

The S&P Persistence Scorecard: Does Past Performance Really Matter?

About the S&P 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 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?

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, University of Chicago’s Center for Research in Security Prices Survivorship (CRSP) Bias Free Mutual Fund Database serves as our underlying data source.¹

S&P Indices is one of the world’s leading index providers, maintaining a wide variety of investable and benchmark indices to meet a wide array of investor needs. Our indices research team is dedicated to conducting unbiased and 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 performance over two non-overlapping three- and five-year periods.

Key features of the S&P Persistence Scorecard include:

- **Historical rankings without survivorship bias**

All funds available at the outset of a given period are part of an investor’s initial opportunity set. Nevertheless, during persistence calculations, analysts often limit their sample to funds that exist over a specific historical time period, essentially ranking the survivors only. It is important to consider that many funds may have liquidated or merged during a period of study and these funds should be factored into measurements of persistence. By 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 entire time period.

- **Transition matrices**

Transition matrices are used to show the movements between quartiles and halves for two non-overlapping three- and five-year periods, and to track the percentage of funds that have merged or liquidated. We also monitor movements between capitalization levels, capturing, for example, the conversion of some large-cap funds to mid- and small-cap funds.

¹ The CRSP Survivor-Bias-Free US Mutual Fund Database is the only complete database of both active and liquidated/merged mutual funds. It was created in 1995 and contains fund data from December 1961. Current and historical data from August 1998 has been supplied by Lipper and Thomson Reuters. The fund classifications are based upon the Lipper fund classification system.

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■ Tracking reports of top performers

Tracking reports are provided to 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. Scorecards can be found online at www.spiva.standardandpoors.com.

Summary of Results

- Very few funds manage to consistently repeat top-half or top-quartile performance. Over the five years ending March 2011, only 0.96% of large-cap funds, 1.14% of mid-cap funds and 2.59% 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, 19.15% of large-cap funds with a top-quartile ranking over the five years ending March 2011 maintained a top-quartile ranking over the next five years. Only 9.38% of mid-cap funds and 23.26% of small-cap funds maintained top-quartile performance over the same period. Random expectations would suggest a 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 than all other funds.

Report 1: Performance Persistence over Three Consecutive 12-Month Periods*			
Mutual Fund Category	Fund Count at Start	Percentage Remaining in Top Quartile	
	March 2009	March 2010	March 2011
Top Quartile			
All Domestic Funds	560	11.96	4.29
Large-Cap Funds	188	7.98	5.32
Mid-Cap Funds	94	12.77	2.13
Small-Cap Funds	130	16.15	5.38
Multi-Cap Funds	148	12.84	3.38
Mutual Fund Category	Fund Count at Start	Percentage Remaining in Top Half	
	March 2009	March 2010	March 2011
Top Half			
All Domestic Funds	1120	31.61	15.45
Large-Cap Funds	376	31.38	18.35
Mid-Cap Funds	189	28.57	10.05
Small-Cap Funds	259	34.36	15.83
Multi-Cap Funds	296	31.42	14.86

Report 2: Performance Persistence over Five Consecutive 12-Month Periods*					
Mutual Fund Category	Fund Count at Start	Percentage Remaining in Top Quartile			
	March 2007	March 2008	March 2009	March 2010	March 2011
Top Quartile					
All Domestic Funds	513	13.06	5.46	0.39	0
Large-Cap Funds	157	10.83	6.37	0	0
Mid-Cap Funds	88	13.64	3.41	0	0
Small-Cap Funds	116	19.83	8.62	0.86	0
Multi-Cap Funds	152	9.87	3.29	0.66	0
Mutual Fund Category	Fund Count at Start	Percentage Remaining in Top Half			
	March 2007	March 2008	March 2009	March 2010	March 2011
Top Half					
All Domestic Funds	1025	35.8	20.29	5.17	1.56
Large-Cap Funds	313	28.75	16.29	4.15	0.96
Mid-Cap Funds	176	34.66	19.32	2.84	1.14
Small-Cap Funds	232	49.14	31.90	10.34	2.59
Multi-Cap Funds	304	33.55	16.12	3.62	1.64

Source: Standard & Poor's. For periods ending March 31, 2011. Charts are provided for illustrative purposes. Past performance is not a guarantee of future results.

Report 3: Three-Year Transition Matrix (March 2008 – March 2011)								
Performance over Two Non-Overlapping Three-Year Periods (Based on Quartiles)								
		Three-Year Percentages at End						
	Fund Count at Start	1 st Quartile	2 nd Quartile	3 rd Quartile	4 th Quartile	Merged/Liquidated	Style Changed	Total
	March 2008							
All Domestic Funds								
1 st Quartile	465	23.71	26.29	19.18	22.63	8.19	0	100
2 nd Quartile	463	16.16	21.12	26.51	24.14	12.07	0	100
3 rd Quartile	464	18.14	19.22	25.05	22.25	15.33	0	100
4 th Quartile	463	26.94	18.10	14.22	15.73	25.00	0	100
Large-Cap Funds								
1 st Quartile	148	21.62	16.89	21.62	18.24	12.84	8.78	100
2 nd Quartile	147	17.69	21.09	25.85	17.69	10.20	7.49	100
3 rd Quartile	148	16.89	22.97	16.22	21.62	14.19	8.11	100
4 th Quartile	147	20.41	15.65	12.24	19.05	22.45	10.20	100
Mid-Cap Funds								
1 st Quartile	80	12.5	13.75	15.00	16.25	12.50	30.00	100
2 nd Quartile	80	18.75	16.25	13.75	13.75	12.50	25.00	100
3 rd Quartile	80	16.25	11.25	17.50	11.25	11.25	32.50	100
4 th Quartile	80	6.25	13.75	7.50	12.5	30.00	30.00	100
Small-Cap Funds								
1 st Quartile	108	25.93	25.00	20.37	19.44	0.93	8.33	100
2 nd Quartile	108	21.30	19.44	27.78	16.67	12.96	1.85	100
3 rd Quartile	107	19.63	22.43	21.50	20.56	14.02	1.87	100
4 th Quartile	108	14.81	15.74	12.04	25.00	29.63	2.78	100
Multi-Cap Funds								
1 st Quartile	129	19.38	12.4	11.63	17.05	8.53	31.00	100
2 nd Quartile	128	12.5	17.19	15.63	10.16	14.06	30.47	100
3 rd Quartile	129	6.98	16.28	15.50	11.63	16.28	33.33	100
4 th Quartile	128	15.63	9.38	11.72	15.63	21.88	25.78	100

