**Foreigners at Ljubljana Stock Exchange: what do they like that bothers them and why do they invest?**

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We were approached by a foreign investor with comments on the Slovenian organized capital market. He points out that he did not expect such complications when buying shares in a country with the euro. Following the criticism of the Ljubljana Stock Exchange, we decided to call some foreign investors and ask them what they like about the Ljubljana Stock Exchange, what bothers them and why they invest here.

Positive sides of the Ljubljana Stock Exchange

Stephan Howaldt, director of investments at Wertanlagen Fonds in Hamburg, is convinced that shares on the Ljubljana Stock Exchange would be listed at higher prices if the Ljubljana Stock Exchange performed better. This is supported by the example of the joint-stock company Krka, which is quoted at about 10 times the net profit, while most other European generic pharmaceutical companies are quoted at a value-to-profit ratio close to 20. “I would expect Slovenia's EU membership and the euro to be environment benefited the owners of Slovenian shares. Financial data and listing in euros gives foreign investors the feeling that it is a business environment, the same as others in the EU, ”says Howaldt.

This is one of the positive qualities that we have noticed in conversations with foreign investors in recent days, but it does not seem to come to the fore with other problems. Matthias Teig, co-founder of the Geneva-based management company Rothorn Partners, mentions a relatively low valuation as an interesting feature for foreigners. So far, he has only bought Krka shares for the fund, which he says has always wondered why he is quoted so much lower than other companies. He says that there is no company from Eastern or Central Europe in their portfolio that would be valued so low with such a successful business. "When I wanted to buy shares and found it relatively difficult to find a broker to do so, and the costs were even higher, I concluded that market inaccessibility to foreign investors was the main reason for the relatively low valuation," says Teig. .

Dominic Fisher, founder of the smaller British management company Thistledown Investment Management, says that Slovenia has a reputation as a country of honest and hardworking people who are strict and sometimes a little evil, which he thinks is a good combination of qualities in terms of value creation. "In general, I have a good opinion of Slovenia. It's stable and well-run, ”says Fisher.

High dividend yield and trust in the management are two positive qualities mentioned by Thomas Svensson, a small investor from Sweden, who was initially enthusiastic about Slovenia and then began to inquire about local shares. Talks about the positive features of the Ljubljana Stock Exchange did not last long, and more than not, investors cite attractive prices as reasons for investment. They attribute these to the very problems they had to overcome themselves to buy the shares.

They add that they would invest more themselves if conditions were similar to those in other markets. "I would have bought Krka shares sooner if it weren't so complicated"

The professional property managers we spoke to these days got to know the Ljubljana Stock Exchange mostly because of Krka. “I became aware of this joint-stock company after talking to two different managers with whom we exchange opinions on securities. Over the results, running the company and everything I’ve heard about Krka, I started to get excited five years ago, but I didn’t buy the shares because it was too complicated to find a stockbroker to make such a deal possible. When Krka's business improved further, I decided to look for a stockbroker who would enable the purchase, "says Dominic Fisher from Britain. He points out that, as a foreign investor, he faces unusually high costs of keeping securities. The transaction costs themselves, even though they are significantly higher than he is used to in other markets, do not bother him as much, as he says that he is a more passive investor and holds securities for a longer period after the purchase. "Investors perceive the Ljubljana Stock Exchange as a frontier market, even though Slovenia does not fall into this category in terms of GDP per capita. This is due to a modestly developed and small capital market, ”says Fisher.

Buying in Turkey and Ukraine without any problems, and in a country with the euro…

The story of the co-founder of the Swiss financial company Rothorn Partners, which has funds registered in Luxembourg, is similar. Financier Matthias Teig says he did not expect such complications when buying shares in the euro area. "We have experience with buying shares in Ukraine and Turkey and we have never had any problems, and buying Krka shares was a bite for us. Stockbrokers enable us, directly or with the help of their partners, to make transactions that we recognize as interesting, but we have not been able to secure the purchase of shares on the Ljubljana Stock Exchange. Finally, we found a stockbroker who charged a commission several times higher than we are used to on Western stock exchanges. We are used to higher commissions on the Turkish market, so I wouldn't mention this as the main problem, but I can't ignore it, "he said of his vision of the Slovenian organized market.

Asked reveals financial Teig. The liquidity of Krka, the only Slovenian joint stock company that convinced him, seems satisfactory to him. However, he believes that such a company would be listed much higher on the London Stock Exchange, for example. Does he think that other Slovenian shares are also valued more modestly than they would otherwise be due to more difficult access for foreign investors? He explains that Slovenian joint stock companies do not convince him as much as Krka. “After all, they are smaller and less liquid. At one of the events of the Ljubljana Stock Exchange for investors, companies such as Telekom Slovenije and financial companies did not seem as attractive to me as Krka, "he says.

