

## SPIVA<sup>®</sup> Latin America Scorecard

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### SUMMARY

The S&P Indices Versus Active (SPIVA) Latin America Scorecard reports on the performance of actively managed mutual funds in Brazil, Chile, and Mexico against their respective category benchmarks over the 1-, 3-, 5-, and 10-year time horizons.

### Brazil

- The multi-year equity bull market in Brazil, which began in 2016, continued this year, with the [S&P Brazil BMI](#) rising 16.4% during the first half of 2019. Mid- and small-cap companies (S&P Brazil MidSmallCap) led the way, up 21.1%, while large-cap companies (S&P Brazil LargeCap) lagged (returning 14.3%). For the 12-month period ending in June 2019, Brazilian equities returned 41.2%, with smaller-cap companies once again outpacing large caps (47.0% versus 38.9%).
- With inflation figures within the target range set by the National Monetary Council for 2019, interest rates were left unchanged in the first half of the year. The stability in rates proved beneficial for fixed income markets in the first six months of the year, as corporates were up 5.9% (as measured by Anbima Debentures Index) and government bonds were up 7.9% (as measured by Anbima Market Index). For the one-year period ending June 2019, corporates gained 11.7%, while government bonds were up 15.9%.
- Over all time horizons and fund categories, active managers in Brazil fared poorly relative to their respective benchmarks. Over the one-year period ending in June 2019, 70% of all equity managers underperformed the S&P Brazil BMI, with the figure increasing to 84% when measuring relative performance over the 5- and 10-year periods.
- For the 10-year horizon, larger funds performed relatively better than smaller funds in four of the five categories when comparing average fund performance on an equal-weighted (see Report 3) versus asset-weighted (see Report 4) basis.

## Chile

- Alongside lower-than-expected economic growth in the first half of the year, the Chilean equity market was relatively flat (-0.6%) in the first six months of 2019. Over the 12-month period ending in June 2019, the market declined 4.3%, as measured by the S&P Chile BMI.
- The majority (64%) of active equity fund managers underperformed the S&P Chile BMI over the past one-year period, with the median fund underperforming the benchmark by 1.1% (see Report 5).
- Longer time horizons paint a worse picture of fund performance, as 98% of funds underperformed the benchmark over the 10-year period. Perhaps not coming as a surprise due to the underperformance, funds in Chile have a poor survival rate—50% of all funds that were active at the beginning of the 10-year period were merged or liquidated as of June 2019.

## Mexico

- Despite weakened economic growth in Mexico, the equity market rebounded in the first half of 2019, with the S&P/BMV IRT increasing 5.6%. The downturn seen in most global equity markets in the fourth quarter of 2018 was reflected in one-year return of -6.7% as of June 2019.
- Active managers were unable to repeat their relative success seen in the year-end 2018 report, when 58% of managers outperformed the benchmark. For the 12-month period ending in June 2019, 64% underperformed the S&P/BMV IRT, with a median underperformance of 1.3%. The longer the time horizon, the worse things got for managers, as 86% of funds underperformed the benchmark over the 10-year period.
- Mexico not only saw the highest survival rate for equity funds in Latin America, but also some of the highest globally. All funds survived over the 12-month period, with the survival rate above 90% for the three- and five-year periods.

## A UNIQUE SCORECARD FOR THE ACTIVE VERSUS PASSIVE DEBATE

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 much more fascinating. These data sets are rooted in the fundamental principles of the SPIVA Scorecard, with which regular readers will be familiar, 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 relatively large fund (by net assets) affect the category average in the same manner as the returns of a relatively small 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 greatest assets. Index, leveraged, and inverse funds, along with other index-linked products, are excluded from the results, as this is meant to be a scorecard for active managers.

## REPORTS

Report 1: Percentage of Funds Outperformed by the Benchmark					
FUND CATEGORY	COMPARISON INDEX	1-YEAR (%)	3-YEAR (%)	5-YEAR (%)	10-YEAR (%)
Brazil Equity Funds	S&P Brazil BMI	70.17	81.79	83.74	84.21
Brazil Large-Cap Funds	S&P Brazil LargeCap	52.38	65.88	72.09	85.51
Brazil Mid-/Small-Cap Funds	S&P Brazil MidSmallCap	76.67	82.89	88.17	90.00
Brazil Corporate Bond Funds	Anbima Debentures Index (IDA)	88.59	94.17	93.46	100.00
Brazil Government Bond Funds	Anbima Market Index (IMA)	79.57	82.63	84.34	86.08
Chile Equity Funds	S&P Chile BMI	63.64	85.37	86.05	97.50
Mexico Equity Funds	S&P/BMV IRT	64.15	82.61	90.91	86.11

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 based on total return in local country currency. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

