

Subpar results from Spain's investment funds

In Spain, 95 percent of the professionally managed funds tracked from 2001 to 2016 underperformed the country's 15-year government bonds.



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Putting your money in the hands of an investment fund manager, you might expect a higher return than what you could get on your own. And in exchange, you probably pay a commission — which might amount to more than 2 percent of your investment per year.

However, according to research led by Professor [Pablo Fernández](#) on the profitability of investment funds in Spain from 2001 to 2016, very few fund managers earn or deserve the commissions they charge for their expertise.

Subpar returns

Between 2001 and 2016, the average return for the Spanish investment funds studied was just 2.32 percent. That's considerably lower than the returns for 15-year Spanish government bonds (5.27 percent) and the benchmark index for Spanish stocks, the IBEX 35 (5.24 percent).

In fact, of the 632 investment funds tracked from 2001 to 2016, only 29 outperformed government bonds and the IBEX 35 over the same period. And, more alarmingly, 28 of the funds lost value.

Of the group, the most profitable fund brought a total return of 491 percent to investors over 15 years (i.e., an average annual return of 12.6 percent). The least profitable lost 61 percent of its value over the same period (losing an average of 6.1 percent each year). This means that one euro invested in 2001 in the best performing fund became 5.91 euros in 2016, whereas one euro invested in the worst was reduced to just 39 cents.

The Most and the Least Profitable Investment Funds, 2001-2016

	Type of fund	Name of fund	15-year return	As of Dec. 2016:		Investment co.
				Participants	Assets (K€)	
1	RVI RESTO	BESTINFOND	491%	16.680	1.425.481	BESTINVER
2	RV NACIONAL	BESTINVER BOLSA	381%	4.280	290.295	BESTINVER
3	RV NACIONAL	METAVALOR	302%	2.666	48.028	METAGESTION
4	RVI RESTO	MUTUAFONDO VAL. CLAS.A	287%	2.181	72.572	MUTUA MADRILEÑA
5	RVI RESTO	BESTINVER INTERNACIONAL	279%	10.539	1.283.302	BESTINVER
6	RF MIXTA INT.	MEDIOLANUM MCDS.EMER.S-A	265%	5.030	10.752	MEDIOLANUM
7	RVI RESTO	IBERCAJA SECT.INMOB.CLA.A	224%	1.534	20.505	IBERCAJA
8	RV NACIONAL	EDM-INVERSION CLASE R	215%	2.636	202.739	EDM HOLDING
9	RV MIXTA	BESTINVER MIXTO	215%	1.023	37.309	BESTINVER
10	GLOBALES	FONDGUISSONA BOLSA	213%	709	44.793	GVC GAESCO
623	GLOBALES	PBP MERCADOS GLOBALES	-17%	104	3.067	ALLIANZ POPULAR
624	RV EURO RESTO	PBP BOLSA EUROPA	-19%	812	13.982	ALLIANZ POPULAR
625	Garant. Rend. Var.	SANTANDER MEMORIA 5	-20%	4.450	115.112	SANTANDER
626	INMOBILIARIO	SEGURFONDO INVERS.	-21%	478	253.397	INVERSEGUROS
627	RV EURO RESTO	BBVA BOLSA EURO	-22%	7.627	87.031	B.B.V.A.
628	RV EURO RESTO	CAMINOS BOLSA EURO	-22%	361	12.105	BANCO CAMINOS
629	RF MIXTA INT.	BNP PARIBAS RF MIX.GLOBAL	-23%	111	15.149	BNP Paribas España
630	GLOBALES	PBP DIVERSIF. GLOBAL	-29%	772	12.528	ALLIANZ POPULAR
631	RVI RESTO	IBERCAJA FINANCIERO CLA.A	-30%	1.459	10.562	IBERCAJA
632	RVI RESTO	BBVA Bolsa Europa Finanzas	-61%	1.177	11.853	B.B.V.A.

Source: INVERCO

As an experiment, a member of the research team asked 248 students, aged 6-17, to pick their own investments. The result? The students won! They had higher average returns than investment funds over the period tracked (2002 to 2012), albeit with a wider range. In fact, 72 students outperformed even the best-performing fund, while only 17 fell below the worst-performer.

Are tax incentives justified?

Consider it no surprise that Fernández et al. question the tax incentives meant to encourage investments in Spain's professionally managed funds. (They make a similar argument in their [report on Spanish pension funds' performances](#).)

They conclude that "the government should not encourage investment in investment funds." It is also unfair, they say, that an individual investor not only pays more in taxes for market transactions, but also has to pay those taxes sooner.

If they circumvent fund managers, individual investors save on the explicit commissions — and nearly all of the hidden ones, they contend. However, individual investors incur additional costs for holding and for trading securities and, consequently, end up paying

higher taxes.

How investment funds are doing and what the alternatives are is a significant issue in Spain. As of December 31, 2016, 7.39 million participants held 211.4 billion euros in 2,179 Spanish investment funds.

Methodology, very briefly

The research analyzes the average annual profitability of 2,179 investment funds between December 2001 and December 2016 based on data from INVERCO, a Spanish association representing investment and pension funds.

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