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SPIVA[®] Japan Scorecard

SUMMARY

- S&P Dow Jones Indices has been the de facto scorekeeper of the ongoing active versus passive debate since the first publication of the U.S. SPIVA Scorecard in 2002. Over the years, we have built on our experience publishing the report by expanding scorecard coverage into Australia, Canada, Europe, India, South Africa, Latin America, and Japan. While this report will not end the debate on active versus passive investing in Japan, we hope to make a meaningful contribution by examining market segments in which one strategy works better than the other.
- The SPIVA Japan Scorecard reports on the performance of actively managed Japanese mutual funds against their respective benchmark indices over one-, three-, and five-year investment horizons. In this scorecard, we evaluated returns of more than 646 Japanese large- and mid/small-cap equity funds, along with more than 503 international equity funds investing in global, international, and emerging markets, as well as U.S. equities.
- **Domestic Equity Funds:** The Japanese equity market was weak in the 12-month period ending June 2016; the [S&P/TOPIX 150](#), S&P Japan MidSmallCap, and [S&P Japan 500](#) suffered losses of 24.3%, 15.9%, and 22.8%, respectively. Over the same period, the majority of large- and mid/small-cap equity funds suffered smaller losses than their respective benchmarks, and they recorded average returns of -20.3% and -7.4%, respectively, which was a more favorable picture than what was seen over the three- and five-year periods.

- **Foreign Equity Funds:** Unlike domestic equity funds, the majority of foreign equity funds did not deliver higher excess returns than their respective benchmarks. A vast majority of U.S., global, and international equity funds lagged the [S&P 500[®]](#), [S&P Global 1200](#), and S&P Global 1200 ex Japan, and they underperformed the benchmarks by 9.1%, 3.6%, and 2.3%, respectively, in the 12-month period ending June 2016. This is consistent with the observations over the three- and five-year periods. Emerging equity funds delivered better performance, as close to 60% of funds managed to outperform the [S&P Emerging BMI](#) in the past one-year period. However, 78.8% and 82.4% of emerging equity funds underperformed the benchmark over the three- and five-year periods, respectively.
- **Fund Survivorship:** In the past 12 months, Japanese equity funds had a survivorship rate of 96.6%, while foreign equity funds had a lower rate of 94.2% collectively. Among the foreign equity funds, emerging market funds had the lowest survivorship rate of just 88.2%. Over the five-year horizon, only International and Japanese Large-Cap Equity funds had survival rates above 80%. U.S. and emerging equity funds disappeared at the fastest rates, with 29.6% and 32.9% of funds liquidated or merged in the past five years, respectively.
- **Equal-Weighted Average Fund Returns:** Equal-weighted average returns of Japanese large- and mid/small-cap equity funds exceeded their respective benchmark returns by 4% and 8.5% over the one-year period, respectively. However, U.S. and global equity funds underperformed the [S&P 500](#) and [S&P Global 1200](#) by an average of 9.1% and 3.6%, respectively, over the same period. Over the three- and five-year horizons, Japanese large- and mid/small-cap equity funds delivered higher equal-weighted average returns than their respective benchmarks. In contrast, all foreign equity funds recorded lower equal-weighted average returns than their corresponding benchmarks over the same periods.
- **Asset-Weighted Average Fund Returns:** Apart from global equity funds, the asset-weighted average returns were lower than the respective equal-weighted average returns over all measured periods in all of the measured fund categories over the one-, three-, and five-year horizons, implying smaller funds performed better than larger funds in most fund peer groups in Japan. Over the past year, the asset-weighted average return of the Japanese mid/small-cap equity fund category exceeded its benchmark return by the most significant margin (4.3%). In contrast, U.S. equity funds recorded an asset-weighted average loss of 24.1%, lagging the S&P 500 by 11.3%.

A UNIQUE SCORECARD FOR THE ACTIVE VERSUS PASSIVE DEBATE

There is nothing novel about the index versus active debate. It has been a contentious subject for decades, and there are few strong believers on both sides, with the vast majority of market participants falling somewhere in between. Since its first publication 14 years ago, the SPIVA Scorecard has served as the de facto scorekeeper of the active versus passive debate. For more than a decade, we have heard passionate arguments from believers in both camps when headline numbers have deviated from their beliefs.

Beyond the SPIVA Scorecard's widely cited headline numbers is a rich data set that addresses issues related to measurement techniques, universe composition, and fund survivorship that are far less frequently discussed but are often far more fascinating. These data sets are rooted in the following fundamental principles of the SPIVA Scorecard, with which regular readers will be familiar.

