# Spain as an investment opportunity

## International investor perceptions 2016

KREAB

Following the December 2015 general election, Spain has faced a challenging period with positive economic perspectives but it has also come up against an uncertain political backdrop. This study collates and highlights the views of 26 international investment companies on Spain as an investment opportunity, including an evaluation of the effects of current country events.

# Agenda

# Introduction and key takeaways

Spain is currently going through a complex and challenging period, both economically and politically. On the one hand, Spain's GDP has been growing for more than two years, marking a consistent recovery to the economic crisis that began in 2008 and lasted for around five years. However, the political context created by the December 20th 2015 general election, leading to fragmented results, has given rise to a period of political uncertainty that may threaten positive perspectives for the Spanish economy.

Against this backdrop, it is interesting to assess how the particular situation that Spain is facing may affect the investments made in this country by international investors. In order to obtain insights into this and other questions, we have conducted a survey with a sample of investment companies of different nationalities. The questionnaire used for the survey includes questions which test investors' perceptions of Spain's current scenario and its effects on their investment decisions.

The sample is made up of 26 investment companies with headquarters in six different countries. Therefore, the conclusions drawn from this enquiry cannot be regarded as fully representative of all the international investors with activities in Spain. However, the information collated from this sample provides valuable insights into the views of 26 international investment companies, and these views may well be indicative of those shared by a much larger proportion of the investment market.

The survey was conducted by means of an online platform that was complemented with personal telephone calls in order to assist the respondents. The answers to the questionnaire were collected from April 4th to May 26th 2016.

The main conclusions drawn from the international investment companies' responses are as follows:

- Investors view the current political situation as the main barrier to investing in Spain nowadays. This factor obtained a 40.8% share out of the factors pointed towards by respondents. It is also meaningful that the second highest risk for investors, with a share amounting to 24.5%, is regulation, which is to some extent related to the political environment.
- The exceptional political situation that Spain has gone through after the 20 December 2015 election may eventually cause a negative impact on the investments made in Spain by international investors. According to the survey, the political instability period has had, or will have, a negative effect on the investments made in Spain for 15.4% of the investment firms managing assets in Spain that are well informed on Spain's political situation, and a positive effect for 7.7% of companies in this category.
- Spain's political situation has also had another impact, consisting of some companies delaying their investment decisions. According to the survey, 40% of investors with investments in Spain, and 33.3% of investors without investments in Spain, are awaiting the formation of the next Government to make a decision concerning their investments in Spain, that is, to decide whether to increase, to decrease or to maintain these investments.
- In general, political climate has an influence on the investments made by international investors in any country. On a 1-to-5 scale (where "1" means that political climate does not affect investment decisions and "5" means that it is crucial), surveyed investors assigned an average rating of 3.2 when asked about the effects of the political environment on investment decisions. No surveyed company stated that the political situation is irrelevant, and only 3.8% stated that it is crucial for their investment decisions.
- The majority of investors are optimistic about the Spanish short-term economic outlook. In particular, 65.4% of respondents regard Spain's economic outlook up to the end of 2016 as positive or very positive. In addition, no respondent expressed a negative view on the short term economic perspectives for Spain.
- Probably because of the positive views on Spain's economic outlook, the

Spanish assets held by international investors are expected to grow by the end of 2016, as compared to the end of 2015. According to the survey, 30.8% of the surveyed firms expect to increase their Spanish assets, out of which 7.7 percentage points are accounted for by firms that expect to make substantial increases. In contrast, only 7.7% of the surveyed companies expect to reduce their investment volumes in Spain, and none of the companies expect to do it substantially.

- Despite the fact that the expectations on the future evolution of investments in Spain in the short term are very positive, these perspectives are not as good as those for the rest of Europe. No surveyed company expects to reduce their asset volumes in the rest of Europe by the end of 2016, as compared to the end of 2015, and the proportion of companies that expect to increase their investment volumes (substantially or not) amounts to 50%, as compared to 30.8% for Spain.
- A large majority of the surveyed companies have a good opinion on the decisions made by the former Government. In particular, 73.1% of respondents stated that the measures implemented by the Government have favoured foreign investment, as opposed to only 3.8% of firms that believed that these measures have had negative effects on foreign investments.
- According to the surveyed companies, the most important regulatory setback for large investment funds in Spain is the uncertainty concerning regulation. A large number of companies stated that there have been too many changes in regulation and in the tax system in the past. In addition, according to a number of respondents, the regulatory uncertainty is being increased by the current situation of political instability and there are concerns about the possibility that the next Government, when formed, may revert recent reforms that were implemented by the former Government.
- Other regulatory setbacks mentioned by the investment companies include the existence of excessive and heterogeneous regulations across the different regions of the national territory (i.e., the 17 Autonomous Communities), the labour market regulation (which is pointed out as a factor reducing the competitiveness of Spanish firms) and the slowness of the judicial system.
- The surveyed investment firms believe, on average, that Spanish corporations have some margin for improving their communication policies. In particular, 30.8% of respondents believe that Spanish companies' communication policies are worse than those of their European counterparts, while only 11.5% think the opposite.
- The main issues affecting the Spanish companies' communication policies pointed out by the surveyed investment firms are the lack of transparency and the insufficient quality of reporting.

The structure of the report is as follows. Section 1 describes the main characteristics of the sample of international investors on which this study is based. The remaining sections contain the views of the investment companies surveyed on the following aspects:

- Possible risks of investing in Spain and the influence of the political environment on investment decisions (section 2).
- Spain's economic outlook and the expected short-term evolution of the investments made in Spain and in the rest of Europe (section 3).
- Effects on foreign investment of the decisions made by the former Spanish Government, and identification of the major regulatory setbacks for large investment funds (section 4).
- Communications policy of Spanish companies (section 5).

# 01

# Sample profile

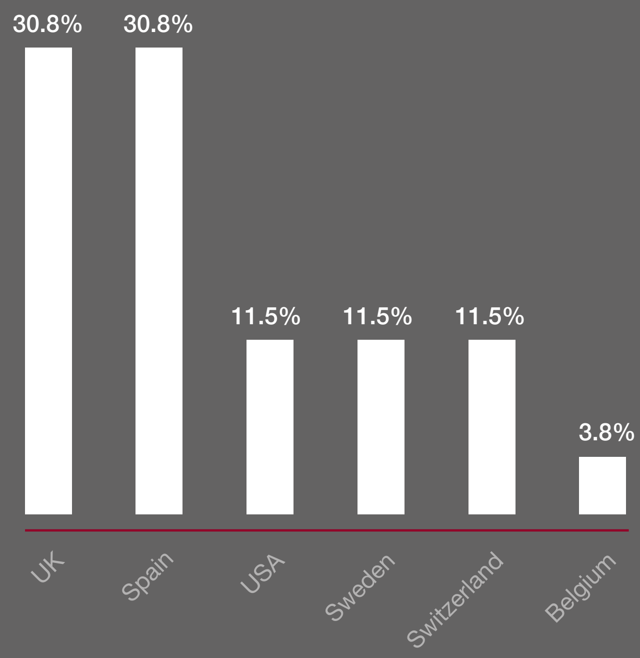
## GENERAL CHARACTERISTICS

The sample of the survey is made up of 26 investment companies of diverse nature, including, among others, mutual funds, private equity companies and private banking management firms. Almost half of these companies (46.2%) are trading on the stock market, while the remaining 53.8% are not listed companies.

