

Does Past Performance Matter?

The Persistence Scorecard

Summary of Results

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- Very few funds can consistently stay at the top. Out of the 687 funds that were in the top quartile as of March 2012, only 3.78% managed to stay there by the end of March 2014. Further, 1.90% of the large-cap funds, 3.16% of the mid-cap funds and 4.11% of the small-cap funds remain in the top quartile.
- For the three years ended March 2014, 14.10% of large-cap funds, 16.32% of mid-cap funds and 25.00% of small-cap funds maintained a top-half ranking over three consecutive 12-month periods. Random expectations would suggest a rate of 25%.
- An inverse relationship exists between the measurement time horizon and the ability of top-performing funds to maintain their status. It is worth noting that no large-cap or mid-cap funds managed to remain in the top quartile at the end of the five-year measurement period. The figures paint a poor picture of the lack of long-term persistence in mutual fund returns.
- Similarly, only 3.09% of large-cap funds, 3.6% of mid-cap funds and 5.48% of small-cap funds maintained top-half performance over five consecutive 12-month periods. Random expectations would suggest a repeat rate of 6.25%.
- The transition matrices track the performance of top and bottom quintile performers over subsequent time periods. The data shows a likelihood for the best-performing funds to become the worst-performing funds and vice versa. Of 426 funds that were in the bottom quartile, 28.64% moved to the top quartile over the five-year horizon, while 28.57% of those top-quartile funds moved into the bottom quartile during the same period.
- Our research also finds that there is consistency in the death rate of bottom-quartile funds. Across all market cap categories and all periods studied, fourth-quartile funds had a much higher rate of being merged or liquidated. The five-year transition matrix illustrates that 38.31% of large-cap, 39.13% of mid-cap and 45.54% of small-cap fourth-quartile funds disappeared.

About the Persistence Scorecard

The phrase “past performance is not an indicator of future outcomes” (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 on a continuous basis, the S&P Persistence Scorecard, released twice per year, tracks the consistency of top performers over yearly consecutive periods and measures performance persistence through transition matrices. As in our widely followed SPIVA[®] Scorecards, the University of Chicago’s Center for Research in Security Prices (CRSP) Survivorship Bias Free Mutual Fund Database serves as our underlying data source.

S&P Dow Jones Indices is one of the world’s leading index providers, maintaining a wide variety of investable and benchmark indices to meet an array of investor needs. Our Index Research & Design team is dedicated to conducting unbiased, in-depth analysis on a broad range of topics and issues facing investors in today’s marketplace. This scorecard highlights performance persistence over three- and five-year consecutive 12-month periods and two non-overlapping three- and five-year periods.

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. Nevertheless, in their persistence calculations, analysts often limit their sample to funds that continue to exist over the complete time period examined, ranking only the survivors. If that happens, funds that liquidate or merge during a period of study are disregarded, biasing measurements of persistence. Using the University of Chicago’s CRSP Survivorship Bias Free Mutual Fund Database, the S&P Persistence Scorecard ranks all funds available at each point in time and tracks the top-quartile and top-half performers throughout the time period. This approach accounts for all initially available funds.
- Clean universe: The mutual fund universe used in these reports comprises actively managed domestic U.S. equity funds. Index funds, sector funds and index-based dynamic (bull/bear) funds are excluded from the sample. To avoid double-counting multiple share classes, only the largest share class of a fund is used.
- 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. In addition, we monitor movements between capitalization levels. This helps us capture, for example, the conversion of some large-cap funds to mid- and small-cap funds.
- Tracking reports of top performers: The tracking reports show the percentages of funds that remain in the top-quartile or top-half rankings over three- and five-consecutive-year periods.

Exhibits

Exhibit 1: Performance Persistence Over Three Consecutive 12-Month Periods			
Mutual Fund Category	Fund Count at Start	Funds Remaining (%)	
	March 2012	March 2013	March 2014
Top Quartile			
All Domestic Funds	687	18.78	3.78
Large-Cap Funds	263.00	15.97	1.90
Mid-Cap Funds	95.00	9.47	3.16
Small-Cap Funds	146.00	23.97	4.11
Multi-Cap Funds	183.00	23.50	6.56
Top Half			
All Domestic Funds	1,372	41.55	18.66
Large-Cap Funds	525	37.52	14.10
Mid-Cap Funds	190	37.37	16.32
Small-Cap Funds	292	51.03	25.00
Multi-Cap Funds	365	41.92	21.37

Source: S&P Dow Jones Indices LLC. Data as of March 31, 2014. Charts and graphs are provided for illustrative purposes. Past performance is not a guarantee of future results.

