



ESMA report on Costs and Performance of EU retail investment product

Webinar, 10 January 2024

ESMA50-524821-3088

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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

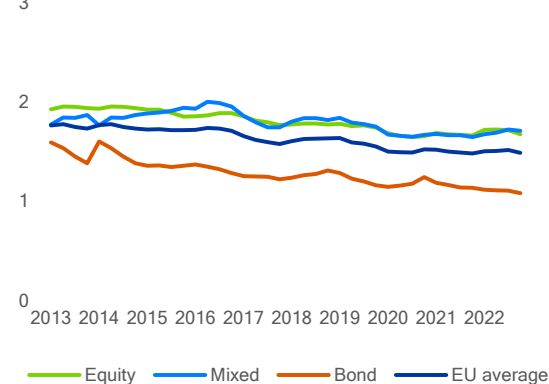
Costs and net performance:

- 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

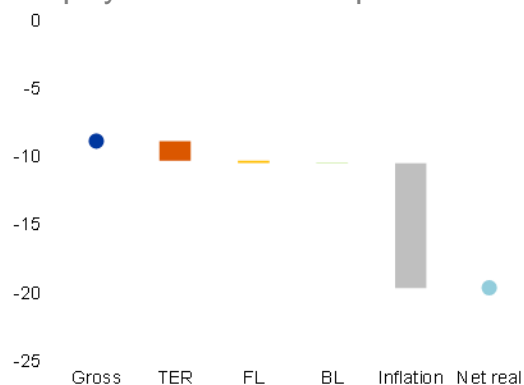
UCITS: Costs continue to decline

Retail UCITS costs



Note: EU27 UCITS universe, total costs as ongoing costs, subscription and redemption loads, by asset class, retail investors, in %.
Sources: Refinitiv Lipper, ESMA.

Equity funds real net performance



Note: EU27 UCITS equity funds annual performance classified as gross performance (dark blue dot), ongoing costs (TER, orange bar), subscription (FL, yellow bar) and redemption loads (BL, green bar), inflation (grey bar) and net real performance (sky blue dot). Retail investors, 1Y horizon %.
Sources: Refinitiv Lipper, Eurostat, ESMA.

Largest market for retail investors

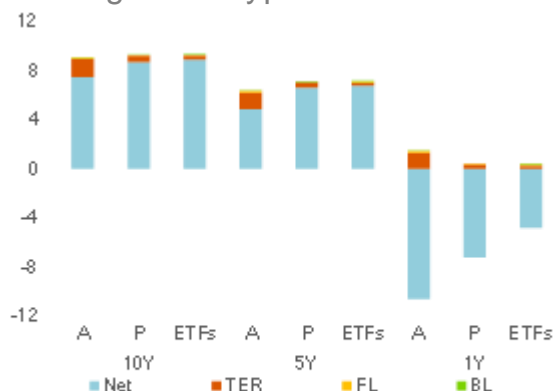
- Size: EUR 5.5tn in 2022

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€

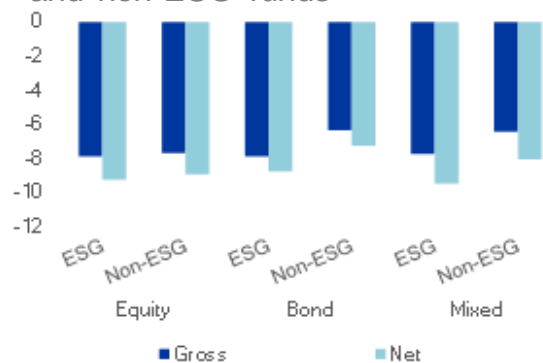
UCITS: Costs continue to decline (2)

Equity UCITS performance by management type



Note: EU27 equity UCITS gross annual performance, classified as net performance, ongoing costs (TER), subscription (FL) and redemption (BL) loads, by management type, active (A), passive (P) and ETFs, by time horizon, in %.
Sources: Refinitiv Lipper, ESMA.

Gross and net performance of ESG and non-ESG funds



Note: EU27 UCITS fund shares gross and net annual performance in 2022 by asset and ESG or non-ESG fund type, one year investment horizon, retail investors, in %.
Sources: Refinitiv Lipper, Morningstar, ESMA.

