Immersed in a benign economic period, Spain provides sound opportunities for investors from different parts of the world, but it also renders some challenges. This study collates the views of an international sample of 29 investment companies on different factors concerning Spain as an investment destination.
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Kreib is pleased to present the 2017 edition of the report “Spain as an investment opportunity: International investor perceptions”. This is the second edition, after the inaugural one that we launched in 2016.

The objective of this series of reports is to obtain insights from the perceptions of international investment companies concerning different matters, most of which are related to Spain’s investment activity and the international attractiveness of the country as an investment destination.

In these reports, the investment companies’ perceptions are collected through online surveys conducted to samples of international investment firms. The sample used is made up of 29 investment companies of seven different nationalities. Given the limited size of the sample, the results obtained cannot be regarded as fully representative of the whole population of international investors with operations in Spain, from a rigorous statistical perspective. However, we believe that the information collated by this sample provides valuable insights into the views of a number of international investment companies, and many of these views may be shared by a larger proportion of the investment sector.

The answers to the questionnaire were collected between March and May 2017.
Main findings

Based on the information provided by the surveyed companies, through their responses to the questionnaire, the main conclusions drawn from the report are the following:

- The good momentum that the Spanish economy is currently passing through, according to the official statistics, is reflected in the views of international investors. Almost all of the surveyed companies (96.6% of the sample) stated to have positive or very positive perceptions on the Spanish economy outlook until the end of 2017. This assessment of the economic outlook is even more optimistic than that of the 2016 edition of this report when 65.5% of respondents regarded Spain's economic outlook as positive or very positive.

- Investment companies also believe that Spain's current political situation is reasonably good. In particular, 44.8% of the investment companies surveyed consider that the current political situation in Spain is good. In contrast, 37.9% of the sample assess Spain's political situation as “average”.

- As a possible consequence of the positive economic and political juncture, around three quarters of investors (75.9%) believe that their investments in Spain will grow in 2017. The former percentage includes 6.9% of firms that expect such investments to increase considerably. In addition, 20.7% believe that their investments in Spain will remain constant in 2017 and none of the investment companies surveyed expects their Spanish assets to decrease over that year.

- These figures stand out in comparison with the forecast obtained in last year’s survey, when only 30.8% of respondents expected their Spanish assets to increase, and 7.7% expected them to increase substantially by the end of 2016 with respect to those from the end of 2015. In contrast, 34.6% believed their investment volumes in Spain would remain constant.

- Some external events –such as Brexit, protectionist measures in the US and rise of populism in other European countries– can indirectly have some influence on the level of the investments made in Spain. The majority of the surveyed companies (58.6%) consider that the enforcement of protectionist policies in the US would have negative effects on Spain as an investment destination. As for Brexit, 51.7% of respondents perceive it as positive for investment activities in Spain. Finally, the opinions on the effect of populism's rise in other European countries are highly split, with 48.3% of the companies perceiving a positive effect on Spain's attractiveness as an investment destination and, on the contrary, 44.8% of the sample viewing an overall negative effect.

- In the hypothetical event that London’s position as the financial Europe’s centre was severely damaged by Brexit, the surveyed companies consider that the main candidate city to replace London would be Frankfurt, with 32.6% of the choices. Other candidate cities, such as Paris, Dublin and Madrid, obtained lower choice shares, in particular, 15.2%, 13% and 10.9%, respectively. Nonetheless, 27.6% of respondents considered that London’s financial position in Europe will not be damaged by Brexit, and therefore no substitution will take place.

- According to the survey, political risks constitute the most relevant risk category, with 40% of the companies’ choices, followed by regulation (26%), which is to some extent related to the former type of risk. In addition, 20.7% of the surveyed companies stated that investing in Spain involved no significant risks.

- In order to facilitate investments in Spain, some reforms can be welcomed. Bureaucratic simplification, tax incentives, friendly regulation and legal security can enhance investment activities in Spain, according to the surveyed investment companies.

- The vast majority of the surveyed investment companies recommend Spain as an investment destination. The proportion of the surveyed investors recommending Spain amounted to 93.1%, and no respondent declared not to recommend Spain as a country to invest in.