Exhibit 2: Performance Persistence Over Five Consecutive 12-Month Periods					
Mutual Fund Category	Fund Count at Start	Funds Remaining (%)			
	March 2010	March 2011	March 2012	March 2013	March 2014
Top Quartile					
All Domestic Funds	715	22.66	4.2	0.84	0.28
Large-Cap Funds	259	18.92	3.47	0.39	0
Mid-Cap Funds	111	20.72	2.7	0	0
Small-Cap Funds	155	23.87	3.87	2.58	1.29
Multi-Cap Funds	190	27.89	6.32	0.53	0
Top Half					
All Domestic Funds	1,431	42.77	19.92	7.9	4.47
Large-Cap Funds	518	44.59	19.88	6.18	3.09
Mid-Cap Funds	222	32.43	16.22	4.95	3.60
Small-Cap Funds	310	42.58	20.65	10.32	5.48
Multi-Cap Funds	381	46.46	21.52	9.97	6.04

Source: S&P Dow Jones Indices LLC. Data as of March 31, 2014. Charts and graphs are 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)

Mutual Fund Category	Fund Count at Start (March 2011)	Funds Remaining at Three Years						
		1st Quartile (%)	2nd Quartile (%)	3rd Quartile (%)	4th Quartile (%)	Merged/Liquidated (%)	Style Changed (%)	Total (%)
All Domestic Funds								
1st Quartile	493	21.91	22.92	23.33	22.11	9.74	0	100
2nd Quartile	494	23.48	21.46	21.66	18.42	14.98	0	100
3rd Quartile	493	20.28	20.89	18.66	21.91	18.26	0	100
4th Quartile	493	16.84	17.44	18.86	20.08	26.77	0	100
Large-Cap Funds								
1st Quartile	181	23.76	16.57	17.68	14.36	11.05	16.57	100
2nd Quartile	181	18.23	22.1	14.92	18.23	17.68	8.84	100
3rd Quartile	180	16.67	15.00	19.44	22.22	17.22	9.45	100
4th Quartile	181	9.94	15.47	16.57	13.81	30.39	13.81	100
Mid-Cap Funds								
1st Quartile	70	21.43	14.29	21.43	12.86	12.86	17.14	100
2nd Quartile	70	14.29	21.43	15.71	15.71	15.71	17.15	100
3rd Quartile	69	13.04	17.39	10.14	15.94	26.09	17.39	100
4th Quartile	70	14.29	10.00	14.29	18.57	22.86	20.00	100
Small-Cap Funds								
1st Quartile	112	25	17.86	15.18	29.46	8.93	3.57	100
2nd Quartile	112	19.64	21.43	25	20.54	8.93	4.46	100
3rd Quartile	111	16.22	23.42	24.32	17.12	11.71	7.21	100
4th Quartile	112	20.54	18.75	16.96	14.29	27.68	1.78	100
Multi-Cap Funds								
1st Quartile	131	23.66	20.61	17.56	9.16	6.87	22.14	100
2nd Quartile	131	19.85	22.14	19.08	16.03	12.21	10.69	100
3rd Quartile	131	9.16	15.27	19.08	24.43	17.56	14.50	100
4th Quartile	131	15.27	9.92	12.21	18.32	30.53	13.74	100

Source: S&P Dow Jones Indices LLC. Data as of March 31, 2014. Charts and graphs are 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)

