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1H 2015 ... INSTITUTIONAL INVESTORS AND ... AUSTRIA

INVESTORS AND AUSTRIAN STOCKS IN 1H 2015 ... INSTIT

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Institutional Investors and Austrian Stocks in 1H 2015

International institutional investors remained the largest stakeholders in the ATX prime in the first half of 2015, but the index has seen major shifts among investors in the first six months of the year. Domestic investors of all types – funds, banks, insurances as well as retail investors – were the largest buyers, whereas foreign institutions rank among the major sellers. On the international side, only US-based and Norwegian investors increased their stakes in 1H 2015, while most other foreign investors reduced their holdings in the ATX prime in the same period. US and Austrian institutional holders strengthened their positions at the top of the regional list which results in an even higher concentration of the top three investor countries US, Austria, and UK. Within Europe, Norway, France and Germany remain dominant as investment regions in the ATX prime. The changes in the first half of 2015 were a result of active buying and rotation into some of the largest financial stocks with cheap valuations in Austria, as well as an even larger exposure to passively-managed funds with Austrian companies on their radar. While it was especially international funds that allocated more money to Europe and which led to higher liquidity, risk-aversion remained a major issue due to the political and economic instability of several Eastern European markets. Around the end of 1H 2015, the Asian stock market's plunge was also a major concern for fund managers.

In terms of investment style, passively-managed money is now at an all-time high since Ipreo started the market analysis series in 2007. Overall, the market still attracts mostly investors with growth-oriented strategies who remain at the top in the ATX prime issuers, followed by value investors, although both main styles have seen some outflows. The one-year comparison vs. 1H 2014 reveals that the ATX prime ownership structure underwent significant changes, with a re-shuffling of the index as issuers such as PORR and Cross Industries entered the ATX prime, while corporate actions by FACC, Raiffeisen Bank International, Telekom Austria and BUWOG in 2014 had an impact on the free float capitalization. Overall, the free float capitalization of ATX prime stocks increased in the first half of 2015.

A ranking by largest buyers identified the alternative investor Lone Pine, followed by Norges Bank, two Austrian investment firms Erste Sparinvest and Ringturm, followed by the US-based institutions Northern Cross and Mellon Capital, all of which pursue different investment philosophies. Selling was more dispersed, showing global investment firms such as The Capital Group, BNP Paribas, Blackrock, Delta Lloyd and Sovereign Wealth Fund China Investment Corporation reducing their stakes significantly. Ipreo revealed that buying concentrated more on a few stocks with low valuations, while selling was more widespread with decreases for ATX five stocks as well as for issuers with lower market caps. Austrian investors as a whole – institutionals, non-financial institutions as well as retail holders – remain the largest investment group in the ATX prime, yet by international comparison, they are still underinvested in the Austrian home market.

These are the key messages of the updated study (copy date: 30 June 2015) "Institutional Ownership of the ATX prime" conducted by the financial information provider Ipreo on behalf of the Vienna Stock Exchange. The survey is highly indicative, as it succeeded in identifying and allocating more than 90% of Austrian free float in detail.

The conclusions arrived at by the detailed study of the ATX prime as of 30 June 2015 are given below:

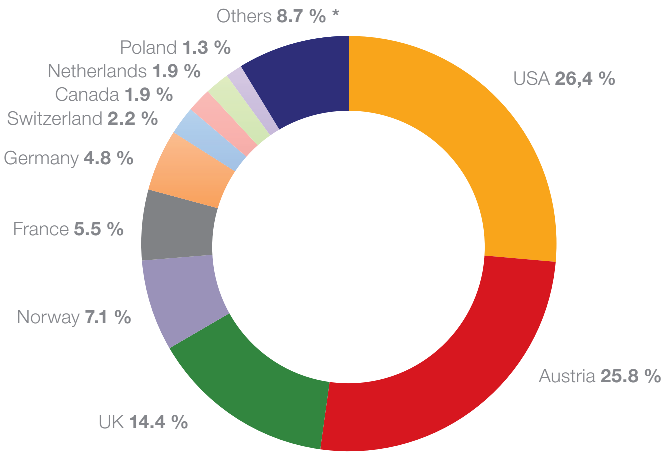
Austrian investors increase exposure in ATX prime significantly – majority of European institutions reduce holdings

