



The fast growing ETF industry: challenge to active asset management

**BELGIAN FINANCE CENTER
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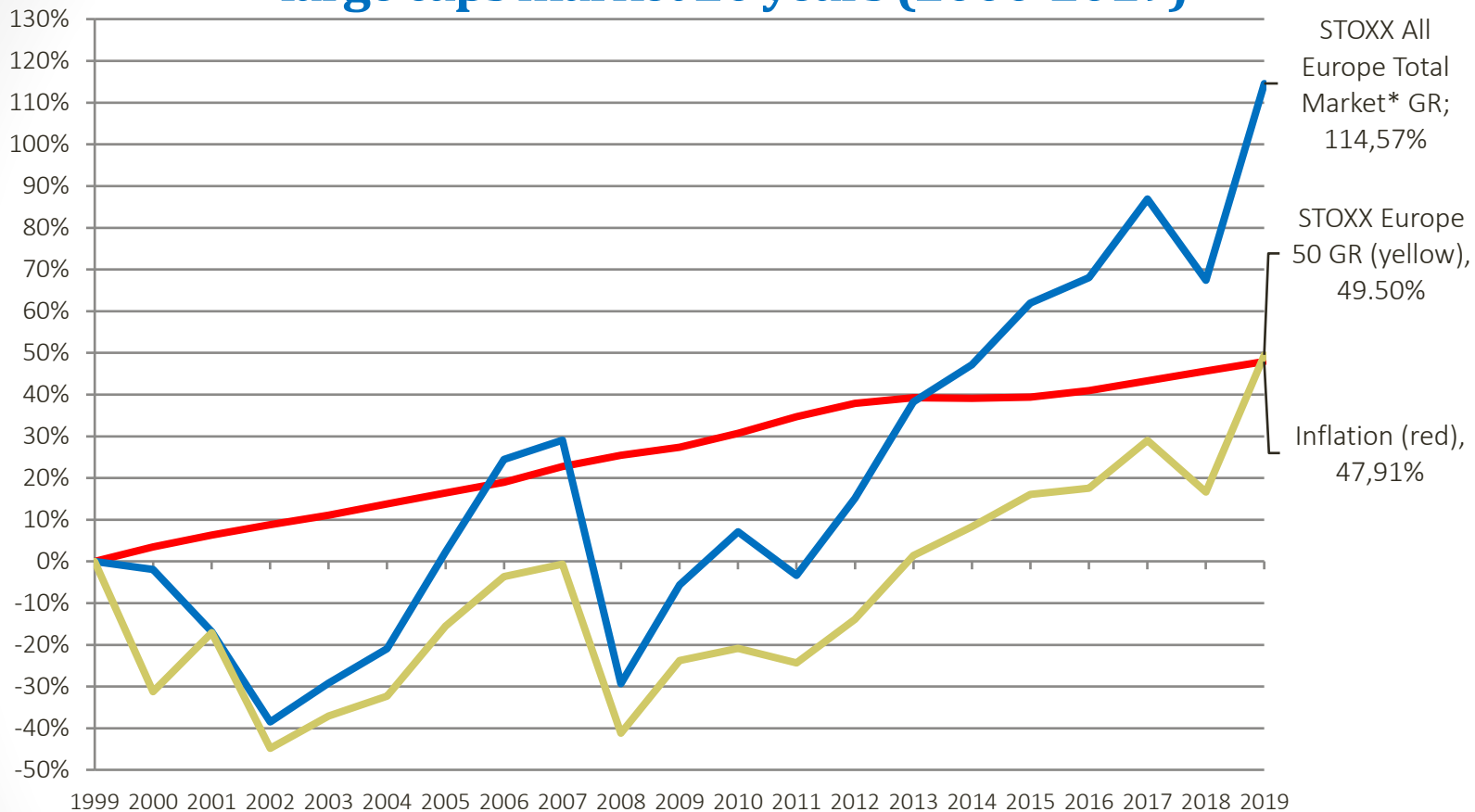
Who We Are

The European Federation of Investors and Financial Services Users, going by the brand name « BETTER FINANCE », is an independent organisation of public interest and centre of expertise advocating and defending the interests of individual investors, savers and other users of financial services vis-à-vis the European authorities and lawmakers.