- **Survivorship Bias Correction:** Many funds might be liquidated or merged during a period of study. However, for someone making an investment decision at the beginning of the period, these funds are part of the opportunity set. Unlike other commonly available comparison reports, SPIVA Scorecards account for the entire opportunity set—not just the survivors—thereby eliminating survivorship bias.
- **Apples-to-Apples Comparison:** Fund returns are often compared with a popular benchmark regardless of their investment category. The SPIVA Japan Scorecard makes 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 JPY 10 billion fund affecting the average in the same manner as the returns of a JPY 10 million fund. However, the SPIVA Japan Scorecard shows both equal- and asset-weighted averages. Equal-weighted returns are a measure of average fund performance, while asset-weighted returns are a measure of the performance of the average invested dollar.
- **Data Cleaning:** SPIVA Scorecards avoid double counting multiple share classes in all count-based calculations, using only the share class with greater assets. Since this is meant to be a scorecard for active managers, index funds, leveraged and inverse funds, and other index-linked products are excluded.

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REPORTS

Report 1: Percentage of Funds Outperformed by the Index				
FUND CATEGORY	COMPARISON INDEX	ONE-YEAR (%)	THREE-YEAR (%)	FIVE-YEAR (%)
Japanese Large-Cap Funds	S&P/TOPIX 150	21.59	35.40	56.57
Japanese Mid/Small-Cap Funds	S&P Japan MidSmallCap	22.06	46.09	45.45
All Japanese Equity Funds	S&P Japan 500	27.87	46.44	60.43
U.S. Equity Funds	S&P 500	95.35	94.00	95.83
Global Equity Funds	S&P Global 1200	71.14	83.33	88.81
International Equity Funds	S&P Global 1200 Ex Japan	82.69	89.80	92.59
Emerging Equity Funds	S&P Emerging BMI	40.24	78.75	82.35

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2016. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

Report 2: Survivorship and Style Consistency of Japanese Equity Funds		
FUND CATEGORY	NO. OF FUNDS AT START	SURVIVORSHIP (%)
ONE-YEAR		
Japanese Large-Cap Funds	358	96.65
Japanese Mid/Small-Cap Funds	139	96.40
All Japanese Equity Funds	497	96.58
U.S. Equity Funds	89	95.51
Global Equity Funds	154	96.75
International Equity Funds	53	94.34
Emerging Equity Funds	85	88.24
THREE-YEAR		
Japanese Large-Cap Funds	328	87.80
Japanese Mid/Small-Cap Funds	131	85.50
All Japanese Equity Funds	459	87.15
U.S. Equity Funds	53	86.79
Global Equity Funds	148	80.41
International Equity Funds	50	94.00
Emerging Equity Funds	82	71.95
FIVE-YEAR		
Japanese Large-Cap Funds	333	81.38
Japanese Mid/Small-Cap Funds	146	73.29
All Japanese Equity Funds	479	78.91
U.S. Equity Funds	27	70.37
Global Equity Funds	138	74.64
International Equity Funds	54	87.04
Emerging Equity Funds	70	67.14

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2016. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

Report 3: Average Fund Performance (Equal-Weighted)

INDEX/PEER GROUP	ONE-YEAR (%)	THREE-YEAR ANNUALIZED (%)	FIVE-YEAR ANNUALIZED (%)
S&P/TOPIX 150	-24.25	3.76	9.29
Japanese Large-Cap Funds	-20.27	5.53	9.97
S&P Japan MidSmallCap	-15.90	9.32	12.92
Japanese Mid/Small-Cap Funds	-7.38	12.81	16.74
S&P Japan 500	-22.78	4.86	10.04
All Japanese Equity Funds	-16.88	7.53	11.89
S&P 500	-12.81	12.86	17.59
U.S. Equity Funds	-21.94	5.27	10.77
S&P Global 1200	-17.87	8.56	12.24
Global Equity Funds	-21.42	5.15	7.68
S&P Global 1200 Ex Japan	-17.31	8.97	12.47
International Equity Funds	-19.61	5.89	8.63
S&P Emerging BMI	-25.86	0.63	1.94
Emerging Equity Funds	-23.30	-0.21	0.72

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2016. All returns in JPY. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

Report 4: Average Fund Performance (Asset-Weighted)

INDEX/PEER GROUP	ONE-YEAR (%)	THREE-YEAR ANNUALIZED (%)	FIVE-YEAR ANNUALIZED (%)
S&P/TOPIX 150	-24.25	3.76	9.29
Japanese Large-Cap Funds	-20.36	5.41	9.43
S&P Japan MidSmallCap	-15.90	9.32	12.92
Japanese Mid/Small-Cap Funds	-11.59	8.37	13.19
S&P Japan 500	-22.78	4.86	10.04
All Japanese Equity Funds	-18.25	6.17	10.19
S&P 500	-12.81	12.86	17.59
U.S. Equity Funds	-24.06	2.16	7.48
S&P Global 1200	-17.87	8.56	12.24
Global Equity Funds	-18.71	5.74	7.97
S&P Global 1200 Ex Japan	-17.31	8.97	12.47
International Equity Funds	-22.45	5.23	7.52
S&P Emerging BMI	-25.86	0.63	1.94
Emerging Equity Funds	-27.60	-3.54	-1.72