In the first half of 2015, the free float of Austrian issuers increased from EUR 33.7 billion to EUR 38.3 billion[1], mostly due to the higher float capitalization of issuers, index reshuffling and positive

1) By comparison, the total equity market capitalization of domestic ATX prime issuers amounted to EUR 71.5 billion at year-end 2014 and to EUR 87.7 billion as of 30 June 2015.

exchange rates. Austrian private investors remain the largest group of investors and hold a share of EUR 8.2 billion equalling 21.4% of free float. Non-financial institutions and direct company investments amount to an estimated EUR 5.9 billion or 15.4% of the free float, the remaining EUR 24.2 billion (63.2%) are estimated to be held by institutional investors.
Especially domestic investors, US-based and Norwegian institutions added to their shareholdings, whereas investors based in the UK, Germany, France, the Netherlands, Poland and China were among the major detractors in 1H 2015.

Institutional investors in the ATX prime by country as of 30 June 2015
EUR 23.6 billion of the EUR 24.2 billion held by institutional investors were identified and allocated in detail: EUR 17.5 billion or 74.2% are held by international investors, approximately EUR 6.1 billion or 25.8% by Austrian institutional investors. The latter breaks down as follows: investment funds (EUR 4.7 billion), banks (EUR 0.54 billion), and insurance companies (EUR 0.81 billion).



* Among others, Belgium, China, Denmark, Sweden, Ireland
Source: Ipreo, June 2015

Austrian, US, and Norwegian investors with increased exposure in Austria
When analyzing the relative percentage changes of the ATX prime free float it becomes clear that the trend for varied regional demand in Austrian stocks continued. The largest investment region into the ATX prime, the US, was one of the few that further upped its stake. US-based investors increased their holdings in ATX prime issuers through concentrated buying into some financials. Institutional demand was also seen from investors based in Norway and Ireland, though the majority of foreign institutional investors actually reduced their relative stakes. Selling was more widespread and investors from traditionally strong countries such as Germany, France, Switzerland, UK and the Netherlands sold off larger parts of their holdings. While buying was more concentrated in some of Austria's largest issuers and came mostly from domestic and US-institutions, Ipreo's findings showed that selling took place not only in most countries, but also happened across market caps.
With their increased investments, US-based institutional investors remain at the top as the largest investment region, upping their holdings by 7.5% and now accounting for 26.4% (vs. 24.6% as of year-end 2014) of all identified institutional investments. Interestingly, investor appetite from the US in the first half of 2015 was not driven only by the large investment funds. The findings show that single-stock investments led by hedge funds such as, e.g., Lone Pine in Erste Bank significantly influenced the distribution. In addition to the large traditional investment firms, the continued

trend towards more passive investments again showed names such as Blackrock Group, State Street Corporation, The Vanguard Group or WisdomTree (Mellon Capital) coming up as largest buyers and holders. The US is again followed by Austrian investors who have collectively seen a large increase and are close runners-up; they account for 25.8% of identified institutional holdings, up from 19.1% as of year-end 2014. UK-based institutional investors have seen small outflows, now accounting for 14.4% (down from 14.7%) of all identified holdings. While UK-based investors remain the institutions with the largest amount of investable assets, they were reluctant to place bets on Austria in the first half of 2015, resulting in names such as Silchester, Henderson and Threadneedle being among the top sellers of Austrian stocks. With the exception of Norway (7.1%, up from 6.3%) none of the historically strong European investment regions widened their stakes in the ATX prime. On the contrary, Germany (4.8%, down from 5.8%), France (5.5%, down from 7%), and Switzerland (2.2%, down from 2.7%) all reduced their exposure by some 20% in the first half of 2015, pulling money out of the ATX prime. Significant reductions – although from lower levels – were also witnessed by investors based in the Netherlands, China, and Japan who have cut their exposure approximately by half. The decline of the oil price as well as the beginning of the Asian market turmoil seems to have played a key role in the outflows, which were also seen in several other European markets with similar trends, e.g., some of the sovereign wealth funds significantly changed their asset allocations and reduced assets under management. This seems to reverse some of the inflows that Austria saw in late 2014, where more Asian and Middle Eastern funds bought into the market and Europe to take advantage of the quantitative easing measures of the ECB back then.

