

---

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

S&P 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 performance over 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 exist over the complete time period examined, ranking the survivors only. Funds that liquidate or merge during a period of study can be discounted, 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.
- **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 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.

<sup>1</sup> 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.

---

### Contributors:

**Frank Luo**  
Vice President, Index Research & Design  
[frank\\_luo@sandp.com](mailto:frank_luo@sandp.com)

**Aye Soe**  
Director, Index Research & Design  
[aye\\_soe@sandp.com](mailto:aye_soe@sandp.com)

*Summary of Results*

- Very few funds manage to repeat top-half or top-quartile performance consistently. For the five years ending September 2011, only 9.72% of large-cap funds, 6.08% of mid-cap funds and 3.27% 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, 12.23% of large-cap funds with a top-quartile ranking over the five years ending September 2006 maintained a top-quartile ranking over the next five years. Only 3.08% of mid-cap funds and 20.22% 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, fourth-quartile funds have a much higher rate of being merged and liquidated.

Report 1: Performance Persistence over Three Consecutive 12-Month Periods			
Mutual Fund Category	Fund Count at Start	Percentage Remaining in Top Quartile	
	Sep-09	Sep-10	Sep-11
<b>Top Quartile</b>			
All Domestic Funds	711	32.35	9.42
Large-Cap Funds	253	32.41	10.28
Mid-Cap Funds	115	29.57	3.48
Small-Cap Funds	156	35.26	7.69
Multi-Cap Funds	187	31.55	13.37
Mutual Fund Category	Fund Count at Start	Percentage Remaining in Top Half	
	Sep-09	Sep-10	Sep-11
<b>Top Half</b>			
All Domestic Funds	1421	48.98	24.42
Large-Cap Funds	505	50.69	30.10
Mid-Cap Funds	230	44.35	21.30
Small-Cap Funds	312	52.56	22.44
Multi-Cap Funds	374	46.52	20.32

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

Report 2: Performance Persistence over Five Consecutive 12-Month Periods					
Mutual Fund Category	Fund Count at Start	Percentage Remaining in Top Quartile			
	Sep-07	Sep-08	Sep-09	Sep-10	Sep-11
<b>Top Quartile</b>					
All Domestic Funds	530	15.09	3.96	1.51	0.19
Large-Cap Funds	160	18.13	6.25	3.13	0.63
Mid-Cap Funds	91	13.19	2.2	1.1	0
Small-Cap Funds	123	13.82	2.44	0.81	0
Multi-Cap Funds	156	14.10	3.85	0.64	0
Mutual Fund Category	Fund Count at Start	Percentage Remaining in Top Half			
	Sep-07	Sep-08	Sep-09	Sep-10	Sep-11
<b>Top Half</b>					
All Domestic Funds	1057	40.78	20.06	10.79	6.05
Large-Cap Funds	319	45.14	24.76	15.36	9.72
Mid-Cap Funds	181	38.12	17.68	9.94	6.08
Small-Cap Funds	245	39.59	20	8.16	3.27
Multi-Cap Funds	312	38.78	16.67	8.65	4.49

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

Report 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 (Sep-08)	1st Quartile [%]	2nd Quartile [%]	3rd Quartile [%]	4th Quartile [%]	Merged/Liquidated [%]	Style Changed [%]	Total [%]
<b>All Domestic Funds</b>								
1st Quartile	477	27.04	24.11	21.59	19.29	7.97	0	100
2nd Quartile	478	19.87	22.18	22.59	23.43	11.92	0	100
3rd Quartile	477	14.47	20.96	24.11	23.69	16.77	0	100
4th Quartile	477	23.69	17.82	16.56	18.66	23.27	0	100
<b>Large-Cap Funds</b>								
1st Quartile	158	20.89	21.52	19.62	19.62	11.39	6.96	100
2nd Quartile	157	15.92	17.83	17.83	26.75	13.38	8.28	100
3rd Quartile	158	16.46	20.25	22.78	15.82	15.82	8.86	100
4th Quartile	157	21.02	14.65	13.38	12.1	22.93	15.92	100
<b>Mid-Cap Funds</b>								
1st Quartile	82	15.85	17.07	8.54	10.98	7.32	40.24	100
2nd Quartile	81	18.52	8.64	9.88	11.11	16.05	35.8	100
3rd Quartile	82	8.54	13.41	15.85	10.98	17.07	34.15	100
4th Quartile	81	4.94	9.88	13.58	14.81	27.16	29.63	100
<b>Small-Cap Funds</b>								
1st Quartile	111	18.92	28.83	25.23	18.02	5.41	3.6	100
2nd Quartile	111	21.62	22.52	20.72	20.72	6.31	8.1	100
3rd Quartile	111	13.51	18.02	20.72	23.42	18.92	5.4	100
4th Quartile	111	27.93	12.61	14.41	19.82	22.52	2.71	100
<b>Multi-Cap Funds</b>								
1st Quartile	127	24.41	12.6	7.87	13.39	7.87	33.86	100
2nd Quartile	128	10.94	19.53	23.44	8.59	11.72	25.78	100
3rd Quartile	127	4.72	14.96	16.54	22.83	14.96	25.98	100
4th Quartile	127	18.11	11.02	9.45	13.39	22.05	25.98	100

