

An Investment Fund Investing in Listed Shares of Co-operative Companies?

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The legal form of a co-operative is characterised by its equity capital not being listed but nominally repaid. Normally one member has one vote, and a co-operative could not be taken over easily. But today central co-operatives in co-operative networks tend to go public and some of these companies are listed on a stock exchange in the legal form of a public limited company. The more shares were bought by investors without co-operative relationship, the higher the likelihood that the ownership structure ceases to be that of a co-operative. To reduce the danger of the influence of investors without co-operative relationship, this article designs the activity of an investment fund based on investments of co-operative members to strengthen co-operative ownership.

Introduction

Although the financial crisis was characterised by sharply falling share prices, capital markets generated new risky investment products. Companies that work in the legal form of a co-operative are less affected by market prices because their equity capital is not listed.

However, there are a few companies with co-operative roots that, as an important part, belong to a co-operative group (network) but are not organised in the legal form of a co-operative. These companies are public limited companies and some are listed. To identify these companies it is helpful to take a look at different European countries.

We could ask whether the influence of the co-operative owners of these companies could be diminished if the co-operative owners have to sell their shares. In consequence the

majority of shares or at least a controlling minority investment could belong to investors without co-operative relationship. To avoid this result, a solution should be found to keep the majority of owners co-operative. At first the co-operative owners should strengthen their capital to fulfil the capital needs; secondly the members of the co-operative owners could be integrated. They could for example invest via a fund of a co-operative investment company that invests in different shares of listed co-operative companies in Europe (see Figure 1). For the fund-investors, ie the members and customers of the co-operatives, the investment should be balanced in risks and rewards, therefore the fund should consist of shares and further securities of co-operatives that are less risky, eg bonds.

Compared with a direct investment of members in shares of a listed co-operative

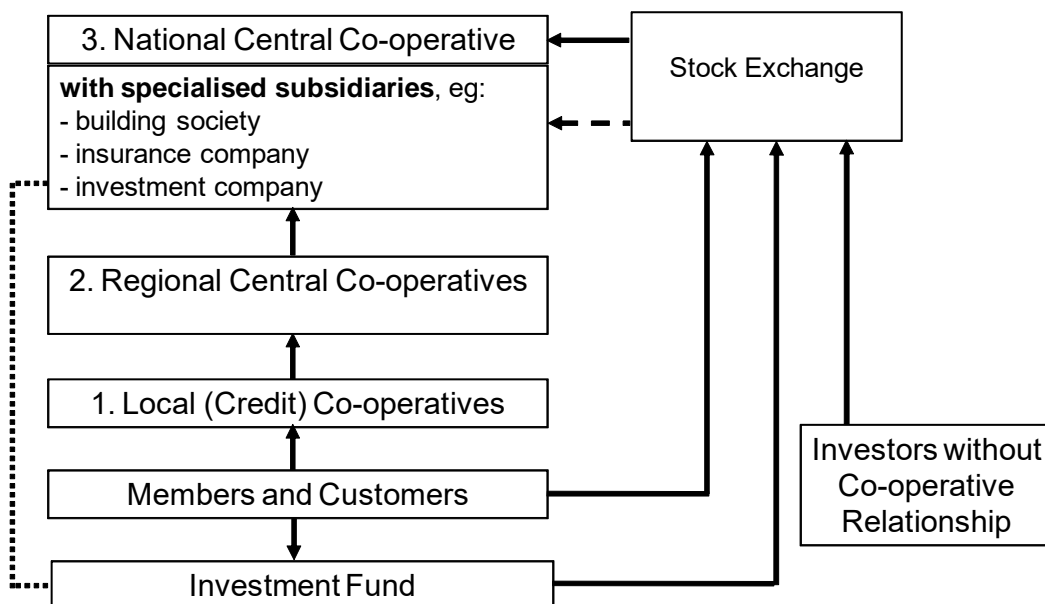


Figure 1: Investment structure in a three-stage group of (credit-) co-operatives with investment fund

company the solution with a fund has the advantage that the fund as a major investor concentrates the voting rights and has more influence on the co-operative company than a single member. The aim of this article is to identify the securities that are suitable for such a fund and to describe how this fund could be designed (Blisse, 2009).

