

Fleeting Alpha Scorecard: The Challenge of Consistent Outperformance

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SUMMARY

The Fleeting Alpha Scorecard is a semiannual report showing how well outperforming mutual funds from one three-year period continue to outperform thereafter. It combines two other S&P Dow Jones Indices reports, the [SPIVA® U.S. Scorecard](#) and the [Persistence Scorecard](#). The former measures the percentage of active managers that beat their benchmarks across various equity and fixed income categories. The latter shows the likelihood that strong performers in early periods maintain their status relative to other funds in subsequent periods.

For the Fleeting Alpha Scorecard, we first identify funds that beat their benchmarks, based on three-year annualized returns, net-of-fees. We then examine whether these funds continue to outperform during each of the next three one-year periods.

Report 1 shows the performance persistence of managers investing in various domestic and international equity categories, based on trailing three-year returns. **Of the 18 categories in domestic equity, eight did not show funds with alpha persistence after three years.** For example, as of Dec. 31, 2016, roughly 10% of 313 large-cap value funds had outperformed the [S&P 500® Value](#) in the previous three years. By the end of 2019, none of these 31 winners had maintained that status for three consecutive years. **Of the winners at the end of 2016, just 12.9% of all domestic equity funds beat the S&P Composite 1500® in each of the three following one-year periods.**

The vast majority of domestic equity funds showed little outperformance persistence, with notable exceptions in the small- and mid-cap spaces. Improvement in persistence mainly came from the mid-cap growth funds and the small-cap growth funds, in which 67% and 50%, respectively, of the past winners were able to generate positive alpha in the three subsequent one-year periods (in a small sample size).

International equity funds, in general, did slightly better than their domestic peers. International small-cap managers showed better signs of alpha persistence, with 31% maintaining their status for three years. Emerging market funds did notably poorly, with no funds managing to repeat positive alpha after only the first two years.

Echoing a point from the [SPIVA U.S. Year-End 2019 Scorecard](#), prior to evaluation of alpha persistence, few funds beat the benchmark for the initial three-years (2014-2016). In 16 of the 18 domestic equity categories, fewer than 10% surpassed the benchmark, significantly reducing the original universe into the pool of “winners” for subsequent tracking.

We take into consideration that cyclical market conditions can unduly influence a snapshot of the performance persistence figure. The figures in Report 2 are calculated by: 1) creating Report 1 in each quarter between December 2010 and December 2019, and 2) taking simple averages of the persistence figures for each of the categories.

The average outperformance persistence in each of the following three years fell rapidly. For domestic equity funds, the average outperformance persistence by year was 37.6%, 14.9%, and 5.1%, respectively. International equity funds again fared slightly better, but even the outperformance persistence in the best-performing category, international small-cap, dropped to only 12.4% by the end of third year.

Domestically, as in the [previous Fleeting Alpha scorecard](#), real estate funds continued to show the best persistence in regard to maintaining alpha (8.3% after three years). On the downside, small-cap core funds offered the smallest alpha persistence, averaging a paltry 0.5% after three years.

ABOUT THE FLEETING ALPHA SCORECARD

The warning “past performance is no guarantee of future results” can be found in most funds’ literature, and for good reason: numerous studies show a lack of long-term performance persistence among actively managed mutual funds.¹ Yet many investors believe that winning performance persists, and past performance and related metrics remain important factors in manager selection.

The semiannual S&P Fleeting Alpha Scorecard tracks how well historical relative performance is predictive of future relative performance and which outperforming funds from one period continue to beat their benchmarks thereafter. As in our widely followed SPIVA Scorecards, our underlying data source is the University of Chicago’s Center for Research in Security Prices (CRSP) Survivorship Bias Free Mutual Fund Database.

