

## 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.

### YEAR-END 2021 HIGHLIGHTS

In 2021, the MENA equity market displayed a remarkable recovery following the returns of 2020, which were heavily affected by the global COVID-19 pandemic. Of the equity benchmarks covered in this scorecard, all four posted returns in excess of 30% for the one-year period. Equity funds followed suit, albeit at a lower level, with each of the corresponding fund categories seeing asset-weighted returns in excess of 20% during the same period. Even funds at the lower end of the spectrum were able to post strong returns—the 25th percentile fund in each category had returns in excess of 25% for the one-year period.

### MENA

- 85.2% of MENA Equity funds were outperformed by the [S&P Pan Arab Composite LargeMidCap Index](#) during the one-year period.
- The 75<sup>th</sup> percentile of MENA Equity funds returned 2.7% less than the benchmark over the one-year period, highlighting that even above-average fund managers struggled to keep pace with the benchmark.
- On an asset-weighted basis, MENA Equity funds were outperformed by 5.4% and 8.6% over the one-year period by the [S&P Pan Arab Composite](#) and S&P Pan Arab Composite LargeMidCap Index, respectively.
- Over the one-year period, 74% of MENA Equity funds underperformed the S&P Pan Arab Composite LargeMidCap Index on a risk-adjusted basis.

## GCC

- GCC Equity fund managers struggled to beat the benchmark during the one-year period. In 2021, 84.6% of funds had a lower return than the [S&P GCC Composite](#), and on an asset-weighted basis, these funds collectively underperformed by a significant 13%.
- Over the three-year period, GCC Equity funds underperformed the benchmark by an annualized 5.8%. The underperformance cannot easily be explained away by risk, as over the same period, GCC Equity funds had a lower return-to-volatility ratio, indicating that for each unit of risk, the benchmark had higher returns (see Report 4).

## Saudi Arabia

- Over the one-year period, 89.5% of Saudi Arabi Equity funds were outperformed by their benchmark, the [S&P Saudi Arabia](#). For the same period, 73.7% of funds underperformed on a risk-adjusted basis.
- Despite posting strong one-year fund returns, even the 75<sup>th</sup> percentile of Saudi Arabia Equity funds trailed the benchmark by 2% by year-end 2021.
- Over the 3- and 10-year period, the outlook was slightly better for Saudi Arabia Equity funds; on an asset-weighted basis, they managed to outperform the S&P Saudi Arabia by 2.2% and 1.3% annualized, respectively. In addition, they also posted a better return-to-volatility ratio, showing they were collectively better than the benchmark even when adjusted for risk.

## UNIQUE SCORECARD FOR THE ACTIVE VERSUS PASSIVE DEBATE

Since its first publication 20 years ago, the SPIVA Scorecard has served as the de facto scorekeeper of the active versus passive debate. For two decades, 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 two decades 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	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MENA Equity	S&P Pan Arab Composite LargeMidCap Index	85.19	80.00	88.24	92.31
	S&P Pan Arab Composite	74.07	80.00	88.24	89.74
GCC Equity	S&P GCC Composite	84.62	91.30	95.24	85.71
Saudi Arabia Equity	S&P Saudi Arabia	89.47	72.73	91.67	90.00

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 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	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MENA Equity	S&P Pan Arab Composite LargeMidCap Index	74.07	76.67	91.18	92.31
	S&P Pan Arab Composite	62.96	76.67	88.24	92.31
GCC Equity	S&P GCC Composite	73.08	82.61	95.24	85.71
Saudi Arabia Equity	S&P Saudi Arabia	73.68	63.64	91.67	80.00

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 2021. Risk-adjusted return is computed as 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>1-YEAR</b>		
MENA Equity	27	96.30
GCC Equity	26	96.15
Saudi Arabia Equity	19	100.00
<b>3-YEAR</b>		
MENA Equity	30	83.33
GCC Equity	23	95.65
Saudi Arabia Equity	11	90.91
<b>5-YEAR</b>		
MENA Equity	34	61.76
GCC Equity	21	95.24
Saudi Arabia Equity	12	83.33
<b>10-YEAR</b>		
MENA Equity	39	38.46
GCC Equity	21	76.19
Saudi Arabia Equity	10	80.00

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 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	1-YEAR (%)	3-YEAR (ANNUALIZED %)	5-YEAR (ANNUALIZED %)	10-YEAR (ANNUALIZED %)
MENA Equity	28.18	11.41	8.16	6.97
S&P Pan Arab Composite LargeMidCap Index	35.88	14.76	12.45	8.82
S&P Pan Arab Composite	32.72	14.74	11.74	8.34
GCC Equity	28.19	11.12	6.98	7.65
S&P GCC Composite	35.19	15.79	12.58	8.92
Saudi Arabia Equity	31.42	20.44	12.52	11.18
S&P Saudi Arabia	38.10	18.44	15.07	9.56

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 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	1-YEAR (%)	3-YEAR (ANNUALIZED %)	5-YEAR (ANNUALIZED %)	10-YEAR (ANNUALIZED %)
MENA Equity	27.30	11.77	8.75	8.41
S&P Pan Arab Composite LargeMidCap Index	35.88	14.76	12.45	8.82
S&P Pan Arab Composite	32.72	14.74	11.74	8.34
GCC Equity	22.33	9.98	6.71	6.89
S&P GCC Composite	35.19	15.79	12.58	8.92
Saudi Arabia Equity	37.75	20.67	13.77	10.86
S&P Saudi Arabia	38.10	18.44	15.07	9.56

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 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	0.88	0.90	0.61	0.68	0.62	0.60	0.68	0.60	0.51
	S&P Pan Arab Composite	0.88	0.85	0.57	0.68	0.62	0.60	0.68	0.60	0.51
GCC Equity	S&P GCC Composite	0.91	0.88	0.57	0.66	0.55	0.51	0.73	0.56	0.56
Saudi Arabia Equity	S&P Saudi Arabia	0.92	0.87	0.49	1.20	0.93	0.59	1.18	0.84	0.62

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 2021. The return/volatility ratio is computed as 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>1-YEAR</b>			
MENA Equity	28.19	30.61	33.17
GCC Equity	26.56	32.49	35.27
Saudi Arabia Equity	26.06	32.99	36.06
<b>3-YEAR</b>			
MENA Equity	11.23	13.57	14.97
GCC Equity	11.66	12.97	14.36
Saudi Arabia Equity	17.99	19.45	21.88
<b>5-YEAR</b>			
MENA Equity	9.25	10.33	11.21
GCC Equity	8.89	9.20	10.04
Saudi Arabia Equity	9.77	11.77	13.14
<b>10-YEAR</b>			
MENA Equity	6.97	7.87	9.44
GCC Equity	7.83	8.75	10.41
Saudi Arabia Equity	10.48	12.42	14.37

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 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 Middle East Fund MENA Equity	MENA Equity
Middle East Fund GCC Equity Middle East Fund GCC Islamic Equity	GCC Equity
<b>SAR-DENOMINATED FUNDS</b>	
Middle East Fund Saudi Equity Middle East Fund Saudi Islamic Equity	Saudi Arabia 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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