

Persistence Scorecard: Latin America

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INTRODUCTION

- When it comes to the active versus passive debate, one key dimension is the ability of a manager to deliver above-average returns over multiple periods. The ability to consistently outperform is one way to differentiate skill from luck.
- In this report, we measure the performance persistence of active funds in Brazil, Chile, and Mexico that outperformed their peers over consecutive three- and five-year periods. We also analyze their performance ranking transition matrices over subsequent periods.

SUMMARY OF RESULTS

Brazil

- Exhibit 2 highlights the inability of top-performing equity fund managers to replicate their success in subsequent years—regardless of size focus, by the fourth year, no fund remained in the top quartile.
- Fixed income painted a slightly different picture than equities. While the majority of managers were not able to maintain consistent outperformance for five years in a row, 28% of corporate bond managers and 8% of government bond managers were able to do so.
- The five-year transition matrix (see Exhibit 5) highlights that top-quartile funds that remained active had a higher likelihood of remaining in the top quartile in the second five-year period than of moving down to the other quartiles for all-cap equity (29%), large-cap equity (38%), and government bond funds (54%) .
- However, funds in Brazil had a high frequency of closures—even for equity funds in the top quartile in the first five-year period, 38% were eventually merged or liquidated in the second five-year period. Thus, overall, a fund had a higher chance of shutting down than of remaining in the top quartile.
- Top-quartile fund managers focused on mid- and small-cap equities fared particularly poorly, as no manager remained in the top quartile in the second five-year period—most funds moved to the bottom two quartiles (44% total) or shut down (44%).

Chile

- Exhibit 2 demonstrates the lack of persistence by equity managers in Chile—just 27% of top-performing funds in the first 12-month period repeated their outperformance in the subsequent period. This rate dropped to 9% in the third period and to 0% in the fourth and fifth periods.
- The five-year transition matrix shows top-quartile managers in the first period that remained live in the second period were more likely to stay in the first quartile than move to quartiles two to four. However, even for the top-performing quartile, a significant percentage of funds (44%) eventually shut down in the second period.

Mexico

- The five-year performance persistence test (see Exhibit 2) shows that top-quartile managers had difficulty replicating their outperformance in future years. After one year, just 18% of managers remained in the top quartile, and by year two, the percentage dropped to zero.
- Exhibit 5 shows that top-quartile managers in the first five-year period were more likely to move to the bottom quartile (38% of managers) in the second five-year period than to any other quartile. Just as many managers from the second- and third-quartile categories moved to the top quartile as the ones that remained at the top.
- As observed in the [SPIVA Latin America Scorecard](#), Mexico had a higher rate of survivorship than Brazil and Chile. The five-year transition matrix shows that all funds that ended up closing during the second period came from the worst-performing quartiles of the first period. This highlights that poor relative performance typically precedes a fund closing down.

ABOUT THE PERSISTENCE SCORECARD

The phrase “past performance is not an indicator of future results” (or some variation thereof) can be found in the fine print of most mutual fund literature. Yet, due to either force of habit or conviction, investors and advisors consider past performance and related metrics to be important factors in fund selection. So does past performance really matter?

To answer this question, this scorecard tracks the consistency of top performers over yearly consecutive periods and measures performance persistence through transition matrices. Key features of the scorecard include the following.

- **Same Universe as SPIVA®:** The scorecard follows the fund categories defined in the [SPIVA Latin America Scorecard](#), a semiannual report that tracks the number of active funds in Brazil, Chile, and Mexico that beat their respective benchmarks over different time horizons.
- **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, S&P Persistence Scorecards account for the entire opportunity set, not just the survivors, thereby eliminating survivorship bias.
- **Data Cleaning:** The S&P Persistence 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.
- **Tracking Reports of Top Performers:** The tracking reports show the percentages of funds that remain in the top quartile or top half rankings over consecutive three- and five-year periods.
- **Transition Matrices:** Transition matrices show the movements between quartiles and halves over two non-overlapping, three- and five-year periods. They also track the percentage of funds that have merged or liquidated.