- In general, the investment companies have a reasonably good opinion of the Spanish companies’ policies of communication with international investors. In particular, 37.9% of the sample companies regard them as good. Nevertheless, a significant proportion of respondents (34.5%) believe that Spanish companies’ communications policies with international investors are neither good nor bad.
Report structure

The report is structured in five sections. Section 1 describes the main characteristics of the international sample of investors we have surveyed. The remaining sections contain the surveyed companies’ views on the following topics:

- Spain’s economic and political environment (section 2).
- Expected short-term evolution of the investments held in Spain and assessment of factors that may affect investment activities in Spain (section 3).
- Possible risks of investing in Spain, suggested reforms to facilitate investments and Spain’s attractiveness as an international investment destination (section 4).
- Spanish companies’ policies of communication with international investors (section 5).
The sample used in this report consists of 29 investment companies of diverse nature, including, among others, mutual funds, private equity companies and private banking management firms. A significant proportion of the sample are listed companies. In particular, 12 of the surveyed firms are trading on the stock market, which accounts for 41.4% of the sample.

The sample has international nature, since the headquarters of the sample firms are located in seven different countries. Table 1 shows the geographic distribution of the sample. Spanish companies account for 51.7% of the sample, since 15 of the sample firms have their headquarters based in Spain. The remaining 48.3% are foreign companies, including 6 firms from the US, 4 from the UK, 1 from Canada, 1 from France, 1 from Sweden and 1 from Switzerland.

The international dimension of the sample also comes from the fact that the vast majority of the surveyed companies carry out their investment activities in more than one country. Indeed, only three companies of the sample manage the whole of their investments in a single country.

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2 These three companies have their headquarters in Spain and only have investments in this country.
The sizes of the surveyed companies are very diverse. Figure 1 shows the distribution of the sample companies in terms of their total investment volumes, that is, the investments that they manage worldwide. The percentages of the chart indicate the proportion of firms whose total investments lay within the different ranges of the horizontal axis at 31 December 2016. While 27.6% of the firms have investments above 30 billion euros, 51.7% of the sample are companies with investments below 5 billion euros. The value of the investments managed by each of the remaining 20.7% of the companies lies between 5 and 30 billion euros.

Table 1
Sample firms’ nationalities according to the location of their headquarters

<table>
<thead>
<tr>
<th>Countries</th>
<th>Number of firms</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>15</td>
<td>51.7%</td>
</tr>
<tr>
<td>USA</td>
<td>6</td>
<td>20.7%</td>
</tr>
<tr>
<td>UK</td>
<td>4</td>
<td>13.8%</td>
</tr>
<tr>
<td>Canada</td>
<td>1</td>
<td>3.4%</td>
</tr>
<tr>
<td>France</td>
<td>1</td>
<td>3.4%</td>
</tr>
<tr>
<td>Sweden</td>
<td>1</td>
<td>3.4%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>1</td>
<td>3.4%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>29</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Table 1: Distribution of the sample firms in terms of their total investment volume managed at 31 December 2016

Remark 1: Percentages in the chart indicate the proportion of companies within each range. The sum of the percentages is 100%.

Remark 2: In order to convert to euros the investments amounts reported in other currencies, we have used the exchange rates published by the European Central Bank at 31 December 2016.

Source: Kreab survey to 29 investment companies, 2017.
Positioning in Spain

All of the surveyed companies have stated to have investments in Spain. Figure 2 shows the distribution of the sample in terms of the investment volumes in Spain at the end of 2016. 41.4% of the companies had investments in Spanish assets for a value below 0.3 billion euros, and 17.2% of the sample had investments in Spain for a value between 0.3 and 0.5 billion euros. The Spanish investments of 20.7% of the sample companies were larger than 0.5 billion euros and lower than 4 billion euros, and 13.8% of the firms had investments in Spain for a value equal to or higher than 4 billion euros. Finally, two of the surveyed companies did not provide information on their level of investments in Spain5.

Remark 1: Percentages in the chart indicate the proportion of companies within each range. The sum of the percentages is 100%.

Remark 2: In order to convert to euros the investments amounts reported in other currencies, we have used the exchange rates published by the European Central Bank at 30 December 2016.

Source: Kreab survey to 29 investment companies, 2017.

5 Throughout this report, “DK/DA” stands for “don’t know / don’t answer.”
Figure 3
Distribution of the sample firms according to the share of Spanish assets in their global investments

Remark: Percentages in the chart indicate the proportion of companies within each range. The sum of the percentages is 100%.

