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Institutional Investors and Austrian Stocks in 2013

cee stock exchange group

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Domestic investors remain the top investors in the ATX prime, followed by international institutional investors that have widened their holdings in some cases to quite a significant extent in 2013. Austrian funds slightly reduced their shareholdings in the first half of 2013, enabling Anglo-Saxon investors to catch up again. US and UK investors are followed by institutionals from France, Norway, Mexico, Germany, the Netherlands and Switzerland. After a difficult start at the beginning of the year, the Austrian stock market and market capitalization of the ATX prime recovered slightly; however, the withdrawal of assets under management resulted in a somewhat lower market capitalization of the ATX prime as compared to year-end 2012. Around mid-year, the trend reversed, bringing about higher trading volumes as well as heightened interest and significant buying by international investors. This group of investors predominantly bet on economic recovery and growth prospects of the largest ATX issuers. Despite the slight drop in their aggregate share, Austrian investors – institutional, non-financial institutions as well as retail customers – still remain the largest investment group in the ATX prime. The financial market place of Vienna was clearly able to defend its position as the largest investment center for the ATX prime against other cities such as London or New York. With regard to investment strategies, value and growth investing still remain the dominant styles, with passively-managed funds and dividend strategies gaining ground.
These are the key messages of the updated study (cut-off date: 30 June 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 on the level of individual funds.

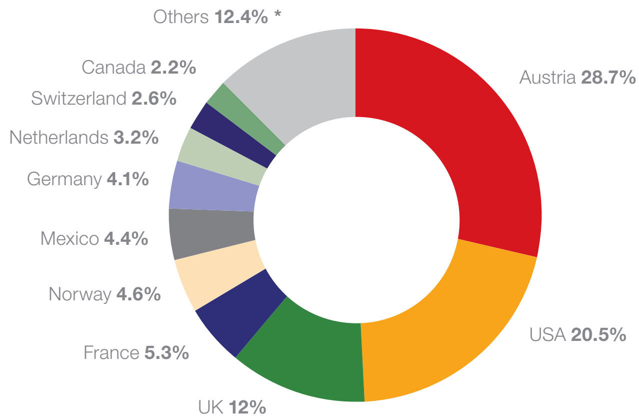
The details of the study on the ATX prime reached the following conclusions as of 30 June 2013:

Austrian institutionals remain the biggest investment group despite withdrawals – foreign investors increase their holdings in the ATX prime
In the first half of 2013, the free float of Austrian issuers decreased from EUR 34 billion to EUR 32.4 billion[1], driven by the slightly negative stock market performance and the challenging situation on international stock markets. Austrian private investors remain the largest group of investors and hold a share of EUR 7.9 billion equaling 24.4% of free float. Non-financial institutions and direct company investment amounted to EUR 6.2 billion or 19.1% of free float. The remaining EUR 18.3 billion (56.5%) is held by institutional investors. The first half of 2013 was characterized by withdrawals of Austrian investors, while major buying came – partially at least – from foreign institutionals, led by UK, Chinese, French and Norwegian investors. Austrian investors nevertheless remain by far the biggest investment group in the ATX prime, while the share held by foreign institutionals now exhibits regionally more diversified investment patterns.

1) By comparison, the total equity market capitalization of domestic ATX prime issuers amounted to EUR 73 billion at year-end 2012 and to EUR 67.5 billion in June 2013.

Institutional investors in the ATX prime by country as of 30 June 2013

EUR 14.9 billion of the EUR 18.3 billion held by institutional investors were identified and allocated in detail: EUR 10.63 billion or 71.3% are held by international investors; around EUR 4.27 billion or 28.7% by Austrian institutional investors. The latter breaks down into funds (EUR 3.06 billion), banks (EUR 0.43 billion), and insurance companies (EUR 0.78 billion), thereby positioning Vienna as the largest investment center ranked by city.



* Among others, Poland, Japan, China, Singapore, Belgium
Source: Ipreo, June 2013

Strong buying from UK, Asia, and France – Scandinavian pension funds reduce holdings

The developments in the ATX prime segment in the first half of 2013 followed the trend in other established markets with a certain time lag. International investors had significantly increased their positions in other countries already in 2012; now they appear to have gained interest in the financial market of Vienna again. Numerous large investment firms upped their stakes in Vienna-listed large caps and market leaders to profit from the global economic recovery and higher growth prospects. Passively managed funds and a number of sovereign wealth funds, led by Blackrock, China Investment Corporation and MFS, increased their holdings in some issuers, too. Among the biggest sellers were US and Scandinavian pension funds and asset managers such as Capital Research, Templeton, East Capital and TIAA CREF. A reduction of positions held in the financial sector, the still lacking transparency and concerns about governance issues were most likely the decisive factors for selling, but also switching within portfolios was cited as a reason. Even though the CEE exposure of Austrian issuers is in some cases still seen as 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 and positions as a market leaders.

