

# Redefining investment success in Capital Accumulation Plans

Putting recent fund performance  
into perspective

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# Table of contents

- Canadian Equities ..... 4
- International Equities..... 5
- U.S. Equities ..... 6
- Global Equities..... 7
- Is Quality out of favour? ..... 8
- How to assess investment success ..... 9
- Summary ..... 11
- We're here to help! ..... 11

If the recent underperformance of your active equity funds is causing you, as a Capital Accumulation Plan (CAP) sponsor, to lose sleep, you are not alone.

In 2024, [we wrote](#) about how active funds have faced performance challenges, primarily due to their lower exposure to the “Magnificent Seven” stocks. Since then,

we’ve continued to experience strong equity market returns, but also below-benchmark performance for many investment managers. In fact, 2025 was a very difficult year for active management. And this time, it wasn’t just a story about U.S. stocks.

Asset Class	2025 Median Fund Return <sup>1</sup>	2025 Index Return	Difference
Canadian Equity	25.7%	31.7%	-6.0%
Global Equity	12.6%	16.6%	-4.0%
International Equity	20.2%	25.1%	-4.9%
U.S. Equity	11.4%	12.4%	-1.0%

Over the last ten years, only 44% of actively-managed equity funds on our core investment platform have outperformed their respective benchmark. While benchmark-relative performance in equities has been weak, absolute performance remains generally strong. A large majority of active equity funds on the platform have generated returns

of greater than 10% per year (for the ten-year period ending December 31, 2025). Returns of this magnitude contribute meaningfully to the retirement outcomes of members. Compounded growth in Global equities likely resulted in the doubling or tripling of a member’s initial investment over the last ten years.

## How Plan Members view investment success

For CAP members, benchmark-relative performance is rarely an indicator of investment success. When members contact Sun Life with questions about the investment options in their plans, they often focus on absolute returns, market volatility, and geopolitical events. In periods of market declines – such as 2022 – members want to know that their funds provided capital preservation. Members expect active funds – which cost more than passive – to provide ‘sleep-at-night’ options and a smoother ride, when markets decline.



## A closer look at active equity fund underperformance by region

The drivers of underperformance have been different in each market. In the U.S, Artificial Intelligence (AI) has made for buoyant but volatile markets, with a narrow cohort of early market winners like hyper-scalers Alphabet, Apple and Meta, and data processing suppliers NVIDIA, TSMC, and Broadcom. The unprecedented level of expenditure on data centres means that Tech companies are becoming more capital-intensive, which creates both opportunities and risks. AI will not lift all boats – there will continue to be winners and losers. We saw this in the falling share prices of Information Technology consultants and enterprise software companies in 2025 (e.g. Salesforce). In Europe, geopolitics played a large role as bank stocks rallied on steepening yield curves and defense companies benefitted from increased defense spending pledges. In Canada, we’ve seen gold prices double, boosting the returns of leveraged gold mining companies and gold bullion ETFs. Let’s take a closer look at each major equity market before addressing possible responses to fund underperformance.

<sup>1</sup> Morningstar Canada Peer Universes.



# Canadian Equities

## Resource-intensive

Active funds have historically had some success in beating their benchmark in the Canadian equity market. The chart below depicts median active funds returns relative to the S&P/TSX Composite over the past twenty years.<sup>2</sup>

