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SPIVA[®] 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, reporting performance over 1-, 3-, 5-, and 10-year periods.
- All but one fund category outperformed their respective benchmarks on a relative basis over the one-year period ending Dec. 29, 2017. In other words, the majority of active managers across all categories failed to outperform their respective benchmarks, with the exception of Canada Dividend & Income Equity.
- **Domestic Equities:** Despite a slow start during the first six months of the year, the headline broad market indices posted high single-digit gains in 2017, with the [S&P/TSX Composite](#) and the [S&P/TSX 60](#) returning 9.10% and 9.78%, respectively. Almost all of the returns came in during the second half of the year.
- Despite poor performance by the broad market indices during the first six months of the year, funds in the Canadian Equity category struggled to outperform the benchmark. The large majority of active managers investing in domestic equity underperformed the benchmark, with only 6.78% of Canadian equity funds outperforming the S&P/TSX Composite over the one-year period.
- Yield-focused active strategies fared well in 2017. Within the Canadian Dividend & Income Equity category, 57.89% of funds outperformed their respective benchmarks over the one-year period. However, over the 10-year period, no funds were able to outpace the [S&P/TSX Canadian Dividend Aristocrats[®]](#).

- The one-year data also showed unfavorable results for actively managed funds in the Canadian Small-/Mid-Cap Equity category. Managers were not able to keep pace with the 7.04% return of the [S&P/TSX Completion Index](#), which resulted in only 6.45% of managers outperforming the benchmark. Furthermore, on an asset-weighted basis, these funds had a one-year return of 2.40%, which represents a 4.64% shortfall from the index.
- Over the same period, Canadian Focused Equity managers continued to be among the worst performers. Only 4.84% managed to outperform the blended index, which allocates 50% of its weight to the [S&P/TSX Composite](#), 25% of its weight to the [S&P 500®](#), and 25% of its weight to the S&P EPAC LargeMidCap.
- Over the longer term, the results were unequivocal across all domestic equity categories. The data for the five-year period showed the losing pattern repeating across all categories, as the majority of active managers underperformed their respective benchmarks. The 10-year period showed further struggles for active managers, with less than one-quarter of funds outperforming.
- **Foreign Equities:** Managers investing in U.S equities saw almost no change in their relative performance over the various periods compared with the mid-year 2017 scorecard. Only 30.59% of managers in this category were able to provide excess returns over the S&P 500 (CAD) in 2017. The data also showed that an even lower percentage of managers outperformed their benchmarks in the International Equity (26.92%) and Global Equity (20.97%) categories over the same period.
- Over the five-year period, only 10.00% of active International Equity funds and 5.63% of active Global Equity funds were able to beat their respective benchmarks. This statistic dropped to 6.06% and 2.45%, respectively, over the prior 10-year period ending Dec. 29, 2017.
- Managers investing in the U.S. Equity category continued to struggle, with only 1.11%, 2.20%, and 1.67% being able to outpace the S&P 500 (CAD) over the 3-, 5-, and 10-year periods, respectively.

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)¹ 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.

¹ Refer to 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."² 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 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.

² Canadian Investment Funds Standards Committee—2007 Retail Investment Fund Category Definitions.

Exhibit 1: Fund Categories and Their Benchmarks

FUND CATEGORY	COMPARISON BENCHMARK
Canadian Equity	S&P/TSX Composite S&P/TSX Capped Composite ³
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.

³ The main reports show a comparison with the S&P/TSX Capped Composite, since mutual funds are restricted from holding more than 10% of their portfolio in a single stock. A capped index better represents an active manager's opportunity set in periods during which the history includes a concentration problem. In practical terms, both benchmarks would be equivalent when the history under consideration does not have greater than 10% single-stock concentration in the S&P/TSX Composite.

REPORTS

Report 1: Percent of Active Funds Outperforming Index

This report shows the percentage of funds that have outperformed 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 survived and outperformed 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 outperforming 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 Outperforming the Index					
FUND CATEGORY	COMPARISON INDEX	ONE-YEAR (%)	THREE-YEAR (%)	FIVE-YEAR (%)	TEN-YEAR (%)
Canadian Equity	S&P/TSX Composite	6.78	8.96	18.31	8.14
	S&P/TSX Capped Composite	6.78	8.96	18.31	8.14
Canadian Small-/Mid-Cap Equity	S&P/TSX Completion	6.45	24.32	40.00	22.41
Canadian Dividend & Income Equity	S&P/TSX Canadian Dividend Aristocrats	57.89	46.34	40.48	0.00
U.S. Equity	S&P 500 (CAD)	30.59	1.11	2.20	1.67
International Equity	S&P EPAC LargeMidCap (CAD)	26.92	13.46	10.00	6.06
Global Equity	S&P Developed LargeMidCap (CAD)	20.97	10.69	5.63	2.45
Canadian Focused Equity	50% S&P/TSX Composite + 25% S&P 500 (CAD) + 25% S&P EPAC LargeMidCap	4.84	5.41	5.19	8.25