Key features of the S&P Fleeting Alpha Scorecard include:

- **Historical rankings without survivorship bias:** When making an investment decision, all available mutual funds are part of the initial opportunity set. Ignoring funds that liquidate or merge during a period of study leads to biased measurements of persistence. Using the CRSP database, the S&P Fleeting Alpha Scorecard ranks all funds available at each point in time and tracks the outperforming funds throughout the time period.
- **Clean universe:** The mutual fund universe used in these reports comprises actively managed equity funds. Index funds, sector funds, and index-based dynamic (bull or bear) funds are excluded from the sample. To avoid double counting multiple share classes, only the share class with the highest previous period return of each fund is used.
- **Tracking top performers:** Based on the earliest availability of Lipper style classifications, our study covers the period from Dec. 31, 2004, through Dec. 31, 2019. On a quarterly basis beginning on Dec. 31, 2007, we compute the trailing three-year annualized returns for each fund in our universe, as well as for their benchmarks. We then identify funds that beat their benchmarks and track their relative performance in each of the next three years. By identifying funds that beat their benchmarks as winners and those that do not as losers, this approach applies the “winner-winner, winner-loser” methodology developed by Brown and Goetzmann (1995) and examines if winners in period t are also winners in $t + j$, where $j = \text{Year 1, Year 2, and Year 3}$.

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¹ The earliest work on mutual fund performance persistence is by Jensen (1968), who found that historically, mutual funds had not outperformed a buy-and-hold strategy, on average. For additional key studies on mutual fund performance, see Grinblatt and Titman (1989, 1992), Goetzmann and Ibbotson (1994), Brown and Goetzmann (1995), and Carhart (1997).

REPORTS

Report 1: Outperformance Persistence over Three Consecutive Years

FUND CATEGORY	BENCHMARK	TOTAL NUMBER OF FUNDS	NUMBER OF FUNDS OUTPERFORMING THE BENCHMARK	PERCENTAGE OF FUNDS OUTPERFORMING THE BENCHMARK	PERCENTAGE CONTINUING TO OUTPERFORM THE BENCHMARK (PERIOD END)		
					DEC. 31, 2017	DEC. 31, 2018	DEC. 31, 2019
DOMESTIC EQUITY							
All Domestic	S&P Composite 1500	2385	155	6.50	29.68	20.00	12.90
All Large-Cap	S&P 500	931	59	6.34	32.20	22.03	16.95
All Mid-Cap	S&P MidCap 400®	340	19	5.59	26.32	21.05	5.26
All Small-Cap	S&P SmallCap 600®	529	19	3.59	31.58	15.79	10.53
All Multi-Cap	S&P Composite 1500	586	40	6.83	30.00	22.50	10.00
Large-Cap Growth	S&P 500 Growth	273	13	4.76	61.54	23.08	23.08
Large-Cap Core	S&P 500	345	21	6.09	38.10	9.52	0.00
Large-Cap Value	S&P 500 Value	313	31	9.90	32.26	22.58	0.00
Mid-Cap Growth	S&P MidCap 400 Growth	158	9	5.70	77.78	77.78	66.67
Mid-Cap Core	S&P MidCap 400	120	8	6.67	37.50	25.00	0.00
Mid-Cap Value	S&P MidCap 400 Value	62	5	8.06	0.00	0.00	0.00
Small-Cap Growth	S&P SmallCap 600 Growth	190	4	2.11	75.00	75.00	50.00
Small-Cap Core	S&P SmallCap 600	233	8	3.43	12.50	0.00	0.00
Small-Cap Value	S&P SmallCap 600 Value	107	7	6.54	28.57	0.00	0.00
Multi-Cap Growth	S&P Composite 1500 Growth	184	9	4.89	77.78	11.11	11.11
Multi-Cap Core	S&P Composite 1500	303	18	5.94	16.67	0.00	0.00
Multi-Cap Value	S&P Composite 1500 Value	99	17	17.17	23.53	0.00	0.00
Real Estate	S&P United States REIT	79	13	16.46	61.54	15.38	15.38
INTERNATIONAL EQUITY							
Global	S&P Global 1200	182	25	13.74	36.00	20.00	16.00
International	S&P International 700	264	73	27.65	39.73	16.44	16.44
International Small-Cap	S&P Developed Ex-U.S. SmallCap	57	13	22.81	69.23	53.85	30.77
Emerging Markets	S&P/IFCI Composite	192	29	15.10	37.93	0.00	0.00