### Median Canadian Equity Active Management Excess Returns

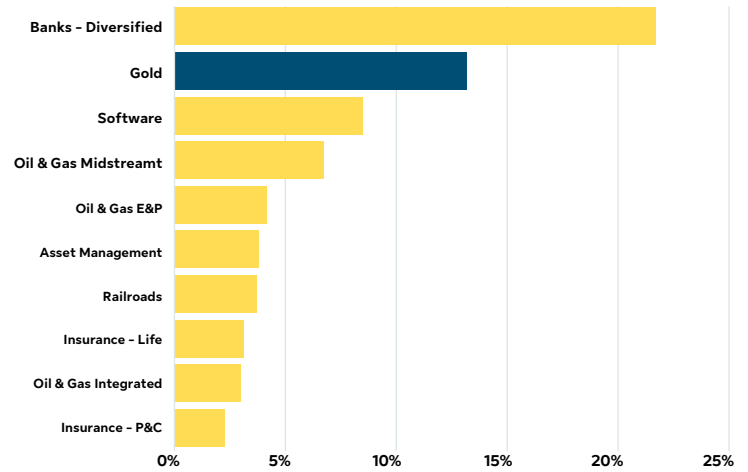


But 2025 was a unique year in Canadian equity markets. The S&P/TSX Composite increased by 32%, but only two sectors - Financials (+35%) and Materials (+101%) - outperformed the index. It may be surprising that Gold is the second largest industry in Canada, second only to Banks.<sup>3</sup> Or that Canada has a 54% share of publicly list gold companies globally.<sup>4</sup> The price of gold surged by 67% in 2025, its best year since 1979.

<sup>2</sup> Median return from the Morningstar Canadian Equity Universe  
<sup>3</sup> By market capitalization in the Morningstar Canada Equity Index  
<sup>4</sup> Morningstar: Canada's Golden Year  
<sup>5</sup> 80% of Canadian equity funds were underweight gold at the start of 2025 as per Morningstar Direct data.  
<sup>6</sup> Jarislowsky Fraser, Canadian Equity: Navigating Benchmark Concentration Risk to Deliver Returns

## Gold's Outsize Role in the Canadian Equity Market

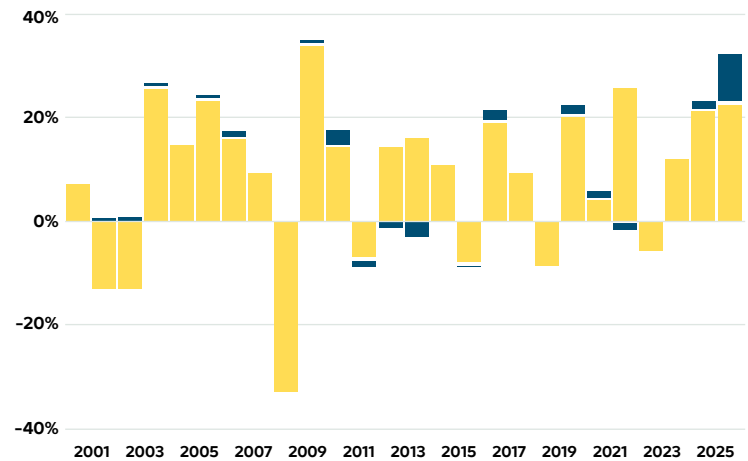
Top 10 industry weights in the Morningstar Canada Index



Gold companies are often levered to the price of gold. Increases in price will cause profit margins to surge because costs remain relatively fixed. So, while the price of gold increased by 67%, gold companies were up 138% on average in 2025. And the greater the leverage, the higher the return. These dynamics led to gold-related stocks contributing 9.9% of the 32.3% return of the S&P/TSX Composite Index in 2025.

## Gold Shone Brightest in 2025<sup>5</sup>

Gold industry contribution to Canadian equity index returns, 2000-25



Many risk- and quality-focused investment managers tend to underweight gold-related companies. This is due to gold's unusually large weight in the S&P/TSX Composite, capital intensity, and leverage, as well as gold's hard-to-predict, sentiment-driven fluctuations in price.<sup>6</sup> While gold is used for jewelry fabrication and technology, it was the record levels of investor demand that drove the price increase in 2025.<sup>7</sup> What goes up can also come down. If gold sentiment cools, profits and share prices can crash, as gold prices decline.