When the asset manager has to defend the investment in Slovenian shares to investors in Wertanlagen Fonds Stephan Howaldt mentions the following shortcomings of the Ljubljana Stock Exchange: "Only a few banks and brokerage companies that are members of the Ljubljana Stock Exchange provide brokerage services. such a small number of members can be the reason for high commissions. "Buying or selling brokerage commissions are very high when compared to commissions elsewhere in the world. The broker charges our fund a commission of 0.25 to 0.30 percent, and many of the remaining investors have to pay even higher commissions. That’s huge, considering that we pay a 0.02% commission for buying and selling U.S. shares, and German and French 0.03%. Fees for transactions in a small market are also much lower. In Sweden, for example, 0.04 percent, which is a tenth of what many pay on the Ljubljana Stock Exchange. "The cost of maintaining the stock of Slovenian shares is 0.1 percent per year, which is 17 times more than we pay for, for example, French, German or Italian shares." Regular trading on the Ljubljana Stock Exchange ends at 2.30 pm, while other euro markets areas open three hours longer. "Up-to-date information on shares of the Ljubljana Stock Exchange is not available on sites popular with investors such as Yahoo Finance or Morningstar. Information on shares listed on the Nordic, Benelux or Vienna stock exchanges is available on these pages. I used to buy shares on the Ljubljana Stock Exchange in the past. Why? "I recognized Krka as a successful trustworthy company with good management and good potential. We bought the share through the Ljubljana Stock Exchange, as liquidity in this market was much better than on the Warsaw Stock Exchange. However, at the time when the fund owned Krka shares, they had to explain this position, he explains. ”Investors did not find information on shares on websites where they usually search for information about shares (Yahoo Finance, their stockbrokers ...). , listed on the Ljubljana Stock Exchange, but they knew that we pay relatively high commissions, and as a result, they recognized such investments as risky. wrong shares, we always risked being finally accused of justifying such criticism, ”explains Howaldt.

Would you trade more often on the Ljubljana Stock Exchange if you did not recognize so many shortcomings? "Yes, in this case it would be easier to justify larger investments in Slovenian shares. I believe that many other funds would also invest more in Slovenian shares and offer capital for the growth of Slovenian shares. Most European asset managers do not even know that there are companies like Krka. However, I am convinced that many people would find investing in Slovenian shares much more attractive than investing in shares of some other countries in the region that do not have the euro, have a lower credit rating and are lower on the Transparency International scale, "says the German financier. With all this, he says that the team of the Ljubljana Stock Exchange finds it difficult to improve much, as it has too few clients and they are small. He sees the solution in merging with one of the larger stock exchanges, such as Nasdaq, Euronext or Deutsche Börse, but the current owner of the Zagreb Stock Exchange does not find it the most suitable. "Maybe this helps the Zagreb Stock Exchange a bit, but the connection certainly doesn't solve the problems of the Ljubljana Stock Exchange," he says. Howaldt warns that Slovenian companies will be in a worse position than European competitors if the situation on the Slovenian organized capital market does not improve. It will be harder for them to raise capital and finance growth, especially in times like the corona crisis.

Swedish retail investor on the Ljubljana Stock Exchange is looking for a dividend yield

"As a small foreign investor on the Ljubljana Stock Exchange, I have a feeling that everything is against me," says Swede Thomas Svensson. "The costs are high, price information is difficult to access, and it is also difficult to open a trading account with local stockbrokers," says the investor, who says that he deals with the financial world as an amateur.

cer, on the other hand, makes a living as a service coordinator for nursing homes. How did he start investing in Slovenian shares? "You will understand me better if we take a step back and tell you how I got to know Slovenia. In 2015, I attended the Perpetuum Jazzile concert in Ljubljana, before that I only knew Slovenia as a country that awards points to its neighbors at the Eurovision Song Contest, which the Swedes like to upset us with. During my visit to Ljubljana, the country grew close to my heart. I was thinking about how to connect with her more. At the hotel where I was staying, I came across the newspaper Finance, and when I flipped through it, I looked at the exchange rate and started thinking about whether to buy Slovenian shares. When I came back, I read a number of annual reports in English and wondered why some stocks are so cheap. I was not able to buy shares through the stockbrokers I trade with, but I was able to buy some shares through a branch of an Austrian bank, but the deal had to contain at least 100 shares. The commission was quite high, and limiting the purchase of a minimum of 100 shares for my portfolio was a problem, as I find it difficult to disperse assets well if I have to invest so much money in one joint stock company, ”Svensson describes the Ljubljana Stock Exchange. He started going to Ljubljana more often. On one occasion, he was sitting on a plane with a compatriot who was one of the leaders at the BAMC at the time. "He warned me that some companies were left with only a shell after ownership intertwining and financial machinations, and that we should be careful. However, I was encouraged by his assessment that some companies are in good shape and run very well, "he explains. At that time, he invested in a fund of Swedish managers, which bought shares on the Balkan stock exchanges, including the Ljubljana stock exchange, and with the help of Google's translator began to monitor Slovenian business news on a daily basis. He also started buying some joint-stock companies, such as Cinkarna Celje - over which he does not hide his enthusiasm due to the dividend yield -, the Prva Group and NLB.

