

## Canada Persistence Scorecard

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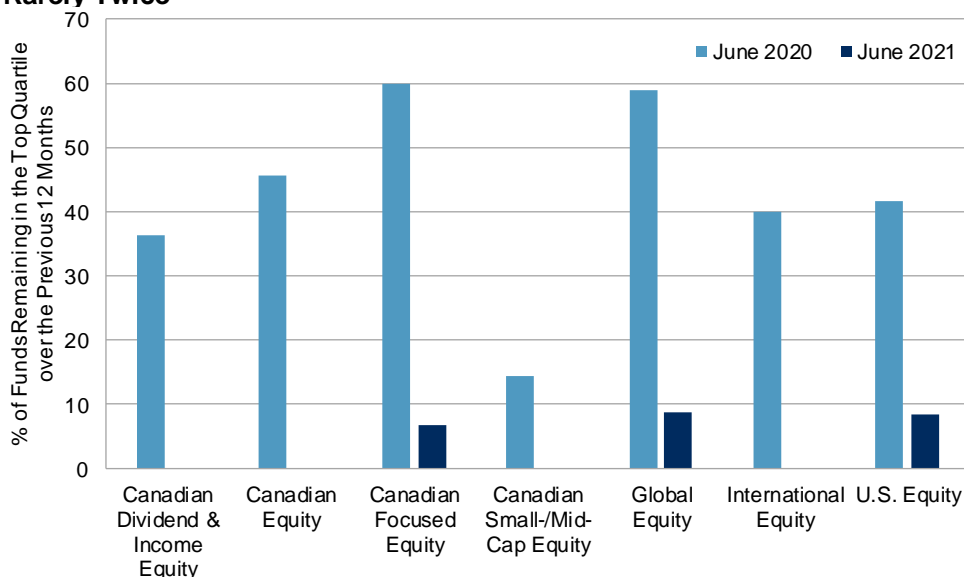
### SUMMARY

Our widely followed [SPIVA® Canada Scorecard](#) has consistently shown that most Canadian active funds underperform their benchmarks most of the time. However, if a manager beats a benchmark, how do we know whether the result is a product of genuine skill or merely of good luck? Genuine skill is likely to persist, while luck is random and can soon dissipate.

The Canada Persistence Scorecard attempts to distinguish luck from skill by measuring the consistency of active managers' success. It shows that **regardless of asset class or style focus, active management outperformance is typically short lived**, with few funds consistently outranking their peers.

For example, many top-quartile funds over the 12-month period ending June 2019 were able to repeat their performance over the next year, led by the 60% of Canadian Focused Equity funds that did just that. But by June 2021, the crosscurrents of the pandemic and recovery blew even those high flyers off course, with just 6.7% staying in the top quartile. In fact, **in four of the seven categories tracked, no funds remained in the top quartile annually from June 2019 through June 2021** (see Report 1).

### Exhibit 1: Top-Quartile Funds from June 2019 May Stay on Top Once, but Rarely Twice



Source: S&P Dow Jones Indices LLC, Fundata Canada Inc. Data as of June 30, 2021. CIFSC categorizations are used. Financial information provided by Fundata Canada Inc. Chart is provided for illustrative purposes. Past performance is no guarantee of future results.

Expanding the time window to five years, no funds remained in the top quartile in five of the seven categories. Even the Global Equity fund category, which exhibited the most persistence, showed just 8.8% of funds staying in the top quartile for three consecutive years and 5.1% for five consecutive years (see Reports 1 and 2).

Some statistically minded readers might squint at the reports to find support for the notion that fund performance is not randomly distributed. For example, if we lower the bar for success to simply beating the median fund, the odds that a fund could remain in the top half for  $n$  consecutive years might be calculated as  $(50\%)^n = 50\%$ , 25%, 12.5%, and 6.25% for one, two, three, and four years, respectively. Report 2 shows that roughly 10% of top-half funds repeated their top-half ranking for the next four years in most categories. As such, **while the Persistence Scorecard does not prove that fund performance is completely random, from a practical or decision-making perspective, it reinforces the notion that choosing between active funds on the basis of previous outperformance is a misguided strategy.** After all, there remains a 90% chance that a top-quartile fund will not stay in the top quartile for the next four years.

