S&P Dow Jones Indices

A Division of S&P Global

SPIVA® Scorecards: An Overview

Experience the active vs. passive debate on a global scale.

WHAT IS SPIVA?

S&P Indices versus Active (SPIVA) scorecards are semiannual reports published by S&P Dow Jones Indices that compare the performance of active equity and fixed income mutual funds against their benchmarks over different time horizons. The inaugural scorecard was published in 2002 and focused on the U.S., and has since been extended to Australia, Canada, Europe, India, Japan, Latin America, South Africa, and the Middle East and North Africa (MENA).

WHAT IS UNIQUE ABOUT THE SPIVA SCORECARDS?

SPIVA scorecards are unique because they rely on datasets that address issues related to measurement techniques, universe composition, and fund survivorship. While these issues are far less frequently discussed, they can have meaningful impacts on results. In particular, the datasets correct for the following biases.

- **Survivorship Bias Correction:** Many funds may merge or be liquidated during a given period. For someone making an investment decision at the beginning of the period, these funds are part of the opportunity set. Unlike other 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 popular benchmarks such as the S&P 500®, regardless of size or style classifications. SPIVA scorecards avoid this pitfall by comparing funds against benchmarks that are appropriate for that particular investment category.

  For example, U.S. mid-cap value funds are compared with the S&P MidCap 400® Value, while the S&P SmallCap 600® Growth serves as the benchmark for U.S. small-cap growth funds.

- **Equal- and Asset-Weighted Returns:** Average returns for a fund group are often calculated based on equally weighting the entire fund universe. An additional representation of how every dollar invested in each category fared in a particular period can be ascertained by weighting each fund according to its net assets. SPIVA scorecards show both equal- and asset-weighted averages.

- **Style Consistency:** U.S. and Canada SPIVA scorecards measure consistency for each style category across different time horizons. Style consistency is an important metric because style drift (the tendency of funds to diverge from their initial investment categorization) can affect asset allocation decisions.

SPIVA scorecards are unique because they rely on datasets that address issues…

- **Quartile Breakpoints**: In each category, dispersion in fund returns across different time horizons highlight the fund selection risk that market participants face.

- **Data Cleaning:** SPIVA scorecards avoid double counting multiple share classes in all count-based calculations. Typically, the share class with the highest assets under management at the beginning of the period is selected. This is meant to be a scorecard for active managers, therefore index funds, leveraged and inverse funds, and other index-linked products are excluded.

…related to measurement techniques, universe composition, and fund survivorship.

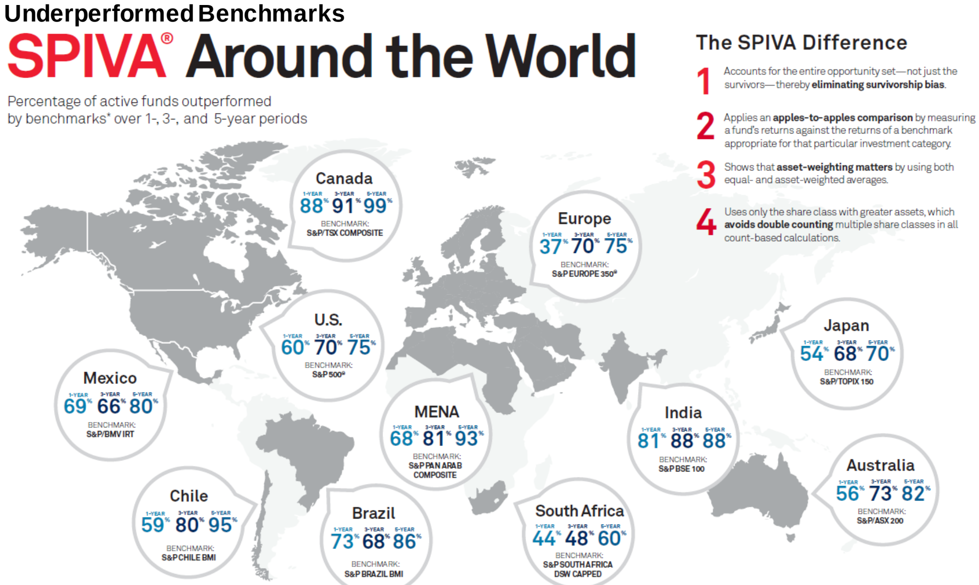
WHAT ARE THE HEADLINE FIGURES FOR EACH REPORT, AND HOW SHOULD THEY BE INTERPRETED?

