Policy research paper | June 2024

Total cost of investing: Improving outcomes for Europe's retail investors

Authors

Georgina Yarwood, Investment Strategy Group

Paul McGhee, European Public Policy

Andy Reed, PhD, Investment Strategy Group

A major survey of over 1,000 financial advisers in Germany, Italy and the UK serving 200,000 individual investors offers new insights on Europe's retail investment market. Good investment advice adds real value, but this report shows that the mainstream advice model in the European Union (EU) is generally not serving investors well. Research by Vanguard and CoreData shows that:

1. **European investors are paying far more than they should to invest – particularly with commission-based advice**
   - The average cost of investing with commission-based advice for all three countries is 2.25% annually, compared to 1.52% with fee-based advice.
   - Vanguard research finds the average total cost of investing with advice in Germany is 2.35% a year, compared to 1.91% in Italy and 1.64% in the UK.
   - Germany's high investing costs arise mainly from restricted advisers.
2. **Independent, fee-based advice has a much stronger value proposition for retail investors than commission-based advice**
   - UK advisers are typically paid through fees rather than commissions. As a result, they have developed a broader value proposition than in Germany and Italy, where adviser commissions still dominate. For example:
     - 75% of UK advisers surveyed said that retirement advice is a key part of their service, compared to 15% in Germany and 17% in Italy.
     - UK advisers said they allocate 70% of client assets to mutual funds and low-cost exchange traded funds (ETFs), compared to 55% in Italy and 53% in Germany.
3. **Industry and policy change can deliver positive outcomes for retail investors and advisers**
   - Fee-based advisers and networks across Europe have an opportunity to grow their business by delivering superior client outcomes across a broad range of services, particularly retirement.
   - This research will be of interest to policymakers at EU and national level working to promote independent financial advice and lower costs for retail investors.

1. The policy challenge for Europe

A. Defining the retail investment market

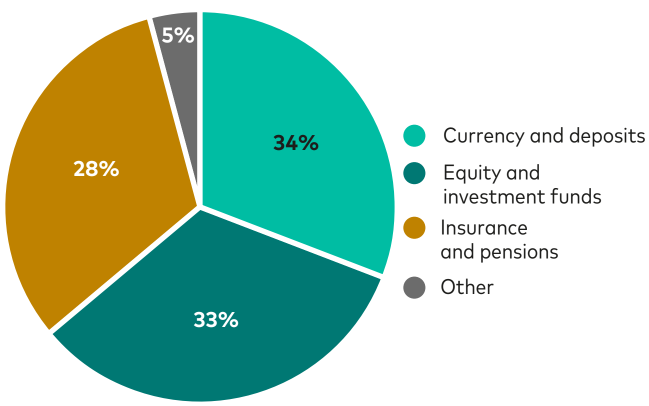
Over the past year, politicians across Europe have been debating policy reforms to Europe's retail investment market. Broadly, the retail investment market comprises three sets of core market participants:

- **Providers** – such as asset managers and life insurers, who design and manage retail investment products.
- **Intermediaries** – such as portfolio managers, investment advisers, brokers and fund platform operators who advise and/or sell investment products to clients.
- **Investors** – consumers of retail investment products.

The diversity of financial providers, products, intermediary services and investor characteristics combine to create a complex economic and regulatory landscape for retail investment markets.

At the EU level, the average household has one-third of their financial assets in the bank, one third in investments and a third in insurance and private pensions (see **Figure 1**).

Figure 1: Average allocation of financial assets for EU households



Notes: Data for year-end 2022.

Sources: Eurostat data on household financial balance sheets, Vanguard calculations.

Improving the functioning of Europe's retail markets is a long-term challenge and good evidence and data are critical to a healthy policy debate and good outcomes. In line with our mission to take a stand for all investors and to give them the best chance for investment success, Vanguard has commissioned independent research to shed new light on Europe's retail investment markets.

B. Inherent policy challenges in retail investment markets

Retail investment markets face inherent policy challenges which are evident in the EU and internationally and can lead to poor outcomes and relative underinvestment by retail investors. Among the principal challenges for policymakers to address are:

- **Information asymmetry** – meaning that retail investors know and understand less about the products they are being sold than intermediaries such as financial advisers.
- **Risk aversion and inertia** – meaning that over the long term, individuals may underinvest relative to their means, e.g. by choosing to save primarily with their bank and/or to invest mainly in low-risk/low-return assets.[1]
- **Conflicts of interest** – meaning that providers such as asset advisers, insurers and their intermediaries may have strong financial incentives not to prioritise the best interests of their retail clients when designing, recommending or distributing financial products.
- **Market fragmentation** – This is a particular challenge in the EU, where diverse languages, legal, regulatory and tax systems – coupled with retail investors' preference for face-to-face advice – mean that markets operate largely along national lines, limiting the benefits of scale and competition.

1. High exposure to insurance-based investment products with embedded financial guarantees, which come at the cost of higher returns, is a further example of risk aversion.

In order to address such policy challenges[2], in May 2023 the European Commission published a legislative proposal on the Retail Investment Strategy (RIS). The RIS package proposed a broad range of policy measures intended to: (i) improve value for money from investment products and distribution; (ii) ban commissions ('inducements') for non-advised business and strengthen conditions where inducements are allowed; (iii) provide comprehensive cost disclosure to retail investors; (iv) create common professional standards for investment advisers; and (v) simplify the suitability assessment process where advisers recommend simple, diversified, low-cost products.

Currently, the EU regulatory framework for retail investment derives mainly from (i) financial markets rules agreed through MiFID 2[3] and related ESMA[4] technical standards and guidance; (ii) rules on insurance distribution (IDD)[5] and (iii) relevant national reforms such as the full inducement ban in the Netherlands and value for money rules operating in Ireland, Luxembourg and elsewhere. Even if the RIS package had been adopted as originally proposed, EU regulation of retail investment would still significantly trail its international peers. This is because economies such as the UK, US, Australia and Canada have not only established a high bar for retail investor protection, but have continued to take policy actions designed to promote competition and enhance consumer welfare:

- **United Kingdom:** the UK has gone significantly beyond the regulatory floor set by the EU MiFID reforms, having instituted a widespread ban on inducements in 2013, introducing a framework for funds' Assessment of Value and an ongoing policy programme to enhance competition among investment platforms. In 2023 the UK upgraded much of its retail consumer rulebook with the new Consumer Duty, which requires market participants throughout the value chain to prioritise delivering good consumer outcomes.
- **United States**: The US regulatory framework, founded on the Securities Exchange Act of 1934, the Investment Company Act and Investment Advisers Act (both of 1940), is supported by competitive market dynamics. Additional retail advice regulations aim to protect retail customers by requiring firms to manage and disclose conflicts of interest, establishing fiduciary duties of loyalty and customer care and refining standards of conduct for broker-dealers and investment advisers. Notable regulations include SEC[6] Rule 12b-1 (which governs payments from fund providers to distributors and related disclosure to investors); Regulation Best Interest (implemented in 2020); and the Marketing Rule (implemented in 2021). This core regulatory framework is supplemented by case law (establishing principles relating to investment funds' value for money) and an extensive self-regulatory code, overseen by FINRA[7].
- **Canada**: Over the past decade, Canada's provincial regulators have systematically strengthened their retail investment rulebook, notably through (i) Client Focused Reforms, which require firms and advisers to identify conflicts of interest, document them and resolve them in favour of clients[8]; and (ii) bans on deferred service charges (DSCs)[9] and on trailing commission for execution-only business[10]. A comprehensive new framework to disclose the total costs of investing for retail clients will take effect in January 2026. The retail rulebook is also supplemented by detailed self-regulatory requirements set and overseen by a dedicated industry body[11].

