



# **COMMENCEMENT FINANCIAL PLANNING LLC**

The US Mutual Fund Landscape

2018 Report

# The Mutual Fund Landscape

## 2018 Report

This report documents survivorship and performance of US mutual funds, and shows the negative impact of high fees and turnover on returns.

The data reveals that few mutual funds have delivered benchmark-beating returns and quantifies an investor's challenge to identify outperforming managers in advance.

### Findings

- Outperforming funds were in the minority.
- Strong track records failed to persist.
- High costs and excessive turnover may have contributed to underperformance.

### Lessons

- Markets effectively aggregate investor knowledge and expectations into prices that are reliable.
- Managers attempting to outguess market prices may incur high costs that raise the barrier to outperforming an index.
- Successful fund investing involves more than picking a top performing fund from the past.
- Consider a fund's market philosophy, robustness in portfolio design, attention to costs, and other factors.

## Overview:

The US Mutual Fund Industry

Assets under Management

Survivorship and Outperformance

- ❖ Equity Funds
- ❖ Fixed Income Funds

Do Winners Keep Winning?

- ❖ Equity Funds
- ❖ Fixed Income Funds

High Costs Make Outperformance Difficult

- ❖ Equity Funds
- ❖ Fixed Income Funds

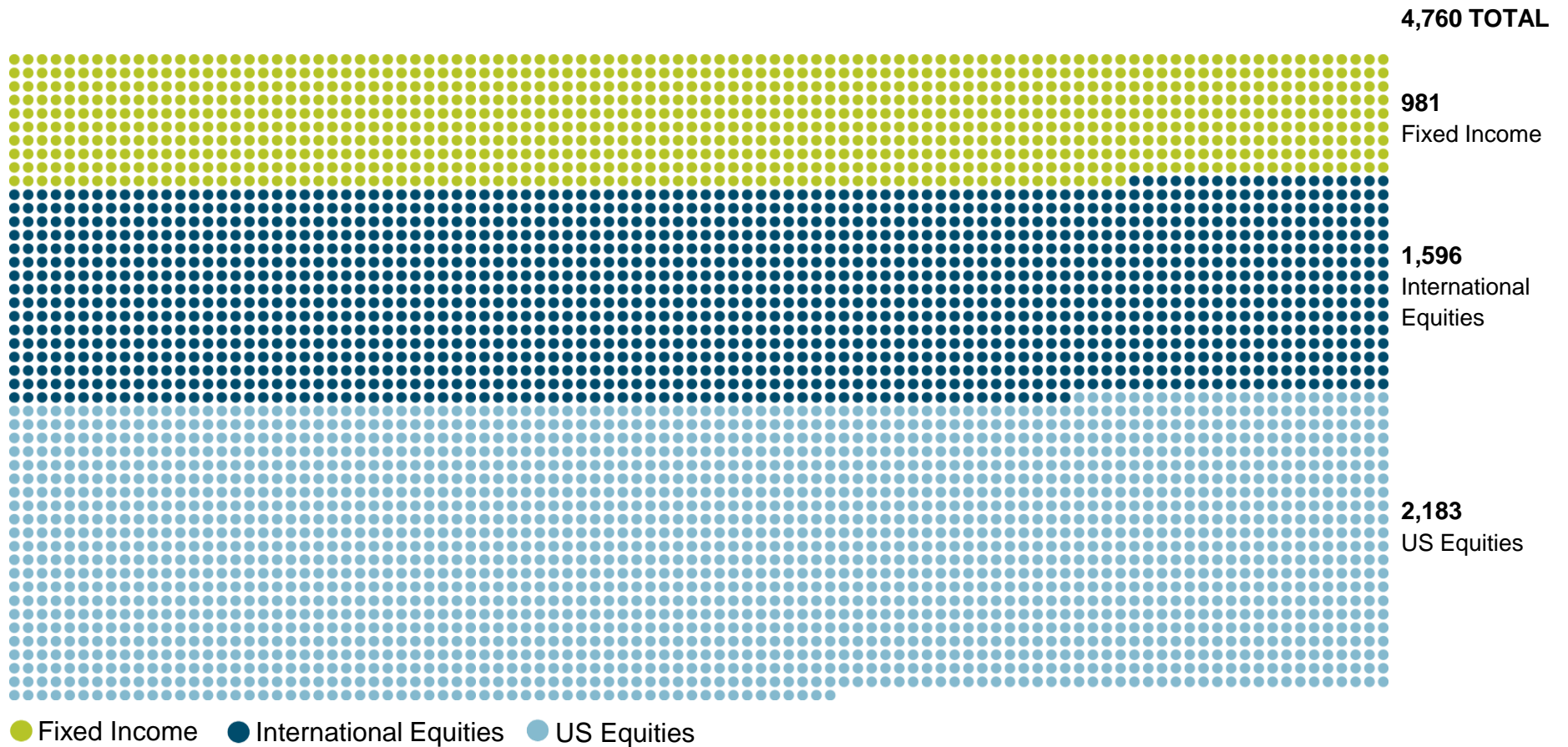
High Trading Costs Make Outperformance Difficult