Figure 3 shows the sample companies’ ratio of Spanish assets to their global assets. More specifically, the chart shows the distribution of the sample firms in terms of the proportion that Spanish assets account for in their total investments. It is worth to be mentioned that for 37.9% of these companies, Spanish assets account for less than 5% of their total investments. For 17.2% of the firms surveyed their investments in Spain represent between 5% and 20% of their total investments, for 6.9% of the firms it represents between 20% and 50%, for 13.8% between 50% and 80% and for 17.2% of the companies their investments in Spain represent more than 80% of their global assets. The three latter categories comprise only Spanish companies, which means that all the sample firms whose Spanish investments account for more than 20% of their total investments are firms with headquarters located in Spain.

6 The rest of the surveyed companies (6.9%) did not specify the ratio of their Spanish assets to their global assets.
The data of the Instituto Nacional de Estadística\(^7\) indicate that Spain remains on the road to economic recovery, after suffering severe effects of the 2008 financial crisis. Since 2014, the country’s Gross Domestic Product has consistently exhibited positive growth rates\(^8\). The good momentum of the Spanish economy is reflected in the views of the international investors. When asked about their perceptions on the Spanish economy outlook in the short term, in particular until the end of 2017, 96.6% of respondents stated to have a positive or very positive perception (69% and 27.6%, respectively). Only one company declared to have a neutral perception and none reported a negative view on the Spanish economy outlook. Figure 5 shows the distribution of the companies’ responses to this question. This assessment of the economic outlook is even more optimistic than that of the 2016 edition of this report. On that occasion, 57.7% of respondents regarded Spain’s economic outlook as positive (as opposed to 69% in the current edition) and 7.7% regarded it as very positive (versus 27.6% in 2017)\(^9\).

In the political arena, Spain has recently overcome an exceptional period in its democratic history. The results of the December 20th 2015 general election created a new scenario where the traditional two-party system was replaced by a mul-

\(^7\) The Instituto Nacional de Estadística (INE) is the Spain’s official statistics agency.

\(^8\) When this report was prepared, the last GDP data published was that of the first quarter of 2017.
Spain's Gross Domestic Product at constant prices for the 1Q 2006 - 1Q 2017 period year-to-year growth rates

Remark: With quarterly data, year-to-year growth rates are the percentage differences between the data at a particular quarter and that at the same quarter of the former year. For example, the GDP year-to-year growth rate in 1Q 2017 is the percentage variation between the GDP in the first quarter of 2017 and the GDP in the first quarter of 2016.

Source: Instituto Nacional de Estadística.

Figure 4
Assessment of Spain’s economic outlook up to the end of 2017

Remark: Percentages in the chart indicate the proportion of companies that chose each answer option. The sum of the percentages is 100%.

Source: Kreab survey to 29 investment companies, 2017.

ti-party system, with the former two dominant forces (PP and PSOE) sharing their leading positions with two emerging parties (Podemos and Ciudadanos). The lack of success of the parties’ negotiations to form a coalition Government gave rise to a period in which an interim Government had to rule the country for almost one year. This situation froze the enforcement of regulatory reforms until a new definitive Government was formed. This finally happened after former President, Mariano Rajoy, of the PP was appointed to renew his position in the Parliament’s investiture session held on 29th October 2016.

Now that Spain has an established Government, following the interim Government period, we have asked the investment firms to provide their assessments on the current political situation in Spain. The distribution of their answers are included in Figure 6.

In addition, 19.2% of the companies of the 2016 edition had a neutral appraisal and 15.4% did not know or did not answer.
Figure 6
Assessment of Spain’s current political situation, as compared to other European countries

Almost half of the respondents think that the current political situation in Spain is good (44.8%), and 3.4% consider it very good. In contrast, 10.3% of the surveyed companies regard it as poor, and 3.4% regard it as very poor. Finally, a significant proportion of respondents assess the political situation as “average” (37.9%).

In sum, investment companies seem to have a generally positive view on the current moment and the near future for Spain, from both the political and, especially, the economic perspectives.
The positive perceptions of investors on Spain’s economic and political environment may be a reason explaining the fact that the investment volumes held by these investors in Spain are expected to grow in the near future, as shown in Figure 7 when comparing with those at the end of 2016. About three quarters of the sample companies (75.9%) believe that their investment assets held in Spain will grow in 2017, and this includes a 6.9% of firms that expect such investments to increase considerably. On their side, 20.7% of the sample believes that their investments in Spain will remain constant.