Transition matrices tell a similar story. Using three-year windows, three of the seven categories show more than 50% of top-half funds from the June 2015-2018 period remained in the top half for June 2018-2021. Switching to the five-year window, more than 50% of funds qualified for the top half in only one category for both the June 2011-2016 and June 2016-2021 periods (see Reports 4 and 7).

Unsurprisingly, **the one pattern that did hold across categories was the tendency of the worst-performing funds to close.** Third- and fourth-quartile funds were generally the most likely to merge or liquidate, with 38% and 34%, respectively, doing so over the subsequent five years. Bottom-quartile Canadian Focused Equity funds received the least munificence from investors, with 62% shutting their doors over the five-year period (see Report 5).

Style changes did not appear to be correlated with fund performance. Top, middle, and bottom performers within a category generally had similar chances of style drift over the three- and five-year periods. Canadian Small-/Mid-Cap Equity funds had the highest chance of style drift, as 5.9% charted a new course over the past five years (see Report 5).

## ABOUT THE PERSISTENCE SCORECARD

The phrase “past performance is no guarantee of future results” (or some variation thereof) can be found in the fine print of most mutual fund literature. Yet many investors and advisors consider past performance and related metrics to be important factors in fund selection. So does past performance really matter?

To answer this question, the semiannual S&P Persistence Scorecard tracks the degree to which historical relative performance is predictive of future relative performance. As in our widely followed SPIVA Scorecards, Fundata Canada serves as our underlying data source. This scorecard highlights performance persistence over three and five consecutive 12-month periods and two non-overlapping three- and five-year periods.

Key features of the S&P Persistence Scorecard include:

- **Historical rankings without survivorship bias:** For anyone making an investment decision, all funds available at the time of that decision are part of the initial opportunity set. Ignoring funds that liquidate or merge during a period of study biases measurements of persistence. Using the Fundata Canada database, the S&P Persistence Scorecard ranks all funds available at each point in time and tracks the top-quartile and top-half performers throughout the time period.
- **Clean universe:** The mutual fund universe used in these reports comprises actively managed Canadian equity funds. Index funds, sector funds, and index-based dynamic (bull or bear) funds are excluded from the sample. To avoid double counting multiple share classes, only the share class with the highest previous period return of each fund is used.
- **Transition matrices:** Transition matrices show the movements between quartiles and halves over non-overlapping three- and five-year periods. They also track the percentage of funds that have merged or liquidated. In addition, we monitor movements across capitalization levels. This helps us capture, for example, the conversion of some large-cap funds to mid- and small-cap funds.
- **Tracking reports of top performers:** The tracking reports show the percentages of funds that remain in the top-quartile or top-half rankings over consecutive three- and five-year periods.

S&P Dow Jones Indices chooses funds that have, at any point in the previous 120 months, been classified in at least one of the following seven Canadian Investment Funds Standards Committee (CIFSC)<sup>1</sup> categories.

- Canadian Equity
- Canadian Small-/Mid-Cap Equity
- Canadian Dividend & Income Equity
- U.S. Equity
- International Equity
- Global Equity
- Canadian Focused Equity

<sup>1</sup> Refer to [www.cifsc.org](http://www.cifsc.org) for additional information regarding CIFSC and its categories.

The categories reviewed in this report represent the major areas of interest for Canadian market participants. As a result of the foreign content limit removal in 2005, an increasing number of Canadian market participants started redeploying funds outside of Canada to gain international equity exposure. Funds in the Canadian Focused Equity category include non-Canadian equity exposure.

## REPORTS

Report 1: Performance Persistence of Domestic Equity Funds over Three Consecutive 12-Month Periods			
FUND CATEGORY	FUND COUNT AT START (JUNE 2019)	PERCENTAGE REMAINING IN TOP QUARTILE	
		JUNE 2020	JUNE 2021
<b>TOP QUARTILE</b>			
Canadian Dividend & Income Equity	11	36.36	0.00
Canadian Equity	11	45.45	0.00
Canadian Focused Equity	15	60.00	6.67
Canadian Small-/Mid-Cap Equity	7	14.29	0.00
Global Equity	34	58.82	8.82
International Equity	10	40.00	0.00
U.S. Equity	24	41.67	8.33
FUND CATEGORY	FUND COUNT AT START (JUNE 2019)	PERCENTAGE REMAINING IN TOP HALF	
		JUNE 2020	JUNE 2021
<b>TOP HALF</b>			
Canadian Dividend & Income Equity	21	66.67	14.29
Canadian Equity	22	68.18	27.27
Canadian Focused Equity	29	58.62	24.14
Canadian Small-/Mid-Cap Equity	14	35.71	0.00
Global Equity	68	69.12	29.41
International Equity	21	66.67	28.57
U.S. Equity	48	66.67	18.75

