

Canada Persistence Scorecard

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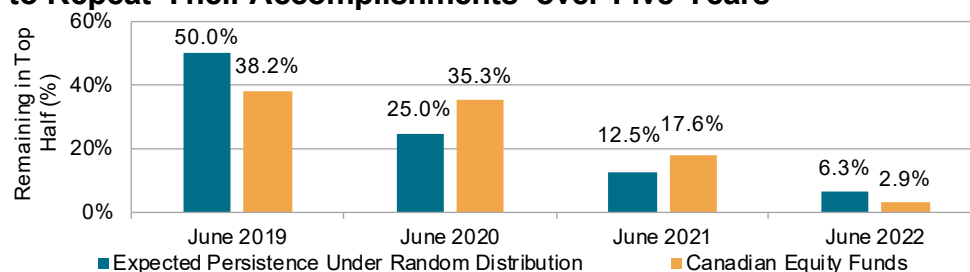
Summary

Can investment results be attributed to skill or luck? Genuine skill is more likely to persist, while luck is random and fleeting. Thus, one measure of skill is the consistency of a fund's performance relative to its peers. The Persistence Scorecard measures that consistency and shows that, **regardless of asset class or style focus, active management outperformance is typically relatively short-lived**, with few funds consistently outranking their peers.

Only days into 2022, a sustained downturn hobbled global markets. In this challenging environment, and in comparison to previous years, fewer top-quartile actively managed funds maintained their ranking over consecutive periods. Among all Canadian domestic equity funds ranked in the top quartile of performance over 12 months ending June 2020, **zero maintained a top quartile position for the next two years** (see Report 1).

Exhibit 1 shows the proportion of Canadian Equity managers who were in the top half of peer rankings as of June 2018 and remained in the top half over the following four years (see Report 2) relative to what could be expected under a random distribution.¹

Exhibit 1: 2018 Top-Half Canadian Equity Funds Were Unlikely to Repeat Their Accomplishments over Five Years



Source: S&P Dow Jones Indices LLC, Fundata Canada Inc. Data as of June 30, 2022. Chart is provided for illustrative purposes. Past performance is no guarantee of future results.

¹ The odds of a top-half fund in one year randomly staying in the top half over the next four years are $50\% \times 50\% \times 50\% \times 50\% = 6.25\%$, or 1/16.

Report Highlights

- While slightly more than expected actively managed domestic equity funds maintained their quartile ranking over a few 12-month periods, the **persistence of outperformance relative to their peers declined significantly over the five-year period ending June 2022.**
- None of the actively managed domestic equity funds with top-quartile performance over the 12-month period ending June 2020 were able to maintain top-quartile performance over the subsequent two 12-month intervals. Global Equity and U.S. Equity similarly had no funds that maintained top-half performance over three 12-month periods. The only exception was International Equity, with 12% of funds staying in the top quartile over three consecutive 12-month intervals.
- Across a **five-year horizon**, evidence of persistent active fund outperformance was nonexistent. Within the group of active funds achieving top-quartile performance in their respective categories over the 12 months ending June 2018, **not a single fund remained in the top quartile through each of the subsequent one-year periods ending in June 2022.**
- **Over discrete five-year periods, a greater-than-expected proportion of funds in two domestic equity categories maintained relative outperformance.** If performance was purely random in terms of comparing funds to their peers, one would expect 25% of top-quartile funds to remain in the top quartile in a subsequent period. Our scorecard reports that an unweighted average of 33% of top-quartile Canadian Equity and 32% of top-quartile Canadian Focused Equity funds remained in the top quartile for the two consecutive five-year periods.
- While liquidation was a more likely outcome for lower-ranked funds, **style changes shared no strong relationship with underperformance.** Over five-year horizons for all domestic equity categories, the highest rate of style changes (14%) occurred in Canadian Dividend and Income Equity funds in the first quartile. With the exception of fourth-quartile Canadian Small/Mid Cap Equity funds, all other lowest-quartile funds changed styles at an equal or lesser rate than higher quartiles.

About the Persistence Scorecard

The phrase “past performance is no guarantee of future results” (or some variation thereof) can be found in the fine print of most mutual fund literature. Yet many investors and advisors consider past performance and related metrics to be important factors in fund selection. So does past performance really matter?

To answer this question, the semiannual S&P Persistence Scorecard tracks the degree to which historical relative performance is predictive of future relative performance. This scorecard highlights performance persistence over three and five consecutive 12-month periods and two non-overlapping three- and five-year periods. As in our widely followed SPIVA® Scorecards, Fundata Canada serves as our underlying data source. For a more detailed description of the Persistence Scorecard’s allocation of funds to appropriate categories, and how funds are screened and selected for inclusion, please see the corresponding [SPIVA Canada Mid-Year 2022 Scorecard](#).