These figures stand out in comparison with the forecast obtained in last year’s survey, when only 30.8% of respondents expected to increase their Spanish assets by the end of 2016 with respect to those from the end of 2015. Out of this, 7.7% accounted for firms that expected to increase substantially their investments in Spain. In contrast, 34.6% believed their investment volumes in Spain would remain constant.

Furthermore, while this year none of the investment companies surveyed expects their Spanish assets to be reduced, on 2016’s edition of this report, 7.7% of the
companies expected to reduce their investments in Spain, although none of them anticipated to do it significantly.

We asked the companies their opinion on how certain external factors may influence future investment activities in Spain.

These factors were the following ones: the UK’s withdrawal from the European Union (“Brexit”), the possible enforcement of protectionist measures in the US and the rise of populism in other European countries.

Figure 7
Expected evolution of the investment volumes in Spain up to the end of 2017, as compared to the end of 2016

Remark: Percentages in the chart indicate the proportion of companies that chose each answer option. The sum of the percentages is 100%.
Source: Kreab survey to 29 investment companies, 2017.

Figure 8
Firm’s responses to the following question: “Do you believe the following factors will favour Spain as an investment destination?”

Remark: Percentages in the chart indicate the proportion of companies that chose each answer option (Yes, No, DK/DA) for each factor. The vertical sum of the percentages is 100%.
Source: Kreab survey to 29 investment companies, 2017.
As shown in Figure 8, the surveyed companies’ responses were as follows:

- **Brexit.** More than half of the companies (51.7%) believe that Brexit may benefit investment activities in Spain. On the other hand, 37.9% hold the opposite view while 10.3% do not have a clear opinion on this question.

- **US protectionism.** A significant proportion of the firms (58.6%) consider that the enforcement of protectionist measures in the United States by Donald Trump’s administration would be detrimental to Spain’s investment activities. In contrast, 27.6% of the sample perceives this situation as an opportunity for raising investments in Spanish assets. The remaining of the sample (6.9%) did not have a defined opinion on this matter.

  It has been argued that the abovementioned Brexit could threaten London’s position as the main European financial hub. For that reason, we have asked the investment companies to provide us with their views on which cities may potentially replace London as the main Europe’s financial centre, in the event that London’s position was seriously damaged by Brexit.

  Figure 9 shows the companies’ responses to this question.

- **Rise of populism in other European countries.** The firms’ opinions on the effects of this factor are highly split. Whereas 48.3% of the companies regard populism rising in other European countries as positive for Spain as investment destination, 44.8% consider it detrimental for investments in Spanish assets. The remaining of the sample (6.9%) did not have a defined opinion on this matter.

The surveyed companies consider that the main candidate city to occupy London’s position would be Frankfurt, with 32.6% of the total choices. By a significant distance, Frankfurt is followed by three other cities which each attained more than 10% of the choices, namely, Paris (15.2%), Dublin (13%) and Madrid (10.9%). Other cities like Amsterdam, Berlin and Luxembourg obtained shares lower than 5%. Finally, 27.6% of respondents considered that London’s position will not be damaged significantly by Brexit, which means a share of 17.4% relative to the total number of choices.
Companies were also asked to select the main risks of investing in Spain. From a list of five broad categories (regulatory, political, economic, financial and social). They were also given the option to point out additional risks not included in the former categories, as well as being able to indicate that investing in Spain involved no significant risks.

Figure 10 contains the responses given by the investments companies.

The investment companies identified political risks as the main risk category, with a 40% share among the different response options. The risk category with the second highest share was regulation (26%), which is in some way related to the former type of risk. Economic (8%), financial (6%) and social (4%) risks were picked as the following risk categories, but at a significant gap below the two main risk factors.

Additionally, two other types of risks were
Remark: Since respondents were allowed to choose more than one answer option, percentages in the chart are equal to the number of times that each answer option was selected by any firm divided by the total number of selections of any options made by all firms. The sum of the percentages is 100%.

Source: Kreab survey to 29 investment companies, 2017.

**Figure 10**
Main risks of investing in Spain

A significant proportion of the surveyed companies stated that investing in Spain involved no significant risks. This response option was picked by 20.7% of the companies, which meant 12% of the total number of options selected by the sample companies.

