

## SPIVA<sup>®</sup> MENA Scorecard

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### [Experience](#) the

active vs. passive debate on a global scale.

S&P Dow Jones Indices has been the de facto scorekeeper of the ongoing active versus passive debate since the first publication of the S&P Indices Versus Active Funds (SPIVA) U.S. Scorecard in 2002. The SPIVA MENA Scorecard measures the performance of actively managed MENA equity funds denominated in local currencies against the performance of their respective S&P DJI benchmark indices over 1-, 3-, 5-, and 10-year investment horizons.

### MID-YEAR 2021 HIGHLIGHTS

As the global economy bounced back from the COVID-19 crisis, oil income started to ramp up again for the Middle East and North Africa (MENA) countries. With successful vaccination campaigns and effective fiscal policies and reforms, economies in the MENA region continued to recover. Expectations of steady growth reflected onto stock market trends in the region during the first half of 2021.

### MENA

- The [S&P Pan Arab Composite LargeMidCap Index](#) outperformed 92.9% of MENA Equity funds during the first half to 2021. Although this percentage decreases when including the 2020 COVID-19 market crash, the long-term 10-year figure was consistent, at 92.7%.
  - Active fund managers performed similarly on a risk-adjusted basis, with 90.3% of funds unable to beat the benchmark over the three-year period. In the longer 10-year period, this percentage was the same as the absolute basis, at 92.7%.
  - Over the one-year period, the S&P Pan Arab Composite LargeMidCap Index return was 5.6 percentage points higher than that of MENA Equity funds (on an asset-weighted average basis). This difference narrowed to 0.6% over the 10-year period.
  - Only 41.5% of the funds analyzed within the MENA Equity fund category survived the 10-year period.

## GCC

- Equity funds focused on the Gulf Cooperation Council (GCC) region did not fare better, with 92.6% underperforming the [S&P GCC Composite](#) over the six-month period.
  - Analyzing the funds' risk-adjusted performance did not improve the picture, as 96% of GCC Equity funds underperformed the benchmark over the same six-month period.
  - When measured on an asset-weighted basis, the funds trailed the S&P GCC Composite benchmark by 8.1 percentage points over the six-month period. The S&P GCC Composite increased by 24.5% over the same period and by 46.9% over the one-year period.
  - The benchmark outperformance continued over the long term, resulting in an asset-weighted outperformance of 1.6 percentage points annualized over 10 years.

## Saudi Arabia

- Saudi Arabia Equity funds did not keep their strong benchmark-relative outperformance observed in 2020. For the six-month period, 90.9% of Saudi Arabia Equity funds underperformed the [S&P Saudi Arabia](#).
  - Despite a remarkable 27.2% asset-weighted average return during the first half of 2021, Saudi Arabia Equity funds trailed the benchmark by 3.5 percentage points, on an asset-weighted average basis.
  - Over the longer 10-year period, the outcome of active managers improved by a small degree, with 63.6% underperforming the benchmark. On a risk-adjusted basis, even fewer, albeit a majority of 54.6%, active funds were beaten by the benchmark.

## UNIQUE SCORECARD FOR THE ACTIVE VERSUS PASSIVE DEBATE

Since its first publication 19 years ago, the SPIVA Scorecard has served as the de facto scorekeeper of the active versus passive debate. For more than a decade, we have heard passionate arguments from believers in both camps when headline numbers have deviated from their beliefs.

Over the years, we have built on more than a decade of experience publishing the report by expanding coverage into Canada, Europe, India, Japan, Australia, Latin America, South Africa, and MENA. While the report will not end the debate on active versus passive investing, we hope to make a meaningful contribution by examining market segments in which one strategy might work better than the other.

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 that regular readers will be familiar with, 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 USD 10 billion fund affect the average in the same manner as the returns of a USD 10 million fund. An accurate representation of how market participants fared in a particular period can be ascertained by calculating weighted average returns where 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 greater assets. Index, leveraged, and inverse funds, along with other index-linked products, are excluded because this is meant to be a scorecard for active managers.

## REPORTS

### Report 1a: Percentage of MENA Equity Funds Outperformed by Benchmarks (Based on Absolute Returns)

FUND CATEGORY	COMPARISON INDEX	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MENA Equity	S&P Pan Arab Composite LargeMidCap Index	92.86	63.33	83.87	94.29	92.68
	S&P Pan Arab Composite	92.86	70.00	93.55	94.29	92.68
GCC Equity	S&P GCC Composite	92.59	80.00	91.67	95.45	63.16
Saudi Arabia Equity	S&P Saudi Arabia	90.91	76.47	71.43	84.62	63.64

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending June 30, 2021. Outperformance is based on equal-weighted fund counts. Index performance based on total return in USD for MENA and GCC and SAR for Saudi Arabia. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

