

**MEMO# 34827**

January 24, 2023

# **ESMA Releases Annual Report on the Costs and Performance of European Union Retail Investment Products**

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TO: ICI Global Members SUBJECTS: International/Global  
MiFID, EMIR, AIFMD, UCITS V RE: ESMA Releases Annual Report on the Costs and  
Performance of European Union Retail Investment Products

On January 17, the European Securities and Markets Authority (ESMA) published its fifth annual report on the costs and performance of European Union (EU) retail investment products.[\[1\]](#) The report covers Undertakings for Collective Investment in Transferable Securities (UCITS), Retail Alternative Investment Funds (Retail AIFs), and Structured Retail Products (SRPs).

In the report, ESMA analyzed the market between 2012 and 2021 and found that the costs of investing in the most important retail financial products continued to decline, albeit "at a very slow pace." The reports key findings are the following:

- **Costs:** Costs have declined somewhat, but investors should continue to consider fund fees carefully in their investment decisions. Active UCITS remained more expensive than passive funds and ETFs, such that their net performance was on average lower in comparison. Costs were higher for cross-border funds than those for domestic funds, mainly due to differences in distribution channels.
- **Investment value and value-for-money:** Investors paid around 3,000€ in costs for an investment of 10,000€ over the ten years between 2012 and 2021. This led to a final net value of 18,500€ at the end of this period. Beyond performance and costs, the overall utility that investors can derive from investment products, i.e., their value-for-money, is gaining growing attention. Cost efficiency, as well as product design and quality, determine final investor outcomes.
- **Inflation:** After more than a decade of low inflation, the recent rise in price levels has started to weigh on investor returns. In addition to the average 3,000€ fund fees paid for a ten-year 10,000€ investment, investors typically lose 2,000€ due to inflation, reducing the net value of that investment to 16,500€. Inflation differences across Member States, measured at the level of the fund domicile, add to the persistent and high differences in fund costs across the EU.

- ESG: While equity, bond, and mixed ESG funds outperformed on average their non-ESG equivalents in 2021, results differ across asset classes. In 2021, equity and mixed ESG funds outperformed their non-ESG peers but the performance of ESG bond funds was lower than the performance of non-ESG bond funds. ESG funds remained cheaper than their non-ESG peers, with the exception of equity ESG ETFs which are more expensive compared to non-ESG equity ETFs.
- Structured Retail Products: Total costs were largely attributable to entry costs and varied substantially by country and by pay-off type. Costs of products issued in 2021 increased for a majority of payoff types and issuers compared to products issued in the previous three years.

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#### Notes

[1] ESMA's report is available at [https://www.esma.europa.eu/sites/default/files/library/esma50-165-2357\\_esma\\_statistical\\_report\\_on\\_costs\\_and\\_performance\\_of\\_eu\\_retail\\_investment\\_products.pdf](https://www.esma.europa.eu/sites/default/files/library/esma50-165-2357_esma_statistical_report_on_costs_and_performance_of_eu_retail_investment_products.pdf).

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