

Latin America Persistence Scorecard

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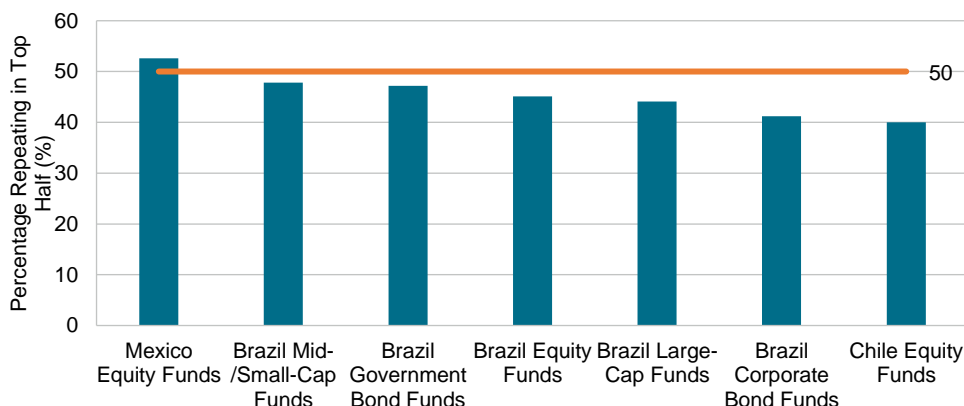
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Summary

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 tends to be relatively short lived**, with few funds consistently outranking their peers.

Among a total of 193 funds in our seven reported regional fund categories across Brazil, Chile and Mexico whose performance placed them in the top quartile for the 12-month period ending December 2018, **only two funds (less than 5%) managed to remain in the top quartile for each of the next four years** (see Report 2). Exhibit 1 illustrates that across all categories except one, 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 Dec. 30, 2022. Chart is provided for illustrative purposes. Past performance is no guarantee of future results.

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Report Highlights

Brazil

- Brazil's top-performing equity fund managers did not maintain their outperformance in subsequent years. Among equity funds ranked in the top-quartile for the 12 months ending December 2018, none remained consistently in the top quartile over the subsequent three one-year periods (see Report 2). Active fund outperformance in 2020 did not predict outperformance in the two subsequent years (see Report 1b).
- The Brazil Government Bond funds category showed similar erosion of outperformance, with precisely zero top-quartile managers as of December 2018 managing to remain in the top quartile for the subsequent four 12-month periods (see Report 2).
- Brazil Corporate Bond funds fared slightly better, with 4.8% of managers maintaining consistent top-quartile performance for five years in a row, and 33.3% remaining in the top quartile for two consecutive five-year periods (see Report 2 and Report 5).

Chile

- The rarity of persistence by equity managers was equally visible in Chile, with only one out of nine (11.1%) of the top-quartile funds in the first 12-month period repeating its outperformance for the subsequent four years (see Report 2).
- Report 3 shows that 25.0% 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 second period.
- Among funds ranked in the top half for the three years ending December 2019, the majority either fell to the bottom half, were merged or were liquidated over the subsequent three-year period (see Report 4).

Mexico

- Similar to the other regions, top-quartile managers in Mexico had difficulty replicating their rank in subsequent years. After one year, just 18.2% of Mexico Equity funds remained in the top quartile, and after four years, none remained (see Report 2).
- The five-year transition matrix shows that 60% of top-quartile funds subsequently dropped to quartile three or four over the five-year period, or were merged or liquidated, while only 20.0% remained in the top (see Report 5).
- Consistent with data from the [SPIVA® Latin America Year-End 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 were less likely to be shut down than Brazilian and Chilean funds.

About the Persistence Scorecard

The phrase “past performance is no guarantee 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 Year-End 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 (December 2020)	Percentage Remaining in Top Quartile	
		December 2021	December 2022
Top Quartile			
Brazil Equity Funds	62	25.81	6.45
Brazil Large-Cap Funds	28	32.14	7.14
Brazil Mid-/Small-Cap Funds	20	45.00	25.00
Brazil Corporate Bond Funds	24	54.17	20.83
Brazil Government Bond Funds	72	9.72	1.39
Chile Equity Funds	9	55.56	11.11
Mexico Equity Funds	11	27.27	0.00
Fund Category	Fund Count at Start (December 2020)	Percentage Remaining in Top Half	
		December 2021	December 2022
Top Half			
Brazil Equity Funds	124	44.35	23.39
Brazil Large-Cap Funds	56	53.57	42.86
Brazil Mid-/Small-Cap Funds	40	45.00	27.50
Brazil Corporate Bond Funds	48	54.17	31.25
Brazil Government Bond Funds	143	32.17	15.38
Chile Equity Funds	18	72.22	33.33
Mexico Equity Funds	21	57.14	19.05