Report Summary

Data Appendix

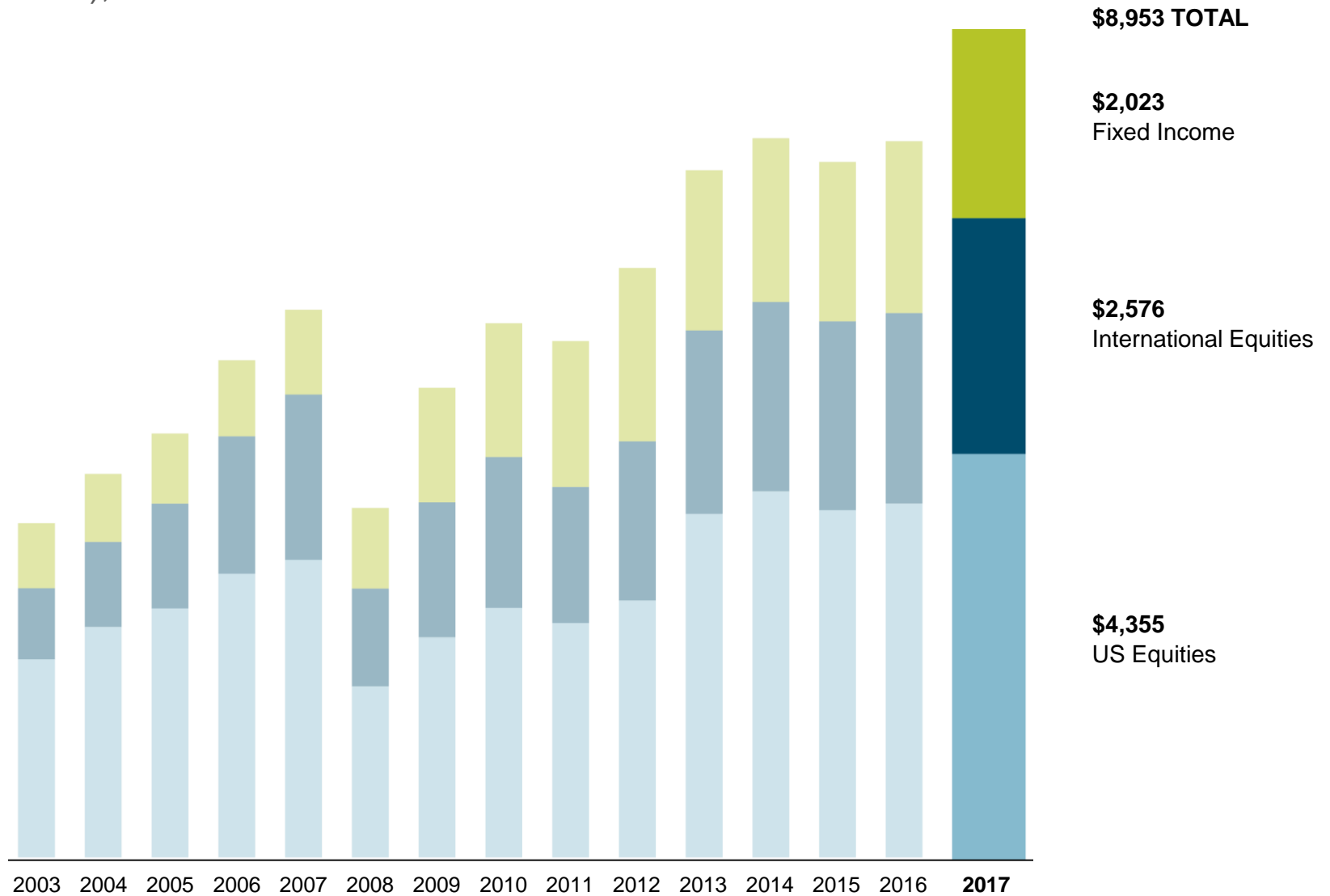
# US-Based Mutual Funds, 2017

Number of equity and fixed income funds in the study



# Assets under Management

In USD (billions), 2003–2017



Total value of assets in the representative fund samples over the past 15 years. Numbers may not sum due to rounding. US-domiciled open-end mutual fund data is from Morningstar and Center for Research in Security Prices (CRSP) from the University of Chicago. **See Data Appendix for more information.**

