

SPIVA[®] MENA Scorecard

Summary

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Since its first publication in the U.S. in 2002, the S&P Indices Versus Active (SPIVA) Scorecard has served as a *de facto* scorekeeper of the ongoing active versus passive debate.

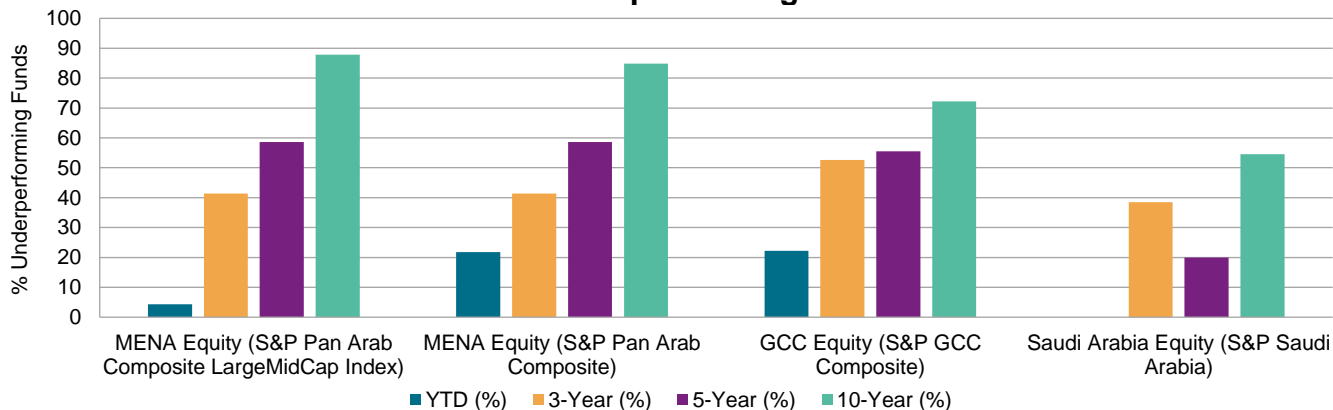
The SPIVA MENA Scorecard extends this analysis to the Middle East/North Africa region by measuring the performance of actively managed MENA equity funds against their respective benchmarks over various time horizons, providing data on outperformance rates, survivorship rates, and fund performance dispersion.

Experience the active vs. passive debate on a global scale.

Mid-Year 2023 Highlights

After falling in 2022, the region's markets recovered in the first half of 2023. For example, the [S&P Pan Arab Composite](#), which had declined by 5.7% last year, rose by 5.4%. This first half of the year was a relatively favorable environment for active management in the region, as only a minority of active managers underperformed. As Exhibit 1 illustrates, active performance was especially strong in Saudi Arabia, where no managers lagged the benchmark.

Exhibit 1: Fraction of MENA Funds Underperforming Their Benchmarks



Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2023. Outperformance is based on equal-weighted fund counts. Index performance based on total return in USD for MENA and GCC and SAR for Saudi Arabia. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

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MENA

- 22% of MENA equity funds underperformed the S&P Pan Arab Composite in the first six months of 2023, while only 4% underperformed the [S&P Pan Arab Composite LargeMidCap Index](#). (In this period, the largemidcap index gained 2.8% versus 5.4% for the composite, making it an easier target to beat.) MENA funds averaged returns of 10.2% (equal-weighted) and 11.1% (asset-weighted).
- As is common in SPIVA analyses, as time periods lengthen, active performance worsens. Despite good recent performance, over the past 10 years, 85% (S&P Pan Arab Composite) and 88% (S&P Pan Arab Composite LargeMidCap Index) of active managers lagged their benchmarks.
- Perhaps as a result, attrition in this category was relatively high. Only 42% of the MENA funds in our database 10 years ago survive until today.

GCC

- 22% of GCC equity managers underperformed the [S&P GCC Composite](#) in the first six months of 2023. GCC active manager returns averaged 7.9% (equal-weighted) and 11.7% (asset-weighted).
- As with the MENA group, longer horizons showed worse active results. Over the past 10 years, 72% of GCC managers lagged their benchmark.
- Despite this, GCC managers' survival rates were relatively high; 72% of the managers in our database 10 years ago are still active.

