

## Latin America Persistence Scorecard

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### INTRODUCTION

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

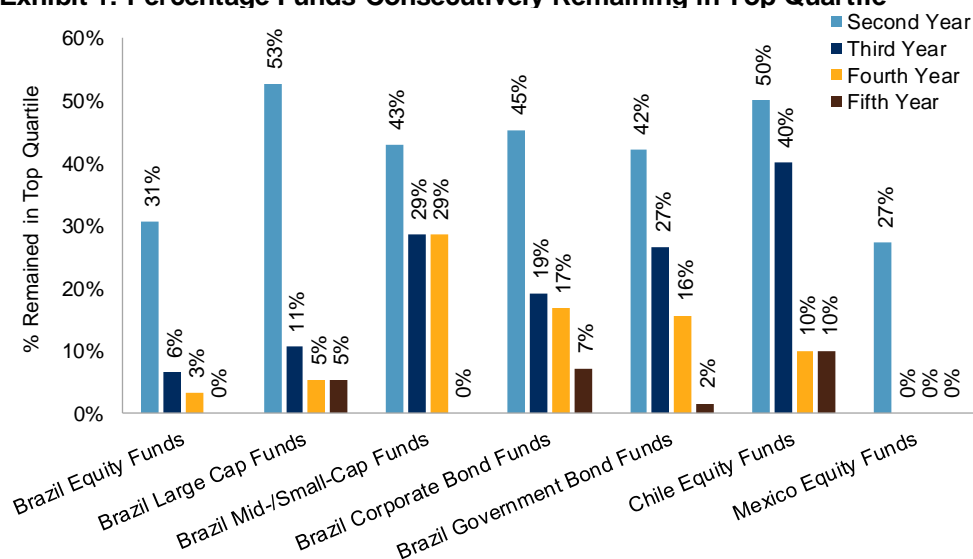
In this report, we measure the performance persistence of active funds in Brazil, Chile, and Mexico that outperformed their peers over consecutive three- and five-year periods. We also analyze how their performance ranking transitioned over subsequent periods.

### SUMMARY OF RESULTS

#### Brazil

- Top performers in Brazilian fixed income fund categories showed better chances than equity categories of remaining 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 June 30, 2021. 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. The least persistent were Brazil Equity Fund managers—by the fourth year, just 3% of them remained in the top quartile and none by the fifth year.
- The majority of Brazil Corporate Bond Fund managers did not maintain consistent outperformance for five years in a row; only 7% of them were able to persist. Brazil Government Bond Fund managers did not show better results; 2% 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 Corporate Bond Funds category. 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 (59%) of the top-quartile funds in the Brazil Equity Funds category remained in first and second quartile over the five-year period (see Report 5).

### Chile

- Report 2 shows the lack of persistence by equity managers in Chile—just 10% of top-performing funds in the first 12-month period repeated their outperformance after five years.
- In Report 3, we can observe that 13% of the top-quartile funds in the first period of the three-year transition matrix remained in the top-quartile after three years.
- Funds in third quartile of the five-year transition matrix were more likely to be liquidated (78%) than to stay or move to lower quartiles (see Report 5).

### Mexico

- As observed in the [SPIVA® Latin America Mid-Year 2021 Scorecard](#), Mexico had a higher rate of fund survivorship than Brazil and Chile in the three- 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 27% 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 the fourth quartile 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 the 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 (JUNE 2019)	PERCENTAGE REMAINING IN TOP QUARTILE	
		JUNE 2020	JUNE 2021
<b>TOP QUARTILE</b>			
Brazil Equity Funds	56	36	14
Brazil Large-Cap Funds	20	25	15
Brazil Mid-/Small-Cap Funds	15	33	0
Brazil Corporate Bond Funds	22	41	14
Brazil Government Bond Funds	66	38	12
Chile Equity Funds	10	30	10
Mexico Equity Funds	12	17	0
FUND CATEGORY	FUND COUNT AT START (JUNE 2019)	PERCENTAGE REMAINING IN TOP HALF	
		JUNE 2020	JUNE 2021
<b>TOP HALF</b>			
Brazil Equity Funds	112	54	29
Brazil Large-Cap Funds	40	55	38
Brazil Mid-/Small-Cap Funds	29	52	10
Brazil Corporate Bond Funds	44	57	30
Brazil Government Bond Funds	132	66	39
Chile Equity Funds	19	47	21
Mexico Equity Funds	23	52	35

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending June 30, 2021. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