The sample has an international nature, given that the headquarters of the firms that make up the sample are located in six different countries. In particular, as shown in Figure 1, these companies are based in the United Kingdom (30.8% of the sample), Spain (30.8%), the United States of America (11.5%), Sweden (11.5%), Switzerland (11.5%) and Belgium (3.8%). In addition, the investment activities of the vast majority of these companies have an international dimension, that is, they have investments in more than one country.

## Figure 1 Countries where the sample firms' headquarters are located

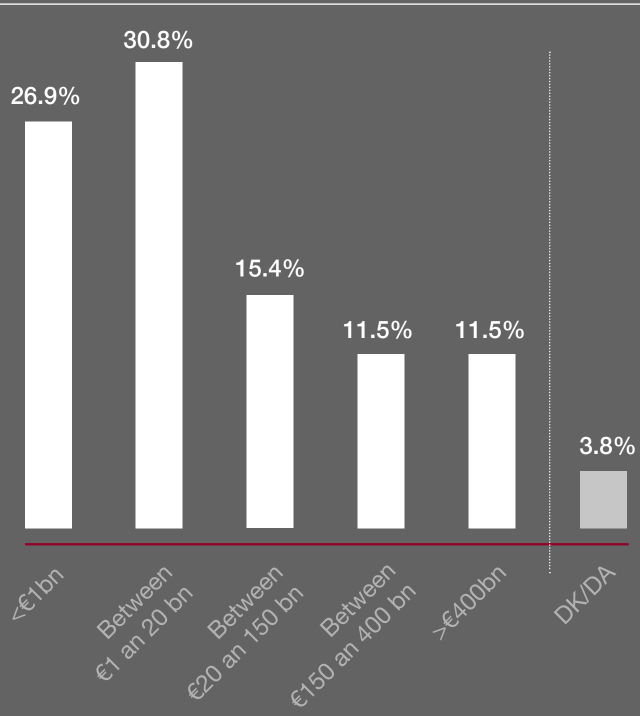
Sample: 26 international investment companies. Source: KREAB survey.




The amounts of investments managed by these companies are very diverse. As shown in Figure 2, 11.5% of the sample firms handle assets for a value of more than € 400 billion, and the same proportion manage investments valued between € 150 and 400 billion. At the opposite end, 26.9% of the sample companies manage investments with a value below € 1 billion, 30.8% have investments between € 1 and 20 billion and 15.4% are within the € 20 to 150 billion range.

## Figure 2 Investment volumes managed by the sample firms at 31 December 2015

Sample: 26 international investment companies. Source: KREAB survey.




** All the quantities are expressed in the Anglo-Saxon system*

## POSITIONING IN SPAIN

In order to analyse the responses to some questions of the report, it is important to differentiate between the sample companies that have investments in Spain and those who do not. In this regard, 76.9% of the sample companies stated they have investments in Spain (20 companies), while the other 23.1% asserted that they do not have any exposure to Spain (6 companies).

Figure 3 shows the distribution of the sample firms with investments in Spain in terms of their level of investment in this country at the end of 2015. 45% of these companies managed investments in Spain with a value below € 400 million, and 75% had investments with a value lower than € 3 billion. The companies with investments in Spain above € 3 billion account for 10% of the sample, and 15% of the firms refused to provide this information.

**Figure 3 Sample firms' investment volumes in Spain at 31 December 2015**

Sample: 26 international investment companies. Source: KREAB survey.

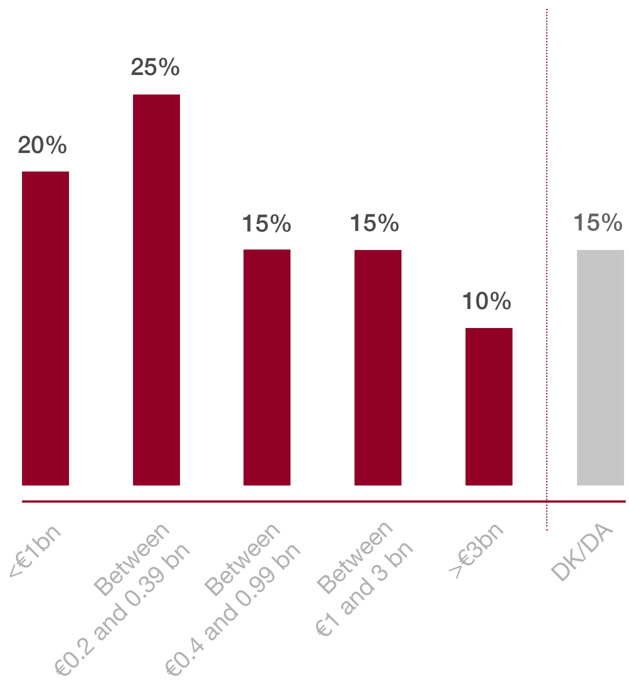


Figure 4 shows the distribution of firms with investments in Spain in terms of the proportion that the Spanish assets represent in their total investments. For 40% of these companies, Spanish assets account for less than 10% of their total investments. The weight of the investments in Spain lies between 10% and 20% for 20% of the firms, between 20% and 30% for 10% of the firms, between 40% and 50% for 5% of the firms and more than 50% for 25% of the firms. The two latter categories are made up entirely by Spanish companies.

## Figure 4 Distribution of the sample companies with investments in Spain according to the share of Spain in their global investments

Sample: 20 international investment companies with investments in Spain.
Source: KREAB survey.

