

CONTRIBUTORS

Phillip Brzenk, CFA
Associate Director
Global Research & Design
phillip.brzenk@spdji.com

S&P Dow Jones Indices Versus Active (SPIVA®) Latin America Scorecard

SUMMARY

S&P Dow Jones Indices has been the de facto scorekeeper of the ongoing active versus passive debate since the first publication of the SPIVA U.S. Scorecard in 2002. Over the years, we have built on more than a decade of experience publishing the report by expanding coverage into Canada, Europe, India, and Australia. This report marks the launch of the SPIVA Latin America Scorecard. While the report will not end the debate on active versus passive investing in Latin America, we hope to make a meaningful contribution by examining market segments in which one strategy works better than the other.

The SPIVA Latin America Scorecard measures the performance of actively managed funds in Brazil, Chile, and Mexico against their respective benchmark indices over one-, three-, and five-year investment horizons.

SCORECARD RESULTS

Brazil

The Brazilian equity market saw disappointing results in 2014, with a total return of -4.53%, as measured by the S&P Brazil BMI (Broad Market Index) in Brazilian reals. The negative returns were also seen over a longer time horizon, with a five-year annualized total return of -0.92%. Large-cap companies fared better than mid- and small-cap issues in 2014, as the S&P Brazil LargeCap returned -3.20%, while the S&P Brazil MidSmallCap returned -7.50% in the same period. In contrast with equities, the fixed income markets in Brazil showed positive results. Corporate bonds (represented by the Anbima Debentures Index) returned 11.35%, and government bonds (represented by the Anbima Market Index) returned 10.82% for the year.

Actively managed Brazilian funds underperformed their category's benchmark in four out of five fund categories in 2014, as shown in Report 1. The exception was the Brazil Equity category, as 56.01% outperformed the S&P Brazil BMI for the year. Similarly, 57.32% and 57.66% outperformed the benchmark for the three- and five-year time periods, respectively. Managers focusing on a particular size segment did not fare favorably, with 64.86% underperforming in the Brazil Large-Cap Equity category and 66.23% underperforming in the Brazil Mid/Small-Cap Equity category. Similar results were seen for these two categories in the three- and five-year time horizons.

In the fixed income categories, active managers overwhelmingly underperformed their benchmarks: 82.95% of managers in the Brazil Corporate Bond category and 80.85% in the Brazil Government Bond category underperformed their respective benchmarks in 2014. Over the five-year investment horizon, almost 95% of Brazil Corporate Bond funds lagged the benchmark, with close to 80% of Brazil Government Bond funds trailing the benchmark.

Report 2 shows the survivorship of funds over time; while the number of active funds as a whole increased over the past five years, several categories, such as Brazil Equity and Brazil Large-Cap, saw relatively low survivorship percentages for the five-year period (81.61% and 72.86%, respectively).

When reviewing the equal- and asset-weighted average fund returns in Reports 3 and 4, the asset-weighted returns outpaced the equal-weighted returns in all three equity fund categories over time. The results show that weighting schemes do not play a major role in the performance figures for bond funds, as the equal- and asset-weighted average returns were similar in performance: in the Brazil Corporate Bond category, the average equal-weighted five-year return was 10.73% and the average asset-weighted five-year return was 10.60%. In the Brazil Government Bond category, equal-weighted and asset-weighted average five-year returns were close to identical, at 9.98% and 9.99%, respectively.

Chile

After a double-digit negative return in 2013, the Chilean equity market (as measured by the S&P Chile BMI in Chilean pesos) saw modest gains in 2014, with a total return of 3.04%.

A slight majority of active equity fund managers in Chile were able to outperform the market in 2014, with approximately 55% of managers having positive excess returns. The short-term success of the managers is in stark contrast to long-term returns, with less than 3% of active managers outperforming the benchmark over a five-year period (see Report 1). Of the active funds in the Chile Equity category, 82.93% survived through a five-year period (see Report 2).

The equal-weighted average fund return outperformed the benchmark in 2014, while the asset-weighted average fund return underperformed the benchmark, as shown in Reports 3 and 4. The equal-weighted average return of active Chilean equity funds exceeded the asset-weighted average return across all observed periods, suggesting that small funds tended to perform better than larger funds.

Mexico

The Mexican equity market, represented by S&P Mexico BMI (in Mexican pesos), ended positively for 2014, with a total return of 2.63%. Mexican equities have shown strong returns over longer time periods, with a three-year annualized return of 8.20% and a five-year annualized return of 8.45%.

