

Latin America Persistence Scorecard

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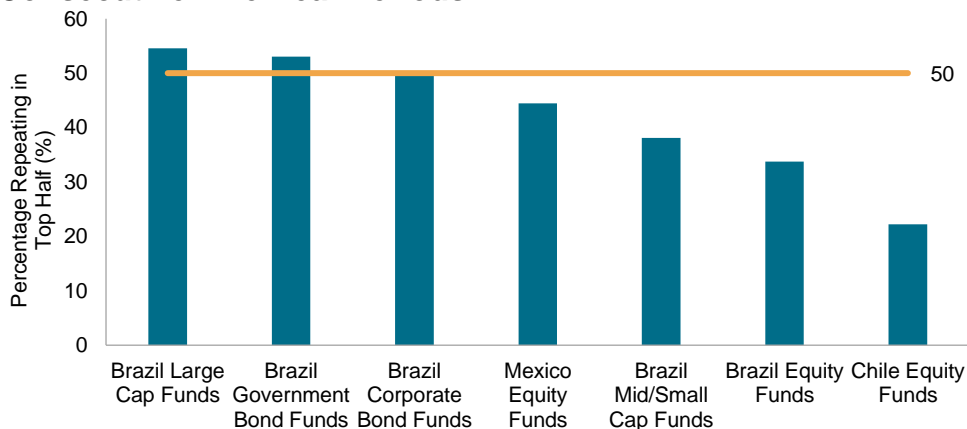
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Summary

Can investment results be attributed to skill or luck? Genuine skill is more likely to persist, while luck is random and fleeting. Thus, one measure of skill is the consistency of a fund's performance relative to its peers. The Persistence Scorecard measures that consistency and shows that, **regardless of asset class or style focus, active management outperformance is typically relatively short-lived, with few funds consistently outranking their peers.**

In each of our reported regional fund categories across Brazil, Chile and Mexico, of all the funds whose performance placed them in the top quartile for the 12-month period ending June 2018, **less than 5% of all funds, and no equity funds, managed to remain in the top quartile for each of the next four years** (see Report 2). Exhibit 1 illustrates that across most categories, less than 50% of funds were able to repeat their top-half status over two consecutive five-year periods (see Report 6).

Exhibit 1: Percentage of Funds Repeating in Top Half over Two Consecutive Five-Year Periods



Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2022. Chart is provided for illustrative purposes. Past performance is no guarantee of future results.

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Report Highlights

Brazil

- Top-performing Brazilian equity fund managers were unable to maintain their outperformance in subsequent years. Equity funds were the least persistent—by the fourth year, none of the funds in the Brazil Equity, Brazil Large-Cap and Brazil Mid-/Small-Cap categories had remained consistently in the top quartile (see Report 2).
- Bond funds fared slightly better, but still the majority of corporate bond and government bond fund managers did not maintain consistent outperformance for five years in a row; only 3% of them did so (see Report 2).
- The Brazil Corporate Bond Funds category was a highlight within the five-year transition matrix (see Report 5). The chance of a winning fund remaining in the top quartile after two consecutive five-year periods was the highest among all the categories, with 50% of funds remaining in the first quartile.

Chile

- The lack of persistence by equity managers was equally visible in Chile—none of the top-performing funds in the first 12-month period repeated their outperformance for the subsequent four years (see Report 2).
- Report 3 shows that only 29% of the top-quartile funds in the first period of the three-year transition matrix remained in the top quartile at the end of the three years.
- Funds in the second, third and fourth quartiles of the five-year transition matrix were more likely to be liquidated (44%, 44% and 67%, respectively) than to stay where they were or move to a higher-ranked quartile (see Report 5).

Mexico

- Similar to the other regions, top-quartile managers in Mexico had difficulty replicating their outperformance in subsequent years. After one year, just 27% of managers remained in the top quartile, and after two years, none remained (see Report 2).
- The five-year transition matrix shows that a third of top-quartile managers moved to quartile four over the five-year period, and only a third remained in the top (see Report 5).
- Consistent with what we observed in the [SPIVA® Latin America Mid-Year 2022 Scorecard](#), Mexico had a higher fund survival rate than Brazil and Chile across all periods measured. Reports 3, 4, 5 and 6 show that, on average, Mexican funds had less chance of being shut down than Brazilian and Chilean funds.