BETTER FINANCE was created in 2009. Its activities are supported by the European Union since 2012.

Indices are not created equal: European Equity market performance: broad market vs. large caps market 20 years (2000-2019)



Source: BETTER FINANCE, 2020 Research Report on long-term and pension savings

* Inflation used is HICP (2015 = 100) monthly index, EU28

* MSCI Europe data used for 2000-2001 as proxy for STOXX All Europe Total Market (no data)

*Gross returns used for both STOXX All Europe Total Market and Euro STOXX 50 except for Euro STOXX 50 2000 (net returns)

We used the MSCI Europe GR index as a proxy for the 2000 and 2001 performances because we could not find those years for the STOXX All Europe Total Market index (these two indices are broad ones).

Active Equity Fund Performance vs Benchmarks (Independent research 1)

Percentage of European Equity Funds Beating their Benchmarks

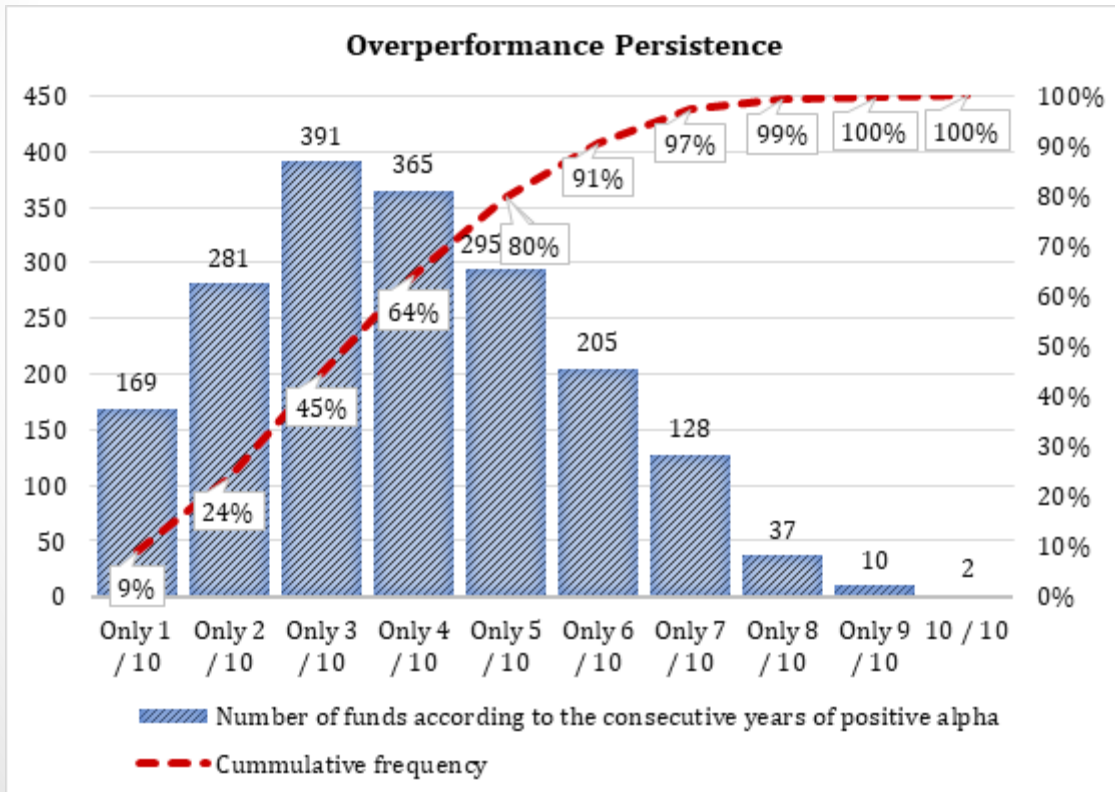
Fund Category	Comparison Index	1-year (2019)	3-year (2017- 2019)	5-year (2015- 2019)	10-year (2010- 2019)	10y AVG
Percentages calculated in Euro						
Europe Equity	S&P Europe 350	29	21	22	13	
Eurozone Equity	S&P Eurozone BMI*	21	9	11	9	
France Equity	S&P France BMI	10	1	8	10	
Germany Equity	S&P Germany BMI	43	32	24	17	15
Italy Equity	S&P Italy BMI	5	13	33	33	
Spain Equity	S&P Spain BMI	14	16	29	22	
Netherlands Equity	S&P Netherlands BMI	0	0	22	4	
Percentages calculated in local currencies						
U.K. Equity	S&P United Kingdom BMI	73	49	36	32	
Denmark Equity	S&P Denmark BMI	22	3	33	12	
Poland Equity	S&P Poland BMI	25	17	43	24	22
Sweden Equity	S&P Sweden BMI	44	34	39	19	