EXHIBITS

Exhibit 1: Performance Persistence of Funds over Three Consecutive 12-Month Periods			
FUND CATEGORY	FUND COUNT AT START (JUNE 2017)	PERCENTAGE REMAINING IN TOP QUARTILE	
		JUNE 2018	JUNE 2019
TOP QUARTILE			
Brazil Equity Funds	65	24.62	1.54
Brazil Large-Cap Funds	20	35.00	15.00
Brazil Mid-/Small-Cap Funds	16	43.75	31.25
Brazil Corporate Bond Funds	49	48.98	22.45
Brazil Government Bond Funds	79	37.97	29.11
Chile Equity Funds	10	50.00	40.00
Mexico Equity Funds	12	25.00	0.00
FUND CATEGORY	FUND COUNT AT START (JUNE 2017)	PERCENTAGE REMAINING IN TOP HALF	
		JUNE 2018	JUNE 2019
TOP HALF			
Brazil Equity Funds	129	49.61	22.48
Brazil Large-Cap Funds	41	60.98	41.46
Brazil Mid-/Small-Cap Funds	31	58.06	48.39
Brazil Corporate Bond Funds	98	39.80	22.45
Brazil Government Bond Funds	158	66.46	44.30
Chile Equity Funds	20	60.00	45.00
Mexico Equity Funds	23	56.52	39.13

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

Exhibit 2: Performance Persistence of Funds over Five Consecutive 12-Month Periods						
FUND CATEGORY	FUND COUNT AT START (JUNE 2015)	PERCENTAGE REMAINING IN TOP QUARTILE				
		JUNE 2016	JUNE 2017	JUNE 2018	JUNE 2019	
TOP QUARTILE						
Brazil Equity Funds	89	38.20	4.49	0.00	0.00	
Brazil Large-Cap Funds	19	63.16	21.05	0.00	0.00	
Brazil Mid-/Small-Cap Funds	19	21.05	0.00	0.00	0.00	
Brazil Corporate Bond Funds	29	37.93	27.59	27.59	27.59	
Brazil Government Bond Funds	74	45.95	20.27	8.11	8.11	
Chile Equity Funds	11	27.27	9.09	0.00	0.00	
Mexico Equity Funds	11	18.18	0.00	0.00	0.00	
FUND CATEGORY	FUND COUNT AT START JUNE 2015)	PERCENTAGE REMAINING IN TOP HALF				
		JUNE 2016	JUNE 2017	JUNE 2018	JUNE 2019	
TOP HALF						
Brazil Equity Funds	178	52.25	17.98	10.11	6.18	
Brazil Large-Cap Funds	38	60.53	36.84	26.32	18.42	
Brazil Mid-/Small-Cap Funds	39	51.28	17.95	7.69	5.13	
Brazil Corporate Bond Funds	59	67.80	59.32	32.20	15.25	
Brazil Government Bond Funds	149	60.40	37.58	27.52	21.48	
Chile Equity Funds	22	50.00	40.91	22.73	13.64	
Mexico Equity Funds	22	40.91	18.18	9.09	9.09	