Source: S&P Dow Jones Indices LLC, Funddata. Data as of Dec. 29, 2017. 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 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 (%)
ONE-YEAR		
Canadian Equity	59	71.19
Canadian Small-/Mid-Cap Equity	31	93.55
Canadian Dividend & Income Equity	38	86.84
U.S. Equity	85	84.71
International Equity	52	69.23
Global Equity	124	80.65
Canadian Focused Equity	62	87.10
THREE-YEAR		
Canadian Equity	67	58.21
Canadian Small-/Mid-Cap Equity	37	75.68
Canadian Dividend & Income Equity	41	75.61
U.S. Equity	90	77.78
International Equity	52	65.38
Global Equity	131	72.52
Canadian Focused Equity	74	71.62
FIVE-YEAR		
Canadian Equity	71	47.89
Canadian Small-/Mid-Cap Equity	40	70.00
Canadian Dividend & Income Equity	42	73.81
U.S. Equity	91	72.53
International Equity	50	68.00
Global Equity	142	66.20
Canadian Focused Equity	77	68.83
TEN-YEAR		
Canadian Equity	86	37.21
Canadian Small-/Mid-Cap Equity	58	46.55
Canadian Dividend & Income Equity	48	62.50
U.S. Equity	120	50.00
International Equity	66	46.97
Global Equity	163	50.31
Canadian Focused Equity	97	49.48

Source: S&P Dow Jones Indices LLC, Fundata. Data as of Dec. 29, 2017. 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.

Report 3: Equal-Weighted Fund Returns				
CATEGORY	ONE-YEAR (ANNUALIZED %)	THREE-YEAR (ANNUALIZED %)	FIVE-YEAR (ANNUALIZED %)	TEN-YEAR (ANNUALIZED %)
Canadian Equity	6.90	5.10	7.98	3.35
S&P/TSX Composite	9.10	6.59	8.63	4.65
Canadian Small-/Mid-Cap Equity	2.55	3.99	7.91	4.07
S&P/TSX Completion	7.04	5.09	6.61	4.59
Canadian Dividend & Income Equity	6.98	5.35	7.80	4.90
S&P/TSX Canadian Dividend Aristocrats	5.89	4.79	8.44	8.01
U.S. Equity	12.34	10.34	17.47	7.69
S&P 500 (CAD)	13.83	14.37	21.24	11.12
International Equity	16.09	8.96	10.73	2.86
S&P EPAC LargeMidCap (CAD)	18.24	11.54	13.50	5.11
Global Equity	13.55	9.13	12.95	5.29
S&P Developed LargeMidCap (CAD)	15.49	12.87	17.39	8.21
Canadian Focused Equity	7.20	5.47	9.20	3.61
50% S&P/TSX Composite + 25% S&P 500 (CAD) + 25% S&P EPAC LargeMidCap	12.62	9.92	13.06	6.57

Source: S&P Dow Jones Indices LLC, Fundata. Data as of Dec. 29, 2017. 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.

Report 4: Asset-Weighted Fund Returns				
CATEGORY	ONE-YEAR (ANNUALIZED %)	THREE-YEAR (ANNUALIZED %)	FIVE-YEAR (ANNUALIZED %)	TEN-YEAR (ANNUALIZED %)
Canadian Equity	7.53	5.65	8.62	3.86
S&P/TSX Composite	9.10	6.59	8.63	4.65
Canadian Small-/Mid-Cap Equity	2.40	4.12	7.91	4.38
S&P/TSX Completion	7.04	5.09	6.61	4.59
Canadian Dividend & Income Equity	8.80	6.60	9.26	5.36
S&P/TSX Canadian Dividend Aristocrats	5.89	4.79	8.44	8.01
U.S. Equity	15.20	10.96	17.77	7.50
S&P 500 (CAD)	13.83	14.37	21.24	11.12
International Equity	16.55	8.67	10.91	2.26
S&P EPAC LargeMidCap (CAD)	18.24	11.54	13.50	5.11
Global Equity	13.59	9.15	13.08	5.12
S&P Developed LargeMidCap (CAD)	15.49	12.87	17.39	8.21
Canadian Focused Equity	5.46	4.56	8.40	3.15
50% S&P/TSX Composite + 25% S&P 500 (CAD) + 25% S&P EPAC LargeMidCap	12.62	9.92	13.06	6.57

Source: S&P Dow Jones Indices LLC, Funddata. Data as of Dec. 29, 2017. 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/TSX Capped Composite

This includes all the constituents of the [S&P/TSX Composite](#) with relative weighting of each constituent capped at 10%.

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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