

SPIVA[®] Canada Scorecard

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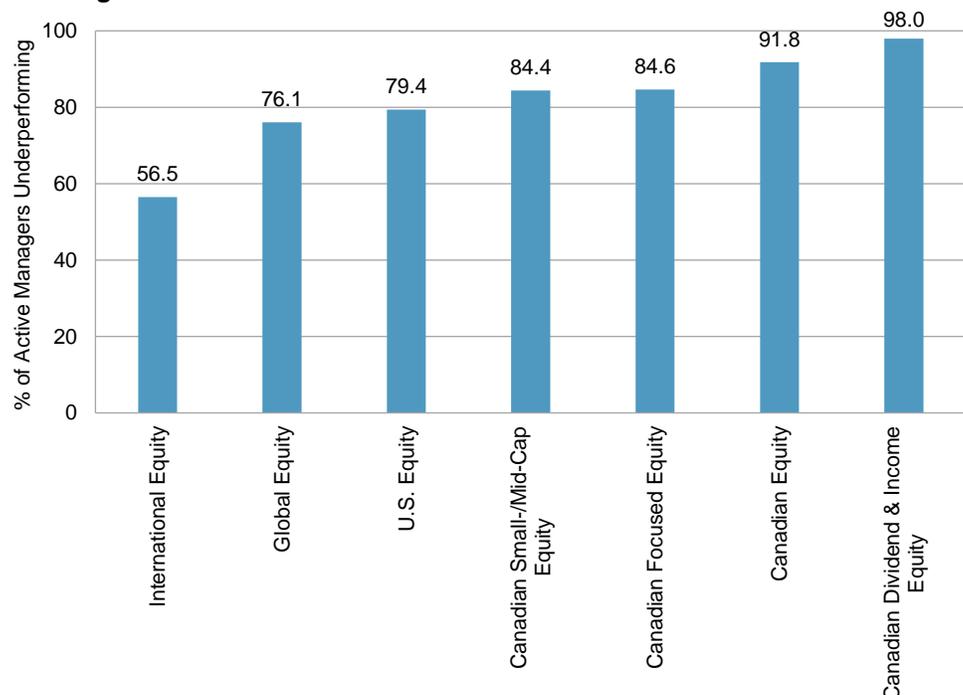
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SUMMARY

2019 was an excellent year across global equity markets, and Canadian equities were no exception. Following a selloff in the fourth quarter of 2018, the [S&P/TSX Composite](#) rebounded 22.9% in 2019, posting positive returns in 10 of the 12 months. Smaller-cap names in the [S&P/TSX Completion](#) gained 26.1%, outpacing the 21.9% return of the [S&P/TSX 60](#).

The S&P/TSX Composite posted its highest annual return since 2009, capping a decade-long run that saw a total gain of 94.9%. Amid this historic bull market, however, **92% of Canadian Equity funds underperformed their benchmark in 2019, and 86% underperformed over the decade.** This deficit was not an outlier, as **a majority of funds underperformed across all categories for 2019.** Canadian Dividend & Income Equity managers fared the worst in 2019; only 2% of funds surpassed the [S&P/TSX Canadian Dividend Aristocrats[®]](#).

Exhibit 1: A Majority of Canadian Active Managers Underperformed across All Categories in 2019



Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2019. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Beyond their 2019 showing, **Canadian Dividend & Income Equity funds also had a poor decade, with only 4% managing to beat the index.** Surprisingly, this category showed the highest 10-year survivorship rate, at just shy of 70%.

For Canadian Small-/Mid-Cap Equity managers, 84% underperformed the S&P/TSX Completion in 2019, with the average fund returning 18.6% on an equal-weighted basis, a full 7.5% lower than the benchmark. Larger funds fared better than their smaller peers, as the average asset-weighted return was improved, at 20.7%. For the decade, just 30% of Canadian Small-/Mid-Cap Equity funds beat the index, which was the most favorable performance of any category observed.