Key features of the S&P Persistence Scorecard include:

- **Historical rankings without survivorship bias:** For anyone making an investment decision, all funds available at the time of that decision are part of the initial opportunity set. Ignoring funds that liquidate or merge during a period of study biases measurements of persistence. Using the Fundata database, the S&P Persistence Scorecard ranks all funds available at each point in time and tracks the top-quartile and top-half performers over time.
- **Clean universe:** The mutual fund universe used in these reports comprises actively managed domestic Canadian equity funds. Index funds, sector funds and index-based dynamic (bull or bear) funds are excluded from the sample. To avoid double counting of multiple share classes, only the share class with the highest previous period return of each fund is used.
- **Transition matrices:** Transition matrices 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. In addition, we monitor movements across capitalization levels. This helps us measure, for example, the conversion of some large-cap funds to mid- and small-cap funds.²
- **Tracking reports of top performers:** The tracking reports show the percentage of funds that remain in the top-quartile or top-half rankings over consecutive three- and five-year periods.

² Starting with the U.S. Persistence Scorecard Year-End 2019, the style change calculation includes funds that changed fund categories at any point between the relevant start and end dates. Previously, this calculation was only checked if the fund category remained identical at the endpoints.

Reports

Report 1: Performance Persistence of Domestic Equity Funds over Three Consecutive 12-Month Periods

Top Month Percentages			
Fund Category	Fund Count at Start (June 2020)	Percentage Remaining in Top Quartile	
		June 2021	June 2022
Top Quartile			
Canadian Equity	17	23.53	0.00
Canadian Focused Equity	17	29.41	0.00
Canadian Dividend & Income Equity	15	0.00	0.00
Canadian Small-/Mid-Cap Equity	8	0.00	0.00
Global Equity	58	41.38	0.00
International Equity	17	29.41	11.76
U.S. Equity	35	14.29	0.00
Fund Category	Fund Count at Start (June 2020)	Percentage Remaining in Top Quartile	
		June 2021	June 2022
Top Half			
Canadian Equity	32	43.75	3.13
Canadian Focused Equity	34	38.24	5.88
Canadian Dividend & Income Equity	30	36.67	16.67
Canadian Small-/Mid-Cap Equity	15	46.67	20.00
Global Equity	113	51.33	5.31
International Equity	33	36.36	12.12
U.S. Equity	70	38.57	5.71

Source: S&P Dow Jones Indices LLC, Funddata Canada Inc. Data as of June 30, 2022. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

Report 2: Performance Persistence of Domestic Equity Funds over Five Consecutive 12-Month Periods

Top Half

Fund Category	Fund Count at Start (June 2018)	Percentage Remaining in Top Quartile			
		June 2019	June 2020	June 2021	June 2022
Top Quartile					
Canadian Equity	18	11.11	11.11	0.00	0.00
Canadian Focused Equity	22	45.45	27.27	4.55	0.00
Canadian Dividend & Income Equity	16	12.50	6.25	0.00	0.00
Canadian Small-/Mid-Cap Equity	9	33.33	11.11	0.00	0.00
Global Equity	53	50.94	43.40	9.43	0.00
International Equity	17	29.41	17.65	0.00	0.00
U.S. Equity	34	38.24	35.29	5.88	0.00
Fund Category	Fund Count at Start (June 2018)	Percentage Remaining in Top Quartile			
		June 2019	June 2020	June 2021	June 2022
Top Half					
Canadian Equity	34	38.24	35.29	17.65	2.94
Canadian Focused Equity	41	43.90	31.71	9.76	4.88
Canadian Dividend & Income Equity	31	41.94	25.81	9.68	6.45
Canadian Small-/Mid-Cap Equity	17	52.94	23.53	5.88	0.00
Global Equity	107	49.53	43.93	19.63	0.93
International Equity	33	42.42	33.33	9.09	3.03
U.S. Equity	70	60.00	50.00	12.86	2.86

Source: S&P Dow Jones Indices LLC, Funddata Canada Inc. Data as of June 30, 2022. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

Report 3: Three-Year Transition Matrix – Performance over Two Non-Overlapping Three-Year Periods (Based on Quartiles)

