

Retail clients continue to lose out due to high investment products costs

The European Securities and Markets Authority (ESMA), the EU securities regulator, today publishes its [third annual statistical report](#) on the cost and performance of European Union (EU) retail investment products. In the report ESMA finds that the costs of investing in key financial products, such as UCITS funds, retail alternative funds, and structured investment products (SRPs) remain high and diminish the investment outcome for final investors.

Clear and understandable information about the impact of costs on the returns that retail investors can expect to receive is key to allowing investors to make informed investment decisions. Ensuring this information is made available is a key element in meeting ESMA's investor protection objective.

The main findings in the report are the following:

- **Fund costs:** UCITS costs only marginally declined over time. For one-year investments they were 1.4% in 2019 compared to 1.5% in 2018 on average across asset classes;
- **Volatile returns:** Average gross UCITS fund performance depends on market developments and varies significantly over time. It amounted to 7.7% in 2019, while it reached no more than +0.2% in 2018 for a one-year investment. The market impact of COVID-19 falls outside the reporting period;
- **Retail investors:** Retail clients pay on average around 40% more than institutional investors across asset classes. A ten-year investment of EUR 10,000 in a portfolio composed of equity, bond and mixed funds led to a gross value of around EUR 21,800 and EUR 18,600 after costs. Around EUR 3,200 in costs were paid by the investor;
- **Risks:** Higher risk exposures entailed higher costs irrespective of the asset class;
- **Active and passive funds:** The evidence on cost structure showed that costs were higher for active equity and bond UCITS compared to passive and UCITS ETFs, ultimately implying net underperformance of active equity and bond UCITS, on average, compared to passive and UCITS ETFs. Top-25% active equity UCITS overperformed compared to the top-25% passive and related benchmarks, at shorter horizons. However, the cohort of UCITS changes over time making it complicated for investors to consistently identify outperforming UCITS;
- **ESG funds:** ESG outperformed non-ESG equity UCITS mostly due to sectoral factors. According to the evidence, actively managed ESG funds showed lower costs than non-ESG, not supporting the view that there is systematic greenwashing by ESG funds;
- **Retail AIFs:** Retail AIFs, similar to UCITS, showed high return volatility. While being negative in 2018, gross annualised returns in 2019 were 12% for Fund of Funds (FoFs) and 9% for the residual category "Others" that includes investment primarily focused on equity and bonds.

Net returns confirm what has been observed for gross returns, being 11% for FoFs and 7% for Others;

- **SRPs:** The analysis on costs and performance scenarios for SRPs showed that total costs were largely attributable to entry costs and varied substantially by country and payoff type. Moreover, there was little difference in simulated returns between moderate and favourable performance scenarios; and
- **Transparency:** There is limited comparability across Member States. Heterogeneity and data availability issues persisted, as well as lack of harmonisation in national regulation.

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.

Next steps

EIOPA has also published today its report on **insurance-based investments products and personal pension products**. A joint [ESMA-EIOPA event](#) to share the findings of both reports will take place on 21 April 2021. During this webinar you will see a presentation of the reports, which will be followed by a Q&A session.