[ESMA report stresses impact of costs on retail investor benefits]

The analysis contained in this report complements ESMA's risk assessment and supervisory convergence work within its investor protection mandate, and contributes to the European Commission's project on cost and performance of investment products under the Capital Markets Union Action Plan.

Steven Maijoor, Chair, said:

"In this second annual report we continue to see the high impact of costs on the final returns that retail investors receive on their UCITS investments. The costs paid by retail investors are significantly higher than those paid by institutional investors, leading to lower net returns for this category of investors.

"The report also finds that, in the analysed period, due to the higher costs, the net returns on actively managed funds are lower, on average, than those for passively managed funds.

"Today's report highlights the continued need for retail investors to be provided with clear information about the impact of costs on the returns they can expect to receive, allowing them to make informed investment decisions. This forms a key element of meeting ESMA's investor protection objective."

The key findings in the report are the following:

· Volatile returns: Average fund performance amounted to no more than +0.2% in 2018, while they were +8.3% in gross terms for a one-year investment in 2017. Currently, as the COVID-19 pandemic affects securities markets, fund investors should be prepared to see significant negative impacts on their portfolios;

· Fund costs: Costs, on the other hand, remained broadly stable and only marginally declined over time: for one-year investments they were 1.5% in 2018 compared to 1.6% in 2017. In cases of low gross annual performance, the cost impact on retail investors' final returns is stronger;

· Retail investors: Costs continue to have a significant impact on the final value of an investment, with retail clients paying around 40% more than institutional investors on average across asset classes. A hypothetical ten-year retail investment of EUR 10,000 in equity, bond and mixed funds provided a net return of around EUR 16,160 for the period 2009-2018, with costs amounting to around EUR 2,800;

· Risks: Higher risk exposures entail higher costs irrespective of the asset class;

· Active and passive funds: Although actively managed UCITS funds saw gross outperformance over passive and ETFs UCITS funds, the difference was not high enough to compensate the higher costs charged by active UCITS funds. Costs were higher than 1.5% in the case of active equity UCITS while they hovered around 0.6% for passive and ETFs UCITS, on average; and

· There is limited comparability across Member States. Heterogeneity and data availability issues persist, also in relation to lack of harmonisation in national regulation and differences in investor preferences.

For retail alternative investment funds (AIFs), the current report provides information on gross performance, while data on costs continued to be unavailable. Gross returns were negative for the types of AIFs with large retail investor shares: -2.1% for funds of funds and – 3.3% for the category Other. This reflects the poor performance observed across asset classes, especially at the end of 2018.

Background

This report aims at facilitating increased participation of retail investors in capital markets by providing consistent EU-wide information on cost and performance of retail 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 MiFID II, and the UCITS and AIFM Directives.