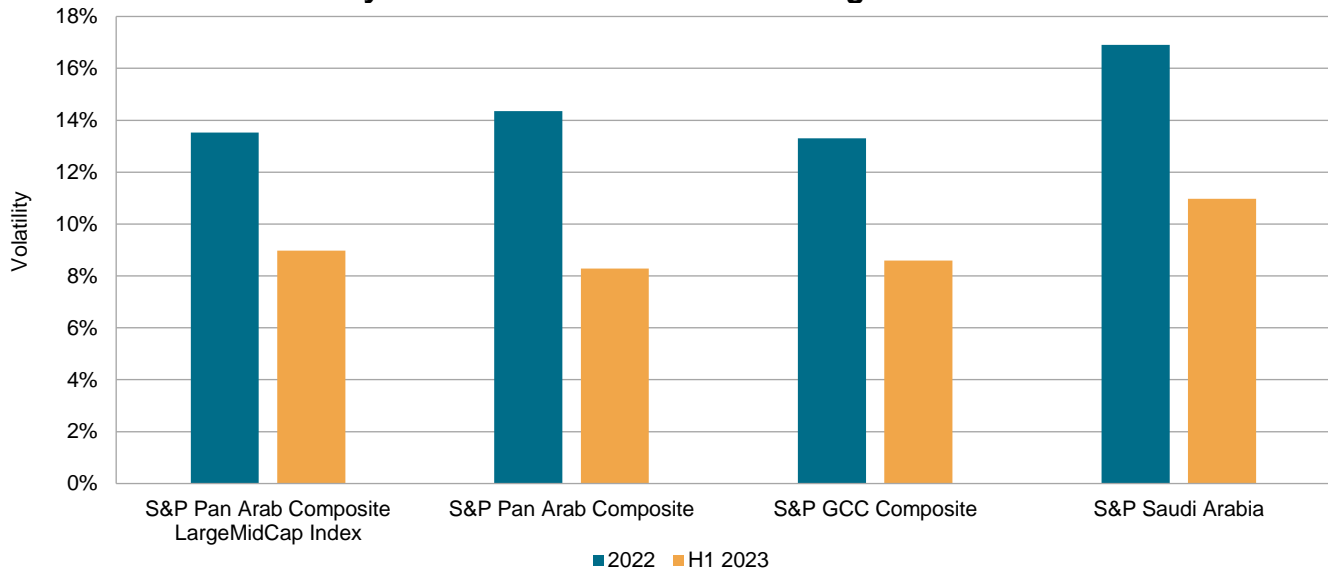
Saudi Arabia

- All the managers in our Saudi Arabian category outperformed the [S&P Saudi Arabia](#) index in the first six months of the year. Their returns averaged 22.4% (simple average) and 22.5% (asset-weighted).
- As with our other categories, time is the active manager's enemy. After 10 years, 55% of Saudi managers lagged the index.
- Saudi manager survival rates are comparatively high; 82% of the managers we tracked 10 years ago continue in our database.

Market Context

We’ve mentioned already that returns in the MENA region in the first half of 2023 were much improved from those of 2022. It’s also worth mentioning that index volatility fell quite dramatically, as Exhibit 2 shows. In the S&P Pan Arab Composite, e.g., average monthly index volatility fell from 14.4% in 2022 to 8.3% in the first six months of this year, with comparable declines in our other indices.

Exhibit 2: Index Volatility Declined across the MENA Region



Source: S&P Dow Jones Indices LLC. Data as of June 30, 2023. Index performance based on total return in USD for MENA and GCC and SAR for Saudi Arabia. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Declining volatility can be associated either with lower *dispersion* of individual stock returns or lower *correlation* of those returns.¹ Dispersion represents the average difference between the return of an index and the return of each of the index’s components, and is important as a measure of a manager’s potential ability to add value.² Fortunately for MENA managers in 2023, dispersion levels rose compared to the year prior. For the S&P Pan Arab Composite, average dispersion in the first half of 2023 was 23.7%, up from 2022’s 18.6%.