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

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

Fund Category	Benchmark	Total Fund Count	Funds Outperforming the Benchmark (December 2020)		Percentage Continuing to Outperform the Benchmark (%)	
			Count	Percentage (%)	December 2021	December 2022
Brazil Equity Funds	S&P Brazil BMI	258	55	21.32	40.00	18.18
Brazil Large-Cap Funds	S&P Brazil LargeCap	118	15	12.71	53.33	20.00
Brazil Mid-/Small-Cap Funds	S&P Brazil MidSmallCap	82	29	35.37	41.38	27.59
Brazil Corporate Bond Funds	Anbima Debentures Index (IDA)	111	24	21.62	58.33	25.00
Brazil Government Bond Funds	Anbima Market Index (IMA)	309	84	27.18	40.48	9.52
Chile Equity Funds	S&P Chile BMI	39	24	61.54	75.00	41.67
Mexico Equity Funds	S&P/BMV IRT	44	22	50.00	9.09	9.09

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 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 (December 2018)	Percentage Remaining in Top Quartile			
		December 2019	December 2020	December 2021	December 2022
Top Quartile					
Brazil Equity Funds	51	19.61	9.80	0.00	0.00
Brazil Large-Cap Funds	21	47.62	4.76	0.00	0.00
Brazil Mid-/Small-Cap Funds	15	26.67	6.67	0.00	0.00
Brazil Corporate Bond Funds	21	66.67	47.62	28.57	4.76
Brazil Government Bond Funds	65	73.85	40.00	4.62	0.00
Chile Equity Funds	9	22.22	11.11	11.11	11.11
Mexico Equity Funds	11	18.18	18.18	0.00	0.00
Fund Category	Fund Count at Start (December 2018)	Percentage Remaining in Top Half			
		December 2019	December 2020	December 2021	December 2022
Top Half					
Brazil Equity Funds	102	43.14	23.53	8.82	3.92
Brazil Large-Cap Funds	42	61.90	19.05	4.76	4.76
Brazil Mid-/Small-Cap Funds	29	48.28	20.69	3.45	3.45
Brazil Corporate Bond Funds	42	66.67	54.76	30.95	19.05
Brazil Government Bond Funds	132	83.33	74.24	18.94	9.09
Chile Equity Funds	18	38.89	16.67	5.56	5.56
Mexico Equity Funds	22	40.91	22.73	13.64	4.55

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 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 (December 2016- December 2019)	Three-Year Percentages at End (December 2019-December 2022)				
		1st Quartile (%)	2nd Quartile (%)	3rd Quartile (%)	4th Quartile (%)	Merged/ Liquidated (%)
Brazil Equity Funds						
1st Quartile	44	20.45	20.45	20.45	34.09	4.55
2nd Quartile	44	27.27	20.45	25.00	18.18	9.09
3rd Quartile	44	20.45	34.09	18.18	13.64	13.64
4th Quartile	44	22.73	15.91	27.27	25.00	9.09
Brazil Large-Cap Funds						
1st Quartile	18	16.67	5.56	27.78	50.00	0.00
2nd Quartile	17	47.06	0.00	23.53	23.53	5.88
3rd Quartile	17	17.65	41.18	17.65	5.88	17.65
4th Quartile	18	11.11	44.44	22.22	11.11	11.11
Brazil Mid-/Small-Cap Funds						
1st Quartile	12	33.33	16.67	8.33	33.33	8.33
2nd Quartile	12	25.00	41.67	16.67	16.67	0.00
3rd Quartile	12	16.67	8.33	58.33	16.67	0.00
4th Quartile	13	15.38	15.38	7.69	23.08	38.46
Brazil Corporate Bond Funds						
1st Quartile	14	42.86	7.14	14.29	21.43	14.29
2nd Quartile	14	21.43	35.71	21.43	7.14	14.29
3rd Quartile	14	0.00	35.71	14.29	21.43	28.57
4th Quartile	15	13.33	0.00	26.67	26.67	33.33
Brazil Government Bond Funds						
1st Quartile	57	8.77	1.75	19.30	64.91	5.26
2nd Quartile	57	42.11	22.81	14.04	12.28	8.77
3rd Quartile	57	35.09	49.12	3.51	0.00	12.28
4th Quartile	58	3.45	15.52	51.72	13.79	15.52
Chile Equity Funds						
1st Quartile	8	25.00	12.50	25.00	25.00	12.50
2nd Quartile	8	25.00	12.50	12.50	37.50	12.50
3rd Quartile	8	12.50	37.50	25.00	0.00	25.00
4th Quartile	8	12.50	12.50	12.50	12.50	50.00
Mexico Equity Funds						
1st Quartile	10	50.00	20.00	0.00	20.00	10.00
2nd Quartile	10	30.00	30.00	30.00	10.00	0.00
3rd Quartile	10	10.00	30.00	40.00	10.00	10.00
4th Quartile	10	10.00	10.00	20.00	60.00	0.00

