

## ANNUAL REPORT ON THE OWNERSHIP OF LISTED SHARES

# 50.2% OF THE SHARES LISTED ON THE SPANISH STOCK MARKET HELD BY NON-RESIDENTS

The participation of foreign investors broke the annual record for the fourth consecutive year at the end of 2019. Direct investment by households fell to 16%, however, despite this, 12% of Spanish households are direct owners of shares listed on the Stock Exchange; this, combined with the process of reducing household debts, has helped to considerably improve the net financial position of Spanish households.

CORPORATE RESEARCH. BME.

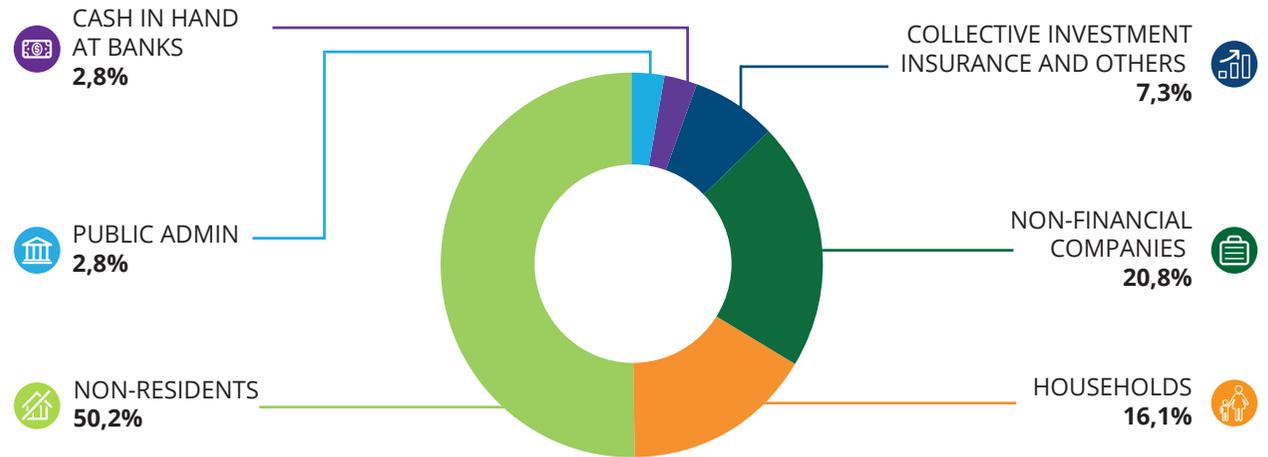
The presence of international investors on the Spanish Stock Market increases year after year. At the end of 2019, non-residents controlled 50.2% of the capital stock of Spanish listed companies, two percentage points more than the previous year, breaking the previous record for the fourth consecutive year. Over the course of a decade, the second of the 21st century, foreign investors have increased their presence on the Spanish stock market by ten percent, up

from 40.1% to 50.2%. Between 2000 and 2009, the presence of non-residents increased by almost 6 percent, from 34.3% to 40.1%. The 50.2% presence of foreign investors in 2019 was higher than that of neighbouring stock markets, such as the French stock market in which, according to data from the Bank of France corresponding to 2018, the foreign presence stood at 42.2%.

The higher level of internationalization of the activity of Spanish companies and, in particular, those listed on the Stock Exchange, has been one of the factors that has fostered the brilliant recovery of the Spanish economy following the 2009 global financial crisis and the subsequent sovereign debt crisis in Europe in 2012. The main Spanish companies have not only internationalised their activity, but also their capital and their financing through the capital markets.

## OWNERSHIP OF SPANISH LISTED SHARES (2019)

% of total capitalisation at the end of 2019



Source: BME Research Department. June 2020

## DISTRIBUTION OF THE OWNERSHIP OF SHARES IN LISTED SPANISH COMPANIES

(Data as a percentage of the total market value at the end of the year for the group of listed Spanish companies)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
 CASH IN HAND AND AT BANKS	15.6	13.4	15.1	15.1	14.1	12.9	11.7	12.8	7.3	7.9	7.1	7.7	8.7	8.6	9.3	9.4	7.6	5.0	4.6	7.5	5.2	5.1	4.3	3.6	3.0	3.1	3.0	<b>2.8</b>
 COLLECTIVE INVESTMENT, INSURANCE AND OTHERS	5.0	4.2	5.7	7.0	7.2	10.2	10.2	8.8	7.1	7.2	7.4	7.9	8.6	8.6	9.6	8.1	7.4	7.6	7.6	8.8	8.4	7.4	7.8	7.9	7.4	8.0	7.9	<b>7.3</b>
 PUBLIC ADMIN.	16.6	16.4	13.8	12.2	10.9	5.6	0.6	0.3	0.2	0.2	0.4	0.3	0.3	0.3	0.3	0.2	0.3	0.3	0.3	0.3	0.5	2.3	1.9	2.9	3.1	3.1	2.9	<b>2.8</b>
 NON-FINANCIAL COMPANIES	7.7	6.9	6.8	6.7	6.9	5.9	5.5	10.1	20.3	21.7	22.0	23.0	23.1	24.7	24.4	25.4	26.0	25.9	26.1	22.1	21.7	19.0	17.1	18.9	20.1	20.1	20.8	<b>20.8</b>
 HOUSEHOLDS	24.4	24.8	22.8	22.2	23.6	30.0	35.1	33.6	30.5	28.0	28.3	26.0	24.1	23.6	23.8	20.1	20.2	21.1	22.2	21.2	25.1	26.1	26.2	24.4	23.4	19.7	17.2	<b>16.1</b>
 NON-RESIDENTS	30.6	34.4	35.9	36.7	37.4	35.6	36.9	34.3	34.7	35.0	34.8	35.1	35.2	34.2	32.6	36.8	38.5	40.1	39.2	40.0	39.2	40.1	43.0	42.3	43.1	46.0	48.1	<b>50.2</b>

BME Research Department

The technological competitiveness and transparency of the Spanish stock market has also been a factor in consolidating the confidence of foreign investors.