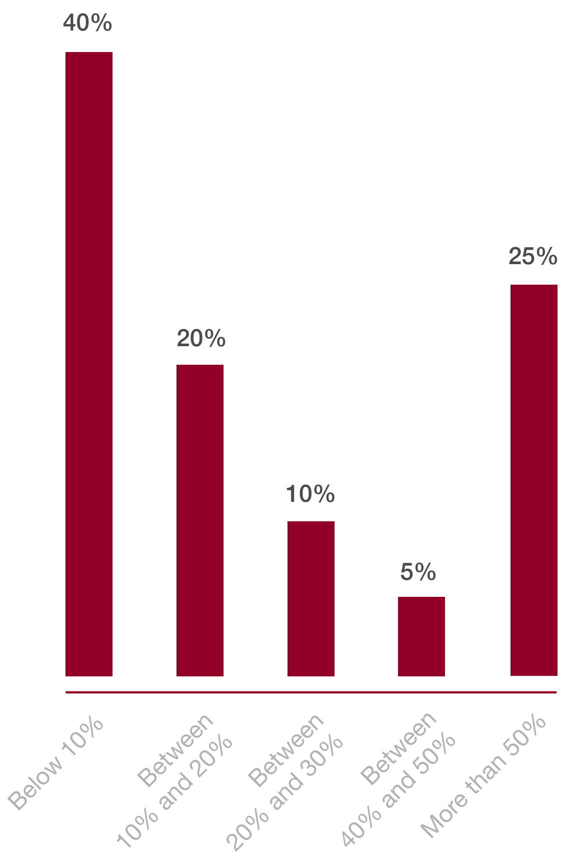
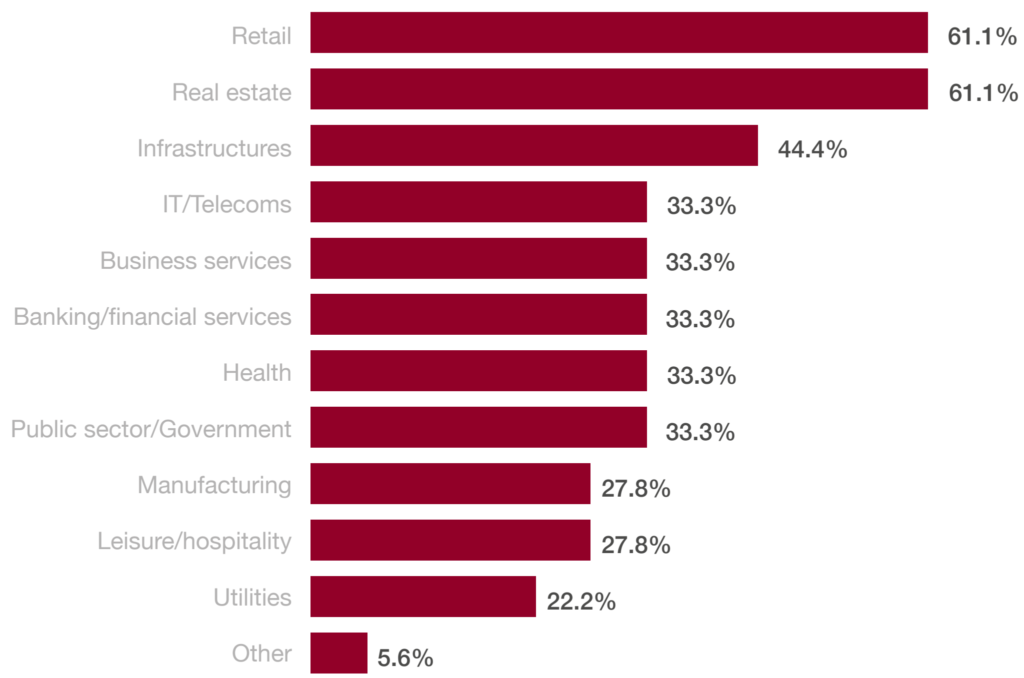


Figure 5 contains information on the economic sectors the surveyed companies have targeted with their investments in Spain. The percentages indicate the proportion of companies with investments in Spain that have investments in each sector. Retail and real estate are the sectors in which a larger proportion of companies have made their investments in Spain (61.1% of the companies with investments in Spain have invested in at least one of these sectors), followed by infrastructures (44.4%).

### Figure 5 Economic sectors where the sample companies have invested in Spain: percentage of the sample companies with investments in Spain that have investments in each sector

Remark: Respondents were allowed to choose more than one option. The percentages indicate the share of the choices made by respondents for each of the options listed.
Sample: 20 international investment companies with investments in Spain.
Source: KREAB survey.

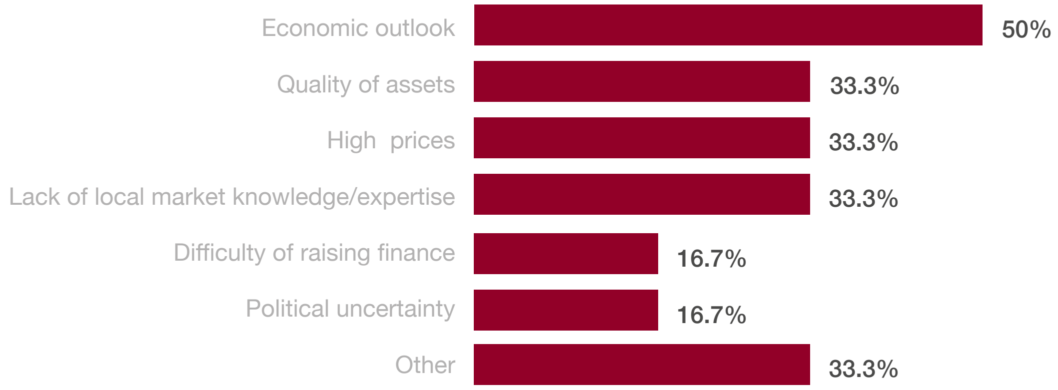


The chart of Figure 6 contains the main reasons for not investing in Spain provided by those companies that do not have investments in this country. Half of these companies have stated that Spain's economic outlook is one of the reasons for not investing in Spain. One third of the respondents have pointed to asset quality, high prices and lack of local market knowledge as reasons for not having Spanish assets. Finally, difficulties in raising finance and political uncertainty are factors explaining the lack of investments in Spain for one sixth of the companies without exposure to Spain.

Nonetheless, these percentages must be interpreted very cautiously, since they are based on the choices made by a very small number of companies (only 6 companies).

### Figure 6 Reasons for not investing in Spain: percentage of companies without investments in Spain that have chosen each reason

Remark: Respondents were allowed to choose more than one option. The percentages indicate the share of the choices made by respondents for each of the options listed.
Sample: 6 international investment companies without investments in Spain.
Source: KREAB survey.



# 02

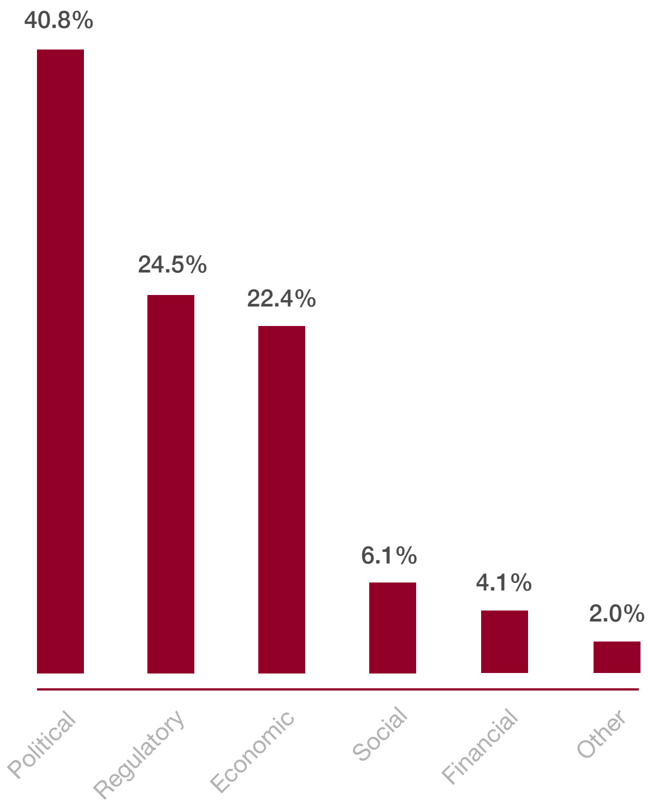
# Main risks and the influence of the political situation

The surveyed companies were asked to indicate the main risks faced by Spain as an investment destination from a list of six possible factors (including a category for “other factors”). Figure 7 contains the shares of the different risk categories selected by the firms.