# Few Equity Funds Have Survived and Outperformed

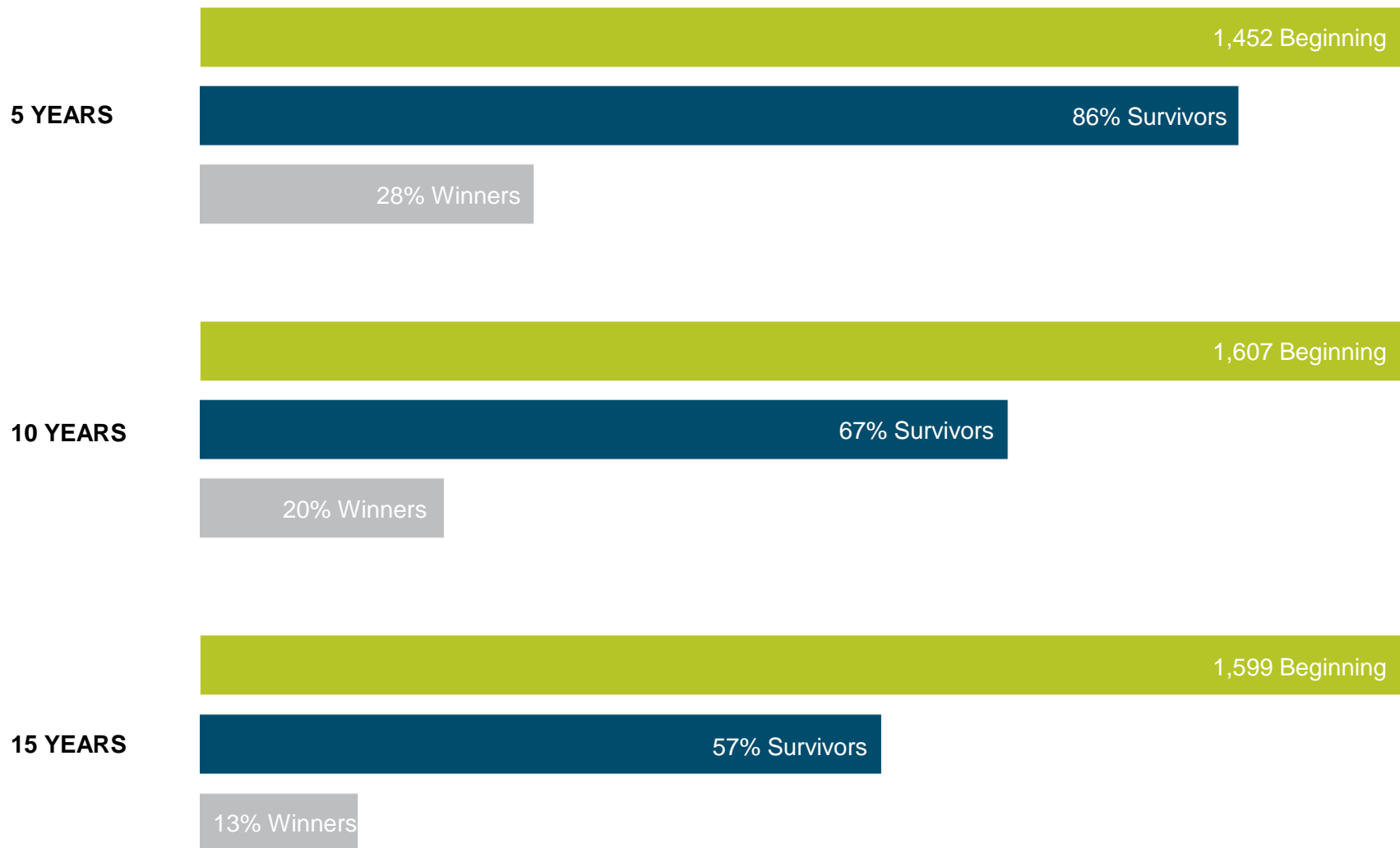
Performance periods ending December 31, 2017



The sample includes funds at the beginning of the 5-, 10-, and 15-year periods ending December 31, 2017. Survivors are funds that had returns for every month in the sample period. Winners are funds that survived and outperformed their respective Morningstar category index over the period. US-domiciled open-end mutual fund data is from Morningstar and Center for Research in Security Prices (CRSP) from the University of Chicago. **Past performance is no guarantee of future results. See Data Appendix for more information.**