Quartile	Fund Count at Start (June 2019)	Three-Year Percentages at End (June 2019-June 2022)					
		1st Quartile (%)	2nd Quartile (%)	3rd Quartile (%)	4th Quartile (%)	Merged/ Liquidated (%)	Style Changed (%)
Canadian Equity Funds							
1st Quartile	14	28.57	21.43	28.57	14.29	0.00	7.14
2nd Quartile	13	7.69	30.77	23.08	38.46	0.00	0.00
3rd Quartile	14	14.29	28.57	28.57	21.43	7.14	0.00
4th Quartile	14	42.86	0.00	14.29	21.43	21.43	0.00
Canadian Focused Equity Funds							
1st Quartile	18	22.22	38.89	11.11	16.67	5.56	5.56
2nd Quartile	17	29.41	5.88	29.41	11.76	17.65	5.88
3rd Quartile	17	11.76	17.65	35.29	17.65	11.76	5.88
4th Quartile	18	11.11	22.22	5.56	33.33	16.67	11.11
Canadian Dividend & Income Equity Funds							
1st Quartile	15	26.67	26.67	6.67	20.00	0.00	20.00
2nd Quartile	14	28.57	14.29	50.00	7.14	0.00	0.00
3rd Quartile	14	21.43	14.29	14.29	28.57	14.29	7.14
4th Quartile	15	20.00	20.00	13.33	33.33	13.33	0.00
Canadian Small-/Mid-Cap Equity Funds							
1st Quartile	8	0.00	50.00	12.50	12.50	25.00	0.00
2nd Quartile	8	12.50	12.50	37.50	25.00	0.00	12.50
3rd Quartile	8	37.50	12.50	12.50	12.50	0.00	25.00
4th Quartile	9	44.44	0.00	22.22	22.22	11.11	0.00
Global Equity Funds							
1st Quartile	47	42.55	19.15	17.02	17.02	4.26	0.00
2nd Quartile	47	17.02	38.30	29.79	8.51	6.38	0.00
3rd Quartile	47	17.02	23.40	23.40	25.53	8.51	2.13
4th Quartile	48	16.67	10.42	20.83	33.33	10.42	8.33
International Equity Funds							
1st Quartile	13	53.85	30.77	0.00	7.69	7.69	0.00
2nd Quartile	13	15.38	15.38	30.77	23.08	7.69	7.69
3rd Quartile	13	7.69	15.38	15.38	46.15	0.00	15.38
4th Quartile	14	14.29	21.43	28.57	21.43	14.29	0.00
U.S. Equity Funds							
1st Quartile	32	31.25	12.50	15.63	25.00	9.38	6.25
2nd Quartile	31	22.58	41.94	22.58	3.23	9.68	0.00
3rd Quartile	32	25.00	25.00	18.75	25.00	6.25	0.00
4th Quartile	32	9.38	9.38	31.25	28.13	21.88	0.00

Source: S&P Dow Jones Indices LLC, Funddata Canada Inc. Data as of June 30, 2022. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

Report 4: Three-Year Transition Matrix – Performance over Two Non-Overlapping Three-Year Periods (Based on Halves)

Three-Year Percentages (Based on Halfway)					
Half	Fund Count at Start (June 2019)	Three-Year Percentage at End (June 2019-June 2022)			
		Top Half (%)	Bottom Half (%)	Merged/Liquidated (%)	Style Changed (%)
Canadian Equity Funds					
Top Half	27	44.44	51.85	0.00	3.70
Bottom Half	28	42.86	42.86	14.29	0.00
Canadian Focused Equity Funds					
Top Half	35	48.57	34.29	11.43	5.71
Bottom Half	35	31.43	45.71	14.29	8.57
Canadian Dividend & Income Equity Funds					
Top Half	29	48.28	41.38	0.00	10.34
Bottom Half	29	37.93	44.83	13.79	3.45
Canadian Small-/Mid-Cap Equity Funds					
Top Half	16	37.50	43.75	12.50	6.25
Bottom Half	17	47.06	35.29	5.88	11.76
Global Equity Funds					
Top Half	94	58.51	36.17	5.32	0.00
Bottom Half	95	33.68	51.58	9.47	5.26
International Equity Funds					
Top-Half	26	57.69	30.77	7.69	3.85
Bottom Half	27	29.63	55.56	7.41	7.41
U.S. Equity Funds					
Top-Half	63	53.97	33.33	9.52	3.17
Bottom Half	64	34.38	51.56	14.06	0.00

Source: S&P Dow Jones Indices LLC, Funddata Canada Inc. Data as of June 30, 2022. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

Report 5: Five-Year Transition Matrix – Performance over Two Non-Overlapping Five-Year Periods (Based on Quartile)

