

INDEX RESEARCH & DESIGN**DOES PAST PERFORMANCE MATTER?
S&P PERSISTENCE SCORECARD***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 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, 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 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 Global 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 Center for Research in Security Prices (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 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 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.

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 on the Lipper fund classification system.

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SUMMARY OF RESULTS

- Very few funds manage to repeat top-half or top-quartile performance consistently. Given the volatility in the domestic equity markets over the last five years, it is unsurprising that data for the period ending March 2012 show that the percentage of top-performing managers remaining in the top-half or top-quartile declined considerably in several categories.
- For the five years ending March 2012, only 5.23% of large-cap funds, 5.46% of mid-cap funds and 5.14% 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, 5.97% of large-cap funds with a top-quartile ranking over the five years ending March 2007 maintained a top-quartile ranking over the next five years. Only 4.35% of mid-cap funds and 15.56% of small-cap funds maintained a top-quartile performance over the same period. Random expectations would suggest a repeat rate of 25%.
- While top-quartile and top-half repeat rates have been at or below the levels one expects based on chance, 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 and liquidated.

Exhibit 1: Performance Persistence over Three Consecutive 12-Month Periods				
Mutual Fund Category	Fund Count at Start		Percentage Remaining in Top Quartile	
	Mar-10	Mar-11	Mar-12	
Top Quartile				
All Domestic Funds	716	22.63	4.05	
Large-Cap Funds	259	18.92	3.47	
Mid-Cap Funds	112	20.54	2.68	
Small-Cap Funds	155	23.87	3.23	
Multi-Cap Funds	190	27.89	6.32	
Mutual Fund Category	Fund Count at Start		Percentage Remaining in Top Half	
	Mar-10	Mar-11	Mar-12	
Top Half				
All Domestic Funds	1432	42.74	19.62	
Large-Cap Funds	518	44.21	19.88	
Mid-Cap Funds	224	33.48	16.07	
Small-Cap Funds	310	41.94	19.68	
Multi-Cap Funds	380	46.84	21.32	

Source: S&P Dow Jones Indices. Data as of March 30, 2011. Tables 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		Percentage Remaining in Top Quartile		
	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12
Top Quartile					
All Domestic Funds	535	31.03	2.24	1.31	0.93
Large-Cap Funds	162	32.1	0.62	0.62	0.62
Mid-Cap Funds	92	20.65	1.09	1.09	1.09
Small-Cap Funds	126	35.71	3.17	0.79	0
Multi-Cap Funds	155	32.26	3.87	2.58	1.94
Mutual Fund Category	Fund Count at Start		Percentage Remaining in Top Half		
	Mar-08	Mar-09	Mar-10	Mar-11	Mar-12
Top Half					
All Domestic Funds	1072	54.76	14.27	7.56	5.22
Large-Cap Funds	325	56.92	13.85	7.08	5.23
Mid-Cap Funds	183	53.55	12.02	6.56	5.46
Small-Cap Funds	253	60.87	20.16	10.28	5.14
Multi-Cap Funds	311	48.23	11.25	6.43	5.14

Source: S&P Dow Jones Indices. Data as of March 30, 2011. Tables are provided for illustrative purposes. Past performance is not a guarantee of future results.

Exhibit 3: Three-Year Transition Matrix								
Performance over Two Non-Overlapping Three-Year Periods (Based on Quartiles)								
Three-Year Percentage at End								
Mutual Fund Category	Fund Count at Start (Mar-09)	1st Quartile (%)	2nd Quartile (%)	3rd Quartile (%)	4th Quartile (%)	Merged/Liquidated (%)	Style Changed (%)	Total (%)
All Domestic Funds								
1st Quartile	493	10.34	18.86	23.12	38.74	8.92	0	100
2nd Quartile	493	13.59	21.70	25.35	23.73	15.62	0	100
3rd Quartile	493	21.10	22.52	24.34	14.00	18.05	0	100
4th Quartile	493	38.13	20.08	10.14	6.69	24.95	0	100
Large-Cap Funds								
1st Quartile	169	14.20	11.24	26.04	33.14	8.28	7.10	100
2nd Quartile	169	18.93	25.44	17.16	13.61	16.57	8.28	100
3rd Quartile	168	20.83	16.07	14.29	17.26	17.26	14.29	100
4th Quartile	169	18.93	20.12	15.38	8.88	22.49	14.20	100
Mid-Cap Funds								
1st Quartile	82	12.20	14.63	10.98	18.29	9.76	34.14	100
2nd Quartile	83	10.84	12.05	16.87	8.43	18.07	33.74	100
3rd Quartile	82	12.20	12.20	12.20	12.20	26.83	24.39	100
4th Quartile	82	14.63	10.98	9.76	10.98	21.95	31.71	100
Small-Cap Funds								
1st Quartile	116	8.62	12.93	31.03	34.48	4.31	8.62	100
2nd Quartile	115	20.00	21.74	20.87	17.39	9.57	10.43	100
3rd Quartile	116	24.14	23.28	17.24	14.66	17.24	3.45	100
4th Quartile	115	25.22	20.00	8.70	11.30	33.04	1.74	100
Multi-Cap Funds								
1st Quartile	127	11.81	7.87	11.02	34.65	6.30	28.35	100
2nd Quartile	126	15.08	15.08	19.84	12.70	15.08	22.22	100
3rd Quartile	127	10.24	17.32	19.69	5.51	22.05	25.19	100
4th Quartile	126	22.22	19.05	8.73	6.35	25.40	18.25	100

Source: S&P Dow Jones Indices. Data as of March 30, 2011. Tables are provided for illustrative purposes. Past performance is not a guarantee of future results.