### Report 1b: Percentage of MENA Equity Funds Outperformed by Benchmarks (Based on Risk-Adjusted Returns)

FUND CATEGORY	COMPARISON INDEX	3-YEAR	5-YEAR	10-YEAR
MENA Equity	S&P Pan Arab Composite LargeMidCap Index	90.32	97.14	92.68
	S&P Pan Arab Composite	90.32	97.14	92.68
GCC Equity	S&P GCC Composite	87.50	95.45	73.68
Saudi Arabia Equity	S&P Saudi Arabia	64.29	84.62	54.55

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending June 30, 2021. Risk-adjusted return is computed as an annualized average monthly return divided by annualized standard deviation of the monthly return for the measured periods. Index performance based on total return in USD for MENA and GCC and SAR for Saudi Arabia. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

### Report 2: Survivorship Consistency of MENA Equity Funds

FUND CATEGORY	NO. OF FUNDS AT START	SURVIVORSHIP (%)
<b>YTD</b>		
MENA Equity	28	100.00
GCC Equity	27	96.30
Saudi Arabia Equity	22	100.00
<b>1-YEAR</b>		
MENA Equity	30	93.33
GCC Equity	25	96.00
Saudi Arabia Equity	17	100.00
<b>3-YEAR</b>		
MENA Equity	31	87.10
GCC Equity	24	95.83
Saudi Arabia Equity	14	92.86
<b>5-YEAR</b>		
MENA Equity	35	65.71
GCC Equity	22	95.45
Saudi Arabia Equity	13	84.62
<b>10-YEAR</b>		
MENA Equity	41	41.46
GCC Equity	19	78.95
Saudi Arabia Equity	11	81.82

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending June 30, 2021. Index performance based on total return in USD for MENA and GCC and SAR for Saudi Arabia. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

**Report 3a: Average MENA Equity Fund Performance (Equal-Weighted)**

CATEGORY	YTD (%)	1-YEAR (%)	3-YEAR (ANNUALIZED, %)	5-YEAR (ANNUALIZED, %)	10-YEAR (ANNUALIZED, %)
MENA Equity	17.92	35.63	6.27	7.13	5.05
S&P Pan Arab Composite LargeMidCap Index	22.56	41.77	10.69	12.22	7.00
S&P Pan Arab Composite	22.55	43.82	11.13	11.90	6.84
GCC Equity	17.87	36.61	6.49	6.26	6.39
S&P GCC Composite	24.82	46.92	12.57	12.86	7.69
Saudi Arabia Equity	25.36	53.76	15.42	13.13	10.39
S&P Saudi Arabia	30.64	58.45	14.39	16.40	8.76

Source: S&P Dow Jones Indices LLC, Momingstar. Data for periods ending June 30, 2021. Index performance based on total return in USD for MENA and GCC and SAR for Saudi Arabia. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

**Report 3b: Average MENA Equity Fund Performance (Asset-Weighted)**

CATEGORY	YTD (%)	1-YEAR (%)	3-YEAR (ANNUALIZED, %)	5-YEAR (ANNUALIZED, %)	10-YEAR (ANNUALIZED, %)
MENA Equity	16.92	36.17	6.75	7.66	6.36
S&P Pan Arab Composite LargeMidCap Index	22.56	41.77	10.69	12.22	7.00
S&P Pan Arab Composite	22.55	43.82	11.13	11.90	6.84
GCC Equity	16.67	34.34	7.00	6.71	6.07
S&P GCC Composite	24.82	46.92	12.57	12.86	7.69
Saudi Arabia Equity	27.16	52.33	14.89	13.75	9.88
S&P Saudi Arabia	30.64	58.45	14.39	16.40	8.76

Source: S&P Dow Jones Indices LLC, Momingstar. Data for periods ending June 30, 2021. Index performance based on total return in USD for MENA and GCC and SAR for Saudi Arabia. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

**Report 4: Return/Volatility Ratio of MENA Equity Funds and Benchmarks**

CATEGORY	BENCHMARK	BENCHMARK			ASSET-WEIGHTED			EQUAL-WEIGHTED		
		3-YEAR	5-YEAR	10-YEAR	3-YEAR	5-YEAR	10-YEAR	3-YEAR	5-YEAR	10-YEAR
MENA Equity	S&P Pan Arab Composite LargeMidCap Index	0.65	0.89	0.48	0.40	0.55	0.45	0.38	0.53	0.37
	S&P Pan Arab Composite	0.67	0.86	0.47	0.40	0.55	0.45	0.38	0.53	0.37
GCC Equity	S&P GCC Composite	0.74	0.89	0.49	0.46	0.53	0.45	0.42	0.48	0.46
Saudi Arabia Equity	S&P Saudi Arabia	0.73	0.88	0.45	0.88	0.83	0.54	0.91	0.79	0.58

Source: S&P Dow Jones Indices LLC, Momingstar. Data for periods ending June 30, 2021. The return/volatility ratio is computed as an annualized average monthly return divided by annualized standard deviation of the monthly return for the measured periods. Index performance based on total return in USD for MENA and GCC and SAR for Saudi Arabia. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