Although these foreign investors include international companies with relevant stakes in Spanish listed companies, the main investors are the so-called institutional investors, in other words, mutual and pension fund managers, insurance firms and even investment banks that hold stock portfolios. According to an OECD report dating to October 2019, analysing 10,000 large listed companies accounting for 90% of global market capitalisation, 41% of the capital of listed companies worldwide is held by these institutional investors. The report also highlighted that cross-border investments are on the up and almost 75% of acquisitions are made by investors residing in Europe and the US<sup>1</sup>.

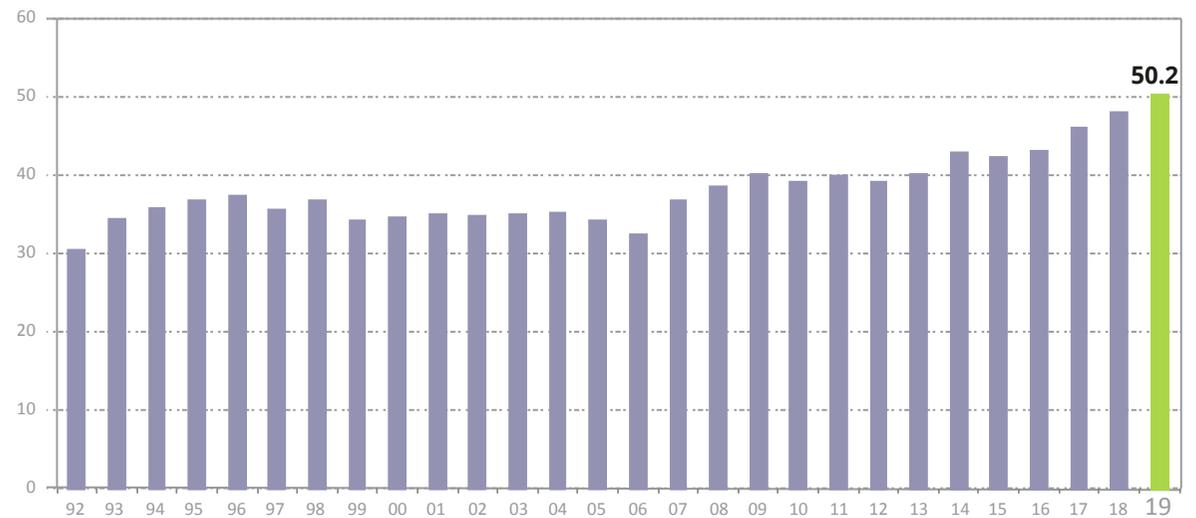
Worth particular note in terms of the growing interest of international investors in the Spanish stock exchange is the presence of the Norwegian Pension Fund, whose investment in companies listed on the Spanish Stock Exchange at the end of 2019 came to 12.77 billion euros (in addition to an investment in Spanish government debt of 6.9 billion euros). The value of equity investments has increased by 31.7% compared to 2018. Spain ranks third across the Eurozone in terms of the size of the investment of the Norwegian sovereign wealth fund and the presence of Spanish assets in its portfolio increased one tenth in 2019 to 1.9% of the total.

The Norwegian fund controls relevant stakes in IBEX35 companies, such as 3.4% of Iberdrola, 2% of Telefónica, 2.6% of Santander and BBVA or 0.9% of Inditex; how-



## Ownership of shares listed on the Spanish stock exchange

FOREIGN INVESTORS (%).



ver, in total, it holds a capital interest in 84 Spanish listed companies.

Another of the world's largest institutional shareholders, the giant asset manager BlackRock, also has noteworthy holdings in companies listed on the Spanish stock exchange: at the end of 2019, it held more than 3% of AENA's shares and had increased its interest in BME to above 3.5%. Other large global institutional investors, such as the Qatari sovereign wealth fund and Fidelity, Invesco and Capital Group, through its subsidiary Capital Research and Management Company, also boast a significant presence.

<sup>(1)</sup> De La Cruz, A., A. Medina and Y. Tang (2019), "Owners of the World's Listed Companies", OECD Capital Market Series, Paris. [www.oecd.org/corporate/Owners-of-the-Worlds-Listed-Companies.htm](http://www.oecd.org/corporate/Owners-of-the-Worlds-Listed-Companies.htm).

The strong presence of foreign shareholders in the main Spanish companies and the importance of the stock market to provide these stakes with efficient value and adequate liquidity is one of the arguments against an EU-wide non-consensual financial transaction tax. This lack of consensus will make the Spanish capital market less attractive and competitive compared to other competitors in the surrounding area who are also struggling to gain the trust of international investors, especially in a scenario that has been critically distorted by the Covid 19 pandemic in which trust is more necessary than ever.