Funds with a more international flavor did somewhat better in 2019 than their Canada-only counterparts, in a year where the Canadian dollar strengthened 5.3% versus the U.S. dollar and 7.3% versus the euro. **In International Equity funds, 57% underperformed the S&P EPAC LargeMidCap, although the category managed to exceed the benchmark by 0.30% on an equal-weighted basis and 1.70% on an asset-weighted basis.** Longer-term results continued to disappoint, however, as **85% of International Equity funds underperformed over the decade and 61% survived the entire period.**

In 2019, 76% of Global Equity and 79% of U.S. Equity funds failed to match the [S&P Developed LargeMidCap](#) and [S&P 500® \(CAD\)](#), respectively. In addition, these categories had the poorest long-term relative performance, as **a staggering 97% of Global Equity and 98% of U.S. Equity funds underperformed over the past 10 years.** While the S&P 500 (CAD) returned 16% per year over the decade, the highest of any category, U.S. Equity funds underachieved by the largest amount: more than four percentage points lower on an equal weighted basis.

For Canadian Focused Equity funds, 85% lagged the blended benchmark, which comprises the S&P/TSX Composite (50%), the S&P 500 (CAD) (25%), and the S&P EPAC LargeMidCap (25%). This number was little changed from 2018, when 83% underperformed. However, after two consecutive years of posting the worst relative performance, funds in this category were in the middle of the pack for 2019. Canadian Focused Equity funds had little to brag about for the 2010s, as 96% fell short of the target. Asset allocators punished these funds heavily, with only 36% of funds at the start of the decade still around by the end.

Larger funds in Canada tended to outperform their smaller counterparts, as across the seven fund categories and four time horizons studied, 23 of the 28 results showed higher asset-weighted returns.

The SPIVA Scorecards' accounting for survivorship bias continues to provide a valuable caution for asset allocators. While the numbers improved from 2018, **52% all funds in the eligible universe 10 years ago have since been liquidated or merged.** Even using a five-year window, no category saw more than three out of every four funds survive.

INTRODUCTION

The S&P Indices Versus Active (SPIVA) Scorecard measures the performance of actively managed funds against their relevant S&P DJI benchmark indices. The SPIVA Canada Scorecard provides a semiannual update on the active versus passive debate in Canada and shows the performance of actively managed Canadian mutual funds compared with S&P DJI 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 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 strategies. 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 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 excludes index funds, limiting the data to funds that are actively managed.

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.

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

¹ Refer to www.cifsc.org for additional information regarding CIFSC and its categories.

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 Canadian 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 2. 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 2: Fund Categories and Their Benchmarks

FUND CATEGORY	COMPARISON BENCHMARK
Canadian Equity	S&P/TSX Composite
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. Benchmarks shown are total return indices. Table is provided for illustrative purposes.

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 (CAD) (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 (CAD) (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.spdji.com.

REPORTS

Report 1: Percent of Active Funds Underperforming Index

This report shows the percentage of funds that have underperformed 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 underperformed 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 underperforming 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 Underperforming the Index					
FUND CATEGORY	COMPARISON INDEX	1-YEAR (%)	3-YEAR (%)	5-YEAR (%)	10-YEAR (%)
Canadian Equity	S&P/TSX Composite	91.84	97.06	96.00	86.15
Canadian Small-/Mid-Cap Equity	S&P/TSX Completion	84.38	94.12	86.11	69.81
Canadian Dividend & Income Equity	S&P/TSX Canadian Dividend Aristocrats	98.00	84.62	78.18	95.83
U.S. Equity	S&P 500 (CAD)	79.41	83.48	93.75	97.14
International Equity	S&P EPAC LargeMidCap (CAD)	56.52	76.47	83.33	84.75
Global Equity	S&P Developed LargeMidCap (CAD)	76.12	85.29	92.90	97.60
Canadian Focused Equity	50% S&P/TSX Composite + 25% S&P 500 (CAD) + 25% S&P EPAC LargeMidCap	84.62	95.65	98.00	95.74

Source: S&P Dow Jones Indices LLC, Funddata. Data as of Dec. 31, 2019. CIFSC categorizations are used. Financial information provided by Fundata Canada Inc. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