2. In addition, the Commission highlighted the risks from over-appealing digital marketing and misleading marketing practices, and the high costs and poor value of some retail investments.

3. Markets in Financial Instruments Directive (2014/65/EU), implemented in January 2018.

4. European Securities and Markets Authority.

5. Insurance Distribution Directive, 2016/97/EU, implemented in 2018.

6. US Securities and Exchange Commission.

7. Financial Industry Regulatory Authority.

8. Further information on Canada's Client Focused Reforms is available here: https://www.securities-administrators.ca/investor-tools/putting-investors-first-how-client-focused-reforms-affect-you/.

9. Prior to the ban, DSC fees effectively operated as an early repayment charge for retail investment products.

10. This measure, implemented in 2022, is similar to the proposed RIS inducement ban on non-advised business.

11. The Investment Industry Regulatory Organization of Canada.

- **Australia**: successive Australian governments have sought to improve outcomes for retail investors and address a growing advice gap[12]. In 2012, the landmark Future of Financial Advice reforms introduced a best-interest duty for advisers; banned conflicted forms of remuneration; and imposed a periodic requirement (and since 2021, annual) for advice providers to renew their clients' agreement advising retail clients. In 2022, an independent Quality of Advice Review set out an agenda to widen access and reduce the cost of financial advice. The Australian Government is now consulting on a wide-ranging advice reforms package, based on the findings of the review, for legislative change throughout 2024.

The findings which we outline below on the European market for financial advice highlight the work ahead for the advisers, providers and policymakers to improve outcomes for retail investors, drawing on international best practice and evidence. These findings have already been discussed with a wide range of policymakers at EU and national level.

2. Total cost of investing study

A. Framing our research

We believe that this study represents the first rigorous assessment of the total costs paid by retail investors across several large European markets. The data for the study were collected by CoreData[13], which surveyed 400 adviser firms in Germany, Italy and the UK, respectively. To maximise reliability of the data, we undertook a series of steps including data cleaning and weighting. This process involved identifying and removing low-quality responses or significant outliers, resulting in a final sample of over 1,000 advisers across the three markets[14].

Through an extensive online survey conducted in summer 2022, advisers provided detailed information on their business, service offering, charging models and pricing structure. All respondents were licensed financial advisers or investment advisers with their own book of business. Investment performance was not covered, given the challenge of making robust comparisons across the sample.

As we outline below, the data from advisers enable us to:

1. Estimate the total cost of investing in Germany, Italy and the UK, overall and for specific market segments; and
2. Compare service outcomes for European investors receiving fee-based advice (which the investor pays for directly) with those from commission-based advice (where the adviser is remunerated by a third party).

Adviser categories

The following adviser categories were defined by CoreData and local Vanguard distribution teams to ensure that the survey captured the whole market spectrum:

- UK: (i) Independent financial adviser; (ii) restricted financial adviser; (iii) wealth manager/stockbroker; (iv) private banker; and (v) certified financial planner.
- Germany: (i) Insurance/financial consultant/broker[15]; (ii) multi-tied adviser; (iii) single-tied adviser[16]; (iv) fee-based adviser (Reiner Honorarberater)[17]; (v) discretionary portfolio manager; and (vi) independent consultant/financial adviser[18].

12. The Final Report of the Quality of Advice Review summarises the evolution of regulation of Australia's financial advice sector. See: https://treasury.gov.au/sites/default/files/2023-01/p2023-358632.pdf.

13. CoreData Research is a global specialist financial services research and strategy consultancy with a large proprietary database of financial market participants. CoreData has operations in London, Boston, Sydney, Perth and Manila.

14. See appendix for details on the data cleaning and weighting processes.

15. Advisers in this category map to the license under Article 34d of the German Industrial Code (Gewerbeordnung, or 'GewO') and are supervised by their local Chamber of Commerce (IHK).

16. Tied advisers map most closely to licensing under Article 34f GewO and are under IHK supervision.

17. This category maps to licensing under section 36c (1) of the German Securities Trading Act (WpHG), under the supervision of BaFin.

18. This category maps to licensing under Article 34h GewO, under IHK supervision. Although deemed independent, under German law, advisers in this category are not directly subject to MiFID rules and are permitted to receive commissions.

- Italy: (i) financial adviser/wealth manager/ private banker associated with a domestic or international bank or a private bank/ wealth manager; (ii) financial adviser/wealth manager/or private banker associated with a financial adviser network; and (iii) independent consultant/financial adviser.

Figure 2 shows the breakdown of adviser categories based on survey response across the three markets.

Categorisation of advisers has subjective aspects, both in how categories are set and how advisers self-report.[19] However, in Germany the 2% of sampled firms declaring as Honorarberater is close to the actual 1% of the total market registered as independent fee-based advisers. In the UK, 84% of advisers in our sample self-reported as offering full independent advice, while 13% self-reported as restricted advisers. The survey data from UK advisers are closely aligned with FCA data showing that of UK firms providing retail investment advice in 2022, 86% provided independent advice, with only 12% providing restricted advice[20].

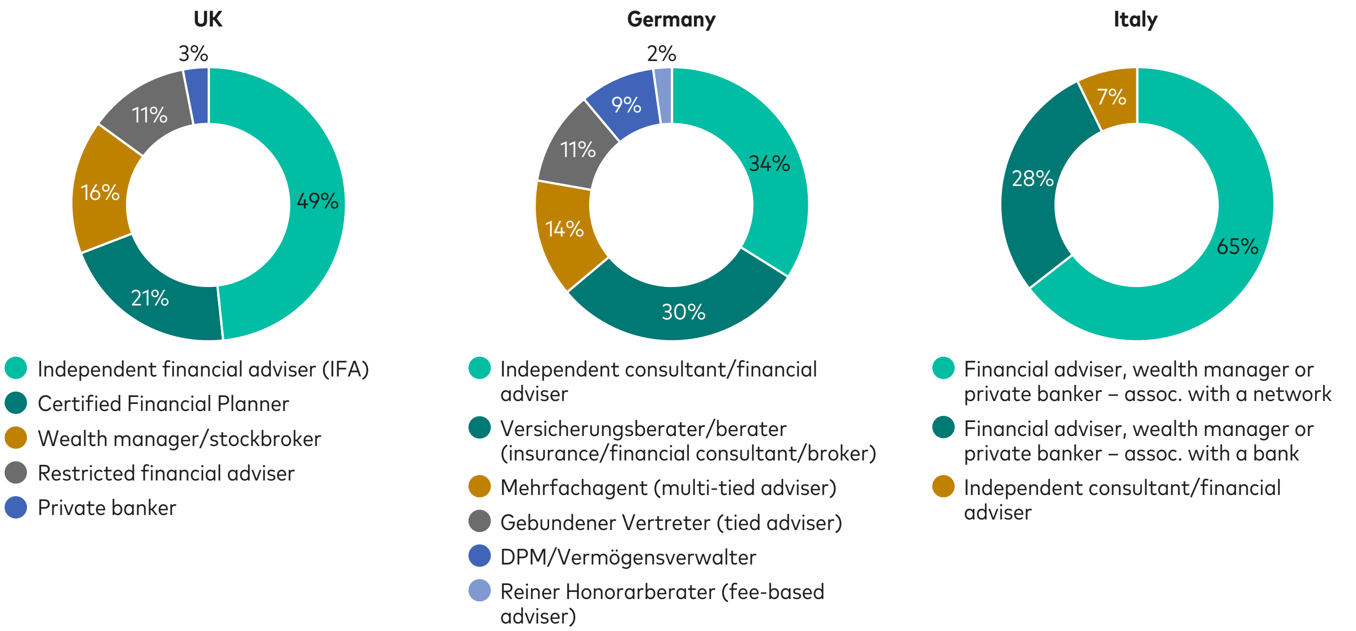
B. Study results: Advisers' service offerings