Report 1 shows that Mexican equity active managers were unsuccessful in outperforming benchmark returns, with 71.74% of managers lagging the S&P Mexico BMI in 2014. Likewise, 54.05% and 70.97% of managers underperformed the benchmark over the three- and five-year periods, respectively. Report 2 shows that most funds in Mexico survived through the five-year time horizon, with 82.05% surviving in the Mexico Equity category.

The asset-weighted average fund returns in the Mexico Equity group were higher than the equal-weighted average fund returns throughout all time periods (see Reports 3 and 4). While almost 71% of Mexico equity managers underperformed the benchmark for the five-year period, the asset-weighted average five-year fund return of 9.09% actually outpaced the S&P Mexico BMI's return of 8.45%, leading us to believe that larger funds fared better than smaller funds.

A UNIQUE SCORECARD FOR THE ACTIVE VERSUS PASSIVE DEBATE

Beyond the SPIVA Scorecard's widely cited headline numbers is a rich data set that addresses issues related to measurement techniques, universe composition and fund survivorship that are less frequently discussed, but are often more fascinating. These data sets are rooted in the fundamental principles of the SPIVA Scorecard, with which regular readers will be familiar, including the following.

- **Survivorship bias correction:** Many funds might be liquidated or merged during a period of study. However, for someone making an investment decision at the beginning of the period, these funds are part of the opportunity set. Unlike other commonly available comparison reports, SPIVA Scorecards account for the entire opportunity set, not just the survivors, thereby eliminating survivorship bias.
- **Asset-weighted returns:** Average returns for a fund group are often calculated using only equal weighting, which means the returns of a relatively large fund (by net assets) affect the category average in the same manner as the returns of a relatively small fund. An accurate representation of how investors fared in a particular period can be ascertained by calculating weighted average returns, in which each fund's return is weighted by net assets. SPIVA Scorecards show both equal- and asset-weighted averages.
- **Data cleaning:** SPIVA Scorecards avoid double counting multiple share classes in all count-based calculations by using only the share class with greatest assets. Index, leveraged, and inverse funds, along with other index-linked products, are excluded from the results, as this is meant to be a scorecard for active managers.

REPORTS

Report 1: Percentage of Funds Outperformed by the Benchmark				
Fund Category	Comparison Index	One-Year (%)	Three-Year (%)	Five-Year (%)
Brazil Equity Funds	S&P Brazil BMI	43.99	42.68	42.34
Brazil Large-Cap Funds	S&P Brazil LargeCap	64.86	71.19	76.00
Brazil Mid/Small-Cap Funds	S&P Brazil MidSmallCap	66.23	64.29	56.76
Brazil Corporate Bond Funds	Anbima Debentures Index (IDA)	82.95	60.34	94.74
Brazil Government Bond Funds	Anbima Market Index (IMA)	80.85	80.43	79.55
Chile Equity Funds	S&P Chile BMI	45.24	82.50	97.06
Mexico Equity Funds	S&P Mexico BMI	71.74	54.05	70.97

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 2014. Outperformance is based on equal-weighted fund counts. Index performance based on total return in local country currency. Charts and tables are provided for illustrative purposes. Past performance is no guarantee of future results.

Report 2: Fund Survivorship		
Fund Category	No. of Funds at Start	Survivorship (%)
One-Year		
Brazil Equity Funds	559	87.84
Brazil Large-Cap Funds	98	77.55
Brazil Mid/Small-Cap Funds	89	88.76
Brazil Corporate Bond Funds	141	97.16
Brazil Government Bond Funds	279	89.25
Chile Equity Funds	43	97.67
Mexico Equity Funds	46	97.83
Three-Year		
Brazil Equity Funds	433	77.37
Brazil Large-Cap Funds	86	70.93
Brazil Mid/Small-Cap Funds	69	84.06
Brazil Corporate Bond Funds	82	90.24
Brazil Government Bond Funds	219	88.58
Chile Equity Funds	46	86.96
Mexico Equity Funds	40	90.00
Five-Year		
Brazil Equity Funds	299	81.61
Brazil Large-Cap Funds	70	72.86
Brazil Mid/Small-Cap Funds	40	92.50
Brazil Corporate Bond Funds	27	88.89
Brazil Government Bond Funds	169	90.53
Chile Equity Funds	41	82.93
Mexico Equity Funds	39	82.05

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 2014. Charts and tables are provided for illustrative purposes. Past performance is no guarantee of future results.