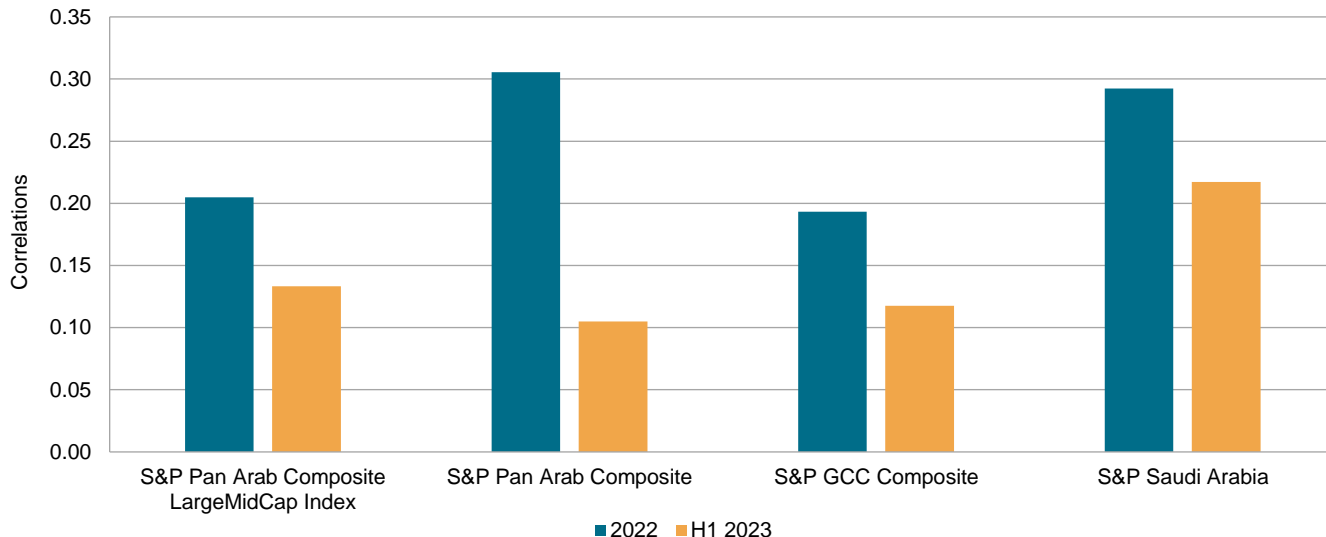
If dispersion is rising, the source of lower volatility must be elsewhere, and we find it, as Exhibit 3 suggests, in generally lower levels of correlation. When correlations are high, it tells us that the stocks in an index are generally moving in the same direction at the same time, which has the effect of heightening volatility. When correlations are low, as they were in the first half of

¹ Edwards, Tim and Craig J. Lazzara, “[The Landscape of Risk](#),” S&P Dow Jones Indices LLC, December 2014. See also Lazzara, Craig, “[Dispersion and Correlation: Which is “Better?”](#),” S&P Dow Jones Indices LLC, Jan. 30, 2014.

² Lazzara, Craig , “[The Value of Skill](#),” S&P Dow Jones Indices LLC, March 20, 2015.

2023, the opposite is true: market volatility can decline even though the dispersion of returns is rising.

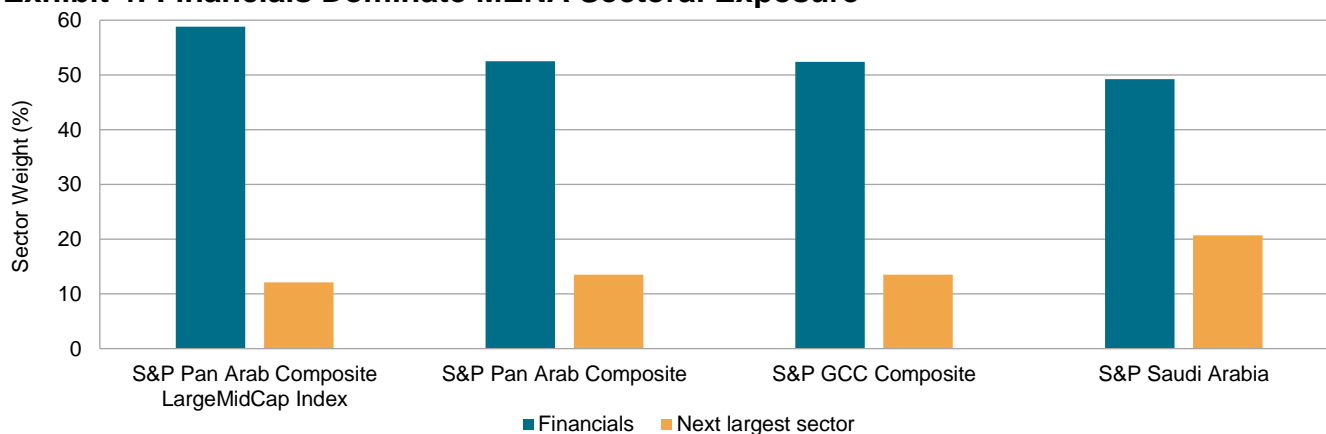
Exhibit 3: Intra-Index Correlations Declined across the Region



Source: S&P Dow Jones Indices LLC. Data as of June 30, 2023. Index performance based on total return in USD for MENA and GCC and SAR for Saudi Arabia. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

When stocks are moving in different directions (as low correlation implies they are doing), it creates an opportunity for managers potentially to add value, assuming they can position themselves on the correct side of the moves. One of the challenges this presents, in any region, is that managers must navigate across varying sectoral opportunities. This is particularly true in the MENA region, where the Financials sector is dominant, as Exhibit 4 shows.

