

SPIVA[®] MENA Scorecard

Contributors

Andrew Cairns, CFA
Associate Director
Global Research & Design
andrew.cairns@spglobal.com

Andrew Innes
EMEA Head
Global Research & Design
andrew.innes@spglobal.com

Alberto Allegrucci, PhD
Senior Research Analyst
Global Research & Design
alberto.allegrucci@spglobal.com

[Experience](#) the active vs. passive debate on a global scale.

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 Funds (SPIVA) U.S. Scorecard in 2002. The SPIVA MENA Scorecard measures the performance of actively managed MENA equity funds denominated in local currencies against the performance of their respective S&P DJI benchmark indices over 1-, 3-, 5-, and 10-year investment horizons.

YEAR-END 2020 HIGHLIGHTS

The global pandemic of 2020 did not leave the Middle East and North Africa (MENA) economies unscathed. With oil revenues accounting for a large portion of the GDP of MENA countries, the economic slowdown as a result of the COVID-19 pandemic significantly affected the region. The impact on benchmark and fund returns, however, was not homogenous across regions.

MENA

- Of MENA Equity funds, 68% underperformed the [S&P Pan Arab Composite](#) over the one-year period. This number rose to 93% over the 10-year period.
 - The unique market conditions of 2020 did not seem to provide widespread opportunities for active managers across MENA Equity funds. The [S&P Pan Arab Composite LargeMidCap Index](#) return was 1.4 percentage points higher than that of MENA Equity funds (on an asset-weighted average basis). When measured against the broader S&P Pan Arab Composite, this difference increased further to 3.2 percentage points.
 - The outlook for MENA Equity funds was no better when measuring performance on a risk-adjusted basis. Over all time periods, more than 90% of funds underperformed both benchmarks after adjusting for risk.

GCC

- Funds focused on the Gulf Cooperation Council (GCC) experienced similar misfortunes, with 58% underperforming the [S&P GCC Composite](#) over the one-year period.
 - Further highlighting the struggles of GCC Equity funds, when measured on an asset-weighted basis, the funds trailed the S&P GCC Composite benchmark by 4.8 percentage points over the one-year period. The benchmark outperformance continued over the 10-year period by 0.9 percentage points, annually.
 - Over the three- and five-year periods, 80% and 94% of GCC Equity funds underperformed the benchmark on a risk-adjusted basis, respectively.

Saudi Arabia

- Saudi Arabia Equity funds bucked the regional one-year trend, posting the strongest benchmark-relative outperformance of the three categories. For the one-year period, 23% of Saudi Arabia Equity funds underperformed the [S&P Saudi Arabia](#). This outperformance figure flips the opposite way when the time horizon is extended to 10 years, when 78% of Saudi Arabia Equity funds underperformed the benchmark.
 - Saudi Arabia Equity Funds obtained a remarkable 10.7% asset-weighted average return during 2020, beating the benchmark by 3.9 percentage points.
 - The bottom quartile Saudi Arabia Equity fund posted a return of 10.1% for the one-year period, 3.3 percentage points above the benchmark.

UNIQUE SCORECARD FOR THE ACTIVE VERSUS PASSIVE DEBATE

Since its first publication 19 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, Europe, India, Japan, Australia, Latin America, South Africa, and MENA. 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 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 MENA Equity Funds Outperformed by Benchmarks (Absolute Returns)

FUND CATEGORY	COMPARISON INDEX	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MENA Equity	S&P Pan Arab Composite LargeMidCap Index	67.86	90.63	92.68	92.86
	S&P Pan Arab Composite	67.86	81.25	92.68	92.86
GCC Equity	S&P GCC Composite	58.33	88.00	94.12	71.43
Saudi Arabia Equity	S&P Saudi Arabia	23.08	68.42	89.19	77.78

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 2020. 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 MENA Equity Funds Outperformed by Benchmarks (Risk-Adjusted Returns)