Report 3: Average Fund Performance (Equal Weighted)			
Category	One-Year (%)	Three-Year (Annualized %)	Five-Year (Annualized %)
S&P Brazil BMI	-4.53	1.29	-0.92
Brazil Equity Funds	-4.23	2.02	0.27
S&P Brazil LargeCap	-3.20	0.38	-2.45
Brazil Large-Cap Funds	-3.90	-1.54	-4.34
S&P Brazil MidSmallCap	-7.50	3.36	2.18
Brazil Mid/Small-Cap Funds	-14.27	-0.03	0.17
Anbima Debentures Index (IDA)	12.42	10.04	11.29
Brazil Corporate Bond Funds	11.35	9.54	10.73
Anbima Market Index (IMA)	12.35	9.24	10.86
Brazil Government Bond Funds	10.82	8.64	9.98
S&P Chile BMI	3.04	-1.74	2.75
Chile Equity Funds	3.50	-4.42	-0.53
S&P Mexico BMI	2.63	8.20	8.45
Mexico Equity Funds	0.49	8.42	6.75

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 2014. Index performance based on total return in local country currency. Funds are equal weighted, but indices are not. Charts and tables are provided for illustrative purposes. Past performance is no guarantee of future results.

Report 4: Average Fund Performance (Asset Weighted)			
Category	One-Year (%)	Three-Year (Annualized %)	Five-Year (Annualized %)
S&P Brazil BMI	-4.53	1.29	-0.92
Brazil Equity Funds	0.54	6.86	4.24
S&P Brazil LargeCap	-3.20	0.38	-2.45
Brazil Large-Cap Funds	-3.01	-0.86	-4.18
S&P Brazil MidSmallCap	-7.50	3.36	2.18
Brazil Mid/Small-Cap Funds	-8.98	3.17	1.75
Anbima Debentures Index (IDA)	12.42	10.04	11.29
Brazil Corporate Bond Funds	11.15	9.69	10.60
Anbima Market Index (IMA)	12.35	9.24	10.86
Brazil Government Bond Funds	10.96	8.91	9.99
S&P Chile BMI	3.04	-1.74	2.75
Chile Equity Funds	2.74	-5.28	-1.45
S&P Mexico BMI	2.63	8.20	8.45
Mexico Equity Funds	2.28	10.74	9.09

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 2014. Index performance based on total returns in local country currency. Charts and tables are provided for illustrative purposes. Past performance is no guarantee of future results.

Report 5: Quartile Breakpoints of Funds			
Fund Category	Third Quartile	Second Quartile	First Quartile
One-Year			
Brazil Equity Funds	-9.12	-3.02	2.52
Brazil Large-Cap Funds	-5.37	-3.80	-2.60
Brazil Mid/Small-Cap Funds	-20.25	-12.19	-5.39
Brazil Corporate Bond Funds	11.25	11.58	11.84
Brazil Government Bond Funds	10.05	10.70	11.61
Chile Equity Funds	1.35	3.62	4.98
Mexico Equity Funds	-1.37	0.58	2.85
Three-Year			
Brazil Equity Funds	-2.21	2.79	6.92
Brazil Large-Cap Funds	-4.46	-1.50	0.84
Brazil Mid/Small-Cap Funds	-4.24	2.25	5.09
Brazil Corporate Bond Funds	9.46	9.69	11.65
Brazil Government Bond Funds	8.13	8.86	9.14
Chile Equity Funds	-6.40	-5.00	-3.77
Mexico Equity Funds	5.00	7.84	11.09
Five-Year			
Brazil Equity Funds	-5.25	-0.29	3.93
Brazil Large-Cap Funds	-6.60	-4.55	-2.99
Brazil Mid/Small-Cap Funds	-4.77	1.05	3.77
Brazil Corporate Bond Funds	10.12	10.30	10.48
Brazil Government Bond Funds	9.11	9.64	10.42
Chile Equity Funds	-2.42	-0.42	0.58
Mexico Equity Funds	4.50	6.67	8.89

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 2014. Index performance based on total returns in local country currency. Charts and tables are provided for illustrative purposes. Past performance is no guarantee of future results.