This section outlines our principal findings on the structure of the retail adviser market in Germany, Italy and the UK, with a particular focus on business models and the relative quality of investment advice.

Finding 1: The prevalence of commission-based advice in Europe.

The impact of the UK's Retail Distribution Review (RDR) is clearly visible on the market. Our research finds that the predominant charging structure in the UK today is purely fee-based; a model which is applied by 60% of the UK advisers surveyed[21]. German and Italian financial advisers currently rely more on a commission-based model (47% and 43%, respectively) or on a mixed model, while only 11-15% of advisers surveyed applied a fee-based model (see **Figure 3**). In Germany, 15% of advisers in the sample say they are mainly fee-based; whereas 33% say they are independent.

Figure 2: Breakdown of sample by country and adviser type



Notes: Respondents were asked to select from a list of adviser types specific to their country in response to the question "Which of the following best describes your role?". This chart shows the distribution of responses, in percentage terms, across adviser types for each country.

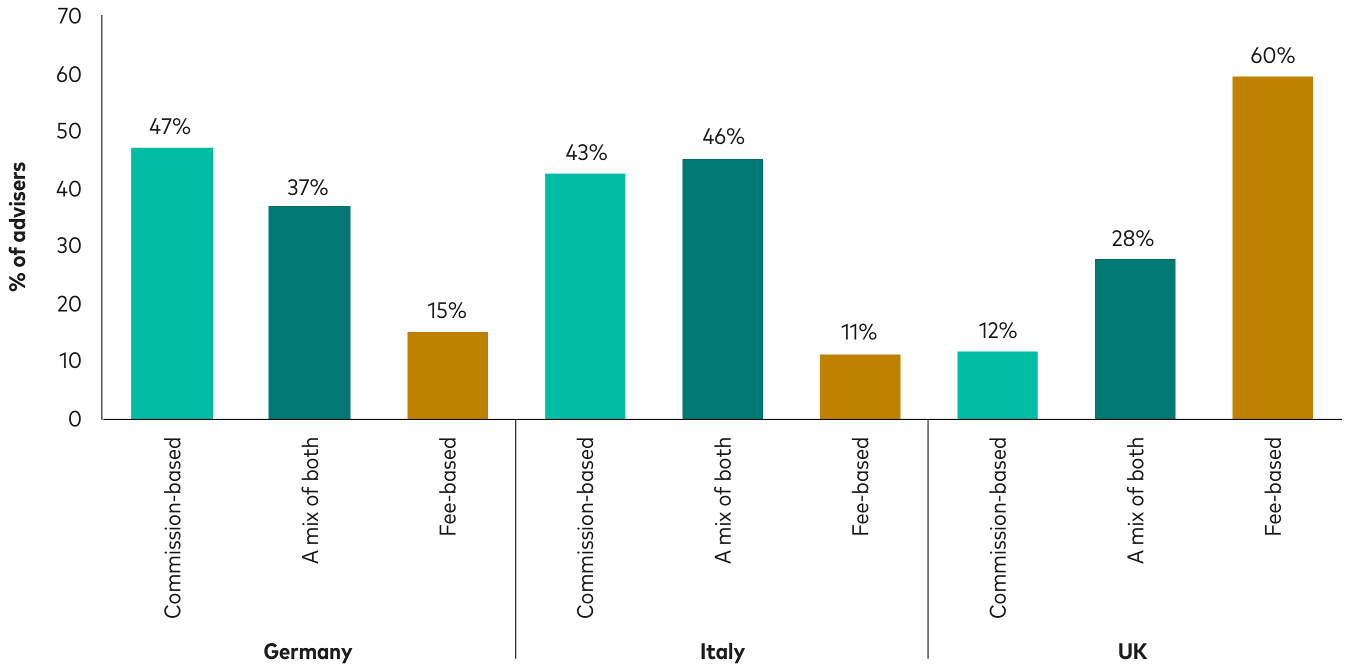
Sources: Vanguard and CoreData, 2022.

19. For example, research by Cerulli Associates finds that Italy has a higher proportion of independent financial advisers than Germany. See 'European Distribution Dynamics 2023' report, Cerulli Associates.

20. See https://www.fca.org.uk/data/retail-intermediary-market-2022.

21. UK financial advisers may still receive commission-based revenue for advising on specific business lines such as mortgages and life insurance. In addition, UK advisers may also still receive 'trail commission' on legacy (i.e. pre-RDR) business relating to investment advice.

Figure 3: Distribution of adviser sample by charging structure and country



Notes: The above chart illustrates adviser responses to the question "Which of the following charging structures/models do you or your organisation mainly use when providing services to your clients today?" Fee-based advice was defined as a fixed rate based on the services provided to clients. Commission-based was defined as payments through the products invested in by clients.

Sources: Vanguard, 2022.

Finding 2: Independent advice delivers superior asset allocation.

Table 1 outlines advisers' estimated asset allocation for their average client portfolio. UK advisers surveyed estimated that they allocate 70% of client assets under management (AuM) to mutual funds and ETFs, compared to 55% in Italy and 53% in Germany. By contrast, Italian advisers estimate a much higher proportion of client AuM is allocated to insurance products (at 21%, compared to 14% in Germany and 5% in the UK), which have higher costs as a result of an additional insurance wrapper (such as a guarantee component).

Finding 3: Fee-based advice offers a more rounded value proposition.

Advisers in Germany, Italy and the UK all reported investment advice as their principal role in serving clients (see **Table 2**). However, our survey data show that UK advisers are much more focused on retirement advice (with 75% describing this as a key advisory function) than advisers in Germany and Italy (at 15% and 17% of firms respectively). Tax advice is also an important service element for half of UK advisers surveyed, compared to 6% in Germany and 34% in Italy.