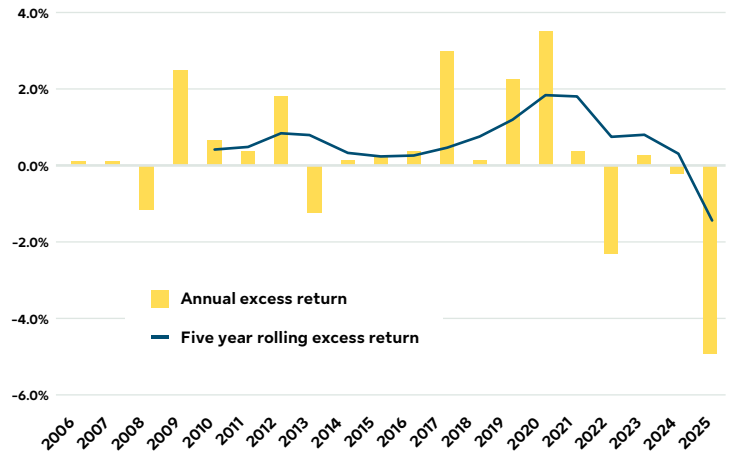


# International Equities

## Geopolitics driving change in Europe

Similar to Canada, International developed equity markets have been considered less efficient than their U.S. counterpart. Managers have on average outperformed the MSCI EAFE Index (Net) on a rolling 5-year basis.<sup>8</sup>

### Median International Equity Active Management Excess Returns



But like in Canada, that changed in 2025. The MSCI EAFE rose 25%, led by the Financials, Industrials, and Utilities sectors. In general, lower quality stocks rallied in Europe. Renewed European pledges to boost defense spending benefited Aerospace and Defense companies, while the resulting steepened yield curve boosted Banks and Insurers. European Banks, long weighed down by troubled balance sheets and negative real interest rates, increased in value by 70%. Capital intensive sectors like Utilities performed well, as power supply demand surged for AI data centres. And similar to Canada, miners were boosted by rising precious metals prices.

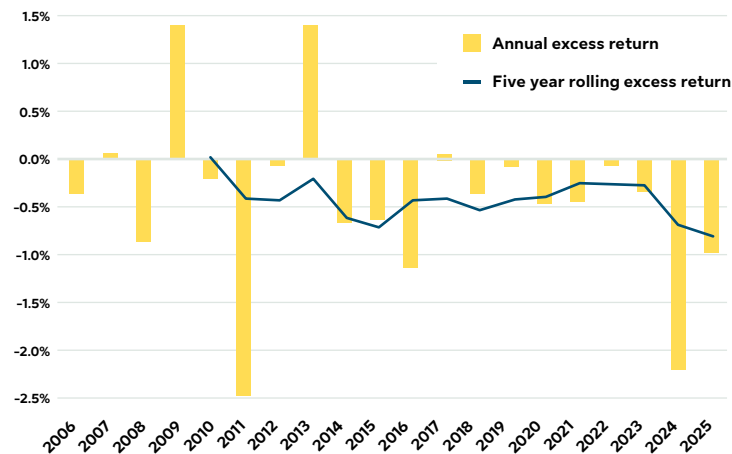
<sup>8</sup> Median return in the Morningstar International Equity Universe vs. MSCI EAFE Index in C\$.

# U.S. Equities

## Enjoy the ride or apply the hand brake?

The U.S. equity market has long been challenging for active management. As the chart below shows, actively managed funds have only delivered meaningful excess returns relative to the S&P 500 Index in two of the last 20 years.<sup>9</sup>

### Median U.S. Equity Active Management Excess Returns

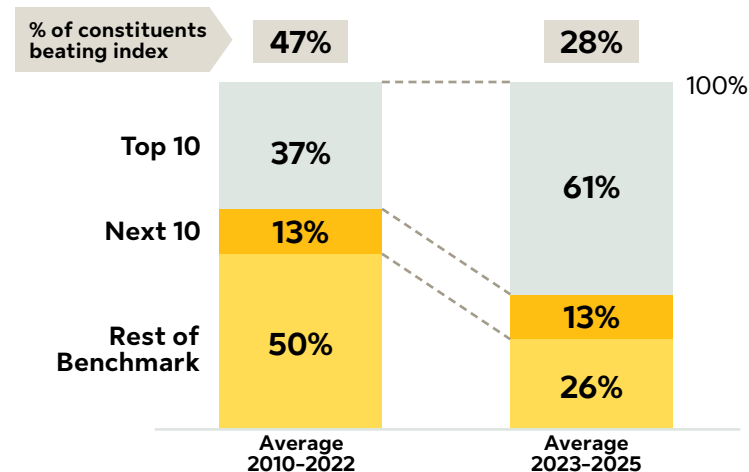


This doesn't mean there aren't outperforming funds, but it does indicate that they can be hard to identify without the benefit of hindsight.