<b>Report 2: Fund Survivorship</b>		
<b>FUND CATEGORY</b>	<b>NO. OF FUNDS AT START</b>	<b>SURVIVORSHIP (%)</b>
<b>1-YEAR</b>		
Brazil Equity Funds	238	89.08
Brazil Large-Cap Funds	84	95.24
Brazil Mid-/Small-Cap Funds	61	90.16
Brazil Corporate Bond Funds	150	64.67
Brazil Government Bond Funds	328	93.60
Chile Equity Funds	44	86.36
Mexico Equity Funds	53	100.00
<b>3-YEAR</b>		
Brazil Equity Funds	313	63.90
Brazil Large-Cap Funds	85	82.35
Brazil Mid-/Small-Cap Funds	77	68.83
Brazil Corporate Bond Funds	209	38.28
Brazil Government Bond Funds	358	77.65
Chile Equity Funds	41	60.98
Mexico Equity Funds	46	97.83
<b>5-YEAR</b>		
Brazil Equity Funds	412	46.12
Brazil Large-Cap Funds	86	67.44
Brazil Mid-/Small-Cap Funds	93	49.46
Brazil Corporate Bond Funds	154	33.12
Brazil Government Bond Funds	333	72.67
Chile Equity Funds	43	55.81
Mexico Equity Funds	44	93.18
<b>10-YEAR</b>		
Brazil Equity Funds	228	46.49
Brazil Large-Cap Funds	69	62.32
Brazil Mid-/Small-Cap Funds	40	55.00
Brazil Corporate Bond Funds	22	54.55
Brazil Government Bond Funds	159	74.21
Chile Equity Funds	40	50.00
Mexico Equity Funds	35	74.29

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

**Report 3: Average Fund Performance (Equal Weighted)**

CATEGORY	1-YEAR (%)	3-YEAR (ANNUALIZED %)	5-YEAR (ANNUALIZED %)	10-YEAR (ANNUALIZED %)
S&P Brazil BMI	41.23	26.27	13.90	9.95
Brazil Equity Funds	38.11	21.85	10.74	8.52
S&P Brazil LargeCap	38.94	24.87	12.85	8.25
Brazil Large-Cap Funds	38.91	23.52	12.09	7.14
S&P Brazil MidSmallCap	46.99	29.45	16.30	13.62
Brazil Mid-/Small-Cap Funds	33.66	23.15	10.05	10.59
Anbima Debentures Index (IDA)	11.71	11.74	12.33	11.92
Brazil Corporate Bond Funds	4.68	4.90	8.22	9.29
Anbima Market Index (IMA)	15.89	12.82	13.13	12.00
Brazil Government Bond Funds	11.66	10.09	10.70	10.30
S&P Chile BMI	-4.34	8.34	5.92	5.96
Chile Equity Funds	-3.98	7.40	5.15	4.03
S&P/BMV IRT	-6.72	0.35	2.34	7.90
Mexico Equity Funds	-7.47	-1.27	0.54	6.74

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending June 30, 2019. Index performance based on total return in local country currency. 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 Fund Performance (Asset Weighted)**

CATEGORY	1-YEAR (%)	3-YEAR (ANNUALIZED %)	5-YEAR (ANNUALIZED %)	10-YEAR (ANNUALIZED %)
S&P Brazil BMI	41.23	26.27	13.90	9.95
Brazil Equity Funds	37.56	22.33	12.27	10.46
S&P Brazil LargeCap	38.94	24.87	12.85	8.25
Brazil Large-Cap Funds	41.38	25.09	14.51	8.65
S&P Brazil MidSmallCap	46.99	29.45	16.30	13.62
Brazil Mid-/Small-Cap Funds	36.24	22.16	11.58	11.73
Anbima Debentures Index (IDA)	11.71	11.74	12.33	11.92
Brazil Corporate Bond Funds	7.56	9.08	10.31	10.35
Anbima Market Index (IMA)	15.89	12.82	13.13	12.00
Brazil Government Bond Funds	7.99	9.20	10.55	10.06
S&P Chile BMI	-4.34	8.34	5.92	5.96
Chile Equity Funds	-4.91	6.62	4.39	2.59
S&P/BMV IRT	-6.72	0.35	2.34	7.90
Mexico Equity Funds	-8.10	-1.74	0.68	7.13