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2016. All returns in JPY. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

Report 5: Quartile Breakpoints of Fund Performance			
FUND CATEGORY	THIRD QUARTILE	SECOND QUARTILE	FIRST QUARTILE
ONE-YEAR			
Japanese Large-Cap Funds	-23.87	-21.09	-17.21
Japanese Mid/Small-Cap Funds	-15.19	-8.18	-1.64
All Japanese Equity Funds	-23.10	-19.30	-13.01
U.S. Equity Funds	-25.85	-22.20	-16.61
Global Equity Funds	-24.90	-21.35	-17.12
International Equity Funds	-24.67	-21.74	-17.97
Emerging Equity Funds	-26.30	-24.66	-21.74
THREE-YEAR			
Japanese Large-Cap Funds	3.44	4.81	6.67
Japanese Mid/Small-Cap Funds	7.77	11.61	17.60
All Japanese Equity Funds	4.04	5.75	9.11
U.S. Equity Funds	3.65	6.72	9.83
Global Equity Funds	3.91	5.83	7.68
International Equity Funds	4.19	5.71	7.18
Emerging Equity Funds	-2.37	-0.94	1.06
FIVE-YEAR			
Japanese Large-Cap Funds	8.44	9.34	10.81
Japanese Mid/Small-Cap Funds	12.35	16.29	21.49
All Japanese Equity Funds	8.83	9.99	13.49
U.S. Equity Funds	11.56	13.91	14.51
Global Equity Funds	5.38	9.52	11.18
International Equity Funds	7.95	9.84	10.88
Emerging Equity Funds	-1.36	0.53	1.98

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2016. All returns in JPY. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

APPENDIX A: GLOSSARY

SPIVA Styles and Morningstar Fund Classifications

Data from Morningstar is obtained for all managed funds domiciled in Japan for which month-end data is available during the performance period. The data includes the most comprehensive Japanese fund data on active and finalized (merged or liquidated) funds over the chosen period. Funds are classified based on the Morningstar fund classification system, and the SPIVA Japan Scorecard covers Japanese and international equity categories.

Japanese Equity Funds

The SPIVA Japan Scorecard covers major capitalization levels including large-, mid-, and small-cap funds. S&P Dow Jones Indices uses the Morningstar fund categories, which determine a fund portfolio's capitalization assignments.

The Morningstar classification system produces narrow, style-based classifications for Japanese equities funds. S&P Dow Jones Indices has consolidated the style-based categories in order to generate a larger sample size and develop a broad-market comparison to market-based benchmarks. A narrow, style-based comparison would yield a limited sample size, given value and growth style segments are not consistently discernible over the past five years.

Morningstar categories have been mapped to SPIVA peer groups in the following manner.

Exhibit 1: Japanese Equity Funds: SPIVA and Morningstar Categories	
SPIVA CATEGORY	MORNINGSTAR CATEGORY
Japanese Large-Cap Funds	Japan OE Japan Large-Cap Value Equity
	Japan OE Japan Large-Cap Growth Equity
	Japan OE Japan Large-Cap Blend Equity
Japanese Mid/Small-Cap Funds	Japan OE Japan Small/Mid-Cap Value Equity
	Japan OE Japan Small/Mid-Cap Growth Equity
	Japan OE Japan Small/Mid-Cap Blend Equity

Source: S&P Dow Jones Indices LLC, Morningstar. Table is provided for illustrative purposes.

International Equity Funds

For international equity, the SPIVA Japan Scorecard reports on four major categories (U.S., global, international, and emerging market funds) of interest to global asset allocators.

Morningstar categories have been mapped to SPIVA peer groups in the following manner.

Exhibit 2: International Equity Funds: SPIVA and Morningstar Categories	
SPIVA CATEGORY	MORNINGSTAR CATEGORY
U.S. Equity Funds	Japan OE North America Equity
Global Equity Funds	Japan OE World Equity
International Equity Funds	Japan OE World ex-Japan Equity
Emerging Equity Funds	Japan OE Emerging Multiple Country/Area Equity

Source: S&P Dow Jones Indices LLC, Morningstar. Table is provided for illustrative purposes.

Benchmarks

The chosen benchmarks are shown in Exhibit 3. All index returns are total returns (i.e., include dividend reinvestment) in Japanese yen. There has been no deduction from index returns to account for fund investment expenses. It is important to note that active fund returns are after expenses, but they do not include loads and entry fees.

The benchmarks chosen are the most commonly adopted benchmarks for funds that fall into the respective fund peer groups. In some instances, a fund may not adopt the benchmarks stipulated in Exhibit 3. However, a vast majority do set their performance hurdle based on the assigned benchmarks in this report, ensuring that the study is robust and fair.