The domestic investor base is still strong. Despite considerable withdrawals in the first half of 2013, Austrian investors still hold some 28.7% of all identified institutional stocks, down from 31.1% as of year-end 2012. The trend towards an outflow of foreign capital has apparently come to an end and Austrian issuers seem to have become more attractive to foreign investors, although there are distinct differences seen across the investment regions.

US investors rank second in the country ranking. They remain relatively stable with holdings amounting to EUR 3.05 billion (20.5%, up from 20%) and therefore constitute the biggest group of foreign investors, followed by UK investors that widened their relative share from 10.9% to 12%, driven by buying from London-based investment firms such as Marathon, Schroders and Henderson. French (5.3%, up from 4.8%) and Norwegian (4.6%, up from 4.1%) investors also increased their relative shares via their sovereign wealth funds and investment firms (Norges Bank, Amundi, BNP Paribas) to a sizable extent, ranking in fourth and fifth place by country. They are followed by investors from Mexico (4.4%) and Germany (4.1%). Significant buying from previously low levels came from Asian investors based in China (from 0.8% to 1.1%) and Singapore (from 0.8% to 0.9%), whereas a major outflow of capital was seen from investors based in the Netherlands (3.2%, down from 3.4%) and Poland (2.1%, down from 2.6%).

Among the member exchanges of the CEE Stock Exchange Group (CEESEG), it is above all Budapest and Prague which have international investors, with Anglo-Saxon institutional investors dominating both markets (over 60% of identified investors in the free float in both cases). Despite this, there are widely divergent investment patterns within the Group. While US investors enlarged their holdings in Hungary massively, they significantly cut their exposure in stocks listed on the Prague Stock Exchange. Group-wide, investments from Norway, France and the UK were on the rise. The free float of the Ljubljana Stock Exchange still remains in the hands of domestic investors. Slovene funds and pension funds dominate with a share of some 40%, although the share of internationals investors from the US, Croatia, Russia as well as Poland has notably increased here as well, closing the gap to the assets held by Slovene funds and pension funds.

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 the ATX prime issuers. As of June 2013, growth (36.7%) and value/deep value (33.3%) styles again made up 70% of all identified institutional styles. Passive investors such as index trackers and quantitative investors increased slightly from 14.4% to 14.7% and still rank third with a clear margin over GARP strategies (“growth at a reasonable price”) which remain unchanged at 10.8% of all institutional investors. A general trend that can be observed all over Europe also continued in the ATX prime in the first half of 2013: 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. Especially institutional investors such as Blackrock, Vanguard, Lyxor and State Street experienced a major inflow of capital, whereas active institutions, i.e., fundamentally-oriented fund managers, saw inflows of assets under management to a much lesser extent. Other traditional styles such as “yield” investors (2.3%) and hedge funds (0.9%) fall short of the styles mentioned above.

Overall, Ipreo further identified and confirmed the increasing importance of non-financial or ESG-factors[2], which come into play in several investment strategies – including passive styles – 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 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 decreased slightly – investment horizon three years on average

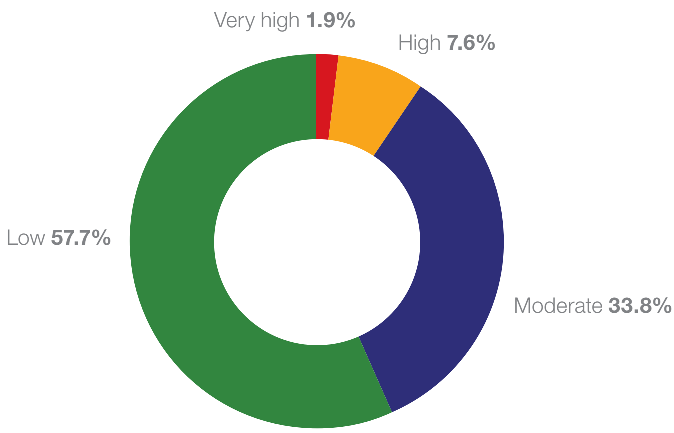
The portfolio turnover ratio indicates how often institutional investors trade securities in their overall portfolio on average per year[3]. It is also a measure based on publicly available information and comes with a certain time lag, ignoring OTC or dark pool trading. Therefore, the numbers will tend 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

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.

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 in the second half of 2010 and has remained relatively low since then. As of 30 June 2013, 56.7% of all identified portfolios showed a low turnover ratio, 33.8% of all investors had moderate trading activities and 9.5% 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.

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 and the withdrawal of assets under management and many others 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 2013

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