It is noteworthy that the shares of the different risk categories are quite similar to those obtained in the former edition of this report\(^\text{10}\), with the unique exception of economic risks. The share of this category has decreased substantially, from 22.4% in the 2016 edition to 8% in the present one. Therefore, it seems that Spain’s economic situation is no longer regarded as a major risk by international investors, probably because of the positive economic juncture described in section 3.

The surveyed companies were also invited to propose measures aimed at facilitating investments in Spain. To that end, we asked the companies to select one or more options out of a closed list of the following five generic types of measures: tax incentives, market entry incentives, bureaucratic simplification, legal security and friendly regulation structure.

**Figure 11**
Measures proposed in order to foster investments in Spain

<table>
<thead>
<tr>
<th>Type of Measure</th>
<th>Share of Options</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bureaucratic simplification</td>
<td>25.4%</td>
</tr>
<tr>
<td>Tax incentives</td>
<td>25.4%</td>
</tr>
<tr>
<td>Friendly regulation structure</td>
<td>23.7%</td>
</tr>
<tr>
<td>Legal security</td>
<td>18.6%</td>
</tr>
<tr>
<td>Market entry incentives</td>
<td>6.8%</td>
</tr>
</tbody>
</table>

Remark: Since respondents were allowed to choose more than one answer option, percentages in the chart are equal to the number of times that each answer option was selected by any firm divided by the total number of selections of any options made by all firms. The sum of the percentages is 100%.

Source: Kreab survey to 29 investment companies, 2017.

\(^{10}\) In particular, in energy and environment.

\(^{11}\) In the 2016 edition, the following shares were obtained: political 40.8%, regulatory 24.5%, economic 22.4%, social 6.1%, financial 4.1% and other 2.0%. “No significant risks” was not included as a response option.
As shown in Figure 11, bureaucratic simplification and tax incentives were the types of reforms with the highest shares of choices, each with 25.4%. These were closely followed by friendly regulation structure (23.7%). The fourth measure with the highest share was legal security, with an 18.6% share. Finally, measures incentivising market entry were granted the lowest share (6.8%).

In order to know the international investors’ overall assessment of Spain as a country to invest in, we asked the surveyed companies to declare whether or not they would recommend Spain as an investment destination.

**Figure 12**

Firms’ responses to the following question: “Would you recommend Spain as an investment destination?”

![Bar chart showing firm's responses](image)

**Remark:** Percentages in the chart indicate the proportion of companies that chose each answer option. The sum of the percentages is 100%.

**Source:** Kreab survey to 29 investment companies, 2017.

As shown in Figure 12, the overwhelming majority of the investment companies surveyed recommend Spain as an investment destination. The proportion of investors recommending Spain amounts to 93.1%, and no respondent stated not to recommend Spain as a country to invest in. Only a few companies (6.9% of the sample) did not have, or did not express, a clear opinion.
The quality of companies’ communication with their investors can be a factor influencing the entry of external financing. For that reason, we have asked the investment firms to assess the quality of the Spanish companies’ policies of communication with international investors.

As shown in Figure 13, 37.9% of the companies regarded the Spanish companies’ communication policies as good, and 3.4% regard them as very good. However, 13.8% of respondents declared to have a bad assessment of Spanish companies’ communications policies, and 34.5% of the surveyed companies consider that they are neither especially good nor particularly bad.
Although international investors foresee several kind of risks when investing in Spain, especially from a political point of view, it can be said that they have considerably improved their outlooks on the country, particulary regarding the economy. The reason for this probably remains being political, as last year, when the first survey was made, there were doubts about the Government structure, an exceptional situation that had not happen before. The elections held on December 2015 provided the most fragmented parliament representation, setting the end to the traditional two-party system and stablishing instead a multi-party system with four significant political forces. The King called for another elections, celebrated on June 2016, and a new Government was formed in October.

According to the results of this second survey, Kreab identifies that investors recommend Spain as an investment destination and around 76% of investors believe that their investments in Spain will grow in 2017, possibly as a consequence of a positive economic and political juncture. In addition, there are several factors which may influence the level of investments in Spain, such as Brexit, although it is not clear how much these issues will influence the investment in Spain, as there is not a clear opinion trend in relation to the consequences of these.

**Figure 13**
Assessment of the Spanish companies’ policies of communication with international investors

![Chart](image-url)