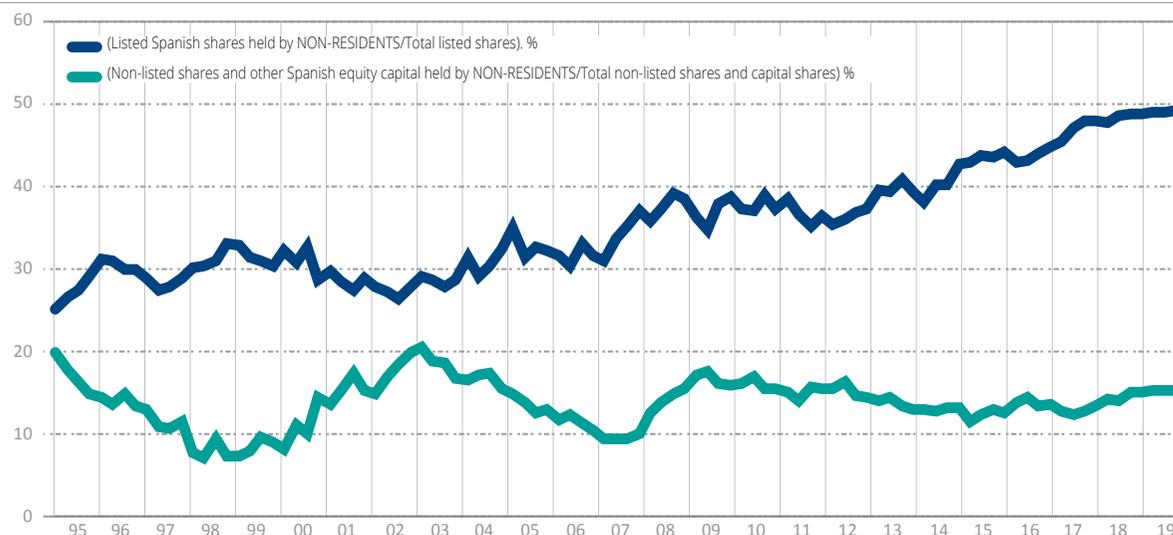
### Foreign investors prefer listed instruments to channel their investment

Another characteristic that defines foreign investment in Spain is its growing commitment to listed companies compared to non-listed companies. According to data from the 2019 Financial Accounts published by the Bank of Spain, of the total value of listed shares in Spain, international investors owned just over 50%, up by more than 10 percentage points over the last decade and more than 20 percentage points since 1995. If we perform this same calculation for the shares and other interests in capital not listed on the stock market, non-resident investors own just 23%, less than half than is the case for listed shares. This figure has varied slightly but largely remained at the same level for 25 years.

In short, foreign ownership of the capital of Spanish listed companies has grown constantly over the past 25 years, while their relative participation in the capital of unlisted companies has barely changed.

## Participation of foreign investors in the capital of spanish companies

Quarterly data Mar 1995 to Dec 2019



Source: Financial Accounts of Spanish Economy. Banco de España. 2019

Stock market flotation is a determining and differentiating step as part of the internationalisation of business, the diversification of the sources of financing for companies and, consequently, their growth in size, which represents one of the drawbacks of the Spanish economy compared to its European counterparts and that has seen it particularly affected during the Covid-19 crisis on account of the greater impact on smaller companies. The stock market flotation and the presence of foreign institutional funds and investors in Spanish companies are relevant factors in achieving business dimensions that are more in line with current competitive requirements.

## Households reduce their direct investment in the Stock Market

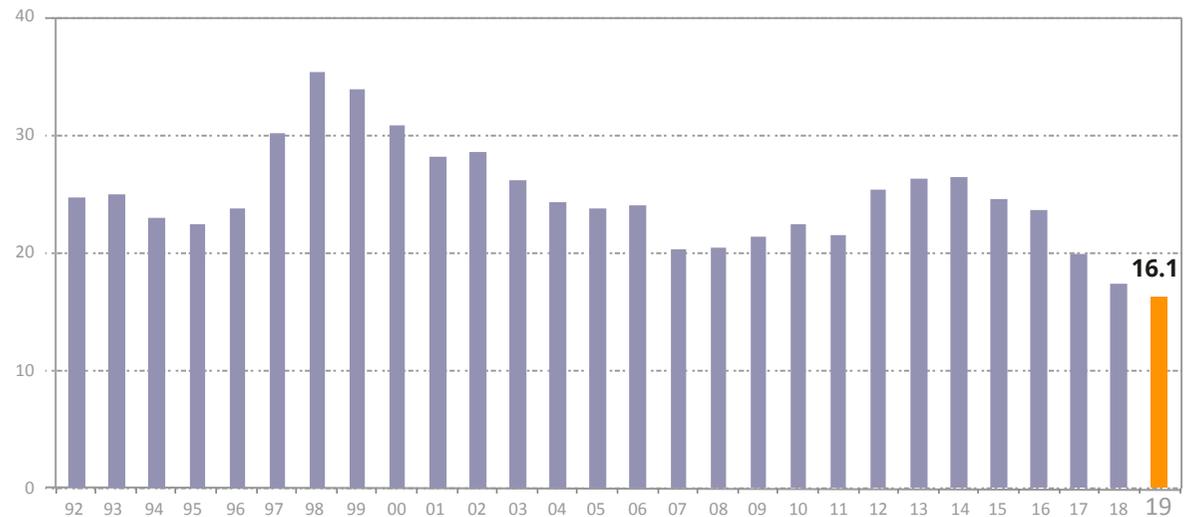
The participation of Spanish households in the ownership of listed shares in Spanish companies decreased once again in 2019, standing at 16.1%, one percent down on the previous year, the fifth consecutive year in which this figure has dropped. This figure is at a historical low and is practically half the level seen 20 years ago. The significant presence of individual investors or households has historically been one of the distinguishing features of the Spanish stock exchange, reaching a peak of 33.6% in 1999. During the years following the financial and economic crisis that began in 2008, they propped up the stock market to a large extent, increasing their portfolio of listed shares

