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1st Conference on Asset Management
"Challenges and innovation in asset management"

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Good morning. I would like to thank the Universidad de Comillas and the organisers of this 1st Conference on Asset Management for inviting me to make the opening speech of this event.

The collective investment industry in Spain is undoubtedly in good health. In the past few years and by means of the quarterly statistics it can be seen how managed assets have shown a constant growth, up to reaching €390 billion at present. This markedly positive development can also be seen regarding the number of investment funds and firms – with somewhat over 2,000 vehicles – and the accounts of participants.

But beyond the favourable development of the main variables marking the behaviour of the sector in aggregate terms, these also reveal certain important considerations I would like to highlight at an event such as this.

The first and one of the main considerations would be the strong conservative profile of both Spanish investors and, as could not be otherwise, of the distribution of funds' assets. This fact will surely be analysed in greater detail at one of the round tables forming part of this event. Collective investment assets mainly look towards foreign markets since, on average, almost three quarters of the Spanish fund portfolio as a whole is invested in Securities from other countries, may these be fixed-income assets, equity or shareholdings in other CISs. Only 22 of every 100 euros are invested in national securities. Similarly, the distribution of investment between different financial asset classes shows an unaltered pattern in the past few years: the weight of fixed income (national or foreign) accounts for almost 53% of the portfolio investments, while equity hardly reaches a direct exposure of 15% (approximately 26% when including indirect exposure). Furthermore, direct investment in Spanish list companies only amounts to 2% of the assets. We are therefore talking of little over €7.500 million in shares of Spanish listed companies, a pretty residual amount when compared with the €687 billion of Spanish stock market capitalisation in 2023. The conclusion: Spaniards "own", through investment funds, 1% of their own companies.

Is this positive or negative?

Regarding the bias towards fixed income, one has to admit this is the investors' preference, which we should not judge but simply take note of this. However, as all of

us here know, investment in equity is the only one capable of achieving real positive returns in the long term that are compatible with the motives for investment for the same term (for example, retirement). Also, if we want securities markets to become a tool supporting economic development and, most of all, for them to finance innovation or help face large investments in the sustainability, digitisation and transformation of the production models our companies require, the residual investment in equity by Spanish collective investment could become a problem.

The very high risk aversion of Spanish investors regarding funds is clear. When taking into account that a very important part of investors in financial products are between 30 and 50 years old, financial theory indicates that the percentage of investment in equity, in shares, should be high, even a majority, in this age group, given the returns expected from equity in investment horizons of between 10 and 30 years. Here, I fear there is an issue still to be resolved. All participants in the financial sector and, of course, also collective investment, must work jointly with the aim of increasing financial knowledge and literacy of Spanish clients and savers for them to take the best decisions on how and where to invest their savings.

This entire issue is closely related to the debate regarding the legislative initiative of the Capital Markets Union (CMU) spearheaded by the European Commission. This matter has probably been that most debated at last week's Eurofi meeting in Budapest and revolves around the statement that European capital markets are underdeveloped and insufficiently integrated.

The view of that purchased by Spaniards via funds shows precisely the opposite. In Spain we welcome products from foreign fund managers, this allowing for an extended range of investments and products for Spanish savers and, therefore, increases the necessary competitiveness and efficiency of the market, inasmuch foreign products – UCITS – retain a market quota of around 40%. And as we have seen, Spanish products are not at all biased towards Spanish securities, quite the opposite. Therefore, there is no reason to blame oneself for the lack of integration regarding investment funds.

In the same type of areas to which I referred previously, sometimes the debate arises on whether there should be incentives for funds to invest in Spanish or European securities, as opposed to doing so in those of the US or Asia, and whether these could be implemented by means of tax incentives on "Spanish" or "European" investments. I am personally very sceptical regarding this kind of measure. Investors should decide which assets and risks they prefer, without attempting to shape such preferences by means of incentives to "buy national", as in so many other sectors. On the one hand, shaping demand to reduce foreign investment involves risks for investors themselves: one has to be very sure that the national product is as good and profitable as foreign products, since one can have a nasty surprise a decade later, when profitability is way below that of US equity (as has occurred in the past decade). On the other hand, it should be kept in mind that, in a "war" of this kind, Europe has much more to lose that the US, this being by far the largest investor in European equity let alone in Spain.

I would also like to refer to an almost doctrinal debate taking place at European and global scale regarding the connection between financial stability and collective investment.

In the past few years, voices casting doubts on collective investment and its contribution to an increase in the risk of financial stability have arisen. Undoubtedly, no area in the financial sector is free from risk, but investment funds are subject to specific and homogeneous regulations throughout the European Union and to constant monitoring resulting in their extremely high transparency. These same voices call out for general solutions such as liquidity buffers or capital requirements, likening any class and type of investment fund to a bank deposit, when these instruments have a truly differentiated nature and DNA. The risks that may derive from investment funds must be managed following a series of different parameters and the importance of the liquidity tools available to managers, the strict adjustment between the liquidity of the underlying assets and the fund windows, and leverage control must be considered.