Exhibit 4: Financials Dominate MENA Sectoral Exposure

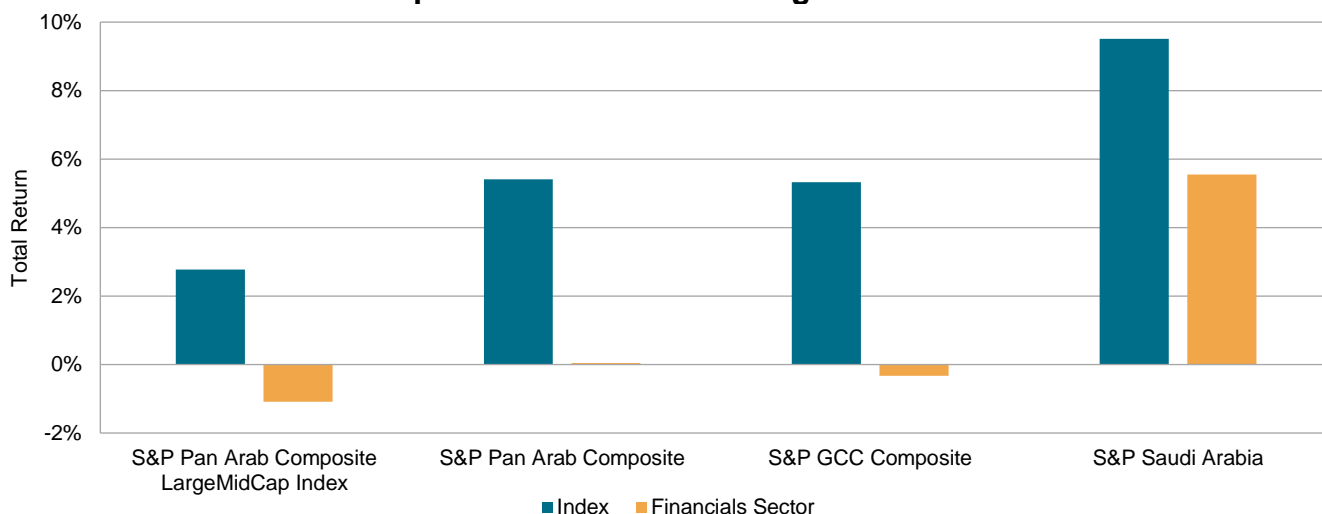


Source: S&P Dow Jones Indices LLC. Data as of June 30, 2023. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Financials amount to 53% of the S&P Pan Arab Composite and are roughly four times as important in the index as is the next largest sector (Materials). The Financials sector is of comparable importance in the region’s other indices.

When one sector is dominant in an index, active managers’ success can be significantly affected by how that sector performs and how effectively they can over- or under-weight it.³ Exhibit 5 shows us something important about the performance of Financials in the MENA region.

Exhibit 5: Financials Underperformed across the Region in First Half of 2023



Source: S&P Dow Jones Indices LLC. Data as of June 30, 2023. Index performance based on total return in USD for MENA and GCC and SAR for Saudi Arabia. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

In every index in the region, the largest sector lagged substantially; while the S&P Pan Arab Composite rose 5.4%, for example, its Financials sector was flat. **So much underperformance in so large a sector may help explain why so many active managers did as well as they did in the first half of 2023.**

³ Ganti, Anu and Craig J. Lazzara, “[Style Bias and Active Performance](#),” S&P Dow Jones Indices LLC, March 2021. See also Chan, Fei Mei and Craig J. Lazzara, “[Degrees of Difficulty: Indications of Active Success](#),” S&P Dow Jones Indices LLC, January 2022.

A Unique Scorecard for the Active versus Passive Debate

Since the publication of the first U.S. Scorecard over 20 years ago, the SPIVA Scorecard has served as the de facto scorekeeper of the active versus passive debate. For two decades, we have heard passionate arguments from believers in both camps when headline numbers have deviated from their beliefs.

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 far less frequently discussed but are often much more fascinating. These data sets are rooted in the following fundamental principles of the SPIVA Scorecard, with which regular readers will be familiar.