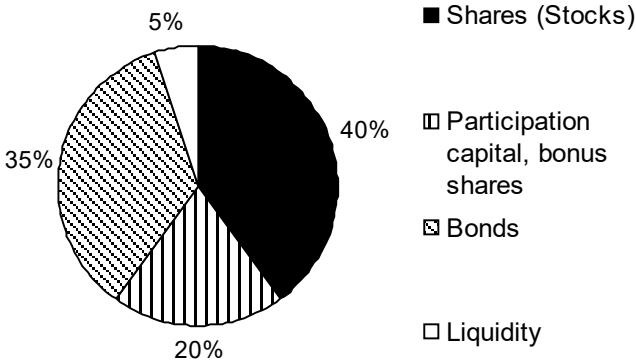
Listed Shares (Stocks)

The listing on a stock exchange enables investors without co-operative relationship to buy shares of a company that is still organised co-operatively by statute and business. Depending on the volume of free floating shares, it is at least theoretically possible for an investor without co-operative relationship to reach the majority of shares and control the former co-operative company.

A choice of shares of listed co-operative companies as possible investments for the fund could consist of the following companies in different European countries:

1. The German BayWa AG, Munich, works in the field of wholesale and retail trade as well as that of services for agriculture, building and energy; since the founding year, 1923, the shares have been listed on a stock exchange.¹ A link to its co-operative founders is part of article 2 of the statute: "aim of the company is: to serve a) the Bavarian co-operatives and other co-operative and economic entities as well as the population and the communes mainly in rural areas as a merchandise and service company" (BayWa, 2008). Most of the shares (96.3%) are registered shares with restricted transferability, the other are registered shares. All together 39.61% of voting rights belong to the free float, the major shareholders are the Bayerische Raiffeisen-Beteiligungs-AG (35.37%) and Raiffeisen Agrar Invest GmbH (25.02%). Approximately 15,000 shareholders currently hold shares in BayWa.²
2. In Finland the former OKO Bank, since March 2008 the so called Pohjola Bank plc, Helsinki, is the most important subsidiary of the OP-Pohjola Group Central Cooperative and has been listed since 1989. The Pohjola Bank concentrates on corporate and investment banking and manages the payments in the OP-Pohjola-Group. The OP-Pohjola-Group with its member banks is the owner of the majority of the voting rights but not of the equity capital. The reason are two series of shares with a different number of voting rights each.
3. Italian co-operatives have been allowed to offer transferable co-operative shares under the law of public limited companies since 1992. Shares (azioni) of a few Banche Popolari (people's banks) in the legal form of a co-operative are even listed at the Italian stock exchange, Milano, as well as the shares of a public limited company, the Banca Popolare di Spoleto SpA.³
4. The Banques Populaires (French people's banks) bought in March 1998 the Natexis Banque Populaire, Paris, a listed bank concentrating on corporate banking. It merged with the investmentbank of the Caisses d'Epargne (savings banks), Ixis, in November 2006 under the new name Natixis. Banques Populaires and Caisses d'Epargne merged in 2009 and hold 71.5% of the voting rights, employees hold 0.6%, the free float is 27.5% and the treasury stock 0.4% (Natixis, 2010: 39). The Natixis came into financial difficulties in the financial crisis. The national central co-operative bank of the rural co-operative banks, the Crédit Agricole S A, Paris, has been listed since 2001. The shareholders are the holding of regional central co-operative banks, SAS Rue La Boétie, with 55.2%, the employees (and their funds) with 4.6%, treasury stock (0.4%) and institutional investors (32.1%) as well as individual shareholders (7.7%).⁴
5. Raiffeisen-banks and Volksbanken (people's banks) are two autonomous credit co-operative organisations in Austria. Within the Raiffeisen group the shares of the Raiffeisen International Bank-Holding AG (RI), Vienna, have been listed at the Vienna stock exchange since April 2005. RI is the holding for the bank business in Central and Eastern Europe and will merge with the national central co-operative bank (Raiffeisen Zentralbank Österreich AG (RZB)) to Raiffeisenbank International AG and will continue the listing (Koprivnikar, 2010). The free float was 27.2%.⁵

Figure 2: Possible quotas in a balanced investment fund.



Equity-Equivalent and Debt Instruments

Co-operative banks – in the legal form of a co-operative or in another legal form – offer financial instruments that are accepted by banking supervision as equity capital, mostly of tier 2-quality. These are, for example, in Germany bonus shares as well as subordinate bonds. In Austria banks are allowed to offer participation capital, which is seen as tier 1-capital if there is no obligation to pay dividends in arrears (art 23 (3) no 8 Austrian banking law). These securities are often listed on a stock exchange.

Bonds are real debt capital that sometimes is listed, too. Issuers are mostly banks.

A Balanced Investment Fund

The above named financial instruments that represent debt or equity capital instruments

describe the possible framework for investments of a balanced fund (see Figure 2).

