

SPIVA[®] South Africa Scorecard

Contributors

Andrew Innes

EMEA Head
Global Research & Design
andrew.innes@spglobal.com

Andrew Cairns

Senior Analyst
Global Research & Design
andrew.cairns@spglobal.com

Experience the active vs. passive debate on a global scale on [INDEXOLOGY[®]](#).

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 (SPIVA) U.S. Scorecard in 2002. The SPIVA South Africa Scorecard measures the performance of actively managed, South African equity and fixed income funds denominated in South African rands (ZAR) against their respective benchmark indices over one-, three-, and five-year investment horizons.

MID-YEAR 2019 HIGHLIGHTS

South African Equities

Over 62% of South African active equity funds failed to outperform the [S&P South Africa Domestic Shareholder Weighted \(DSW\) Capped Index](#) over the one-year period ending June 30, 2019. This figure rose to 74% when observed over the five-year period.

The South African equity market recovered in the first half of 2019, following a similar pattern seen more broadly in global equities after the sell-off at the tail end of 2018. The recovery was accompanied by a less optimistic local backdrop, with a volatile and depreciating South African rand and the fear of a ratings downgrade still looming. National elections in May saw the African National Congress retain control of the government. However, the party's majority and voter turnout weakened as a result of the struggling economy, high unemployment, and further revelations of corruption.

Over the one-year period, active funds fared worse in general than the benchmark; the S&P South Africa DSW Capped Index rebounded to post a 1.7% gain, compared with 0.5% for active funds on an asset-weighted basis. The [S&P South Africa 50](#) was up 5.3% over the same period, illustrating the general outperformance of large-cap companies over their smaller peers.

Many local S&P DJI factor-based indices also outperformed the S&P South Africa DSW Capped Index over the one-year period. Notable outperformers included the [S&P Momentum South Africa](#) and the [S&P South Africa Composite Quality, Value and Momentum Multi-factor Index](#), outperforming by 8.5% and 6.3%, respectively.

The South African government outlined its commitment to mitigate greenhouse gas emissions and signed into law the Carbon Tax Act, which went into effect in June 2019. Interestingly, the [S&P South Africa Composite Carbon Price Risk 2030 Adjusted Index](#) outperformed its benchmark, with a return of 3.8% over the one-year period, as did the [S&P South Africa DSW Capped Carbon Efficient Index](#) and [S&P South Africa DSW Capped ESG Index](#), which were up 4.8% and 2.0%, respectively.

Global Equities

Fewer than 11% of local funds invested in global equities managed to outperform the [S&P Global 1200](#) over the one-year period. The benchmark outperformed active funds by an average of 6.5% when measured on an asset-weighted basis over the same period. Over the five-year period, the proportion of outperforming global equity funds was even lower, with only 3% beating the benchmark.

Fixed Income

Across all categories analyzed in the SPIVA South Africa Scorecard, the top-performing benchmark was the [S&P South Africa Sovereign Bond 1+ Year Index](#), posting a 11.25% gain over the one-year period. Within the Diversified/Aggregate Bond category, 82% of funds benchmarked against this index underperformed.

Over the one-year period, 94% of Short-Term Bond funds outperformed the South Africa Short Term Fixed Interest (STeFI) Composite. This outperformance persisted across the three- and five-year periods.

A UNIQUE SCORECARD FOR THE ACTIVE VERSUS PASSIVE DEBATE

Since its first publication 17 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, India, Japan, Australia, Latin America, and South Africa. 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 ZAR 100 billion fund affect the average in the same manner as the returns of a ZAR 100 million fund. An accurate representation of how market participants 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 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 1: Percentage of South African Funds Outperformed by Benchmarks

FUND CATEGORY	COMPARISON INDEX	ONE-YEAR (%)	THREE-YEAR (%)	FIVE-YEAR (%)
South African Equity	S&P South Africa DSW Capped Index	62.24	52.91	74.19
	S&P South Africa DSW Index	63.27	79.37	90.32
Global Equity	S&P Global 1200	89.06	90.38	96.88
Short-Term Bond	STeFI Composite	6.25	15.22	13.64
Diversified/Aggregate Bond	S&P South Africa Sovereign Bond 1+ Year Index	81.55	73.68	70.13

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending June 30, 2019. Outperformance is based on equal-weighted fund counts. Index performance is based on total return in ZAR. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Report 2: Survivorship of South African Funds

FUND CATEGORY	NO. OF FUNDS AT START	SURVIVORSHIP (%)
ONE-YEAR		
South African Equity	199	91.46
Global Equity	64	96.88
Short-Term Bond	49	100.00
Diversified/Aggregate Bond	107	93.46
THREE-YEAR		
South African Equity	193	79.79
Global Equity	54	90.74
Short-Term Bond	47	91.49
Diversified/Aggregate Bond	97	84.54
FIVE-YEAR		
South African Equity	162	74.69
Global Equity	34	94.12
Short-Term Bond	44	90.91
Diversified/Aggregate Bond	81	82.72

