

PRESS RELEASE

ESMA report finds investment product performance highly impacted by charges

The European Securities and Markets Authority (ESMA) today publishes its first Annual Statistical Report (Report) on the cost and performance of retail investment products. The Report covers Undertakings for Collective Investment in Transferable Securities (UCITS), Alternative Investment Funds sold to retail investors (retail AIFs) and Structured Retail Products (SRPs). The analysis complements ESMA's risk assessment, supervisory convergence and investor protection work, and contributes to the European Commission's project on cost and performance of investment products under the Capital Markets Union Action Plan.

The report documents the significant impact of costs on the final returns that retail investors make on their investments:

- the charges for UCITS funds, taken all together, reduce their gross returns by one quarter on average;
- the cost impact varies widely, especially depending on the choice of product, asset class, fund type; and
- management fees and other on-going costs constitute over 80% of investors costs, whilst entry and exit fees have a less significant impact.

Market transparency is particularly limited for retail AIFs and SRPs for which practically no up-to-date data on costs and performance are available.

Steven Maijoor, Chair, said:

“The Report is an important building block in our investor protection work. Retail investors in the EU benefit from the choice among thousands of UCITS and alternative funds and structured investment products. It is key that they are aware of the costs and performance of these products.

“Our Report shows that fund costs are substantive, can severely impact returns, and vary strongly. It demonstrates the importance of cost disclosure to investors,



and the need for asset managers and investment firms to take costs into account when acting in the best interest of investors. This evidence should prompt investors to carefully compare the costs of investment products when making investment decisions.

“Costs, their level and structure are relevant for investor protection, and we will monitor and assess what the evidence implies for our supervisory convergence work.”

Highlights

The data shows that for UCITS the total costs of a fund presents a significant drain on fund performance, impacting retail investors to a much higher extent than institutional investors. On average, retail clients pay twice as much as institutional clients. The impact varies across asset classes, with costs on average accounting for 25% of gross returns in the period from 2015 to 2017. On-going costs such as management fees constitute over 80% of the total cost paid by customers, whilst entry and exit fees have a less significant impact.

In terms of overall returns, passive equity funds consistently outperform active equity funds. This is further demonstrated by the fact that costs for actively managed equity funds are found to be significantly higher than for passively managed funds and ETFs.

Moreover, the report finds significant variation in costs and gross performance across Member States. Finally, the report highlights the lack of available and usable cost and performance data, especially for retail AIFs and SRPs, which is a significant issue from an investor protection perspective.

The report provides National Competent Authorities with useful information to support the implementation of the Capital Markets Union, and aims to facilitate increased participation by retail investors in capital markets by providing consistent EU-wide information on cost and performance of investment products. It also demonstrates the relevance of disclosure of costs to investors, as required by the MiFID II, UCITS and PRIIPs rules and the need for asset managers and investment firms to act in the best interest of investors, as laid down in requirements of MiFID II, the UCITS and AIFM Directives.



Notes for editors

1. [ESMA Statistical report on the cost and performance of retail products](#)
2. EBA Statistical report on Structured deposits
3. EIOPA Statistical report on Investment based insurance products (IBIP) and Pension Products
4. A technical workshop including a presentation of the results contained in the three abovementioned reports will be organised by the DG FISMA of the European Commission on 21 January 2019.
5. European Commission, “Request to the European Supervisory Authorities to report on the cost and past performance of the main categories of retail investment, insurance and pension products”, 12 October 2017, Brussels (Ref. Ares(2017)5008790 - 13/10/2017).
6. ESMA’s mission is to enhance investor protection and promote stable and orderly financial markets.

It achieves these objectives through four activities:

- i. assessing risks to investors, markets and financial stability;
 - ii. completing a single rulebook for EU financial markets;
 - iii. promoting supervisory convergence; and
 - iv. directly supervising specific financial entities.
7. ESMA achieves its mission within the European System of Financial Supervision (ESFS) through active cooperation with the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), the European Systemic Risk Board (ESRB), and with national authorities with competencies in securities markets (NCAs).

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