Table 1: Asset allocation of average client portfolio by country

Asset Class	Germany	Italy	UK
Mutual funds and ETFs	53%	55%	**70%**
Insurance products	14%	**21%**	5%
Individual securities	12%	8%	12%
Cash	8%	9%	5%
Alternatives	8%	4%	4%
Cryptocurrency assets	2%	2%	1%
Certificates of Deposit (CDs)	1%	2%	1%
Other	0%	0%	2%

Notes: Respondents were asked to consider their average client portfolio and provide an estimate of the proportion of the portfolio allocated across a range of asset classes. Categories include mutual funds and ETFs, individual securities (stocks and bonds), alternatives (real estate, commodities, private equity, etc.), insurance products, certificates of deposits (CDs) and cash. Sources: Vanguard, 2022.

An obvious conclusion is that in the largely fee-based UK advice market, advisers have moved to offer a broader service focusing on the overall needs of their retail clients. However, there is a large and growing potential market for retirement advice in Germany, Italy and wider Europe. A recent Eurobarometer survey reported that 54% of respondents across the EU were 'not too confident' or 'not confident at all' that they would have enough money to live comfortably throughout their retirement years[22].

Finding 4: Advisers in Germany and Italy could adapt to a fee-based world.

A small number of markets including the UK and the Netherlands have banned commission-based investment advice and the European Commission has concluded that this would be the optimal policy approach for the EU market[23]. Our survey asked advisers in Italy and Germany: "How likely would you leave the advice industry if there is a move towards fee-based distribution model?". Overall, fewer than 10% of advisers in Germany and Italy said that they would be likely to exit the market as a result (see **Figure 4**). This should not be surprising as UK adviser numbers remained stable in the decade since the RDR was introduced and are now growing steadily[24].

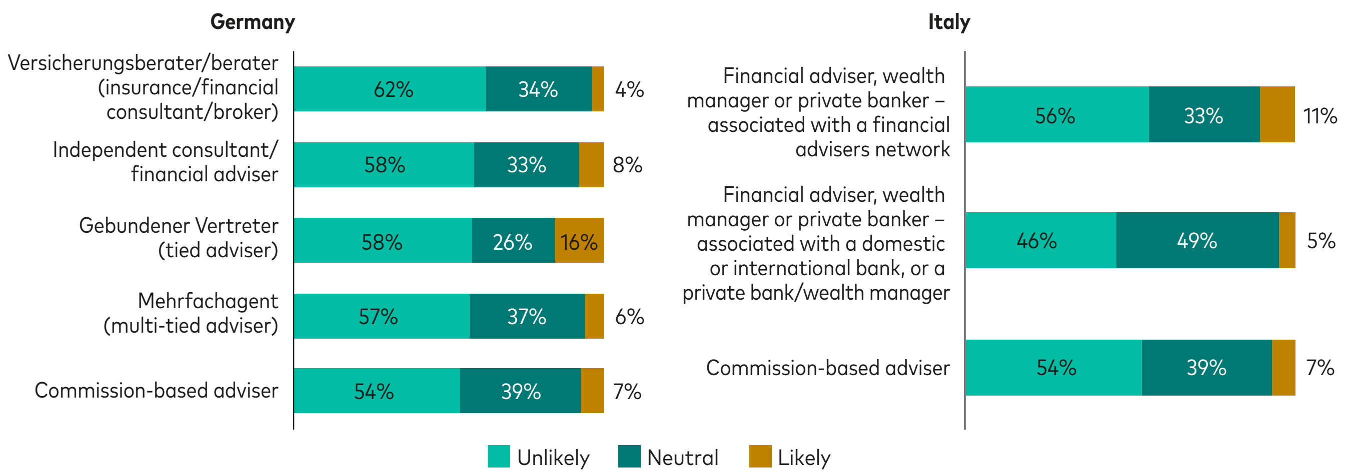
Table 2: Roles played in adviser offer by country

Role Played	Germany	Italy	UK
Investment adviser – advising on investment opportunities, strategies and analysis	69%	86%	82%
Retirement expert – assisting clients with all their needs approaching and going through retirement	15%	17%	**75%**
Tax adviser – recommending tax-efficient ways to invest or manage wealth	6%	34%	**53%**
Life coach – help clients people make decisions, set and reach goals or deal with problems and providing peace of mind	34%	46%	45%
Financial director – handling all aspects of my clients' finances	59%	13%	45%
Counsellor/therapist – listening to my clients' problems	21%	45%	40%
Mediator – helping my clients with family affairs (estate planning, solving family conflicts)	5%	25%	29%

Notes: The above chart shows adviser responses to the question "Which of the following describes the role(s) you play in serving your clients?" Respondents could select all roles that apply. We show the percentage of advisers who selected each role by country.

Sources: Vanguard and CoreData, 2022.

Figure 4: Likelihood of leaving industry by adviser type



Notes: Respondents were asked to rate on a scale of 0-5, where 0 is not likely at all and 5 is very likely, their response to the question "How likely would you leave the advice industry if there is a move towards fee-based distribution model?". Responses were classified as unlikely (ratings of 0 and 1), neutral (ratings of 2 and 3) and likely (ratings of 4 and 5). Owing to rounding, not all categories sum to 100%.

Sources: Vanguard and CoreData, 2022.

22. The totals for Italy and Germany were 57% and 46% respectively. See Eurobarometer, July 2023, Monitoring the level of financial literacy, https://europa.eu/eurobarometer/surveys/detail/2953.

23. European Commission, ibid.

24. See https://www.fca.org.uk/data/retail-intermediary-market-2022.

Furthermore, 58% of Italian advisers and 47% of German advisers stated that under a fee-based model, ETFs would be an appealing way to keep costs down. Over 60% of Italian advisers said that under a fee-based model they would make more use of model portfolio services. Overall, our survey results suggest that the Italian and German advice markets would evolve more towards UK and Dutch market models.

C. Study results: Total cost of investing

This section outlines our principal findings on the total cost of investing with advice in Germany, Italy and the UK. Significant divergences in total costs levels are evident across the three country markets and between fee-based and commission-based advice overall.

Defining the total cost of investing

The total cost of investing for retail customers is built up of multiple layers of fees and charges, which break down into two principal components:

- **Product-related costs** – i.e. all costs related to design, operation and management of an investment or insurance product; and
- **Distribution-related costs** – i.e. all costs related to sales, promotion, advice and marketing of an investment or insurance product.

Most comparative studies, including ESMA's annual survey of retail investment costs and performance, are primarily based on regulated disclosures such as the UCITS KIID[25], which include product costs but do not offer consistent visibility or coverage of distribution and trading costs paid by the end investor. In **Table 3** we include some representative data points on the average disclosed costs for EU UCITS funds, principally for retail customers.

The potential range of costs that an end retail investor may face, between product and distribution, is illustrated in **Figure 5**. Research by EFAMA estimates that distribution accounts for close to 40% of the total cost for retail investors in UCITS funds[26], although this may vary significantly by national market, product type and distribution channel.

Table 3: Average costs of EU UCITS funds across multiple studies for key product categories

Product cost (% per annum)	Active equity UCITS	Passive equity UCITS	Active fixed income UCITS	Passive fixed income UCITS	Equity UCITS ETF/index	Fixed income UCITS ETF/index
ESMA 2022 (retail)[27]	1.32	0.37	0.74	0.28	0.23	0.23
EFAMA 2021 (retail)[28]	1.19	0.36	0.85	0.27	n/a	n/a
ICI 2022 (blended)[29]	1.18		0.67		0.23	0.2

Notes: Cost data from ESMA and EFAMA are for retail UCITS funds. ICI data cover UCITS funds for all investor classes.
Sources: See footnotes.