Political risk was the category with the highest share, with 40.8% of the companies’ choices, followed by regulatory and economic risks, with 24.5% and 22.4%, respectively. Finally, lower shares were granted to social risks and financial risks, with 6.1% and 4.1%, respectively.

## Figure 7 Main risks of investing in Spain: shares in terms of the companies' choices

Remark: Respondents were allowed to choose more than one option. The percentages indicate the share of the choices made by respondents for each of the factors listed.
Sample: 26 international investment companies.
Source: KREAB survey.




Spain has lived through a unique period in its history after the general election of 20 December 2015. The result of this election provided the most fragmented parliament representation in the history of Spain's democracy, setting the end to the traditional two-party system and establishing instead a multi-party system with four significant political forces. In the new scenario, the conventional dominant parties (PP and PSOE) are forced to share their leading positions with two emerging organisations (Podemos and Ciudadanos).

Given that no party obtained a sufficient majority to form a Government on its own, a period of negotiations started. However, the major forces failed to reach an agreement to form a coalition government, and on 3 May 2016, the King called for a fresh election to be held on 26 June 2016.

As a consequence of this situation, for a period of at least 6 months, Spain has suffered the lack of an established Government with the ability to implement significant reforms, that is, reforms with long-term implications. Furthermore, during this period, big uncertainty arose as to which political parties will form the next Government, and thus, which principles will guide future regulations and economic policy measures.

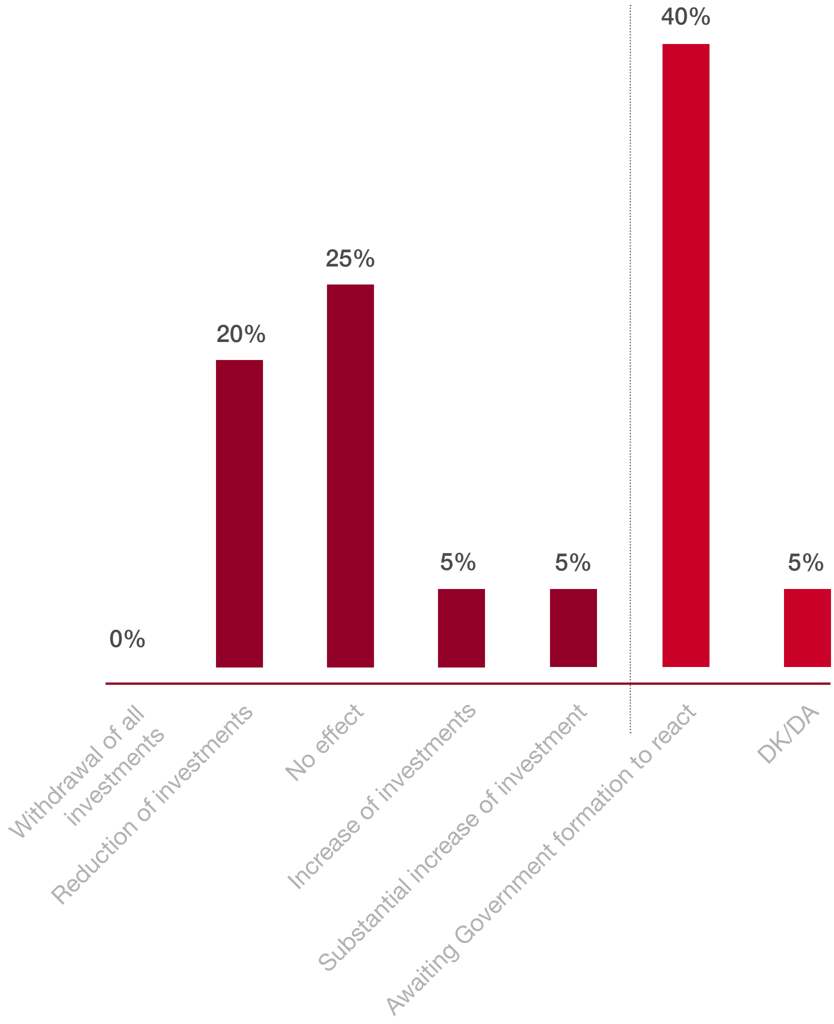
In this context, it is interesting to assess how this exceptional political situation can affect investments in Spain. Consequently, we have asked the investment companies of our sample with exposure to Spain to state in which sense, and to which extent, the political circumstances originated after the December 2015 elections have affected or will affect their investments in Spain.

Figure 8 contains the answers provided by the sample companies that hold assets in Spain. According to those answers, 20% of the investors with investments in Spain have reduced (or will reduce) their investments in Spain as a consequence of the political landscape created after the December 2015 election, but none of them will reduce their investments substantially nor will they withdraw them totally. In contrast, 10% of surveyed investors have increased (or will increase) their assets in Spain, and half of them will do it substantially.

Therefore, based on these responses, it is not possible to know with certainty the extent of the net impact on investments. The fact that half of the investors that will increase their investments will do so to a large extent, while none of those that will reduce them will do so substantially, may offset the fact that the proportion of investors that will reduce their investments is twice that of the investors that will increase them.

### Figure 8 Effects of Spain's political situation on investment decisions of firms with assets in Spain

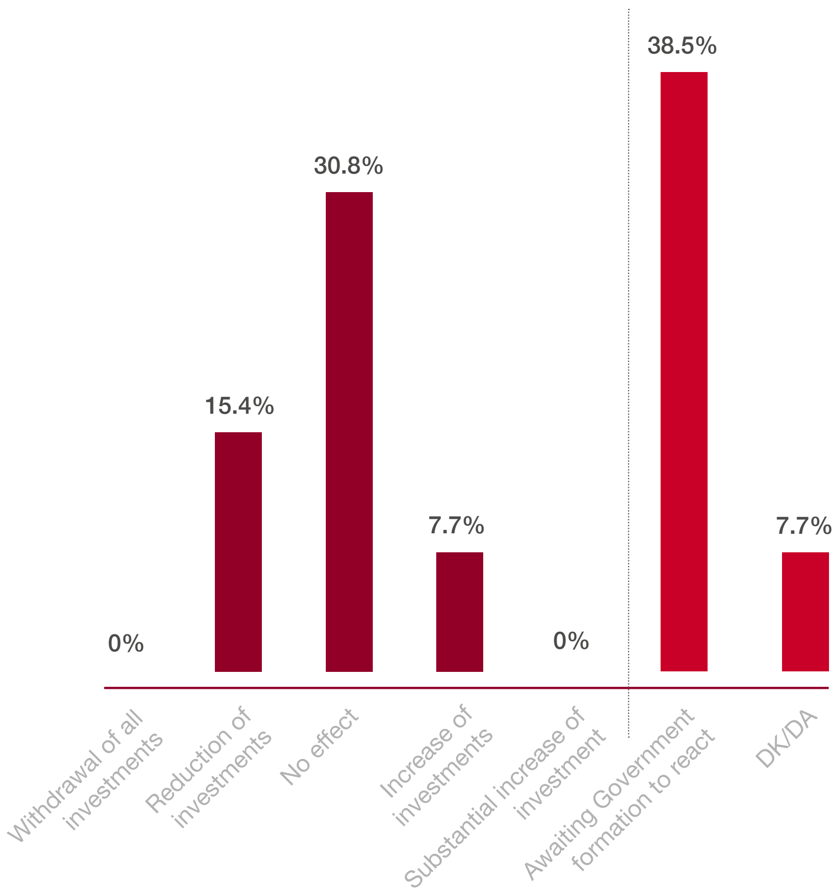
Remark: The chart contains the answers selected by firms to the following question: "How would you describe the effect of the current political situation (after the elections of December 20th 2015) on your investing decisions regarding Spain?"
Sample: 20 international investment companies with investments in Spain.
Source: KREAB survey.