<b>Report 2: Performance Persistence of Funds over Five Consecutive 12-Month Periods</b>					
<b>FUND CATEGORY</b>	<b>FUND COUNT AT START (JUNE 2017)</b>	<b>PERCENTAGE REMAINING IN TOP QUARTILE</b>			
		<b>JUNE 2018</b>	<b>JUNE 2019</b>	<b>JUNE 2020</b>	<b>JUNE 2021</b>
<b>TOP QUARTILE</b>					
Brazil Equity Funds	62	31	6	3	0
Brazil Large-Cap Funds	19	53	11	5	5
Brazil Mid-/Small-Cap Funds	14	43	29	29	0
Brazil Corporate Bond Funds	42	45	19	17	7
Brazil Government Bond Funds	64	42	27	16	2
Chile Equity Funds	10	50	40	10	10
Mexico Equity Funds	11	27	0	0	0
<b>FUND CATEGORY</b>	<b>FUND COUNT AT START (JUNE 2017)</b>	<b>PERCENTAGE REMAINING IN TOP HALF</b>			
		<b>JUNE 2018</b>	<b>JUNE 2019</b>	<b>JUNE 2020</b>	<b>JUNE 2021</b>
<b>TOP HALF</b>					
Brazil Equity Funds	124	52	23	13	6
Brazil Large-Cap Funds	37	59	35	22	19
Brazil Mid-/Small-Cap Funds	28	57	39	29	4
Brazil Corporate Bond Funds	90	37	20	16	8
Brazil Government Bond Funds	128	66	43	32	14
Chile Equity Funds	19	53	42	11	5
Mexico Equity Funds	21	57	38	24	19

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending June 30, 2021. 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 2018)	THREE-YEAR PERCENTAGE AT END				
		1ST QUARTILE (%)	2ND QUARTILE (%)	3RD QUARTILE (%)	4TH QUARTILE (%)	MERGED/ LIQUIDATED (%)
<b>BRAZIL EQUITY FUNDS</b>						
1st Quartile	53	30	34	13	19	4
2nd Quartile	52	25	21	19	17	17
3rd Quartile	53	21	19	23	25	13
4th Quartile	53	8	9	28	23	32
<b>BRAZIL LARGE-CAP FUNDS</b>						
1st Quartile	17	35	18	12	29	6
2nd Quartile	17	41	59	0	0	0
3rd Quartile	17	6	12	53	0	29
4th Quartile	17	6	0	24	59	12
<b>BRAZIL MID-/SMALL-CAP FUNDS</b>						
1st Quartile	13	46	23	15	15	0
2nd Quartile	13	8	31	23	31	8
3rd Quartile	13	23	8	23	31	15
4th Quartile	14	7	14	21	7	50
<b>BRAZIL CORPORATE BOND FUNDS</b>						
1st Quartile	20	35	30	10	10	15
2nd Quartile	20	0	5	10	5	80
3rd Quartile	20	0	15	30	0	55
4th Quartile	21	19	0	5	38	38
<b>BRAZIL GOVERNMENT BOND FUNDS</b>						
1st Quartile	53	43	45	2	0	9
2nd Quartile	52	37	23	33	0	8
3rd Quartile	53	9	9	51	21	9
4th Quartile	53	0	9	2	68	21
<b>CHILE EQUITY FUNDS</b>						
1st Quartile	8	13	25	0	63	0
2nd Quartile	8	38	13	38	0	13
3rd Quartile	8	13	25	25	13	25
4th Quartile	8	25	13	13	13	38
<b>MEXICO EQUITY FUNDS</b>						
1st Quartile	11	45	27	9	9	9
2nd Quartile	10	30	50	0	10	10
3rd Quartile	10	20	10	30	40	0
4th Quartile	11	0	0	55	36	9

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending June 30, 2021. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