<b>Report 5: Quartile Breakpoints of MENA Equity Funds</b>			
<b>FUND CATEGORY</b>	<b>THIRD QUARTILE (ANNUALIZED, %)</b>	<b>SECOND QUARTILE (ANNUALIZED, %)</b>	<b>FIRST QUARTILE (ANNUALIZED, %)</b>
<b>YEAR-TO-DATE</b>			
MENA Equity	17.23	19.88	21.27
GCC Equity	16.46	20.83	22.68
Saudi Arabia Equity	23.63	25.70	29.47
<b>1-YEAR</b>			
MENA Equity	35.45	40.26	45.05
GCC Equity	34.39	41.30	48.15
Saudi Arabia Equity	49.55	53.21	60.41
<b>3-YEAR</b>			
MENA Equity	5.00	8.90	9.54
GCC Equity	5.29	7.43	10.37
Saudi Arabia Equity	13.07	14.77	15.81
<b>5-YEAR</b>			
MENA Equity	7.39	8.90	10.54
GCC Equity	4.06	7.02	9.73
Saudi Arabia Equity	11.20	12.97	16.81
<b>10-YEAR</b>			
MENA Equity	4.52	5.64	6.46
GCC Equity	7.23	7.96	8.90
Saudi Arabia Equity	8.89	12.32	15.43

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending June 30, 2021. Index performance based on total return in USD for MENA and GCC and SAR for Saudi Arabia. Funds are equal weighted, but indices are not. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

## APPENDIX A: SPIVA STYLES AND MORNINGSTAR FUND CLASSIFICATIONS

Data from Morningstar are obtained for all managed funds for which month-end data are available during the performance period. The data include funds domiciled in MENA markets. Offshore MENA equity funds are excluded. Funds are classified based on the Morningstar fund classification system, and the SPIVA Scorecard covers MENA equity categories.

### MENA Funds Denominated in U.S. Dollars and Saudi Arabian Riyals

The SPIVA MENA Scorecard covers both regional and country-specific funds that are denominated in U.S. dollars (USD) (or a currency pegged to U.S. dollars) or Saudi Arabian riyals (SAR), and they have been mapped to the relevant Morningstar fund categories as indicated in Exhibit 1. To increase the available fund count, funds that are denominated in a currency pegged to the U.S. dollar have been converted to USD using the peg ratio. The Morningstar classification system produces narrow, style-based classifications for funds. S&P Dow Jones Indices has consolidated the style-based categories in order to generate a larger sample size and develop a broad-market comparison to market-based benchmarks. A narrow, style-based comparison would yield a limited sample size, given that value and growth style segments are not consistently discernible over the past five years.

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

<b>Exhibit 1: Morningstar Categories and SPIVA Peer Groups for MENA Equity Funds</b>	
<b>MORNINGSTAR CATEGORY</b>	<b>SPIVA CATEGORY</b>
<b>USD-DENOMINATED FUNDS</b>	
EAA Fund Africa & Middle East Equity	MENA Equity
MiddleEast Fund MENA Equity	
MiddleEast Fund GCC Equity	GCC Equity
MiddleEast Fund GCC Islamic Equity	
<b>SAR-DENOMINATED FUNDS</b>	
MiddleEast Fund Saudi Equity	Saudi Arabia Equity
MiddleEast Fund Saudi Islamic Equity	

Source: S&P Dow Jones Indices LLC, Morningstar. Table is provided for illustrative purposes.

## APPENDIX B: GLOSSARY

### Percentage of Funds Outperformed by the Index

To correct for survivorship bias, we use the opportunity set available at the beginning of the period as the denominator. We determine the count of funds that have survived and beat the index. We then report the index outperformance percentage.

### Survivorship (%)

The survivorship measure 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  $p^{\text{th}}$  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 75<sup>th</sup> percentile, which is the value separating the elements of a population into the lower 75% and the upper 25%. The second quartile is the 50<sup>th</sup> percentile, and the third quartile is the 25<sup>th</sup> percentile. For fund category quartiles in a particular time horizon, the data used is the return of the largest surviving 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 explicitly to show 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 GCC COMPOSITE

The S&P GCC Composite is a comprehensive benchmark covering stocks from the six Gulf Cooperation Council (GCC) markets. The index reflects the float defined by foreign investment limits applicable to GCC residents.

### S&P PAN ARAB COMPOSITE

The [S&P Pan Arab Composite](#) includes stocks from 11 Pan Arab markets. The index reflects the float available to GCC residents, which is typically larger than that available to investors based outside the region.

### S&P PAN ARAB COMPOSITE LARGEMIDCAP INDEX

The S&P Pan Arab Composite LargeMidCap Index is designed to track the performance of large- and mid-cap stocks from 11 Pan Arab equity markets.

### S&P SAUDI ARABIA

The S&P Saudi Arabia is a comprehensive benchmark that defines and is designed to measure the investable universe of publicly traded companies domiciled in Saudi Arabia and uses float factors relevant for GCC residents.

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