- **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 USD 10 billion fund affect the average in the same manner as the returns of a USD 10 million fund. An accurate representation of how market participants fared in a particular period can be ascertained by calculating weighted average returns, where 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 1a: Percentage of Funds Outperformed by Benchmarks (Based on Absolute Returns)

Fund Category	Comparison Index	YTD (%)	1-Year (%)	3-Year (%)	5-Year (%)	10-Year (%)
MENA Equity	S&P Pan Arab Composite LargeMidCap Index	4.35	9.09	41.38	58.62	87.88
MENA Equity	S&P Pan Arab Composite	21.74	18.18	41.38	58.62	84.85
GCC Equity	S&P GCC Composite	22.22	22.22	52.63	55.56	72.22
Saudi Arabia Equity	S&P Saudi Arabia	0.00	23.81	38.46	20.00	54.55

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2023. Outperformance is based on equal-weighted fund counts. Index performance based on total return in USD for MENA and GCC and SAR for Saudi Arabia. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Report 1b: Percentage of Funds Outperformed by Benchmarks (Based on Risk-Adjusted Returns)

Fund Category	Comparison Index	3-Year (%)	5-Year (%)	10-Year (%)
MENA Equity	S&P Pan Arab Composite LargeMidCap Index	31.03	65.52	90.91
MENA Equity	S&P Pan Arab Composite	31.03	65.52	87.88
GCC Equity	S&P GCC Composite	47.37	61.11	66.67
Saudi Arabia Equity	S&P Saudi Arabia	46.15	20.00	54.55

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2023. Outperformance is based on equal-weighted fund counts. Risk-adjusted return is computed as annualized average monthly return divided by annualized standard deviation of the monthly return for the measured periods. Index performance based on total return in USD for MENA and GCC and SAR for Saudi Arabia. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Report 2: Survivorship of Funds

Fund Category	Number of Funds at Start	Survivorship (%)
YTD		
MENA Equity	23	100.00
GCC Equity	18	100.00
Saudi Arabia Equity	17	100.00
1-Year		
MENA Equity	22	100.00
GCC Equity	18	100.00
Saudi Arabia Equity	21	100.00
3-Year		
MENA Equity	29	82.76
GCC Equity	19	94.74
Saudi Arabia Equity	13	100.00

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2023. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Report 2: Survivorship of Funds (cont.)

Fund Category	Number of Funds at Start	Survivorship (%)
5-Year		
MENA Equity	29	79.31
GCC Equity	18	94.44
Saudi Arabia Equity	10	90.00
10-Year		
MENA Equity	33	42.42
GCC Equity	18	72.22
Saudi Arabia Equity	11	81.82

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2023. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Report 3a: Average Fund Performance (Equal Weighted)

Index/Fund Category	YTD (%)	1-Year (%)	3-Year (%)	5-Year (%)	10-Year (%)
MENA Equity	10.19	5.12	16.85	7.22	5.32
S&P Pan Arab Composite LargeMidCap Index	2.78	-3.53	15.60	8.12	6.92
S&P Pan Arab Composite	5.41	-0.99	15.70	8.12	6.52
GCC Equity	7.94	5.75	18.46	8.34	6.58
S&P GCC Composite	5.33	-1.31	16.86	9.15	6.91
Saudi Arabia Equity	22.43	15.53	27.37	18.17	12.23
S&P Saudi Arabia	9.52	1.32	19.44	9.99	7.75

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2023. Returns shown are annualized for periods greater than one year. Funds are equal weighted, but indices are not. Index performance based on total return in USD for MENA and GCC and SAR for Saudi Arabia. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Report 3b: Average Fund Performance (Asset Weighted)

Index/Fund Category	YTD (%)	1-Year (%)	3-Year (%)	5-Year (%)	10-Year (%)
MENA Equity	11.05	6.23	17.43	7.73	6.25
S&P Pan Arab Composite LargeMidCap Index	2.78	-3.53	15.60	8.12	6.92
S&P Pan Arab Composite	5.41	-0.99	15.70	8.12	6.52
GCC Equity	11.73	12.17	17.97	8.92	6.43
S&P GCC Composite	5.33	-1.31	16.86	9.15	6.91
Saudi Arabia Equity	22.50	18.86	28.00	16.03	11.76
S&P Saudi Arabia	9.52	1.32	19.44	9.99	7.75

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2023. Returns shown are annualized for periods greater than one year. Index performance based on total return in USD for MENA and GCC and SAR for Saudi Arabia. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Report 4: Return/Volatility Ratio of MENA Equity Funds and Benchmarks