As we noted in our 2024 paper, one of the biggest current challenges in the U.S. equity market is market concentration. This concentration has reached new heights. **The top 10 stocks represented 40.7% of the S&P 500 Index at the end of 2025.** This weight has more than doubled over the past decade.<sup>10</sup> It is greater than any other period in the 69-year history of the S&P 500 Index, including the internet bubble of the late 1990s. Even more concerning, these ten stocks account for nearly half of the risk in the S&P 500.<sup>11</sup>

Unprecedented levels of market concentration are the result of a small cohort of primarily mega-cap stocks driving U.S. market returns. The top 10 stocks have contributed 61% of S&P 500 returns over the last three years.

## Constituents' contribution to S&P 500 returns



Source: FactSet; PineStone Asset Management Inc.  
As of December 31, 2025

There has also been a decline in the number of stocks outperforming the S&P 500 Index. That figure was 28% over the last three years, while the median over the 13 years prior to that was 47%. This narrow leadership of Growth stocks has resulted in almost 90% of the S&P 500 Index constituents being included in the S&P 500 Value Index, while S&P 500 Growth Index constituents have shrunk to less than 30%.<sup>12</sup>

This concentration is a challenge to many investment managers who tend to focus on risk and capital preservation. **For an investment manager to have overweight positions in companies like NVIDIA, Apple, and Microsoft, they'd need to take a position of nearly 10% of their fund in a single stock.** Additionally, many of these mega-cap stocks are pro-cyclical and have values that are highly correlated with each other, due to their similar exposures to AI and technology-related industries. At the end of 2025, the top 8 stocks in the S&P 500 were technology-focused. While this concentration is a concern for all investment managers, Core, Value and Growth-at-a-Reasonable-Price (GARP) style managers, in particular, are challenged by this concentration in high Price to Earnings, growth-oriented stocks.

As with Canada and the international markets, the U.S. equity market favoured lower quality stocks. Lower quality stocks outperformed higher quality by 8% in 2025.<sup>13</sup>

<sup>9</sup> Median return in Morningstar – U.S. Equity Universe vs. S&P 500 Index in C\$.

<sup>10</sup> The weight of the top 10 stocks in the S&P 500 was 18.9% in 2015.

<sup>11</sup> TDAM: The Growing Risk Behind Market Concentration. S&P Global data. September 2025.

<sup>12</sup> As of February 2026, 443 constituents of the S&P 500 are in the Value index and 139 are in the Growth index. Does not add to 500 because some constituents are in both the Value and Growth indexes.

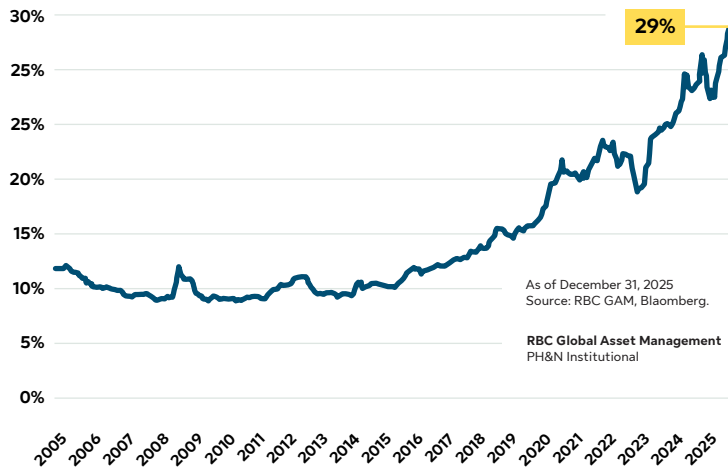
<sup>13</sup> RBC Global Asset Management, RBC Global Equities Update. S&P 500 Index data.