25. Undertakings for Collective Investment in Transferable Securities Directive (UCITS); Key Investor Information Document (KIID).

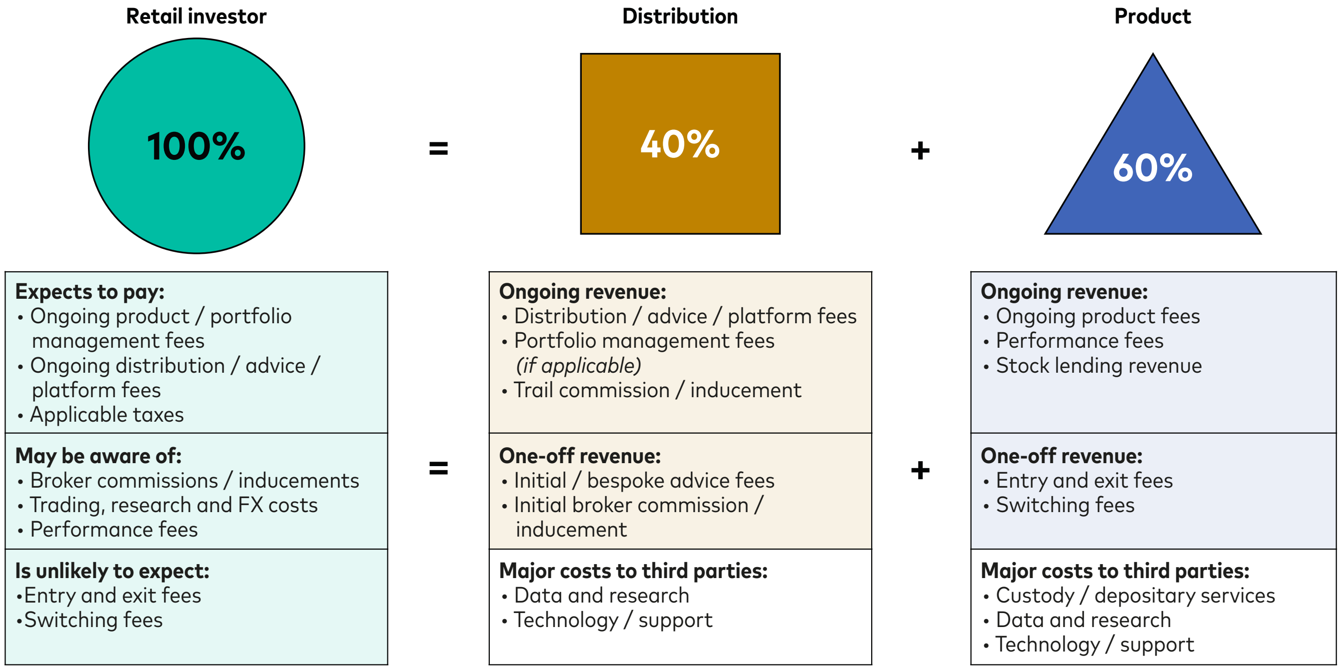
26. EFAMA, ibid. Using analysis from Fitz Partners, EFAMA estimates that across all asset classes for retail active UCITS, product accounts for 62% and distribution/advice accounts for 38% of total cost.

27. ESMA's report on 'Costs and Performance of EU Retail Investment Products 2023' provides cost benchmarks for retail products, based on public disclosures in EU funds' key information documents. See: https://www.esma.europa.eu/sites/default/files/2023-12/ESMA50-524821-3052_Market_Report_on_Costs_and_Performance_of_EU_Retail_Investment_Products.pdf.

28. EFAMA (European Fund and Asset Management Association) Market Insights, 'Perspective on the cost of UCITS', September 2021. See: https://www.efama.org/sites/default/files/files/Market%20Insights%20Issue6%20costsUCITS.pdf.

29. Investment Company Institute (ICI), "Ongoing Charges for UCITS in the European Union, 2022." ICI Research Perspective 29, no. 8 (October). UCITS cost data are asset-weighted across retail and institutional share classes. See: https://www.ici.org/files/2023/per29-08.pdf.

Figure 5: Illustration of components of retail customers' total cost of investing



Source: Vanguard.

For active equity UCITS, EFAMA's 2021 research estimated an annual total product cost of 1.19% annually and total distribution costs of 0.77%, giving a total cost of ownership of 1.96%. As will be seen below, this notional average cost of ownership of around 2% annually is broadly in line with the total cost estimates derived from our sample of European advisers.

Finding 5: The total cost of investing varies widely across countries.

Our headline finding on the total cost of investing in the three markets is captured in **Table 4** below.

Key points to note are:

- On a (client) weighted-average basis, Germany is a significantly higher cost market than Italy and the UK[30].
- The pattern of median weighted costs is different: Italy has the highest median (185 basis points), followed by Germany (175 bps) and UK (140 bps).
- Across all three markets surveyed, the main blocs of cost are ongoing charges (which are principally fund management fees and sales commissions) and trading / transaction costs including spreads.

Table 4: Weighted costs by category and country

	Median			Mean		
Cost category	**Germany**	**Italy**	**UK**	**Germany**	**Italy**	**UK**
Total cost (bps)	**175**	**185**	**140**	**235[30]**	**191**	**164**
Transaction cost	40	10	5	73	24	41
Ongoing charges	90	105	70	88	107	72
Incidental costs	0	0	0	12	11	5
Lending and borrowing costs	0	0	0	21	17	2
One-off costs	0	5	0	39	27	43
Other	0	0	0	3	4	2

Notes: The table shows the breakdown of median and mean weighted cost of investing, in basis points, by cost category. Further information on the cost categories shown can be found in Table A1 in the appendix. All figures shown are weighted by the size of the adviser's client base. For detail on the weighting process see the appendix.

Sources: Vanguard and CoreData, 2022.

30. The difference between the average (mean) total cost to invest in Germany (235bps) and the UK (164bps) is statistically significant at the 99.9% level, whereas the difference between average total cost in Italy (191bps) and the UK (164bps) is significant at the 95% level.

At 60 bps, Germany has the largest gap between the median and average total cost of investing. As shown in the next section, this gap results from a significant minority of German advisers charging relatively high costs.