Passive investors at a record high – growth and value styles with outflows

The historically dominant traditional investment styles "value" and "growth" remain strong in terms of their investments in ATX prime issuers despite the fact that they represent the only styles that showed outflows. As of June 2015, growth styles accounted for 35.1% (down from 37.5%), followed by value at 34.2% (down from 35.9%). Passive investment strategies, on the other hand, were recorded at a historical record high of 16.1% (up from 14.2%) at the expense of the two main style categories. Interestingly, passively-managed money has further received global inflows, but the increase in ATX prime investments comes from both domestic and foreign institutions that run index-linked or enhanced index strategies. In addition, alternative strategies such as hedge funds, specialty funds or even GARP (growth at a reasonable price) investors continued to rise in importance in 1H 2015. GARP investors increased their stake from 7.5% to 7.7%; hedge funds showed a 58% rise to 3.4% of all identified holders and dividend-focused strategies (yield) and specialty funds (real estate) recorded an increase of approximately 20% to account for 2.2% and 0.8% of all identified holdings, respectively. Other investment styles remain relatively insignificant as long-term shareholders of ATX prime stocks, currently they all account for less than 1% of all identified capital invested.

With the general global trend to more passive investments via ETFs or enhanced index strategies – which globally have seen excessive inflows of capital – the importance of proactive communication in the competition for actively-managed capital is becoming even more important. As the share of active managers continues to decrease, single-stock investments such as, e.g., the Lone Pine market entry may cause big shifts for issuers and even affect entire markets. Along the same lines, Ipreo reconfirmed the ever-increasing importance of extra financial investment criteria (ESG factors)[2] 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 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 major institutional management groups have not only built

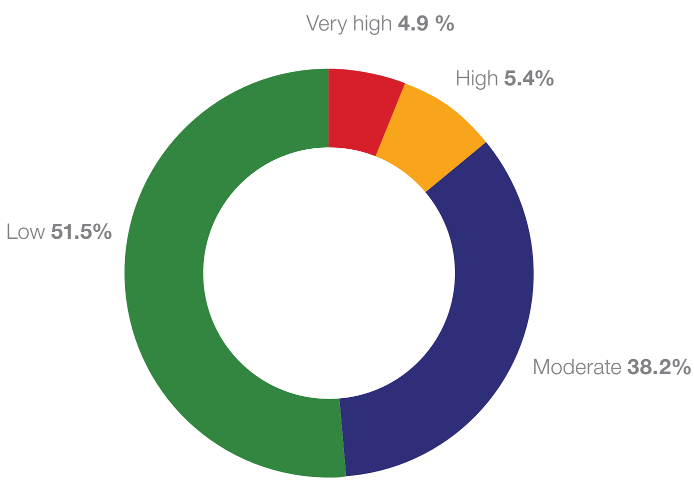
2) ESG (Environmental, Social, Governance)

these types of strategies into their mainstream funds and investment management processes, but active engagement processes have started to show up even in the Austrian market and this is resulting in an entirely new need for stakeholder communication before, e.g., general meetings.

Turnover ratio on the rise

The portfolio turnover ratio indicates how often institutional investors trade securities in their overall portfolios 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 the data collected by Ipreo suggests that a growing portion of all trades 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 2010, it climbed back up again throughout periods of increased volatility or even crisis. Compared to the year-end study of 2014, high turnover ratios of invested holders have shown a further increase from 8.8% to 10.3% in June 2015, meaning that the portfolios of these investors trade at least once per calendar year.

However, this ratio only sheds some light on long-term strategic portfolio turnover, as it is a slightly delayed function of buying and selling movements in the most recent months computed at investment group level. In addition, 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[4].



Base: ATX prime
Source: Ipreo, June 2015

3) This permits one to draw general conclusions on the behavior of companies although some investment fund turnover ratios (e.g. CEE funds) may show higher rates.

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