

Peer Group Success Score 2026

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INTRODUCTION

Is active management dead? By the end of 2025, the median active manager had posted the worst 3-year excess return in over twenty years. Yet outperformance has not disappeared everywhere. The Peer Group Success Score, as elaborated on in this article, points to wide differences across regions: in Japan, active management clearly adds value, and in Emerging Markets active choices are still rewarded, while in US Large Cap almost no approach worked, apart from low-tracking-error quant strategies. Market concentration, not manager skill, may be the real story of this cycle.

Those seeking to achieve outperformance in equities face a more challenging environment than ever before. The year 2024 marked a historic turning point: the median 3-year excess return of our overall peer group¹ which represents active management strategies in developed and emerging equity markets, turned negative for the first time, indicating that the median active manager failed to generate outperformance. By the end of 2025, the situation had deteriorated further, with median 3-year excess returns dropping to -0.55%, the worst reading in our measure as displayed in graph 1 further on in this article.

THE QUESTION IS NOT WHETHER ACTIVE MANAGEMENT ADDS VALUE, BUT WHERE IT ADDS VALUE

To analyse where active managers could achieve outperformance, peer groups were constructed from the eVestment database, segmenting active equity strategies by region, investment approach (quantitative versus fundamental), and risk bucket (low: 1%–3%; medium: 3%–7%; high: >7% tracking error). These peer groups also serve a practical purpose for manager monitoring, allowing each strategy to be evaluated against its relevant set of peers. To define the success of each peer group, the Peer Group Success Score (PGS-score) is introduced. The results reveal that while active management has become less effective on average, pockets of outperformance seem to have persisted in certain segments of the market, depending on risk tolerance and investment style.

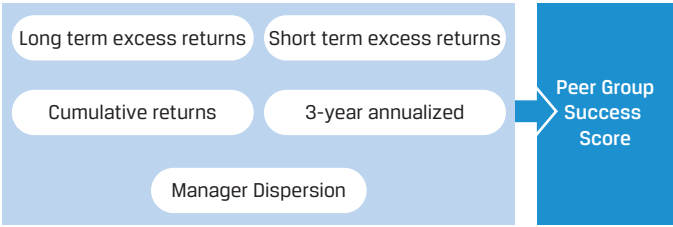
WHY THE PEER GROUP SUCCESS SCORE?

Measuring peer group success by a single metric, such as the 3-year median excess return, provides too narrow a view. The PGS-score addresses this by integrating information from various excess return measures and including manager dispersion into a single measure. It is robust because it captures both the trend in excess returns and cumulative performance over the long term, verifying whether the region has genuinely delivered outperformance. In addition, it also captures a short-term signal (whether the longer-term or shorter-term excess return is stronger), the latest 3-year median excess return and manager dispersion as illustrated in Picture 1.

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Picture 1
Components of the Peer Group Success Score



A measure that combines excess returns with manager dispersion is important because historical returns alone should have no predictive value, according to the efficient market hypothesis (Fama, 1970). In addition, more recent studies, such as Huij & Lansdorp (2012), show that persistence is more widespread than earlier research suggested, and another key observation is that alpha persistence is more prevalent in markets with dispersion as well as in markets where equity returns are less correlated with one another. Huij & Lansdorp reconfirmed their findings in June 2025, implying that alpha persistence in markets with dispersion still holds.

Our approach to capturing dispersion focuses on manager dispersion, assessing not only if there is dispersion, but more importantly, its direction. To illustrate: a peer group receives a positive manager dispersion score when the first quartile deviation from the median is larger than the third quartile deviation, indicating that top-quartile managers can generate meaningful positive outperformance. This direction is crucial as dispersion that is predominantly driven by underperforming strategies (third quartile) does not signal a favourable environment for active management. In our view, the PGS-score adds value by integrating manager dispersion and various historical performance measures into a single, robust signal for assessing active management success.

