

## A Bird's Eye View Sparrows Newsletter

January 2019

### ESMA report on the cost and performance of investment products



2018 was a difficult year for investors, particularly following the turn of the markets in the fourth quarter. Most have seen their portfolios shrink and will be reviewing the performance of their selected managers to ensure that they have added value through this difficult time as promised.

In timely fashion, ESMA (The European Securities and Markets Authority) has just published its report on the cost and performance of investment products<sup>1</sup>.

Readers will recall that the UK regulator (the FCA) published its own Asset Management Market Study back in June 2017<sup>1</sup>. That insightful report arrived at the following conclusions:

- on average, and net of fees, asset managers underperform their benchmarks, and
- there is weak price competition in the industry

The highlights of the newly published ESMA findings are remarkably consistent:

- passive funds consistently outperform their active counterparts
- costs represent a significant drain on investors' performance, impacting retail investors to much higher extent than institutional investors
- management fees constitute over 80% of the total cost paid by investors

The European regulator goes on to state:

*"Results of studies consistently show that actively managed funds clearly produce higher costs to investors than their passive peers, while equating them in terms of gross annual performance or even underperforming"; and "Costs are significantly higher for actively managed equity UCITS compared to passive UCITS. This leads to lower performance net of costs for active compared to passive equity UCITS."*

According to ESMA the report demonstrates "the need for asset managers and investment firms to act in the best interest of investors".

This report piles more pressure on firms in our industry. It points to a need to reconsider the way we currently invest and contemplate whether, as investors, we are indeed behaving in a way that will maximise returns for future beneficiaries. It prompts us to focus on the evidence.

What better resolution for 2019, then, than to look through the short-term volatility and focus on applying evidence-based principles to make the right long-term calls for our portfolios?

I wish you a fulfilling and prosperous 2019.

Yariv Haim, Founder and CEO



For more information on our philosophy, process or if you just want to challenge these observations, please get in touch.

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<sup>1</sup> You can read the full report here: [https://www.esma.europa.eu/sites/default/files/library/esma50-165-731-asr-performance\\_and\\_costs\\_of\\_retail\\_investments\\_products\\_in\\_the\\_eu.pdf](https://www.esma.europa.eu/sites/default/files/library/esma50-165-731-asr-performance_and_costs_of_retail_investments_products_in_the_eu.pdf)

<sup>1</sup> Read our relevant newsletter here: <https://www.sparrowscapital.com/wp-content/uploads/2017/09/BIRDS-EYE-VIEW-Aug-2017.pdf>

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