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

Report 3: Three-Year Transition Matrix (continued)						
Performance over Two Non-Overlapping Three-Year Periods (Based on Halves)						
Three-Year Percentage at End						
Mutual Fund Category	Fund Count at Start [Sep-08]	Top Half [%]	Bottom Half [%]	Merged/Liquidated [%]	Style Changed [%]	Total [%]
<b>All Domestic Funds</b>						
Top Half	955	46.6	43.46	9.95	0	100
Bottom Half	954	38.47	41.51	20.02	0	100
<b>Large-Cap Funds</b>						
Top Half	315	38.1	41.9	12.4	7.6	100.0
Bottom Half	315	36.2	32.1	19.4	12.4	100.0
<b>Mid-Cap Funds</b>						
Top Half	163	30.06	20.25	11.66	38.03	100
Bottom Half	163	18.4	27.61	22.09	31.9	100
<b>Small-Cap Funds</b>						
Top Half	222	45.95	42.34	5.86	5.85	100
Bottom Half	222	36.04	39.19	20.72	4.05	100
<b>Multi-Cap Funds</b>						
Top Half	255	33.7	26.7	9.8	29.8	100.0
Bottom Half	254	24.4	31.1	18.5	26.0	100.0

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

Report 4: Five-Year Transition Matrix								
Performance over Two Non-Overlapping Five-Year Periods (Based on Quartiles)								
Five-Year Percentage at End								
Mutual Fund Category	Fund Count at Start [Sep-06]	1st Quartile [%]	2nd Quartile [%]	3rd Quartile [%]	4th Quartile [%]	Merged/Liquidated [%]	Style Changed [%]	Total [%]
<b>All Domestic Funds</b>								
1st Quartile	396	23.23	19.95	21.21	23.99	11.62	0	100
2nd Quartile	397	20.4	19.65	18.39	24.43	17.13	0	100
3rd Quartile	396	13.13	19.44	21.97	17.42	28.03	0	100
4th Quartile	396	18.94	16.41	14.14	9.6	40.91	0	100
<b>Large-Cap Funds</b>								
1st Quartile	139	12.23	13.67	18.71	31.65	17.99	5.75	100
2nd Quartile	140	15	13.57	24.29	17.14	19.29	10.71	100
3rd Quartile	139	15.83	20.86	11.51	7.19	25.9	18.7	100
4th Quartile	139	17.99	12.23	6.47	4.32	48.92	10.07	100
<b>Mid-Cap Funds</b>								
1st Quartile	65	3.08	12.31	15.38	21.54	10.77	36.92	100
2nd Quartile	66	15.15	13.64	13.64	10.61	9.09	37.88	100
3rd Quartile	65	16.92	12.31	12.31	3.08	15.38	40	100
4th Quartile	65	9.23	7.69	3.08	9.23	46.15	24.62	100
<b>Small-Cap Funds</b>								
1st Quartile	89	20.22	15.73	24.72	30.34	5.62	3.37	100
2nd Quartile	88	12.5	21.59	20.45	21.59	18.18	5.68	100
3rd Quartile	89	19.1	24.72	16.85	15.73	20.22	3.38	100
4th Quartile	88	23.86	13.64	12.5	7.95	37.5	4.55	100
<b>Multi-Cap Funds</b>								
1st Quartile	103	7.77	16.5	11.65	17.48	11.65	34.95	100
2nd Quartile	104	12.5	9.62	10.58	13.46	21.15	32.7	100
3rd Quartile	103	9.71	10.68	13.59	7.77	30.1	28.15	100
4th Quartile	103	12.62	5.83	6.8	3.88	39.81	31.06	100

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

Report 4: Five-Year Transition Matrix (continued)						
Performance over Two Non-Overlapping Five-Year Periods (Based on Halves)						
Five-Year Percentage at End						
Mutual Fund Category	Fund Count at Start [Sep-06]	Top Half [%]	Bottom Half [%]	Merged/Liquidated [%]	Style Changed [%]	Total [%]
<b>All Domestic Funds</b>						
Top Half	793	41.61	44.01	14.38	0	100
Bottom Half	792	33.96	31.57	34.47	0	100
<b>Large-Cap Funds</b>						
Top Half	279	27.2	45.9	18.6	8.2	100.0
Bottom Half	278	33.5	14.8	37.4	14.4	100.0
<b>Mid-Cap Funds</b>						
Top Half	131	22.14	30.53	9.92	37.41	100
Bottom Half	130	23.08	13.85	30.77	32.31	100
<b>Small-Cap Funds</b>						
Top Half	177	35.03	48.59	11.86	4.52	100
Bottom Half	177	40.68	26.55	28.81	3.96	100
<b>Multi-Cap Funds</b>						
Top Half	207	23.2	26.6	16.4	33.8	100.0
Bottom Half	206	19.4	16.0	35.0	29.6	100.0