When constructing the PGS-score, consideration was given to using idiosyncratic alpha as it represents true alpha by measuring returns that cannot be attributed to broad market movements

(beta) or exposure to systematic factors (like size, value, or momentum). The study by Harmsworth & Jenkins (2022) suggests that idiosyncratic alpha is more persistent than raw excess returns, and that combining both measures improves the odds of future outperformance. Zijlstra (2023) corroborates these findings, showing that idiosyncratic alpha in equities exhibits economically and statistically significant predictive power across regions, with horizons extending up to at least three years. That said, academia is not unanimous, and methodological concerns around measuring idiosyncratic alpha, such as factor interaction, remain. We conclude that idiosyncratic alpha is informative but best applied at the individual strategy level rather than for broad segment scoring. Excess returns therefore serve as the input for the PGS-score, while idiosyncratic alpha is used in individual manager analysis alongside peer-group comparison. This article remains at the segment level, using the latest annual PGS-scores and their year-on-year change to pinpoint the segments that have rewarded active risk and those where caution is warranted.

ACTIVE MANAGEMENT UNDER PRESSURE:
THE PEER GROUP SCORE RESULTS

For this analysis we used the eVestment database in which, over the period between 2011-2025 a total of 24,890 strategies were analysed and divided into peer groups that have been provided with a score.

In 2024, the median active manager in the overall peer group containing 4,703 strategies failed to outperform its benchmark on a three-year annualized basis for the first time since the creation of the overall peer group in 2011. By the close of 2025, this trend had deteriorated, with median excess returns declining to -0.55%, representing the lowest level in over two decades, as shown in the graph below.

The message seems clear: traditional active management is struggling to justify its existence in many markets. How does this translate to the Peer Group Success Scores? A negative PGS-score reflects a combination of sustained negative excess returns, a lack of a positive trend and/or negative manager dispersion. A positive PGS-score shows a combination of steady excess

Graph 1
Overall peer group
3-year annualized
median excess returns

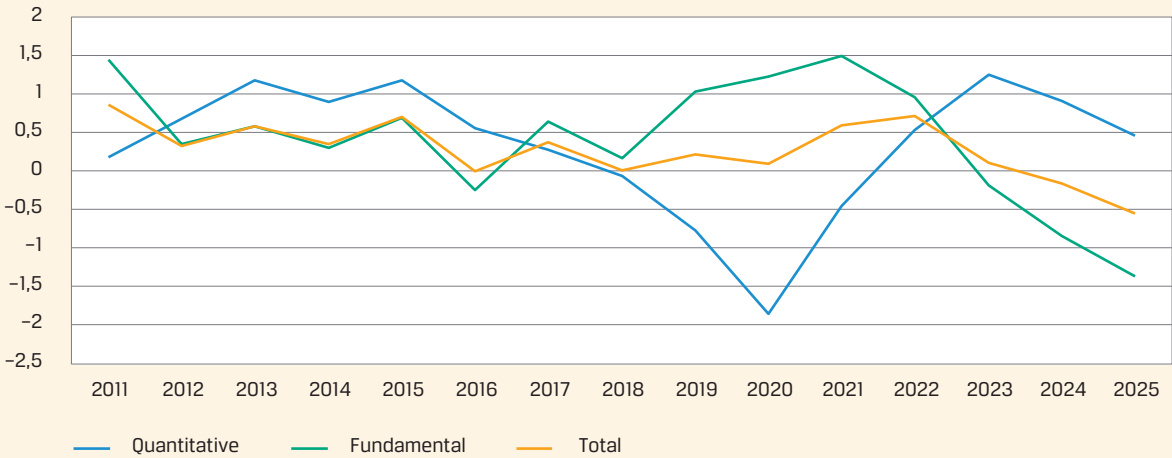


Table 1
PGS-Score

	Peer group	Low TE	Average TE	High TE	Quantitative	Fundamental
Overall	-1,4	0,0	-2,3	-3,7	-0,3	-2,3
Europe	-1,3	1,6	-1,5	-3,9	2,3	-1,7
Japan	3,8	0,5	3,4	1,0	2,6	2,9
Emerging Markets	1,3	2,2	3,2	1,3	2,8	2,6
United States Large Cap	-3,3	-1,3	-3,5	-3,8	-1,5	-3,8
US Large Cap – Growth	-3,9	0,0	-4,3	-3,5	0,0	-4,0
US Large Cap – Value	0,6	0,4	0,5	2,3	1,0	0,5
United States Small/Mid	-0,5	1,1	-1,0	-1,7	1,4	-1,0
US Small/Mid-Growth	-1,0	0,4	-0,5	-0,9	3,1	-1,8
US Small/Mid-Value	-0,2	1,5	-0,5	1,3	-0,7	-0,4
Asia (Pacific) ex Japan	-1,1	1,8	1,0	-2,0	2,2	-2,1
Global	-1,6	2,2	-1,6	-1,9	0,4	-3,7
Developed	-2,5	-0,4	-2,6	-3,8	1,1	-3,5

returns, strong recent performance, and/or positive manager dispersion. The PGS-score therefore provides insight into which market segments were successful in capturing outperformance.

