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# Institutional Investors and Austrian Stocks in 2013

cee stock exchange group

# Institutional Investors and Austrian Stocks in 2013

International institutional investors remain the largest stakeholders in the ATX prime and significantly increased their holdings in 2013. US-based investors led the surge and regained the top position, followed by Austrian investors as well as institutions based in the UK and Continental Europe. Buying was driven mostly by international investors which have taken advantage of the positive market trend and increased allocations to ATX prime stocks, whereas Austrian funds marginally decreased their holdings in absolute figures. Within Europe, there was high demand from institutional investors based in France, Norway, Germany, the Netherlands, and Poland in the second half of 2013. The growing demand for Austrian stocks is in line with the broader European trend as foreign investors allocated more funds to European issuers and also shifted from debt to equity in 2013.
In terms of investment style, buying took place across the main styles, led by growth and value, with passive index investments as well as GARP reducing their holdings in the ATX prime in 2013, unlike their actions in wider Europe. The biggest shifts in the ATX prime ownership structure were driven by large, global investment firms such as The Capital Group, Fidelity, MFS, and Vanguard, with selling being limited to mostly special stories and issuer-specific performance reasons. With respect to small-cap issuers, sector-specific institutions and funds showed interest in special investment stories (e.g., RHI, Schoeller-Bleckmann, Semperit, and Wienerberger) to gain access to specific industry segments and global market leaders. Austrian investors as a whole – 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 under-invested in the Austrian home market.
These are the key messages of the updated study (cut-off date: 31 December 2013) "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.

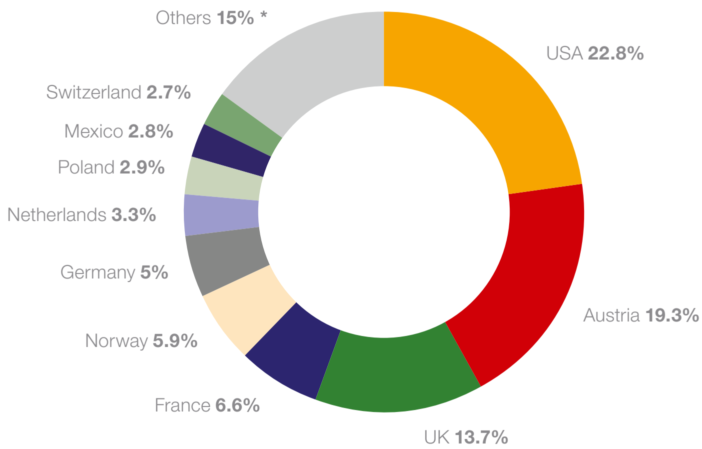
The details of the study on the ATX prime reached the following conclusions as of 31 December 2013:

**Strong inflow from international institutional investors**
In the second half of 2013, the free float of Austrian issuers widened from EUR 32.4 billion to EUR 38.1 billion[1], driven by higher demand as well as by price effects. Austrian private investors remain the largest group of investors and hold a share of EUR 8.8 billion equaling 23.1% of free float. Non-financial institutions and direct company investments amount to an estimated EUR 6.5 billion or 17.1% of the free float, the remaining EUR 22.8 billion (59.8%) are estimated to be held by institutional investors.
Especially US and UK-based investors increased their shareholdings significantly in the second half of 2013, followed by a strong European trend with France, Norway, and Germany also widening their holdings in the ATX prime massively in the last 12 months. The relative share of ownership of Austrian institutional investors decreased over the same period.

1) By comparison, the total equity market capitalization of domestic ATX prime issuers amounted to EUR 67.5 billion in June 2013 and to EUR 77.5 billion at year-end 2013.

**Institutional investors in the ATX prime by country as of 31 December 2013**

EUR 22.5 billion of the EUR 22.8 billion held by institutional investors were identified and allocated in detail[2]: EUR 18.15 billion or 80.7% are held by international investors, EUR 4.35 billion or 19.3% by Austrian institutional investors. The latter breaks down as follows: investment funds (EUR 3.42 billion), banks (short EUR -2 million), and insurance companies (EUR 0.93 billion).




* Among others, Canada, China, Japan, Belgium, Sweden
December 2013, Source: Ipreo

**US & UK investors with strong buying – Norges Bank largest investor**

Compared to the last full-year study for 2012, Ipreo was able to identify and allocate more investors due to increased transparency created by more buying by foreign investors, which may lead to slightly over-represented buying figures in absolute terms. When analyzing the relative percentage changes in ownership of the ATX prime free float, it is clear that demand from institutional investors increased significantly in 2013, with US-based investors coming back strongly, followed by general buying by institutions based in the UK, France, Norway and neighboring countries such as Germany and Switzerland. Austrian institutional investors have constituted the largest investment region for one and a half years, now the US surpassed Austria again, holding 22.8% of all identified institutional investments. Investor appetite from the US was low in the past few years, as the large investment funds favored blue-chip companies and indices in other parts of Europe and Asia. However, given the positive sentiment on European stock markets as a whole, the US also allocated more money to Austrian issuers. Unlike in wider Europe, this was not driven by passive investors such as the Blackrock Group, Vanguard or State Street Corporation, which all have seen significant inflows of money into their ETFs, index funds and mandates, it was mutual and pension fund managers such as Capital Group or Fidelity that upped their stakes massively. The US is followed by investors based in Austria. UK investors rank third, led by money managers from London, which is still considered the current location with the largest pool of investable assets both in equity and debt securities. UK-based investors currently represent 13.7% of all identified institutional money, an increase of 26% in 2013. The main drivers were mostly large traditional institutional investors as well as alternative investors that focus on European issuers. Additionally, many foreign investors from Asia and the US, too, increased their money management via UK-based branches including several sovereign wealth funds and Asian investors. Their money is represented as UK-money, as this is the location that any management or investor relations department would need to visit. Investment regions such as France, Norway, Germany, and Switzerland rebounded from their all-time lows to also play a bigger role within the ATX prime