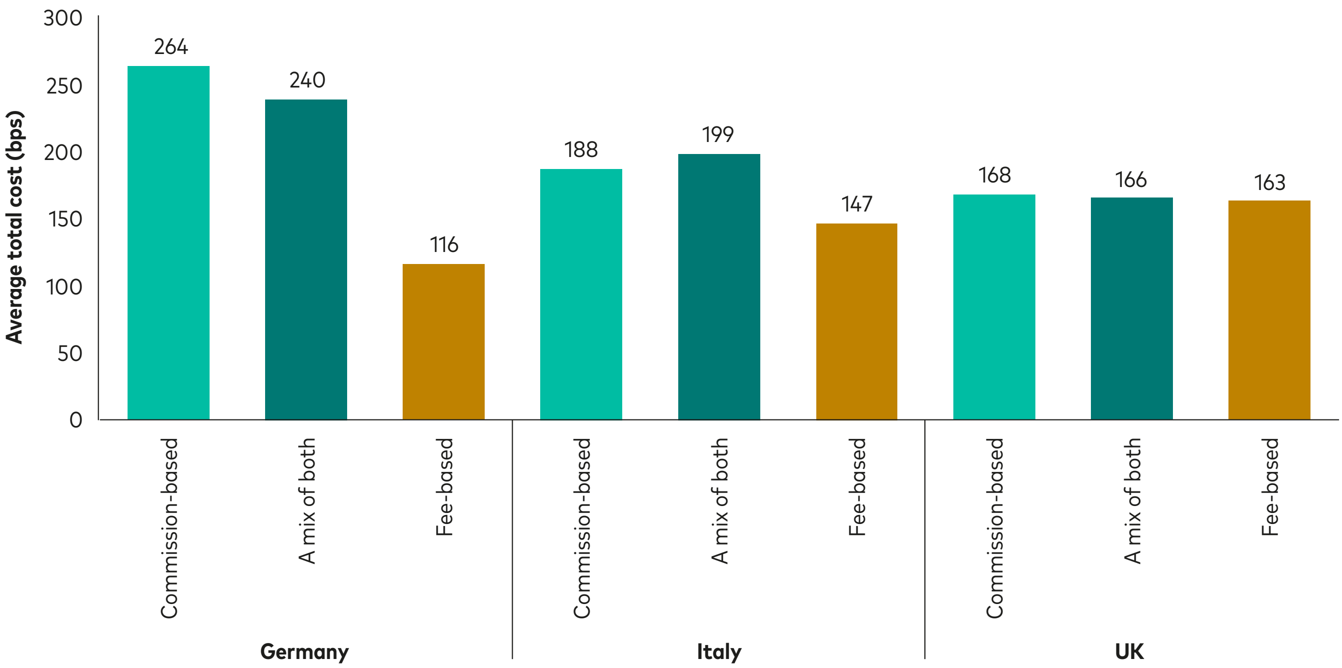
There are clear statistical findings that the total cost of investing is lowest in the UK, and that within 95% confidence, total costs are higher in Germany than in Italy. The latter finding may surprise some readers, given that public data (including from ESMA) suggest that Italy is a relatively high-cost market for investment products. In practice, asset allocation may play a role in lowering the effective cost of investing as Italian investors allocate a relatively large share of their portfolio to (cheaper) fixed income investments than to (more expensive) equity[31].

Finding 6: Price competition in Germany and Italy is weak.

In addition to the large and statistically significant differences in the cost of investing across the three markets, there are striking variations in the level of total cost between domestic market segments (see **Figure 6**). Looking at the UK, the average total cost of fee-based and commission-based advice is almost identical. Ten years after the RDR, this is clear evidence of strong price competition. In Italy, there is a clear gap, with the total cost of investing with commission-based advice 30% higher than the cost with fee-based advice. In Germany, there is clear evidence of the low cost of fee-based advice (at 116bps on average) and the high cost of commission-based advice – with an average of 264bps across more than 160 firms surveyed.

There is no obvious reason why the total cost of investing with a commission-based adviser in Germany is so much higher than in the UK and Italy. However, one possible explanation which merits further investigation relates to the nature of supervision. Whereas in the UK and Italy, investment advisers are supervised by a public regulator (the FCA and Consob respectively), commission-based advisers in Germany are supervised by their local chambers of commerce (IHKs) – which are non-specialist private sector bodies. In 2018, the German Government had proposed to modernise the supervision of

Figure 6: Weighted-average cost across countries by charging structure



Notes: This chart shows the weighted-average total cost of investing, in basis points, by charging structure for each country. Fee-based advice was defined as a fixed rate based on the services provided to clients. Commission-based was defined as payments through the products invested in by clients.

Sources: Vanguard, 2022.

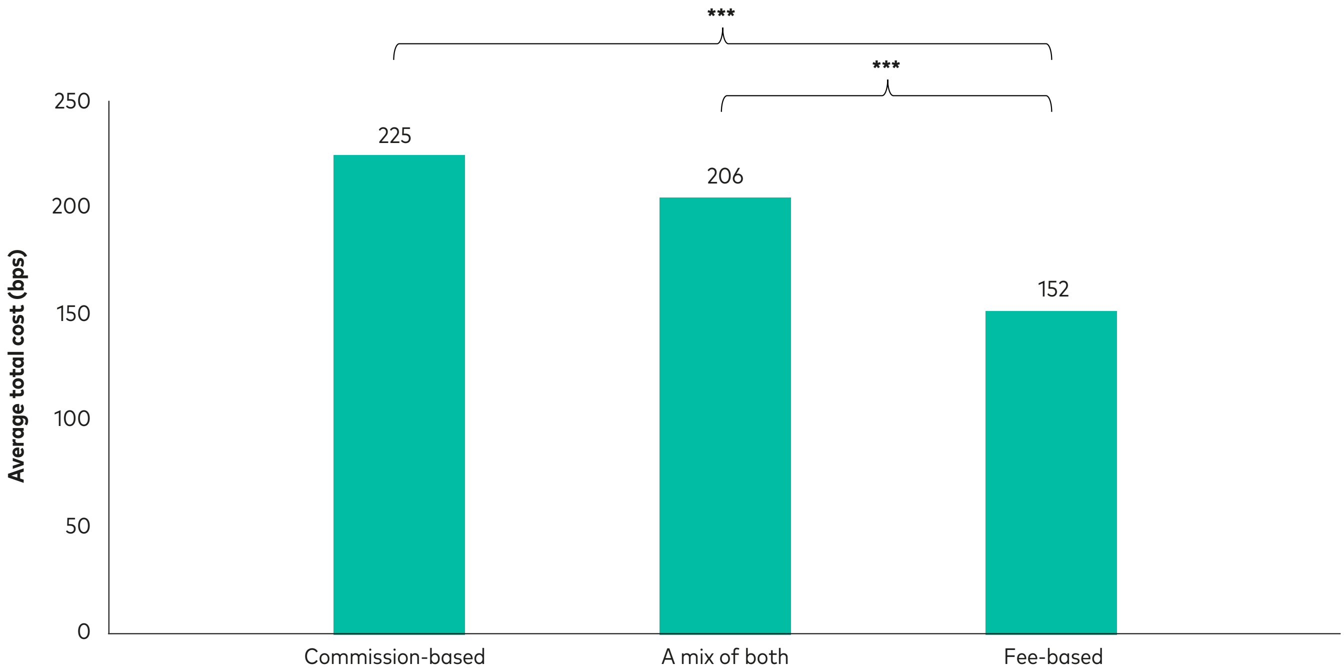
31. EFAMA's Asset Management Report 2023 estimates that in Italy, 43% of total AUM in investment funds was in fixed income, compared 24% in the UK, 31% in Germany and 27% across Europe. See: https://www.efama.org/sites/default/files/files/Asset%20Management%20Report%202023_1.pdf.

investment adviser firms by bringing them under the remit of the BaFin. However the draft law was not ultimately adopted.[32]

Finding 7: Fee-based advice offers a sharply lower total cost of investing.

