

THE AMF HOUSEHOLD SAVINGS OBSERVATORY NEWSLETTER



ÉDITO

The impact of fees on investment performance

The mystery visits made by the AMF in bank networks have regularly shown that clients are insufficiently informed of the fees on financial investments.

The coming into force of the MiFID 2 Directive on 3 January 2018 strengthened the obligation to provide comprehensive information on the costs and fees paid by investors.

From now on, whenever an investor receives investment advisory services, the account manager must inform them of the detailed fees related to this advice and the recommended investments.

This information must enable the client to know the cumulative impact of these fees on the investment's performance and to allow for this in their investment decisions.

In this Newsletter we show the average fee levels for an investor buying equities directly or via collective investments (read on pages 2 and 3). Ongoing fees on equity funds and diversified funds have declined in the past few years, but are still frequently at levels close to 2% per year.

To assist savers, the AMF provides statistical indications. On its website it provides them with a simulator of the impact of fees on the return on their savings.

It also stimulates professionals to improve the quality of information (professional certification, reporting of savings research, mystery visits, publication of the summaries of inspections on marketing, etc.).

The next issue of the Newsletter will present the main findings of a new series of mystery visits. Special attention will be paid to compliance with the new obligations arising from MiFID 2, and the quality of information on fees. ■

FOCUS

Investments: What are investors' selection criteria?

Risk and prospective return are the two key criteria.

The AMF savings survey questions savers regarding their investment selection criteria in particular.

The main such criteria are risk, return and availability of the funds invested.

52% of those surveyed ranked the risk level among the three main selection criteria. 46% mentioned the expected return and 35% the availability of funds. The level of fees ranks fourth (30%). The recommended investment period is a criterion that is mentioned relatively seldom (19% of respondents).

Younger people less sensitive to risk

Those under 35 are less sensitive than older people to the risk level (42% versus 55% for those aged 55 and over). They are also less sensitive to the availability of funds (24% versus 42%).

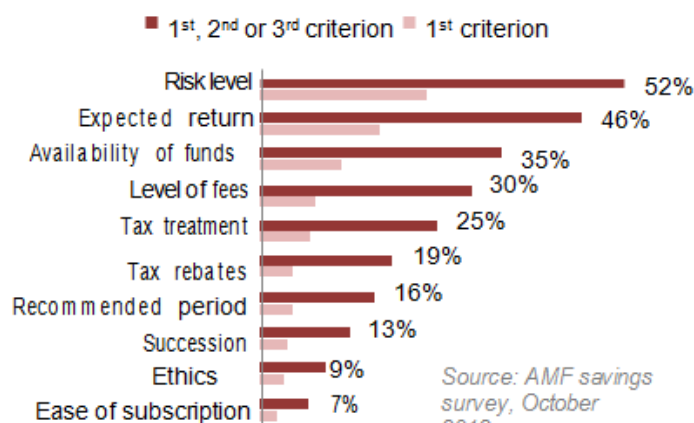
On the other hand, they mention "ethics" more often:

18% of them mention it as an important selection criterion, versus 5% for those aged 55 and over.

Owners of large financial assets more sensitive to fees

Les personnes financièrement aisées (celles dont le The financially well-off (those whose financial wealth exceeds EUR 50,000) consider that the most important selection criteria are the risk level (57%), expected return (55%) and fees (39%, versus 30% for the rest of the population). ■

Figure 1: What are the main selection criteria for you when subscribing to an investment (choice of 4 criterias)



Source: AMF savings survey, October 2018

Financial investment fees



The fees applied to investments in equities made directly or via funds have tended to decline in the past few years .

Since 2011, the AMF Household Savings Observatory has monitored the trends in fees applied to direct and collective investments in equities.

Fees for direct investments in equities

Fees for equity buy and sell orders and custody fees vary greatly from one firm to another and depending on the channel selected (internet, telephone, branch office).

Stability of brokerage fees charged by banks

The brokerage fees clients are charged by the major banks for online buy and sell orders for equities on Euronext were fairly stable between 2017 and 2018.