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, the semiannual S&P Persistence Scorecard tracks the degree to which historical relative performance is predictive of future relative performance. For a more detailed description of the Persistence Scorecard’s allocation of funds to appropriate categories, and how funds are screened and selected for inclusion, please see the corresponding SPIVA Latin America Mid-Year 2022 Scorecard.¹

Key features of the S&P Persistence Scorecard include:

- **Historical rankings without survivorship bias:** For anyone making an investment decision, all funds available at the time of that decision are part of the initial opportunity set. Ignoring funds that liquidate or merge during a period of study biases measurements of persistence.
- **Clean universe:** The mutual fund universe used in these reports comprises actively managed funds in Brazil, Mexico and Chile. Index, leveraged and inverse funds, along with other index-linked products, are excluded from the sample. To avoid double counting of multiple share classes, only the share class with the highest previous period return of each fund is used.
- **Transition matrices:** Transition matrices show the movements between quartiles and halves over non-overlapping three- and five-year periods. They also track the percentage of funds that have merged or liquidated.
- **Tracking reports of top performers:** The tracking reports show the percentage of funds that remain in the top-quartile or top-half rankings over consecutive three- and five-year periods.

¹ The latest and historical SPIVA Scorecards for each region can be found at <https://www.spglobal.com/spdji/en/research-insights/spiva/>

Reports

Report 1: Performance Persistence of Funds over Three Consecutive 12-Month Periods

Fund Category	Fund Count at Start (June 2020)	Percentage Remaining in Top Quartile	
		June 2021	June 2022
Top Quartile			
Brazil Equity Funds	57	30	7
Brazil Large-Cap Funds	26	31	12
Brazil Mid-/Small-Cap Funds	18	22	22
Brazil Corporate Bond Funds	23	13	9
Brazil Government Bond Funds	66	39	26
Chile Equity Funds	10	30	10
Mexico Equity Funds	11	27	0
Fund Category	Fund Count at Start (June 2020)	Percentage Remaining in Top Half	
		June 2021	June 2022
Top Half			
Brazil Equity Funds	113	54	19
Brazil Large-Cap Funds	51	53	29
Brazil Mid-/Small-Cap Funds	36	42	25
Brazil Corporate Bond Funds	46	24	15
Brazil Government Bond Funds	131	60	41
Chile Equity Funds	19	58	47
Mexico Equity Funds	22	64	50

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2022. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

Report 2: Performance Persistence of Funds over Five Consecutive 12-Month Periods

Fund Category	Fund Count at Start (June 2018)	Percentage Remaining in Top Quartile			
		June 2019	June 2020	June 2021	June 2022
Top Quartile					
Brazil Equity Funds	54	11	6	0	0
Brazil Large-Cap Funds	20	20	5	0	0
Brazil Mid-/Small-Cap Funds	15	40	27	0	0
Brazil Corporate Bond Funds	32	44	22	6	3
Brazil Government Bond Funds	64	39	20	3	3
Chile Equity Funds	9	56	11	0	0
Mexico Equity Funds	11	27	0	0	0
Fund Category	Fund Count at Start (June 2018)	Percentage Remaining in Top Half			
		June 2019	June 2020	June 2021	June 2022
Top Half					
Brazil Equity Funds	107	40	25	15	7
Brazil Large-Cap Funds	39	54	26	18	15
Brazil Mid-/Small-Cap Funds	30	57	37	13	13
Brazil Corporate Bond Funds	63	51	32	13	10
Brazil Government Bond Funds	128	71	53	33	20
Chile Equity Funds	18	61	28	22	22
Mexico Equity Funds	21	57	29	29	29

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2022. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

Report 3: Three-Year Transition Matrix – Performance over Two Non-Overlapping Three-Year Periods (Based on Quartiles)

Quartile	Fund Count at Start (June 2016-June 2019)	Three-Year Percentages at End (June 2019-June 2022)				
		1st Quartile (%)	2nd Quartile (%)	3rd Quartile (%)	4th Quartile (%)	Merged/ Liquidated (%)
Brazil Equity Funds						
1st Quartile	44	27	20	16	32	5
2nd Quartile	44	23	23	39	14	2
3rd Quartile	44	16	20	27	20	16
4th Quartile	45	24	27	9	27	13
Brazil Large-Cap Funds						
1st Quartile	17	59	6	12	24	0
2nd Quartile	16	13	38	13	31	6
3rd Quartile	17	6	29	35	24	6
4th Quartile	17	12	18	29	18	24
Brazil Mid-/Small-Cap Funds						
1st Quartile	13	38	23	0	38	0
2nd Quartile	12	17	17	42	17	8
3rd Quartile	12	17	25	25	25	8
4th Quartile	13	15	23	23	8	31
Brazil Corporate Bond Funds						
1st Quartile	15	53	20	0	13	13
2nd Quartile	14	0	21	29	14	36
3rd Quartile	14	0	14	43	7	36
4th Quartile	15	13	7	0	33	47
Brazil Government Bond Funds						
1st Quartile	55	11	13	33	40	4
2nd Quartile	54	63	17	6	9	6
3rd Quartile	54	13	59	13	2	13
4th Quartile	55	4	2	38	40	16
Chile Equity Funds						
1st Quartile	7	29	0	0	43	29
2nd Quartile	7	29	43	29	0	0
3rd Quartile	7	0	29	29	14	29
4th Quartile	7	14	0	14	14	57
Mexico Equity Funds						
1st Quartile	10	50	10	20	10	10
2nd Quartile	10	20	40	30	0	10
3rd Quartile	10	30	20	10	40	0
4th Quartile	11	0	18	27	45	9