The current percentage of capital stock in the hands of Spanish households means that the country is quickly coming in line with Europe, where the direct participation of individual investors in the stock market has traditionally been less than in the case of Spain. The successive reforms of the European securities markets, implemented with the specific aim of improving investor protection, have not had the desired result of incorporating more investors into the ownership of listed shares.

One of the reasons for this reduction in the presence of individual private investors in the Spanish stock market is the growing presence of investment funds in the portfolios held by Spanish nationals, due to the associated tax benefits and the commercial commitment of the financial and especially banking institutions when it comes to these vehicles.



## Ownership of shares listed on the Spanish stock exchange HOUSEHOLDS (%)



Competition also becomes stiffer with the growth of international investment funds marketed in Spain and to which individual investors have easy access. According to data from INVERCO, the association of Collective Investment institutions, the total volume of these funds marketed in Spain came to 195 billion euros at the end of 2019, including institutional investors, setting a new record.

The poor performance of the market, especially in sectors such as banking or telecommunications that accounted for a large number of private investors, may also be behind this decrease in the participation of Spanish investors in the stock market.

At the end of 2019, according to the Financial Savings of Spanish Households study prepared by INVERCO using data obtained from Banco de España, direct investment in listed shares represented just 5.2% of household financial savings, while national and foreign investment funds and SICAV holdings represented 14.3%. In 2012, following the impact of the global financial crisis, the value of the listed Spanish shares in household portfolios was exactly the same as the value of shares in funds; by the end of 2019, the value of investments in funds was three times that of listed shares.

Also according to INVERCO's work, the weight of the value of deposits and current accounts in the financial portfolios of Spanish households remains predominant, accounting for 36.1% of the total as at 31 December 2019.

### Changes in retail investment following the Covid crisis?

The sharp decrease experienced by the world's main stock markets in March and the subsequent recovery have been accompanied by a significant increase in the activity of retail investors, according to ESMA, the European securities markets supervisor. There has been an increase both in the transactions undertaken by investors who were already operating on the stock markets and the incorporation of new private investors who have opened accounts to operate on the stock exchange through specialised brokers. There has also been a sharp increase in requests for information on financial information platforms related to the stock market. The North American stock exchanges have also experienced a similar phenomenon

A recent analysis performed by the AMF, the French securities markets supervisor, reached a similar conclusion. During the highly-volatile six-week period on the markets in February and March 2020, the uptake of French shares by "retail" customers quadrupled. More than 150,000 new investors bought shares traded on the SBF 120 index, the main French broad index, in the month of March. It is worth noting that these new clients are 10 to 15 years younger than regular investors in French shares<sup>2</sup>.

In response to these trends, supervisors on both sides of the Atlantic have issued alerts directed at brokers to ensure that they operate honestly, fairly and professionally in the best interest of their clients, highlighting the information, suitability, convenience and governance requirements of products.

For the time being, neither Spain nor Europe have statistics available that make it possible to estimate whether the new inflows of small shareholders offset the foreseeable departures that would have occurred during the major initial fluctuations and their net effect on the ownership structure of Spanish shares listed on the stock exchange.

### The financial position of Spanish households improves

One important issue worth noting at this time is the substantial improvement in the aggregate net financial position of Spanish households in the second decade of the 21st century, especially as a consequence of the rapid and significant reduction in household debt.

(2) AMF (2020). "Retail Investor Behaviour during the COVID-19 Crisis". Markets Directorate. April. Available at [www.amf-france.org](http://www.amf-france.org)

The financial assets of Spanish households at the end of 2019 stood at 2.4 trillion euros, 6.7% up year-on-year and 39% higher than a decade ago, at the end of 2009, according to the data of the Financial Accounts of the Spanish economy published by Banco de España.

In turn, the total indebtedness of Spanish households, their liabilities, continues to fall, coming to 767 billion euros at the end of 2019, 19% down on the end of 2009. Spanish households have repaid 180 billion euros in debt over the past 10 years, almost 15% of GDP in 2019.

As a result of the increase in the value of financial assets and the reduction of indebtedness, the net financial wealth of households, i.e., the difference between their financial assets and their liabilities, amounted to 1.64 trillion euros at the end of 2019, a historic high and more than double the level seen a decade ago.

