

Latin America Persistence Scorecard

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INTRODUCTION

A key dimension of the active versus passive debate is managers' ability to consistently deliver above-average returns over multiple time periods. Persistence in performance is one of many possible ways to differentiate skill from luck.

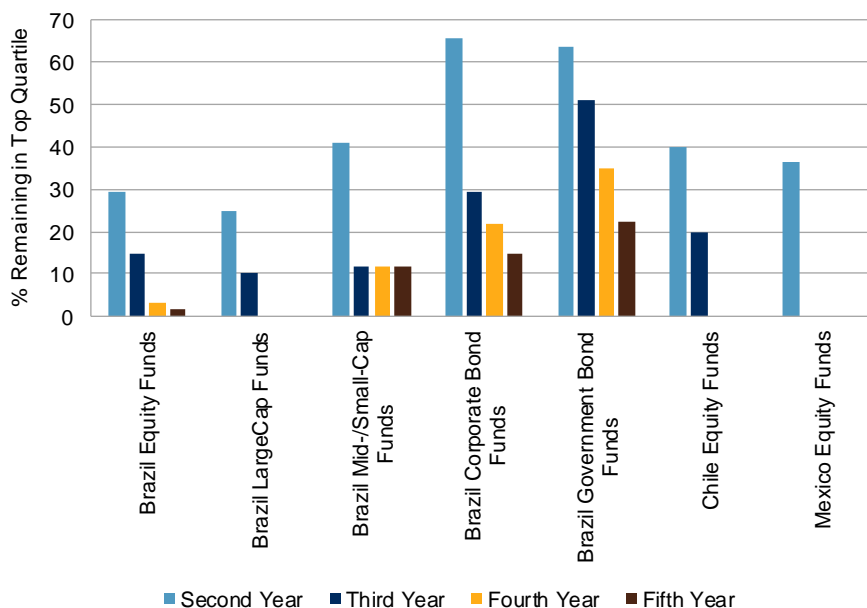
In this report, we measure the performance persistence of active funds in Brazil, Chile, and Mexico that outperformed their peers over consecutive three- and five-year periods. We also analyze how their performance ranking transitioned over subsequent periods.

SUMMARY OF RESULTS

Brazil

- Top performers in the fixed income fund categories showed better chances than equity categories to remain in the top quartile over three years (see Report 1).

Exhibit 1: Percentage Funds Consecutively Remaining in Top Quartile



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

- Report 2 highlights the inability of top-performing equity fund managers to consistently repeat success in subsequent years. Large-cap fund managers showed the least persistence—by the fourth year none of them remained in the top quartile.
- Within the Brazil Corporate Bond Funds category, only 15% were able to maintain consistent outperformance for five years in a row. Brazil Government Bond Fund managers had somewhat better results; 22% of them delivered consistent outperformance for five years in a row (see Report 2).
- The five-year transition matrix (see Report 5) highlights the Brazil Equity Fund and Brazil Government Bond Fund categories. The chance of a winning fund remaining in the top quartile after five one-year periods was lower than the chance of it liquidating.
- More than half (57%) of the top-quartile funds in the Brazil Corporate Bond Funds category remained in the top quartile, and the rest were merged or liquidated by the end of the five-year period (see Report 5).

Chile

- Report 2 shows a lack of persistence among equity managers in Chile—only 20% of top-performing funds in the first 12-month period repeated their outperformance after three years. None of the top-performing funds persisted in the subsequent periods.
- Top-quartile managers' funds in the first period of the five-year transition matrix were more likely to be liquidated (67%) than to stay in the first quartile (22%) or move to lower quartiles (11%). Lack of resilience also characterized managers who started in the subsequent quartiles (see Report 5).

Mexico

- As observed in the [SPIVA® Latin America Year-End 2020 Scorecard](#), Mexico had a higher rate of fund survivors than Brazil and Chile in the three-year and five-year periods. Reports 3, 4, 5, and 6 show that Mexican funds had a lower chance of being shut down than Brazilian and Chilean funds.
- The five-year performance persistence test (see Report 2) shows that top-quartile managers had difficulty replicating their outperformance in subsequent years. After one year, just 36% of managers remained in the top quartile, and by the end of year two, none remained.
- Report 5 shows that top-quartile managers in the first five-year period survived in the second five-year period; however, they were more likely to move to quartile three or four than remain in the top.

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 merged or liquidated.