# Few Fixed Income Funds Have Survived and Outperformed

Fixed income fund performance periods ending December 31, 2017

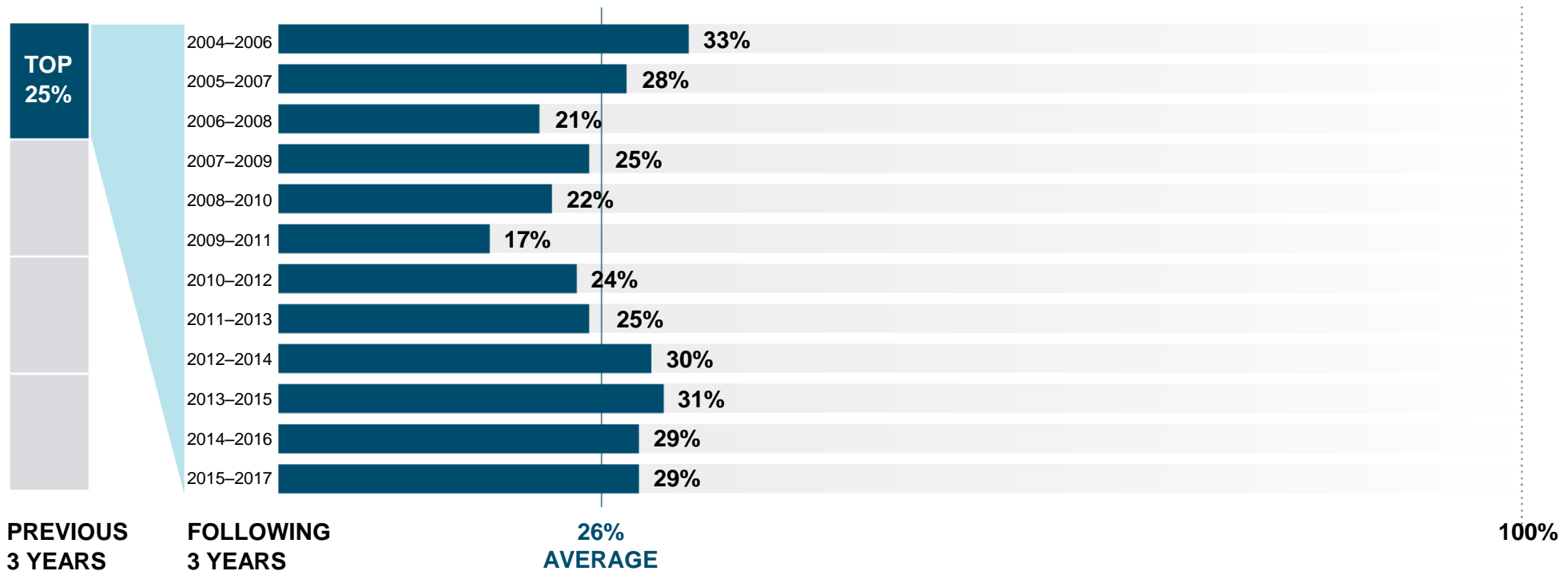


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# Past Performance Is Not Enough to Predict Future Results

Percentage of funds that were top-quartile performers in consecutive three-year periods

## EQUITY FUNDS

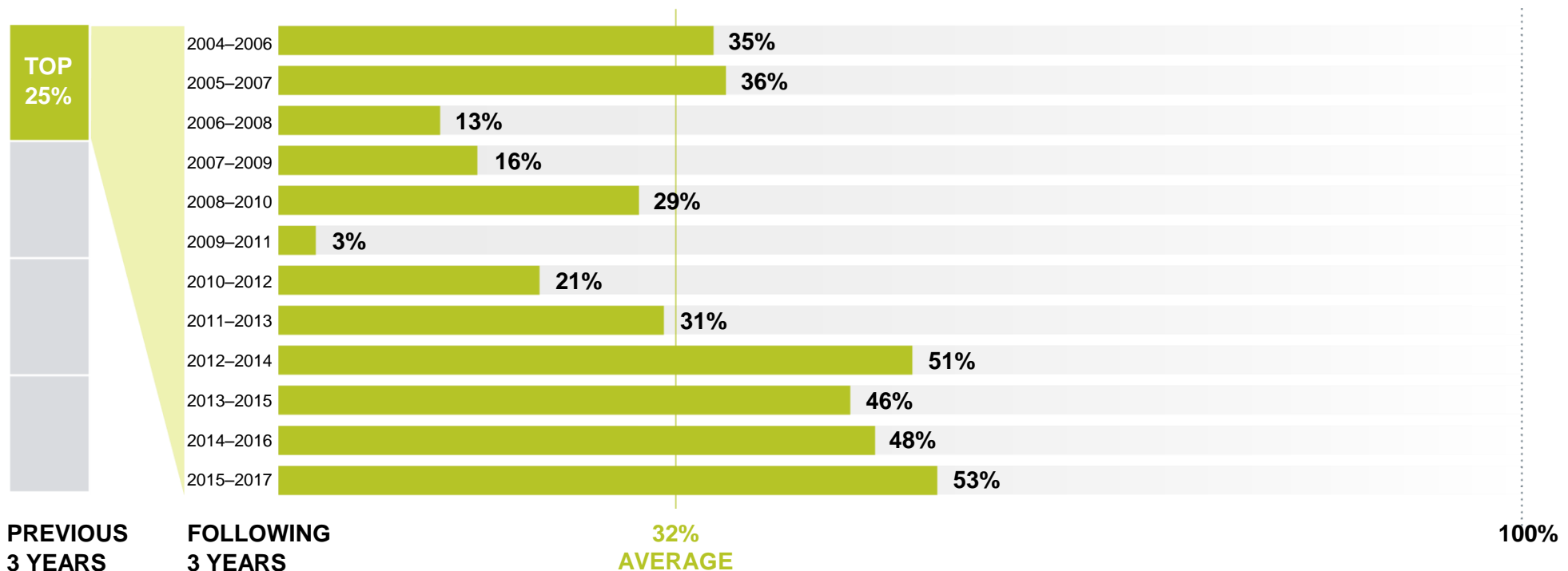


At the end of each year, funds are sorted within their category based on their three-year total return. The tables show the percentage of funds in the top quartile (25%) of three-year performance that ranked in the top quartile of performance over the following three years. Example: For 2017, only 29% of equity funds were ranked in the top quartile of performance in their category in both the previous period (2012–2014) and subsequent period (2015–2017). US-domiciled open-end mutual fund data is from Morningstar and Center for Research in Security Prices (CRSP) from the University of Chicago. **Past performance is no guarantee of future results. See Data Appendix for more information.**

# Past Performance Is Not Enough to Predict Future Results

Percentage of funds that were top-quartile performers in consecutive three-year periods

