S&P Dow Jones Indices

A Division of S&P Global

TalkingPoints

Assessing the Impact of 20 Years of SPIVA®

Tim Edwards, Ph.D.
Managing Director
and Global Head of Index
Investment Strategy
S&P Dow Jones Indices

Craig Lazzara, CFA
Managing Director,
Core Product Management
S&P Dow Jones Indices

1. What is SPIVA and why did S&P DJI start putting these reports out 20 years ago?

Tim: "SPIVA" stands for "S&P Indices Versus Active," and it is the name for a regular series of research reports that compare the performances of actively managed funds to appropriate benchmarks. The primary role of the SPIVA Scorecards is to help inform a sometimes unfortunately noisy debate over the relative merits of active and passive investing. The scorecards do this by providing data on where (and when) actively managed funds have been performing well (or poorly), over both short- and long-term horizons, in various markets around the world—as well as offering a range of deeper statistics and analysis on active fund performance.

2. How do we ensure that the SPIVA report isn't biased considering it's coming from an index provider?

Tim: One important thing to mention is that we don't just publish the results when they suit us, instead sticking to a predetermined calendar (which is in most cases semiannual). There have been, and perhaps will be again, years when a majority of actively managed U.S. equity funds outperformed the S&P 500®. We'll report it when they do. More generally, the SPIVA Scorecards frequently acknowledge outperformance in individual fund categories: particularly over short-term horizons, there are usually plenty of examples to be found in the range of global reports. I'd add that, from a practical perspective, the scorecards are based on publicly available data, with a fully disclosed methodology—an interested third party can check our results, and sometimes they do.

Craig: Any analytic effort, SPIVA included, is no better than the data on which it is based, and we source our data carefully. But ours is by no means the first or only study to examine similar data and reach similar conclusions. The first study of active management versus indices of which we're aware was published 90 years ago.[1] Its conclusion would sound familiar to any reader of our current SPIVA reports: "Statistical tests of the best individual records failed to demonstrate that they exhibited skill, and indicated that they more probably were results of chance."

[1] Cowles 3rd, Alfred, "Can Stock Market Forecasters Forecast?," Econometrica, July 1933. See also Tim's blog on topic, at https://www.indexologyblog.com/2013/12/19/eighty-one-years-later.

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3. How has the report evolved over the past 20 years?

Craig: SPIVA has broadened its coverage considerably. Our first SPIVA report was U.S.-centric, and it covered only 12 comparison categories (large-, mid- and small-cap, growth, value, blend and all styles). Since then, SPIVA has expanded to 9 different geographies, and now reports on the performance of over 100 different active fundcategories around the world.

4. Why was it important to create regionalized reports?

Tim: For investors in Germany, Chile or Japan, it may matter very little how well (or how poorly) U.S. stock-pickers are faring against the S&P 500. Instead, they are more likely concerned with the performance of the funds that are available in their market, whether invested domestically or abroad. Such results will not just be impacted by the relative skill of active managers offering funds in each region, but also the local fee environment, as well as the range and variety of available funds.

Active fund managers face very different challenges and opportunities in different global markets. The global range of regionalized reports offers investors across the world perspectives on where indexing works best, and where active opportunities have been captured by local managers.

5. What are the most important points that are worth noting in this research?

Craig: Perhaps the most important thing to understand about SPIVA is that it stands in a long-running tradition of academic and practitioner commentary on the relative merits of active and passive investments. SPIVA data point to a number of conclusions:

- Most active managers underperform most of the time.
  - This conclusion originally came from examining U.S. mutual fund performance net of fees.
  - Gross of fees, most active managers underperform most of the time.
  - Most institutional managers underperform most of the time.
  - After adjusting for risk, most active managers underperform most of the time.
- The tendency for underperformance typically rises as the observation period lengthens.
- Although SPIVA started by simply examining active U.S. equity managers, data on fixed income and global/international managers produce the same results.
- These conclusions are robust across geographies.
- When good performance does occur, it tends not to persist. Above-average past performance does not predict above-average future performance.

6. How can these reports be used to make actionable business decisions?

Craig: SPIVA can serve to remind investors that if they choose to hire active managers, the odds are against them.

For active managers who find themselves in the unusual position of outperforming their benchmark, SPIVA can serve as a marketing tool to communicate how unusual their outperformance is.

7. What are the key takeaways from the latest SPIVA reports from around the globe?

Tim: The latest reports cover active and index performance up to June 2022, which provided a particularly interesting period for our scorecards. With high volatility observed both across and within global markets, there was an increase in the opportunity set for active managers to add value from both a top-down perspective (allocating across market segments or themes) and from the bottom up (single securities).

In the face of an expanded opportunity set, our latest scorecards show a highly mixed set of global results—ranging from the best one-year relative performance by actively managed Canadian equity funds since 2013, to a record-breaking 98% underperformance rate for U.K. Large-/Mid-Cap Equity funds over the same horizon.

Overall, actively managed funds generally lowered their underperformance rates compared to previous years, but typically with the result that a smaller majority underperformed the appropriate benchmark.

8. Are there any findings in the SPIVA data that have surprised you?

Tim: Every time we issue our scorecards, there is something interesting and surprising. For me, the big surprise in the latest edition was the (dare I say) shocking performance of actively managed U.K. equity funds reported in the SPIVA Europe Scorecard, traditionally a category considered to be among the better performing. But I was also intrigued by the results in the Growth Equity categories of the SPIVA U.S. Scorecard, where 79%, 84% and 89% , respectively, underperformed in the large-, small- and mid-cap space during H1 2022. This was surprising because the relative performance of our growth benchmarks was extremely poor and, normally, a dismal performance by a U.S. style index offers a fillip to active managers who can take a few positions on the other side of the divide. The fact that so few growth managers outperformed might be a consequence of increasing concentration and conviction in the space: put simply, they were caught chasing extremes of performance in the most glamorous names just as the growth/value cycle turned.

9. Is there a consistent story the data are telling you over the past two decades? Any key changes to note?

Craig: SPIVA data tell a remarkably consistent story. Our very first SPIVA Scorecard reported that most active managers had underperformed a benchmark appropriate to their investment style over a full market cycle. Our most recent SPIVA update reports more or less the same thing.

10. What's next for SPIVA in terms of innovation?

Tim: There are still many major markets that we are yet to bring our SPIVA Scorecards to, and while we don't want to make any promises, we continue to receive requests to extend our global range. We're also looking at adding depth to our research in various ways, including perspectives on sustainability, net of tax returns and liquidity.

In the meantime, the merger of S&P Global with IHS Markit has provided us with a whole new range of well-established benchmarks for global fixed income—our coverage of which has been historically limited in major markets such as Europe—as well as the exciting potential for multi-asset perspectives.

Learn more about the 20-year anniversary of the active vs. passive debate.

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