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

Exhibit 3: Three-Year Transition Matrix – Performance over Two Non-Overlapping Three-Year Periods (Based on Quartiles)							
QUARTILE	FUND COUNT AT START (JUNE 2016)	THREE-YEAR PERCENTAGE AT END					
		1ST QUARTILE (%)	2ND QUARTILE (%)	3RD QUARTILE (%)	4TH QUARTILE (%)	MERGED/ LIQUIDATED (%)	
BRAZIL EQUITY FUNDS							
1st Quartile	65	15.38	16.92	13.85	15.38	38.46	
2nd Quartile	64	15.63	23.44	15.63	15.63	29.69	
3rd Quartile	65	15.38	15.38	27.69	15.38	26.15	
4th Quartile	64	20.31	10.94	9.38	20.31	39.06	
BRAZIL LARGE-CAP FUNDS							
1st Quartile	16	31.25	31.25	0.00	18.75	18.75	
2nd Quartile	16	6.25	12.50	56.25	18.75	6.25	
3rd Quartile	15	33.33	13.33	13.33	26.67	13.33	
4th Quartile	16	18.75	31.25	12.50	25.00	12.50	
BRAZIL MID-/SMALL-CAP FUNDS							
1st Quartile	15	26.67	20.00	20.00	13.33	20.00	
2nd Quartile	15	6.67	26.67	20.00	40.00	6.67	
3rd Quartile	15	20.00	13.33	20.00	20.00	26.67	
4th Quartile	15	20.00	13.33	13.33	0.00	53.33	
BRAZIL CORPORATE BOND FUNDS							
1st Quartile	14	64.29	7.14	7.14	7.14	14.29	
2nd Quartile	14	0.00	35.71	42.86	7.14	14.29	
3rd Quartile	13	0.00	15.38	15.38	15.38	53.85	
4th Quartile	14	0.00	7.14	0.00	35.71	57.14	
BRAZIL GOVERNMENT BOND FUNDS							
1st Quartile	58	17.24	55.17	12.07	1.72	13.79	
2nd Quartile	58	25.86	15.52	50.00	1.72	6.90	
3rd Quartile	57	38.60	10.53	22.81	17.54	10.53	
4th Quartile	58	6.90	6.90	1.72	67.24	17.24	
CHILE EQUITY FUNDS							
1st Quartile	10	20.00	30.00	10.00	0.00	40.00	
2nd Quartile	10	20.00	0.00	40.00	10.00	30.00	
3rd Quartile	9	0.00	22.22	22.22	22.22	33.33	
4th Quartile	10	30.00	10.00	0.00	30.00	30.00	
MEXICO EQUITY FUNDS							
1st Quartile	11	27.27	18.18	27.27	27.27	0.00	
2nd Quartile	11	36.36	27.27	27.27	0.00	9.09	
3rd Quartile	10	20.00	30.00	20.00	30.00	0.00	
4th Quartile	11	18.18	18.18	27.27	36.36	0.00	

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

Exhibit 4: Three-Year Transition Matrix – Performance over Two Non-Overlapping Three-Year Periods (Based on Halves)				
HALF	FUND COUNT AT START (JUNE 2016)	THREE-YEAR PERCENTAGE AT END		
		TOP HALF (%)	BOTTOM HALF (%)	MERGED/LIQUIDATED (%)
BRAZIL EQUITY FUNDS				
Top Half	129	35.66	30.23	34.11
Bottom Half	129	31.01	36.43	32.56
BRAZIL LARGE-CAP FUNDS				
Top Half	32	40.63	46.88	12.50
Bottom Half	31	48.39	38.71	12.90
BRAZIL MID-/SMALL-CAP FUNDS				
Top Half	30	40.00	46.67	13.33
Bottom Half	30	33.33	26.67	40.00
BRAZIL CORPORATE BOND FUNDS				
Top Half	28	53.57	32.14	14.29
Bottom Half	27	11.11	33.33	55.56
BRAZIL GOVERNMENT BOND FUNDS				
Top Half	116	56.90	32.76	10.34
Bottom Half	115	31.30	54.78	13.91
CHILE EQUITY FUNDS				
Top Half	20	35.00	30.00	35.00
Bottom Half	19	31.58	36.84	31.58
MEXICO EQUITY FUNDS				
Top Half	22	54.55	40.91	4.55
Bottom Half	21	42.86	57.14	0.00