From my point of view, within the current economic context it is essential to develop a plan to encourage Spanish and also European citizens to invest a greater part of their savings in financial instruments. The natural destination for these savings should be investment funds, pension funds, bonds and shares. For this, we need to work on a half structural and half cultural medium-term shift in which, on the one hand, tax incentives to personal investment become one of the main levers and, on the other, the combination of financial education for young people and adults with more resources than at present and adopting a favourable framework that encourages investment in funds and pension plans investing in long-term assets.

The regulatory reform known as the Retail Investment Strategy (RIS) stands out at the European level, where almost all the regulations affecting us are decided. This acronym almost causes fear in the asset management industry and among the actual Member States of the European Union, as it tackles the business model and the marketing structure of the entities providing investment services.

However, after the common position taken by the Council and the that reached by the European Parliament before summer, no large changes are expected regarding retrocession fees (the famous inducements) and the limits on management fees paid by investors. This matter has been debated intensely and is very relevant, inasmuch it affects the income of managers and the costs for investors. But beyond the solution taken in the coming few months regarding management fees, I would like to pose a question.

Why are we debating this? Why do hundreds of people dedicate weeks of their lives to argue about the limits there should be on the prices charged for managing funds how these prices are later distributed?

Competition should deal with this in a normal sector. If a manager charges excessive fees for its IBEX35 fund or for its public debt fund, with real competition investors would identify similar products that were more affordable. They would simply change fund. More expensive providers would leave the market and cheaper ones would increase their share. As we are at a university, that is at least what we were taught in microeconomics in the second year of the degree.

But this must not be happening. It makes no sense that such bright minds taking part in this debate in the past year and a half, drawing up thousands of pages on the prices of funds, distribution models and interests for clients, would ignore something as obvious as the fact that effective and real competition is like a disinfectant for any kind of abuse regarding excessive or unjustified prices.

If this debate exists, the only rational explanation is that the perfect level of competition has yet to be reached. I wouldn't take the risk of identifying a single reason for the lack of such perfect competition. There may be barriers to entry for new providers which, in principle, I believe to be highly implausible. There may be a problem of scale, a difficulty to offer attractive products in small volumes. There may be a problem of excessive product differentiation, presenting essentially identical products as being supposedly different, in such a way investors doubt when comparing them. There may be a problem, that most plausible to me, of imperfect information mechanisms, making the comparison between products difficult and costly. If an investor wishes to invest €40,000 in a sustainable fund (of those under Article 9), not exposed to European and US equity under 50% of the assets and with management fees not exceeding 0.8% per year, and being distributed in Spain by a credit institution with offices in Madrid (with the investor preferring to have face-to-face contact with the entity), I invite you to tell me a search engine that provides a list of funds available in under one or two days. A product will probably be finally chosen as a result of boredom or for being the first to be shown or, even more probably, for being that recommended by the non-independent advisor, without really having the chance to know the other options available. Do Spanish and European investors really get the possibility to identify the most affordable product for each class and each associated risk level? Probably not.

And assuming that they do, there could be transaction cost problems causing excess friction to change the investment service provider. If a client regularly deals with his bank, where he has his current account, mortgage, cards and probably an insurance, and he reaches the conclusion that the best fund is offered by another bank, is it worthwhile combining two banks, having two mobile apps to get informed, having another card in his wallet, two personal income tax certificates, two KYC processes, two appropriateness tests, two mail addresses, different conditions in the fees of each other products, in terms of the investment held with each entity, etc.? Perhaps these transaction costs discourage competition.

Curiously, an important part of the solution to the last two problems lies in technology. As in other sectors (car rental, insurances, airline tickets, etc.), sophisticated comparison apps can reduce the problem regarding complexity and differentiation. And regarding transaction costs, the tools included under the term "open finance" can substantially reduce the transaction costs associated with changing provider or combining two or more providers. The integration of information in multiprovider apps, the portability of the tests and the profiles, the portability of portfolio information, in such a way the different providers have the updated risk profile, the reception of offers with standardised comparison criteria in one same app, etc., can all allow clients to search, compare and purchase whatever they find to be best.

This would probably do more for effective competition than any legislative or supervisory measure that may be devised at the heart of the RIS on the fees regarding the market as a whole.

In this sense, I believe the collective management industry should "copy" business models from other sectors in which the "customer experience" has become a key value at the core of company strategy. Some entities are already considering this.

I will now conclude my speech without mentioning other important subjects like MiCA, DORA, possible future modifications in the name of sustainable funds, etc., but I would like to briefly comment on two pressing issues at present. On the one hand, the public consultation for the ministerial order on securities lending, an initiative in response to a traditional request in the sector, one the supervisor has always backed and which we hope will be implemented this time.

On the other hand, the recent proposal for a single European supervisor in the report by Draghi which is leading to many opinions these past few days. I believe this model would not provide any benefit if applied to all sectors or products. National supervision will always be more efficient in most areas of action. As noted in banking, having a sole supervisor for everything is not a recipe for greater development of markets or a deeper integration. But it may make sense to explore one single supervision regarding certain areas such as trading or, most of all, post-trading infrastructures that are purely cross-border and systemic due to their scope.

I would like to end by making an appeal to the large Spanish and international managers that organise these conferences, which have been operating successfully in the Spanish market for many years and often serve as a mirror for the national industry, for them to courageously tackle the challenges the collective investment industry faces.

Thank you very much.