Along with the negative median excess returns, table 1 illustrates that the overall peer group PGS-score is -1.4, which indicates a challenging environment for active management. However, it also illustrates that, in contrast to high tracking error or fundamental strategies, lower tracking error strategies generally managed to get positive PGS-scores.

THE US LARGE CAP MARKET IS
STRUCTURALLY HOSTILE – EXCEPT
FOR 'ENHANCED' STRATEGIES

The PGS-score also provides the insight that active management continues to add value primarily in Emerging Markets and Japan, with varying degrees of success depending on the risk tolerance and investment approach. In contrast, the US Large Cap market remains structurally challenging. These results help explain the recent disappointment among pension funds with negative excess returns given that most have significant exposure to the United States where active management has struggled. Hence our results suggest that outperformance could have been captured, but only through low-risk quantitative strategies applying small active weights (enhanced strategies). This is the only peer group within the United States that delivers a positive PGS-score indicating that while difficult, capturing outperformance in this region is possible. More broadly, our analysis shows that higher tracking error strategies are currently not delivering, except in Emerging Markets and Japan, where the median manager outperforms and achieves positive PGS-scores.

WINNERS AND LOSERS BY REGION

To better pinpoint where active management added value, the PGS-results are analysed by region. This regional analysis follows directly from the structure of our peer-group scoring: each strategy is assessed against its own preferred benchmark, and the large majority of strategies are benchmarked on a regional basis. A regional decomposition is therefore the most natural lens through which to examine performance. The United States forms a notable exception, as a substantial number of US strategies are benchmarked specifically against small-cap indices and/or growth and value indices. Given the size of this group, this is treated as a separate category. The regional lens also aligns with most pension funds' investment view, as this analysis captures not only the individual regional blocks but also the global and developed-market perspectives. It shows pension funds which investment approach would have been most successful given their views, and how best to assess their own performance. In what follows, the results of the various PGS-scores are examined in turn.

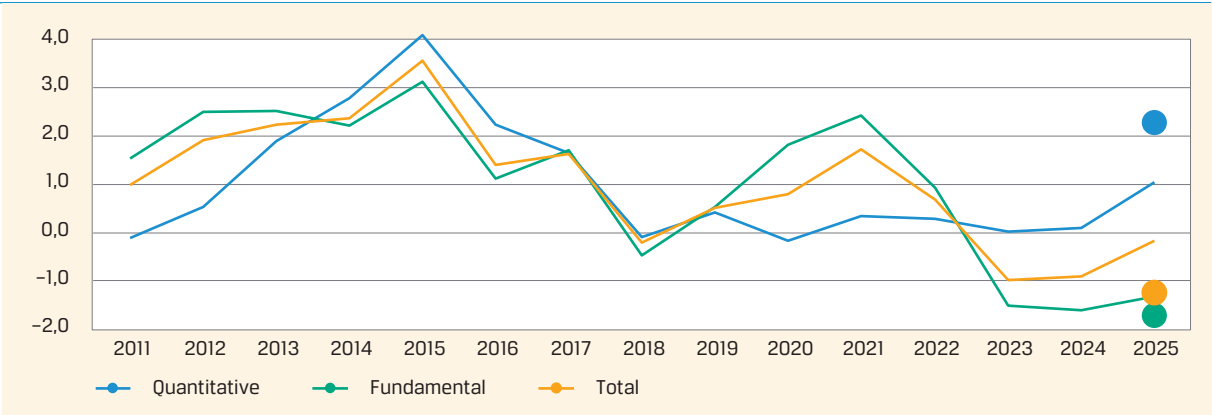
EUROPE: SLIDING BACKWARD

Europe's PGS-score fell to -1.3, driven by persistent underperformance in the fundamental segment. Quantitative strategies offer a glimmer of hope: improving momentum in excess returns, positive manager dispersion and strong returns over the last 15 years result in a PGS-score of +2.3 (graph 2, blue dot). However, quantitative strategies cannot prevent the negative PGS-score of the European region (brown dot), since they make up only 20% of the total in this region.