The previous section showed that in all three markets, the total cost of investing was lowest with fee-based advice (albeit only marginally lower in the UK). Below we examine the total cost of investing across the three types of revenue model: commission-based; fee-based; and hybrid. With samples of over 350 advisers for each group across the three countries, there is statistically robust evidence that the total of cost investing is sharply lower with fee-based advice. This is illustrated in **Figure 7** and **Table 5** below. Overall, the gap is large: the average total of investing under commission-based advice is 225bps annually; almost 50% higher than under fee-based advice.

Figure 7: Weighted-average cost across sample by charging structure



Notes: This chart shows the weighted-average total cost of investing, in basis points, by charging structure across the entire adviser sample. Fee-based advice was defined as a fixed rate based on the services provided to clients. Commission-based was defined as payments through the products invested in by clients. The brackets denote the statistical significance of pairwise comparisons between charging structures. *** indicates the difference is significant at the 99.9% level ($p < 0.001$).

Sources: Vanguard, 2022.

Table 5: Select sample size and total cost statistics by charging structure

Charging structure	Number of clients	Number of advisers	Mean total cost (bps)	Median total cost (bps)	95% confidence interval around mean total cost (bps)	IQR* of total cost (bps)
Commission-based	81,758	364	195	225	+/- 13	105 – 310
A mix of both	73,786	395	185	206	+/- 11	100 – 290
Fee-based	54,289	309	130	152	+/- 10	75 – 200

Notes: The above table covers a range of descriptive statistics by charging structure, including the number of clients and advisers covered by each type. We also show, for each charging structure category, the median and mean weighted total cost of investing, along with the confidence interval around the mean and *interquartile range (IQR) (in basis points).

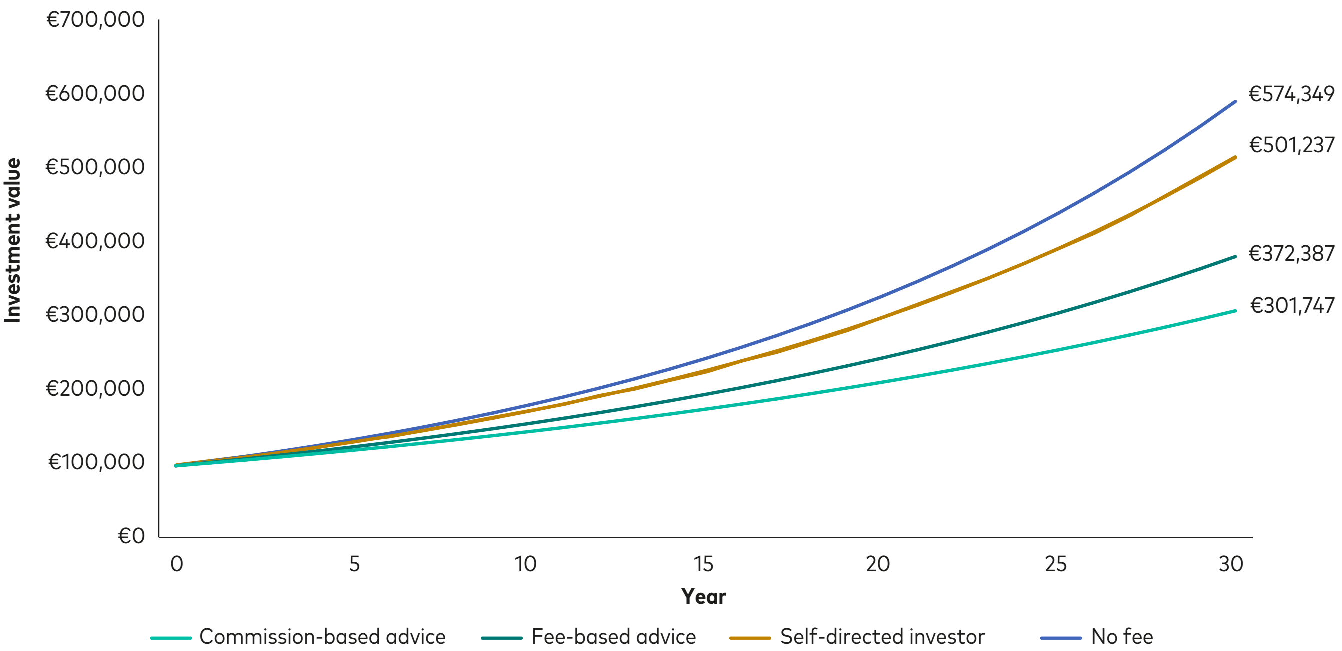
Sources: Vanguard, 2022.

32. Further information is available here: https://www.dentons.com/en/insights/articles/2019/september/25/bafins-next-expanded-frontier-expanding-the-regulatory-remit-to-financial-investment-intermediaries.

Finding 8: Fee-based advice offers better outcomes to long-term investors.

We conclude our findings by examining the long-term impact of the total cost of investing on investment returns. Good investment advice will typically more than justify its cost: Vanguard research suggests advisers could potentially add 3% in net returns for their clients by following the 'Adviser's Alpha' framework[33]. With advice, the total cost of investing is high in all markets, absorbing between around half the potential growth in nominal portfolio value (see **Figure 8**). However, after 30 years, investors paying the weighted-average cost for fee-based advice (152bps annually) will have portfolio values 23% higher than investors paying the weighted-average cost of commission-based advice (225bps annually).

Figure 8: Projected growth of hypothetical €100,000 investment under different charging structures



Notes: We model a €100,000 starting investment and assume a 6% annualised return over a 30-year time horizon. We then apply different costs of investing to show the impact to portfolio value over the investment horizon. We use the average total cost of investing figure for each charging structure (225bps for commission-based advice and 152bps for fee-based). We also illustrate cost impact for an investor in a 60% equity / 40% fixed income portfolio, which we model as 48bps. This is composed of a 33bps fund fee based on the average cost of EU UCITs funds reported by ESMA in 2022 (37bps for passive equity funds and 28bps for passive fixed income funds), plus an advice platform fee of 15bps. For reference, we also illustrate the growth of the investment with no fee applied.

Sources: Vanguard, 2022.

33. The extent of potential value-add for investors will vary from year-to-year and depends on each client's unique circumstances and the way assets are actually managed. **Source:** Vanguard white paper 'Putting a value on your value: Quantifying Vanguard Adviser's Alpha', July 2022.

Appendix: Cost of investing model and robustness checks

How did the survey calculate total cost?

The total cost methodology developed by CoreData is closely aligned with the requirements of the EU Delegated Regulation on MiFID II (2017/565)[34] as well as building on CoreData's work with the Australian securities regulator, ASIC. The MiFID II Regulation outlines two categories of cost disclosure relating to (i) investment services, such as investment advice, portfolio management and order execution; and (ii) financial instruments, or the investment product(s) being sold (e.g. securities and investment funds). For this study, these two sets of cost disclosures were integrated into a single framework (see **Table A1**).

