

Persistence Scorecard: Latin America

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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.

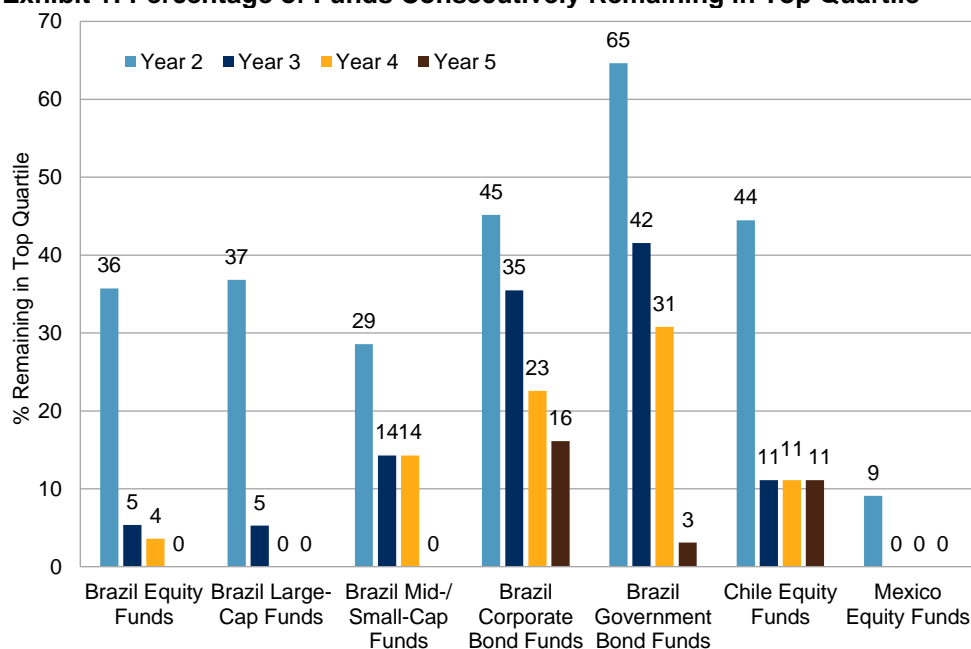
In this report, we measure the performance persistence of active funds in Brazil, Chile, and Mexico that outperformed their peers over consecutive three- and five-year periods. We also analyze how their performance ranking transitioned over subsequent periods.

SUMMARY OF RESULTS

Brazil

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

Exhibit 1: Percentage of Funds Consecutively Remaining in Top Quartile



Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 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 Brazil Large-Cap Fund category was the least persistent—by the fourth year, none of them remained in the top quartile. Moreover, none of the top performers in the Brazil Equity Fund and Brazil Mid-/Small-Cap Fund categories remained in the top quartile by the fifth year.
- The majority of corporate bond fund managers did not maintain consistent outperformance for five years in a row; only 16% of them did so. Brazil Government Bond Funds did not show better results; 3% 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 Government Bond Fund category. The chance of a winning fund remaining in the top quartile after five one-year periods was the highest among categories, with 66% funds remaining in the first quartile.

Chile

- Report 2 shows the lack of persistence by equity managers in Chile—11% of top-performing funds in the first 12-month period repeated their outperformance after five years.
- Report 3 shows that 29% of the top-quartile funds in the first period of the three-year transition matrix remained in the top quartile.
- Funds in the second, third and fourth quartile of the five-year transition matrix were more likely to be liquidated (56%, 33% and 60%, respectively) than to stay or move to lower quartiles (see Report 5).