2) In 2013, more traditional international investors bought into Austrian stocks. This led to more transparency and increased the identified holdings; hence in absolute figures, the comparison may be slightly skewed versus the last reports.

again. French investors account for 6.6% of all identified holdings (+37%), followed by Norway (5.9% from 4.2%), Germany (5% from 4.1%), the Netherlands (3.3% from 3.4%), Poland (2.9% from 2.6%) as well as Mexico and Switzerland which account for 2.8% and 2.7% of all identified investments respectively.

Norway's holding is mostly driven by the stakes of the state pension and sovereign wealth funds of Norges Bank, which is the world's largest investor and also within the ATX prime, as it holds on average 1.5% of every ATX prime issuer. Holdings in France, Germany and Switzerland are much more widespread, as several large investment firms such as Amundi, BNP Paribas, UBS, Credit Suisse, DWS, AGI or Deka have a stronger focus on Austrian equities, often also combined with their sell-side coverage.

With the exception of China, which has doubled its investments in Austrian equities from 0.8% to 1.6% of all identified holders in 2013, investors from other emerging investment regions such as Mexico could not keep up with the general buying trend. The main reasons investors mentioned for buying Austrian stocks were general asset allocation shifts, Austria's positive economic outlook and stability, as well as conservative growth opportunities for some of the larger issuers and special stories in the index. Generally, European equities are considered attractive and trendy again, and considering the political issues in countries such as Turkey, Hungary, and Russia, several Austrian companies remain well positioned to take advantage of growth, while being in a risk free marketplace.

**Main investment styles growth & value on the rise – index and GARP holdings decline**

The historically dominant traditional investment styles "value" and "growth" have led the way in terms of growing investments in ATX prime issuers. As of 31 December 2013, growth (39.9%) and value/deep value (33.8%) styles together accounted for more than 70% of all identified institutional styles, with both strategies increasing their relative holdings. Significant changes came from investors following GARP (9.1% from 10.8%) and index (12.9% from 14.4%) strategies, which both were among the biggest sellers of Austrian stocks. Yield strategies (focus on dividends) remained generally stable at 2.3% of all identified holdings. Other investment styles such as hedge strategies, quantitative holders or specialty investors remain relatively insignificant as longer term holders in ATX prime issuers and currently account for less than 1% of all identified invested capital. It is surprising to see that the general global trend to more passive investments – which have seen above average inflows of capital – is not reflected in the current analysis of Austrian stocks. The major changes were driven by active, fundamentally-oriented funds, that also recorded massive increases in their assets under management, and it seems that heavier allocations in pan-European small and mid-cap stocks had a big influence on the Austrian market.

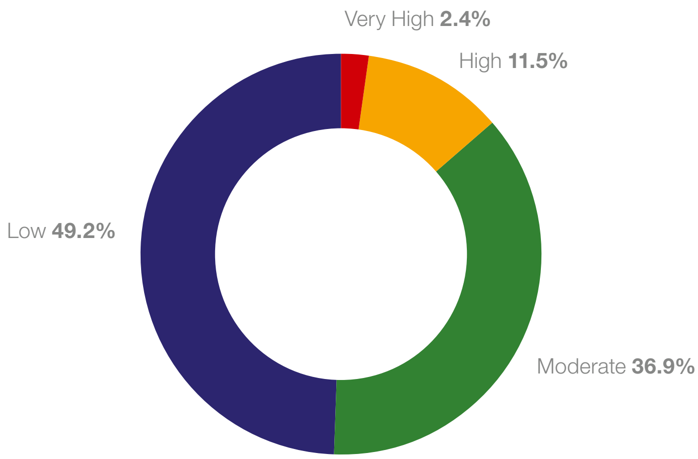
As in previous years, Ipreo again confirmed and identified the increased importance of extra financial or ESG-factors[3] which come into play in several investment strategies and add an extra level of complexity to the decision-making process. Corporate governance teams at the largest investors not only have an increased influence on the buying and selling of shares, but also communicate more frequently with issuers directly via ongoing engagement processes on 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 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.

3) ESG (Environmental, Social, Governance)

**Turnover ratio increases with rising liquidity and market upturn**

The portfolio turnover ratio indicates how often institutional investors trade securities in their overall portfolios on average per year[4]. 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 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. Afterwards it fluctuated heavily as over-the-counter trading became more popular and strategies often shifted between equity and debt. As of 31 December 2013, it increased again to 13.9%, up from 10.3%, due to higher trading volumes and new allocations and buying into 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, external factors such as general market movements and the withdrawal of assets under management may have had 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[5].




Base: ATX prime
Source: Ipreo, December 2013

4) 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.

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