SPIVA Japan Focus

Mid-Year 2024 Highlights

Contributor

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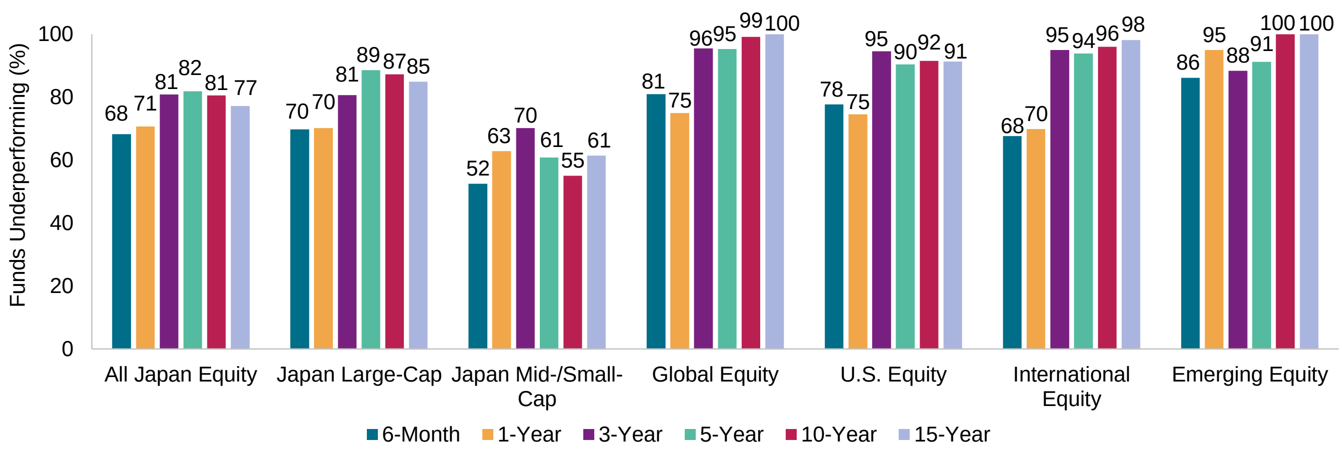
Our SPIVA Global Scorecard highlighted the challenging market conditions for active equity managers around the world in the first half of 2024. Japan was no exception—out of 929 total active funds across all Japan fund categories, a large majority (71%) underperformed their assigned benchmarks.

The strong gains in the overall equity market accompanied by the outperformance of the very largest companies provided difficult stock-picking grounds for Japanese equity managers in H1 2024. Over two-thirds (68%) of All Japan Equity funds failed to keep up with the S&P Japan 500's total return of 20.7%. While 70% of Japan Large-Cap funds trailed the S&P/TOPIX 150, Japan Mid-/Small-Cap funds fared better with a 52% underperformance rate against the S&P Japan MidSmallCap.

Non-domestic equity funds domiciled in Japan struggled more in general, with the underperformance rate ranging from 68% in the International Equity category to 86% in the Emerging Equity category in H1 2024. This is in line with the long-term trend of relatively higher underperformance rates; over a 15-year period, 91% to 100% of funds in these categories underperformed their respective benchmarks (see Exhibit 1).

