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# SPIVA<sup>®</sup> Canada Scorecard

## SUMMARY

- The SPIVA Canada Scorecard reports on the performance of actively managed Canadian mutual funds versus that of their benchmarks, corrected for survivorship bias. It also shows equal- and asset-weighted peer averages.
- The index versus active debate has been a contentious subject for decades, and there are strong opinions on both sides. The SPIVA Scorecards are the de facto scorekeepers of this debate globally.
- Although trade tensions threatened to disrupt the upward trajectory of our Canadian equity benchmarks earlier this year, the [S&P/TSX Composite](#) (+10.41%) and [S&P/TSX 60](#) (+11.45%) both rose during the 12-month period ending June 30, 2018. Strong performance in the latter half of 2017 helped.
- Over a one-year horizon, the majority of active managers [once again](#) failed to beat their respective benchmarks; six of the seven fund categories underperformed. Canadian Dividend & Income Equity funds yielded better results than the benchmark and offered the exception.
- While the Canadian equity benchmarks benefited from an Energy-led rally and a surge in Health Care and Information Technology stocks, actively managed domestic equity funds struggled to keep pace. 93.22% of funds in the Canadian Equity category underperformed the S&P/TSX Composite in the one-year period ending June 30, 2018.
- Canadian Small-/Mid-Cap Equity managers also struggled to outperform as 90.91% were beaten by the [S&P/TSX Completion](#) (+7.21%). Larger funds appeared to fare relatively better than their smaller counterparts, as the category's asset-weighted returns (+3.08%) were higher than its equal-weighted returns (+2.71%).
- As the Bank of Canada increased interest rates, yield-focused active equity strategies continued to offer the best relative performance of any category over a one-year horizon; 67.57% of Canadian Dividend & Income Equity funds beat the [S&P/TSX Canadian Dividend Aristocrats<sup>®</sup>](#) since the end of June 2017. But 100% of the category's funds lagged the benchmark over a 10-year horizon.

- Canadian Focused Equity funds posted the worst relative performance over the one-year period ending June 30, 2018; 94.44% lagged the blended benchmark, which comprises the [S&P/TSX Composite](#) (50%), the [S&P 500®](#) (25%), and the S&P EPAC LargeMidCap (25%).
- International Equity funds recorded a notable increase in underperformance over the last 12-months. Market participants may have found it difficult to navigate the impact of trade tensions and concerns over a slowdown in global economic growth. Nearly 90% of the category's funds lagged the S&P EPAC LargeMidCap, compared with 73.08% reported in the [SPIVA Canada Year-End 2017 Scorecard](#).
- Underperformance also rose among funds investing in U.S. equities; only 27.59% of managers beat the S&P 500 (CAD) over a one-year horizon (versus 30.59% in our previous scorecard).
- The longer-term results continued to show active equity funds found it difficult to beat their respective benchmarks. The data for the 10-year period shows that around 9 out of every 10 funds underperformed their respective benchmark, and a similar story is evident over a five-year horizon.
- Fund survivorship (or the lack of) played a large role in the long-term figures; more than half of all funds in each category that were part of the investment universe 10 years ago have since been liquidated or merged.

## INTRODUCTION

The SPIVA Canada Scorecard provides a semiannual update on the active versus index debate in Canada. The SPIVA Canada Scorecard shows the performance of actively managed Canadian mutual funds compared with S&P Dow Jones Indices in their respective categories. Although many such reports are available, the SPIVA Canada Scorecard is unique in that it offers the following characteristics.

- **Survivorship Bias Correction:** Many funds might be liquidated or merged during a period of study. However, for a market participant making a decision at the beginning of the period, these funds are part of the opportunity set. Unlike other commonly available comparison reports, SPIVA Canada Scorecards remove this survivorship bias.
- **Apples-to-Apples Comparison:** A fund's returns are often compared with a popular benchmark regardless of its investment category. SPIVA Canada Scorecards make an appropriate comparison by measuring a fund's returns against the returns of a benchmark that reflects the fund's investment category.
- **Asset-Weighted Returns:** Average returns for a fund group are often calculated using only equal weighting, which results in the returns of a Canadian dollar (CAD) 10 billion fund affecting the average in the same manner as the returns of a CAD 10 million fund. The SPIVA Canada Scorecard shows both equal- and asset-weighted averages. Equal-weighted returns are a measure of average fund performance. Asset-weighted returns are a measure of the performance of the average invested Canadian dollar.