• BMI = Broad Market Index - 850 constituents

Source: BETTER FINANCE Pensions Report (2020), using S&P SPIVA Scorecard (end 2019) data

Active Equity Fund Performance vs Benchmarks (Independent research 2)

Fund overperformance comparison			
Time frame	S&P SPIVA		BF sample
	European	Global	All - nominal
5 years	22%	6%	43%
10 years	13%	2%	31%

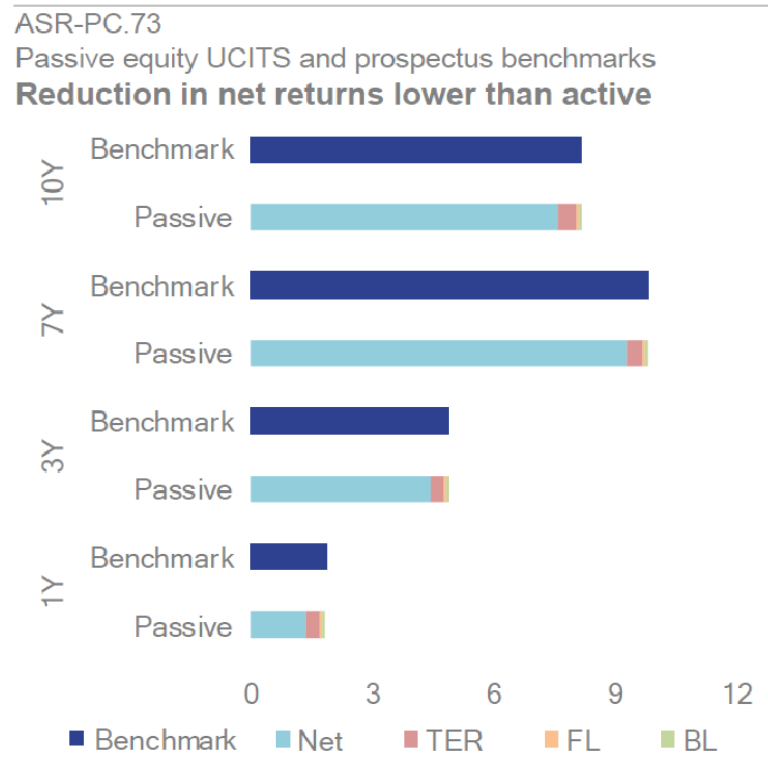
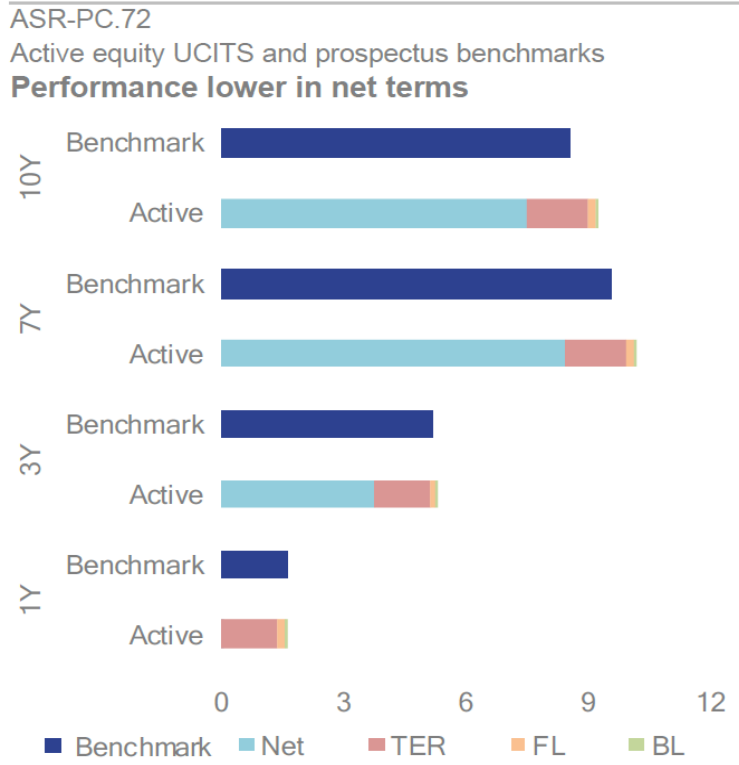