Exhibit 1: Percentage of Underperforming Active Funds in Japan

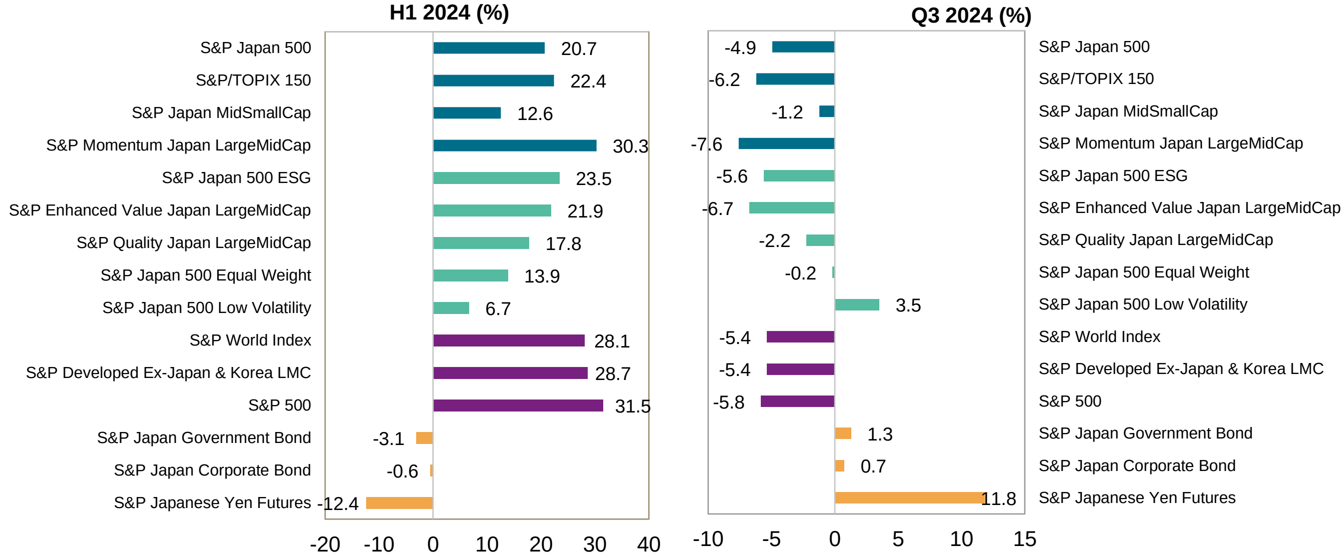


Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2024. The S&P World Index (JPY) was launched May 28, 2020. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Market Context: H1 2024 and Beyond

Along with other developed markets, Japanese equities had a strong start to the year, with the S&P Japan 500 up 20.7% in H1 2024. Some of these gains were lost, however, with the index finishing Q3 2024 up 14.7% YTD. The shift in the Bank of Japan's monetary policy resulted in heightened volatility across Japanese equities, bonds and currency. While the S&P/JPX JGB VIX, a measure of Japanese government bond volatility, remained elevated at an average of 3.76 YTD (versus the previous five-year average of 2.63), the Japanese yen swung from a 12.4% loss in H1 2024 to a 11.8% gain in Q3 2024 against the U.S. dollar (see Exhibit 2).

Exhibit 2: Japan Fund Category Benchmark and Select Index Performance



Source: S&P Dow Jones Indices LLC. Data as of Sept. 30, 2024. Index performance based on total return in JPY. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

As noted in the SPIVA Global Scorecard Mid-Year 2024, over two-thirds (69%) of the S&P Japan 500 constituents underperformed the index in H1 2024, making it hard to pick relative winners. Hence, it is not surprising to see a higher underperformance rate (70%) among All Japan Equity General funds, as compared to their past 10-year average of 57%.[1] As of the end of Q3 2024, the cross-sectional return distribution of the S&P Japan 500 constituents displayed highly positive skewness, with a 4.4% spread of the average stock return over the median stock return. As market conditions remain challenging, we will continue to observe how Japanese equity managers navigate potential challenges and opportunities in 2024.

The heightened volatility of the Japanese yen means that currency hedging may be an important factor in determining the relative performance of non-domestic equity funds. Prior analysis showed that Global Equity funds tended to have higher underperformance rates during periods when the Japanese yen depreciated against the U.S. dollar, partially driven by

[1] SPIVA Japan Scorecard Year-End 2023, S&P Dow Jones Indices, March 2024.

currency hedging. With the yen reversing its course in the third quarter, we will continue to observe how Global Equity fund managers navigate potential challenges in managing currency exposure as well as stock picking.

Report 1: H1 2024 Statistics – All Japan Categories

Fund Category	Comparison Index	% Under-performing (H1 2024)	Comparison Index Return (%)	Bottom Quartile Return	Asset Weighted Avg. Return (%)	Median Return	Top Quartile Return	Sample Size	Survivorship (%)
Japan Equities									
All Japanese Equity Funds	S&P Japan 500	68.26	20.72	12.61	17.48	18.09	22.27	482	97.30
Japanese Large-Cap Funds	S&P/TOPIX 150	69.77	22.44	16.42	19.53	20.07	23.08	301	97.34
Japanese Mid-/Small-Cap Funds	S&P Japan MidSmallCap	52.49	12.59	6.48	13.28	12.40	17.13	181	97.24
Global Equities									
Global Equity Funds	S&P World Index	80.98	28.08	17.75	22.37	21.97	27.06	205	97.56
U.S. Equity Funds	S&P 500	77.68	31.55	16.62	32.57	20.84	29.88	112	98.21
International Equity Funds	S&P Developed ex-Japan & Korea LargeMidCap	67.69	28.66	19.40	25.88	25.49	29.69	65	96.92
Emerging Equity Funds	S&P Emerging BMI	86.15	23.33	12.98	19.39	18.35	21.87	65	100.00

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2024. Fund and benchmark returns are all in JPY. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Report 2: Fund Underperformance Rates – All Japan Categories

Fund Category	Comparison Index	YTD (%)	1-Year (%)	3-Year (%)	5-Year (%)	10-Year (%)	15-Year (%)
Japan Equities							
All Japanese Equity Funds	S&P Japan 500	68.26	70.71	80.83	81.92	80.55	77.21
Japanese Large-Cap Funds	S&P/TOPIX 150	69.77	70.23	80.67	88.63	87.30	84.91
Japanese Mid-/Small-Cap Funds	S&P Japan MidSmallCap	52.49	62.90	70.15	60.80	55.06	61.40
Global Equities							
Global Equity Funds	S&P World Index	80.98	75.00	95.53	95.33	99.16	100.00
U.S. Equity Funds	S&P 500	77.68	74.53	94.59	90.43	91.55	91.30
International Equity Funds	S&P Developed ex-Japan & Korea LargeMidCap	67.69	69.84	95.00	93.85	96.00	98.15
Emerging Equity Funds	S&P Emerging BMI	86.15	95.00	88.41	91.25	100.00	100.00