APPENDIX A

SPIVA Styles and Morningstar Fund Classifications

Data from Morningstar is obtained for all managed funds for which month-end data is available during the performance period. The SPIVA Latin America Scorecard covers country-specific funds for Brazil, Chile, and Mexico that are domiciled in the local country markets and denominated in the country's local currency. The Morningstar classification system produces narrow, style-based classifications for funds and where appropriate, S&P Dow Jones Indices consolidated the style-based categories in order to generate a larger sample size and develop a broad-market comparison to market-based benchmarks.

Morningstar categories have been mapped to SPIVA peer groups in the following manner.

Exhibit 1: Fund Category Mapping	
Morningstar Category	SPIVA Category
Brazil	
Brazil Open-Ended All Cap Equity	Brazil Equity Funds
Brazil Open-Ended Large-Cap Equity	Brazil Large-Cap Funds
Brazil Open-Ended Small/Mid-Cap Equity	Brazil Mid/Small-Cap Funds
Brazil Open-Ended BRL Corporate Bond	Brazil Corporate Bond Funds
Brazil Open-Ended BRL Government Bond	Brazil Government Bond Funds
Chile	
Chile Open-Ended Equity	Chile Equity Funds
Mexico	
Mexico Open-Ended Equity	Mexico Equity Funds

Source: S&P Dow Jones Indices LLC, Morningstar. Charts and tables are provided for illustrative purposes only.

APPENDIX B

Glossary—Reports

Percentage of Funds Outperformed by the Index

We use funds with returns available for the entire period as the denominator. We determine the count of funds that have survived and beat the index, and then we report the index outperformance percentage.

Survivorship (%)

The survivorship metric represents the percentage of funds in existence at the beginning of the time period that are still active at the end of the time period.

Equal-Weighted Fund Performance

Equal-weighted returns for a particular style category are determined by calculating a simple average return of all active funds in that category in a particular month.

Asset-Weighted Fund Performance

Asset-weighted returns for a particular style category are determined by calculating a weighted average return of all funds in that category in a particular month, with each fund's return weighted by its total net assets. Asset-weighted returns are a better indicator of fund category performance because they reflect the returns of the total money invested in that particular style category with more accuracy.

Quartile Breakpoints

The pth percentile for a set of data is the value that is greater than or equal to p% of the data but is less than or equal to (100-p)% of the data. In other words, it is a value that divides the data into two parts: the lower p% of the values and the upper (100-p)% of the values. The first quartile is the 75th percentile, which is the value separating the elements of a population into the lower 75% and the upper 25%. The second quartile is the 50th percentile, and the third quartile is the 25th percentile. For fund category quartiles in a particular time horizon, the data used is the return of the largest share class of the fund net of fees, excluding loads.

Survivorship Bias

Many funds might liquidate or merge during a period of study. This usually occurs due to continued poor performance by the fund. Therefore, if index returns were compared to fund returns using only surviving funds, the comparison would be biased in favor of the fund category. The SPIVA reports remove this bias in three ways. The first method to remove the bias is to use the entire investment opportunity set, made up of all funds in that particular category at the outset of the period, as the denominator for outperformance calculations. The second is

to show explicitly the survivorship rate in each category. The final way is to construct a peer average return series for each category based on all available funds at the outset of the period.

Fees

The fund returns used are net of fees, excluding loads.

Indices

A benchmark index provides an investment vehicle against which fund performance can be measured.

S&P Brazil BMI

The S&P Brazil BMI, a subset of the S&P Global BMI, is designed to represent the Brazilian stock market.

S&P Brazil LargeCap

The S&P Brazil LargeCap, a subset of the S&P Global BMI, is designed to represent large-cap stocks in the Brazilian market.

S&P Brazil MidSmallCap

The S&P Brazil MidSmallCap, a subset of the S&P Global BMI, is designed to represent mid- and small-cap stocks in the Brazilian market.

S&P Chile BMI

The S&P Chile BMI, a subset of the S&P Global BMI, is designed to represent the Chilean stock market.

S&P Mexico BMI

The S&P Mexico BMI, a subset of the S&P Global BMI, is designed to represent the Mexican stock market.

Anbima Debentures Index (IDA)

The Anbima Debentures Index (IDA) represents a portfolio of debentures at market prices and serves as benchmark for the segment. The index consists of all debentures priced by the Association.

Anbima Market Index (IMA)

The Anbima Market Index (IMA) represents a portfolio of government securities at market prices, with an approximate range of 97% of the market segment.