## FIXED INCOME FUNDS

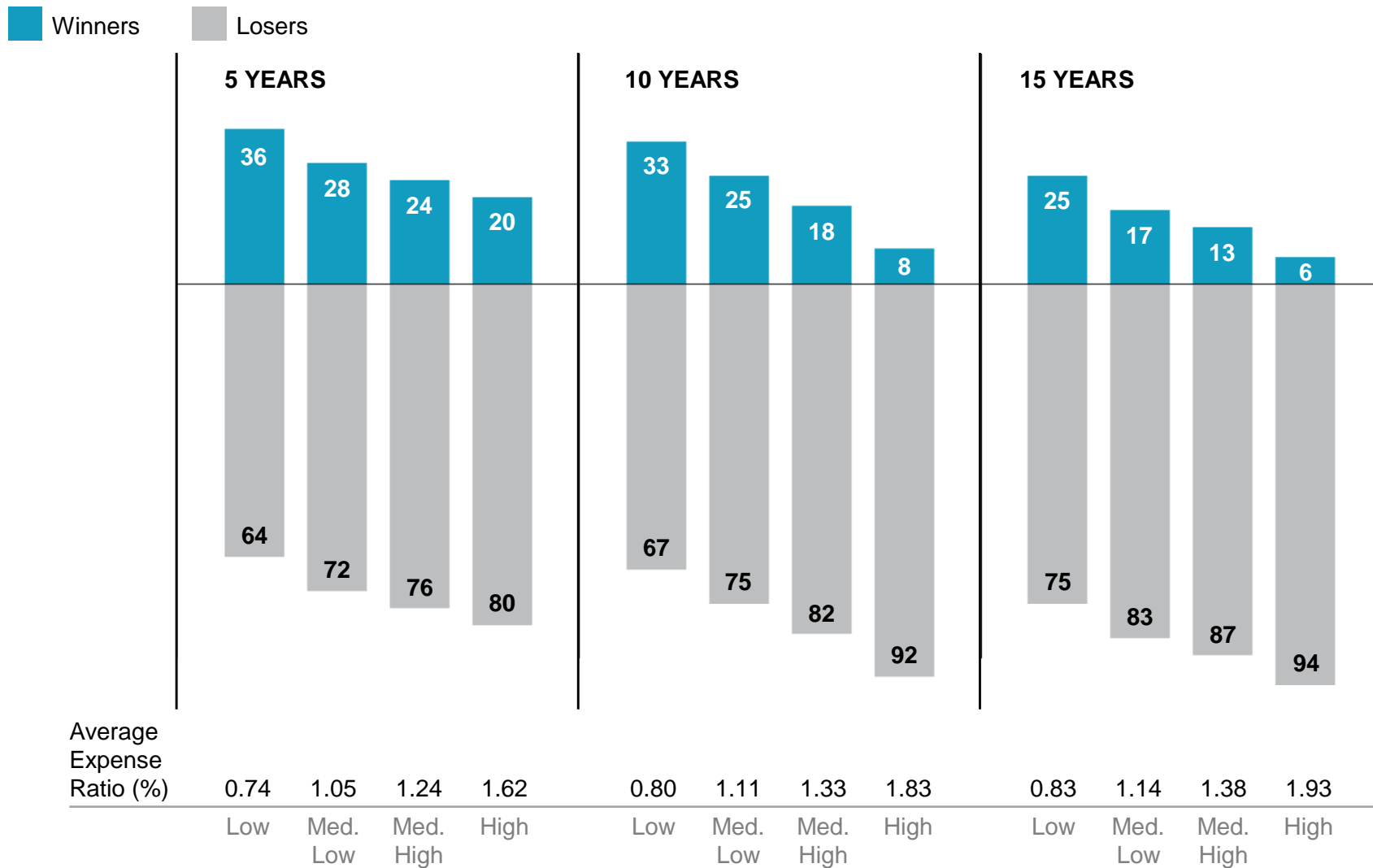


At the end of each year, funds are sorted within their category based on their three-year total return. The tables show the percentage of funds in the top quartile (25%) of three-year performance that ranked in the top quartile of performance over the following three years. Example: For 2017, 53% of fixed income funds were ranked in the top quartile of performance in their category in both the previous period (2012–2014) and subsequent period (2015–2017). US-domiciled open-end mutual fund data is from Morningstar and Center for Research in Security Prices (CRSP) from the University of Chicago. **Past performance is no guarantee of future results. See Data Appendix for more information.**