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 (%)	STYLE CONSISTENCY (%)
1-YEAR			
Canadian Equity	49	87.76	100.00
Canadian Small-/Mid-Cap Equity	32	84.38	100.00
Canadian Dividend & Income Equity	50	84.00	100.00
U.S. Equity	102	90.20	100.00
International Equity	46	95.65	93.48
Global Equity	134	95.52	99.25
Canadian Focused Equity	78	79.49	96.15
3-YEAR			
Canadian Equity	68	66.18	95.59
Canadian Small-/Mid-Cap Equity	34	79.41	100.00
Canadian Dividend & Income Equity	52	80.77	90.38
U.S. Equity	115	79.13	99.13
International Equity	68	63.24	95.59
Global Equity	170	72.35	97.65
Canadian Focused Equity	92	57.61	97.83
5-YEAR			
Canadian Equity	75	58.67	93.33
Canadian Small-/Mid-Cap Equity	36	69.44	94.44
Canadian Dividend & Income Equity	55	74.55	81.82
U.S. Equity	112	75.00	98.21
International Equity	60	70.00	95.00
Global Equity	169	73.37	91.12
Canadian Focused Equity	100	50.00	96.00
10-YEAR			
Canadian Equity	65	49.23	90.77
Canadian Small-/Mid-Cap Equity	53	56.60	71.70
Canadian Dividend & Income Equity	48	68.75	75.00
U.S. Equity	105	53.33	95.24
International Equity	59	61.02	93.22
Global Equity	167	57.49	91.62
Canadian Focused Equity	141	36.17	63.83

Source: S&P Dow Jones Indices LLC, Funddata. Data as of Dec. 31, 2019. CIFSC categorizations are used. Financial information provided by Fundata Canada Inc. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

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	1-YEAR (ANNUALIZED, %)	3-YEAR (ANNUALIZED, %)	5-YEAR (ANNUALIZED, %)	10-YEAR (ANNUALIZED, %)
S&P/TSX Composite	22.88	6.89	6.28	6.90
Canadian Equity	19.15	4.27	4.41	5.58
S&P/TSX Completion	26.12	5.57	4.99	6.65
Canadian Small/Mid Cap Equity	18.58	0.55	2.33	5.16
S&P/TSX Canadian Dividend Aristocrats	26.23	7.02	5.90	9.17
Canadian Dividend & Income Equity	18.89	5.05	4.76	6.69
S&P 500 (CAD)	24.84	13.99	14.25	16.00
U.S. Equity	21.53	10.36	9.92	11.96
S&P EPAC LargeMidCap (CAD)	15.72	8.90	8.68	8.32
International Equity	16.02	6.81	6.82	6.51
S&P Developed LargeMidCap (CAD)	21.34	11.85	11.74	12.32
Global Equity	18.39	8.21	7.72	8.49
50% S&P/TSX Composite + 25% S&P 500 (CAD) + 25% S&P/Citigroup EPAC PMI	21.62	9.24	8.98	9.62
Canadian Focused Equity	18.37	4.54	4.52	5.72

Source: S&P Dow Jones Indices LLC, Fundata. Data as of Dec. 31, 2019. CIFSC categorizations are used. Financial information provided by Fundata Canada Inc. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

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	1-YEAR (ANNUALIZED, %)	3-YEAR (ANNUALIZED, %)	5-YEAR (ANNUALIZED, %)	10-YEAR (ANNUALIZED, %)	
S&P/TSX Composite	22.88	6.89	6.28	6.90	
Canadian Equity	16.36	4.51	4.63	6.16	
S&P/TSX Completion	26.12	5.57	4.99	6.65	
Canadian Small/Mid Cap Equity	20.72	1.15	3.22	6.02	
S&P/TSX Canadian Dividend Aristocrats	26.23	7.02	5.90	9.17	
Canadian Dividend & Income Equity	20.21	6.49	6.03	7.40	
S&P 500 (CAD)	24.84	13.99	14.25	16.00	
U.S. Equity	21.65	11.90	11.35	12.57	
S&P EPAC LargeMidCap (CAD)	15.72	8.90	8.68	8.32	
International Equity	17.42	7.52	6.71	6.24	
S&P Developed LargeMidCap (CAD)	21.34	11.85	11.74	12.32	
Global Equity	17.79	8.48	8.02	9.05	
50% S&P/TSX Composite + 25% S&P 500 (CAD) + 25% S&P/Citigroup EPAC PMI	21.62	9.24	8.98	9.62	
Canadian Focused Equity	19.14	4.55	4.52	5.18	

Source: S&P Dow Jones Indices LLC, Funddata. Data as of Dec. 31, 2019. CIFSC categorizations are used. Financial information provided by Fundata Canada Inc. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

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 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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