Mexico

- As observed in the SPIVA® Latin America Year-End 2021 Scorecard, Mexico had a higher rate of fund survivors than Brazil and Chile in the three- and five-year periods. Reports 3, 4, 5 and 6 show that Mexican funds had less 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 9% 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 were more likely to move to quartile 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; only the share class with the highest previous period return of each fund is used. 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 2019)	PERCENTAGE REMAINING IN TOP QUARTILE	
		DECEMBER 2020	DECEMBER 2021
TOP QUARTILE			
Brazil Equity Funds	53	45	13
Brazil Large-Cap Funds	23	17	0
Brazil Mid-/Small-Cap Funds	16	25	19
Brazil Corporate Bond Funds	22	55	32
Brazil Government Bond Funds	67	58	6
Chile Equity Funds	10	40	30
Mexico Equity Funds	12	42	25
FUND CATEGORY	FUND COUNT AT START (DECEMBER 2019)	PERCENTAGE REMAINING IN TOP HALF	
		DECEMBER 2020	DECEMBER 2021
TOP HALF			
Brazil Equity Funds	105	53	21
Brazil Large-Cap Funds	46	37	11
Brazil Mid-/Small-Cap Funds	32	38	16
Brazil Corporate Bond Funds	43	67	44
Brazil Government Bond Funds	134	81	19
Chile Equity Funds	19	53	47
Mexico Equity Funds	23	61	43

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 2021. 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 2017)	PERCENTAGE REMAINING IN TOP QUARTILE			
		DECEMBER 2018	DECEMBER 2019	DECEMBER 2020	DECEMBER 2021
TOP QUARTILE					
Brazil Equity Funds	56	36	5	4	0
Brazil Large-Cap Funds	19	37	5	0	0
Brazil Mid-/Small-Cap Funds	14	29	14	14	0
Brazil Corporate Bond Funds	31	45	35	23	16
Brazil Government Bond Funds	65	65	42	31	3
Chile Equity Funds	9	44	11	11	11
Mexico Equity Funds	11	9	0	0	0
FUND CATEGORY	FUND COUNT AT START (DECEMBER 2017)	PERCENTAGE REMAINING IN TOP HALF			
		DECEMBER 2018	DECEMBER 2019	DECEMBER 2020	DECEMBER 2021
TOP HALF					
Brazil Equity Funds	112	54	23	15	6
Brazil Large-Cap Funds	38	53	32	16	5
Brazil Mid-/Small-Cap Funds	28	61	36	14	4
Brazil Corporate Bond Funds	66	42	32	24	21
Brazil Government Bond Funds	130	82	73	65	13
Chile Equity Funds	18	67	22	17	11
Mexico Equity Funds	21	33	24	10	10

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 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 DECEMBER 2018)	THREE-YEAR PERCENTAGE AT END					MERGED/ LIQUIDATED (%)
		1ST QUARTILE (%)	2ND QUARTILE (%)	3RD QUARTILE (%)	4TH QUARTILE (%)		
BRAZIL EQUITY FUNDS							
1st Quartile	47	21	32	15	30	2	
2nd Quartile	46	11	26	30	24	9	
3rd Quartile	47	30	17	17	21	15	
4th Quartile	47	28	13	28	15	17	
BRAZIL LARGE-CAP FUNDS							
1st Quartile	17	53	6	6	29	6	
2nd Quartile	17	18	47	18	18	0	
3rd Quartile	17	6	24	47	18	6	
4th Quartile	18	17	11	22	28	22	
BRAZIL MID-/SMALL-CAP FUNDS							
1st Quartile	13	23	23	15	38	0	
2nd Quartile	12	8	42	25	17	8	
3rd Quartile	13	23	23	31	23	0	
4th Quartile	13	31	0	15	8	46	
BRAZIL CORPORATE BOND FUNDS							
1st Quartile	16	50	38	0	0	13	
2nd Quartile	15	0	20	33	20	27	
3rd Quartile	15	0	13	33	20	33	
4th Quartile	16	19	0	6	31	44	
BRAZIL GOVERNMENT BOND FUNDS							
1st Quartile	54	54	31	7	2	6	
2nd Quartile	53	32	42	15	4	8	
3rd Quartile	53	0	8	64	13	15	
4th Quartile	54	2	7	2	69	20	
CHILE EQUITY FUNDS							
1st Quartile	7	29	0	0	71	0	
2nd Quartile	7	29	43	29	0	0	
3rd Quartile	7	14	29	43	0	14	
4th Quartile	8	13	13	13	13	50	
MEXICO EQUITY FUNDS							
1st Quartile	10	40	10	20	30	0	
2nd Quartile	10	20	30	20	10	20	
3rd Quartile	10	30	40	0	30	0	
4th Quartile	11	9	9	45	27	9	