JAPAN & EMERGING MARKETS: THE BRIGHT SPOTS

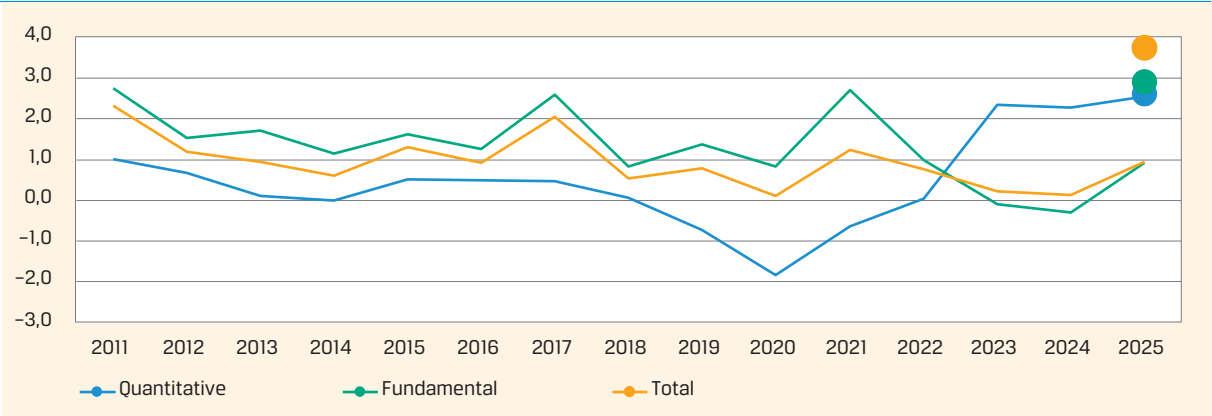
Japan stands alone as the undisputed winner. The 2025 PGS-score of +3.8, an increase of +2.0 from 2024, shows that this was the best place to capture outperformance, both for fundamental as well as quantitative strategies. Strong excess returns, positive manager dispersion and consistent outperformance over longer horizons made this the hottest region for active management (graph 3). *The caveat:* positive manager dispersion is beginning to narrow, and there are concerns that higher tracking error

Graph 2
Europe 3-year
annualized median
excess returns &
PGS-score



* The lines are the 3-year median excess returns, and the dots the PGS-scores.

Graph 3
Japan 3-year
annualized median
excess returns &
PGS-score



strategies are underperforming in recent years. Nonetheless, due to very strong excess returns over a longer horizon, even this higher tracking error peer group still scores positive.

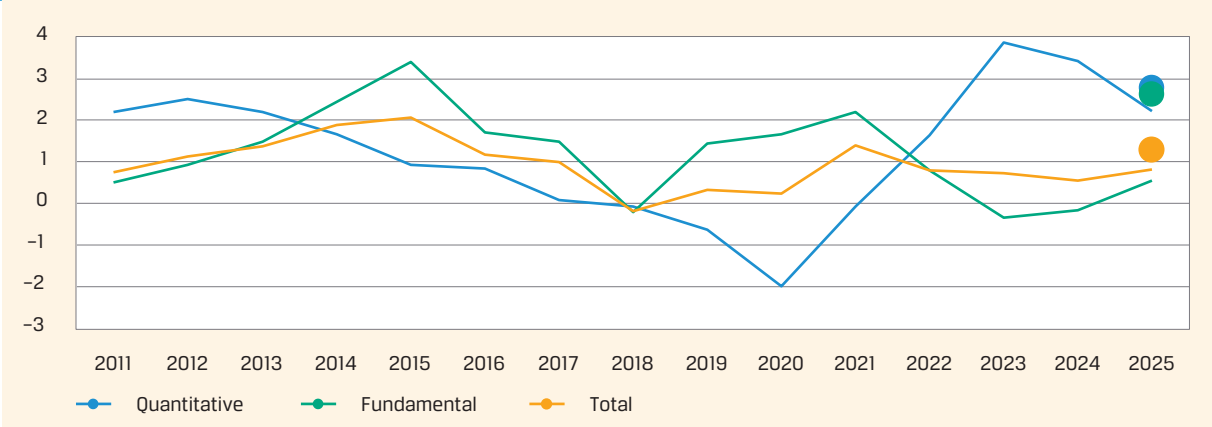
The Emerging Markets managers peer group improved its PGS-score by +1.0 as fundamental strategies are showing improved excess returns across one-, three-, and five-year horizons. This improvement came despite rising market concentration in names such as TSMC, Samsung, Tencent, Alibaba and SK Hynix, suggesting that the breadth of the emerging market universe still offers active managers sufficient