The headline figures in each SPIVA scorecard show the proportion of actively managed funds across different style categories that underperformed their benchmarks over a given investment horizon. The scorecards focus on the entire opportunity set of active managers at the beginning of each investment horizon. For example, a five-year comparison shows the proportion of all active funds that were alive at the beginning of the period that underperformed the benchmark over the next five years. Exhibit 1 provides a global summary of the past one-, three-, and five-year periods, based on the most recent results.

The headline figures in each SPIVA scorecard show the proportion of actively managed funds…

…across different style categories that underperformed their benchmarks over a given investment horizon.

Exhibit 1: SPIVA Around the World – Percentage of Active Funds That Underperformed Benchmarks



Source: S&P Dow Jones Indices LLC, Morningstar, Fundata, CRSP. Data as of Dec. 31, 2020. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.
* Regional benchmarks included here are large cap, with the exception of Brazil and Chile, where SPIVA results displayed reflect regional broad-market indices. Multiple benchmarks exist in all regions tracked by SPIVA. For more information on SPIVA methodology, including a full list of regional benchmarks and results, visit https://www.spglobal.com/spdji/en/research-insights/spiva.

WHAT OTHER INFORMATION IS PROVIDED?

The comparison of equal-weighted and asset-weighted fund returns…

Over each investment horizon studied—and where the information is available—SPIVA scorecards also provide:

- The number of actively managed funds in the initial universes;
- The proportion of actively managed funds that merge or liquidate over a given time horizon; and
- The proportion of actively managed funds that maintain their style focus over the entire period.

…allows for a more granular performance breakdown according to funds' assets under management.

Additionally, the comparison of equal-weighted and asset-weighted fund returns allows for a more granular performance breakdown according to funds' assets under management. If the annualized return of the hypothetical asset-weighted active fund portfolio is greater than its equal-weighted counterpart, this suggests that funds with higher net assets outperformed funds with fewer net assets. This information is provided for each investment category, by style or size focus.

HOW DO SPIVA SCORECARDS ACCOUNT FOR FEES, AND WHICH FEES ARE INCLUDED?

SPIVA scorecards typically show that survivorship falls as the investment horizon lengthens…

SPIVA scorecards use net-of-fees returns for actively managed funds. We ignore any fees—such as costs associated with dealing with client redemptions—that do not directly relate to what a manager charges for their purported skill. This means the SPIVA scorecards tell us the proportion of active managers that were unable to beat their benchmark (through bad luck or due to the absence of skill) after deducting the cost paid by an investor for the manager's purported skill.

WHAT ASSUMPTIONS ARE MADE ABOUT FUNDS THAT WERE MERGED OR LIQUIDATED?

…and this can have a meaningful impact on the long-term relative performance figures.

We assume funds that were merged or liquidated: 1) did not survive the entire period; and 2) underperformed their benchmark. These assumptions are common across the investment community and reflect research showing underperforming funds are more likely to be merged or liquidated.

SPIVA scorecards typically show that survivorship falls as the investment horizon lengthens, and this can have a meaningful impact on the long-term relative performance figures.

IS THERE A SPIVA SCORECARD FOR INSTITUTIONAL ACCOUNTS?

S&P DJI also publishes an annual Institutional SPIVA Scorecard.

This scorecard provides the same information and analysis as other SPIVA scorecards, as well as information on a net-of-fees and gross-of-fees basis.

Yes, S&P DJI also publishes an annual SPIVA Institutional Scorecard for the U.S.[1] This scorecard provides the same information and analysis as other SPIVA scorecards, as well as information on a net-of-fees and gross-of-fees basis. Gross-of-fees mutual fund returns are calculated by adding 1/12th of the fund's expense ratio to its net-of-fees returns at the end of each month.

DOES PAST PERFORMANCE PREDICT FUTURE RESULTS?

Many market participants use a number of criteria to try and identify actively managed funds that they believe will outperform in the future. Despite the perennial appearance of disclaimers saying "past performance is no guarantee of future results" (or some variation thereof), many market participants use past performance as a screen.

[1] For the latest SPIVA Institutional Scorecard, see the following link: https://www.spglobal.com/spdji/en/spiva/article/institutional-spiva-scorecard.

Additionally, S&P DJI publishes semiannual Persistence Scorecards for Australia, Latin America, Canada, the U.S., and Europe.

