



3rd Conference on Alternative Investments - opportunities and challenges of alternative investments

MONTSERRAT MARTÍNEZ PARERA, VICE-CHAIR OF THE CNMV

19 June 2023

Good morning. I would like to thank Paco Uría for his kind introduction and KPMG and El Confidencial, particularly the director, Nacho Cordero, for having me another year in this event on alternative investments. This is the third year the conference takes place, which reflects the growing interest among managers and investors for such a dynamic sector.

Today I would like to discuss the current debate on alternative investment from two different points of view of supervision: the first general one being that of ensuring the correct functioning of the sector, given the interrelationship it may have with other parts of the markets; the second perspective is that concerning investor protection, which I will speak on more in the second part of my speech.

A complex sector of increasing importance

The investment in alternative management continues increasing despite the deceleration over the last year.

At an international level, numbers remain small in absolute value, while assets under management have almost doubled in the last four years and tripled in the last decade. In terms of volume, although alternative funding is far from the funding channelled through stock exchanges or debt markets, its role is become increasingly more relevant in the funding of small companies with growth potential and large economies of influence, such as in the technology or energy transition sectors. This is beneficial, as shown by multiple studies that identify clear advantages for companies accessing this type of capital, and broadening funding options that are a catalyst for their long-term growth.

While numbers in Spain are small, I believe they are still relevant. When we analyse private equity and venture capital over the last five years, the amount of capital under management has doubled, with annual investment figures reaching close to 9 billion euros in 2022.

In terms of activity registered by the CNMV, the volume of assets pooled in closed-end vehicles reached 30 billion euros at the end of 2022, which is more than double than the amount ten years ago. Such upward trend of the number of registered

management companies continues and there is an obvious growing interest in alternative product management, with 25 managers having changed their programme in the last two years to start or expand their activity in this area.

There are signs of some exhaustion, associated to the economic cycle, rising interest rates and inflation, which we discussed last year. We have seen this happen all over the world. This has been the case of Spain, where, for example, only 81 closed vehicles have been registered this year, a rate which would not exceed last year's record of 204 new registrations should it remain the same.

Nonetheless, as I mentioned in the beginning, despite such a deceleration, the sector continues to grow, and it is important to be well aware of its dynamics and operation, which is not easy given that the data level and information can be low at times.

It is important to remember that the sector has, by definition, its own characteristics. The most obvious being it is less transparent and provides little information on the valuations of the assets in which it invests. In fact, there is often a gap between the valuation of publicly traded assets and private assets, and given the lower frequency with which investments are valued, there may be a risk of delay in the adjustment of such investments.

On the other hand, said investments have lower liquidity than investments in public markets, as they are medium-term investments, over maybe 5 or 10 years, which at certain moments of the market can create tension among investors if it is not properly managed.

Additionally, we are not fully aware of the interrelations it may have with markets and agents, such as other funds or banks, in a context where interconnections, as we know, can grow and are complex.

Therefore, it is essential to continue closely monitoring the sector's dynamics and analyse the available data and information.

Retail investors and venture capital

The most important element for a conduct supervisor in any case is to protect the investor, which brings me to the second point of my speech. With this I am not referring to the traditional investor in the sector, who usually is a well-informed institutional or professional investor, but rather to the retail investor.

This is worth highlighting given the interest that the sector is gaining in small investors. Such interest is valid as it can offer attractive returns, but given its characteristics, illiquidity, longer investment terms and less information, it may not be a product suitable for all investors.

In Spain, following the approval of the law for the creation and growth of companies, the regime for access to venture capital is more flexible, which allows an extensive outreach to larger number of investors. While an investor previously needed a minimum payment of 100,000 euros, today, under certain conditions, access is only possible with an investment in advisory services of 10,000 euros.

Overall, in Spain, retail investors make up for more than 60% of investors in venture capital products, according to data from the CNMV. While the investment volume is small, around 30% of the total, the trend is increasing.

It is also worth highlighting the recent amendment of the regulation governing ELTIFs (European long-term investment funds) that gives retailers the possibility to invest in this type of product without restrictions, without minimum investment requirements, only requiring a suitability test. Such review aims to give a product that has failed to take off a new boost.

The CNMV's approach to the sector is twofold.

On one hand, we appreciate their capacity to grow and develop as an industry, which we must facilitate and support. As stated in this year's Activity Plan¹: we foresee continuing to facilitate the procedures for the authorisation of venture capital vehicles through the provision of online forms. Additionally, the CNMV will design new forms to facilitate communication with the supervisor, upon registration as well as in the recurring information to be submitted. We strive to continue promoting the review of authorisation procedures to make them as agile as possible, reducing deadlines and simplifying them as much as possible.

On another hand, from the point of view of investors' protection, we analyse the sector's activities, particularly those that can cause conflicts of interest among investors. For example, when portfolios are transferred between vehicles managed by the same fund manager or the difficulty of knowing the real value of investments when new investors enter when the vehicle is not yet closed.

Our goal is to publish criteria and recommendations to help manage such conflicts. In relation to hedge funds, establishing additional specific criteria to invest in illiquid assets such as private equity may be appropriate.

Therefore, there should be measures that favour the development of the market while also managing possible conflicts. They are, as I mentioned, products that, given their lower liquidity and minor information, are subject to higher risks and may not be suitable for all investors.

Final considerations

I will finish. There is no doubt that increasing the range of products available to retail investors is beneficial. Nonetheless, it has its challenges and must be done based on good advice and an awareness of the lower liquidity and longer investment maturities involved.

¹ [Activity Plan for 2023](#)

On several occasions, the CNMV has mentioned the importance for management companies, in general, to have tools that allow them to adequately manage liquidity and redemption requests; to design products in which the fund's liquidity windows are aligned with the liquidity of the assets in which it invests; to control leverage limits and to provide an adequate level of transparency and information to investors and the supervisor.

Alternative investment in Spain is growing positively and it is important that such growth happens with effective controls. This will allow venture capital and closed-end investment to become another attractive option for informed investors.