Mutual Fund Category	Fund Count at Start (March 2011)	Funds Remaining at Three Years					Total (%)
		Top Half (%)	Bottom Half (%)	Merged/Liquidated (%)	Style Changed (%)		
All Domestic Funds							
Top Half	987	44.88	42.76	12.36	0	100	
Bottom Half	986	37.73	39.76	22.52	0	100	
Large-Cap Funds							
Top Half	362	40.33	32.60	14.36	12.71	100	
Bottom Half	361	28.53	36.01	23.82	11.64	100	
Mid-Cap Funds							
Top Half	140	35.71	32.86	14.29	17.14	100	
Bottom Half	139	27.34	29.50	24.46	18.71	100	
Small-Cap Funds							
Top Half	224	41.96	45.09	8.93	4.02	100	
Bottom Half	223	39.46	36.32	19.73	4.49	100	
Multi-Cap Funds							
Top Half	262	43.13	30.92	9.54	16.41	100	
Bottom Half	262	24.81	37.02	24.05	14.12	100	

Source: S&P Dow Jones Indices LLC. Data as of March 31, 2014. Charts and graphs are 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)

Mutual Fund Category	Fund Count at Start (March 2009)	Funds Remaining at Five Years						Total (%)
		1st Quartile (%)	2nd Quartile (%)	3rd Quartile (%)	4th Quartile (%)	Merged/Liquidated (%)	Style Changed (%)	
All Domestic Funds								
1st Quartile	427	13.82	26.00	20.37	28.57	11.24	0	100
2nd Quartile	426	16.20	18.31	18.78	23.71	23.00	0	100
3rd Quartile	427	16.39	15.69	24.59	14.05	29.27	0	100
4th Quartile	426	28.64	15.02	11.27	8.69	36.38	0	100
Large-Cap Funds								
1st Quartile	155	9.03	19.35	18.06	30.32	14.19	9.04	100
2nd Quartile	154	14.29	12.34	12.99	14.94	27.27	18.18	100
3rd Quartile	155	19.35	14.84	12.26	9.03	29.03	15.49	100
4th Quartile	154	15.58	11.69	14.94	3.90	38.31	15.59	100
Mid-Cap Funds								
1st Quartile	70	5.71	8.57	14.29	17.14	12.86	41.43	100
2nd Quartile	69	7.25	8.70	10.14	14.49	23.19	36.23	100
3rd Quartile	70	17.14	7.14	8.57	4.29	24.29	38.57	100
4th Quartile	69	10.14	15.94	5.80	4.35	39.13	24.64	100
Small-Cap Funds								
1st Quartile	102	6.86	7.84	22.55	43.14	6.86	12.75	100
2nd Quartile	101	17.82	25.74	24.75	9.90	14.85	6.93	100
3rd Quartile	102	20.59	22.55	13.73	11.76	26.47	4.9	100
4th Quartile	101	24.75	12.87	8.91	3.96	45.54	3.96	100
Multi-Cap Funds								
1st Quartile	101	12.87	12.87	12.87	21.78	7.92	31.68	100
2nd Quartile	101	10.89	10.89	10.89	17.82	21.78	27.72	100
3rd Quartile	101	3.96	14.85	13.86	5.94	34.65	26.74	100
4th Quartile	101	20.79	10.89	10.89	2.97	28.71	25.75	100

Source: S&P Dow Jones Indices LLC. Data as of March 31, 2014. Charts and graphs are 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)

Mutual Fund Category	Fund Count at Start (March 2009)	Funds Remaining at Five Years				
		Top Half (%)	Bottom Half (%)	Merged/ Liquidated (%)	Style Changed (%)	Total (%)
All Domestic Funds						
Top Half	853	37.16	45.72	17.12	0	100
Bottom Half	853	37.87	29.31	32.83	0	100
Large-Cap Funds						
Top Half	309	27.51	38.19	20.71	13.59	100
Bottom Half	309	30.74	20.06	33.66	15.53	100
Mid-Cap Funds						
Top Half	139	15.11	28.06	17.99	38.84	100
Bottom Half	139	25.18	11.51	31.65	31.66	100
Small-Cap Funds						
Top Half	203	29.06	50.25	10.84	9.85	100
Bottom Half	203	40.39	19.21	35.96	4.43	100
Multi-Cap Funds						
Top Half	202	23.76	31.68	14.85	29.70	100
Bottom Half	202	25.25	16.83	31.68	26.24	100

Source: S&P Dow Jones Indices LLC. Data as of March 31, 2014. Charts and graphs are provided for illustrative purposes. Past performance is not a guarantee of future results.

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