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

Exhibit 5: Five-Year Transition Matrix – Performance over Two Non-Overlapping Five-Year Periods (Based on Quartiles)							
QUARTILE	FUND COUNT AT START (JUNE 2014)	FIVE-YEAR PERCENTAGE AT END					
		1ST QUARTILE (%)	2ND QUARTILE (%)	3RD QUARTILE (%)	4TH QUARTILE (%)	MERGED/ LIQUIDATED (%)	
BRAZIL EQUITY FUNDS							
1st Quartile	45	28.89	13.33	4.44	15.56	37.78	
2nd Quartile	46	10.87	13.04	17.39	21.74	36.96	
3rd Quartile	45	17.78	15.56	11.11	6.67	48.89	
4th Quartile	45	2.22	15.56	26.67	13.33	42.22	
BRAZIL LARGE-CAP FUNDS							
1st Quartile	13	38.46	15.38	15.38	15.38	15.38	
2nd Quartile	14	21.43	35.71	14.29	7.14	21.43	
3rd Quartile	13	23.08	0.00	30.77	23.08	23.08	
4th Quartile	13	0.00	30.77	15.38	38.46	15.38	
BRAZIL MID-/SMALL-CAP FUNDS							
1st Quartile	9	0.00	11.11	22.22	22.22	44.44	
2nd Quartile	9	44.44	11.11	11.11	11.11	22.22	
3rd Quartile	9	11.11	22.22	11.11	11.11	44.44	
4th Quartile	9	11.11	11.11	22.22	11.11	44.44	
BRAZIL CORPORATE BOND FUNDS							
1st Quartile	5	20.00	0.00	20.00	0.00	60.00	
2nd Quartile	5	40.00	20.00	20.00	0.00	20.00	
3rd Quartile	4	0.00	25.00	25.00	25.00	25.00	
4th Quartile	5	0.00	20.00	0.00	40.00	40.00	
BRAZIL GOVERNMENT BOND FUNDS							
1st Quartile	37	54.05	13.51	2.70	2.70	27.03	
2nd Quartile	36	22.22	52.78	8.33	0.00	16.67	
3rd Quartile	37	0.00	16.22	62.16	5.41	16.22	
4th Quartile	36	2.78	0.00	5.56	72.22	19.44	
CHILE EQUITY FUNDS							
1st Quartile	9	22.22	11.11	11.11	11.11	44.44	
2nd Quartile	8	12.50	12.50	12.50	25.00	37.50	
3rd Quartile	9	11.11	33.33	22.22	0.00	33.33	
4th Quartile	8	12.50	0.00	12.50	25.00	50.00	
MEXICO EQUITY FUNDS							
1st Quartile	8	25.00	12.50	25.00	37.50	0.00	
2nd Quartile	8	25.00	37.50	12.50	25.00	0.00	
3rd Quartile	7	28.57	42.86	14.29	0.00	14.29	
4th Quartile	8	12.50	12.50	37.50	25.00	12.50	

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

Exhibit 6: Five-Year Transition Matrix – Performance over Two Non-Overlapping Five-Year Periods (Based on Halves)				
HALF	FUND COUNT AT START (JUNE 2014)	FIVE-YEAR PERCENTAGE AT END		
		TOP HALF (%)	BOTTOM HALF (%)	MERGED/LIQUIDATED (%)
BRAZIL EQUITY FUNDS				
Top Half	91	32.97	29.67	37.36
Bottom Half	90	25.56	28.89	45.56
BRAZIL LARGE-CAP FUNDS				
Top Half	27	55.56	25.93	18.52
Bottom Half	26	26.92	53.85	19.23
BRAZIL MID-/SMALL-CAP FUNDS				
Top Half	18	33.33	33.33	33.33
Bottom Half	18	27.78	27.78	44.44
BRAZIL CORPORATE BOND FUNDS				
Top Half	10	40.00	20.00	40.00
Bottom Half	9	22.22	44.44	33.33
BRAZIL GOVERNMENT BOND FUNDS				
Top Half	73	71.23	6.85	21.92
Bottom Half	73	9.59	72.60	17.81
CHILE EQUITY FUNDS				
Top Half	17	29.41	29.41	41.18
Bottom Half	17	29.41	29.41	41.18
MEXICO EQUITY FUNDS				
Top Half	16	50.00	50.00	0.00
Bottom Half	15	46.67	40.00	13.33

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

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