opportunities to capture outperformance outside the dominant index names. Quantitative strategies remain positive overall, though they do show signs of fatigue. *Verdict:* A credible case for active management, with both approaches offering comparable PGS-scores (graph 4).

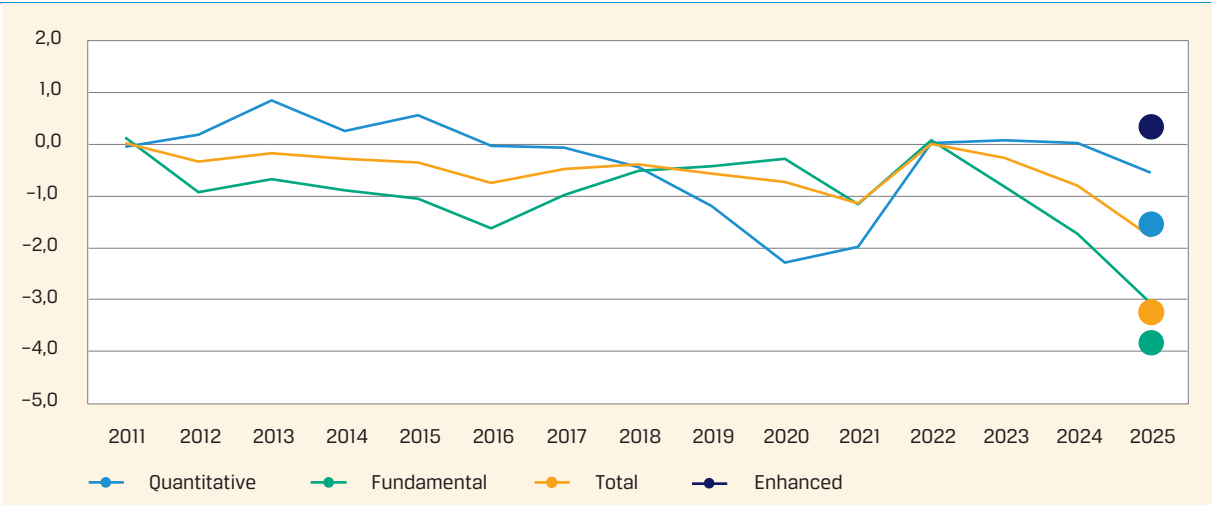
UNITED STATES LARGE CAP: THE GRAVEYARD OF ALPHA

The United States Large Cap remains brutal territory for active managers. The median 3-year excess returns by the end of 2025 for fundamental strategies were below -3% annually. This marks a sharp deterioration from 2022, when temporary weakness in

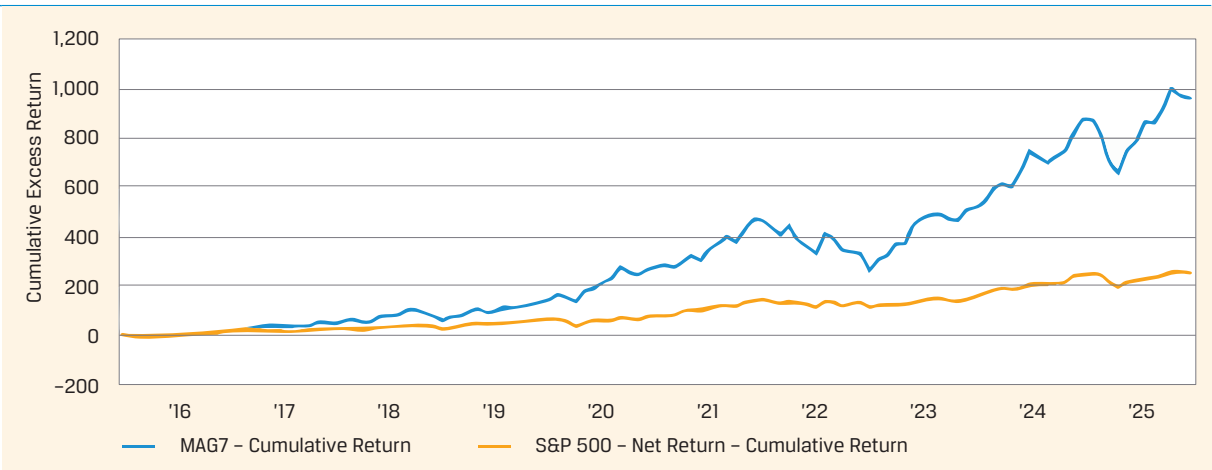
Graph 4
Emerging Markets
3-year annualized
median excess
returns & PGS-score