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 2021. 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 2018)	THREE-YEAR PERCENTAGE AT END		
		TOP HALF (%)	BOTTOM HALF (%)	MERGED/LIQUIDATED (%)
BRAZIL EQUITY FUNDS				
Top Half	93	45	49	5
Bottom Half	94	44	40	16
BRAZIL LARGE-CAP FUNDS				
Top Half	34	62	35	3
Bottom Half	35	29	57	14
BRAZIL MID-/SMALL-CAP FUNDS				
Top Half	25	48	48	4
Bottom Half	26	38	38	23
BRAZIL CORPORATE BOND FUNDS				
Top Half	31	55	26	19
Bottom Half	31	16	45	39
BRAZIL GOVERNMENT BOND FUNDS				
Top Half	107	79	14	7
Bottom Half	107	8	74	18
CHILE EQUITY FUNDS				
Top Half	14	50	50	0
Bottom Half	15	33	33	33
MEXICO EQUITY FUNDS				
Top Half	20	50	40	10
Bottom Half	21	43	52	5

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 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 (DECEMBER 2016)	FIVE-YEAR PERCENTAGE AT END					MERGED/ LIQUIDATED (%)
		1ST QUARTILE (%)	2ND QUARTILE (%)	3RD QUARTILE (%)	4TH QUARTILE (%)		
BRAZIL EQUITY FUNDS							
1st Quartile	43	30	30	9	5	26	
2nd Quartile	43	14	16	21	12	37	
3rd Quartile	43	12	9	23	26	30	
4th Quartile	43	14	14	16	30	26	
BRAZIL LARGE-CAP FUNDS							
1st Quartile	16	63	6	6	19	6	
2nd Quartile	15	13	27	40	7	13	
3rd Quartile	15	7	33	20	27	13	
4th Quartile	16	6	25	25	38	6	
BRAZIL MID-/SMALL-CAP FUNDS							
1st Quartile	11	27	27	9	27	9	
2nd Quartile	10	10	20	20	20	30	
3rd Quartile	11	9	9	36	18	27	
4th Quartile	11	27	9	9	9	45	
BRAZIL CORPORATE BOND FUNDS							
1st Quartile	8	38	25	0	13	25	
2nd Quartile	7	0	29	29	14	29	
3rd Quartile	7	14	0	43	14	29	
4th Quartile	8	13	0	0	25	63	
BRAZIL GOVERNMENT BOND FUNDS							
1st Quartile	41	66	15	5	2	12	
2nd Quartile	40	8	43	40	0	10	
3rd Quartile	41	7	20	34	17	22	
4th Quartile	41	0	5	2	63	29	
CHILE EQUITY FUNDS							
1st Quartile	9	22	22	11	22	22	
2nd Quartile	9	11	11	11	11	56	
3rd Quartile	9	11	11	22	22	33	
4th Quartile	10	10	10	10	10	60	
MEXICO EQUITY FUNDS							
1st Quartile	8	25	0	13	50	13	
2nd Quartile	8	25	38	13	25	0	
3rd Quartile	8	25	25	25	13	13	
4th Quartile	9	22	22	33	11	11	

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 2021. 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 2016)	FIVE-YEAR PERCENTAGE AT END		
		TOP HALF (%)	BOTTOM HALF (%)	MERGED/LIQUIDATED (%)
BRAZIL EQUITY FUNDS				
Top Half	86	45	23	31
Bottom Half	86	24	48	28
BRAZIL LARGE-CAP FUNDS				
Top Half	31	55	35	10
Bottom Half	31	35	55	10
BRAZIL MID-/SMALL-CAP FUNDS				
Top Half	21	43	38	19
Bottom Half	22	27	36	36
BRAZIL CORPORATE BOND FUNDS				
Top Half	15	47	27	27
Bottom Half	15	13	40	47
BRAZIL GOVERNMENT BOND FUNDS				
Top Half	81	65	23	11
Bottom Half	82	16	59	26
CHILE EQUITY FUNDS				
Top Half	18	33	28	39
Bottom Half	19	21	32	47
MEXICO EQUITY FUNDS				
Top Half	16	44	50	6
Bottom Half	17	47	41	12

Source: S&P Dow Jones Indices LLC, Morningstar. Data for periods ending Dec. 31, 2021. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

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