FUND CATEGORY	COMPARISON INDEX	3-YEAR	5-YEAR	10-YEAR
MENA Equity	S&P Pan Arab Composite LargeMidCap Index	90.63	95.12	92.86
	S&P Pan Arab Composite	90.63	92.68	92.86
GCC Equity	S&P GCC Composite	80.00	94.12	75.00
Saudi Arabia Equity	S&P Saudi Arabia	63.16	86.49	74.07

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 2020. 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 Consistency of MENA Equity Funds

FUND CATEGORY	NO. OF FUNDS AT START	SURVIVORSHIP (%)
1-YEAR		
MENA Equity	28	89.29
GCC Equity	24	100.00
Saudi Arabia Equity	13	92.31
3-YEAR		
MENA Equity	32	81.25
GCC Equity	25	100.00
Saudi Arabia Equity	19	89.47
5-YEAR		
MENA Equity	41	65.85
GCC Equity	34	94.12
Saudi Arabia Equity	37	91.89
10-YEAR		
MENA Equity	42	38.10
GCC Equity	28	89.29
Saudi Arabia Equity	27	92.59

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 2020. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Report 3a: Average MENA Equity Fund Performance (Equal Weighted)

CATEGORY	1-YEAR (%)	3-YEAR (ANNUALIZED %)	5-YEAR (ANNUALIZED %)	10-YEAR (ANNUALIZED %)
MENA Equity	-2.99	3.95	3.26	3.09
S&P Pan Arab Composite LargeMidCap Index	-0.60	8.07	7.62	4.40
S&P Pan Arab Composite	1.20	7.89	7.21	4.30
GCC Equity	-0.63	3.74	2.78	4.46
S&P GCC Composite	2.06	8.97	7.74	5.20
Saudi Arabia Equity	13.24	12.50	7.75	8.29
S&P Saudi Arabia	6.77	11.35	9.56	6.04

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 2020. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Report 3b: Average MENA Equity Fund Performance (Asset Weighted)

CATEGORY	1-YEAR (%)	3-YEAR (ANNUALIZED %)	5-YEAR (ANNUALIZED %)	10-YEAR (ANNUALIZED %)
MENA Equity	-1.98	4.88	3.75	4.01
S&P Pan Arab Composite LargeMidCap Index	-0.60	8.07	7.62	4.40
S&P Pan Arab Composite	1.20	7.89	7.21	4.30
GCC Equity	-2.70	4.37	3.12	4.32
S&P GCC Composite	2.06	8.97	7.74	5.20
Saudi Arabia Equity	10.66	11.40	7.28	7.70
S&P Saudi Arabia	6.77	11.35	9.56	6.04

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 2020. 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

FUND CATEGORY	COMPARISON INDEX	COMPARISON INDEX			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	0.49	0.52	0.30	0.28	0.25	0.28	0.23	0.22	0.22
	S&P Pan Arab Composite	0.48	0.49	0.29	0.28	0.25	0.28	0.23	0.22	0.22
GCC Equity	S&P GCC Composite	0.53	0.50	0.33	0.29	0.22	0.31	0.24	0.19	0.31
Saudi Arabia Equity	S&P Saudi Arabia	0.59	0.49	0.31	0.69	0.41	0.42	0.75	0.44	0.47

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 2020. 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 MENA Equity Funds			
FUND CATEGORY	THIRD QUARTILE (ANNUALIZED, %)	SECOND QUARTILE (ANNUALIZED, %)	FIRST QUARTILE (ANNUALIZED, %)
1-YEAR			
MENA Equity	-4.44	-1.37	3.51
GCC Equity	-0.88	1.63	5.35
Saudi Arabia Equity	10.09	14.25	17.54
3-YEAR			
MENA Equity	4.45	6.31	7.78
GCC Equity	1.15	4.22	8.06
Saudi Arabia Equity	8.78	13.23	15.78
5-YEAR			
MENA Equity	3.93	4.55	6.65
GCC Equity	0.14	2.13	4.79
Saudi Arabia Equity	4.31	9.35	10.45
10-YEAR			
MENA Equity	1.75	3.09	6.06
GCC Equity	4.73	5.73	6.19
Saudi Arabia Equity	6.12	7.95	8.74