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2024. The S&P World Index (JPY) was launched May 28, 2020. Past performance is no guarantee of future results. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Appendix: A Unique Scorecard for the Active Versus Passive Debate

For over two decades, S&P Dow Jones Indices' SPIVA Scorecards have compared the performance of actively managed funds to appropriate benchmarks. Initially covering just U.S.-domiciled funds, our scorecards now cover funds operating in markets from Australia to Chile. They are rooted in the following fundamental principles:

- **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.
- **Apples-to-Apples Comparison**: Fund returns are often compared to popular benchmarks such as the S&P 500, regardless of size or style classification. SPIVA Scorecards avoid this pitfall by measuring a fund's returns against the returns of a benchmark appropriate for that particular investment category.
- **More than Just Underperformance Rates**: As well as the most quoted statistics of percentage underperformance rates, SPIVA Scorecards also include additional data on average fund returns, quartile ranges, survivorship rates and other factors—including the market context—to offer a robust perspective on active performance.
- **Data Cleaning**: SPIVA Scorecards avoid double-counting multiple share classes in all count-based calculations, using only the share class with greater assets. Since this is meant to be a scorecard for active managers, it excludes index funds, leveraged and inverse funds and other index-linked products.

Further information on the scorecard's methodology, including the fund categorizations and details of each reported statistic, as well as more data on fund performances around the world, may be found below:

SPIVA Global Mid-Year 2024 Scorecard

Learn More about SPIVA

SPIVA Around the World: Equity

SPIVA Around the World: Fixed Income

SPIVA Scorecards: An Overview

SPIVA on Indexology® Blog

Performance Disclosure/Back-Tested Data

The S&P World Index (JPY) was launched May 28, 2020. All information presented prior to an index's Launch Date is hypothetical (back-tested), not actual performance. The back-test calculations are based on the same methodology that was in effect on the index Launch Date. However, when creating back-tested history for periods of market anomalies or other periods that do not reflect the general current market environment, index methodology rules may be relaxed to capture a large enough universe of securities to simulate the target market the index is designed to measure or strategy the index is designed to capture. For example, market capitalization and liquidity thresholds may be reduced. Complete index methodology details are available at www.spglobal.com/spdji. Past performance of the Index is not an indication of future results. Back-tested performance reflects application of an index methodology and selection of index constituents with the benefit of hindsight and knowledge of factors that may have positively affected its performance, cannot account for all financial risk that may affect results and may be considered to reflect survivor/look ahead bias. Actual returns may differ significantly from, and be lower than, back-tested returns. Past performance is not an indication or guarantee of future results. Please refer to the methodology for the Index for more details about the index, including the manner in which it is rebalanced, the timing of such rebalancing, criteria for additions and deletions, as well as all index calculations. Back-tested performance is for use with institutions only; not for use with retail investors.

S&P Dow Jones Indices defines various dates to assist our clients in providing transparency. The First Value Date is the first day for which there is a calculated value (either live or back-tested) for a given index. The Base Date is the date at which the index is set to a fixed value for calculation purposes. The Launch Date designates the date when the values of an index are first considered live: index values provided for any date or time period prior to the index's Launch Date are considered back-tested. S&P Dow Jones Indices defines the Launch Date as the date by which the values of an index are known to have been released to the public, for example via the company's public website or its data feed to external parties. For Dow Jones-branded indices introduced prior to May 31, 2013, the Launch Date (which prior to May 31, 2013, was termed "Date of introduction") is set at a date upon which no further changes were permitted to be made to the index methodology, but that may have been prior to the Index's public release date.

Typically, when S&P DJI creates back-tested index data, S&P DJI uses actual historical constituent-level data (e.g., historical price, market capitalization, and corporate action data) in its calculations. As ESG investing is still in early stages of development, certain datapoints used to calculate S&P DJI's ESG indices may not be available for the entire desired period of back-tested history. The same data availability issue could be true for other indices as well. In cases when actual data is not available for all relevant historical periods, S&P DJI may employ a process of using "Backward Data Assumption" (or pulling back) of ESG data for the calculation of back-tested historical performance. "Backward Data Assumption" is a process that applies the earliest actual live data point available for an index constituent company to all prior historical instances in the index performance. For example, Backward Data Assumption inherently assumes that companies currently not involved in a specific business activity (also known as "product involvement") were never involved historically and similarly also assumes that companies currently involved in a specific business activity were involved historically too. The Backward Data Assumption allows the hypothetical back-test to be extended over more historical years than would be feasible using only actual data. For more information on "Backward Data Assumption" please refer to the FAQ. The methodology and factsheets of any index that employs backward assumption in the back-tested history will explicitly state so. The methodology will include an Appendix with a table setting forth the specific data points and relevant time period for which backward projected data was used.

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