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending June 30, 2019. Survivorship shown for funds in ZAR. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Report 3: Average South African Fund Performance (Equal Weighted)

CATEGORY	ONE-YEAR (%)	THREE-YEAR (ANNUALIZED %)	FIVE-YEAR (ANNUALIZED %)
S&P South Africa DSW Capped Index	1.72	2.56	4.28
S&P South Africa DSW Index	1.89	4.74	5.92
South African Equity	0.74	2.54	3.05
S&P Global 1200	10.12	11.14	13.49
Global Equity	4.99	7.81	8.99
STeFI Composite	7.30	7.43	7.08
Short-Term Bond	8.15	8.25	7.64
S&P South Africa Sovereign Bond 1+ Year	11.25	9.85	8.55
Diversified/Aggregate Bond	8.33	8.21	7.67

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending June 30, 2019. Index performance based on total return in ZAR. Funds are equal weighted but indices are not. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Report 4: Average South African Fund Performance (Asset Weighted)

CATEGORY	ONE-YEAR (%)	THREE-YEAR (ANNUALIZED %)	FIVE-YEAR (ANNUALIZED %)
S&P South Africa DSW Capped Index	1.72	2.56	4.28
S&P South Africa DSW Index	1.89	4.74	5.92
South African Equity	0.50	3.08	3.57
S&P Global 1200	10.12	11.14	13.49
Global Equity	3.60	8.62	10.34
STeFI Composite	7.30	7.43	7.08
Short-Term Bond	8.57	8.50	7.93
S&P South Africa Sovereign Bond 1+ Year	11.25	9.85	8.55
Diversified/Aggregate Bond	10.03	9.43	8.53

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending June 30, 2019. Index performance based on total returns in ZAR. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Report 5: Quartile Breakpoints of South African Funds				
FUND CATEGORY	THIRD QUARTILE (ANNUALIZED %)	SECOND QUARTILE (ANNUALIZED %)	FIRST QUARTILE (ANNUALIZED %)	
ONE-YEAR				
South African Equity	-1.18	1.25	3.44	
Global Equity	1.79	4.73	7.82	
Short-Term Bond	8.21	8.53	8.99	
Diversified/Aggregate Bond	8.55	9.79	10.94	
THREE-YEAR				
South African Equity	1.45	3.10	4.74	
Global Equity	6.62	8.74	10.03	
Short-Term Bond	8.10	8.57	8.85	
Diversified/Aggregate Bond	8.27	9.18	10.13	
FIVE-YEAR				
South African Equity	2.20	3.39	4.85	
Global Equity	8.29	9.27	11.19	
Short-Term Bond	7.51	7.82	8.13	
Diversified/Aggregate Bond	7.64	8.19	8.98	

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending June 30, 2019. Index performance based on total returns in ZAR. 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 is obtained for all managed funds domiciled in South Africa for which month-end data is available during the performance period. The data includes the most comprehensive South African fund data on active and finalized (merged or liquidated) funds over the chosen period. Funds are classified based on the Morningstar fund classification system, and the SPIVA South Africa Scorecard covers South African and international equity and fixed income categories.

International and South African Funds

The SPIVA South Africa Scorecard covers both domestic and international funds that are denominated in South African rands and they have been mapped to the relevant Morningstar fund categories as indicated in this report. The Morningstar classification system produces narrow, style-based classifications for funds, particularly in relation to international equities. 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 a five-year period.

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

MORNINGSTAR CATEGORY	SPIVA CATEGORY	BENCHMARK INDEX
EAA Fund South Africa & Namibia Equity	South African Equity	S&P South Africa DSW Capped Gross Total Return (ZAR) / S&P South Africa DSW Gross Total Return (ZAR)
EAA Fund Global Large-Cap Blend Equity	Global Equity	S&P Global 1200 Gross Total Return (ZAR)
EAA Fund Global Large-Cap Growth Equity		
EAA Fund Global Large-Cap Value Equity		
EAA Fund Global Flex-Cap Equity	Short-Term Bond	South Africa Short Term Fixed Interest (STeFI) Composite Total Return (ZAR)
EAA Fund ZAR/NAD–Short Term Bonds		
EAA Fund ZAR/NAD–Ultra Short Term Bonds	Diversified/Aggregate Bond	S&P South Africa Sovereign Bond 1+ Year Total Return Index (ZAR)
EAA Fund ZAR/NAD–Diversified Bonds		
EAA Fund ZAR/NAD–Flexible Bonds		

