TECHNICAL GUIDE 1/2017 TO THE STRENGTHENING OF THE TRANSPARENCY OF INVESTMENT FUNDS WITH A SPECIFIC LONG-TERM TARGET RETURN.

18 January 2017

Nominal interest rates in developed countries are at historically low levels at all terms to maturity. This scenario has led to managers of collective investment schemes (hereinafter CIS managers) lengthening the maturity term of funds with a specific target return, since only long terms are able to provide investors with profitable returns given the level of costs incurred by funds.

In particular, the average duration of guaranteed funds´ strategies has increased from 3.43 years in 2012 to 6.16 years in 2016, with an increasingly greater presence of funds with maturity terms of over 6 years.

The possibility of a raise in interest rates, combined with the long term to maturity with which this type of structured products are launched, means that those investing in these funds (traditionally conservative investors) may be bearing a high risk of sustaining significant losses if they redeem their investment before maturity. In addition, early redemption is more likely the longer the product's term to maturity is.

Furthermore, in the case of funds with long marketing periods (longer than one month), when the market is highly volatile, as has been the case recently with public debt, there is a particularly relevant risk of the target returns established in the information prospectus (offered to investors) being rendered significantly outdated with regard to the actual returns available in the current market context, at any given time.

With the aim of strengthening investor protection and ensuring that the investors' consent is well-informed, on 18 January 2017 the CNMV Board, on the back of a report from its Advisory Committee, approved this Technical Guide, in accordance with the provisions of Article 21 of the Securities Market Act.

The CNMV will apply the measures and criteria set out in this Technical Guide to its CIS supervision and authorisation activities.

One. Scope of application.

This Technical Guide is aimed at management companies of Collective Investment Schemes applying to register funds with the CNMV with a specific target return and a maturity term of over three years.

Two. Warning to investors regarding term risk.

The Key Investor Information Document (KIID) of the funds referred to in the previous point must include a warning with the following wording:

> *"LONG-TERM INVESTMENTS MADE BY THE FUND ARE EXPOSED TO HIGH MARKET RISK, THEREFORE REDEMPTIONS BEFORE THE MATURITY DATE MAY RESULT IN SIGNIFICANT LOSSES FOR THE INVESTOR."*

Three. Warning to investors regarding the liquidity of the fund.

When there are not at least four liquidity windows per year (providing the possibility of redeeming without any redemption fees), in the case of funds with a specific target return and a term to maturity of over three years, the KIID must include the following warning in addition to the warning set out in the previous section:

> *"BE ADVISED THAT THE TARGET RETURN OF THE FUND IS DUE ON … AND THAT ANY REDEMPTIONS MADE PRIOR TO THAT DATE WILL INCUR A REDEMPTION FEE OF …%, UNLESS IT IS REQUESTED ON ANY OF THE … DATES SPECIFICALLY INDICATED."*

Four. Warning to investors regarding the marketing period risk.

When the marketing period of funds with a specific target return and a term to maturity of over three years is longer than one month, the KIID must also contain the following warning:

> *"DURING THE INITIAL MARKETING PERIOD THE FUND IS ALLOWED NOT TO VALUE PART OF ITS TRANSACTIONS, SO THE NAV OF THE FUND SHARES MAY CHANGE SIGNIFICANTLY ON THE FIRST VALUATION DAY (XX-XX-XX)".*

Five. Inclusion of these warnings in other documentation.

The above warnings must be included in all marketing documentation describing the fund which may be delivered to clients by the management companies or the marketers for distribution purposes, such as tri-fold leaflets, marketing fact sheets, or similar.

Six. Management of conflicts of interest during the marketing period.

When certain transactions are not valued during the initial marketing period of funds with a specific target return, and unrealised losses take place during that period, the management company and its group entities participating in the marketing must not perform any marketing activities more intensely than they would have, had such circumstance not occurred.