

Does Past Performance Matter?

The S&P Persistence Scorecard

- The phrase “past performance is not an indicator of future outcomes” can be found in the fine print of almost all mutual fund literature. Yet due to either force of habit or conviction, investors and advisors alike consider past performance and related metrics to be important factors in fund selection.
- Does past performance really matter? The semi-annual S&P Persistence Scorecard tracks consistency of top performers over three and five consecutive year periods, and measures performance persistence through transition matrices for three- and five-year non-overlapping holding periods. As in our widely followed SPIVA reports, University of Chicago’s CRSP Survivorship Bias Free Mutual Fund Database underlies our analysis.
- Very few funds manage to consistently repeat top half or top quartile performance. Over the five years ending March 2010, only 1.7% of large-cap funds, 2.2% of mid-cap funds, and 4.6% of small-cap funds maintained a top-half ranking over five consecutive 12-month periods. Random expectations would suggest a rate of 6.25%.
- Looking at longer term performance, 18.5% of large-cap funds with a top quartile ranking over the five years ending March 2005 maintained a top quartile ranking over the next five years. Only 12.7% of mid-cap funds and 25.0% of small-cap funds maintained a top quartile performance over the same period. Random expectations would suggest a repeat rate of 25%.
- While consistent top quartile and top half repeat rates have been at or below levels one expects based solely on chance, there is consistency in the death rate of bottom quartile funds. Across the board, fourth quartile funds have a much higher rate of being merged and liquidated.

About the S&P Persistence Scorecard

The phrase “past performance is not an indicator of future outcomes” can be found in the fine print of almost all mutual fund literature. Despite that, both investors and advisors consider past performance and related metrics to be vital sources of information when selecting funds. But does past performance really matter? To answer this question on an ongoing basis, we have reintroduced the semi-annual S&P Persistence Scorecard, which tracks the consistency of top performers over consecutive-year periods and measures performance persistence through transition matrices. As in our widely followed SPIVA reports, University of Chicago’s CRSP Survivorship Bias Free Mutual Fund Database serves as our underlying data source. Key features of the 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 exist over the complete historical time period, essentially ranking the survivors only. It is important to take into account the fact that many funds might liquidate or merge during a period of study and to factor these funds into measurements of persistence. By using the University of Chicago’s Center for Research in Security Prices (CRSP) Survivorship Bias Free Mutual fund Database, the Persistence Scorecard ranks all funds available at each point in time and tracks the top-quartile and top-half performers throughout the time period.
- **Clean universe:** The mutual fund universe used in these reports is composed of 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 of multiple share classes, only the largest share class of a fund is used.
- **Transition matrices:** Transition matrices show the movements between quartiles and halves for 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 capturing, 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 for three and five consecutive-year periods.

The S&P Persistence Scorecard is the only comprehensive, periodic, and publicly available source of such data. The semi-annual reports can be found online at www.spiva.standardandpoors.com.

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

	Fund Count at Start	Percentage Remaining in Top Quartile	
Mutual Fund Category	Mar-08	Mar-09	Mar-10
Top Quartile			
All Domestic Funds	577	32.76	1.91
Large-Cap Funds	174	35.63	0.57
Mid-Cap Funds	98	19.39	0
Small-Cap Funds	137	37.96	2.92
Multi-Cap Funds	168	33.33	3.57
	Fund Count at Start	Percentage Remaining in Top Half	
Mutual Fund Category	Mar-08	Mar-09	Mar-10
Top Half			
All Domestic Funds	1152	53.99	14.15
Large-Cap Funds	347	56.48	14.7
Mid-Cap Funds	196	50.51	10.71
Small-Cap Funds	273	58.61	19.41
Multi-Cap Funds	336	49.70	11.31