Two years ago, he tried to open a trading account with local stockbrokers or banks in Ljubljana. "Everyone was friendly, but they couldn't arrange it or the service was too expensive. At one of the banks, they asked me why I wanted a trading account so much, they explained to me that they had never come across a Swede who wanted something like that, and that they couldn't help me at a given moment, "he explains. As he says, today he is in talks with one of the Slovenian stockbroking companies, which has a good service, only for the price I would like to negotiate. “I hope to be able to arrange this live in September,” Svensson says.

He does not currently own Slovenian shares. However, he is considering creating a smaller portfolio of Slovenian shares to save for his pension. As he explains, on his travels around Europe, he often gets excited about companies and buys their shares. So after visiting Spain, he put together a mini portfolio that includes Spanish real estate companies, banks, an energy company… He also owns a similar mix of German stocks, all of which he amateurly puts together for the autumn of his life. "I see the possibility of something similar in Slovenia. I would look for companies from a variety of industries that convince me with the information published in the reports and provide a high dividend yield. With such investments, I expect to double the investment in ten years. I find companies such as Krka, Cinkarna Celje, Prva Skupina, Telekom Slovenije, NLB anim interesting, ”he says.

According to him, he has to make much more efforts to invest in Slovenian shares than for Western European shares, for which he pays a much lower commission and are available through the online platforms of Swedish stockbrokers. “It seems that I will agree with one of the Slovenian stockbrokers for a solid commission and that I will also be able to trade on the Ljubljana Stock Exchange at lower costs than before. The gain will be that I won't have to buy 100 shares at a time, ”says Svensson.

What do they say about criticism on the Ljubljana Stock Exchange?

The President of the Management Board of the Ljubljana Stock Exchange, Aleš Ipavec, explained to the comments of foreign investors regarding high commissions that 700 financial companies in Europe were sent a presentation of the Slovenian capital market and an invitation to become members with remote access. "Due to COVID-19, the acquisition of new members has stopped, and we intend to intensify this activity after the summer holidays," he explains. He adds that he is aware that commissions are significantly higher than abroad, but explains that the cost of the Ljubljana Stock Exchange in the total cost of the transaction is negligible.

As he further explains, this year the Ljubljana Stock Exchange reduced the costs for some service packages. Regarding the problems with the availability of information on shares listed on the Ljubljana Stock Exchange, he announces that a completely renewed website of the Ljubljana Stock Exchange will soon be available. "Personally, I undertake to try again to establish contact with platforms such as finance.yahoo.com, and to display data on shares listed on the Ljubljana Stock Exchange on their pages. We give more external partners access to the data every year, so our visibility is certainly higher than it has been in the past, but it is true, that we are not yet on the platforms that are the standard in the financial world, ”says Ipavec. For trading hours, the first man of the Ljubljana Stock Exchange explains that it was extended years ago, "and a new extension is also planned, presumably until 4 pm, as is already the practice with our owners in Zagreb."

Foreigners responsible for more than a third of transactions

Ipavec says that foreign investors are very important for the Ljubljana Stock Exchange and that they will continue to focus a lot of their energy and time on attracting as much foreign capital as possible to Slovenia. "However, we are aware that at least, if not more, it is important to increase the number of issuers on the LJSE, because only in this way will the Slovenian capital market be interesting as a whole. Every year, we prepare the brochure Slovene Capital Market also in English, in which we present the domestic market and the broader economic picture of the Slovene economy in more detail, ”explains Ipavec. He reminds that last year an investment conference was organized for publishers in New York, and the conference scheduled for April in Stockholm was canceled or postponed due to the coronavirus. "We also started conducting online investment conferences (webcasts) years ago, which have become well-established and are now regularly attended by more than 150 different investors from more than 20 different countries," explains Ipavec, adding that recently perceives greater interest of foreign investors in trading on the Ljubljana Stock Exchange. These are responsible for more than a third of transactions on the Ljubljana Stock Exchange.