In order to gain further insights into the impact of political stability on investments, Figure 9 contains the responses provided by the subsample of investment firms with investments in Spain whose respondents declared themselves to be well informed about Spain's political situation. These account for 68.4 per cent of the surveyed companies with investments in Spain (i.e., 13 companies).

## Figure 9 Effects of Spain's political situation on investment decisions of firms with assets in Spain that are well informed about Spain's political situation

Remark: The chart contains the answers selected by firms to the following question: "How would you describe the effect of the current political situation (after the elections of December 20th 2015) on your investing decisions regarding Spain?"
Sample: 13 international investment companies with investments in Spain that are well informed on Spain's political situation.
Source: KREAB survey.



When considering the subsample of companies that are well informed regarding Spain's political situation in isolation, the proportion of companies that will reduce their investments in Spain (15.4 per cent) is consistently larger than that for the companies that will increase them (7.7 per cent). However, none of these companies stated that they will either increase or decrease their investments in Spanish assets substantially.

Therefore, this evidence supports the hypothesis that the impact of political instability on investments may eventually be negative.

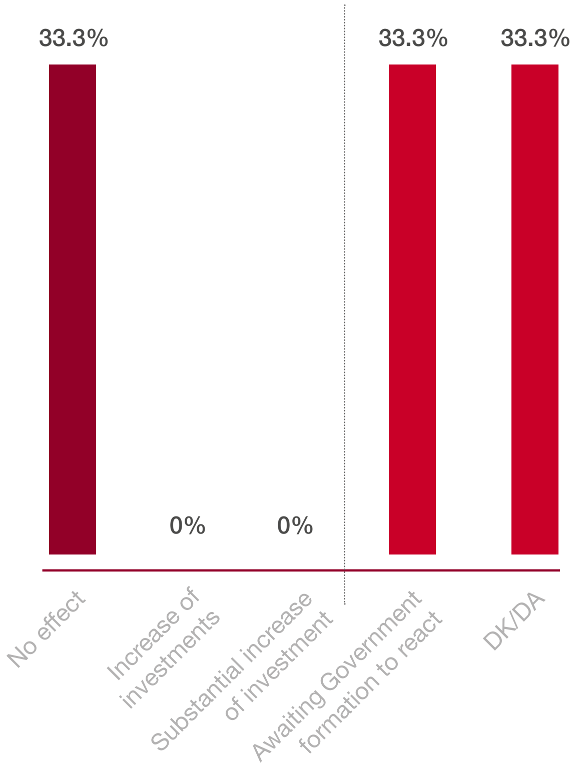
In addition, Spain's political situation has also delayed investment decisions. According to the survey, 40 per cent of investors in the country (38.5 per cent if we were to only consider the companies well informed about Spain) are awaiting the formation of the next Government to make a decision concerning their investments (i.e. to decide whether to increase, decrease or maintain them).

Figure 10 contains the answers provided by the companies surveyed with no exposure to Spanish investments. According to their responses, these companies have not seen the political situation of Spain as an opportunity to enter the Spanish market. One-third of the companies surveyed stated that the interim lack of an established government did not impact their investment decision, while the same proportion stated they would await the formation of the next government before making a decision.

However, these percentages should be considered cautiously, since the sample size for this category is very small (only six companies).

## Figure 10 Effects of Spain's political situation on investment decisions for firms without investments in Spain

Sample: 26 international investment companies. Source: KREAB survey.

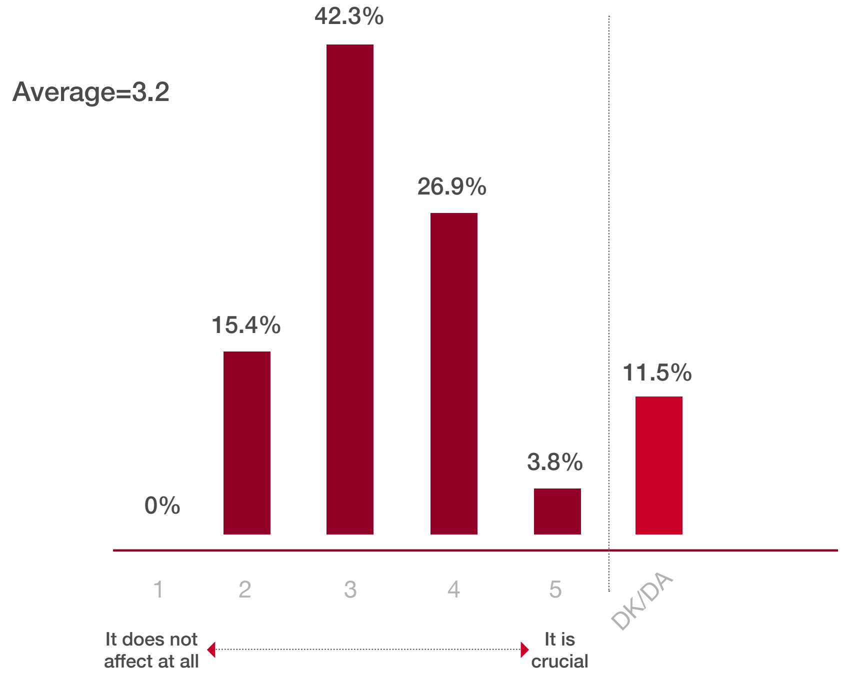



We also asked investment companies about the influence of the political environment on their investment decisions in any country. In particular, they were asked to rate this influence on a one-to-five scale, where "one" means the political climate does not affect their investment decisions and "five" means that it is crucial to their investment strategy.

Figure 11 contains the distribution of investment companies surveyed in terms of the ratings they provided.

**Figure 11 Assessment of the influence of political climate on the investment decision process in any country: rating from 1 (it does not affect at all) to 5 (it is crucial)**

Sample: 26 international investment companies. Source: KREAB survey.




The average rating provided by the 26 firms amounts to 3.2. It is interesting to note that no surveyed company considered that the political climate had no influence at all on its investment decisions, while at the opposite end, 3.8 per cent of the companies regarded the political environment as crucial for their investment decisions.