At 1 August 2018, the total average cost of an online order of EUR 5,000 on Euronext Paris was 0.52% (i.e. EUR 25.80), compared with 0.53% in 2017.

Rates vary significantly from one bank to another: for the same EUR 5,000 order on Euronext Paris, the cost ranges from 0.30% to 0.75% of the amount of the order.

Table 1: Average fees charged by banks for online brokerage

		Average fees	
Online order on Euronext Paris	€1,000 order	€8.1	0.81%
	€5,000 order	€25.8	0.52%
	€10,000 order	€48.9	0.49%
Online order on the New York Stock Exchange (NYSE): €5,000		€49.8	1.00%

Source: AMF. Fees to buy or sell equities listed on Euronext Paris. Calculations based on the rates of nine banks applicable as at 01/08/2018 .

A slight decline in custody fees

Custody fees pay for the custody of securities and the administrative processes carried out by the institution for security holders.

Since 2017, the observed average cost has fallen slightly.

For a portfolio totalling EUR 10,000 divided among 10 investments, at 1 August 2018 annual custody fees represented on average 0.65% of the total amount invested (0.67% in 2017).

Table 2: Average custody fees charged by banks

		Average fees	
€10,000 portfolio	5 investments	€47.95	0.48%
	10 investments	€65.0	0.65%
€60,000 portfolio	5 investments	€138.9	0.23%
	10 investments	€156.2	0.26%

Source: AMF, for a portfolio of equities listed on Euronext Paris. Calculations based on the rates of nine banks applicable as at 01/08/2018 .

The fees of online specialists fall

Fees for orders placed through the sites of specialist intermediaries continued to fall. The average cost of a EUR 5,000 buy or sell order for equities on Euronext Paris was EUR 7.6 (EUR 8.4 in 2016 and EUR 11.25 in 2011).

Table 3: Average fees charged by online specialists

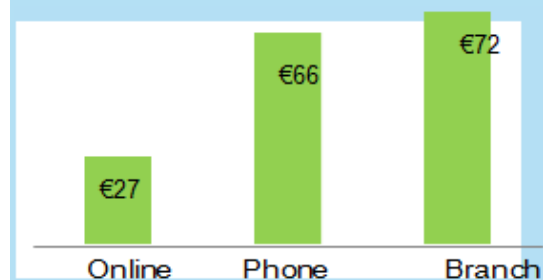
		Frais moyens	
Online order on Euronext Paris	1 000 €	3,7 €	0,37 %
	5 000 €	7,6 €	0,15 %
	10 000 €	15,6 €	0,16 %
Online order on the New York Stock Exchange (NYSE): €5,000		13,7 €	0,27 %

Source: AMF. Fees to buy or sell equities listed on Euronext Paris. Calculations based on the rates of seven banks applicable as at 01/08/2018 .

The online channel, three times cheaper

Brokerage fees differ depending on the channel used. They are two or three times higher by phone or a branch office.

Average cost of an EUR 5,000 order, according to the channel



Source: AMF. Average fees to buy or sell equities listed on Euronext Paris, based on the rates of 16 retail banks, only 10 of which show a rate for placing an order in a branch office or by phone

Collective investment fees

The fees paid by investors in collective investment undertakings (CIUs) differ from one fund category to another and from one fund to another. In addition to any entry fees, ongoing operating and management fees are charged annually.

Further reductions in fees in 2017

In 2017, ongoing fees for all French CIUs open to the public were on average 1.36%, down from 2016 (1.41%).¹

The downward trend is pronounced for equity funds and diversified funds.

Equity funds, all categories combined, charged average ongoing fees of 1.66% in 2017 (versus 1.70% in 2016 and 1.74% in 2015). The average fees of the 761 diversified funds counted were 1.71% in 2017 (versus 1.80% in 2016 and 1.85% in 2015).

