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SPIVA[®] Latin America Scorecard

SUMMARY

The S&P Indices Versus Active (SPIVA) Latin America Scorecard reports on the performance of actively managed mutual funds in Brazil, Chile, and Mexico against their respective benchmarks over one-, three-, and five-year investment horizons.

Brazil

After a multi-year downturn, the Brazilian equity market saw gains in the first half of 2016, with the [S&P Brazil BMI](#) returning 18.63% (in local currency). Large-cap companies led the way, as the S&P Brazil LargeCap saw a six-month return of 19.55%, while the S&P Brazil MidSmallCap had a return of 16.00% in the same period. For the one-year period, Brazil equities were still down 2.98%, with smaller companies outperforming larger companies. The debt markets continued to show strong gains, as corporate bonds returned 14.22% (represented by the Anbima Debentures Index) and government bonds returned 15.87% (represented by the Anbima Market Index) over the past 12 months. Both fixed income categories showed double-digit annualized growth over the five-year period (11.71% for corporates and 11.73% for government bonds).

In the short term, active fund managers in Brazil were able to outperform their respective benchmarks in three of the five categories. In the Brazil Equity category, approximately 52% of managers were able to outperform the S&P Brazil BMI over the one-year period. Fund managers did not have the same success over the long term, as 72% underperformed the benchmark over the past five years. For managers focusing on a particular company size, 78.05% of large-cap managers outperformed the S&P Brazil LargeCap, while 40.48% of mid- and small-cap managers outperformed the S&P Brazil MidSmallCap over the one-year period. Over the long term, both size categories saw a significant majority of managers underperforming their respective benchmarks.

In the fixed income categories, 79.08% of corporate debt fund managers outperformed the category benchmark, while just 26.35% of government debt fund managers outperformed the government debt benchmark over the one-year period. When looking at the five-year time horizon, the vast majority of managers in both categories underperformed their respective benchmarks.

In three equity categories, average fund performance was higher when weighted by assets than when equally weighted for all three time periods. Substantial differences in average fund performance over the past 12 months was seen for Brazil Equity Funds (4.43% asset weighted versus -1.50% equal weighted) and Brazil Mid-/Small-Cap Funds (8.68% asset weighted versus 2.85% equal weighted). In fixed income, equal-weighted funds outperformed asset-weighted funds in the corporate category, while asset-weighted funds outperformed equal-weighted funds in the government category over the past 12 months.

Chile

The Chilean equity market (as measured by the S&P Chile BMI in local currency) gained 8.89% in the first six months of the year, with a one-year return of 3.92%. Long-term returns in Chile have remained in the red (with a five-year annualized return of -2.45%).

As seen in previous iterations of this report, few fund managers in Chile are able to contend with the S&P Chile BMI, as 88.37% underperformed the benchmark over the one-year period, with 93.33% underperforming over the past five years.

The one-year average fund return was 1.93% on an equal-weighted basis and 0.81% on an asset-weighted basis. Similar performance differentials were seen for the three- and five-year periods, pointing to the ability of smaller fund managers (by net assets) to outperform larger fund managers. While smaller managers may have done better than their larger peers, the average five-year return on an equal-weighted basis for the category (-4.40%) was almost 2% lower than the return of the S&P Chile BMI (-2.45%).

Mexico

The bull market seen elsewhere in Latin America in the first half of 2016 was also present in Mexico, with the S&P Mexico BMI (in local currency) returning 7.07% for the six-month period. Over the longer term, Mexican equities had a five-year annualized return of 7.14% in local currency terms.

The positive market in Mexico was not favorable for active equity fund managers, as 67.35% of managers underperformed the S&P Mexico BMI over the past 12 months. A similar trend in underperformance was seen in longer time horizons as well, with 63.83% of managers underperforming over the three-year period and 76.19% underperforming over the five-year period.

Larger-sized Mexican fund managers, as determined by net assets, looked to be more successful in producing returns than smaller managers when comparing asset-weighted category returns (see Report 4) to equal-weighted category returns (see Report 3).

A UNIQUE SCORECARD FOR THE ACTIVE VERSUS PASSIVE DEBATE

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 less frequently discussed but are often much more fascinating. These data sets are rooted in the fundamental principles of the SPIVA Scorecard, with which regular readers will be familiar, including the following.

- **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.
- **Asset-Weighted Returns:** Average returns for a fund group are often calculated using only equal weighting, which means the returns of a relatively large fund (by net assets) affect the category average in the same manner as the returns of a relatively small fund. An accurate representation of how market participants fared in a particular period can be ascertained by calculating weighted average returns, in which each fund's return is weighted by net assets. SPIVA Scorecards show both equal- and asset-weighted averages.
- **Data Cleaning:** SPIVA Scorecards avoid double counting multiple share classes in all count-based calculations by using only the share class with greatest assets. Index, leveraged, and inverse funds, along with other index-linked products, are excluded from the results, as this is meant to be a scorecard for active managers.