Source: Standard & Poor's. For Periods Ending March 31, 2010

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

	Fund Count at Start	Percentage Remaining in Top Quartile			
Mutual Fund Category	Mar-06	Mar-07	Mar-08	Mar-09	Mar-10
Top Quartile					
All Domestic Funds	533	14.07	3.94	1.13	0.38
Large-Cap Funds	175	14.29	3.43	1.14	0
Mid-Cap Funds	90	10	3.33	1.11	0
Small-Cap Funds	119	15.97	4.2	1.68	0.84
Multi-Cap Funds	149	14.77	4.7	0.67	0.67
	Fund Count at Start	Percentage Remaining in Top Half			
Mutual Fund Category	Mar-06	Mar-07	Mar-08	Mar-09	Mar-10
Top Half					
All Domestic Funds	1068	36.8	16.76	7.58	2.9
Large-Cap Funds	350	33.71	11.71	5.14	1.71
Mid-Cap Funds	180	32.22	18.89	7.22	2.22
Small-Cap Funds	239	42.26	23.01	12.13	4.6
Multi-Cap Funds	299	38.8	16.39	7.02	3.34

Source: Standard & Poor's. For Periods Ending March 31, 2010

**Report 3: Three-Year Transition Matrix
(Performance over Two Non-Overlapping Three-Year Periods)**

Based On Quartiles

	No of Funds at Start	Three-Year Percentages at End						Style Changed (%)	Total (%)
		1st Quartile (%)	2nd Quartile (%)	3rd Quartile (%)	4th Quartile (%)	Merged/Liquidated (%)			
	Mar-07								
All Domestic Funds									
1st Quartile	482	21.4	21.8	20.8	25.7	10.4	0.0	100	
2nd Quartile	482	17.0	20.8	22.0	23.4	16.8	0.0	100	
3rd Quartile	481	18.5	18.1	23.9	20.0	19.5	0.0	100	
4th Quartile	482	23.2	19.3	13.5	10.8	33.2	0.0	100	
Large-Cap Funds									
1st Quartile	157	8.3	19.1	26.8	34.4	10.8	0.6	100	
2nd Quartile	157	13.4	12.7	19.1	26.1	19.8	8.9	100	
3rd Quartile	156	22.4	24.4	18.6	7.7	20.5	6.4	100	
4th Quartile	157	29.3	17.2	8.3	5.1	34.4	5.7	100	
Mid-Cap Funds									
1st Quartile	83	15.7	14.5	27.7	21.7	9.6	10.8	100	
2nd Quartile	82	17.1	19.5	13.4	13.4	23.2	13.4	100	
3rd Quartile	83	14.5	16.9	12.1	16.9	19.3	20.5	100	
4th Quartile	82	18.3	14.6	11.0	13.4	29.3	13.4	100	
Small-Cap Funds									
1st Quartile	109	30.3	24.8	17.4	17.4	9.2	0.9	100	
2nd Quartile	109	17.4	26.6	20.2	22.0	11.0	2.8	100	
3rd Quartile	109	16.5	17.4	24.8	21.1	20.2	0.0	100	
4th Quartile	109	15.6	10.1	17.4	18.4	33.9	4.6	100	
Multi-Cap Funds									
1st Quartile	134	11.9	11.9	19.4	21.6	10.5	24.6	100	
2nd Quartile	133	14.3	18.1	9.0	18.1	18.1	22.6	100	
3rd Quartile	134	14.9	17.9	19.4	9.7	14.9	23.1	100	
4th Quartile	133	15.8	8.3	9.0	6.8	33.8	26.3	100	

Based On Halves

	No of funds at Start	Three-Year Percentages at End				Total (%)
		Top Half (%)	Bottom Half (%)	Merged/Liquidated (%)	Style Changed (%)	
All Domestic Funds						
Top Half	964	40.5	46.0	13.6	0.0	100.0
Bottom Half	963	39.6	34.1	26.4	0.0	100.0
Large-Cap Funds						
Top Half	314	26.8	53.2	15.3	4.8	100.0
Bottom Half	313	46.7	19.8	27.5	6.1	100.0
Mid-Cap Funds						
Top Half	165	33.3	38.2	16.4	12.1	100.0
Bottom Half	165	32.1	26.7	24.2	17.0	100.0
Small-Cap Funds						
Top Half	218	49.5	38.5	10.1	1.8	100.0
Bottom Half	218	29.8	40.8	27.1	2.3	100.0
Multi-Cap Funds						
Top Half	267	28.1	34.1	14.2	23.6	100.0
Bottom Half	267	28.5	22.5	24.3	24.7	100.0