S&P DJI publishes semiannual Persistence Scorecards for Australia,[2] Latin America,[3] Canada,[4] the U.S.,[5] and Europe.[6] Instead of comparing actively managed mutual funds with their benchmarks, the Persistence Scorecards compare funds with their peers. We then track whether top-quartile or top-half managers (as compared with their peers) maintained their status over the subsequent three-year and five-year periods. The Persistence Scorecards also provide transition matrices that show the movements between quartiles and halves over non-overlapping three- and five-year periods. They also track the percentage of funds that have merged or liquidated.

Additionally, S&P DJI publishes an annual Fleeting Alpha scorecard.

Additionally, S&P DJI publishes an annual Fleeting Alpha Scorecard, which combines elements of the SPIVA U.S. Scorecard and the U.S. Persistence Scorecard.[7] Using the same dataset as our SPIVA scorecards, Fleeting Alpha first identifies "recent winners"—actively managed funds that outperformed their benchmarks over a three-year period. The scorecard then reports what proportion of "recent winners" maintained their status in each of the next three one-year periods. Historically, persistence among "recent winners" has been worse than would be expected under luck alone: market participants may want to reconsider chasing "hot hands" or picking managers based solely on past performance.

Our Risk-Adjusted SPIVA scorecard assesses the proportion of actively managed mutual funds…

IS THERE A COMPARISON OF ACTIVE MANAGERS AGAINST THEIR BENCHMARKS ON A RISK-ADJUSTED BASIS?

Market participants may point out that many active managers are not simply trying to deliver higher returns than their benchmarks; many are trying to outperform on a risk-adjusted basis. Indeed, risk and return are two sides of the same coin.

…that have outperformed their benchmarks on a risk-adjusted basis.

Our Risk-Adjusted SPIVA Scorecard assesses the proportion of actively managed mutual funds that have outperformed their benchmarks on a risk-adjusted basis.[8] This scorecard uses the same dataset as the U.S. SPIVA scorecard and has shown that most of the time, most active managers have underperformed their benchmarks, even after accounting for risk. In

[2] For the latest Australia Persistence Scorecard, see the following link: https://www.spglobal.com/spdji/en/spiva/article/australia-persistence-scorecard/.

[3] For the latest Latin America Persistence Scorecard, see the following link: https://www.spglobal.com/spdji/en/spiva/article/latin-america-persistence-scorecard.

[4] For the latest Canada Persistence Scorecard, see the following link: https://www.spglobal.com/spdji/en/spiva/article/canada-persistence-scorecard.

[5] For the latest U.S. Persistence Scorecard, see the following link: https://www.spglobal.com/spdji/en/spiva/article/us-persistence-scorecard.

[6] The Europe Persistence Scorecard is published annually in December, see the following link: https://www.spglobal.com/spdji/en/spiva/article/europe-persistence-scorecard/.

[7] For the latest Fleeting Alpha Scorecard, see the following link: https://www.spglobal.com/spdji/en/research/article/fleeting-alpha-scorecard-year-end-2020/.

[8] For the latest Risk-Adjusted SPIVA Scorecard, see the following link: https://www.spglobal.com/spdji/en/spiva/article/risk-adjusted-spiva-scorecard.

other words, the perception that active managers may be better suited to navigate more turbulent market environments or anticipate headwinds is largely unfounded, at least historically.

In addition to our various SPIVA scorecards…

WHAT CONTENT DOES S&P DJI HAVE ON THE ACTIVE VERSUS PASSIVE DEBATE?

Exhibit 2: S&P DJI Content on the Active versus Passive Debate

REGION	SPIVA	RISK-ADJUSTED SPIVA	INSTITUTIONAL SPIVA	PERSISTENCE	FLEETING ALPHA
U.S.	x	x	x	x	x
Latin America	x			x	
Australia	x	*		x	
Canada	x			x	
Europe	x	*		x	
South Africa	x	*			
Japan	x	*			
India	x	*			
MENA	x	*			

Source: S&P Dow Jones Indices LLC. Table is provided for illustrative purposes. *Incorporated within SPIVA scorecards.

S&P DJI provides relevant thought leadership pieces covering the active versus passive debate…

For additional content on the active versus passive debate, please see the following thought leadership pieces.

- Conviction, Confidence, and Courage
- Style Bias and Active Performance
- The Active Manager's Conundrum
- Volatility Test: Defensive Factor Indices versus Actively Managed Funds
- The Slings and Arrows of Passive Fortune
- Degrees of Difficulty: Indications of Active Success
- Shooting the Messenger
- Fooled by Conviction
- The Volatility of Active Management
- Dispersion: Measuring Market Opportunity

…and you can sign up to receive our latest SPIVA scorecards and thought leadership pieces.

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