Amount of investment: protection against hostile take-overs

The fund is entitled to make use of all shares’ voting rights. With respect to the number of voting rights the fund is restricted by law. There are nationally different rules, eg in Germany the Investmentgesetz (InvG, investment law) or in Austria the Bundesgesetz über Kapitalanlagefonds (Investmentfondsgesetz – InvFG, law of investment funds). These acts include a maximum of voting rights. In Germany an investment company is entitled to hold in all managed fund shares of the same company up to 10 percent of all voting rights of this company (art 64 (2) InvG). But this amount can still be seen as a co-operatively stabilising element in the group of all shareholders of a listed co-operative company (see Figure 3).

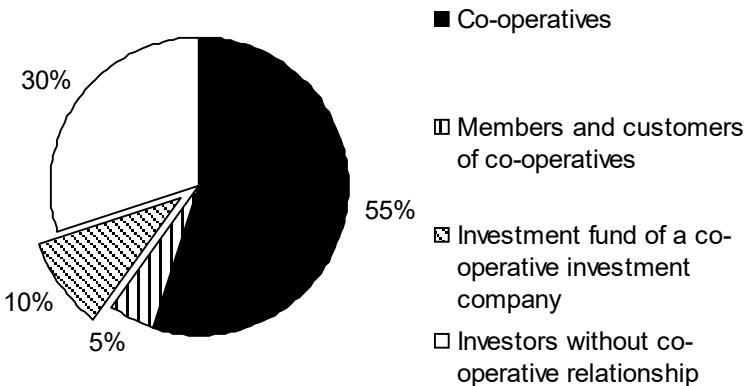


Figure 3: Investment fund as an additional and stabilising owner of a listed co-operative company.

Assortment of investment: availability of co-operative substance

The companies that the fund invests in should be companies which really are a co-operative part of a co-operative network and should not have given up their co-operative attitude.⁶ The fund management has to decide on the quota of companies' shares. Which investment should get a higher quote, which investments are only additional for the fund? These questions belong to the field of research that is made by the investment company managing the fund. The fund management has to concentrate on both, the economic success for the investors and investment decisions strengthening the co-operative ownership.

Attendance of investment: successful placement

The fund needs a satisfactory amount of money to invest significantly in a co-operative company with listed shares. Therefore it is necessary that the shares of the fund are successfully placed. The fund can only stabilise the group of shareholders if its investors hold their shares for a long time.

This is the reason why the fund should focus on members and customers of the co-operatives who have experience with co-operatives and agree with their principles. The fund offers participation in a potential growth of the share value of the co-operative companies. The fund could be most interesting

for members and even customers of co-operatives but also for co-operative network-companies, for example the insurance companies. The fund should be launched by a company of the co-operative network (investment company) (see figure 1) and should distribute its shares by the co-operative banks.

Conclusion

Whether or not a balanced investment fund investing in listed shares of European co-operative companies can be realised at all also depends on the interest of the existing investment companies to launch such a product. The existing investment companies that are part of a co-operative network in German speaking countries are generally interested in the idea of a balanced fund. But the limits imposed by law, the co-operative character of the companies and the situation of the capital markets are the reasons why the chances to realise the fund at present time are low.⁷

The interest could grow with the number of potential investors for the fund. A solution including more investment companies could be thought of. For example the placing power in the European market is higher than in one country. Maybe the EACB (European Association of Co-operative Banks), Brussels, could coordinate a European initiative for the described fund.

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Natixis (2010) "4th Quarter results, 2009 Annual results", 25 February, slide 39. Available at: www.natixis.com/upload/docs/application/pdf/2010-02/natixis_q409_results_def_va_mode_de_compatibilite.pdf, 30 April 2010.

Notes

- 1 Data to founding and quotation were reported from BayWa AG on 23 March 2009.
- 2 Date: 31 December 2009, available at: www.baywa.de ("Investor Relations/Share/Ownership" and "Questions and answers") 30 April 2010.
- 3 Ref www.borsaitaliana.it.

- 4 Date: 31 December 2009, available at: www.credit-agricole-sa.fr/rubrique.php3?id_rubrique=341, 30 April 2010.
- 5 Ref www.ri.co.at/index.php?id=18, 30 April 2010.
- 6 Co-operative attitude could be characterised by: the majority of voting rights belongs to a (network-) co-operative, member-promotion is valid, the original legal form was the co-operative, and/or the company provides services for co-operatives and their members.
- 7 Information from Union Investment, Frankfurt am Main, 30 October 2008, Volksbank Invest Kapitalanlagegesellschaft, Vienna, 9 January 2009, Raiffeisen Kapitalanlage-Gesellschaft, Vienna, 12 January 2009.