# 03

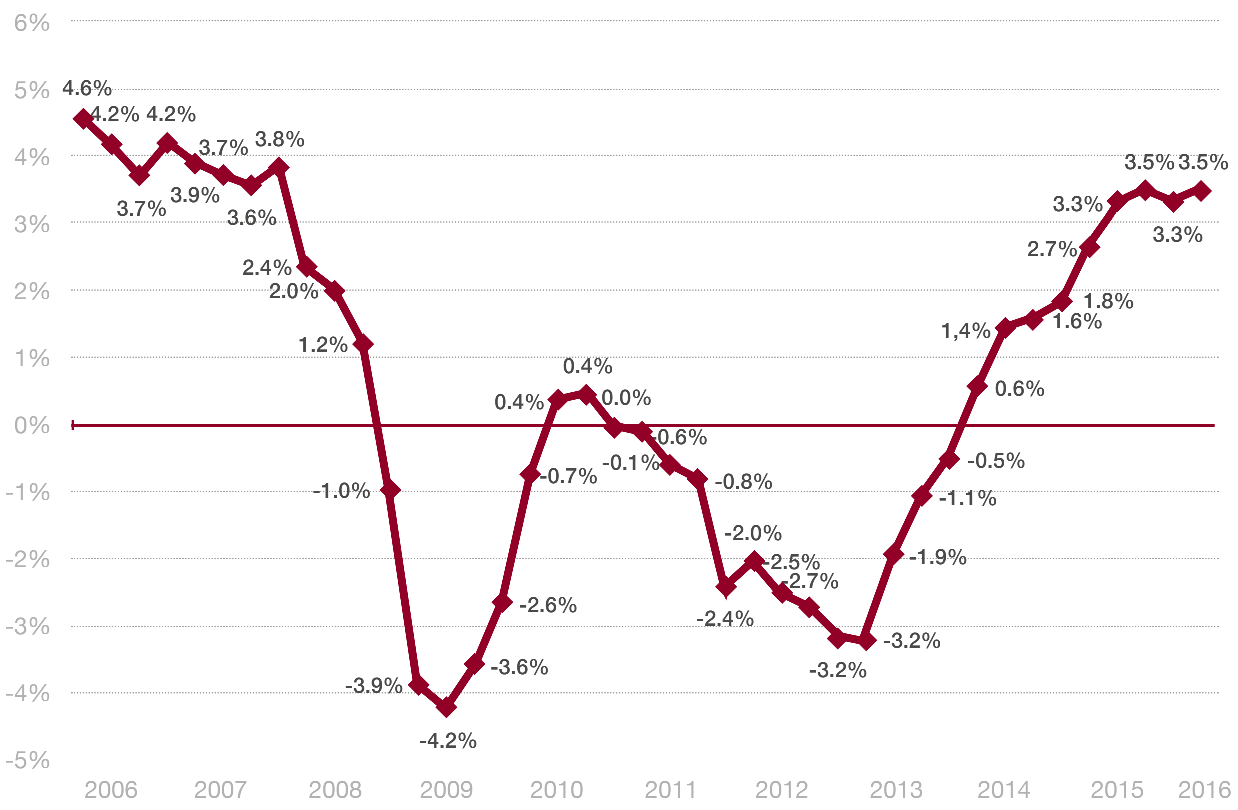
# Economic outlook and investment perspectives

As shown in Figure 12, Spain, while still reeling from the effects of the 2008 financial crisis, remains on the road to economic recovery. Since 2014, the country has consistently experienced positive economic growth[1].

[1] When this report was prepared, the latest data published on GDP referred to the first quarter of 2016.

## Figure 12 Real Gross Domestic Product year-to-year growth rates, 2006Q1-2016Q1

Source: Instituto Nacional de Estadística

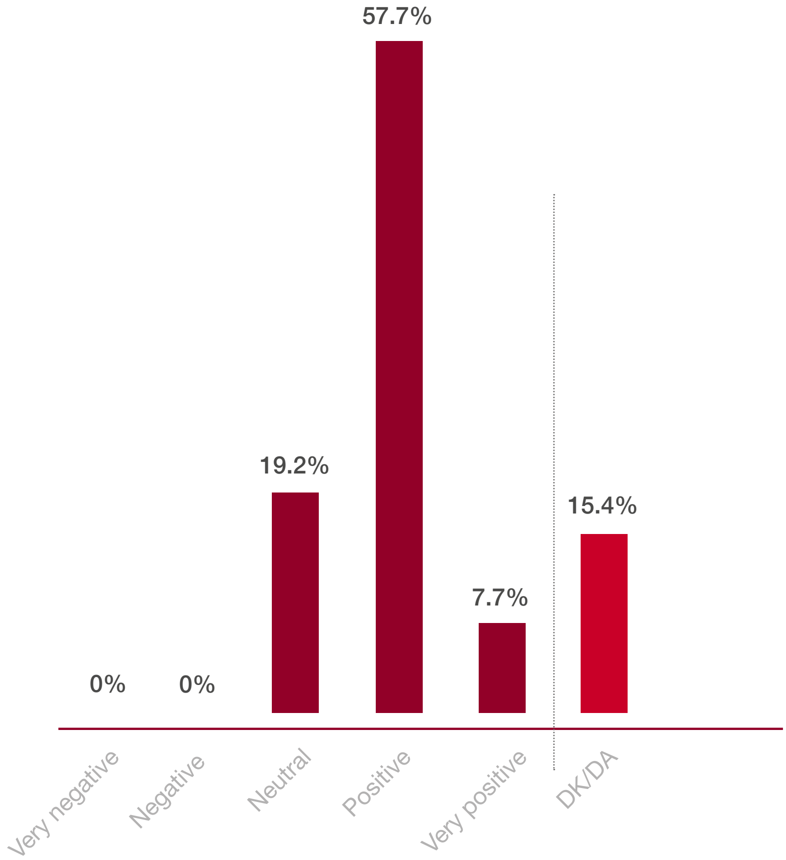



Given this recent economic recovery, and considering Spain's current political situation, of particular interest are the views of investment firms for the country's economic outlook. Consequently, surveyed companies were asked for their views on Spain's economic outlook in the short term, in particular, up to the end of 2016.

As shown in Figure 13, the majority of the companies expressed positive opinions in terms of the short-term outlook for the Spanish economy. More specifically, well over half (57.7 per cent) expressed a positive view for the country's economic outlook, while a further 7.7 per cent regarded the economic outlook as very positive. Only 19.2 per cent expressed a neutral opinion, while none had a negative economic outlook for the country.

## Figure 13 Opinion on the Spanish economic outlook up to the end of 2016

Sample: 26 international investment companies.
Source: KREAB survey.