Quartile	Fund Count at Start (June 2017)	Five-Year Percentages at End (June 2017-June 2022)					
		1st Quartile (%)	2nd Quartile (%)	3rd Quartile (%)	4th Quartile (%)	Merged/Liquidated (%)	Style Changed (%)
Canadian Equity Funds							
1st Quartile	15	33.33	13.33	33.33	6.67	6.67	6.67
2nd Quartile	15	13.33	20.00	6.67	40.00	13.33	6.67
3rd Quartile	15	0.00	20.00	13.33	20.00	40.00	6.67
4th Quartile	15	13.33	20.00	13.33	6.67	46.67	0.00
Canadian Focused Equity Funds							
1st Quartile	22	31.82	9.09	4.55	22.73	27.27	4.55
2nd Quartile	22	18.18	4.55	22.73	18.18	27.27	9.09
3rd Quartile	22	4.55	18.18	13.64	9.09	50.00	4.55
4th Quartile	22	4.55	13.64	18.18	4.55	54.55	4.55
Canadian Dividend & Income Equity Funds							
1st Quartile	14	21.43	42.86	14.29	0.00	7.14	14.29
2nd Quartile	14	28.57	21.43	7.14	28.57	7.14	7.14
3rd Quartile	14	14.29	7.14	21.43	14.29	35.71	7.14
4th Quartile	15	0.00	6.67	20.00	40.00	33.33	0.00
Canadian Small-/Mid-Cap Equity Funds							
1st Quartile	9	22.22	22.22	33.33	22.22	0.00	0.00
2nd Quartile	9	33.33	11.11	22.22	11.11	11.11	11.11
3rd Quartile	9	22.22	22.22	22.22	11.11	22.22	0.00
4th Quartile	10	0.00	10.00	0.00	30.00	50.00	10.00
Global Equity Funds							
1st Quartile	39	41.03	30.77	12.82	12.82	2.56	0.00
2nd Quartile	39	28.21	10.26	23.08	20.51	15.38	2.56
3rd Quartile	39	5.13	23.08	28.21	20.51	23.08	0.00
4th Quartile	40	10.00	17.50	17.50	22.50	25.00	7.50
International Equity Funds							
1st Quartile	15	20.00	26.67	6.67	20.00	13.33	13.33
2nd Quartile	15	13.33	6.67	20.00	20.00	26.67	13.33
3rd Quartile	15	20.00	13.33	20.00	26.67	20.00	0.00
4th Quartile	15	20.00	13.33	6.67	0.00	53.33	6.67
U.S. Equity Funds							
1st Quartile	24	45.83	8.33	20.83	16.67	4.17	4.17
2nd Quartile	24	16.67	25.00	12.50	29.17	12.50	4.17
3rd Quartile	24	8.33	12.50	29.17	8.33	41.67	0.00
4th Quartile	24	8.33	29.17	12.50	16.67	29.17	4.17

Source: S&P Dow Jones Indices LLC, Funddata Canada Inc. Data as of June 30, 2022. Table is provided for illustrative purposes. Past performance is no guarantee of future results

Report 6: Five-Year Transition Matrix – Performance over Two Non-Overlapping Five-Year Periods (Based on Halves)

Three-Year Percentage at End (June 2019-June 2022)					
Half	Fund Count at Start (June 2019)	Top Half (%)	Bottom Half (%)	Merged/Liquidated (%)	Style Changed (%)
Canadian Equity Funds					
Top Half	30	40.00	43.33	10.00	6.67
Bottom Half	30	26.67	26.67	43.33	3.33
Canadian Focused Equity Funds					
Top Half	44	31.82	34.09	27.27	6.82
Bottom Half	44	20.45	22.73	52.27	4.55
Canadian Dividend & Income Equity Funds					
Top Half	28	57.14	25.00	7.14	10.71
Bottom Half	29	13.79	48.28	34.48	3.45
Canadian Small-/Mid-Cap Equity Funds					
Top Half	18	44.44	44.44	5.56	5.56
Bottom Half	19	26.32	31.58	36.84	5.26
Global Equity Funds					
Top Half	78	55.13	34.62	8.97	1.28
Bottom Half	79	27.85	44.30	24.05	3.80
International Equity Funds					
Top-Half	30	33.33	33.33	20.00	13.33
Bottom Half	30	33.33	26.67	36.67	3.33
U.S. Equity Funds					
Top-Half	48	47.92	39.58	8.33	4.17
Bottom Half	48	29.17	33.33	35.42	2.08

Source: S&P Dow Jones Indices LLC, Funddata Canada Inc. Data as of June 30, 2022. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

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