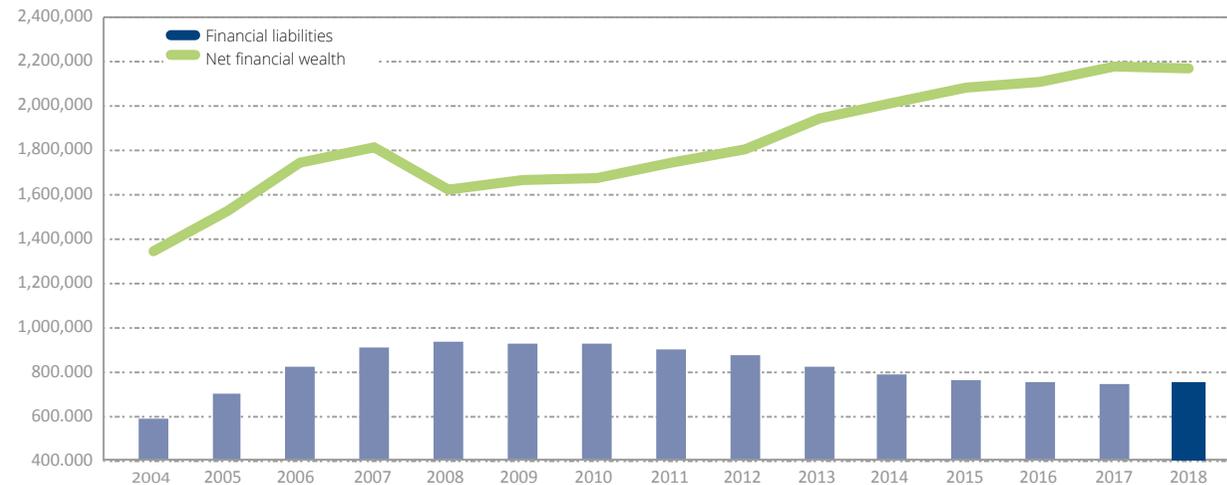
### More than 2 million Spanish households own shares

The Household Finance Survey coordinated by Banco de España Spain reveals information regarding the participation of Spanish households in listed shares, although with a two-year delay. According to information from 2017, 11.60% of Spanish households held listed shares at that time. This represents 2.14 million households or 5.35 million individuals, if we apply the average number of individuals per household to the calculation.

The number of households that own shares has grown steadily since the first Financial Survey carried out in 2002, which indicated that 1.51 million

## Value of the financial assets and liabilities of Spanish households (2004-2019)

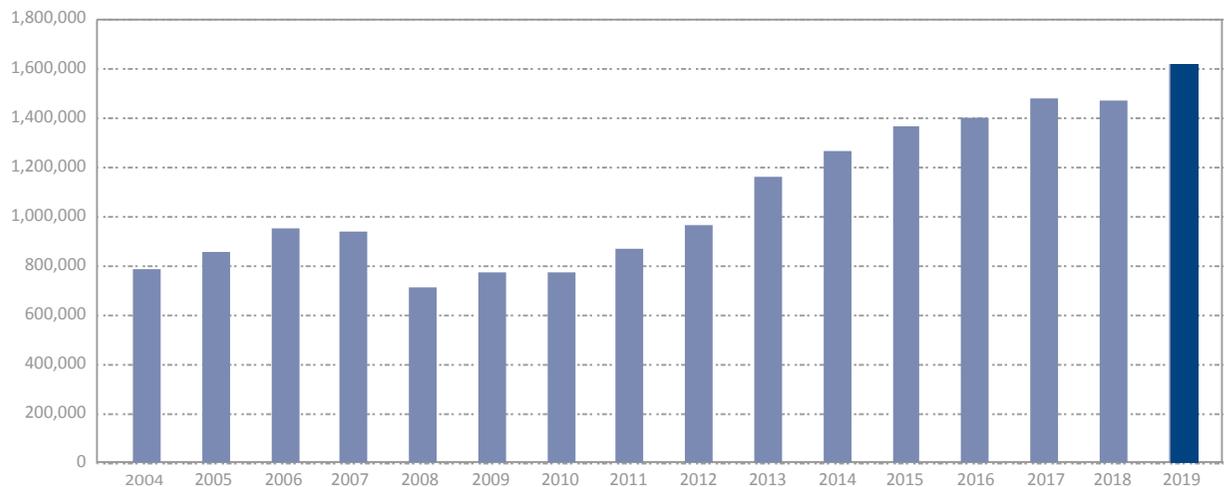
Millions of euros.



Source: Financial Accounts. Banco de España

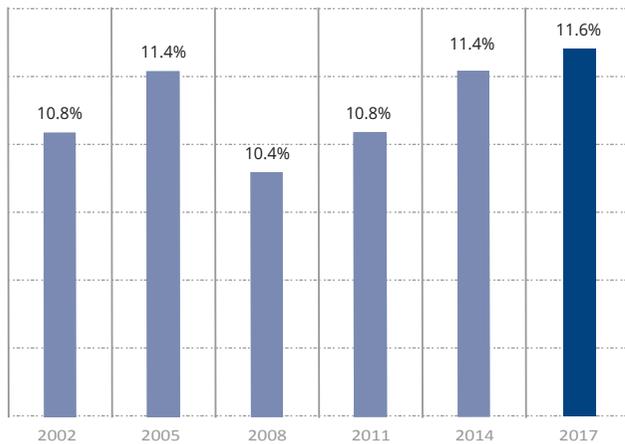
## Net financial wealth of spanish households

Financial assets less Financial liabilities (2004 - 2019) Millions of euros.