*Please note that neither S&P Dow Jones Indices, nor any of its affiliates make any assurance or provide any investment recommendation on the appropriateness of investing in either index or active investing. S&P Dow Jones Indices does not sponsor, endorse, sell, or promote any investment fund or other investment vehicle that is offered by third parties and that seeks to provide an investment return based on the performance of any index. The SPIVA Canada Scorecard simply provides quarterly statistics according to the SPIVA methodology and a brief analysis of those statistics. Further, S&P Dow Jones Indices does advise that anyone reading this report also read the SPIVA methodology at the end of the report in order to understand how the data was derived.*

## SPIVA METHODOLOGY

### Data

S&P Dow Jones Indices obtains a custom feed of monthly return data from Fundata Canada for all equity mutual funds that have information in its database. The feed includes data on funds that have merged or liquidated. Fundata applies the following filters to the file S&P Dow Jones Indices receives.

- All non-equity funds are excluded.
- All pooled funds, segregated funds, or other specialized categories that do not qualify as retail mutual funds are excluded.
- Multiple occurrences of the same fund's portfolio reporting in two or more currencies are also excluded, as S&P Dow Jones Indices only uses the Canadian dollar version.
- Only a single share class is included.

The file contains the following data fields on a monthly basis.

- Fund name
- Fund identifier
- Month and year
- Fund returns for the month, after management and other costs, including distributions
- Fund assets under management in that month
- Fund categorization in that month
- Management type (i.e., whether the fund is indexed or actively managed)

S&P Dow Jones Indices then limits the subset using the following filter.

- S&P Dow Jones Indices chooses funds that are actively managed, excluding index funds.

### Fund Categories

S&P Dow Jones Indices chooses funds that have, at any point in the previous 120 months, been classified in at least one of the following seven Canadian Investment Funds Standards Committee (CIFSC)<sup>1</sup> categories.

- Canadian Equity
- Canadian Small-/Mid-Cap Equity
- Canadian Dividend & Income Equity
- U.S. Equity
- International Equity
- Global Equity
- Canadian Focused Equity

The categories reviewed in this report represent the major areas of interest for Canadian market participants.

<sup>1</sup> Refer to [www.cifsc.org](http://www.cifsc.org) for additional information regarding CIFSC and its categories.

The CIFSC governs the categorization of Canadian mutual funds. In August 2007, the CIFSC's fund categorization structure changed, posing some challenges for S&P Dow Jones Indices' reports. For example, the Canadian Equity (Pure) category was eliminated; the funds in that category were folded into the revised definition of Canadian Equity, which now encompasses funds primarily invested in Canadian securities. Also, the Canadian Small-Cap Equity category was expanded to the Canadian Small-/Mid-Cap Equity category. According to the CIFSC, "for each small-/mid-cap equity category there is a market capitalization threshold that determines whether a fund has a small enough market cap to meet that category. The threshold is determined by comparing the geometric mean market cap of a fund to that same measure for an appropriate benchmark index."<sup>2</sup> In this case, the benchmark index the CIFSC uses for the Canadian Small-/Mid-Cap Equity category is the [S&P/TSX Completion](#).

In terms of the Canadian Equity category change, the Fundata file helps achieve comparability across history by backfilling the classifications before the classification system restructuring. S&P Dow Jones Indices realizes that this introduces a backward-looking bias, but fortunately the benchmark for both the Canadian Equity and Canadian Equity (Pure) categories is the [S&P/TSX Composite](#).

The Canadian Small-Cap Equity category restructuring presented additional challenges. The backfilling of classifications resulted in small-cap funds being reclassified historically as small-cap or mid-cap equities, and these same funds were benchmarked to the S&P/TSX Completion rather than the [S&P/TSX SmallCap Index](#).

In addition, as a result of the elimination of the Canadian Small-Cap Equity category, S&P Dow Jones Indices can no longer compare small caps with the S&P/TSX SmallCap Index. If this category is reinstated, it will be added to our reports.

The Income Trust Equity category is no longer relevant for the Canadian investable universe, so it has been excluded from this report.