- Table:** Based on a sample of active and passive equity and bond “retail” UCITS domiciled in Luxembourg, BETTER FINANCE calculated excess returns and found that 30% overperformed their benchmarks on 10y time-frames
- Graph:** Results from the S&P SPIVA Scorecard continue to confirm that, where overperformance exists, it is very short-lived;
- both the BETTER FINANCE calculations ([Study on the correlation between cost and performance of EU Equity retail funds](#)) and the S&P analysis show the decreasing number of overperformers as time passes by, with a peak at around 4-5 years, and then significantly decreasing on long-term horizons:

Source: BETTER FINANCE, using S&P SPIVA Scorecard (2020) data; [Study on the correlation between cost and performance of EU Equity retail funds](#) (2019)

Active Equity Fund Performance vs Benchmarks (Independent research 3)

ESMA Report on cost and performance of retail investment products (2020)



TER : Total Expense Ratio; FL: Front Load; BL: Back Load

Source: ESMA Report (2020), Charts ASR-PC.72 (p. 31) and ASR-PC.73 (p. 32)

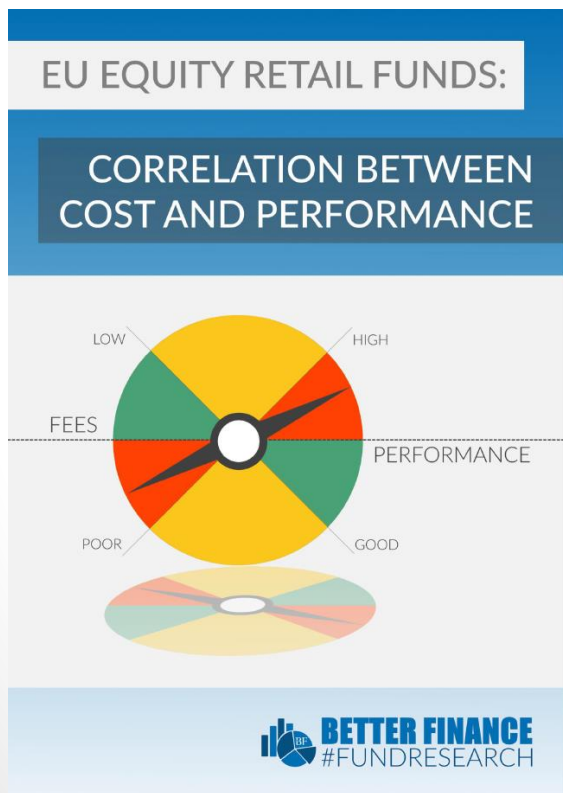
2019 BETTER FINANCE research Report on the Correlation Between Cost and Performance of EU Equity Retail Funds

SCOPE

All retail UCITS and AIF active equity funds domiciled in LU, FR and BE with at least ten year track record

KEY FINDINGS

- Over a full holding period of 10 years, the average investor only had a 0.11% chance to pick a retail equity fund that overperforms its benchmark every year.
- A vast majority (more than 60%) of the underperforming funds charge fees higher than 1%.
- **An increase in charges by 1% would, on average, reduce the mean excess return by 0.45% ; the magnitude ranges 0.07% and 0.88% (reduction);**
- Retail investors investing in an actively managed equity fund will probably be worse off on a long period than an investor who has chosen a low cost index fund with the same benchmark.
- For a fund with a turnover rate >100%, there is only a 31% chance that the fund will deliver returns higher than the passively managed peer
- Regressing turnover rate, tracking error, index performance, and charges on excess returns, we found that fees have the most detrimental effect on nominal (and excess returns)



Source: <https://betterfinance.eu/wp-content/uploads/BETTER1.pdf>



THANK YOU FOR YOU ATTENTION

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