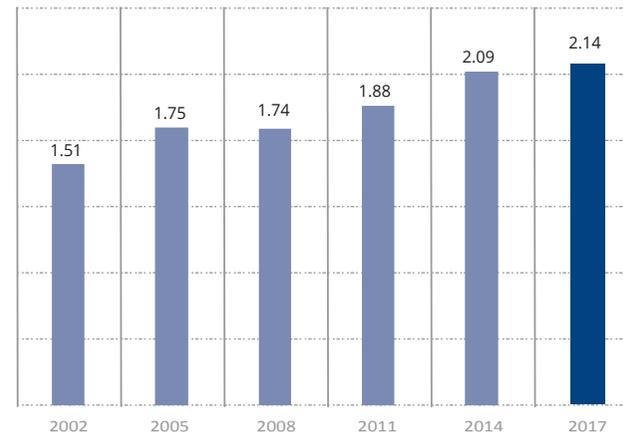
Source: Financial Accounts. Banco de España

### % of spanish households that own shares listed on the stock exchange



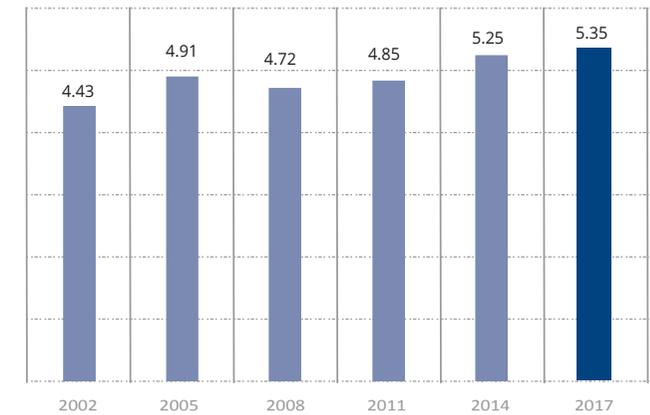
Source: Household Finance Survey 2017. Banco de España

### Spanish households (in millions) with shares listed on the stock exchanges



Source: Prepared in house based on the 2017 Household Finance Survey. Banco de España and the Spanish National Statistics Institute

### Individuals (in millions) living in households exposed to shares listed on spanish stock exchange



Source: Prepared in house based on the 2017 Household Finance Survey. Banco de España and the Spanish National Statistics Institute

households owned shares. Between then and 2017, this increased by 41% to 2.14 million households. The number of individuals with financial exposure to listed shares due to family bonds increased over the same period from 4.43 million to 5.35 million in 2017, almost 21%.

Worth particular note in terms of the outcome of the Survey is the greater dissemination among Spanish households of the ownership of shares listed on the stock exchange compared to the ownership of shares in investment funds. Whereas in 2017, 11.60% of Spanish households owned listed shares, only 7% owned shares in investment funds. In terms of the number of households, 2.14 million owned listed shares in 2017 compared to 1.29 million that owned shares in investment funds.

### Non-financial companies

The participation of non-financial companies on the Spanish stock market at the end of 2019 stood at 20.8% of the total capital stock of Spanish listed companies, the same as the previous year and almost 4 percent above the levels seen in 2014.

During the second decade of the 21st century, between 2009 and 2019, the participation of non-financial companies in the ownership of shares in listed Spanish companies decreased by almost 5 percent, mainly due to the sharp reduction seen between 2010 and 2014 at the height of the global financial crisis and the European sovereign debt crisis. Over the course of these years, non-financial companies were forced to make major divestments to reduce their indebtedness, and

(3) Banco de España (2020). Household Finance Survey 2017: Methods, Results and Changes since 2014. Analytical Articles. Economic Bulletin. 04/2020.

their presence in the capital of Spanish listed companies bottomed out at 17.1% of the total. Since then and up until 2019, their participation on the stock exchange has grown steadily, plateauing at around 21%, as it currently stands.

### Collective Investment Undertakings

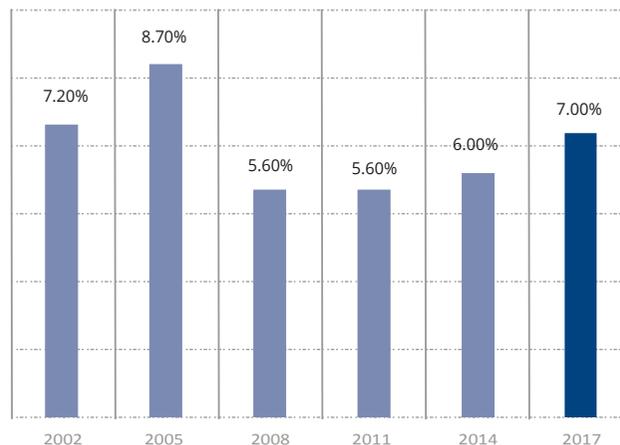
At the end of 2019, Collective Investment Undertakings (CIUs), insurance firms and other non-bank financial institutions controlled 7.4% of the capital stock of Spanish listed companies, four tenths down year-on-year and practically at the same level as a decade ago, when their ownership interest in Spanish shares came to 7.6%. The historic high was seen at the end of the 20th century, when it accounted for 10.2% of the total market value.

The participation of investment funds and Spanish SICAVs on the Spanish stock market decreased again in 2019 and remains at very low levels. At the end of 2019, the value of their investment in Spanish listed companies was 11.031 billion euros, 16% down year-on-year when it came to 13.062 billion euros according to data from the CNMV.

In percentage terms, at the end of last year, SICAVs and investment funds accounted for just 1.55% of the capitalisation of Spanish securities, down significantly on the figure of 2.07% seen the previous year, reflecting a drop in the value of their portfolio in absolute terms during a year in which the total capitalisation of the stock market increased by 12.4%.