Graph 5
United States 3-year
annualized median
excess returns &
PGS-score



Graph 6
The cumulative
performance of the
Magnificent 7 versus
the S&P 500



the performance of the Magnificent 7 provided a short-lived boost to active performance that has since rolled out of the 3-year window.

The impact of the Magnificent 7 remains significant as their weighting in major US indices has grown to over 32% by the end of 2025. Furthermore, their representation accounted for more than half of the Russell 1000 Growth index (51%). This concentration, combined with the Magnificent 7's strong performance (graph 6), made it difficult for most active growth managers to keep up. Wary of concentrating their portfolios in just a handful of names, most strategies remained underweight the Magnificent 7.

One exception: enhanced index strategies (low tracking error & low active share) maintain a positive PGS-score of +0.3 (graph 5, dark blue dot). The advantage of these strategies is that they deviate less from the benchmark and as a result are less underweight in the Magnificent 7. This segment has grown from just 16 strategies in 2016 to 39 in 2025, which shows that more managers have acknowledged the potential for enhanced strategies within the US.

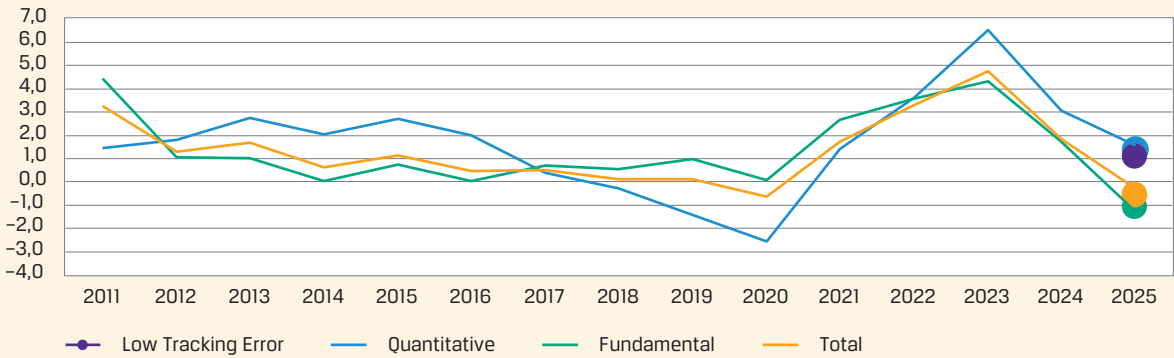
UNITED STATES SMALL CAP: THE FALL FROM GRACE

In 2023, US small cap strategies were celebrating, as median 3-year excess returns were solidly positive (graph 7). By 2025, that optimism had evaporated, with the region in negative territory. This reversal produced a PGS-score of -0.5, a reduction of 2.8, driven by a one-year median excess return of -2.4%. This caused a shift: lower tracking error strategies have suddenly become the winning approach, whereas previously this environment had most favoured medium- and higher-tracking error strategies. Notably, this is one of the few regions showing a change in the most successful investment approach.

GLOBAL & WORLD: DOMINATED BY US DYNAMICS

With 67% of the MSCI AC World index allocated to US equities, global strategies inherit America's problems. The Magnificent 7 still represented 21.8% of the index weight by year-end 2025, creating an environment where most active managers can't keep up with the benchmark. *The silver lining:* lower-tracking-error quantitative strategies achieved positive PGS-scores in the Global (+1.4) and Developed (+0.8) markets (graph 8), suggesting they were better able to handle larger market concentrations.

