

THE CNMV PUBLISHES A REPORT ON THE CHARACTERISTICS OF SPANISH SUSTAINABLE CISs IN 2020

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The Spanish National Securities Market Commission (CNMV) has today published the working paper “Características de las IIC españolas sostenibles en 2020” (Characteristics of Spanish sustainable CISs in 2020), prepared by María Isabel Cambón and Anna Isperto from the Research and Statistics Department of the Policy and International Affairs Directorate-General of the CNMV.

This paper is an initial exercise aimed at gaining a deeper understanding of the features of Spanish sustainable CISs registered with the CNMV as of the end of 2020: a total of 59 schemes including investment funds and open-ended collective investment schemes (SICAVs) with assets totalling around €9.5 billion (3.1% of the total assets of these schemes). At that time, these CISs voluntarily used the term SRI (socially responsible investment), according to the Inverco “SRI Circular” published in 2014.

This exercise was carried out, using data from 2020, prior to the entry into force, in March 2021, of the European Regulation on sustainability-related disclosures¹, which outlines the obligations imposed on sustainability-related disclosures in the financial services sector. This Regulation contains the pre-contractual disclosure requirements that financial products promoting, inter alia, environmental or social characteristics, must meet, provided that the companies in which the investments are made follow good governance practices (Article 8), and the financial products have sustainable investments as their objective (Article 9). As of December 2021, a total of 165 Spanish CISs were covered under Articles 7, 8 and 9, with total assets amounting to €60.8 billion, a figure which highlights how rapidly the sector is expanding and which invites updating the most important results of this analysis in the future. Therefore, this study does not take into consideration the latest developments in 2021, which will be analysed in subsequent years.

¹ REGULATION (EU) 2019/2088 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL, of 27 November, on sustainability-related disclosures in the financial services sector.

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The paper published today is divided into two main parts. The first part, which includes a descriptive analysis, shows that at the end of 2020, the average annual return of sustainable CISs was higher than that of IFs and open-ended collective investment schemes, as a whole, which were registered with the CNMV (1.8% compared with 0.8%). Although this is partially due to a greater weight, in terms of assets, of categories with a higher proportion of equities (which obtained a higher return in 2020), it could also be due in part to the spread structure of sustainable CIS portfolios (for example, the increased importance of investing in technology and healthcare companies, which performed particularly better during the COVID-19 crisis). In the case of the expense ratio, which was higher for ESG CISs than for the rest (1.22% compared with 1.05%), the preliminary empirical analysis shows that this difference is only due to the greater proportion of vehicles belonging to segments with relatively high fees.

The second part of the analysis was carried out on the ESG valuation of issuers with portfolio assets invested in these schemes. Most of the information for this valuation was obtained from Refinitiv, a financial market data provider. The results of this analysis show that this valuation is very high, particularly in investment funds and in open-ended collective investment schemes (in respect of funds of funds). Thus, it is estimated that 78% of the assets of these schemes are invested in issuers with an excellent or good relative ESG performance and with a high or above-average degree of transparency in reporting ESG data publicly (i.e., A and B ratings²). More specifically, 39 out of the 47 CISs have invested more than 70% of their portfolios in assets with A and B ratings, and only 3.7% in assets of C- and D-rated issuers.

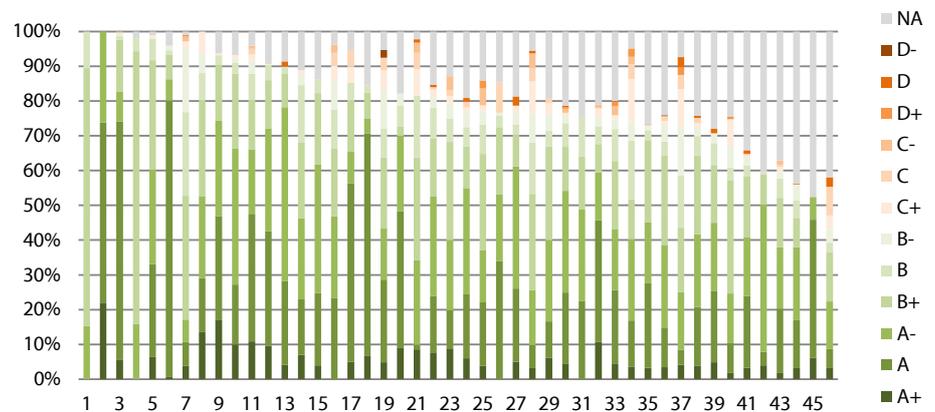
In the case of funds of funds, the percentage of investments made by A- and B-rated issuers is also high (69%), but slightly lower than that of investment funds and open-ended collective investment schemes as a whole. This may be due to several reasons (or a combination of these):

- the greater proportion of assets with no ESG rating (which may be partly due to the stringent criteria imposed for granting an ESG rating to investments in other CISs);
- management companies' greater difficulty in discriminating among issuers committed to sustainability when investing in

² The ESG ratings published by this data provider for issuers range from A to D ratings with positive(+), neutral or negative(-) signs for each letter, with the following meaning: (A): Excellent relative ESG performance and very high degree of transparency in reporting ESG data publicly; (B): Good relative ESG performance and above-average degree of transparency in reporting ESG data publicly; (C): Satisfactory relative ESG performance and moderate degree of transparency in reporting ESG data publicly; and (D): Poor relative ESG performance and insufficient degree of transparency in reporting ESG data publicly.

- CISs (unless investments are made in indices related to the matter); and
- the possibility of these ESG ratings not adequately capturing the investment strategies of these management companies.

Calculation of the ESG rating for Spanish sustainable CISs (Dec-2020, IFs and open-ended collective investment schemes)



Source: CNMV, Refinitiv Eikon, Lipper, Banco Mundial, and own calculations. The x-axis represents each sustainable CIS, IF or open-ended collective investment scheme, sorted by the relevance of their A- and B-rated portfolio. The y-axis represents the distribution of the CIS portfolio according to the ESG rating of its assets (excluding cash). NA: rating not available.