Source: Standard & Poor's. For periods ending March 31, 2011. Charts are provided for illustrative purposes. Past performance is not a guarantee of future results.

Performance over Two Non-Overlapping Three-Year Periods (Based On Halves)						
		Three-Year Percentages at End				
	Fund Count at Start	Top Half	Bottom Half	Merged/Liquidated	Style Changed	Total
	March 2008					
All Domestic Funds						
Top Half	928	43.64	46.23	10.13	0	100
Bottom Half	927	41.21	38.62	20.17	0	100
Large-Cap Funds						
Top Half	295	38.64	41.69	11.53	8.13	100
Bottom Half	295	37.97	34.58	18.31	9.15	100
Mid-Cap Funds						
Top Half	160	30.63	29.38	12.50	27.50	100
Bottom Half	160	23.75	24.38	20.63	31.25	100
Small-Cap Funds						
Top Half	216	45.83	42.13	6.94	5.10	100
Bottom Half	215	36.28	39.53	21.86	2.33	100
Multi-Cap Funds						
Top Half	257	30.74	27.24	11.28	30.74	100
Bottom Half	257	24.12	27.24	19.07	29.57	100

Source: Standard & Poor's. For periods ending March 31, 2011. Charts are provided for illustrative purposes. Past performance is not a guarantee of future results.

Report 4: Five-Year Transition Matrix (March 2006 – March 2011) Performance over Two Non-Overlapping Five-Year Periods (Based on Quartiles)								
		Five-Year Percentages at End						
	Fund Count at Start	1 st Quartile	2 nd Quartile	3 rd Quartile	4 th Quartile	Merged/Liquidated	Style Changed	Total
	March 2006							
All Domestic Funds								
1 st Quartile	391	30.36	20.41	18.37	20.66	10.20	0	100
2 nd Quartile	393	21.99	20.20	20.20	21.23	16.37	0	100
3 rd Quartile	391	11.22	19.39	22.96	21.94	24.49	0	100
4 th Quartile	391	13.30	16.88	15.35	13.04	41.43	0	100
Large-Cap Funds								
1 st Quartile	141	19.15	13.48	26.95	24.11	9.93	6.38	100
2 nd Quartile	141	15.60	19.15	14.18	18.44	18.44	14.18	100
3 rd Quartile	141	9.93	17.02	10.64	14.89	33.33	14.19	100
4 th Quartile	141	17.73	13.48	10.64	4.96	46.10	7.09	100
Mid-Cap Funds								
1 st Quartile	64	9.38	15.63	12.50	12.50	6.25	43.75	100
2 nd Quartile	64	9.38	12.50	15.63	15.63	17.19	29.69	100
3 rd Quartile	64	23.44	12.50	12.50	15.63	9.38	26.56	100
4 th Quartile	64	7.81	9.38	7.81	6.25	42.19	26.56	100
Small-Cap Funds								
1 st Quartile	86	23.26	20.93	20.93	26.74	4.65	3.49	100
2 nd Quartile	87	13.79	19.54	21.84	26.44	12.64	5.75	100
3 rd Quartile	86	20.93	18.60	23.26	13.95	19.77	3.49	100
4 th Quartile	86	18.60	17.44	10.47	9.3	40.70	3.49	100
Multi-Cap Funds								
1 st Quartile	100	15.00	11.00	17.00	15.00	8.00	34.00	100
2 nd Quartile	101	11.88	11.88	9.90	13.86	18.81	33.67	100
3 rd Quartile	100	7.00	13.00	12.00	6.00	32.00	30.00	100
4 th Quartile	100	10.00	7.00	5.00	8.00	36.00	34.00	100

Source: Standard & Poor's. For periods ending March 31, 2011. Charts are provided for illustrative purposes. Past performance is not a guarantee of future results.

Performance over Two Non-Overlapping Five-Year Periods (Based On Halves)						
		Five-Year Percentages at End				
	Fund Count at Start	Top Half	Bottom Half	Merged/Liquidated	Style Changed	Total
	March 2006					
All Domestic Funds						
Top Half	784	46.49	40.23	13.28	0	100
Bottom Half	782	30.40	36.65	32.95	0	100
Large-Cap Funds						
Top Half	282	33.69	41.84	14.18	10.29	100
Bottom Half	282	29.08	20.57	39.72	10.63	100
Mid-Cap Funds						
Top Half	128	23.44	28.13	11.72	36.72	100
Bottom Half	128	26.56	21.09	25.78	26.56	100
Small-Cap Funds						
Top Half	173	38.73	47.98	8.67	4.62	100
Bottom Half	172	37.79	28.49	30.23	3.49	100
Multi-Cap Funds						
Top Half	201	24.88	27.86	13.43	33.83	100
Bottom Half	200	18.50	15.5	34.00	32.00	100

Source: Standard & Poor's. For periods ending March 31, 2011. Charts are provided for illustrative purposes. Past performance is not a guarantee of future results.

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