Table 4: Ongoing fees in 2017 for a selection of CIU categories

Six Financial Information categories	Number of funds	Average fee (%)
US equities	143	1.41
Asia/Pacific equities	116	1.50
European equities	1298	1.65
International equities	300	1.85
Theme and sector equities	268	1.53
Euro area diversified	191	1.42
European diversified	72	1.54
International diversified	498	1.84
Target-date funds	70	1.43
Euro-denominated convertible bonds	68	1.07
European convertible bonds	83	1.13
International convertible bonds	41	1.41
Euro-denominated bonds	693	0.65
High-yield bonds	177	0.95
International bonds	165	0.98
Partially guaranteed CIU	82	1.26
Fully guaranteed CIU	67	1.19
Absolute performance – multi-strategy	111	1.26
Absolute performance – directional strategy	540	1.92
Euro cash	333	0.13

Source : Six Financial Information, October 2018

¹ Source: Six Financial Information, a fund analysis and measurement agency, has tracked the TERs of public French funds (about 6,000 funds). Fee averages are calculated without weighting for fund size.

Active and passive management

In 2017, the 165 equity ETFs charged an average fee of 0.41% and the 77 funds classified as "index-based" 1.02%.

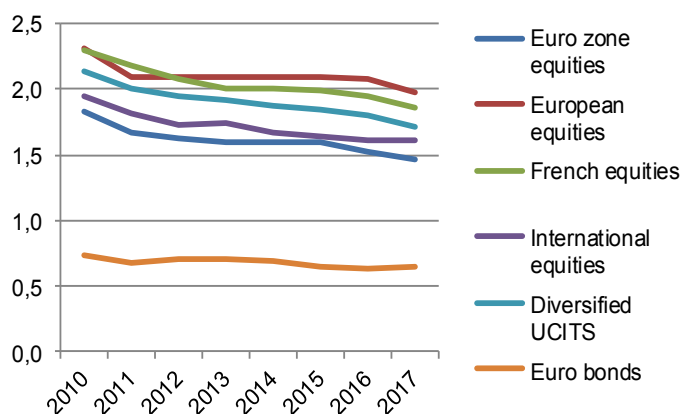
The average total annual fee charged by equity funds, excluding "index" funds and ETFs, was 1.90% (2.27% for 334 European equity funds and 2.16% for 151 French equity funds). ■

Sharp fall in fees since 2010 for equity funds and diversified funds

Between 2010 and 2017, ongoing fees fell for the main categories of funds.

They decreased from 2.3% to 1.9% for French equity funds. In the diversified funds category, average ongoing fees decreased from 2.3% to 1.7%.

Trend in average ongoing fees of French CIUs from 2010 to 2017, as a %



Source : Six Financial Information, October 2018.

Performance fees

Ongoing fees do not include performance fees, which are common in certain fund categories.

In 2017, these fees were 0.24% on average for French equity funds and 0.17% for European equity funds.

Also, they were 0.24% on average for emerging bonds and 0.65% for "multi-strategy" alternative funds.

In 2017, the total expense ratio (TER), i.e. the sum of ongoing fees and performance fees, was on average 2.10% for French equity funds and 2.14% for European equity funds. ■

Comparative past performance of different savings strategies

The AMF has analysed the performance, since 1987, of equities, government bonds and risk-free passbook savings accounts. What was the impact of charges and taxes? How did mixed portfolios perform?

The comparative real performance of investments in France

Three investments were analysed: the “Livret A” passbook savings account, a bond fund (10-year OAT) and an equity fund tracking the CAC 40.

Case of a one-off investment

In the case of a one-off initial investment (e.g., a lump sum received for investing), the equity fund and the bond fund on average posted annualised performances (net of charges and taxes) superior to those of the “Livret A”.

Between 1987 and 2017, for a 10-year investment, the average annualised real return was 3.3% for the bond fund, 2.7% for the equity fund and 1.3% for the “Livret A”.