Source: S&P Dow Jones Indices LLC, Fundata Canada Inc. Data as of June 30, 2021. CIFSC categorizations are used. Financial information provided by Fundata Canada Inc. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

Report 2: Performance Persistence of Domestic Equity Funds over Five Consecutive 12-Month Periods						
FUND CATEGORY	FUND COUNT AT START (JUNE 2017)	PERCENTAGE REMAINING IN TOP QUARTILE				
		JUNE 2018	JUNE 2019	JUNE 2020	JUNE 2021	
<b>TOP QUARTILE</b>						
Canadian Dividend & Income Equity	13	38.46	15.38	0.00	0.00	
Canadian Equity	17	23.53	0.00	0.00	0.00	
Canadian Focused Equity	23	39.13	13.04	4.35	0.00	
Canadian Small-/Mid-Cap Equity	9	33.33	22.22	11.11	0.00	
Global Equity	39	43.59	25.64	25.64	5.13	
International Equity	18	11.11	5.56	5.56	0.00	
U.S. Equity	28	46.43	14.29	14.29	3.57	
FUND CATEGORY	FUND COUNT AT START (JUNE 2017)	PERCENTAGE REMAINING IN TOP QUARTILE				
		JUNE 2018	JUNE 2019	JUNE 2020	JUNE 2021	
<b>TOP HALF</b>						
Canadian Dividend & Income Equity	25	52.00	28.00	24.00	8.00	
Canadian Equity	33	39.39	15.15	9.09	9.09	
Canadian Focused Equity	44	59.09	18.18	15.91	9.09	
Canadian Small-/Mid-Cap Equity	17	35.29	23.53	5.88	0.00	
Global Equity	77	53.25	23.38	23.38	11.69	
International Equity	35	28.57	8.57	5.71	5.71	
U.S. Equity	55	70.91	41.82	34.55	7.27	

Source: S&P Dow Jones Indices LLC, Fundata Canada Inc. Data as of June 30, 2021. CIFSC categorizations are used. Financial information provided by Fundata Canada Inc. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

Report 3: Three-Year Transition Matrix – Performance over Two Non-Overlapping Three-Year Periods (Based on Quartile)							
QUARTILE	FUND COUNT AT START (JUNE 2018)	THREE-YEAR PERCENTAGE AT END					
		1ST QUARTILE (%)	2ND QUARTILE (%)	3RD QUARTILE (%)	4TH QUARTILE (%)	MERGED/ LIQUIDATED (%)	STYLE CHANGED (%)
<b>CANADIAN DIVIDEND &amp; INCOME EQUITY</b>							
1st Quartile	11	36.36	27.27	18.18	18.18	0.00	0.00
2nd Quartile	10	20.00	20.00	30.00	30.00	0.00	0.00
3rd Quartile	10	20.00	40.00	30.00	0.00	10.00	0.00
4th Quartile	11	9.09	0.00	9.09	36.36	45.45	0.00
<b>CANADIAN EQUITY</b>							
1st Quartile	13	7.69	23.08	15.38	38.46	15.38	0.00
2nd Quartile	12	25.00	25.00	16.67	16.67	16.67	0.00
3rd Quartile	13	23.08	15.38	30.77	0.00	23.08	7.69
4th Quartile	13	7.69	15.38	15.38	30.77	23.08	7.69
<b>CANADIAN FOCUSED EQUITY</b>							
1st Quartile	19	47.37	26.32	10.53	5.26	5.26	5.26
2nd Quartile	19	5.26	15.79	26.32	15.79	36.84	0.00
3rd Quartile	19	10.53	5.26	15.79	26.32	42.11	0.00
4th Quartile	19	5.26	21.05	10.53	15.79	31.58	15.79
<b>CANADIAN SMALL-/MID-CAP EQUITY</b>							
1st Quartile	8	25.00	25.00	25.00	25.00	0.00	0.00
2nd Quartile	8	12.50	12.50	12.50	12.50	50.00	0.00
3rd Quartile	8	12.50	25.00	25.00	0.00	12.50	25.00
4th Quartile	8	37.50	12.50	25.00	25.00	0.00	0.00
<b>GLOBAL EQUITY</b>							
1st Quartile	32	53.13	31.25	3.13	6.25	6.25	0.00
2nd Quartile	32	28.13	31.25	28.13	6.25	6.25	0.00
3rd Quartile	32	0.00	9.38	25.00	46.88	18.75	0.00
4th Quartile	32	6.25	18.75	34.38	31.25	3.13	6.25
<b>INTERNATIONAL EQUITY</b>							
1st Quartile	12	33.33	16.67	25.00	0.00	8.33	16.67
2nd Quartile	12	33.33	16.67	25.00	16.67	8.33	0.00
3rd Quartile	12	8.33	0.00	25.00	41.67	25.00	0.00
4th Quartile	12	8.33	33.33	0.00	33.33	16.67	8.33
<b>U.S. EQUITY</b>							
1st Quartile	24	50.00	20.83	8.33	8.33	12.50	0.00
2nd Quartile	24	16.67	37.50	20.83	20.83	4.17	0.00
3rd Quartile	24	4.17	16.67	25.00	29.17	25.00	0.00
4th Quartile	24	12.50	8.33	29.17	25.00	25.00	0.00