Exhibit 3: SPIVA Categories and Their Benchmarks	
SPIVA CATEGORY	BENCHMARK INDEX
Japanese Large-Cap Funds	S&P/TOPIX 150
Japanese Mid/Small-Cap Funds	S&P Japan MidSmallCap
All Japanese Equity Funds	S&P Japan 500
U.S. Equity Funds	S&P 500
Global Equity Funds	S&P Global 1200
International Equity Funds	S&P Global 1200 Ex Japan
Emerging Equity Funds	S&P Emerging BMI

Source: S&P Dow Jones Indices LLC, Morningstar. Table is provided for illustrative purposes.

APPENDIX B: GLOSSARY

Percentage of Funds Outperformed by the Index

To correct for survivorship bias, we use the opportunity set available at the beginning of the period as the denominator. We determine the count of funds that have survived and beat the index. We then report the index outperformance percentage.

Survivorship (%)

This measure represents the percentage of funds in existence at the beginning of the time period that is still active at the end of the time period.

Equal-Weighted Fund Performance

Equal-weighted returns for a particular style category are determined by calculating a simple average return of all active funds in that category in a particular month.

Asset-Weighted Fund Performance

Asset-weighted returns for a particular style category are determined by calculating a weighted average return of all funds in that category in a particular month, with each fund's return weighted by its total net assets. Asset-weighted returns are a better indicator of fund category performance because they more accurately reflect the returns of the total money invested in that particular style category.

Quartiles Breakpoints

The pth percentile for a set of data is the value that is greater than or equal to p% of the data, but is less than or equal to (100-p)% of the data. In other words, it is a value that divides the data into two parts: the lower p% of the values and the upper (100-p)% of the values. The first quartile is the 75th percentile, the value separating the elements of a population into the lower 75% and the upper 25%. The second quartile is the 50th percentile and the third quartile is the 25th percentile. For fund category quartiles in a particular time horizon, the data used is the return of the largest share class of the fund net of fees, excluding loads.

Survivorship Bias

Many funds might liquidate or merge during a period of study. This usually occurs due to continued poor performance by the fund. Therefore, if index returns were compared to fund returns using only surviving funds, the comparison would be biased in favor of the fund category. These reports remove this bias by (a) using the entire investment opportunity set, made up of all funds in that particular category at the outset of the period, as the denominator for outperformance calculations, (b) explicitly showing the survivorship rate in each category, and (c) constructing peer average return series for each category based on all available funds at the outset of the period.

Fees

The fund returns used are net of fees, excluding loads.

Indices

A benchmark index provides an investment vehicle against which fund performance can be measured.

S&P/TOPIX 150

The [S&P/TOPIX 150](#) is designed to represent the large-cap universe for Japan. It includes 150 highly liquid securities as leading, blue-chip companies from each of the Global Industry Classification Standard (GICS®) sectors of the Japanese market.

S&P JAPAN MIDSMALLCAP

The S&P Japan MidSmallCap combines the S&P Japan MidCap and S&P SmallCap indices and comprises the stocks representing the lowest 30% of float-adjusted market cap in Japan. It is a subset of the [S&P Japan BMI](#), comprehensive, rules-based index measuring Japanese stock market performance.

S&P JAPAN 500

The [S&P Japan 500](#) is designed to represent the Japanese investable market. Index constituents are drawn from eligible companies listed on the Tokyo, Osaka, or JASDAQ exchanges. Data is sourced from the comprehensive Toyo Keizai database. Constituents represent the large-, mid-, and small-cap components of the Japanese equity markets.

S&P 500

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

S&P GLOBAL 1200

Capturing approximately 70% of the world's capital markets, the [S&P Global 1200](#) is a composite of seven headline indices, many of which are accepted leaders in their regions. It includes the [S&P 500](#) (U.S.), [S&P Europe 350](#) (Europe), [S&P/TOPIX 150](#) (Japan), [S&P/TSX 60](#) (Canada), [S&P/ASX All Australian 50](#) (Australia), [S&P Asia 50](#) (Asia Ex-Japan), and [S&P Latin America 40](#) (Latin America).

S&P GLOBAL 1200 EX JAPAN

The S&P Global 1200 Ex Japan is a composite of six headline indices, many of which are accepted leaders in their regions. It includes the S&P 500 (U.S.), S&P Europe 350 (Europe), S&P/TSX 60 (Canada), S&P/ASX All Australian 50 (Australia), S&P Asia 50 (Asia Ex-Japan), and S&P Latin America 40 (Latin America).

S&P EMERGING BMI

The [S&P Emerging BMI](#) captures all companies domiciled in the emerging markets within the [S&P Global BMI](#) with a float-adjusted market capitalization of at least USD 100 million and a minimum annual trading liquidity of USD 50 million.

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