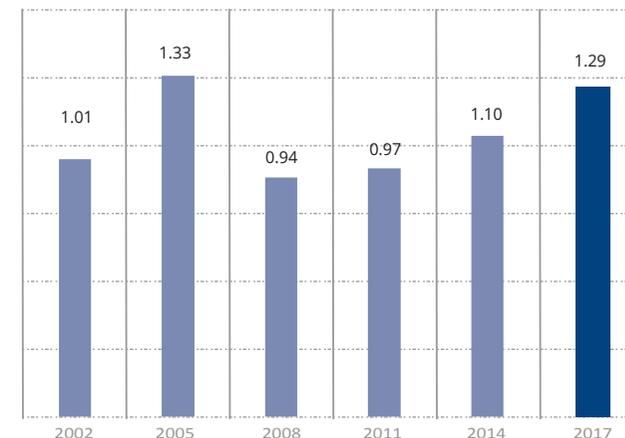
The conservative profile of Spanish investors and the growing geographic diversification of the CIIs' portfolios,

### % of spanish households with investment funds



Household Finance Survey 2017. Banco de España

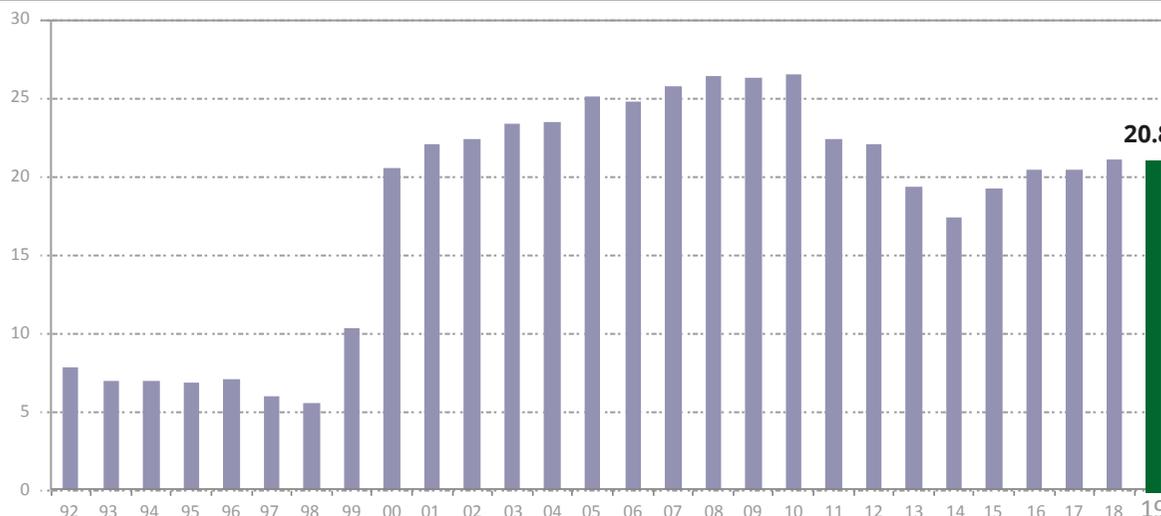
### Spanish households (in millions) with investment funds



Source: Prepared in house based on the 2017 Household Finance Survey. Banco de España and the Spanish National Statistics Institute



### Ownership of shares listed on the Spanish stock exchange NON-FINANCIAL COMPANIES (%)



often involving the acquisition of shares in other investment funds, largely explain this poor result.

In contrast, the investment in the Spanish stock market of pension plans grew by 18.7% in 2019 to 15.367 billion euros, reaching a new historic high, despite his figure remaining low. In relative terms, its portfolio is equivalent to 2.1% of the capital stock of listed Spanish companies.

### Historical low for Banks

For the first time since records began, the participation of banks and former savings banks in the Spanish stock exchange comes in at less than 3%, specifically 2.8%, which represents an all-time low since 1992. The percentage of Spanish companies listed on the Spani-

