EFAMA
European Fund and Asset Management Association

# PRESS RELEASE

**FOR IMMEDIATE RELEASE**

Brussels, 13 February 2025

## A like-for-like comparison of the cost of US mutual funds and UCITS is missing from the latest ESMA report

In its recently published market report on the costs and performance of EU retail investment products, ESMA asserts that there are "*substantial differences in the fund cost level between the EU and the US*". In its accompanying press release, ESMA emphasizes that "*the market inefficiencies revealed by this higher cost level show the need to focus on the competitiveness of EU markets, within a future Savings and Investments Union*."

EFAMA disagrees with ESMA's assessment. According to EFAMA's research, **US mutual funds are not necessarily cheaper than UCITS.**

- EFAMA's Market Insights published in March 2024 showed that the **simple average product cost** of active and passive (index and ETF) equity UCITS – the price paid by retail investors excluding distribution and advice costs – was 1.04% and 0.27%, respectively, at the end of 2022. On the other hand, the simple average product cost of US equity funds at the end of 2023 was 1.14% for active mutual funds, 0.55% for index mutual funds, and 0.47% for index ETFs.

- In another Market Insights, we found that the **simple average cost of ownership** of actively managed cross-border UCITS was 1.68% for retail clients using advice-based distribution channels in 2020. Our analysis shows that the cost of ownership for long-term actively managed US funds would only be lower than that of retail UCITS if the fee charged by professionals who provide investment advice and recommendations is less than 0.59% per annum.

It is true, however, that the **asset-weighted average product cost of US mutual funds is significantly lower than that of UCITS** – 0.65% for active funds and 0.05% for index equity mutual funds. This cost difference is largely due to the fact that many US mutual funds are used for retirement savings. According to the ICI Fact Book, nearly 50% of all mutual fund assets – totaling $11.9 trillion at the end of 2023 – were held in employer-sponsored defined-contribution plans (such as 401(k) plans) and individual retirement accounts (IRAs).

Mutual funds in retirement savings plans typically have lower costs than those available to retail investors at banks. These plans pool a large number of participants, qualifying them for institutional share classes with lower expense ratios than retail funds. Additionally, large plans have greater bargaining power to negotiate lower fees with asset managers, often resulting in the selection of lower-cost options, such as passively managed index funds.

This shows the importance of comparing cost structures and contexts that are truly comparable when assessing the costs of UCITS and US mutual funds.

**Tanguy van de Werve, EFAMA Director General***: "It is often claimed that US mutual funds are consistently cheaper than UCITS, with their generally larger size cited as a key reason for cost differences. However, a more detailed analysis highlights the importance of comparing similar share classes and distinguishing between product costs and the total cost of ownership. This approach provides a more nuanced and accurate understanding of the situation and gives a very different picture.*

-ENDS-

**Note to editors:**

You can access the full ESMA report here.

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## ABOUT EFAMA

EFAMA is the voice of the European investment management industry, which manages about 33 trillion of assets on behalf of its clients in Europe and around the world. We advocate for a regulatory environment that supports our industry's crucial role in steering capital towards investments for a sustainable future and providing long-term value for investors.

Besides fostering a Capital Markets Union, consumer empowerment and sustainable finance in Europe, we also support open and well-functioning global capital markets and engage with international standard setters and relevant third-country authorities. EFAMA is a primary source of industry statistical data and issues regular publications, including Market Insights and the authoritative EFAMA Fact Book.

More information is available at www.efama.org