# High Costs Can Reduce Performance

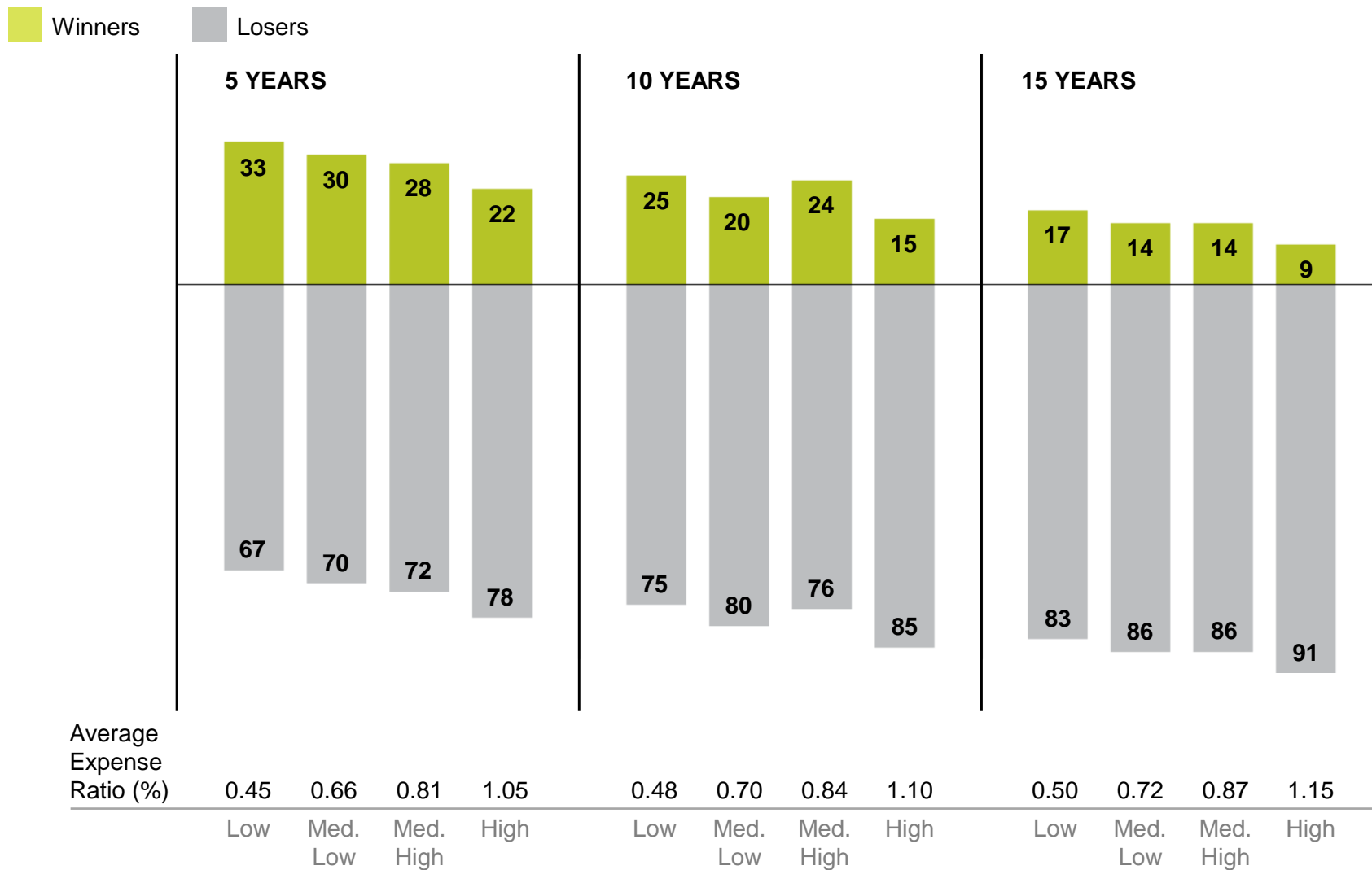
Equity fund winners and losers based on expense ratios (%)



The sample includes funds at the beginning of the 5-, 10-, and 15-year periods ending December 31, 2017. Funds are sorted into quartiles within their category based on average turnover during the sample period. The chart shows the percentage of winner and loser funds by expense ratio quartile for each period. Winners are funds that survived and outperformed their respective Morningstar category index, and losers are funds that either did not survive or did not outperform their respective Morningstar category index. US-domiciled open-end mutual fund data is from Morningstar and Center for Research in Security Prices (CRSP) from the University of Chicago. **Past performance is no guarantee of future results. See Data Appendix for more information.**

