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SPIVA[®] South Africa 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 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 2018 HIGHLIGHTS

The stock market rally in South Africa in 2017, buoyed by loosening monetary policy and new leadership expectations, failed to extend into 2018. The [S&P South Africa Domestic Shareholder Weighted \(DSW\) Capped Index](#) was up 7.6% year-over-year in June 2018, yet it was down 6.0% from the start of the year.

When comparing South African active equity fund manager performance to the capped benchmark over the one-year period, 51% failed to outperform. However, the asset-weighted performance of the category outperformed the same benchmark by 70 bps. This suggests larger funds may have benefited from their increased exposure to the large-cap stocks that contributed most to market returns. **Interestingly, 77% of active funds from the same category failed to outperform over the five-year period.**

The strengthening of the South African rand in December 2017 in anticipation of Ramaphosa replacing Zuma as leader of the ruling African National Congress was short-lived. After the euphoria, the reality of the task ahead set in, and the U.S.-China trade war further exacerbated the local challenges facing the president. The GDP was revised to fall 2.6% on an annualized basis in the first quarter—the sharpest contraction in almost a decade. The subsequent 0.7% drop in the second quarter put the country in a technical recession.

The South African rand weakened through Q2 2018 alongside other emerging market currencies. From the perspective of a local investor, the depreciation contributed to higher returns offered across international markets. The [S&P Global 1200](#) increased 16.7% in local currency terms between June 2017 and June 2018.

South African active funds investing in global equities underperformed by 3% on an asset-weighted basis, and 82% of funds were unable to beat the S&P Global 1200 within the same one-year period.

In an attempt to tackle the country's rising debt, value-added tax (VAT) was increased 1% in South Africa earlier in 2018. Meanwhile, S&P Global Ratings affirmed South Africa's sub-investment grade credit rating and kept its outlook stable with 'BB' and 'BB+' on its foreign and local currency debt, respectively. However, it was noted that the ratings could be lowered if the rule of law, property rights, or enforcement of contracts were to weaken. Hence, the controversial, populist policy of land expropriation without compensation has many concerned it will erode trust and dampen foreign investment. The S&P South Africa Composite Property Index fell sharply at the start of the year; the index was down 18.7% (in South African rands) over the first half of 2018.

The SPIVA South Africa Scorecard also covers the performance of actively managed fixed income funds that manage short-term bonds or diversified and aggregate bonds. **In the one-year period ending in June 2018, short-term fixed income funds predominately outperformed the South Africa Short Term Fixed Interest (STeFI) Composite, with just 13% underperforming.** These results are fairly typical for the group, since the benchmark does not reflect the opportunities available to fixed income managers through the corporate bond markets. **Over the same 12-month period, 70% of active funds in the Diversified/Aggregate Bond category were unable to beat the [S&P South Africa Sovereign Bond 1+ Year Index](#), which rose 10.1% (in local currency terms).**

A UNIQUE SCORECARD FOR THE ACTIVE VERSUS PASSIVE DEBATE

Since its first publication 16 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	51.49	60.59	76.60
	S&P South Africa DSW Index	84.16	86.47	88.65
Global Equity	S&P Global 1200	82.26	87.18	96.55
Short-Term Bond	STeFI Composite	12.77	15.22	22.22
Diversified/Aggregate Bond	S&P South Africa Sovereign Bond 1+ Year Index	70.00	40.70	50.75

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending June 30, 2018. 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	203	89.16
Global Equity	62	95.16
Short-Term Bond	49	95.92
Diversified/Aggregate Bond	100	92.00
THREE-YEAR		
South African Equity	172	85.47
Global Equity	40	92.50
Short-Term Bond	46	89.13
Diversified/Aggregate Bond	86	87.21
FIVE-YEAR		
South African Equity	144	76.39
Global Equity	31	87.10
Short-Term Bond	45	86.67
Diversified/Aggregate Bond	69	82.61

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending June 30, 2018. 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	7.61	3.20	9.76
S&P South Africa DSW Index	12.89	5.60	11.45
South African Equity	7.17	2.72	8.27
S&P Global 1200	16.73	13.79	17.90
Global Equity	13.12	9.70	13.28
STeFI Composite	7.33	7.27	6.70
Short-Term Bond	8.04	7.97	7.19
S&P South Africa Sovereign Bond 1+ Year	10.06	7.80	7.34
Diversified/Aggregate Bond	8.54	7.97	7.37

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending June 30, 2018. 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	7.61	3.20	9.76
S&P South Africa DSW Index	12.89	5.60	11.45
South African Equity	8.31	4.10	9.36
S&P Global 1200	16.73	13.79	17.90
Global Equity	13.73	12.03	15.53
STeFI Composite	7.33	7.27	6.70
Short-Term Bond	8.28	8.30	7.53
S&P South Africa Sovereign Bond 1+ Year	10.06	7.80	7.34
Diversified/Aggregate Bond	9.53	8.65	7.86

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending June 30, 2018. 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	5.03	8.05	11.34	
Global Equity	10.70	13.31	15.82	
Short-Term Bond	7.87	8.36	8.74	
Diversified/Aggregate Bond	8.07	9.08	10.35	
THREE-YEAR				
South African Equity	1.74	3.09	4.91	
Global Equity	8.34	10.88	12.51	
Short-Term Bond	7.93	8.31	8.49	
Diversified/Aggregate Bond	7.65	8.34	8.89	
FIVE-YEAR				
South African Equity	7.17	8.84	10.20	
Global Equity	13.55	14.53	15.99	
Short-Term Bond	7.04	7.37	7.66	
Diversified/Aggregate Bond	7.08	7.72	8.15	

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending June 30, 2018. 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.

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