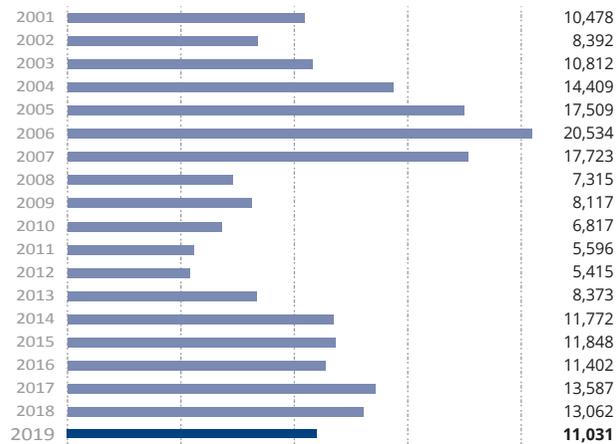


## Ownership of shares listed on the Spanish stock exchange COLLECTIVE INVESTMENT INSTITUTIONS, INSURANCE AND OTHERS (%)



### Spanish equity portfolio of the investment funds and Spanish SICAVs

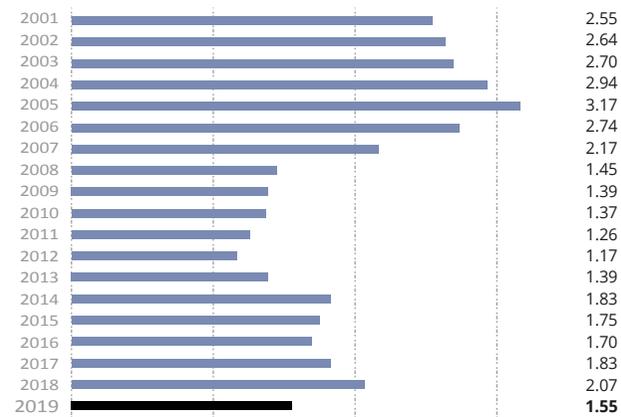
Data in millions of euros



Source: CNMV

### Spanish equity portfolio of the investment funds and Spanish SICAVs

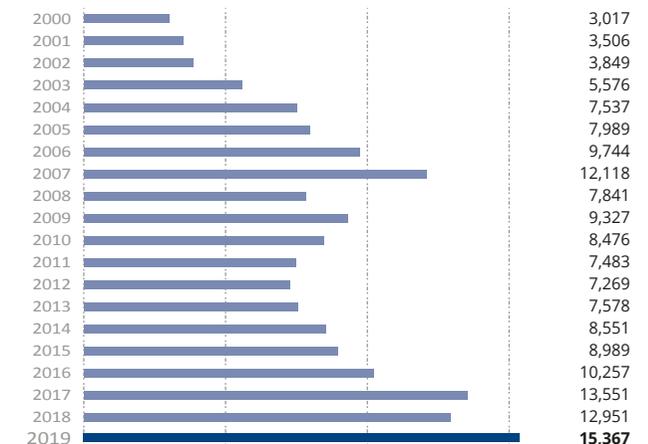
Data in percentage (%) of the capitalisation of Spanish securities listed on the stock market.



Source: CNMV

### Portfolio of Spanish shares listed in Spanish pension funds

Figures in millions of euros



Source: CNMV

sh stock exchange in the hands of banks has followed a downward trend that began with a high of 15.6% in 1992 and has closed 2019 at 2.8%. Over the course of the past decade, between 2009 and 2019, this drop comes to 2.2 percent and since the turn of the century, it is down a total of 10 percent.

This trend reflects the profound change experienced by banking activity in recent decades, with a strong emphasis on the reduction of industrial holdings, the divestments required as a result of the financial crisis and the need to strengthen capital. The new regulations resulting from the financial crisis penalised the participation of banks in listed companies as it affects their solvency calculation. Therefore, banks have greater incentives to reduce their share in the capital of listed companies than to maintain or increase it.

### The participation of the public sector in the Spanish stock exchange drops one tenth to 2.8%

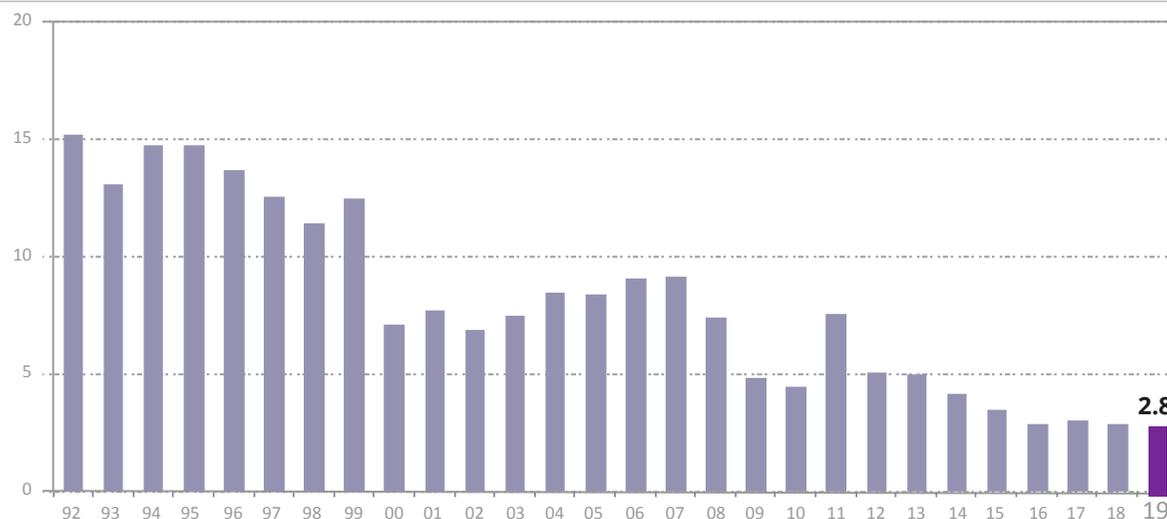
At the end of 2019, the Spanish public administrations, through different organisations and institutions, controlled 2.8% of the market value of the Spanish securities listed on the stock exchange, one tenth down year-on-year.

The successive privatisation of public companies at the end of the 1990s that were channelled through the stock market, in which the participation of individual shareholders played a major role, caused a significant reduction in the participation of public administrations in Spanish listed companies. In 1992, this participation stood at 16.6%, although by the end of 1998, it had fa-



## Ownership of shares listed on the Spanish stock exchange

BANKS AND SAVINGS BANKS %.



llen to 0.6%. This remained the case, at residual levels, until it rebounded to 2.3% in 2013, on account of the public aid received by some banking institutions and specifically the nationalisation of Bankia as a result of the financial crisis and sovereign debt crisis between 2008 and 2014.



## Ownership of shares listed on the Spanish stock exchange

**PUBLIC ADMINISTRATIONS (%)**