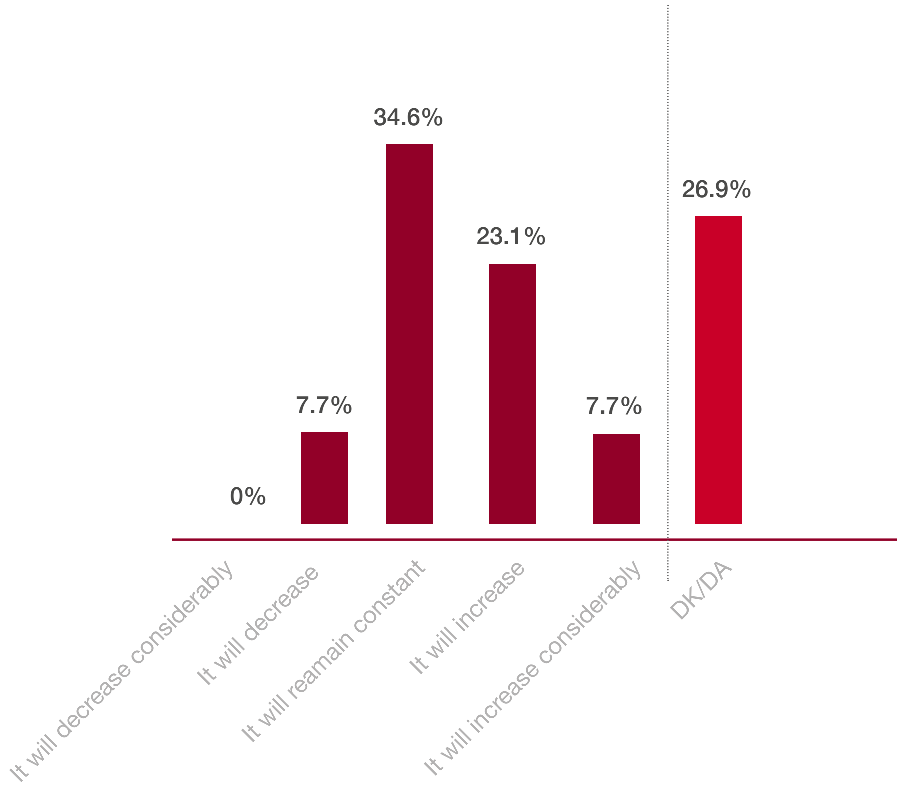

Given the positive views expressed by those investment companies surveyed, it is unsurprising that, on average, their investment volumes in Spain are expected to grow. As Figure 14 shows, 30.8 per cent of the firms surveyed expect to increase their Spanish assets by the end of 2016 in comparison to the end of 2015. Out of these companies, 7.7 per cent is accounted for by firms that expect to increase their investments in Spain substantially.

In contrast, 7.7 per cent of the companies surveyed expect to reduce their investment volumes in Spain, although none expect to do so substantially.

Finally, over one-third (34.6 per cent) of the companies surveyed believe their investment volumes in Spain will remain constant, and over one-quarter (26.9 per cent) of the companies have no clearly defined opinion.

## Figure 14 Expected evolution of the investment volumes in Spain up to the end of 2016 as compared to the end of 2015

Sample: 26 international investment companies. Source: KREAB survey.

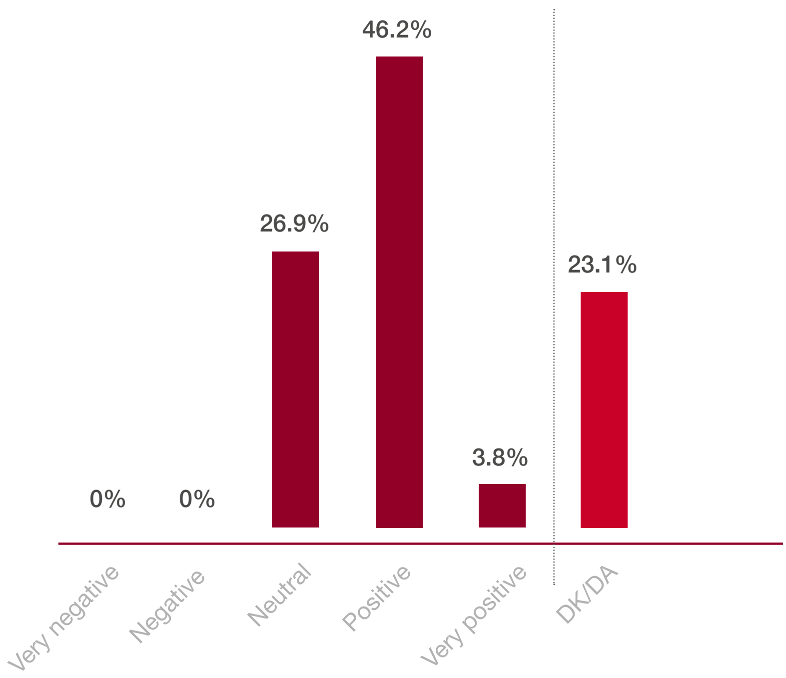



Despite the fact that expectations on the future of investments in Spain in the short term are very positive, these perspectives are not as good as those for the rest of Europe. As Figure 15 shows, none of the surveyed companies expect to reduce their asset volumes in the rest of Europe, and the proportion of companies that expect to increase their investment volumes (substantially or not) amounts to 50 per cent, compared to 30.8 per cent for Spain[2].

[2] However, the percentage of companies that expect to increase their exposure substantially is larger for Spain than for the rest of Europe(7.7% versus 3.8%).

**Figure 15 Expected changes to investment volumes in Europe (excluding Spain) up to the end of 2016 as compared to the end of 2015**

Sample: 26 international investment companies. Source: KREAB survey.




The reasons why the investment outlook for Spain is not as good as that for other European member states are varied. Given the country's current political situation, and its effects on investment decisions (as expressed by the companies surveyed), we cannot reject the notion that Spain's political situation is a key factor contributing to the country's poor investment outlook vis-a-vis its European neighbours.