## Benchmarks

The S&P/TSX Canadian Indices were subject to a number of additional changes in 2007. Following a consultation process with the indexing community, the S&P/TSX SmallCap Index's methodology was adjusted to create a more appropriate Canadian benchmark of small-cap equities. The S&P/TSX SmallCap Index is now separate from the S&P/TSX Composite Index Series. In addition, the S&P/TSX MidCap was renamed the S&P/TSX Completion and its methodology was revised. It includes the constituents of the S&P/TSX Composite that are not in the [S&P/TSX 60](#). In 2011, the methodology for the [S&P/TSX Canadian Dividend Aristocrats](#) was revised to allow for one year of static dividend payments.

The benchmark indices used in the SPIVA Canada Scorecard are shown in Exhibit 1. All index returns are total returns (i.e., include dividend reinvestment) in Canadian dollars. **There has been no deduction of index returns to account for fund investment expenses.** Active fund returns are after expenses, but they do not include front- or back-end loads or other commissions that market participants might pay.

<sup>2</sup> Canadian Investment Funds Standards Committee—2007 Retail Investment Fund Category Definitions.

**Exhibit 1: Fund Categories and Their Benchmarks**

<b>FUND CATEGORY</b>	<b>COMPARISON BENCHMARK</b>
Canadian Equity	S&P/TSX Composite
Canadian Small-/Mid-Cap Equity	S&P/TSX Completion
Canadian Dividend & Income Equity	S&P/TSX Canadian Dividend Aristocrats
U.S. Equity	S&P 500 (CAD)
International Equity	S&P EPAC LargeMidCap (CAD)
Global Equity	S&P Developed LargeMidCap (CAD)
Canadian Focused Equity	50% S&P/TSX Composite + 25% S&P 500 (CAD) + 25% S&P EPAC LargeMidCap

Source: S&P Dow Jones Indices LLC. Table is provided for illustrative purposes. Benchmarks shown are total return indices.

Previous SPIVA Canada Scorecards included a report (Report A2) that compared the Canadian Equity Fund category with a blended index of the [S&P/TSX Composite](#) (70%) and the [S&P 500](#) (30%). As a result of the foreign content limit removal in 2005, increasing numbers of Canadian market participants started redeploying funds outside of Canada to gain international equity exposure. Funds in the Canadian Focused Equity category include non-Canadian equity exposure. This category is compared to a monthly returning series comprising the S&P/TSX Composite (50%), the S&P 500 (25%), and the S&P EPAC LargeMidCap (25%).

For additional information on any of the benchmark indices, please see the glossary at the end of this report, or visit our website at [www.spindices.com](http://www.spindices.com).

## REPORTS

### Report 1: Percent of Active Funds Underperforming Index

This report shows the percentage of funds that have underperformed their comparable benchmarks over 1-, 3-, 5-, and 10-year periods. The comparison starts with the funds in a category at the beginning of the period. At the end of the period, the report shows what percentage of funds have underperformed their benchmark. The fund's category at the end of the period is not considered because the category at the beginning of the holding period is of interest.

Most reports that purport to show the percent of active funds underperforming an index work with the funds in a category at the end of the period and then compare their historical returns to the benchmark. The SPIVA Canada Scorecard corrects for this survivorship bias by starting with the funds at the beginning of the period.

Report 1: Percentage of Funds Underperforming the Index					
FUND CATEGORY	COMPARISON INDEX	1-YEAR (%)	3-YEAR (%)	5-YEAR (%)	10-YEAR (%)
Canadian Equity	S&P/TSX Composite	93.22	90.91	89.74	88.89
Canadian Small-/Mid-Cap Equity	S&P/TSX Completion	90.91	81.58	67.50	77.19
Canadian Dividend & Income Equity	S&P/TSX Canadian Dividend Aristocrats	32.43	48.78	60.47	100.00
U.S. Equity	S&P 500 (CAD)	72.41	92.55	92.86	97.67
International Equity	S&P EPAC LargeMidCap (CAD)	89.16	87.04	90.00	95.38
Global Equity	S&P Developed LargeMidCap (CAD)	84.89	91.67	92.31	95.21
Canadian Focused Equity	50% S&P/TSX Composite + 25% S&P 500 (CAD) + 25% S&P EPAC LargeMidCap	94.44	97.53	97.50	90.10

Source: S&P Dow Jones Indices LLC, Funddata. Data as of June 30, 2018. CIFSC categorizations are used. Financial information provided by Funddata Canada Inc. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

## Report 2: Survivorship

This report shows the number of funds that existed in a particular category at the beginning of the 1-, 3-, 5-, and 10-year periods, and how many survived at the end of those periods. The fund's category at the end of the period is not considered because the category at the beginning of the holding period is of interest.