REPORTS

Report 1: Percentage of Funds Outperformed by the Benchmark				
FUND CATEGORY	COMPARISON INDEX	ONE-YEAR (%)	THREE-YEAR (%)	FIVE-YEAR (%)
Brazil Equity Funds	S&P Brazil BMI	48.02	70.63	72.00
Brazil Large-Cap Funds	S&P Brazil LargeCap	21.95	76.70	89.16
Brazil Mid-/Small-Cap Funds	S&P Brazil MidSmallCap	59.52	88.04	83.61
Brazil Corporate Bond Funds	Anbima Debentures Index (IDA)	20.92	68.54	91.30
Brazil Government Bond Funds	Anbima Market Index (IMA)	73.65	86.01	81.17
Chile Equity Funds	S&P Chile BMI	88.37	83.72	93.33
Mexico Equity Funds	S&P Mexico BMI	67.35	63.83	76.19

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending June 30, 2016. Outperformance is based on equal-weighted fund counts. Index performance based on total return in local country currency. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

Report 2: Fund Survivorship		
FUND CATEGORY	NO. OF FUNDS AT START	SURVIVORSHIP (%)
ONE-YEAR		
Brazil Equity Funds	529	85.82
Brazil Large-Cap Funds	82	90.24
Brazil Mid-/Small-Cap Funds	85	83.53
Brazil Corporate Bond Funds	211	91.00
Brazil Government Bond Funds	368	93.48
Chile Equity Funds	43	95.35
Mexico Equity Funds	49	97.96
THREE-YEAR		
Brazil Equity Funds	603	63.02
Brazil Large-Cap Funds	106	59.43
Brazil Mid-/Small-Cap Funds	96	59.38
Brazil Corporate Bond Funds	152	80.92
Brazil Government Bond Funds	315	75.56
Chile Equity Funds	43	90.70
Mexico Equity Funds	48	91.67
FIVE-YEAR		
Brazil Equity Funds	429	62.00
Brazil Large-Cap Funds	86	56.98
Brazil Mid-/Small-Cap Funds	63	61.90
Brazil Corporate Bond Funds	63	68.25
Brazil Government Bond Funds	239	78.66
Chile Equity Funds	45	82.22
Mexico Equity Funds	44	88.64

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

Report 3: Average Fund Performance (Equal Weighted)			
CATEGORY	ONE-YEAR (%)	THREE-YEAR (ANNUALIZED %)	FIVE-YEAR (ANNUALIZED %)
S&P Brazil BMI	-2.98	1.90	0.20
Brazil Equity Funds	-1.50	0.67	-0.16
S&P Brazil LargeCap	-6.41	1.94	-0.57
Brazil Large-Cap Funds	-3.35	1.41	-2.27
S&P Brazil MidSmallCap	5.58	1.82	1.92
Brazil Mid-/Small-Cap Funds	2.85	-5.64	-1.97
Anbima Debentures Index (IDA)	14.22	12.29	11.71
Brazil Corporate Bond Funds	14.50	12.03	11.57
Anbima Market Index (IMA)	15.87	11.98	11.73
Brazil Government Bond Funds	14.11	11.10	10.69
S&P Chile BMI	3.92	-0.26	-2.45
Chile Equity Funds	1.93	-1.16	-4.40
S&P Mexico BMI	4.56	5.94	7.14
Mexico Equity Funds	4.58	5.94	6.33

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending June 30, 2016. Index performance based on total return in local country currency. Funds are equal weighted, but indices are not. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

Report 4: Average Fund Performance (Asset Weighted)			
CATEGORY	ONE-YEAR (%)	THREE-YEAR (ANNUALIZED %)	FIVE-YEAR (ANNUALIZED %)
S&P Brazil BMI	-2.98	1.90	0.20
Brazil Equity Funds	4.43	6.18	4.37
S&P Brazil LargeCap	-6.41	1.94	-0.57
Brazil Large-Cap Funds	-2.37	2.46	-1.69
S&P Brazil MidSmallCap	5.58	1.82	1.92
Brazil Mid-/Small-Cap Funds	8.68	-0.72	1.19
Anbima Debentures Index (IDA)	14.22	12.29	11.71
Brazil Corporate Bond Funds	13.71	11.68	11.41
Anbima Market Index (IMA)	15.87	11.98	11.73
Brazil Government Bond Funds	14.43	11.62	11.12
S&P Chile BMI	3.92	-0.26	-2.45
Chile Equity Funds	0.81	-2.30	-5.78
S&P Mexico BMI	4.56	5.94	7.14
Mexico Equity Funds	5.53	7.10	7.53

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending June 30, 2016. Index performance based on total returns in local country currency. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