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2022. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

Report 4: Three-Year Transition Matrix – Performance over Two Non-Overlapping Three-Year Periods (Based on Halves)

Half	Fund Count at Start (June 2016-2019)	Three Year Percentage at End (June 2019-June 2022)		
		Top Half (%)	Bottom Half (%)	Merged/Liquidated (%)
Brazil Equity Funds				
Top Half	88	47	50	3
Bottom Half	89	44	42	15
Brazil Large-Cap Funds				
Top Half	33	58	39	3
Bottom Half	34	32	53	15
Brazil Mid-/Small-Cap Funds				
Top Half	25	48	48	4
Bottom Half	25	40	40	20
Brazil Corporate Bond Funds				
Top Half	29	48	28	24
Bottom Half	29	17	41	41
Brazil Government Bond Funds				
Top Half	109	51	44	5
Bottom Half	109	39	47	15
Chile Equity Funds				
Top Half	14	50	36	14
Bottom Half	14	21	36	43
Mexico Equity Funds				
Top Half	20	60	30	10
Bottom Half	21	33	62	5

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2022. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

Report 5: Five-Year Transition Matrix – Performance over Two Non-Overlapping Five-Year Periods (Based on Quartile)

Quartile	Fund Count at Start (June 2012-June 2017)	Five Year Percentages at End (June 2017-June 2022)				
		1st Quartile (%)	2nd Quartile (%)	3rd Quartile (%)	4th Quartile (%)	Merged/Liquidated (%)
Brazil Equity Funds						
1st Quartile	42	14	31	21	19	14
2nd Quartile	41	10	12	20	17	41
3rd Quartile	42	33	7	19	14	26
4th Quartile	42	14	21	12	24	29
Brazil Large-Cap Funds						
1st Quartile	17	47	12	6	35	0
2nd Quartile	16	13	38	25	0	25
3rd Quartile	16	6	25	31	6	31
4th Quartile	17	18	12	24	41	6
Brazil Mid-/Small-Cap Funds						
1st Quartile	11	36	9	45	9	0
2nd Quartile	10	10	20	20	20	30
3rd Quartile	11	9	27	9	18	36
4th Quartile	11	18	18	0	36	27
Brazil Corporate Bond Funds						
1st Quartile	8	50	25	13	0	13
2nd Quartile	8	0	25	13	13	50
3rd Quartile	8	0	13	38	25	25
4th Quartile	9	11	0	0	22	67
Brazil Government Bond Funds						
1st Quartile	42	24	52	17	0	7
2nd Quartile	41	17	12	56	0	15
3rd Quartile	42	31	12	12	29	17
4th Quartile	42	12	7	0	57	24
Chile Equity Funds						
1st Quartile	9	33	0	22	11	33
2nd Quartile	9	11	0	22	22	44
3rd Quartile	9	11	33	0	11	44
4th Quartile	9	0	11	11	11	67
Mexico Equity Funds						
1st Quartile	9	33	11	22	33	0
2nd Quartile	9	11	33	11	33	11
3rd Quartile	9	22	22	11	22	22
4th Quartile	10	20	20	40	10	10

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2022. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

Report 6: Five-Year Transition Matrix – Performance over Two Non-Overlapping Five-Year Periods (Based on Halves)

Half	Fund Count at Start (June 2012-June 2017)	Five-Year Percentages at End (June 2017-June 2022)		
		Top Half (%)	Bottom Half (%)	Merged/ Liquidated (%)
Brazil Equity Funds				
Top Half	83	34	39	28
Bottom Half	84	38	35	27
Brazil Large-Cap Funds				
Top Half	33	55	33	12
Bottom Half	33	30	52	18
Brazil Mid-/Small-Cap Funds				
Top Half	21	38	48	14
Bottom Half	22	36	32	32
Brazil Corporate Bond Funds				
Top Half	16	50	19	31
Bottom Half	17	12	41	47
Brazil Government Bond Funds				
Top Half	83	53	36	11
Bottom Half	84	31	49	20
Chile Equity Funds				
Top Half	18	22	39	39
Bottom Half	18	28	17	56
Mexico Equity Funds				
Top Half	18	44	50	6
Bottom Half	19	42	42	16

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of June 30, 2022. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

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