Active funds underperformed passive

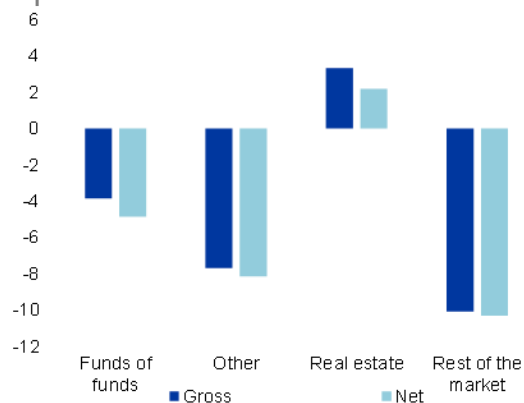
- **Costs:** Ongoing costs decreased for active equity funds between 2021 and 2022 (-0.2 ppt; 1Y holding), compared with -0.1ppt for passive funds and stability for ETFs
- **Performance:** Active equity funds underperformed passive and ETFs equivalents in 2022

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 AIFs gross and net performance at 1Y horizon



Note: Note: EEA30 AIFs annualised monthly gross and net performance by fund type, %, 2022. Reported according to AIFMD. Rest of the market includes Hedge Funds, Private Equity and None.
Sources: National Competent Authorities, ESMA.

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

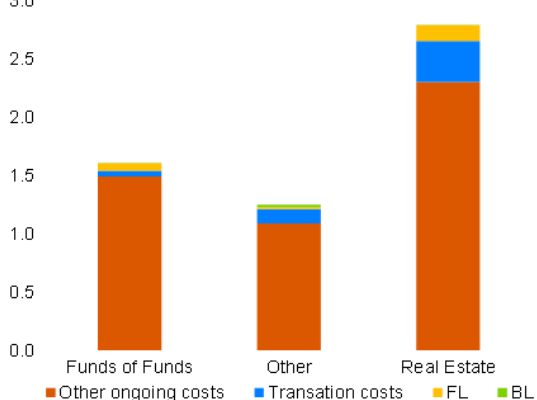
Costs higher than for comparable UCITS

- 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

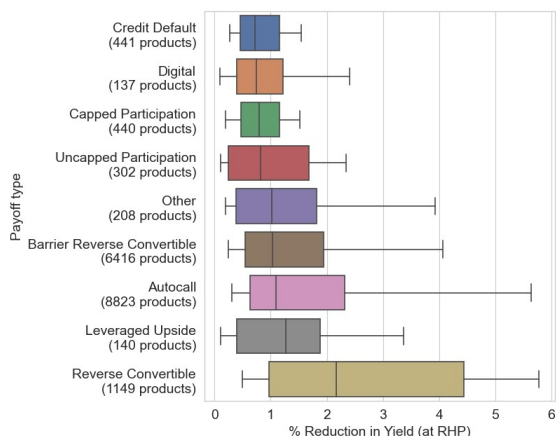
Retail AIFs costs



Note: EEA 30 AIFs total costs classified as other ongoing costs, transaction cost, front (FL) and back loads (BL), by fund type, %, 2022. Rest of the market includes Hedge funds, Private Equity and None.
Sources: National Competent Authorities, Morningstar, ESMA.

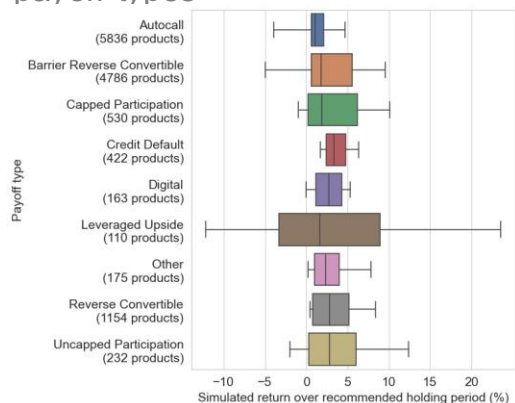
SRPs: costs rising

Total costs for SRPs by payoff type



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

Moderate scenario returns across payoff types



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

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



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