Category	Benchmark	Benchmark			Asset-Weighted			Equal Weighted		
		3-Year	5-Year	10-Year	3-Year	5-Year	10-Year	3-Year	5-Year	10-Year
MENA Equity	S&P Pan Arab Composite LargeMidCap Index	1.06	0.50	0.45	1.40	0.49	0.44	1.38	0.47	0.38
MENA Equity	S&P Pan Arab Composite	1.09	0.51	0.42	1.40	0.49	0.44	1.38	0.47	0.38
GCC Equity	S&P GCC Composite	1.11	0.55	0.42	1.52	0.64	0.47	1.66	0.60	0.47
Saudi Arabia Equity	S&P Saudi Arabia	1.04	0.51	0.38	1.73	0.94	0.65	1.72	1.07	0.67

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2023. The return/volatility ratio is computed as annualized average monthly return divided by annualized standard deviation of the monthly return for the measured periods. Index performance based on total return in USD for MENA and GCC and SAR for Saudi Arabia. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Report 5: Quartile Breakpoints of Fund Performance

Fund Category	Third Quartile (%)	Second Quartile (%)	First Quartile (%)
YTD			
MENA Equity	6.62	9.43	13.69
GCC Equity	5.46	12.27	18.40
Saudi Arabia Equity	15.61	19.71	22.60
1-Year			
MENA Equity	2.74	4.75	9.42
GCC Equity	-0.52	9.25	13.92
Saudi Arabia Equity	5.47	12.57	18.98
3-Year			
MENA Equity	16.35	18.21	21.20
GCC Equity	15.71	18.63	22.31
Saudi Arabia Equity	24.01	26.24	30.36
5-Year			
MENA Equity	6.00	8.79	11.16
GCC Equity	6.47	11.37	12.65
Saudi Arabia Equity	13.10	17.40	19.47
10-Year			
MENA Equity	5.23	5.66	7.21
GCC Equity	5.52	7.57	9.66
Saudi Arabia Equity	12.11	12.28	14.17

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2023. Returns shown are annualized for periods greater than one year. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Appendix A: SPIVA Styles and Morningstar Fund Classifications

Data are obtained from Morningstar for all managed funds for which month-end data are available during the performance period. The data include funds domiciled in MENA markets. Offshore MENA equity funds are excluded. Funds are classified based on the Morningstar fund classification system, and the SPIVA Scorecard covers MENA equity categories.

MENA Funds Denominated in U.S. Dollars and Saudi Arabian Riyals

The SPIVA MENA Scorecard covers both regional and country-specific funds that are denominated in U.S. dollars (USD) (or a currency pegged to U.S. dollars) or Saudi Arabian riyals (SAR), and they have been mapped to the relevant Morningstar fund categories as indicated in Exhibit 6. To increase the available fund count, funds that are denominated in a currency pegged to the U.S. dollar have been converted to USD using the peg ratio. The Morningstar classification system produces narrow, style-based classifications for funds. 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 the past five years.

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

Exhibit 6: Morningstar Categories and SPIVA Peer Groups for MENA Equity Funds

Morningstar Category	SPIVA Category
USD-Denominated Funds	
EAA Fund Africa & Middle East Equity	MENA Equity
Middle East Fund MENA Equity	
Middle East Fund GCC Equity	GCC Equity
Middle East Fund GCC Islamic Equity	
SAR-Denominated Funds	
Middle East Fund Saudi Equity	Saudi Arabia Equity
Middle East Fund Saudi Islamic Equity	

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

Appendix B: Glossary

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 reference against which fund performance can be measured.

S&P GCC Composite

The S&P GCC Composite is a comprehensive benchmark covering stocks from the six Gulf Cooperation Council (GCC) markets. The index reflects the float defined by foreign investment limits applicable to GCC residents.

S&P Pan Arab Composite

The S&P Pan Arab Composite includes stocks from 11 Pan Arab markets. The index reflects the float available to GCC residents, which is typically larger than that available to investors based outside the region.

S&P Pan Arab Composite LargeMidCap Index

The S&P Pan Arab Composite LargeMidCap Index is designed to track the performance of large- and mid-cap stocks from 11 Pan Arab equity markets.

S&P Saudi Arabia

The S&P Saudi Arabia is a comprehensive benchmark that defines and is designed to measure the investable universe of publicly traded companies domiciled in Saudi Arabia and uses float factors relevant for GCC residents.

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