ESMA study finds high impact of costs on performance, especially for active equity funds

The European Securities and Markets Authority (ESMA), the EU’s securities markets regulator, has carried out a study of the performance of active equity funds as compared to passive equity funds, ETFs and relevant benchmarks. The study, included in the latest Trends, Risks and Vulnerabilities (TRV) report finds that actively managed funds have in past years underperformed, in net terms, both passive equity funds and equity ETFs, as well as their own benchmarks, primarily due to the large impact of ongoing costs.

The share of passive investing in the equity fund market segment has been increasing materially, however active equity UCITS still accounted for about 75% of the overall market in 2018. Over the last few years, the top 25% of actively managed equity UCITS outperformed those that were managed passively both before and after costs. However, as the composition of the group of the top 25% changes over time, there is limited opportunity for investors to pick consistently outperforming actively managed equity UCITS.

Going forward, ESMA will continue to look at the topic of costs and charges in line with its investor protection mandate, working in collaboration with national competent authorities aiming to harmonise the situation for investors across the EU.