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

APPENDIX B

Glossary – Reports

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 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 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 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 SOUTH AFRICA DOMESTIC SHAREHOLDER WEIGHTED (DSW) CAPPED INDEX

The S&P South Africa Domestic Shareholder Weighted (DSW) Capped Index modifies the [S&P South Africa Domestic Shareholder Weighted \(DSW\) Index](#) to ensure that no single stock weighs more than 10% of the index at each rebalancing. The S&P South Africa Domestic Shareholder Weighted (DSW) Index adjusts the weights of companies in the [S&P South Africa Composite](#) in order to reflect the level of ownership by South African investors. The S&P South Africa Composite is a float-adjusted, market-cap-weighted index that measures the performance of large-, mid-, and small-cap companies listed on the Johannesburg Stock Exchange.

S&P GLOBAL 1200

Capturing approximately 70% of the world's capital markets, the S&P Global 1200 is a composite of seven headline indices, many of which are accepted leaders in their regions. It includes the [S&P 500[®]](#) (U.S.), [S&P Europe 350[®]](#) (Europe), [S&P/TOPIX 150](#) (Japan), [S&P/TSX 60](#) (Canada), [S&P/ASX All Australian 50](#) (Australia), [S&P Asia 50](#) (Asia Ex-Japan), and [S&P Latin America 40](#) (Latin America).

SOUTH AFRICA SHORT TERM FIXED INTEREST (STeFI) COMPOSITE

The South Africa Short Term Fixed Interest (STeFI) Composite Index approximates the performance of money market instruments in the market. Instruments such as call deposits and negotiable certificates of deposits (BCD's) represent common, liquid instruments and provide a good proxy of short-term markets.

S&P SOUTH AFRICA SOVEREIGN BOND 1+ YEAR INDEX

The S&P South Africa Sovereign Bond 1+ Year Index seeks to track the performance of local-currency-denominated sovereign debt publicly issued by the government of South Africa in its domestic market, with maturities of one year or more.

S&P DJI RESEARCH CONTRIBUTORS		
Sunjiv Mainie, CFA, CQF	Global Head	sunjiv.mainie@spglobal.com
Jake Vukelic	Business Manager	jake.vukelic@spglobal.com
GLOBAL RESEARCH & DESIGN		
AMERICAS		
Sunjiv Mainie, CFA, CQF	Americas Head	sunjiv.mainie@spglobal.com
Laura Assis	Analyst	laura.assis@spglobal.com
Cristopher Anguiano, FRM	Analyst	cristopher.anguiano@spglobal.com
Phillip Brzenk, CFA	Senior Director	phillip.brzenk@spglobal.com
Smita Chirputkar	Director	smita.chirputkar@spglobal.com
Rachel Du	Senior Analyst	rachel.du@spglobal.com
Bill Hao	Director	wenli.hao@spglobal.com
Qing Li	Director	qing.li@spglobal.com
Berlinda Liu, CFA	Director	berlinda.liu@spglobal.com
Hamish Preston	Associate Director	hamish.preston@spglobal.com
Maria Sanchez	Associate Director	maria.sanchez@spglobal.com
Kunal Sharma	Senior Analyst	kunal.sharma@spglobal.com
Hong Xie, CFA	Senior Director	hong.xie@spglobal.com
APAC		
Priscilla Luk	APAC Head	priscilla.luk@spglobal.com
Arpit Gupta	Senior Analyst	arpit.gupta1@spglobal.com
Akash Jain	Associate Director	akash.jain@spglobal.com
Anurag Kumar	Senior Analyst	anurag.kumar@spglobal.com
Xiaoya Qu	Senior Analyst	xiaoya.qu@spglobal.com
Yan Sun	Senior Analyst	yan.sun@spglobal.com
Tim Wang	Senior Analyst	tim.wang@spglobal.com
Liyu Zeng, CFA	Director	liyu.zeng@spglobal.com
EMEA		
Andrew Innes	EMEA Head	andrew.innes@spglobal.com
Leonardo Cabrer, PhD	Senior Analyst	leonardo.cabrer@spglobal.com
Andrew Cairns	Senior Analyst	andrew.cairns@spglobal.com
Jingwen Shi	Analyst	jingwen.shi@spglobal.com
INDEX INVESTMENT STRATEGY		
Craig J. Lazzara, CFA	Global Head	craig.lazzara@spglobal.com
Chris Bennett, CFA	Director	chris.bennett@spglobal.com
Fei Mei Chan	Director	feimei.chan@spglobal.com
Tim Edwards, PhD	Managing Director	tim.edwards@spglobal.com
Anu R. Ganti, CFA	Director	anu.ganti@spglobal.com
Sherifa Issifu	Analyst	sherifa.issifu@spglobal.com
Howard Silverblatt	Senior Index Analyst	howard.silverblatt@spglobal.com

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