Exhibit 3: Three-Year Transition Matrix (continued)						
Performance over Two Non-Overlapping Three-Year Periods (Based on Halves)						
Mutual Fund Category	Fund Count at Start (Mar-09)	Three-Year Percentage at End				Total (%)
		Top Half (%)	Bottom Half (%)	Merged/Liquidated (%)	Style Changed (%)	
All Domestic Funds						
Top Half	986	32.25	55.48	12.27	0	100
Bottom Half	986	50.91	27.59	21.5	0	100
Large-Cap Funds						
Top Half	338	34.91	44.97	12.43	7.69	100
Bottom Half	337	37.98	27.89	19.88	14.24	100
Mid-Cap Funds						
Top Half	165	24.85	27.27	13.94	33.94	100
Bottom Half	164	25.00	22.56	24.39	28.05	100
Small-Cap Funds						
Top Half	231	31.60	51.95	6.93	9.52	100
Bottom Half	231	46.32	25.97	25.11	2.60	100
Multi-Cap Funds						
Top Half	253	24.9	39.13	10.67	25.3	100
Bottom Half	253	34.39	20.16	23.72	21.73	100

Source: S&P Dow Jones Indices. Data as of March 30, 2011. Tables are provided for illustrative purposes. Past performance is not a guarantee of future results.

Exhibit 4: Five-Year Transition Matrix									
Performance over Two Non-Overlapping Five-Year Periods (Based on Quartiles)									
Mutual Fund Category	Fund Count at Start (Mar-07)	Five-Year Percentage at End						Style Changed (%)	Total (%)
		1st Quartile (%)	2nd Quartile (%)	3rd Quartile (%)	4th Quartile (%)	Merged/Liquidated (%)			
All Domestic Funds									
1st Quartile	399	19.80	18.55	22.06	26.07	13.53	0	100	
2nd Quartile	398	16.33	20.10	20.35	25.38	17.84	0	100	
3rd Quartile	399	17.29	19.05	21.80	15.54	26.32	0	100	
4th Quartile	398	22.61	18.59	11.81	9.05	37.94	0	100	
Large-Cap Funds									
1st Quartile	134	5.97	15.67	23.88	31.34	17.91	5.22	100	
2nd Quartile	133	7.52	18.05	22.56	21.05	19.55	11.28	100	
3rd Quartile	134	19.40	20.15	13.43	6.72	25.37	14.93	100	
4th Quartile	133	30.83	9.77	3.76	4.51	42.11	9.02	100	
Mid-Cap Funds									
1st Quartile	69	4.35	11.59	17.39	15.94	8.70	42.02	100	
2nd Quartile	70	11.43	10.00	17.14	15.71	12.86	32.85	100	
3rd Quartile	69	17.39	11.59	5.80	7.25	20.29	37.68	100	
4th Quartile	69	10.14	11.59	2.90	4.35	42.03	28.98	100	
Small-Cap Funds									
1st Quartile	90	15.56	17.78	22.22	25.56	14.44	4.45	100	
2nd Quartile	90	11.11	24.44	20.00	25.56	14.44	4.45	100	
3rd Quartile	89	20.22	20.22	23.60	15.73	17.98	2.24	100	
4th Quartile	90	27.78	11.11	8.89	6.67	40.00	5.56	100	
Multi-Cap Funds									
1st Quartile	106	7.55	13.21	11.32	17.92	16.04	33.96	100	
2nd Quartile	106	12.26	11.32	11.32	15.09	19.81	30.19	100	
3rd Quartile	106	9.43	12.26	17.92	3.77	30.19	26.41	100	
4th Quartile	106	14.15	6.60	1.89	6.60	33.02	37.73	100	

Source: S&P Dow Jones Indices. Data as of March 30, 2011. Tables are provided for illustrative purposes. Past performance is not a guarantee of future results.

Exhibit 4: Five-Year Transition Matrix (continued)						
Performance over Two Non-Overlapping Five-Year Periods (Based on Halves)						
Mutual Fund Category	Fund Count at Start (Mar-07)	Five-Year Percentage at End				
		Top Half (%)	Bottom Half (%)	Merged/Liquidated (%)	Style Changed (%)	Total (%)
All Domestic Funds						
Top Half	797	37.39	46.93	15.68	0	100
Bottom Half	797	38.77	29.11	32.12	0	100
Large-Cap Funds						
Top Half	267	23.6	49.44	18.73	8.24	100
Bottom Half	267	40.07	14.23	33.71	11.98	100
Mid-Cap Funds						
Top Half	139	18.71	33.09	10.79	37.41	100
Bottom Half	138	25.36	10.14	31.16	33.33	100
Small-Cap Funds						
Top Half	180	34.44	46.67	14.44	4.45	100
Bottom Half	179	39.66	27.37	29.05	3.91	100
Multi-Cap Funds						
Top Half	212	22.17	27.83	17.92	32.08	100
Bottom Half	212	21.23	15.09	31.60	32.08	100

Source: S&P Dow Jones Indices. Data as of March 30, 2011. Tables are provided for illustrative purposes. Past performance is not a guarantee of future results.

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