

Costs for European UCITS Continued Downward Trend

Costs for European UCITS Continued Downward Trend

Average ongoing charges for equity and fixed-income funds fell in 2019

London, 26 October 2020—New Investment Company Institute (ICI) research shows average ongoing charges for equity and fixed-income UCITS domiciled in the European Union continued to decrease in 2019. “Ongoing Charges for UCITS in the European Union, 2019” analyses the downward trend and the forces driving steadily lower costs.

The ongoing charge is the fund’s total annual ongoing cost as a percentage of its total net assets. The report finds that in 2019:

- Average ongoing charges that UCITS investors actually paid—the asset-weighted average—were less than the simple average ongoing charges for all UCITS.
- Investors continued to concentrate assets in lower-cost UCITS.
- Cross-border funds represented nearly two-thirds of total UCITS net assets, and their average ongoing charges continued to fall.

“This research shows that investors are benefitting from a competitive, diverse marketplace for funds and are moving toward lower-cost UCITS,” said ICI Economist James Duvall, coauthor of the report. “This analysis offers a clear understanding of the average ongoing charges for UCITS and how investors pay for them.”

“Education and simple, clear, useful disclosure are important for investors,” added report coauthor Giles Swan, director of global funds policy at ICI Global. “This report aims to further inform the regulatory dialogue around fee disclosure, including understanding of the impact of the Markets in Financial Instruments Directive,” or MiFID II.

UCITS Investors Pay Below-Average Ongoing Charges

The report shows that the asset-weighted average ongoing charge for equity UCITS, excluding exchange-traded funds (ETFs), fell to 1.24 percent in 2019, down from 1.27 percent in 2018 and well below the simple average charge of 1.48 percent. Asset-weighted averages—which give more weight to the fees of funds that hold greater assets—reflect the charges that investors in the aggregate actually pay. That is in contrast to the simple average, which weights the charges of each fund equally regardless of size.

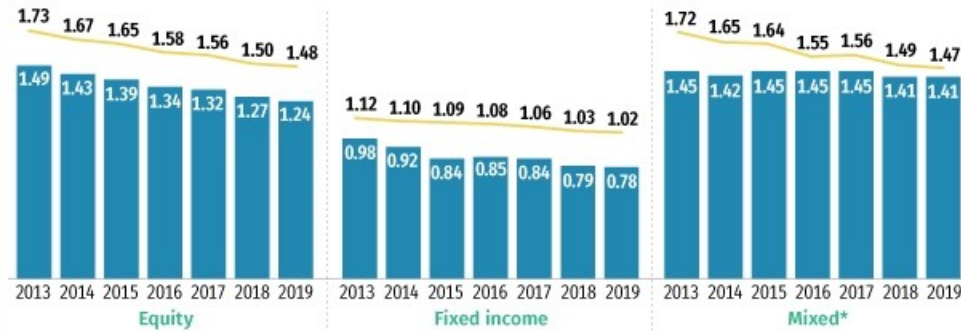
Average ongoing charges in fixed-income UCITS fell from 0.79 percent in 2018 to 0.78 percent in 2019. Average ongoing charges in UCITS invested in a mix of equity and fixed income were mostly unchanged.

Investors in UCITS Pay Below-Average Ongoing Charges

Percent

Years of tenure

■ Asset-weighted average ongoing charge
— Simple average ongoing charge



* Mixed funds invest in a combination of equity and fixed-income securities.

Note: Data exclude exchange-traded funds.

Source: Investment Company Institute tabulations of Morningstar Direct data

Investors Are Concentrating Assets in Lower-Cost UCITS

ICI's analysis found the investor shift toward lower-cost UCITS was the most influential trend driving the overall decline in ongoing charges since 2013. In particular, the share of assets among funds in the lowest quartile of ongoing charges has generally increased since 2013. At year-end 2019, 34 percent of the net assets in equity funds were in those among the lowest quartile of ongoing charges, up from 29 percent at year-end 2013. For fixed-income UCITS, 43 percent of assets at year-end 2019 were in funds among the lowest quartile of ongoing charges, compared with 31 percent at year-end 2013.

