
S&P Dow Jones Indices Versus Active (SPIVA[®]) Latin America Scorecard

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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 SPIVA U.S. Scorecard in 2002. Over the years, we have built on more than a decade of experience publishing the report by expanding coverage into Canada, Europe, India, and Australia. This report marks the launch of the SPIVA Latin America Scorecard. While the report will not end the debate on active versus passive investing in Latin America, we hope to make a meaningful contribution by examining market segments in which one strategy works better than the other.

The SPIVA Latin America Scorecard measures the performance of actively managed funds in Brazil, Chile, and Mexico against their respective benchmark indices over one-, three-, and five-year investment horizons.

SCORECARD RESULTS

Brazil

The Brazilian equity market saw disappointing results in 2014, with a total return of -4.53%, as measured by the S&P Brazil BMI (Broad Market Index) in Brazilian reals. The negative returns were also seen over a longer time horizon, with a five-year annualized total return of -0.92%. Large-cap companies fared better than mid- and small-cap issues in 2014, as the S&P Brazil LargeCap returned -3.20%, while the S&P Brazil MidSmallCap returned -7.50% in the same period. In contrast with equities, the fixed income markets in Brazil showed positive results. Corporate bonds (represented by the Anbima Debentures Index) returned 11.35%, and government bonds (represented by the Anbima Market Index) returned 10.82% for the year.

Actively managed Brazilian funds underperformed their category's benchmark in all five fund categories in 2014, as shown in Report 1. In the Brazil Equity category, 50.36% of managers underperformed the S&P Brazil BMI for the year. Furthermore, 55.56% and 53.79% underperformed the benchmark for the three- and five-year time periods, respectively. Managers focusing on a particular size segment did not fare favorably, with 72.92% underperforming in the Brazil Large-Cap Equity category and 69.77% underperforming in the Brazil Mid/Small-Cap Equity category. Similar results were seen for these two categories in the three- and five-year time horizons.

In the fixed income categories, active managers overwhelmingly underperformed their benchmarks: 83.52% of managers in the Brazil Corporate Bond category and 82.95% in the Brazil Government Bond category underperformed their respective benchmarks in 2014. Over the five-year investment horizon, over 95% of Brazil Corporate Bond funds lagged the benchmark, with close to 82% of Brazil Government Bond funds trailing the benchmark.

Report 2 shows the survivorship of funds over time; while the number of active funds as a whole increased over the past five years, several categories, such as Brazil Equity and Brazil Large-Cap, saw relatively low survivorship percentages for the five-year period (81.61% and 72.86%, respectively).

When reviewing the equal- and asset-weighted average fund returns in Reports 3 and 4, the asset-weighted returns outpaced the equal-weighted returns in all three equity fund categories over time. The results show that weighting schemes do not play a major role in the performance figures for bond funds, as the equal- and asset-weighted average returns were similar in performance: in the Brazil Corporate Bond category, the average equal-weighted five-year return was 10.73% and the average asset-weighted five-year return was 10.60%. In the Brazil Government Bond category, equal-weighted and asset-weighted average five-year returns were close to identical, at 9.98% and 9.99%, respectively.

Chile

After a double-digit negative return in 2013, the Chilean equity market (as measured by the S&P Chile BMI in Chilean pesos) saw modest gains in 2014, with a total return of 3.04%.

A slight majority of active equity fund managers in Chile were able to outperform the market in 2014, with approximately 53% of managers having positive excess returns. The short-term success of the managers is in stark contrast to long-term returns, with less than 3% of active managers outperforming the benchmark over a five-year period (see Report 1). Of the active funds in the Chile Equity category, 82.93% survived through a five-year period (see Report 2).

The equal-weighted average fund return outperformed the benchmark in 2014, while the asset-weighted average fund return underperformed the benchmark, as shown in Reports 3 and 4. The equal-weighted average return of active Chilean equity funds exceeded the asset-weighted average return across all observed periods, suggesting that small funds tended to perform better than larger funds.

Mexico

The Mexican equity market, represented by S&P Mexico BMI (in Mexican pesos), ended positively for 2014, with a total return of 2.63%. Mexican equities have shown strong returns over longer time periods, with a three-year annualized return of 8.20% and a five-year annualized return of 8.45%.

Report 1 shows that Mexican equity active managers were unsuccessful in outperforming benchmark returns, with 73.33% of managers lagging the S&P Mexico BMI in 2014. Likewise, 60.53% and 80.56% of managers underperformed the benchmark over the three- and five-year periods, respectively. Report 2 shows that most funds in Mexico survived through the five-year time horizon, with 82.05% surviving in the Mexico Equity category.

The asset-weighted average fund returns in the Mexico Equity group were higher than the equal-weighted average fund returns throughout all time periods (see Reports 3 and 4). While over 73% of Mexico equity managers underperformed the benchmark for the five-year period, the asset-weighted average five-year fund return of 9.09% actually outpaced the S&P Mexico BMI's return of 8.45%, leading us to believe that larger funds fared better than smaller funds.