ABOUT S&P DOW JONES INDICES

S&P Dow Jones Indices LLC, a part of McGraw Hill Financial, Inc., is the world's largest, global resource for index-based concepts, data and research. Home to iconic financial market indicators, such as the S&P 500[®] and the Dow Jones Industrial Average[™], S&P Dow Jones Indices LLC has over 115 years of experience constructing innovative and transparent solutions that fulfill the needs of institutional and retail investors. More assets are invested in products based upon our indices than any other provider in the world. With over 1,000,000 indices covering a wide range of assets classes across the globe, S&P Dow Jones Indices LLC defines the way investors measure and trade the markets. To learn more about our company, please visit www.spdji.com.

LIKE WHAT YOU READ? Sign up to receive updates on a broad range of index-related topics and complimentary events.



GENERAL DISCLAIMER

© 2015 by S&P Dow Jones Indices LLC, a part of McGraw Hill Financial, Inc. All rights reserved. Standard & Poor's® and S&P® are registered trademarks of Standard & Poor's Financial Services LLC ("S&P"), a subsidiary of McGraw Hill Financial. Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"). Trademarks have been licensed to S&P Dow Jones Indices LLC. Redistribution, reproduction and/or photocopying in whole or in part are prohibited without written permission. This document does not constitute an offer of services in jurisdictions where S&P Dow Jones Indices LLC, Dow Jones, S&P or their respective affiliates (collectively "S&P Dow Jones Indices") do not have the necessary licenses. All information provided by S&P Dow Jones Indices is impersonal and not tailored to the needs of any person, entity or group of persons. S&P Dow Jones Indices receives compensation in connection with licensing its indices to third parties. Past performance of an index is not a guarantee of future results.

It is not possible to invest directly in an index. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Dow Jones Indices does not sponsor, endorse, sell, promote or manage 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. S&P Dow Jones Indices makes no assurance that investment products based on the index will accurately track index performance or provide positive investment returns. S&P Dow Jones Indices LLC is not an investment advisor, and S&P Dow Jones Indices makes no representation regarding the advisability of investing in any such investment fund or other investment vehicle. A decision to invest in any such investment fund or other investment vehicle should not be made in reliance on any of the statements set forth in this document. Prospective investors are advised to make an investment in any such fund or other vehicle only after carefully considering the risks associated with investing in such funds, as detailed in an offering memorandum or similar document that is prepared by or on behalf of the issuer of the investment fund or other vehicle. Inclusion of a security within an index is not a recommendation by S&P Dow Jones Indices to buy, sell, or hold such security, nor is it considered to be investment advice. Closing prices for S&P US benchmark indices and Dow Jones US benchmark indices are calculated by S&P Dow Jones Indices based on the closing price of the individual constituents of the index as set by their primary exchange. Closing prices are received by S&P Dow Jones Indices from one of its third party vendors and verified by comparing them with prices from an alternative vendor. The vendors receive the closing price from the primary exchanges. Real-time intraday prices are calculated similarly without a second verification.

These materials have been prepared solely for informational purposes based upon information generally available to the public and from sources believed to be reliable. No content contained in these materials (including index data, ratings, credit-related analyses and data, research, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse-engineered, reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written permission of S&P Dow Jones Indices. The Content shall not be used for any unlawful or unauthorized purposes. S&P Dow Jones Indices and its third-party data providers and licensors (collectively "S&P Dow Jones Indices Parties") do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Dow Jones Indices Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON AN "AS IS" BASIS. S&P DOW JONES INDICES PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Dow Jones Indices Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, research and valuations are generally provided by affiliates of S&P Dow Jones Indices, including but not limited to Standard & Poor's Financial Services LLC and Capital IQ, Inc. Such analyses and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. Any opinion, analyses and rating acknowledgement decisions are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Dow Jones Indices does not assume any obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Dow Jones Indices LLC does not act as a fiduciary or an investment advisor. While S&P Dow Jones Indices has obtained information from sources they believe to be reliable, S&P Dow Jones Indices does not perform an audit or undertake any duty of due diligence or independent verification of any information it receives.

S&P Dow Jones Indices keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P Dow Jones Indices may have information that is not available to other business units. S&P Dow Jones Indices has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

In addition, S&P Dow Jones Indices provides a wide range of services to, or relating to, many organizations, including issuers of securities, investment advisers, broker-dealers, investment banks, other financial institutions and financial intermediaries, and accordingly may receive fees or other economic benefits from those organizations, including organizations whose securities or services they may recommend, rate, include in model portfolios, evaluate or otherwise address.