Report 5: Quartile Breakpoints of Funds			
FUND CATEGORY	THIRD QUARTILE	SECOND QUARTILE	FIRST QUARTILE
ONE-YEAR			
Brazil Equity Funds	-6.82	0.25	6.41
Brazil Large-Cap Funds	-5.24	-3.95	-2.16
Brazil Mid-/Small-Cap Funds	-1.38	5.55	11.54
Brazil Corporate Bond Funds	14.61	15.74	16.50
Brazil Government Bond Funds	12.86	14.21	16.09
Chile Equity Funds	-1.19	-0.24	2.38
Mexico Equity Funds	0.85	3.06	5.74
THREE-YEAR			
Brazil Equity Funds	-2.75	1.29	5.78
Brazil Large-Cap Funds	0.48	1.61	2.50
Brazil Mid-/Small-Cap Funds	-6.51	-2.64	0.92
Brazil Corporate Bond Funds	11.74	12.28	12.65
Brazil Government Bond Funds	10.81	11.49	11.82
Chile Equity Funds	-4.01	-2.80	-1.22
Mexico Equity Funds	3.62	5.28	6.80
FIVE-YEAR			
Brazil Equity Funds	-3.30	-0.18	3.26
Brazil Large-Cap Funds	-4.30	-2.80	-1.25
Brazil Mid-/Small-Cap Funds	-5.69	0.02	1.98
Brazil Corporate Bond Funds	10.65	11.10	11.30
Brazil Government Bond Funds	10.02	10.59	11.65
Chile Equity Funds	-7.38	-5.81	-4.61
Mexico Equity Funds	3.26	5.36	7.47

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending June 30, 2016. Index performance based on total returns in local country currency. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

APPENDIX A

SPIVA Styles and Morningstar Fund Classifications

Data from Morningstar is obtained for all managed funds for which month-end data is available during the performance period. The SPIVA Latin America Scorecard covers country-specific funds for Brazil, Chile, and Mexico that are domiciled in the respective country markets and denominated in each country's local currency. The Morningstar classification system produces narrow, style-based classifications for funds and where appropriate, S&P Dow Jones Indices consolidated the style-based categories in order to generate a larger sample size and develop a broad-market comparison to market-based benchmarks.

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

Exhibit 1: Fund Category Mapping	
MORNINGSTAR CATEGORY	SPIVA CATEGORY
BRAZIL	
Brazil Open-Ended All-Cap Equity	Brazil Equity Funds
Brazil Open-Ended Large-Cap Equity	Brazil Large-Cap Funds
Brazil Open-Ended Small-/Mid-Cap Equity	Brazil Mid-/Small-Cap Funds
Brazil Open-Ended BRL Corporate Bond	Brazil Corporate Bond Funds
Brazil Open-Ended BRL Government Bond	Brazil Government Bond Funds
CHILE	
Chile Open-Ended Equity	Chile Equity Funds
MEXICO	
Mexico Open-Ended Equity	Mexico Equity Funds

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

APPENDIX B

Glossary—Reports

PERCENTAGE OF FUNDS OUTPERFORMED BY THE INDEX

We use funds with returns available for the entire period as the denominator. We determine the count of funds that have survived and beat the index, and then we report the index outperformance percentage.

SURVIVORSHIP (%)

The survivorship metric represents the percentage of funds in existence at the beginning of the time period that are 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 reflect the returns of the total money invested in that particular style category with more accuracy.

QUARTILE 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, which is 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. The SPIVA reports remove this bias in three ways. The first method to remove the bias is to use 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. The second is to show explicitly the survivorship rate in each category. The final way is to construct a 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 BRAZIL BMI

The [S&P Brazil BMI](#), a subset of the [S&P Global BMI](#), is designed to represent the Brazilian stock market.

S&P BRAZIL LARGE CAP

The S&P Brazil LargeCap, a subset of the S&P Global BMI, is designed to represent large-cap stocks in the Brazilian market.

S&P BRAZIL MIDSMALLCAP

The S&P Brazil MidSmallCap, a subset of the S&P Global BMI, is designed to represent mid- and small-cap stocks in the Brazilian market.

RESEARCH

S&P CHILE BMI

The S&P Chile BMI, a subset of the [S&P Global BMI](#), is designed to represent the Chilean stock market.

S&P MEXICO BMI

The S&P Mexico BMI, a subset of the S&P Global BMI, is designed to represent the Mexican stock market.

ANBIMA DEBENTURES INDEX (IDA)

The Anbima Debentures Index (IDA) represents a portfolio of debentures at market prices and serves as benchmark for the segment. The index consists of all debentures priced by the Association.

ANBIMA MARKET INDEX (IMA)

The Anbima Market Index (IMA) represents a portfolio of government securities at market prices, with an approximate range of 97% of the market segment.

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