<b>Report 4: Three-Year Transition Matrix – Performance over Two Non-Overlapping Three-Year Periods (Based on Halves)</b>				
<b>HALF</b>	<b>FUND COUNT AT START (JUNE 2018)</b>	<b>THREE-YEAR PERCENTAGE AT END</b>		
		<b>TOP HALF (%)</b>	<b>BOTTOM HALF (%)</b>	<b>MERGED/LIQUIDATED (%)</b>
<b>BRAZIL EQUITY FUNDS</b>				
Top Half	105	55	34	10
Bottom Half	106	28	49	23
<b>BRAZIL LARGE-CAP FUNDS</b>				
Top Half	34	76	21	3
Bottom Half	34	12	68	21
<b>BRAZIL MID-/SMALL-CAP FUNDS</b>				
Top Half	26	54	42	4
Bottom Half	27	26	41	33
<b>BRAZIL CORPORATE BOND FUNDS</b>				
Top Half	40	35	18	48
Bottom Half	41	17	37	46
<b>BRAZIL GOVERNMENT BOND FUNDS</b>				
Top Half	105	74	17	9
Bottom Half	106	14	71	15
<b>CHILE EQUITY FUNDS</b>				
Top Half	16	44	50	6
Bottom Half	16	38	31	31
<b>MEXICO EQUITY FUNDS</b>				
Top Half	21	76	14	10
Bottom Half	21	14	81	5

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending June 30, 2021. 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 (JUNE 2016)	FIVE-YEAR PERCENTAGE AT END					MERGED/ LIQUIDATED (%)
		1ST QUARTILE (%)	2ND QUARTILE (%)	3RD QUARTILE (%)	4TH QUARTILE (%)		
<b>BRAZIL EQUITY FUNDS</b>							
1st Quartile	46	30	28	11	7	24	
2nd Quartile	45	9	11	9	27	44	
3rd Quartile	46	11	15	22	13	39	
4th Quartile	46	15	11	24	20	30	
<b>BRAZIL LARGE-CAP FUNDS</b>							
1st Quartile	14	50	14	7	29	0	
2nd Quartile	14	21	21	29	14	14	
3rd Quartile	14	0	29	29	7	36	
4th Quartile	14	14	21	21	43	0	
<b>BRAZIL MID-/SMALL-CAP FUNDS</b>							
1st Quartile	10	30	30	10	20	10	
2nd Quartile	10	0	30	40	10	20	
3rd Quartile	10	10	0	10	40	40	
4th Quartile	10	30	10	10	0	50	
<b>BRAZIL CORPORATE BOND FUNDS</b>							
1st Quartile	7	29	29	0	0	43	
2nd Quartile	7	14	14	29	29	14	
3rd Quartile	7	0	0	14	14	71	
4th Quartile	7	14	0	0	14	71	
<b>BRAZIL GOVERNMENT BOND FUNDS</b>							
1st Quartile	40	73	13	3	0	13	
2nd Quartile	40	10	48	30	0	13	
3rd Quartile	40	3	18	48	13	20	
4th Quartile	41	0	5	2	71	22	
<b>CHILE EQUITY FUNDS</b>							
1st Quartile	9	33	22	11	11	22	
2nd Quartile	9	11	0	33	22	33	
3rd Quartile	9	11	11	0	0	78	
4th Quartile	10	0	20	10	30	40	
<b>MEXICO EQUITY FUNDS</b>							
1st Quartile	8	25	0	25	50	0	
2nd Quartile	8	25	25	13	13	25	
3rd Quartile	8	13	25	25	25	13	
4th Quartile	9	22	33	22	11	11	

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending June 30, 2021. Table is provided for illustrative purposes. Past performance is no guarantee of future results.



<b>Report 6: Five-Year Transition Matrix – Performance over Two Non-Overlapping Five-Year Periods (Based on Halves)</b>				
<b>HALF</b>	<b>FUND COUNT AT START (JUNE 2016)</b>	<b>FIVE-YEAR PERCENTAGE AT END</b>		
		<b>TOP HALF (%)</b>	<b>BOTTOM HALF (%)</b>	<b>MERGED/LIQUIDATED (%)</b>
<b>BRAZIL EQUITY FUNDS</b>				
Top Half	92	26	39	35
Bottom Half	91	40	26	34
<b>BRAZIL LARGE-CAP FUNDS</b>				
Top Half	28	32	50	18
Bottom Half	28	54	39	7
<b>BRAZIL MID-/SMALL-CAP FUNDS</b>				
Top Half	20	25	30	45
Bottom Half	20	45	40	15
<b>BRAZIL CORPORATE BOND FUNDS</b>				
Top Half	14	7	21	71
Bottom Half	14	43	29	29
<b>BRAZIL GOVERNMENT BOND FUNDS</b>				
Top Half	81	12	67	21
Bottom Half	80	71	16	13
<b>CHILE EQUITY FUNDS</b>				
Top Half	19	21	21	58
Bottom Half	18	33	39	28
<b>MEXICO EQUITY FUNDS</b>				
Top Half	17	47	41	12
Bottom Half	16	38	50	13

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending June 30, 2021. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

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