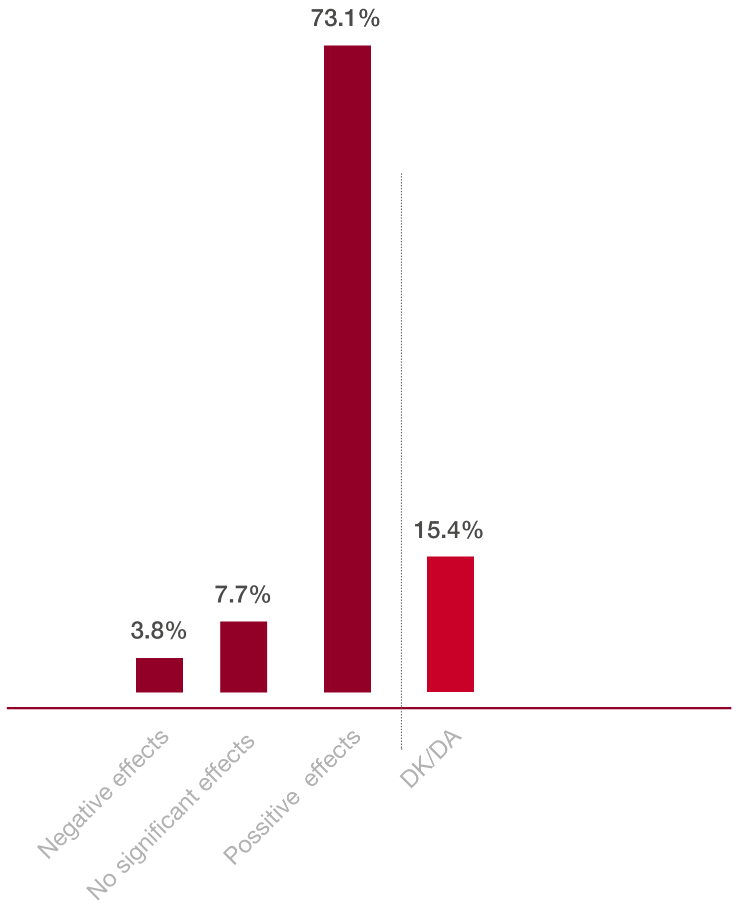

# 04

# Government and regulation

Companies surveyed were asked for their views on the effects of the Spanish Government's decisions regarding foreign investments over the past four years. As shown in Figure 16, the majority of firms expressed positive opinions regarding the Government's decisions. Nearly three-quarters (73.1 per cent) of respondents stated that the measures implemented by the Government have boosted foreign investment, in contrast to 3.8 per cent of respondents who believe the Government's actions have had a negative effect on foreign investment. In addition, 7.7 per cent of the companies surveyed believe the Government's decisions have had no significant effect, while the remaining 15.4 per cent expressed no opinion.

## Figure 16 Assessment of the Spanish Government's decisions on foreign investment in Spain over the last four years

Sample: 26 international investment companies. Source: KREAB survey.




Companies were also asked to identify the most important regulatory setbacks for large investment funds in Spain. This was an entirely open question and respondents were not provided with a list of possible options to be selected.

The factor that was mentioned most frequently was uncertainty. According to the respondents, uncertainty triggered by frequent changes to the tax code and regulations governing key economic sectors has had a detrimental impact. Examples of economic sectors that have been negatively affected include renewable energy generation, electricity transmission, road concessions, airports and real estate.

In addition, and according to a number of respondents, this regulatory uncertainty is exacerbated by the current political instability in Spain. In this sense, concerns have been expressed regarding the possibility that the next Government (when formed), may reverse recent reforms that have been introduced.

Other respondents stated that regulatory levels in Spain are excessive, due to the fact that regulations vary between the country's 17 autonomous regions.

Other regulatory setbacks identified by the investment firms include labour market regulation, which hinders competitiveness, and a slow judicial system.

Finally, some respondents cited factors emanating from a pan-European level, in particular, the Alternative Investment Fund Managers Directive (AIFMD) and European Central Bank policy[3].

[3] A respondent stated that this policy makes bonds look expensive.

# 05

# Communication policy of Spanish companies

The investment firms captured in the sample were asked to compare the communication policies of Spanish companies with those in other European countries. Each company surveyed had to assess whether the corporate communication policies are similar, better or worse (or considerably better/worse) in Spain than in the rest of Europe.

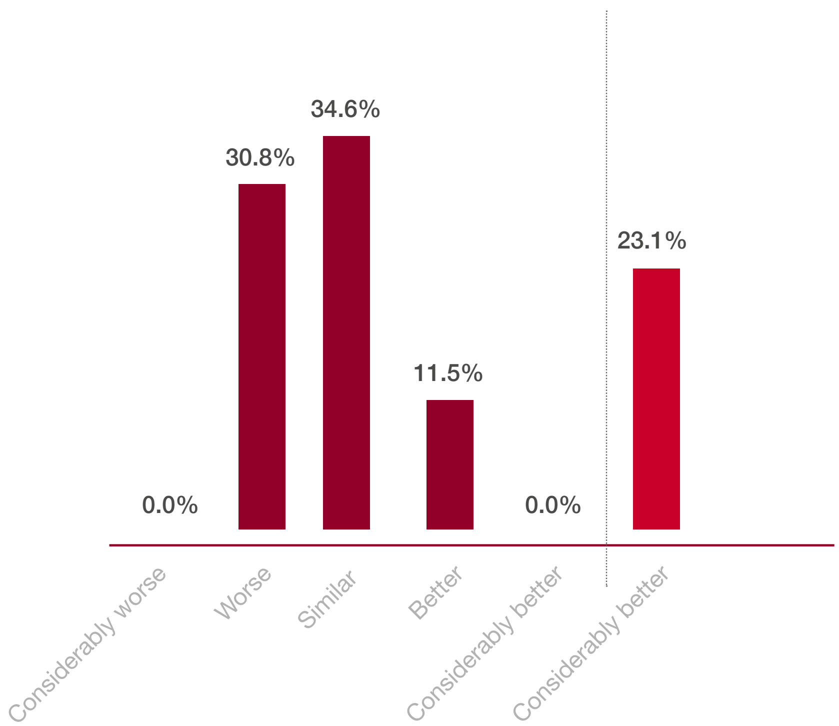
On average - and according to the responses collected - the investment firms believe Spanish companies have room for improving their communications policies. As shown in Figure 18, the percentage of respondents who think Spanish companies have worse communication policies than their European counterparts (30.8%) is significantly higher than the proportion of respondents who believe the opposite (11.5%).

However, the difference in the quality of communication policies does not seem to be huge, as reflected by the following facts: (i) over one-third of the respondents (34.6%) believe the communication policies of Spanish companies are similar to those in the rest of Europe, while (ii) no respondents consider Spanish companies' communication policies are considerably worse than in their European counterparts[4].

[4] Analogously, no respondent considers that companies' communication policies are considerably better in Spain than in the rest of Europe

## Figure 17 Assessment of Spanish companies' communication policies with international investors, as compared to those in the rest of Europe

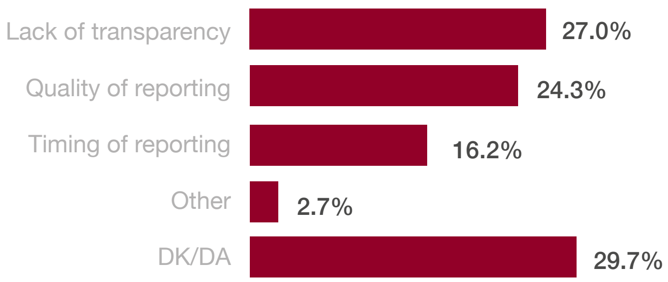
Sample: 26 international investment companies. Source: KREAB survey.




Finally, the companies in the sample were presented with a list of issue types, and asked to select those that best describe the challenges confronting the communications policies of Spanish companies. The list contained four issue types (including an "other issues" category). As shown in Figure 18, respondents noted the lack of transparency as the main factor (27 per cent of the companies chose this option), followed closely by the quality of reporting (24.3 per cent), while 16.2 per cent of respondents felt the timing of reporting to be the main issue.

**Figure 18 Main issues of the Spanish companies' communication policies**

Remark: Respondents were allowed to choose more than one option. The percentages indicate the share of the choices made by respondents for each of the issues listed.
Sample: 26 international investment companies.
Source: KREAB survey.



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