Source: S&P Dow Jones Indices LLC and CRSP. Data as of Dec. 31, 2019. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Report 2: Rolling Quarterly Average Outperformance Persistence over Three Consecutive Years							
FUND CATEGORY	BENCHMARK	TOTAL AVERAGE NUMBER OF FUNDS	NUMBER OF FUNDS OUTPERFORMING THE BENCHMARK	PERCENTAGE OF FUNDS OUTPERFORMING THE BENCHMARK	PERCENTAGE CONTINUING TO OUTPERFORM THE BENCHMARK (PERIOD END)		
			CURRENT PERIOD		YEAR 1	YEAR 2	YEAR 3
DOMESTIC EQUITY							
All Domestic	S&P Composite 1500	2425	728	30.53	37.61	14.93	5.08
All Large-Cap	S&P 500	850	225	28.46	31.70	11.62	3.87
All Mid-Cap	S&P MidCap 400	387	92	24.17	27.21	9.54	3.57
All Small-Cap	S&P SmallCap 600	536	132	24.93	31.15	10.89	3.51
All Multi-Cap	S&P Composite 1500	655	177	27.03	27.86	10.53	3.43
Large-Cap Growth	S&P 500 Growth	267	52	20.54	33.35	10.76	2.86
Large-Cap Core	S&P 500	319	76	25.59	26.44	8.75	2.29
Large-Cap Value	S&P 500 Value	265	96	39.03	32.12	11.41	3.09
Mid-Cap Growth	S&P MidCap 400 Growth	182	37	20.65	26.41	9.50	5.83
Mid-Cap Core	S&P MidCap 400	118	27	23.13	22.35	5.98	1.39
Mid-Cap Value	S&P MidCap 400 Value	86	25	28.86	21.77	6.26	1.28
Small-Cap Growth	S&P SmallCap 600 Growth	199	42	21.01	31.00	15.30	7.66
Small-Cap Core	S&P SmallCap 600	230	53	23.48	23.58	5.65	0.49
Small-Cap Value	S&P SmallCap 600 Value	107	32	30.83	28.99	8.28	1.95
Multi-Cap Growth	S&P Composite 1500 Growth	187	39	21.36	31.07	11.23	3.50
Multi-Cap Core	S&P Composite 1500	333	89	26.68	21.92	5.88	1.40
Multi-Cap Value	S&P Composite 1500 Value	136	46	32.93	21.24	6.22	1.61
Real Estate	S&P United States REIT	83	22	27.10	34.72	13.83	8.33
INTERNATIONAL EQUITY							
Global	S&P Global 1200	139	44	33.31	38.32	16.14	6.86
International	S&P International 700	266	85	31.42	42.12	19.26	8.78
International Small-Cap	S&P Developed Ex-U.S. SmallCap	49	24	48.91	48.38	24.96	12.38
Emerging Markets	S&P/IFCI Composite	112	30	25.14	34.28	13.26	5.26

Source: S&P Dow Jones Indices LLC and CRSP. Data from Dec. 31, 2004, to Dec. 31, 2019. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

APPENDIX I: NUMBER OF FUNDS

Report 3: Universe Statistics		
FUND CATEGORY	AVERAGE	MEDIAN
DOMESTIC EQUITY		
All Domestic	2425	2407
All Large-Cap	850	940
All Mid-Cap	387	377
All Small-Cap	536	534
All Multi-Cap	655	648
Large-Cap Growth	267	286
Large-Cap Core	319	343
Large-Cap Value	265	284
Mid-Cap Growth	182	182
Mid-Cap Core	118	110
Mid-Cap Value	86	85
Small-Cap Growth	199	193
Small-Cap Core	230	231
Small-Cap Value	107	106
Multi-Cap Growth	187	193
Multi-Cap Core	333	335
Multi-Cap Value	136	141
Real Estate	83	87
INTERNATIONAL EQUITY		
Global	139	137
International	266	267
International Small-Cap	49	48
Emerging Markets	112	121

Source: S&P Dow Jones Indices LLC and CRSP. Data as of Dec. 31, 2019. Average and median are calculated based on all quarterly snapshots between Dec. 31, 2004, and Dec. 31, 2019. Table is provided for illustrative purposes.

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