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 2020. Index performance based on total return in USD for MENA and GCC and SAR for Saudi Arabia. Funds are equal weighted, but indices are not. 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 are obtained 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 1. 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 1: Morningstar Categories and SPIVA Peer Groups for MENA Equity Funds	
MORNINGSTAR CATEGORY	SPIVA CATEGORY
USD-DENOMINATED FUNDS	
EAA Fund Africa & Middle East Equity Middle East Fund MENA Equity	MENA Equity
Middle East Fund GCC Equity Middle East Fund GCC Islamic Equity	GCC Equity
SAR-DENOMINATED FUNDS	
Middle East Fund Saudi Equity Middle East Fund Saudi Islamic Equity	Saudi Arabia Equity

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

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 vehicle 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.

S&P DJI RESEARCH CONTRIBUTORS		
Sunjiv Mainie, CFA, CQF	Global Head	sunjiv.mainie@spglobal.com
Jake Vukelic	Business Manager	jake.vukelic@spglobal.com
GLOBAL RESEARCH & DESIGN		
AMERICAS		
Gaurav Sinha	Americas Head	gaurav.sinha@spglobal.com
Laura Assis	Analyst	laura.assis@spglobal.com
Cristopher Anguiano, FRM	Analyst	cristopher.anguiano@spglobal.com
Nazerke Bakytzhan, PhD	Senior Analyst	nazerke.bakytzhan@spglobal.com
Smita Chirputkar	Director	smita.chirputkar@spglobal.com
Rachel Du	Senior Analyst	rachel.du@spglobal.com
Bill Hao	Director	wenli.hao@spglobal.com
Qing Li	Director	qing.li@spglobal.com
Berlinda Liu, CFA	Director	berlinda.liu@spglobal.com
Lalit Ponnala, PhD	Director	lalit.ponnala@spglobal.com
Maria Sanchez, CIPM	Associate Director	maria.sanchez@spglobal.com
Hong Xie, CFA	Senior Director	hong.xie@spglobal.com
APAC		
Priscilla Luk	APAC Head	priscilla.luk@spglobal.com
Arpit Gupta	Senior Analyst	arpit.gupta1@spglobal.com
Akash Jain	Associate Director	akash.jain@spglobal.com
Anurag Kumar	Senior Analyst	anurag.kumar@spglobal.com
Xiaoya Qu	Senior Analyst	xiaoya.qu@spglobal.com
Yan Sun	Senior Analyst	yan.sun@spglobal.com
Tim Wang	Senior Analyst	tim.wang@spglobal.com
Liyu Zeng, CFA	Director	liyu.zeng@spglobal.com
EMEA		
Andrew Innes	EMEA Head	andrew.innes@spglobal.com
Alberto Allegrucci, PhD	Senior Analyst	alberto.allegrucci@spglobal.com
Panos Brezas, PhD	Senior Analyst	panos.brezas@spglobal.com
Leonardo Cabrer, PhD	Associate Director	leonardo.cabrer@spglobal.com
Andrew Cairns, CFA	Associate Director	andrew.cairns@spglobal.com
Niall Gilbride, CFA	Senior Analyst	niall.gilbride@spglobal.com
Rui Li, ACA	Senior Analyst	rui.li@spglobal.com
Jingwen Shi, PhD	Senior Analyst	jingwen.shi@spglobal.com
INDEX INVESTMENT STRATEGY		
Craig J. Lazzara, CFA	Global Head	craig.lazzara@spglobal.com
Fei Mei Chan	Director	feimei.chan@spglobal.com
Tim Edwards, PhD	Managing Director	tim.edwards@spglobal.com
Anu R. Ganti, CFA	Senior Director	anu.ganti@spglobal.com
Sherifa Issifu	Associate	sherifa.issifu@spglobal.com

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