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Comparing UCITS and Mutual Funds: UCITS Costs Are Declining, but Structural Challenges Remain

Recent comparisons between the fees of US mutual funds and European UCITS funds rightfully acknowledge key structural differences between the two markets but don't change the reality that the asset-weighted average cost of US mutual funds is significantly lower than that of UCITS. While some argue that comparing similar share classes and accounting for different cost structures can narrow this gap, these methodological refinements ignore a fundamental issue—how to ensure UCITS can scale effectively to deliver greater benefits to European retail investors. UCITS operate in a more fragmented landscape with varying national regulations, which add to expenses. These structural challenges hinder UCITS from achieving the same level of cost efficiency as their US counterparts.

The focus should be on creating conditions that allow UCITS to scale more efficiently and not on debating the precise nature of cost comparisons. Reducing regulatory fragmentation, improving cross-border fund distribution, and fostering greater competition in the European market will help drive down costs and enhance investor outcomes. This is where ESMA's strong emphasis on continued market development is critical to ensuring that European investors benefit from lower fees. As ESMA works to promote the Savings and Investment Union, there will be greater retail investor participation in EU markets, greater economies of scale, and lower fees for European investors. That is the heart of ESMA's argument, and it's one with which we wholeheartedly agree.

Comparing Apples and Pears

In 2023, ICI highlighted why averaging US mutual fund expense ratios against UCITS ongoing charges is a false equivalency, akin to comparing apples and pears. UCITS should be evaluated on their own merits, not through the lens of US fund structures. Importantly, when viewed independently, the data shows encouraging trends: UCITS fees have been declining, benefiting European investors and reinforcing UCITS' role as a cost-effective and well-regulated investment vehicle.

Average UCITS ongoing charges differ considerably from average US mutual fund expense ratios for three key reasons.

- **Retail UCITS investors predominantly pay for distribution and advice internally or through ongoing charges that bundle the cost**. At year-end 2023,

71 percent of retail UCITS net assets were in bundled share classes. By contrast, US mutual fund investors have largely moved away from these types of share classes—just 14 percent of retail US mutual fund net assets were in bundled share classes.
- **UCITS are smaller, on average, and benefit less from economies of scale than US mutual funds**. At year-end 2023, the average UCITS had €356 million in net assets, which is substantially smaller than the size of the average US mutual fund (€2.6 billion).
- **Index tracking funds, which tend to have lower ongoing charges than actively managed funds, are a smaller share of the UCITS market**. At year-end 2023, index tracking UCITS were 10 percent of total UCITS net assets while US index mutual funds were nearly 30 percent of total US mutual fund net assets.

Key Differences Between US and EU Markets Affect Average Ongoing Charges for Funds

1US mutual funds exclude money market funds, variable annuities, and mutual funds that invest primarily in other mutual funds. Mutual funds held as investments in individual retirement accounts, defined contribution retirement plans, 529 plans, and Coverdell education savings accounts are counted as household holdings of mutual funds. Data are as of year-end 2023.

2UCITS include funds domiciled in Luxembourg and Ireland and exclude cash funds, internal funds, funds of funds, and funds of hedge funds. Data also exclude institutional share classes. Data are as of the end of each fund’s fiscal year ending in 2023.

Sources: Investment Company Institute, Fitz Partners, Morningstar Direct, and Refinitiv

UCITS Stand on Their Own

The UCITS cost conversation should centre on how Europe distinguishes itself, rather than on cost comparisons between UCITS and US mutual funds.[1] Europe should take pride in its achievements, particularly the development of the UCITS framework. UCITS have grown to €12.1 trillion in total net assets[2] and proven to be a successful product, offering retail investors a broad range of investment choices, robust investor protection, and strong regulatory oversight in a cost-effective wrapper.

Over the past decade, UCITS ongoing charges have steadily declined, highlighting the product’s potential for scalability and long-term benefits for investors. This is the story that deserves attention—small but consistent year-over-year reductions that, over time, translate into meaningful cost savings. By addressing cross-border frictions and fostering greater economies of scale, Europe has an opportunity to build on this progress and further enhance UCITS’ strengths. Tackling these challenges will support the continued development and expansion of UCITS, ensuring they remain a competitive and attractive investment option for investors across Europe and beyond.

Notes

[1] See European Securities and Markets Authority, *The Scale Factor: Impact of Size on EU Fund Cost Structures*.

[2] Data are as of October 2024 and exclude non-EU27 countries. Data include ETFs. For more information, see the October 2024 EFAMA Fund Industry Fact Sheet.