# Global Equities

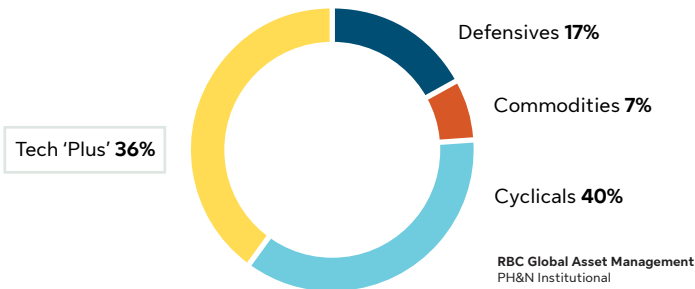
## Now a 72% weight in the U.S.!

With U.S. equities comprising 72% of the MSCI World Index at the end of 2025, much of what applies to the U.S. equity market is also relevant to Global equities. The top 10 stocks represent 29% of the MSCI World, while technology-related stocks represent 36% of the market. Remarkably, individual stocks like NVIDIA and Apple represented a larger weight in the MSCI World than all of Canada at year end.

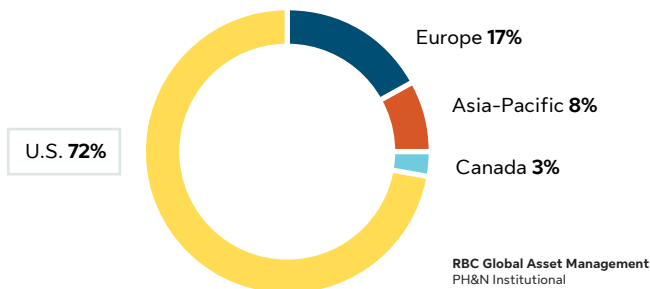
### Top 10 index weights (MSCI World Index)