Report 2: Survivorship		
FUND CATEGORY	NO. OF FUNDS AT START	SURVIVORSHIP (%)
<b>1-YEAR</b>		
Canadian Equity	59	77.97
Canadian Small-/Mid-Cap Equity	33	87.88
Canadian Dividend & Income Equity	37	89.19
U.S. Equity	87	85.06
International Equity	83	51.81
Global Equity	139	79.86
Canadian Focused Equity	72	80.56
<b>3-YEAR</b>		
Canadian Equity	66	63.64
Canadian Small-/Mid-Cap Equity	38	73.68
Canadian Dividend & Income Equity	41	75.61
U.S. Equity	94	74.47
International Equity	54	62.96
Global Equity	132	72.73
Canadian Focused Equity	81	67.90
<b>5-YEAR</b>		
Canadian Equity	78	48.72
Canadian Small-/Mid-Cap Equity	40	70.00
Canadian Dividend & Income Equity	43	69.77
U.S. Equity	98	70.41
International Equity	60	56.67
Global Equity	143	65.73
Canadian Focused Equity	80	65.00
<b>10-YEAR</b>		
Canadian Equity	90	36.67
Canadian Small-/Mid-Cap Equity	57	47.37
Canadian Dividend & Income Equity	64	45.31
U.S. Equity	129	46.51
International Equity	65	46.15
Global Equity	167	49.70
Canadian Focused Equity	101	47.52

Source: S&P Dow Jones Indices LLC, Fundata. Data as of June 30, 2018. CIFSC categorizations are used. Financial information provided by Fundata Canada Inc. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

### Report 3: Equal-Weighted Fund Returns

This report shows the equal-weighted average returns of funds in a particular category for the 1-, 3-, 5-, and 10-year periods. For every month in the time period, S&P Dow Jones Indices takes all funds from a particular category and calculates the simple average return. The returns from all months in the period are then compounded. These returns are compared with those of the benchmark. The funds used in the averaging process in one month might not be the same as those used in the next month because some funds may have been merged or liquidated, new funds may have been formed, and some may have had their categories changed.

This report essentially shows the equal-weighted performance of actively managed funds in a category over the time period, with a monthly level of granularity for determining the eligible population in that category.

Most reports that purport to show average active fund performance work with the funds in a category at the end of the period and then take the average of their historical returns. The SPIVA Canada Scorecard presents a more accurate picture of active fund performance in a category by calculating the average performance of the active funds in existence for a given category each month.

<b>Report 3: Equal-Weighted Fund Returns</b>					
<b>CATEGORY</b>	<b>1-YEAR (ANNUALIZED, %)</b>	<b>3-YEAR (ANNUALIZED, %)</b>	<b>5-YEAR (ANNUALIZED, %)</b>	<b>10-YEAR (ANNUALIZED, %)</b>	
Canadian Equity	7.38	5.24	7.63	3.25	
S&P/TSX Composite	10.41	6.96	9.24	4.24	
Canadian Small-/Mid-Cap Equity	2.71	2.25	6.56	4.29	
S&P/TSX Completion	7.21	4.92	7.02	4.78	
Canadian Dividend & Income Equity	5.72	5.47	7.03	4.82	
S&P/TSX Canadian Dividend Aristocrats	4.01	5.25	7.60	8.67	
U.S. Equity	12.02	9.27	14.20	9.36	
S&P 500 (CAD)	15.85	13.90	18.54	13.07	
International Equity	4.80	4.56	9.01	3.94	
S&P EPAC LargeMidCap (CAD)	8.81	7.53	11.88	6.29	
Global Equity	8.05	6.61	10.91	6.38	
S&P Developed LargeMidCap (CAD)	12.91	11.00	15.43	9.73	
Canadian Focused Equity	6.82	4.51	8.14	3.84	
50% S&P/TSX Composite + 25% S&P 500 (CAD) + 25% S&P EPAC LargeMidCap	11.44	8.96	12.33	7.11	

Source: S&P Dow Jones Indices LLC, Fundata. Data as of June 30, 2018. CIFSC categorizations are used. Financial information provided by Fundata Canada Inc. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

## Report 4: Asset-Weighted Fund Returns

This report shows the asset-weighted average returns of funds in a particular category for the 1-, 3-, 5-, and 10-year periods. For every month, S&P Dow Jones Indices takes all funds in a category and calculates the average return by weighing each fund's return by its month-end assets. The returns from all the months in the period are then compounded. These returns are compared with those of the benchmark. The funds used in the averaging process in one month might not be the same as those used the next month because some funds may have been merged or liquidated, new funds may have been formed, and some might have had their categories changed.