Source: S&P Dow Jones Indices LLC, Funddata Canada Inc. Data as of June 30, 2021. CIFSC categorizations are used. Financial information provided by Funddata Canada Inc. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

Report 4: Three-Year Transition Matrix – Performance over Two Non-Overlapping Three-Year Periods (Based on Halves)						
HALF	FUND COUNT AT START (JUNE 2018)	THREE-YEAR PERCENTAGE AT END				
		TOP HALF (%)	BOTTOM HALF (%)	MERGED/ LIQUIDATED (%)	STYLE CHANGED (%)	
<b>CANADIAN DIVIDEND &amp; INCOME EQUITY</b>						
Top Half	21	52.38	47.62	0.00	0.00	
Bottom Half	21	33.33	38.10	28.57	0.00	
<b>CANADIAN EQUITY</b>						
Top Half	25	40.00	44.00	16.00	0.00	
Bottom Half	26	30.77	38.46	23.08	7.69	
<b>CANADIAN FOCUSED EQUITY</b>						
Top Half	38	47.37	28.95	21.05	2.63	
Bottom Half	38	21.05	34.21	36.84	7.89	
<b>CANADIAN SMALL-/MID-CAP EQUITY</b>						
Top Half	16	37.50	37.50	25.00	0.00	
Bottom Half	16	43.75	37.50	6.25	12.50	
<b>GLOBAL EQUITY</b>						
Top Half	64	71.88	21.88	6.25	0.00	
Bottom Half	64	17.19	68.75	10.94	3.13	
<b>INTERNATIONAL EQUITY</b>						
Top Half	24	50.00	33.33	8.33	8.33	
Bottom Half	24	25.00	50.00	20.83	4.17	
<b>U.S. EQUITY</b>						
Top Half	48	62.50	29.17	8.33	0.00	
Bottom Half	48	20.83	54.17	25.00	0.00	

Source: S&P Dow Jones Indices LLC, Funddata Canada Inc. Data as of June 30, 2021. CIFSC categorizations are used. Financial information provided by Funddata Canada Inc. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