Source: Standard & Poor's. For Periods Ending March 31, 2010

**Report 4: Five-Year Transition Matrix
(Performance over Two Non-Overlapping Five-Year Periods)**

Based On Quartiles

	No of Funds at Start	Five-Year Percentages at End						Style Changed (%)	Total (%)
		1st Quartile (%)	2nd Quartile (%)	3rd Quartile (%)	4th Quartile (%)	Merged/Liquidated (%)			
	Mar-05								
All Domestic Funds									
1st Quartile	395	24.56	21.27	16.71	23.80	13.67	0.00	100.00	
2nd Quartile	396	13.64	19.19	22.47	22.47	22.22	0.00	100.00	
3rd Quartile	395	13.42	15.70	23.29	15.44	32.15	0.00	100.00	
4th Quartile	395	20.51	16.20	9.62	10.38	43.29	0.00	100.00	
Large-Cap Funds									
1st Quartile	146	18.49	19.18	16.44	25.34	15.75	4.80	100.00	
2nd Quartile	147	12.93	12.93	22.45	16.33	28.57	6.80	100.00	
3rd Quartile	146	10.96	14.38	11.64	10.96	38.36	13.69	100.00	
4th Quartile	146	17.81	13.01	9.59	6.85	46.58	6.16	100.00	
Mid-Cap Funds									
1st Quartile	63	12.70	19.05	17.46	12.70	6.35	31.75	100.00	
2nd Quartile	63	15.87	14.29	9.52	17.46	26.98	15.88	100.00	
3rd Quartile	63	15.87	14.29	20.63	19.05	20.63	9.53	100.00	
4th Quartile	63	12.70	9.52	9.52	7.94	42.86	17.46	100.00	
Small-Cap Funds									
1st Quartile	88	25.00	26.14	15.91	25.00	5.68	2.27	100.00	
2nd Quartile	88	18.18	18.18	21.59	19.32	22.73	0.00	100.00	
3rd Quartile	87	10.34	12.64	24.14	19.54	32.18	1.15	100.00	
4th Quartile	88	20.45	17.05	11.36	10.23	37.50	3.41	100.00	
Multi-Cap Funds									
1st Quartile	98	8.16	13.27	11.22	21.43	14.29	31.63	100.00	
2nd Quartile	99	11.11	14.14	13.13	10.10	23.23	28.29	100.00	
3rd Quartile	98	7.14	11.22	18.37	8.16	22.45	32.65	100.00	
4th Quartile	98	20.41	7.14	4.08	6.12	45.92	16.32	100.00	

Based On Halves

	No of funds at Start	Five-Year Percentages at End				Total (%)
		Top Half (%)	Bottom Half (%)	Merged/Liquidated (%)	Style Changed (%)	
All Domestic Funds						
Top Half	791	39.32	42.73	17.95	0	100
Bottom Half	790	32.91	29.37	37.72	0	100
Large-Cap Funds						
Top Half	293	31.74	40.27	22.18	5.81	100
Bottom Half	292	28.08	19.52	42.47	9.93	100
Mid-Cap Funds						
Top Half	126	30.95	28.57	16.67	23.81	100
Bottom Half	126	26.19	28.57	31.75	13.49	100
Small-Cap Funds						
Top Half	176	43.75	40.91	14.2	1.14	100
Bottom Half	175	30.29	32.57	34.86	2.28	100
Multi-Cap Funds						
Top Half	197	23.35	27.92	18.78	29.95	100
Bottom Half	196	22.96	18.37	34.18	24.49	100

Source: Standard & Poor's. For Periods Ending March 31, 2010

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