# High Costs Can Reduce Performance

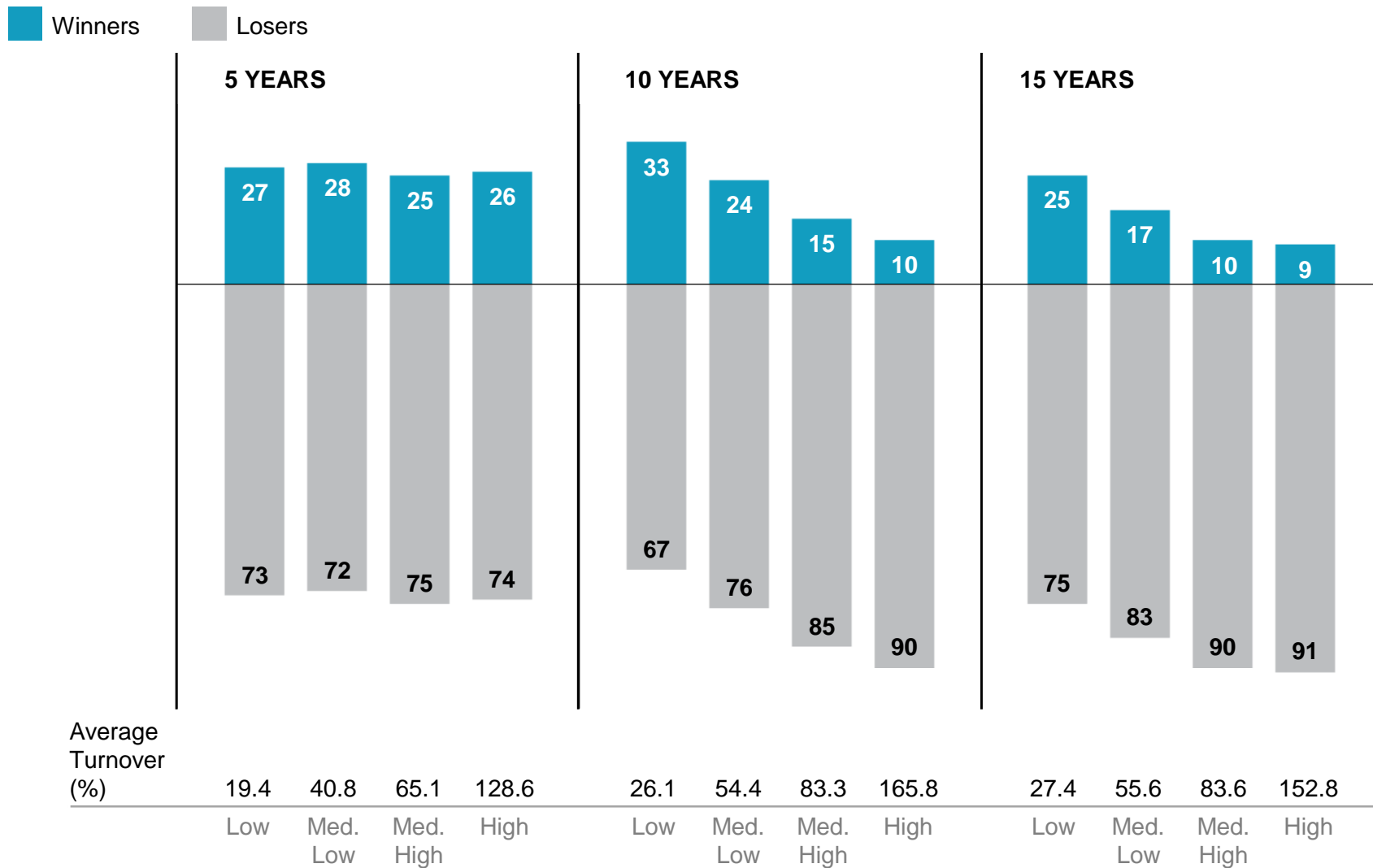
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The sample includes funds at the beginning of the 5-, 10-, and 15-year periods ending December 31, 2017. Funds are sorted into quartiles within their category based on average expense ratio over the sample period. The chart shows the percentage of winner and loser funds by expense ratio quartile for each period. Winners are funds that survived and outperformed their respective Morningstar category index, and losers are funds that either did not survive or did not outperform their respective Morningstar category index. US-domiciled open-end mutual fund data is from Morningstar and Center for Research in Security Prices (CRSP) from the University of Chicago. **Past performance is no guarantee of future results. See Data Appendix for more information.**

# High Trading Costs Can Also Impact Returns

Equity fund winners and losers based on turnover (%)



The sample includes equity funds at the beginning of the 5-, 10-, and 15-year periods ending December 31, 2017. Funds are sorted into quartiles within their category based on average turnover during the sample period. The chart shows the percentage of winner and loser funds by turnover quartile for each period. Winners are funds that survived and outperformed their respective Morningstar category index, and losers are funds that either did not survive or did not outperform their respective Morningstar category index. US-domiciled open-end mutual fund data is from Morningstar and Center for Research in Security Prices (CRSP) from the University of Chicago. **Past performance is no guarantee of future results. See Data Appendix for more information.**

# Report Summary

The mutual fund landscape

## Findings

- Outperforming funds were in the minority.
- Strong track records failed to persist.
- High costs and excessive turnover may have contributed to underperformance.

## Lessons

- Markets effectively aggregate investor knowledge and expectations into prices that are reliable.
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- Successful fund investing involves more than picking a top performing fund from the past.
- Consider a fund's market philosophy, robustness in portfolio design, attention to costs, and other factors.

# Data Appendix

The *Mutual Fund Landscape* study is conducted by Dimensional Fund Advisors LP.

US-domiciled open-end mutual fund data is from Morningstar and Center for Research in Security Prices (CRSP) from the University of Chicago.

Equity fund sample includes the Morningstar historical categories: Diversified Emerging Markets, Europe Stock, Foreign Large Blend, Foreign Large Growth, Foreign Large Value, Foreign Small/Mid Blend, Foreign Small/Mid Growth, Foreign Small/Mid Value, Japan Stock, Large Blend, Large Growth, Large Value, Mid-Cap Blend, Mid-Cap Growth, Mid-Cap Value, Miscellaneous Region, Pacific/Asia ex-Japan Stock, Small Blend, Small Growth, Small Value, and World Stock. For additional information regarding the Morningstar historical categories, please see “The Morningstar Category Classifications” at [morningstardirect.morningstar.com/clientcomm/Morningstar\\_Categories\\_US\\_April\\_2016.pdf](http://morningstardirect.morningstar.com/clientcomm/Morningstar_Categories_US_April_2016.pdf).

