysis has been conducted and now account for 13.8% of all identified free float, followed by GARP strategies ("growth at a reasonably price", 13.6%). A general trend that can be observed all over Europe also continued in the ATX prime in the first half of 2012: passively managed funds are on the rise due to inflows of capital and shifts in index trackers, ETFs and "enhanced" index strategies. Especially institutional investors such as Blackrock, Vanguard and State Street experienced a major inflow of capital, whereas active institutions, i.e. fundamentally-oriented fund managers, witnessed a decrease of assets under management. Other traditional styles such as "yield" investors (1.9%), "specialty" (1.2%) or "alternative", e.g. hedge funds (1%), are falling short of the styles mentioned above. Overall, Ipreo further identified and confirmed the increasing importance of non-financial or ESG-factors[5], which come into play in several investment strategies – including passive styles – and add an extra level to the decision-making process. These factors can be used for so-called "enhanced" index strategies in which stocks get excluded or over/underweighted compared to the benchmark depending on whether they meet transparency, disclosure and governance requirements. Some 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) This increase is mainly attributable to considerable buying by the Carlos Slim Holding in the Telekom Austria Group.
4) This increase in stakes was also supported by the positive development of the US dollar versus the euro.
5) ESG (environmental, social, governance)

Portfolio turnover ratio on the rise due to redemptions and a re-shifting of asset allocation

The portfolio turnover ratio indicates how often institutional investors trade securities in their overall portfolios on average per year[6]. 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 with a view to Ipreo's information that some 40% of all trades in ATX prime issuers are executed OTC and via unregulated trading platforms. The portfolio turnover ratio, nevertheless, gives a good indication on general trends in investor activity. After a consistent 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. This trend towards a higher portfolio turnover reversed at the end of 2010 and has remained relatively low since then at levels between 8% and 14% of all institutional investors. As of December 2011, the ratio declined further to 6.5% and in the first half of 2012 soared to 10.8% again. This increase reflects – with some time lag – the general trend towards a re-shifting of allocation strategies at large investment firms as well as an outflow of funds and the selling of ATX prime stocks due to lower assets under management. 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 computed at the investment group level. Moreover, the turnover ratio does not always reflect the fundamental view of an investor, as external factors such as general market movements or the withdrawal of assets under management and many other factors influence the turnover ratio. Some general explanations for switching within portfolios are, e.g., the entry of long-term institutional investors as well as short-term alpha-focused hedge funds[7] that profit from current price levels.

ATX prime



Base: ATX prime
Source: Ipreo, June 2012

6) 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.

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