ESMA report on Costs and Performance of EU retail investment product
Table of Contents

• Main findings
• UCITS
• Retail Alternative Investment Funds (AIFs)
• Structured Retail Products (SRPs)
Main findings

UCITS funds
Costs and net performance:

- Slight reduction in costs from previous year
- Active UCITS more expensive than passive and ETFs, so their net performance was on average lower
- ESG funds underperformed for the first time, a likely consequence of the energy crisis

Investment value: Investors paid ~750€ in costs for an investment of 10,000€ between 2018 and 2022. This led to a final net value of 10,850€

Inflation:

- When including inflation, the real net value decreased to around 9,850€
- Inflation differences across Member States which add to the cost heterogeneity
Main findings (2)

Retail AIFs

Costs and net performance: Significant decline in performance in 2022 with negative returns for all categories except real estate funds

Investment value: An investment of 10,000€ between 2018 and 2022 would yield around 11,100€ in net terms and 10,100€ in real terms

Structured Retail Products

Costs and net performance:

— Costs rose in 2022 for a majority of product types and issuers compared with previous year

— The returns of one in eight SRPs would be negative even in a moderate scenario

Investment value: a 5Y investment of 10,000€ undertaken in 2022 would yield around 10,800€ in net terms
**UCITS: Costs continue to decline**

**Retail UCITS costs**

- **Size:** EUR 5.5tn in 2022

**Gross and real performance down**

- **Costs:** Ongoing costs declined; -4% for equity between 2018 and 2022 (1Y holding), -12% for bond
- **Performance:** Significantly lower in 2022 vs 2021 but long-term investments reduce performance volatility
- **Net Performance:** 10,000€ investment in hypothetical portfolio for 5Y yields net 10,850€
- **Inflation:** Real performance -10ppts; 10,000€ investment in hypothetical portfolio for 5Y yields net real 9,850€
Equity UCITS performance by management type

Active funds underperformed passive
- **Costs**: Ongoing costs decreased for active equity funds between 2021 and 2022 (-0.2 ppt; 1Y holding), compared with -0.1ppt for passive funds and stability for ETFs
- **Performance**: Active equity funds underperformed passive and ETFs equivalents in 2022

ESG fund performance affected by 2022 energy crisis
- **Performance**: ESG funds underperformed non-ESG peers, a likely consequence of the energy crisis
- **Costs**: ESG funds with similar or lower ongoing costs compared to non-ESG peers
Retail AIFs: High costs, mixed performance

Retail AIF market declines slightly

- Investors: AIF retail investor base small, at 14% of NAV
- Size (retail): 930€ bn NAV

Largely negative performance in 2022

- Gross performance: Annualised returns of AIFs held by retail investors significantly declined, between 5% and 9% depending on strategy; RE as only category with positive returns, before 2023 decline

Costs higher than for comparable UCITS

- Costs: Ongoing costs of ‘Other’ AIFs similar to ongoing costs of retail UCITS. Funds-of-Funds and Real Estate funds have higher ongoing costs

Net performance suggests only limited advantage over UCITS

- Stylised portfolio: Outcome of a 5Y investment of 10,000€ in hypothetical portfolio composed of retail AIFs yields 10,081€ after costs and inflation
SRPs: costs rising

SRP market slightly increased, structures evolved
- **Size:** 350€ bn outstanding
- **Structures:** Decline in capital-protection products, maturities lengthen, bond-referenced structures more popular

Performance heterogenous, with massive downsides
- **Costs:** Rose in 2022 for majority of product types and issuers
- **Performance:** One in eight SRPs have negative returns even in moderate performance scenario according to the performance scenarios
- **Stylised portfolio:** Median outcome of a 5Y investment of 10,000€ in SRPs undertaken in 2022 would yield in net terms before inflation 10,800€ under moderate scenario, 13,000€ in favourable and 5,300€ in unfavourable scenario

Source: ESMA, Structuredretailproducts.com, financial entities’ websites.
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