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 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 (December 2016-2019)	Three-Year Percentage at End (December 2019-December 2022)		
		Top Half (%)	Bottom Half (%)	Merged/Liquidated (%)
Brazil Equity Funds				
Top Half	88	44.32	48.86	6.82
Bottom Half	88	46.59	42.05	11.36
Brazil Large-Cap Funds				
Top Half	35	34.29	62.86	2.86
Bottom Half	35	57.14	28.57	14.29
Brazil Mid-/Small-Cap Funds				
Top Half	24	58.33	37.50	4.17
Bottom Half	25	28.00	52.00	20.00
Brazil Corporate Bond Funds				
Top Half	28	53.57	32.14	14.29
Bottom Half	29	24.14	44.83	31.03
Brazil Government Bond Funds				
Top Half	114	37.72	55.26	7.02
Bottom Half	115	51.30	34.78	13.91
Chile Equity Funds				
Top Half	16	37.50	50.00	12.50
Bottom Half	16	37.50	25.00	37.50
Mexico Equity Funds				
Top Half	20	65.00	30.00	5.00
Bottom Half	20	30.00	65.00	5.00

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 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 (December 2012- December 2017)	Five-Year Percentages at End (December 2017-December 2022)				
		1st Quartile (%)	2nd Quartile (%)	3rd Quartile (%)	4th Quartile (%)	Merged/ Liquidated (%)
Brazil Equity Funds						
1st Quartile	41	17.07	34.15	19.51	19.51	9.76
2nd Quartile	41	24.39	14.63	17.07	17.07	26.83
3rd Quartile	41	24.39	14.63	26.83	14.63	19.51
4th Quartile	41	14.63	14.63	14.63	29.27	26.83
Brazil Large-Cap Funds						
1st Quartile	17	41.18	0.00	11.76	41.18	5.88
2nd Quartile	17	17.65	29.41	23.53	0.00	29.41
3rd Quartile	17	11.76	41.18	17.65	5.88	23.53
4th Quartile	18	16.67	11.11	27.78	38.89	5.56
Brazil Mid-/Small-Cap Funds						
1st Quartile	12	41.67	8.33	25.00	16.67	8.33
2nd Quartile	11	18.18	27.27	36.36	9.09	9.09
3rd Quartile	11	0.00	36.36	0.00	27.27	36.36
4th Quartile	12	16.67	8.33	16.67	25.00	33.33
Brazil Corporate Bond Funds						
1st Quartile	9	33.33	33.33	11.11	11.11	11.11
2nd Quartile	8	0.00	12.50	25.00	12.50	50.00
3rd Quartile	8	0.00	12.50	25.00	12.50	50.00
4th Quartile	9	22.22	0.00	0.00	22.22	55.56
Brazil Government Bond Funds						
1st Quartile	45	13.33	62.22	15.56	0.00	8.89
2nd Quartile	44	9.09	9.09	59.09	4.55	18.18
3rd Quartile	44	22.73	6.82	11.36	47.73	11.36
4th Quartile	45	40.00	6.67	0.00	33.33	20.00
Chile Equity Funds						
1st Quartile	8	12.50	37.50	12.50	12.50	25.00
2nd Quartile	7	28.57	0.00	28.57	28.57	14.29
3rd Quartile	8	25.00	25.00	12.50	12.50	25.00
4th Quartile	8	0.00	0.00	12.50	12.50	75.00
Mexico Equity Funds						
1st Quartile	10	20.00	20.00	20.00	30.00	10.00
2nd Quartile	9	44.44	22.22	11.11	22.22	0.00
3rd Quartile	9	0.00	33.33	11.11	33.33	22.22
4th Quartile	10	20.00	10.00	40.00	10.00	20.00

Source: S&P Dow Jones Indices LLC, Morningstar. Data as of Dec. 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 (December 2012- December 2017)	Five-Year Percentages at End (December 2017-December 2022)		
		Top Half (%)	Bottom Half (%)	Merged/ Liquidated (%)
Brazil Equity Funds				
Top Half	82	45.12	36.59	18.29
Bottom Half	82	34.15	42.68	23.17
Brazil Large-Cap Funds				
Top Half	34	44.12	38.24	17.65
Bottom Half	35	40.00	45.71	14.29
Brazil Mid-/Small-Cap Funds				
Top Half	23	47.83	43.48	8.70
Bottom Half	23	30.43	34.78	34.78
Brazil Corporate Bond Funds				
Top Half	17	41.18	29.41	29.41
Bottom Half	17	17.65	29.41	52.94
Brazil Government Bond Funds				
Top Half	89	47.19	39.33	13.48
Bottom Half	89	38.20	46.07	15.73
Chile Equity Funds				
Top Half	15	40.00	40.00	20.00
Bottom Half	16	25.00	25.00	50.00
Mexico Equity Funds				
Top Half	19	52.63	42.11	5.26
Bottom Half	19	31.58	47.37	21.05

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