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Institutional Investors and Austrian Stocks in 1H 2014

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Institutional investors from the US and UK further widened their holdings in the first half of 2014 and remain the top foreign investors in the ATX prime. While Austrian funds slightly decreased their positions in the first half-year, part of the US-based investors significantly increased their holdings, thereby restoring the former hierarchy of US predominance after Austrian funds had been in the lead for around one and a half year. Investors based in the US, Austria and the UK are followed by institutionals from France, Norway, Germany, Mexico, the Netherlands, Switzerland, and Poland.

The stock market environment was more benign in the first half of 2014, resulting in livelier trading, the public placements of BUWOG and FACC as well as heightened interest from international investors. By midyear, however, sentiment on international markets reversed, triggered by political crises such as in the Ukraine that weighed heavily on some of the ATX stocks and sparked concern among international investors regarding growth investments and their overall exposure in Europe. While ATX prime market capitalization increased slightly versus year-end 2013, the twelve-month increase was even more pronounced. Austrian investors – institutional, non-financial institutions as well as retail customers – despite some slight selling in the first half of 2014 are still the largest investor group in the ATX prime. Vienna as a financial center in the ATX prime ranked second after London, ahead of other cities such as New York, Frankfurt, Boston, and Paris. With regard to investment strategies, value and growth investing still remain the dominant styles. Inflows were seen mainly into passively managed funds and value strategies.

These are the key messages of the updated study (cut-off date: 30 June 2014) "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 more than 90% 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 2014:

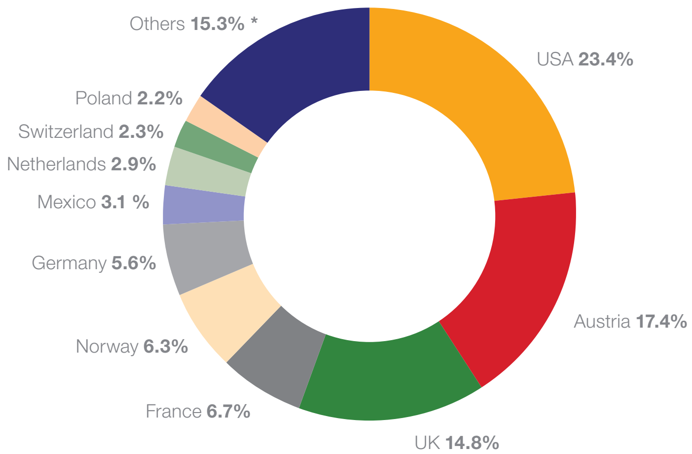
Austrian institutionals pull out – international institutionals widen stakes in the ATX prime

Despite the challenging situation on international stock markets, the free float of Austrian issuers increased slightly from EUR 38.1 billion to EUR 38.6 billion[1] in the first half of 2014. Austrian private investors remain the largest group of investors and hold a share of EUR 8 billion equaling 20.7% of free float. Non-financial institutions and direct company investment amounted to EUR 6.2 billion or 16.1% of free float in the first half of 2014. The remaining EUR 24.4 billion (63.2%) is held by institutional investors. The first half-year was characterized by withdrawals by Austrian investors, while major buying came – partially at least – from foreign institutionals, lead by the US, UK, Germany, the United Arabic Emirates (UAE), China, and Norway. Austrian investors at a clear distance to US-investors and still ahead of UK-based institutionals rank second as an investment group in the ATX prime, while the share held by other foreign institutional investors regionally showed an even more diversified investment pattern in the first half of 2014.

1) By comparison, the total equity market capitalization of domestic ATX prime issuers amounted to EUR 77.5 billion at year-end 2013 and to EUR 81.1 billion as of 30 June 2014.

Institutional investors in the ATX prime by country as of 30 June 2014

More than EUR 24 billion of the EUR 24.4 billion held by institutional investors were identified and allocated in detail: EUR 20.2 billion or 82.6% are held by international investors; around EUR 4.2 billion or 17.4% by Austrian institutional investors. The latter breaks down into funds (EUR 3.36 billion), banks (short by EUR 2 million), and insurance companies (EUR 0.88 billion), thereby positioning Vienna as the second largest investment center ranked by city.



* Among others, China, Canada, Romania, Sweden, Japan
Source: Ipreo, June 2014

Strong buying from the US, UK, Asia, and UAE – Poland, Switzerland and the Netherlands reduce holdings

The international trend towards greater exposure in European stocks being observed at large institutional investment firms can also be seen in the ATX prime in the first half of 2014. International investors had significantly increased their positions in other countries already in 2013; this trend is now mirrored in the financial market of Vienna with a certain time lag. Numerous large investment firms upped their stakes in Vienna-listed large caps and market leaders to profit from their market position and higher growth prospects. Since market capitalization increased, passively managed funds as well as some sovereign wealth funds led by Blackrock, China Investment Corporation, Government of Singapore, Abu Dhabi Investment Authority and Northern Cross increased their holdings in some issuers, too. Among the biggest sellers were US, French and Polish pension funds and asset managers such as Capital Group, Fidelity, MFS, BNP Paribas, Generali, and ING Pte. Buying was diversified, while selling was notably more concentrated and mainly focused on financials respectively issuers that had surprised markets with negative reports, profit warnings, or adjustments of value. Although the CEE exposure of Austrian issuers is in some cases still seen as positive when it comes to market positioning, the crisis in the Ukraine was a heavy burden on some Austrian issuers and leading investors in the ATX prime consider it one of the main risks.