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 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 investors 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	50.36	55.56	53.79
Brazil Large-Cap Funds	S&P Brazil LargeCap	72.92	79.76	82.61
Brazil Mid/Small-Cap Funds	S&P Brazil MidSmallCap	69.77	70.15	60.00
Brazil Corporate Bond Funds	Anbima Debentures Index (IDA)	83.52	64.62	95.24
Brazil Government Bond Funds	Anbima Market Index (IMA)	82.95	82.78	81.76
Chile Equity Funds	S&P Chile BMI	46.51	84.09	97.44
Mexico Equity Funds	S&P Mexico BMI	73.33	60.53	80.56

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 2014. Outperformance is based on equal-weighted fund counts. Index performance based on total return in local country currency. Charts and tables are 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	559	87.84
Brazil Large-Cap Funds	98	77.55
Brazil Mid/Small-Cap Funds	89	88.76
Brazil Corporate Bond Funds	141	97.16
Brazil Government Bond Funds	279	89.25
Chile Equity Funds	43	97.67
Mexico Equity Funds	46	97.83
Three-Year		
Brazil Equity Funds	433	77.37
Brazil Large-Cap Funds	86	70.93
Brazil Mid/Small-Cap Funds	69	84.06
Brazil Corporate Bond Funds	82	90.24
Brazil Government Bond Funds	219	88.58
Chile Equity Funds	46	86.96
Mexico Equity Funds	40	90.00
Five-Year		
Brazil Equity Funds	299	81.61
Brazil Large-Cap Funds	70	72.86
Brazil Mid/Small-Cap Funds	40	92.50
Brazil Corporate Bond Funds	27	88.89
Brazil Government Bond Funds	169	90.53
Chile Equity Funds	41	82.93
Mexico Equity Funds	39	82.05

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 2014. Charts and tables are 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	-4.53	1.29	-0.92
Brazil Equity Funds	-4.23	2.02	0.27
S&P Brazil LargeCap	-3.20	0.38	-2.45
Brazil Large-Cap Funds	-3.90	-1.54	-4.34
S&P Brazil MidSmallCap	-7.50	3.36	2.18
Brazil Mid/Small-Cap Funds	-14.27	-0.03	0.17
Anbima Debentures Index (IDA)	12.42	10.04	11.29
Brazil Corporate Bond Funds	11.35	9.54	10.73
Anbima Market Index (IMA)	12.35	9.24	10.86
Brazil Government Bond Funds	10.82	8.64	9.98
S&P Chile BMI	3.04	-1.74	2.75
Chile Equity Funds	3.50	-4.42	-0.53
S&P Mexico BMI	2.63	8.20	8.45
Mexico Equity Funds	0.49	8.42	6.75

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 2014. Index performance based on total return in local country currency. Funds are equal weighted, but indices are not. Charts and tables are 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	-4.53	1.29	-0.92
Brazil Equity Funds	0.54	6.86	4.24
S&P Brazil LargeCap	-3.20	0.38	-2.45
Brazil Large-Cap Funds	-3.01	-0.86	-4.18
S&P Brazil MidSmallCap	-7.50	3.36	2.18
Brazil Mid/Small-Cap Funds	-8.98	3.17	1.75
Anbima Debentures Index (IDA)	12.42	10.04	11.29
Brazil Corporate Bond Funds	11.15	9.69	10.60
Anbima Market Index (IMA)	12.35	9.24	10.86
Brazil Government Bond Funds	10.96	8.91	9.99
S&P Chile BMI	3.04	-1.74	2.75
Chile Equity Funds	2.74	-5.28	-1.45
S&P Mexico BMI	2.63	8.20	8.45
Mexico Equity Funds	2.28	10.74	9.09

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 2014. Index performance based on total returns in local country currency. Charts and tables are 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	-9.12	-3.02	2.52
Brazil Large-Cap Funds	-5.37	-3.80	-2.60
Brazil Mid/Small-Cap Funds	-20.25	-12.19	-5.39
Brazil Corporate Bond Funds	11.25	11.58	11.84
Brazil Government Bond Funds	10.05	10.70	11.61
Chile Equity Funds	1.35	3.62	4.98
Mexico Equity Funds	-1.37	0.58	2.85
Three-Year			
Brazil Equity Funds	-2.21	2.79	6.92
Brazil Large-Cap Funds	-4.46	-1.50	0.84
Brazil Mid/Small-Cap Funds	-4.24	2.25	5.09
Brazil Corporate Bond Funds	9.46	9.69	11.65
Brazil Government Bond Funds	8.13	8.86	9.14
Chile Equity Funds	-6.40	-5.00	-3.77
Mexico Equity Funds	5.00	7.84	11.09
Five-Year			
Brazil Equity Funds	-5.25	-0.29	3.93
Brazil Large-Cap Funds	-6.60	-4.55	-2.99
Brazil Mid/Small-Cap Funds	-4.77	1.05	3.77
Brazil Corporate Bond Funds	10.12	10.30	10.48
Brazil Government Bond Funds	9.11	9.64	10.42
Chile Equity Funds	-2.42	-0.42	0.58
Mexico Equity Funds	4.50	6.67	8.89

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 2014. Index performance based on total returns in local country currency. Charts and tables are 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 local country markets and denominated in the 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. Charts and tables are 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 p th 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 LargeCap

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.

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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