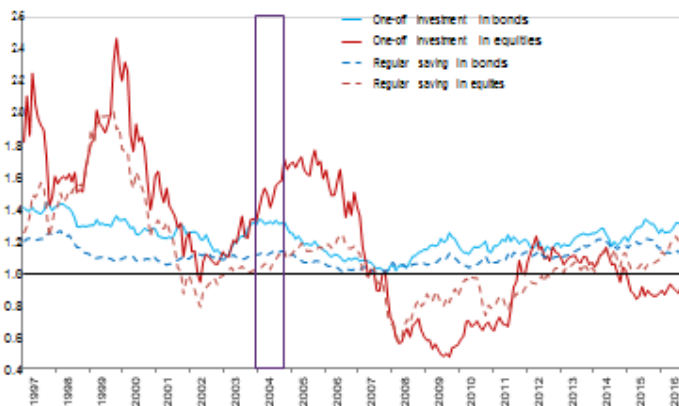
The outperformance of the bond investment is a consequence of the continual decline in interest rates over the past thirty years.

Case of regular investment

In the situation of a saver looking to build up a capital over time by regular saving, the hierarchy of returns was different: the periods during which the equity investment outperformed the bond investment are not the same depending on whether we consider regular saving or a one-off investment.

For example, for a 10-year investment exited between September 2004 and November 2005, equities did better than bonds in the case of a one-off investment, and not so well in the case of regular saving.

Figure 1: Final values, net of charges and taxes, of investments in equities and bonds compared with the Livret A, for either a one-off investment or regular saving on a 10-year horizon



Source: Datastream, AMF calculations

NB: A 10-year investment exited in February 2005 had a final value 53% more than the Livret A (the red continuous curve is at 1.53) versus 31% for bonds (the blue curve is at 1.31).

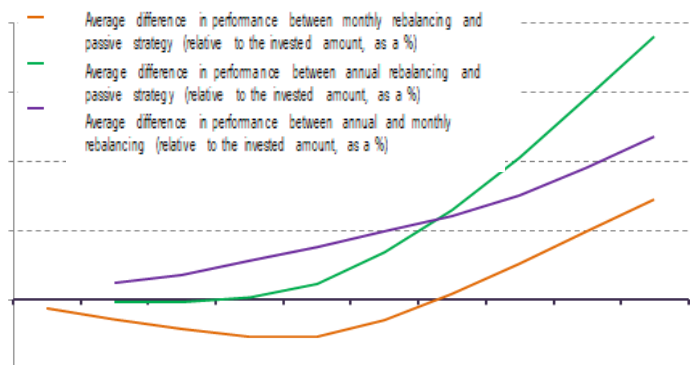
The comparative real performance of different savings strategies

In the case of a mixed portfolio, consisting of equal allocations of equities and bonds, three different strategies were compared: no rebalancing, monthly rebalancing and annual rebalancing.

The annual rebalancing strategy was able to generate a slightly higher return than a portfolio with no rebalancing. Rebalancing is especially useful for longer investment horizons, with an extra gain of 1.9% for regular saving over ten years.

The number of cases in which this strategy outperforms the passive strategy increases sharply with the length of the savings period (96% of cases for a 10-year horizon).

Figure 2: Comparison of the performance of the different strategies for different investment horizons; case of regular monthly saving (50-50 initial allocation), after charges and taxes



Source: Datastream, AMF calculations

NB: For a mixed investment over ten years (120 months), annual rebalancing resulted in a 1.9% outperformance compared with the passive strategy (green curve).

The atypical case of Japan

The results obtained for Germany, the United States and Japan confirm that the ranking of the past performance of investments differs depending on whether one considers a one-off investment or regular saving. The benefit of annual rebalancing of diversified portfolios was also observed for these three cases.

The findings in the case of France are similar to those for Germany and the United States.

However, the traditionally higher returns from equities relative to bonds and demand deposits were not observed in Japan over the period studied, due to the numerous shocks incurred by the Japanese economy.

Studies of different savings strategies

These findings are excerpted from two successive studies produced by the AMF’s Analysis, Strategy and Risk Division, for the [French case](#) (study published in February 2018), and then for [foreign cases](#) (February 2019).

These documents can be consulted on the AMF website in the section [Publications / Newsletters or other publications / Risk and Trend](#)