### Sector weights (MSCI World Index)

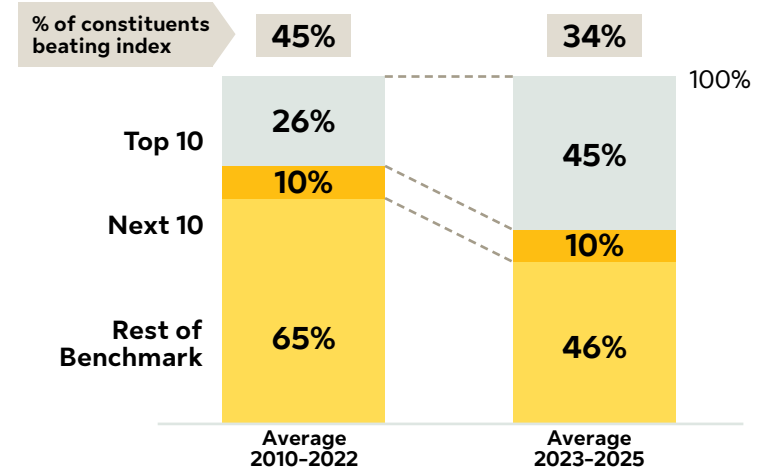


### Geographic weights (MSCI World Index)

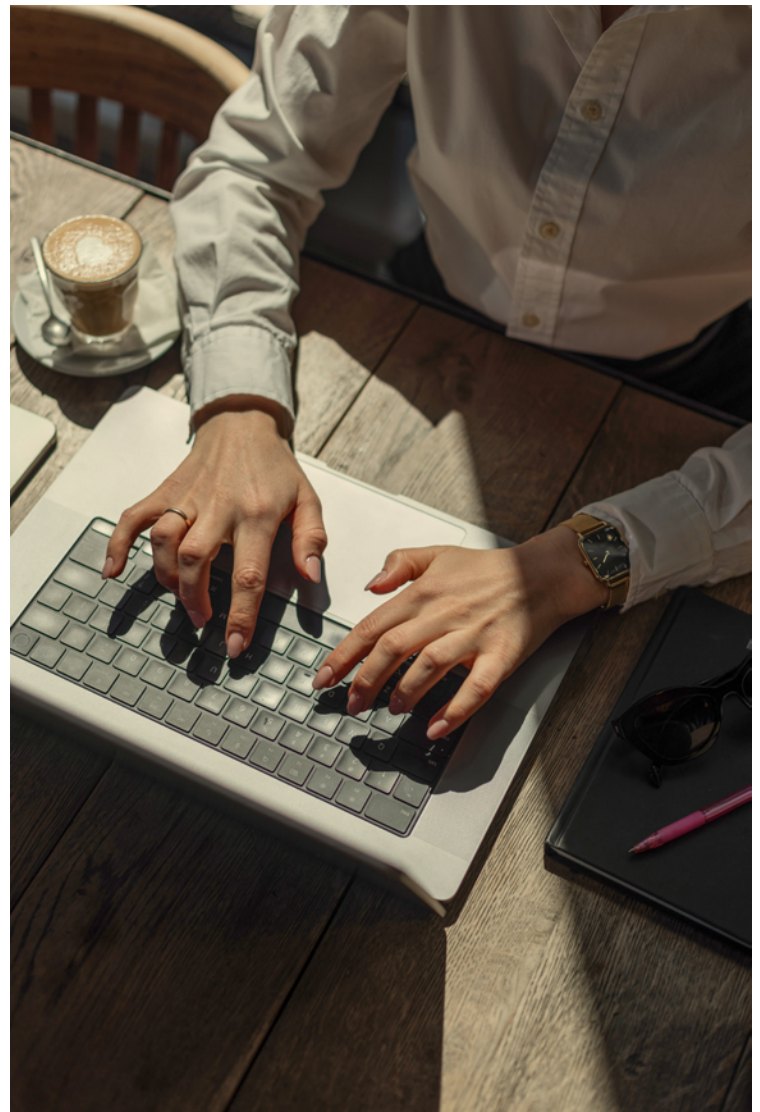


Unsurprisingly, the top 10 stocks in the MSCI World have also represented an increasing share of the index's returns – 45% over the last three years. And the number of stocks outperforming the index has declined to 34%.

### Constituents' contribution to MSCI World Index returns



Source: FactSet; PineStone Asset Management Inc.  
As of December 31, 2025





## Is Quality out of favour?

As we've seen, the U.S, Canadian, and International equity markets have been linked by both narrow market leadership and the outperformance of lower-quality companies. Many institutional managers emphasize Quality as an important part of their stock selection process. While the precise definition of Quality will vary by manager, it largely focuses on industry leadership, pricing power, stable and non-cyclical earnings, and a balance sheet that is not highly leveraged. Quality can mean resilience, less stock price volatility, and better stock price performance during market downturns.

Recent years have seen changes in both the demographics of market constituents and how participants access the markets:

- There has been a significant increase in passive investing and a corresponding decrease in active investing. The rise in popularity of Exchange Traded Funds (ETFs) has been part of this trend.
- Retail investors' share of the of the U.S. stock market has grown in comparison to institutional investors and has reached all-time highs at the end of 2025.<sup>14</sup> Additionally, retail investor trade volume has doubled to 21% of the total market over the last fifteen years.<sup>15</sup>

These two trends, combined with the increasing influence of social media on retail investing, can contribute to market behaviour that is less focused on fundamentals, risk, and long-term investing - and more focused on narratives and momentum.

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**In the short run, the market is a voting machine, but in the long run, it is a weighing machine.**

— Benjamin Graham

Does this mean Quality is no longer relevant? We don't think so. Research suggests that Quality is a factor that has been rewarded in the market over the long-term.<sup>16</sup> Market dynamics may lead to dislocations, but we expect that performance in the long run will be anchored by long-term business fundamentals (**the weighing machine**) rather than emotion and speculation (**the voting machine**).

Most active managers on our core investment platform – and in CAP plans – continue to have a Quality bias.