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

*S&P Indices Global Research & Design Contact Information***Global Head**

---

Frank Luo	+1 212-438-5057	frank_luo@sandp.com
-----------	-----------------	---------------------

**New York**

---

Berlinda Liu	+1 212-438-7834	berlinda_liu@sandp.com
Aye Soe	+1 212-438-1677	aye_soe@sandp.com
Peter Tsui	+1 212-438-1493	peter_tsui@sandp.com

**London**

---

Xiaowei Kang	+020 7176-8443	xiaowei_kang@sandp.com
--------------	----------------	------------------------

**Beijing**

---

Liyu Zeng	+86 10-6569-2947	liyu_zeng@sandp.com
-----------	------------------	---------------------

**Hong Kong**

---

Simon Karaban	+852 2532-8050	simon_karaban@sandp.com
---------------	----------------	-------------------------



## Disclaimer

This document does not constitute an offer of services in jurisdictions where Standard & Poor's Financial Services LLC ("S&P") or its affiliates do not have the necessary licenses. All information provided by S&P is impersonal and not tailored to the needs of any person, entity or group of persons. S&P receives compensation in connection with licensing its indices to third parties. Any returns or performance provided within are for illustrative purposes only and do not demonstrate actual performance. Past performance is not a guarantee of future investment results.

It is not possible to invest directly in an index. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P and its affiliates do not sponsor, endorse, sell, promote or manage any investment fund or other vehicle that is offered by third parties and that seeks to provide an investment return based on the returns of any S&P index. There is no assurance that investment products based on the index will accurately track index performance or provide positive investment returns. S&P is not an investment advisor, and S&P and its affiliates make no representation regarding the advisability of investing in any such investment fund or other vehicle. A decision to invest in any such investment fund or other vehicle should not be made in reliance on any of the statements set forth in this document. Prospective investors are advised to make an investment in any such fund or other vehicle only after carefully considering the risks associated with investing in such funds, as detailed in an offering memorandum or similar document that is prepared by or on behalf of the issuer of the investment fund or other vehicle. Inclusion of a security within an index is not a recommendation by S&P to buy, sell, or hold such security, nor is it considered to be investment advice.

The index returns shown do not represent the results of actual trading of investor assets. Standard & Poor's maintains the indices and calculates the index levels and performance shown or discussed, but does not manage actual assets. Index returns do not reflect payment of any sales charges or fees an investor would pay to purchase the securities they represent. The imposition of these fees and charges would cause actual and back-tested performance to be lower than the performance shown. In a simple example, if an index returned 10% on a US \$100,000 investment for a 12-month period [or US\$ 10,000] and an actual asset-based fee of 1.5% were imposed at the end of the period on the investment plus accrued interest [or US\$ 1,650], the net return would be 8.35% [or US\$ 8,350] for the year. Over 3 years, an annual 1.5% fee taken at year end with an assumed 10% return per year would result in a cumulative gross return of 33.10%, a total fee of US\$ 5,375, and a cumulative net return of 27.2% [or US\$ 27,200].

S&P does not guarantee the accuracy and/or completeness of any S&P index, any data included therein, or any data from which it is based, and Standard & Poor's shall have no liability for any errors, omissions, or interruptions therein. S&P makes no warranties, express or implied, as to results to be obtained from use of information provided by S&P, and S&P expressly disclaims all warranties of suitability with respect thereto. While S&P has obtained information believed to be reliable, S&P shall not be liable for any claims or losses of any nature in connection with information contained in this document, including but not limited to, lost profits or punitive or consequential damages, even if it is advised of the possibility of same.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of non-public information received during each analytic process. S&P and its affiliates provide a wide range of services to, or relating to, many organizations, including issuers of securities, investment advisers, broker-dealers, investment banks, other financial institutions and financial intermediaries, and accordingly may receive fees or other economic benefits from those organizations, including organizations whose securities or services they may recommend, rate, include in model portfolios, evaluate or otherwise address.

Copyright © 2011 by Standard & Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies. All rights reserved. Redistribution, reproduction and/or photocopying in whole or in part is prohibited without written permission.

S&P, S&P Indices and STANDARD & POOR'S are registered trademarks of Standard & Poor's Financial Services LLC.