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

<b>Report 5: Quartile Breakpoints of Funds</b>			
<b>FUND CATEGORY</b>	<b>THIRD QUARTILE</b>	<b>SECOND QUARTILE</b>	<b>FIRST QUARTILE</b>
<b>1-YEAR</b>			
Brazil Equity Funds	33.13	37.88	42.73
Brazil Large-Cap Funds	35.71	38.87	42.80
Brazil Mid-/Small-Cap Funds	30.37	38.34	46.92
Brazil Corporate Bond Funds	6.28	6.92	8.59
Brazil Government Bond Funds	5.84	6.41	15.10
Chile Equity Funds	-7.20	-5.40	-2.40
Mexico Equity Funds	-9.72	-8.02	-5.16
<b>3-YEAR</b>			
Brazil Equity Funds	19.58	23.35	26.62
Brazil Large-Cap Funds	22.51	24.49	26.52
Brazil Mid-/Small-Cap Funds	19.39	23.08	29.57
Brazil Corporate Bond Funds	8.81	9.23	10.71
Brazil Government Bond Funds	8.24	8.78	12.48
Chile Equity Funds	4.34	5.68	8.16
Mexico Equity Funds	-3.68	-1.74	-0.12
<b>5-YEAR</b>			
Brazil Equity Funds	8.83	12.29	15.09
Brazil Large-Cap Funds	11.29	11.96	13.70
Brazil Mid-/Small-Cap Funds	9.23	11.29	15.66
Brazil Corporate Bond Funds	10.23	10.81	11.59
Brazil Government Bond Funds	9.80	10.44	12.88
Chile Equity Funds	2.73	4.14	5.52
Mexico Equity Funds	-1.46	-0.18	1.00
<b>10-YEAR</b>			
Brazil Equity Funds	5.91	8.43	11.06
Brazil Large-Cap Funds	5.52	6.82	8.14
Brazil Mid-/Small-Cap Funds	8.41	11.39	12.69
Brazil Corporate Bond Funds	10.15	10.38	10.47
Brazil Government Bond Funds	8.80	9.78	10.98
Chile Equity Funds	1.95	3.30	3.94
Mexico Equity Funds	4.53	5.83	7.09

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending June 30, 2019. Index performance based on total returns in local country currency. 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 for which month-end data is available during the performance period. The SPIVA Latin America Scorecard covers country-specific funds for Brazil, Chile, and Mexico that are domiciled in the respective country markets and denominated in each country’s local currency. The Morningstar classification system produces narrow, style-based classifications for funds and where appropriate, S&P Dow Jones Indices consolidated the style-based categories in order to generate a larger sample size and develop a broad-market comparison to market-based benchmarks.

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

<b>Exhibit 1: Fund Category Mapping</b>	
<b>MORNINGSTAR CATEGORY</b>	<b>SPIVA CATEGORY</b>
<b>BRAZIL</b>	
Brazil Fund Brazil All-Cap Equity	Brazil Equity Funds
Brazil Fund Brazil Large-Cap Equity	Brazil Large-Cap Funds
Brazil Fund Brazil Small-/Mid-Cap Equity	Brazil Mid-/Small-Cap Funds
Brazil Fund BRL Corporate Bond	Brazil Corporate Bond Funds
Brazil Fund BRL Government Bond	Brazil Government Bond Funds
<b>CHILE</b>	
Chile Fund Chile Equity	Chile Equity Funds
<b>MEXICO</b>	
Mexico Fund Mexico Equity	Mexico Equity Funds

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

## APPENDIX B

### Glossary – Reports

#### PERCENTAGE OF FUNDS OUTPERFORMED BY THE INDEX

We use funds with returns available for the entire period as the denominator. We determine the count of funds that have survived and beat the index, and then we report the index outperformance percentage.

#### SURVIVORSHIP (%)

The survivorship metric 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 pth 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 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 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 to show explicitly 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 BRAZIL BMI

The S&P Brazil BMI, a subset of the [S&P Global BMI](#), is designed to represent the Brazilian stock market.

### S&P BRAZIL LARGE CAP

The S&P Brazil LargeCap, a subset of the S&P Global BMI, is designed to represent large-cap stocks in the Brazilian market.

### S&P BRAZIL MIDSMALLCAP

The S&P Brazil MidSmallCap, a subset of the S&P Global BMI, is designed to represent mid- and small-cap stocks in the Brazilian market.



## S&P CHILE BMI

The S&P Chile BMI, a subset of the S&P Global BMI, is designed to represent the Chilean stock market.

## S&P/BMV IRT

The S&P/BMV IRT, the total return version of [S&P/BMV IPC](#), seeks to measure the performance of the largest and most liquid stocks listed on the Bolsa Mexicana de Valores.

## ANBIMA DEBENTURES INDEX (IDA)

The Anbima Debentures Index (IDA) represents a portfolio of debentures at market prices and serves as a benchmark for the segment. The index consists of all debentures priced by the Association.

## ANBIMA MARKET INDEX (IMA)

The Anbima Market Index (IMA) represents a portfolio of government securities at market prices, with an approximate range of 97% of the market segment.

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