<sup>14</sup> Federal Reserve Bank of St. Louis: Households and Nonprofit Organizations; Directly and Indirectly Held Corporate Equities as a Percentage of Total Assets.

<sup>15</sup> RBC Global Asset Management

<sup>16</sup> T. Rowe Price. The quality factor: Its impact, foundation, and evolution. May 2024

# How to assess investment success

As CAP sponsors, you have much to consider when it comes to fund performance.

Benchmark-relative performance measurement is only a component of modern investment governance. Performance should always be evaluated in the context of portfolio objectives, constraints and manager philosophy and style.

Below are some key considerations for evaluating investment success in your CAP.

## ✓ Rolling time periods

Using rolling periods (e.g. 5-year rolling periods) over long-time periods (10+ years) can give you a better picture of the consistency of the fund's performance, as opposed to one specific end-date.

## ✓ Peer universes

In periods when an active fund struggles, it is beneficial to also consider the performance of a relevant peer universe. Funds that are underperforming, but rank in the second or third quartile of a peer universe are less of a cause for concern.

## ✓ Risk analysis

It can be difficult to focus on risk in the midst of a sustained bull market. But if your manager eschews market concentration and high beta portfolios, and you are aligned with that approach, it is important to consider performance on a risk-adjusted basis. This can include performance measures like the Sharpe Ratio, which measures returns relative to volatility, or the Sortino Ratio, which focuses on downside risk. Downside market capture analysis is helpful in developing a more complete risk-adjusted returns perspective that aligns with member priorities.

If your fund is focused on capital preservation, consider waiting for a market downturn before making a decision on whether to remove a fund with shorter-term underperformance.

## ✓ Performance attribution analysis

The MSCI World has experienced a significant increase in style volatility over the past decade, meaning that funds faithfully employing a particular style may have seen extended periods of underperformance.<sup>17</sup> Performance attribution analysis can provide important insights as to specific drivers of performance in a given time period; this is helpful to evaluate manager skill in the context of the market environment. For example, when markets are highly geared to one factor, theme, sector, or style, risk effects can be amplified. Risk aware managers may choose to underweight factors that have become expensive in their portfolio construction. Stock-level attribution can reveal whether performance detractors came from stocks held vs. not held – which can be particularly insightful in narrow markets.

## ✓ Qualitative assessment

We all know that past performance does not guarantee future results.

Qualitative factors matter. They include organizational changes, loss of key investment personnel, changes in investment process, style, and risk management, pending or ongoing legal, regulatory or compliance issues, significant loss of assets or clients, etc.

It is important to make a qualitative assessment of a fund at time of selection, during monitoring, and before removal (if contemplated). This should include a clear understanding of how a manager is expected to perform in various market environments, and in particular, when they may lag the market. Meeting with the manager can provide an opportunity to hear context and rationale for stock selection and provide you with important insights on manager skill.

## ✓ Alternative benchmarks

Secondary or alternative benchmarks can be useful tools to carve out market distortions and better reflect how the investment manager actually manages money. For example, compare fund performance to quality-focused and/or style-specific indexes. Or compare fund performance to equal-weighted indices to eliminate market concentration.

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<sup>17</sup> AllianceBernstein: Capturing Consistent Returns Streams in Capricious Equity Markets. Based upon MSCI World Growth, Value, Equal Weight, Momentum, Minimum Volatility and High Yield indices.



## Diversify investment approaches

### *Funds with lower active risk (tracking error)*

Investing in high conviction fundamental investment managers may require more patience than ever before. Higher tracking error funds have underperformed lower tracking error funds in the global equity market for most of the past decade.<sup>18</sup>

If significant and sustained swings in benchmark-relative performance are uncomfortable – there are other investment approaches that might be better. This can include passive (indexing) strategies, strategies that carefully manage and limit active risk exposures, or multi-manager/style blended approaches.