US-investors were the biggest buyers in the first half-year and currently hold EUR 5.7 billion or 23.4% of identified institutional free float. The domestic investor base is still strong and, despite significant selling from the home country, they still hold 17.4% of all identified institutional stocks. UK-based investors just like the US institutionals noticeably raised their holdings, too, and at 14.8% as of end of June 2014 still ranked third as an investment region. Investors based in Norway, Germany, and France as well as in the UAE also increased their positons via their sovereign wealth funds and investor groups such as Norges Bank, ADIC, SAMA, AXA, and DWS. Most notable were buying and increases in relative shares from investors based in the United Arabic Emirates (from 0.2% to 0.8%), China (from 1.6% to 2.1%) as well as Germany (from 5% to 5.6%) and also outflows of money from Poland (from 2.9% to 2.2%), Switzerland (from 2.7% to 2.3%), and the Netherlands (from 3.3% to 2.9%).

Inflows from value and passive investors as well as hedge funds – growth funds decline

The traditional investment styles "value" and "growth" remain the dominant ones for investments in the ATX prime issuers. As of June 2014, growth/aggressive growth styles (36.4%) as well as value/deep value (36.7%) styles again made up more than 70% of all identified institutional styles in the free float. While there was a comparatively marked increase in value investing, growth investors tended to withdraw assets from the ATX prime in the first half-year. Passive styles such as index trackers increased from 12.9% to 14.6% and still rank third, with a clear margin over GARP strategies ("growth at a reasonable price") which fell from 9.1% to 6.4% of all institutional investors. For the first time in years, hedge funds have become more active in the financial market of Vienna. Currently, alternative investors such as hedge funds or quantitative styles account for 3.3% of all identified institutional money. This is mainly due to a combination of higher liquidity, new public placements as well as some special situations at some of the ATX prime issuers.

A general trend that can be observed all over Europe also continued in the ATX prime in the first half of 2014: Passively managed funds are on the rise due to inflows of capital and shifts in index trackers, ETFs as well as "enhanced" index strategies at some of the traditional international investment companies. According to Ipreo's information, above all institutional investors such as Blackrock, Vanguard, Lyxor or State Street saw major inflows of capital in the past two to three years, whereas active institutions, i.e. fundamentally-oriented fund managers, saw inflows of money to a much lesser extent.

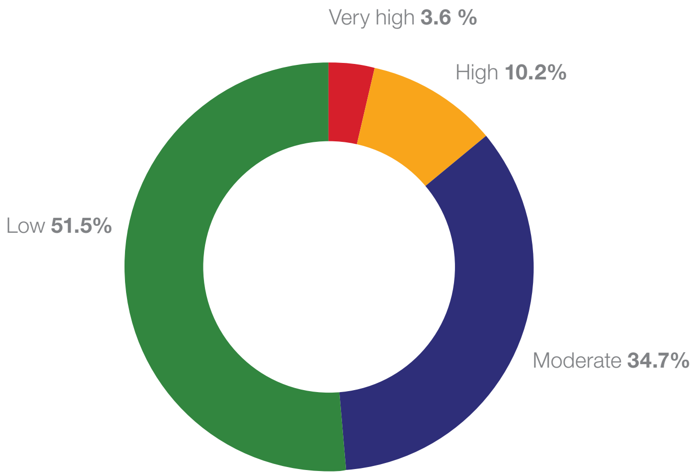
Overall, Ipreo further identified and confirmed the increasing importance of non-financial or ESG-factors[2], which come into play in several investment strategies and add an extra level of complexity to the decision-making process. These factors can be used for so-called "enhanced" index strategies in which stocks get excluded or over/underweighted compared to a benchmark depending on whether they meet transparency, disclosure and governance requirements. Some of the large institutional management groups have started to build up and include these types of strategies into their mainstream funds and investment management process, a trend to watch out for and monitor.

Portfolio turnover ratio increases due to higher interest in stocks – investment horizon three years on average

The portfolio turnover ratio indicates how often institutional investors trade securities in their overall portfolio on average per year[3]. 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. Nonetheless, the number may be seen as a useful indicator for overall trends in investments. After a constant decline of the turnover ratio among active investors (high and/or very high turnover) for the financial market of Vienna until 2009, it started to climb again, driven by the crisis and a rally that started in early 2010. Although numerous investors shifted their trading to alternative platforms and OTC transactions during the past years, comparable data indicates that interest in Austrian stocks is on the rise again which also affects portfolio turnover. As of 30 June 2014, 51.5% of all identified portfolios showed a low turnover ratio, 34.7% of all investors had moderate trading activities and 13.8% high and/or very high switching within portfolios. The average holding period of portfolios invested in the Viennese market currently stands at around three years.

2) ESG (Environmental, Social, Governance).
3) 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.

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 and 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 and the withdrawal of assets under management and many other factors may have an influence on 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[4], that profit from current price levels.



Base: ATX prime
Source: Ipreo, June 2014

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