

A man in a suit and tie is looking through binoculars. The image is overlaid with a semi-transparent dark grey filter. The text is positioned over the upper and lower portions of the image.

# Smart Thinking

A Skill Versus Luck Essay Series by Michael A. Ervolini

March 2026 | Issue 06

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For Skilled Equity  
Managers

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## Where To Look For Skilled Equity Managers

Skepticism regarding the existence of skilled equity fund managers is understandable. In most years the majority of actively managed equity funds underperform.<sup>1</sup> Among those that do outperform few manage to do so for 3, 5, or 10 years in a row.<sup>2</sup> Then there is the direct experience that most asset owners and allocators share: conducting a search for a new equity manager, performing rigorous due diligence, establishing a short list, selecting the final candidate, and making an allocation. Then watching with a mixture of surprise and dismay as the once high expectation fund delivers quarter after quarter of underperformance. It is no wonder why so many institutional investors have grown timid about allocations to actively managed equities.

However, not all asset owners and allocators are frustrated by their active equity programs. In fact, many capture meaningful alpha from their actively managed equity investments. They do it by more fully understanding the skill of their fund managers. This added knowledge enables them to sharpen their fund assessment processes and make better allocation decisions. This translates into the majority of their allocations outperforming in any given year. The managers of their funds are not perfect or super stars. They are what Analytics LTD refers to as elite managers. Working with elite managers can tilt the odds in favor of earning alpha more frequently than not.

### WHAT ANALYTICS UNCOVERED

In their 2022 research paper Analytics evaluated a group of 752 actively managed equity funds.<sup>3</sup> Among this group 630 or 84% outperformed their benchmarks for the prior three years. Whereas 122 or 16% underperformed. Clearly this group is not representative of the overall active equity industry. It consists of funds chosen to be analyzed by clients of Analytics. Each fund had already gone through the gauntlet of traditional fund due diligence. Therefore, it is not surprising that the majority

of these funds were generating excess returns. What is impressive is that the outperformers provided an average 397 basis points (bps) of after-cost alpha over the analysis period. Moreover, the Analytics investigation showed that strong buying, or what they term the “research process”, drove fund results. Skilled buying, they computed, provided 319 bps of fund excess returns. This equates to 104 percent of the average excess returns for the outperforming group. Analytics also observed that the sizing skill slightly impaired results, contributing (11) bps of alpha. Neither rebalancing position weights (adds and trims) or selling skills seemed to have a material impacts on fund returns according to their study.

It is worth pointing out that the skill or skills that most contributed to excess returns might vary when analyzed by the other decision-based analytics.<sup>4</sup> The potential for differing skill measures stems from the varying methods used in computing skills across the providers.<sup>5</sup>

### CONCLUSION

The Analytics research makes clear that quantifiable skills are responsible for fund excess returns in many instances. Subsequent analyses by Analytics and other decision-based skill analytics providers confirms this observation. The analysis also underscores why a growing number of asset owners and allocators are incorporating decision-based analytics into their fund assessment processes.

By using these newer analytics investors know much more about the true skill of their equity managers (external and internal). They can also assess the consistency of skills that are most responsible for benchmark-beating results. Which means these investors have deeper insight into which managers are more likely to deliver positive alpha going forward. Now that sounds like smart investing.

#### Endnotes:

<sup>1</sup> “SPIVA® Year-End 2025,” reports for U.S. and globally. <https://www.spglobal.com>

<sup>2</sup> “S. Persistence Scorecard Year-End 2024 – SPIVA. <https://www.spglobal.com>

<sup>3</sup> “Investment Skill: Does It Exist and What Does It Look Like?”, Analytics LTD, Spring 2022.

<sup>4</sup> Michael A. Ervolini, Skill Versus Luck – Taking The Guessing Out Of Equity Fund Selection, MIT Press, February 2026.

<sup>5</sup> Ibid.