### *Quantitative funds*

Quantitative (Quant) strategies, in particular, have performed well in recent years. They tend to have a large number of holdings, with a diversified set of “lower conviction” active positions. Therefore, when a commodity like gold or oil surges in value, or unexpected catalysts fuel growth in specific industries, they are less likely to be significantly negatively impacted. In fact, most Quant strategies have momentum-based factors in their models that can benefit from short-term market trends. This doesn’t mean you should fire all your fundamental strategies and hire Quant funds. After all, Quant strategies have had their own disappointing periods – the Great Financial Crisis of 2008 – for instance. But it may make sense to offer a set of options that are diversified between fundamental and Quant, just like you diversify between investment managers and investment styles.

On our core platform, we’ve recently added more actively-managed fund options that have **lower tracking error expectations**.

### *Funds that lower portfolio volatility*

Another option is to consider including funds whose mandate isn’t to outperform an equity benchmark but to mitigate downside risk. **Low volatility** funds gained popularity in CAP plans prior to the recent surges in the equity markets. These funds might align better with many CAP members view of investment success, even if they lag index returns in bull markets. **Real assets / alternatives** (stand alone or within pre-built portfolios such as Target Date funds), can also provide members with diversification benefits to complement traditional investments.

<sup>18</sup> AllianceBernstein: Capturing Consistent Returns Streams in Capricious Equity Markets. Source: eVestment Global Large Cap Core Equity Category

# Summary

As CAP plan sponsors, you have fiduciary responsibility for the investment options you make available to your members. This doesn't mean that you are responsible for offering the highest performing funds, or even funds that consistently outperform a market benchmark. All active funds will underperform at some point. But it does mean that you should undertake additional due diligence when pro-longed periods of underperformance occur. Understanding the reasons for fund performance, and if necessary, what fund alternatives exist, is a crucial part of investment governance. Choosing to retain a fund should be considered an active investment decision, just like choosing to replace a fund.

**To support any discussions about fund performance, especially if change is being considered,** consider the following:

- Manager performance, including attribution, should always be evaluated in the context of **portfolio objectives, constraints, philosophy and style**.
- Performance analysis should **always include risk metrics**, as well as returns. **Peer relative** performance can also provide important insights.
- **Qualitative assessment** (personnel turnover, organizational stability, consistency of process, adherence to investment policies, etc.)
- **Meeting with the manager** can provide an opportunity to hear context and rationale for stock selection and provide you with important insights on the manager's approach.

Use caution in manager selection decisions when markets are concentrated, have narrow leadership, or are driven by lower quality or momentum factors. Style tailwinds (headwinds) will eventually lead to a peak (trough) when a style rotation occurs.

**For fund additions as new options for your plan members,** consider:

- **Active equity funds with lower active risk** (tracking error)
- **Funds that lower portfolio volatility like low volatility equity and real asset funds** (either within pre-built portfolios such as Target Date or as standalone funds).



## We're here to help!

The Sun Life **GRS Investment Solutions team** is here to help you review your investment options. Investment Solutions Executives conduct investment governance for the Sun Life platform and provide sponsors with insights into CAP line-up design, selection and monitoring. We ensure that your investment governance program remains modern, with information and tools to help you make decisions.

In 2025, we formalized support for the Sun Life teams who provide investment guidance and advice directly to plan members. We now have a dedicated resource from the GRS Investment Solutions team, whose focus is the investment training and quality of advice for member-facing staff (e.g. Financial Services Consultants and Retirement Consultants). This ensures that your plan members feel supported with simplified investment decision-making tools and support.

We will partner with you to ensure investment success in your CAP – both for you as sponsors (fiduciaries) and for plan members, to improve their investment outcomes.

Index data source: Various providers, including MSCI, FTSE, S&P, BMO, Russell, JP Morgan. The index providers make no express or implied warranties or representations and shall have no liability whatsoever with respect to any data contained herein. The index data may not be further redistributed or used as a basis for other indices or any securities of financial products. This report is not approved, reviewed or produced by the index providers. Sun Life makes no representations or warranties about the completeness, reliability, and accuracy of the index source data. Any action you take upon reliance of the index source data is strictly at your own risk.

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