Table A1: Cost category definitions underlying the total cost of investing metric

Cost section	Single cost line item	BPS
A. PORTFOLIO TRANSACTION COSTS (BROKERAGE COSTS)	A1. Transaction related services A2. Broker commissions A3. Transaction taxes A4. Other implicit transaction costs A5. Other indirect transaction costs	____
B. ONGOING CHARGES	B1. Fees and charges paid through NAV • Fund and investment *management fees* • *Administrations costs* (e.g., custody/depository, research (RPA), collateral management, prime brokerage) • *Governance, regulation* and compliance (e.g., audit costs, legal, performance measurement, risk monitoring, tax advice) • *Distribution, comms* and client service (e.g., distribution costs, communication material) • *Performance fees* • *FX costs*	____
C. INCIDENTAL COSTS	C1. Additional direct performance fees	____
D. LENDING AND BORROWING COSTS	D1. Stock lending fees D2. Stock borrowing fees D3. Interest on borrowing D4. Borrowing and arrangement fees	____
E. ONE-OFF COSTS	E1. Entry costs (implementation/registration/initial fee) E2. Exit costs E3. Switching charges E4. Additional client FX costs	____
F. OTHER	F1. Other fees or charges – please specify: _____________	____

Sources: Vanguard and CoreData, 2022.

For each category of cost, advisers were asked to provide an estimate in basis points based on their average client portfolio. The survey controlled for the different cost models of fee-based and commission-based advisers through the following question: "For each of the following types of fees/costs, please estimate the basis points (bps) that you or your organisation charge your clients, based on your average client portfolio recapped and displayed below." By asking advisers across all three countries to express their total costs in a consistent format, irrespective of business model, the survey data provided a robust basis for cost comparisons.

34. The text of the Delegated Regulation is available here: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017R0565.

How did you ensure the results are reliable?

To maximise the reliability of the data, we undertook a series of steps including data cleaning and weighting. Each step is described in detail below.

Step 1: Data Cleaning
This process involved removing significant outliers from the sample as well as low-quality responses, e.g. where advisers had entered the same value for each cost category (so-called 'straightliners'). Outliers were observed in both the total cost numbers and the average client assets under management (AuM) reported by advisers. For average client AuM, responses falling below the 1st percentile or above the 99th percentile for each country were taken out of the sample. Total cost values below the 5th percentile or above the 95th percentile for each country were also removed. As a result of cleaning and weighting the sample, the average total cost values are more conservative. In Germany, the average total cost falls from 260bps to 235bps, in Italy from 210bps to 191bps, and in the UK from 170bps to 164bps.

Step 2: Weighting by size of client base
As the goal of this research is to determine what a typical investor would pay, we weighted responses such that advisers who represent more investors have more weight in analysis compared to those representing fewer clients. We examined total cost values on both a weighted and unweighted basis. The pattern of analytic results was found to be consistent with and without the weighting by number of clients. We believe the weighted cost by number of clients gives the best measure of what a typical advised investor would pay, and therefore report all results on a weighted basis.

How do you determine that the pattern of results is statistically significant?

We only assess characteristics where available responses are applicable across each country to ensure the sample size is sufficient to be able to draw meaningful conclusions. We run one-way analysis of variance (one-way ANOVA) tests to compare whether two samples' means (for example, average total cost in Germany versus the UK) are significantly different or not.

Why do you report multiple statistics for the total cost of investing?

As shown in **Table A2**, we report multiple descriptive statistics to give a better picture of the typical range of costs faced by investors. To estimate what the typical advised investor is charged for advice, we provide the **mean** or **average** total cost for each region. However, in the presence of significant outliers, the mean may not correspond to the central value of the distribution which we are looking to estimate. We therefore also report **median** total cost values. The median is another measure of central tendency and is simply the middle value of a data set (the 50th percentile). Unlike the mean, the median is not skewed by the presence of outliers and therefore can provide a more robust measure of the central value of the dataset. We also provide the **confidence interval** around the average cost of investing, and **interquartile range** (IQR) for each country.

How robust are your results?

To assess the reliability of the total cost estimates generated by the survey, we ran two sets of robustness checks:

i) Statistical power tests
Data cleaning reduced the overall sample of advisers in our survey sample from 1200 (400 per region) to 1068 (354 advisers for Germany, 355 for Italy and 359 for the UK). We ran a **power test** to ensure the sample sizes for each country are indeed sufficient to draw conclusions on cross-country differences in the study. Again, this was consistent for both weighted and unweighted total cost metrics.

ii) Bootstrap resampling of average total cost
As a further check as to the stability of our results, we apply **bootstrap resampling** to our average total cost values. As with weighting, the pattern of analytic results in our study was found to be consistent with and without bootstrap resampling.

Table A2: Select sample size and total cost statistics by country and charging structure

Country	Charging structure	Number of clients	Number of advisers	Mean total cost (bps)	Median total cost (bps)	95% confidence interval around mean total cost (bps)	IQR of total cost (bps)
Germany	Commission-based	41,693	168	264	220	+/- 24	108-380
	A mix of both	24,241	132	240	190	+/- 25	110-370
	Fee-based	11,117	54	116	120	+/- 14	70-140
Italy	Commission-based	32,798	153	188	180	+/- 13	100-240
	A mix of both	35,169	162	199	210	+/- 12	105-265
	Fee-based	4,296	40	147	150	+/- 20	90-185
UK	Commission-based	7,267	43	168	160	+/- 22	92-220
	A mix of both	14,376	101	166	115	+/- 21	70-290
	Fee-based	38,876	215	163	130	+/- 13	75-230

Notes: The above table covers a range of descriptive statistics by charging structure and country, including the number of clients and advisers covered by each category. We also show, for each charging structure category and country, the median and mean weighted total cost of investing, along with the confidence interval around the mean and IQR (in basis points).

Sources: Vanguard, 2022.

Investment risk information

The value of investments, and the income from them, may fall or rise and investors may get back less than they invested.

Past performance is not a reliable indicator of future results.

Any projections should be regarded as hypothetical in nature and do not reflect or guarantee future results.

Important information

For professional investors only (as defined under the MiFID II Directive) investing for their own account (including management companies (fund of funds) and professional clients investing on behalf of their discretionary clients). Not to be distributed to the public.

The information contained herein is not to be regarded as an offer to buy or sell or the solicitation of any offer to buy or sell securities in any jurisdiction where such an offer or solicitation is against the law, or to anyone to whom it is unlawful to make such an offer or solicitation, or if the person making the offer or solicitation is not qualified to do so. The information does not constitute legal, tax, or investment advice. You must not, therefore, rely on it when making any investment decisions.

The information contained herein is for educational purposes only and is not a recommendation or solicitation to buy or sell investments.

Issued in EEA by Vanguard Group (Ireland) Limited which is regulated in Ireland by the Central Bank of Ireland.

Issued in Switzerland by Vanguard Investments Switzerland GmbH.

Issued by Vanguard Asset Management, Limited which is authorised and regulated in the UK by the Financial Conduct Authority. Issued in Germany by Vanguard Group Europe Gmbh, which is regulated by BaFin.

Connect with Vanguard®

global.vanguard.com

Vanguard®