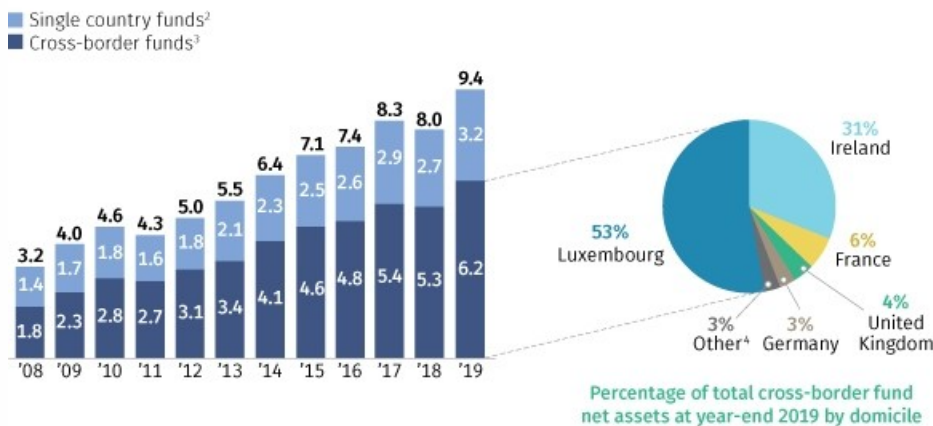
Cross-Border Funds Represent Majority of Total UCITS Net Assets

The report also underscores the importance of cross-border funds, which help foster competition and allow for a greater ability to gain economies of scale. Net assets of cross-border funds domiciled in the European Union continued to grow in 2019, rising to €6.2 trillion by year-end and making up nearly two-thirds of total UCITS net assets.

Ongoing regulatory reforms eliminating barriers to the cross-border distribution of UCITS across the European Union provide the opportunity for further growth and economies of scale.

Cross-Border Funds Represent Nearly Two-Thirds of Total UCITS Net Assets

Total UCITS net assets in trillions of euros,¹ year-end



¹ Total UCITS net assets reported by Morningstar in this figure are less than those reported to EFAMA by its member countries as shown in Figure 1. Part of the difference is attributable to the exclusion of UCITS that invest primarily in other funds in the Morningstar data. While UCITS net assets in Morningstar data are still lower than those reported by EFAMA after this adjustment, Morningstar has more detail on cross-border availability for individual funds, which is necessary for ICI's identification of cross-border funds.

² Single country funds include funds registered and available for sale in one country. Single country funds also include round-trip funds—funds domiciled in one

country but primarily intended for sale in a different country.

³ Cross-border funds are defined as funds registered and available for sale in three or more countries.

⁴ *Other* includes Sweden, Belgium, Austria, Finland, the Netherlands, Denmark, Malta, Estonia, Slovenia, Lithuania, and Latvia.

Note: Data include UCITS domiciled in the United Kingdom and the Netherlands (representing 13 percent of net assets at year-end 2019). Data also include exchange-traded funds.

Source: Investment Company Institute tabulations

Cross-border funds approved for sale in jurisdictions outside of Europe also have proven successful. In 2018, the latest year with available data, nearly 16 percent of UCITS' net assets came from outside Europe, mostly in Asia and Latin America, according to Cerulli Associates. The global export success of UCITS underscores the need for the European Union to continue to preserve the value of UCITS going forward, including the access fund investors enjoy to global investment expertise and opportunities.

For cross-border equity UCITS, the average ongoing charge fell from 1.30 percent in 2018 to 1.27 percent in 2019. For cross-border fixed-income UCITS, the average ongoing charge fell from 0.82 percent in 2018 to 0.80 percent in 2019.

About ICI Global

ICI Global carries out the international work of the [Investment Company Institute](#), the leading association representing regulated funds globally. ICI's membership includes regulated funds publicly offered to investors in jurisdictions worldwide, with total assets of US\$34.7 trillion. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of regulated investment funds, their managers, and investors. ICI Global has offices in London, Hong Kong, and Washington, DC.

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.