Fixed income fund sample includes the Morningstar historical categories: Corporate Bond, High Yield Bond, Inflation-Protected Bond, Intermediate Government, Intermediate-Term Bond, Muni California Intermediate, Muni California Long, Muni Massachusetts, Muni Minnesota, Muni National Intermediate, Muni National Long, Muni National Short, Muni New Jersey, Muni New York Intermediate, Muni New York Long, Muni Ohio, Muni Pennsylvania, Muni Single State Intermediate, Muni Single State Long, Muni Single State Short, Short Government, Short-Term Bond, Ultrashort Bond, and World Bond. For additional information regarding the Morningstar historical categories, please see “The Morningstar Category Classifications” at [morningstardirect.morningstar.com/clientcomm/Morningstar\\_Categories\\_US\\_April\\_2016.pdf](http://morningstardirect.morningstar.com/clientcomm/Morningstar_Categories_US_April_2016.pdf).

Index funds and fund-of-funds are excluded from the sample. Net assets for funds with multiple share classes or feeder funds are a sum of the individual share class total net assets. The return, expense ratio, and turnover for funds with multiple share classes are taken as the asset-weighted average of the individual share class observations. Fund share classes are aggregated at the strategy level using Morningstar FundID and CRSP portfolio number.

Each fund is evaluated relative to the Morningstar benchmark assigned to the fund’s category at the start of the evaluation period. So, if, for example, a fund changes from Large Value to Large Growth during the evaluation period, then its return will still be compared to the Large Value category index. Surviving funds are those with return observations for every month of the sample period. Winner funds are those that survived and whose cumulative net return over the period exceeded that of their respective Morningstar category index. Loser funds are funds that did not survive the period or whose cumulative net return did not exceed their respective Morningstar category index.

Index data provided by Bloomberg Barclays, MSCI, Russell, FTSE Fixed Income LLC, and S&P Dow Jones Indices. Bloomberg Barclays data provided by Bloomberg. MSCI data © MSCI 2018, all rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. FTSE fixed income indices © 2018 FTSE Fixed Income LLC, all rights reserved. S&P and Dow Jones data © 2018 S&P Dow Jones Indices LLC, a division of S&P Global.

Indices are not available for direct investment. Their performance does not reflect the expenses associated with management of an actual portfolio.

**Mutual fund investment values will fluctuate, and shares, when redeemed, may be worth more or less than original cost. Diversification neither assures a profit nor guarantees against a loss in a declining market. There is no guarantee investment strategies will be successful. Past performance is no guarantee of future results.**

# Mutual Fund 15-Year Survivorship and Outperformance

Performance periods ending December 31, 2017

| US EQUITIES         |         |             |                | FIXED INCOME        |         |             |                |
|---------------------|---------|-------------|----------------|---------------------|---------|-------------|----------------|
|                     | # Begin | Survive (%) | Outperform (%) |                     | # Begin | Survive (%) | Outperform (%) |
| US Large Cap        | 424     | 39.6%       | 5.9%           | Investment Grade    | 22      | 86.4%       | 40.9%          |
| US Large Cap Growth | 453     | 41.3%       | 10.2%          | High Yield          | 139     | 63.3%       | 3.6%           |
| US Large Cap Value  | 342     | 44.7%       | 13.5%          | Inflation Protected | 15      | 80.0%       | 0.0%           |
| US Mid Cap          | 123     | 63.4%       | 6.5%           | Intermediate Term   | 392     | 52.6%       | 26.0%          |
| US Mid Cap Growth   | 275     | 46.9%       | 7.6%           | Short Term          | 231     | 56.7%       | 22.1%          |
| US Mid Cap Value    | 126     | 65.9%       | 5.6%           | World               | 54      | 55.6%       | 31.5%          |
| US Small Cap        | 135     | 65.2%       | 28.9%          | Municipal           | 728     | 57.1%       | 3.2%           |
| US Small Cap Growth | 257     | 51.4%       | 16.0%          |                     |         |             |                |
| US Small Cap Value  | 123     | 68.3%       | 35.0%          |                     |         |             |                |

| NON-US EQUITIES                  |         |             |                |
|----------------------------------|---------|-------------|----------------|
|                                  | # Begin | Survive (%) | Outperform (%) |
| Developed ex US Large Cap        | 239     | 51.0%       | 18.4%          |
| Developed ex US Large Cap Growth | 75      | 44.0%       | 12.0%          |
| Developed ex US Large Cap Value  | 55      | 67.3%       | 16.4%          |
| Developed ex US Small Cap        | 56      | 73.2%       | 39.3%          |
| Emerging Markets                 | 71      | 66.2%       | 32.4%          |

Categorization determined by Dimensional using Morningstar data. The sample includes funds at the beginning of the 15-year period ending December 31, 2017. Each fund is evaluated relative to the Morningstar category index assigned to the fund's category at the start of the evaluation period. Surviving funds are those with return observations for every month of the sample period. Outperforming funds are those that survived and whose cumulative net return over the period exceeded that of their respective Morningstar category index. US-domiciled open-end mutual fund data is from Morningstar and Center for Research in Security Prices (CRSP) from the University of Chicago. **Past performance is no guarantee of future results. See Data Appendix for more information.**