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

FUND CATEGORY	FUND COUNT AT START (DECEMBER 2018)	PERCENTAGE REMAINING IN TOP QUARTILE	
		DECEMBER 2019	DECEMBER 2020
TOP QUARTILE			
Brazil Equity Funds	57	18	9
Brazil Large-Cap Funds	21	43	5
Brazil Mid-/Small-Cap Funds	16	50	6
Brazil Corporate Bond Funds	24	58	46
Brazil Government Bond Funds	66	71	39
Chile Equity Funds	9	33	22
Mexico Equity Funds	12	17	17
FUND CATEGORY	FUND COUNT AT START (DECEMBER 2018)	PERCENTAGE REMAINING IN TOP HALF	
		DECEMBER 2019	DECEMBER 2020
TOP HALF			
Brazil Equity Funds	113	42	22
Brazil Large-Cap Funds	41	66	22
Brazil Mid-/Small-Cap Funds	31	55	23
Brazil Corporate Bond Funds	47	68	55
Brazil Government Bond Funds	131	84	75
Chile Equity Funds	18	39	28
Mexico Equity Funds	24	38	21

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 2020. 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 (DECEMBER 2016)	PERCENTAGE REMAINING IN TOP QUARTILE			
		DECEMBER 2017	DECEMBER 2018	DECEMBER 2019	DECEMBER 2020
TOP QUARTILE					
Brazil Equity Funds	68	29	15	3	1
Brazil Large-Cap Funds	20	25	10	0	0
Brazil Mid-/Small-Cap Funds	17	41	12	12	12
Brazil Corporate Bond Funds	41	66	29	22	15
Brazil Government Bond Funds	63	63	51	35	22
Chile Equity Funds	10	40	20	0	0
Mexico Equity Funds	11	36	0	0	0
FUND CATEGORY	FUND COUNT AT START (DECEMBER 2016)	PERCENTAGE REMAINING IN TOP HALF			
		DECEMBER 2017	DECEMBER 2018	DECEMBER 2019	DECEMBER 2020
TOP HALF					
Brazil Equity Funds	136	51	35	13	10
Brazil Large-Cap Funds	40	50	23	15	10
Brazil Mid-/Small-Cap Funds	33	45	30	15	9
Brazil Corporate Bond Funds	87	55	20	17	15
Brazil Government Bond Funds	126	80	73	69	62
Chile Equity Funds	19	58	37	5	0
Mexico Equity Funds	22	64	9	5	0

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 2020. 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 (DECEMBER 2017)	THREE-YEAR PERCENTAGE AT END				
		1ST QUARTILE (%)	2ND QUARTILE (%)	3RD QUARTILE (%)	4TH QUARTILE (%)	MERGED/ LIQUIDATED (%)
BRAZIL EQUITY FUNDS						
1st Quartile	56	41	27	11	13	9
2nd Quartile	55	20	27	15	15	24
3rd Quartile	55	7	18	35	25	15
4th Quartile	56	11	7	20	29	34
BRAZIL LARGE-CAP FUNDS						
1st Quartile	18	39	17	22	17	6
2nd Quartile	18	17	17	39	11	17
3rd Quartile	18	17	22	11	33	17
4th Quartile	18	17	28	17	28	11
BRAZIL MID-/SMALL-CAP FUNDS						
1st Quartile	14	36	29	14	14	7
2nd Quartile	14	36	43	14	7	0
3rd Quartile	14	7	14	29	36	14
4th Quartile	14	7	0	29	29	36
BRAZIL CORPORATE BOND FUNDS						
1st Quartile	21	38	14	0	5	43
2nd Quartile	20	5	15	15	10	55
3rd Quartile	20	0	15	40	15	30
4th Quartile	21	14	10	0	29	48
BRAZIL GOVERNMENT BOND FUNDS						
1st Quartile	52	69	21	0	0	10
2nd Quartile	51	16	55	14	2	14
3rd Quartile	52	0	10	67	10	13
4th Quartile	52	2	2	6	75	15
CHILE EQUITY FUNDS						
1st Quartile	8	13	25	13	50	0
2nd Quartile	7	14	14	43	14	14
3rd Quartile	8	25	25	13	13	25
4th Quartile	8	25	13	13	13	38
MEXICO EQUITY FUNDS						
1st Quartile	11	27	36	18	0	18
2nd Quartile	10	20	40	30	0	10
3rd Quartile	11	27	0	27	45	0
4th Quartile	11	18	9	9	45	18