This report essentially shows asset-weighted performance of actively managed funds in a category over the time periods studied, with the level of granularity for determining the eligible population in that category being monthly.

Most fund reports do not show asset-weighted returns. The SPIVA Canada Scorecard presents an accurate picture of asset-weighted, active fund performance in a category by calculating the asset-weighted average performance of the active funds in existence in a category each month.

<b>Report 4: Asset-Weighted Fund Returns</b>					
<b>CATEGORY</b>	<b>1-YEAR (ANNUALIZED, %)</b>	<b>3-YEAR (ANNUALIZED, %)</b>	<b>5-YEAR (ANNUALIZED, %)</b>	<b>10-YEAR (ANNUALIZED, %)</b>	
Canadian Equity	8.68	6.19	8.33	3.75	
S&P/TSX Composite	10.41	6.96	9.24	4.24	
Canadian Small-/Mid-Cap Equity	3.08	2.71	7.05	4.49	
S&P/TSX Completion	7.21	4.92	7.02	4.78	
Canadian Dividend & Income Equity	6.20	6.83	8.56	5.40	
S&P/TSX Canadian Dividend Aristocrats	4.01	5.25	7.60	8.67	
U.S. Equity	17.08	11.09	15.75	9.70	
S&P 500 (CAD)	15.85	13.90	18.54	13.07	
International Equity	6.37	4.64	9.46	3.65	
S&P EPAC LargeMidCap (CAD)	8.81	7.53	11.88	6.29	
Global Equity	8.57	7.07	11.08	6.58	
S&P Developed LargeMidCap (CAD)	12.91	11.00	15.43	9.73	
Canadian Focused Equity	5.14	3.92	7.22	3.26	
50% S&P/TSX Composite + 25% S&P 500 (CAD) + 25% S&P EPAC LargeMidCap	11.44	8.96	12.33	7.11	

Source: S&P Dow Jones Indices LLC, Funddata. Data as of June 30, 2018. CIFSC categorizations are used. Financial information provided by Fundata Canada Inc. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

## APPENDIX: GLOSSARY

### S&P 500

Widely regarded as the best single gauge of the U.S. equities market, this index includes a representative sample of 500 leading companies in leading industries of the U.S. economy and provides over 80% market coverage of the U.S. equities market.

### S&P/TSX Canadian Dividend Aristocrats

This index is designed to measure the performance of Canadian securities that have followed a managed dividends policy of consistently increasing dividends every year for at least five years.

### S&P EPAC LargeMidCap

This index is a float-weighted, rules-based benchmark that captures the universe of securities in the developed markets, excluding North America. The S&P EPAC LargeMidCap constitutes the top 85% of the available market capitalization of the global [S&P EPAC BMI](#). The S&P EPAC LargeMidCap was previously named the S&P/Citigroup EPAC PMI Index and represented 80% of the available market cap. On Oct. 1, 2008, the new size divisions and name change took effect.

### S&P Developed LargeMidCap

This index is a float-weighted, rules-based benchmark that captures securities in the developed markets. The [S&P Developed LargeMidCap](#) constitutes the top 85% of the available market cap of the global [S&P Developed BMI](#). The S&P Developed LargeMidCap was previously named the S&P/Citigroup World PMI Index and represented 80% of the available market capitalization. On Oct. 1, 2008, the new size divisions and name change took effect.

### S&P/TSX Completion

This is a modular component of the [S&P/TSX Composite](#). This index comprises constituents of the S&P/TSX Composite that are not in the [S&P/TSX 60](#).

### S&P/TSX Composite

This is the headline index and the principal broad market measure for Canadian equity markets. The S&P/TSX Composite is the basis for numerous subindices, which break down the Canadian market by different factors including size, liquidity, and Global Industry Classification Standard (GICS®).

For more information on SPIVA Scorecards, please [click here](#).

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