Report 5: Five-Year Transition Matrix – Performance over Two Non-Overlapping Five-Year Periods (Based on Quartile)							
QUARTILE	FUND COUNT AT START (JUNE 2016)	FIVE-YEAR PERCENTAGE AT END					
		1ST QUARTILE (%)	2ND QUARTILE (%)	3RD QUARTILE (%)	4TH QUARTILE (%)	MERGED/ LIQUIDATED (%)	STYLE CHANGED (%)
<b>CANADIAN DIVIDEND &amp; INCOME EQUITY</b>							
1st Quartile	11	36.36	27.27	18.18	9.09	9.09	0.00
2nd Quartile	11	36.36	27.27	0.00	9.09	27.27	0.00
3rd Quartile	11	0.00	18.18	36.36	0.00	45.45	0.00
4th Quartile	11	9.09	0.00	18.18	63.64	9.09	0.00
<b>CANADIAN EQUITY</b>							
1st Quartile	12	8.33	16.67	8.33	50.00	8.33	8.33
2nd Quartile	12	33.33	16.67	25.00	8.33	16.67	0.00
3rd Quartile	12	8.33	25.00	8.33	8.33	50.00	0.00
4th Quartile	13	7.69	7.69	23.08	7.69	46.15	7.69
<b>CANADIAN FOCUSED EQUITY</b>							
1st Quartile	21	14.29	19.05	14.29	23.81	19.05	9.52
2nd Quartile	20	30.00	5.00	5.00	15.00	45.00	0.00
3rd Quartile	21	14.29	9.52	14.29	14.29	42.86	4.76
4th Quartile	21	0.00	23.81	14.29	0.00	61.90	0.00
<b>CANADIAN SMALL-/MID-CAP EQUITY</b>							
1st Quartile	9	55.56	11.11	33.33	0.00	0.00	0.00
2nd Quartile	8	0.00	25.00	25.00	25.00	12.50	12.50
3rd Quartile	8	12.50	25.00	25.00	0.00	37.50	0.00
4th Quartile	9	11.11	11.11	0.00	33.33	33.33	11.11
<b>GLOBAL EQUITY</b>							
1st Quartile	33	36.36	18.18	12.12	24.24	6.06	3.03
2nd Quartile	33	24.24	21.21	15.15	18.18	15.15	6.06
3rd Quartile	33	9.09	27.27	27.27	9.09	24.24	3.03
4th Quartile	34	8.82	14.71	26.47	17.65	26.47	5.88
<b>INTERNATIONAL EQUITY</b>							
1st Quartile	13	7.69	30.77	30.77	15.38	7.69	7.69
2nd Quartile	13	23.08	0.00	7.69	30.77	30.77	7.69
3rd Quartile	13	15.38	7.69	7.69	15.38	53.85	0.00
4th Quartile	13	15.38	23.08	15.38	7.69	30.77	7.69
<b>U.S. EQUITY</b>							
1st Quartile	20	30.00	35.00	20.00	5.00	5.00	5.00
2nd Quartile	20	20.00	10.00	20.00	15.00	35.00	0.00
3rd Quartile	20	5.00	10.00	20.00	30.00	35.00	0.00
4th Quartile	20	20.00	20.00	15.00	25.00	20.00	0.00

Source: S&P Dow Jones Indices LLC, Funddata Canada Inc. Data as of June 30, 2021. CIFSC categorizations are used. Financial information provided by Funddata Canada Inc. Table is provided for illustrative purposes. Past performance is no guarantee of future results.



Report 6: Five-Year Transition Matrix – Performance over Two Non-Overlapping Five-Year Periods (Based on Halves)					
HALF	FUND COUNT AT START (JUNE 2016)	FIVE-YEAR PERCENTAGE AT END			
		TOP HALF (%)	BOTTOM HALF (%)	MERGED/ LIQUIDATED (%)	STYLE CHANGED (%)
<b>CANADIAN DIVIDEND &amp; INCOME EQUITY</b>					
Top Half	22	63.64	18.18	18.18	0.00
Bottom Half	22	13.64	59.09	27.27	0.00
<b>CANADIAN EQUITY</b>					
Top Half	24	37.50	45.83	12.50	4.17
Bottom Half	25	24.00	24.00	48.00	4.00
<b>CANADIAN FOCUSED EQUITY</b>					
Top Half	41	34.15	29.27	31.71	4.88
Bottom Half	42	23.81	21.43	52.38	2.38
<b>CANADIAN SMALL-/MID-CAP EQUITY</b>					
Top Half	17	47.06	41.18	5.88	5.88
Bottom Half	17	29.41	29.41	35.29	5.88
<b>GLOBAL EQUITY</b>					
Top Half	66	50.00	34.85	10.61	4.55
Bottom Half	67	29.85	40.30	25.37	4.48
<b>INTERNATIONAL EQUITY</b>					
Top Half	26	30.77	42.31	19.23	7.69
Bottom Half	26	30.77	23.08	42.31	3.85
<b>U.S. EQUITY</b>					
Top Half	40	47.50	30.00	20.00	2.50
Bottom Half	40	27.50	45.00	27.50	0.00

Source: S&P Dow Jones Indices LLC, Fundata Canada Inc. Data as of June 30, 2021. CIFSC categorizations are used. Financial information provided by Fundata Canada Inc. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

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