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 2020. 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 (DECEMBER 2017)	THREE-YEAR PERCENTAGE AT END		
		TOP HALF (%)	BOTTOM HALF (%)	MERGED/LIQUIDATED (%)
BRAZIL EQUITY FUNDS				
Top Half	111	58	26	16
Bottom Half	111	22	54	24
BRAZIL LARGE-CAP FUNDS				
Top Half	36	44	44	11
Bottom Half	36	42	44	14
BRAZIL MID-/SMALL-CAP FUNDS				
Top Half	28	71	25	4
Bottom Half	28	14	61	25
BRAZIL CORPORATE BOND FUNDS				
Top Half	41	37	15	49
Bottom Half	41	20	41	39
BRAZIL GOVERNMENT BOND FUNDS				
Top Half	103	81	8	12
Bottom Half	104	7	79	14
CHILE EQUITY FUNDS				
Top Half	15	33	60	7
Bottom Half	16	44	25	31
MEXICO EQUITY FUNDS				
Top Half	21	62	24	14
Bottom Half	22	27	64	9

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 2020. 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 Quartiles)							
QUARTILE	FUND COUNT AT START (DECEMBER 2015)	FIVE-YEAR PERCENTAGE AT END					MERGED/ LIQUIDATED (%)
		1ST QUARTILE (%)	2ND QUARTILE (%)	3RD QUARTILE (%)	4TH QUARTILE (%)		
BRAZIL EQUITY FUNDS							
1st Quartile	48	23	19	8	10	40	
2nd Quartile	47	13	13	15	23	36	
3rd Quartile	47	13	19	19	13	36	
4th Quartile	48	15	10	21	17	38	
BRAZIL LARGE-CAP FUNDS							
1st Quartile	15	47	13	0	40	0	
2nd Quartile	14	14	21	43	0	21	
3rd Quartile	15	7	13	27	20	33	
4th Quartile	15	20	33	20	27	0	
BRAZIL MID-/SMALL-CAP FUNDS							
1st Quartile	10	30	30	10	30	0	
2nd Quartile	9	11	33	11	22	22	
3rd Quartile	10	10	0	40	20	30	
4th Quartile	10	20	10	10	10	50	
BRAZIL CORPORATE BOND FUNDS							
1st Quartile	7	57	0	0	0	43	
2nd Quartile	6	0	33	33	17	17	
3rd Quartile	6	0	17	33	0	50	
4th Quartile	7	0	0	0	43	57	
BRAZIL GOVERNMENT BOND FUNDS							
1st Quartile	40	10	48	23	0	20	
2nd Quartile	39	18	18	46	3	15	
3rd Quartile	39	36	3	10	31	21	
4th Quartile	40	18	10	3	48	23	
CHILE EQUITY FUNDS							
1st Quartile	9	22	0	0	11	67	
2nd Quartile	9	0	22	11	11	56	
3rd Quartile	9	0	11	33	22	33	
4th Quartile	10	30	10	0	10	50	
MEXICO EQUITY FUNDS							
1st Quartile	7	14	0	29	57	0	
2nd Quartile	7	29	29	0	14	29	
3rd Quartile	7	29	29	29	14	0	
4th Quartile	8	25	25	25	13	13	

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 2020. 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 (DECEMBER 2015)	FIVE-YEAR PERCENTAGE AT END		
		TOP HALF (%)	BOTTOM HALF (%)	MERGED/LIQUIDATED (%)
BRAZIL EQUITY FUNDS				
Top Half	95	34	28	38
Bottom Half	95	28	35	37
BRAZIL LARGE-CAP FUNDS				
Top Half	29	48	41	10
Bottom Half	30	37	47	17
BRAZIL MID-/SMALL-CAP FUNDS				
Top Half	19	53	37	11
Bottom Half	20	20	40	40
BRAZIL CORPORATE BOND FUNDS				
Top Half	13	46	23	31
Bottom Half	13	8	38	54
BRAZIL GOVERNMENT BOND FUNDS				
Top Half	79	47	35	18
Bottom Half	79	33	46	22
CHILE EQUITY FUNDS				
Top Half	18	22	17	61
Bottom Half	19	26	32	42
MEXICO EQUITY FUNDS				
Top Half	14	36	50	14
Bottom Half	15	53	40	7

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

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