Graph 7
United States
Small/Mid Cap



ASIA PACIFIC EX-JAPAN: A MARKET WITHOUT MANY OPTIONS

Quantitative strategies look promising in this region, but there are only 9 strategies in our peer group. Fundamental strategies are a much broader category with 86 strategies, but they continue to disappoint (graph 9). Until the quantitative universe expands, this region remains difficult to navigate for active investors, both from an excess return perspective and from the perspective of the PGS-score.

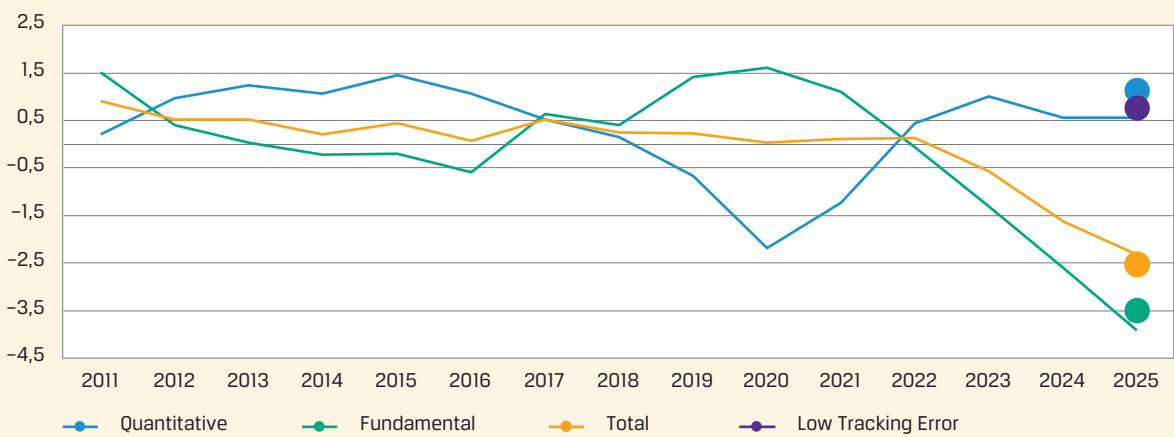
ESG: HOLDING ITS GROUND

The increased focus on integrating ESG into investment strategies led us to analyse this as a separate peer group. The result should be seen independently from the regional peer group results as

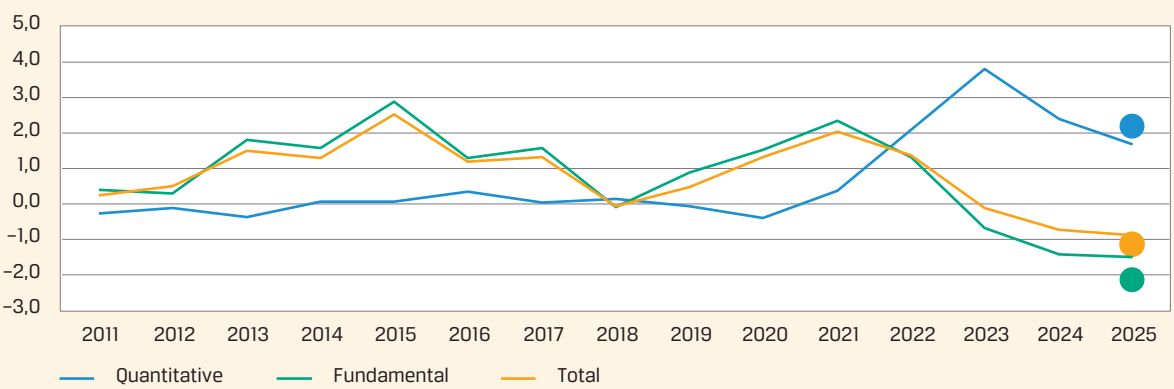
most ESG-strategies have a global focus and have a mix of underlying benchmarks. Nonetheless, ESG-strategies have demonstrated resilience, particularly the considerable challenge posed by oil price spikes in 2022 resulting from the war in Ukraine, as evidenced by a PGS-score of -0.1. The recent conflict in Iran could be argued to negatively impact ESG-focused strategies if oil and gas prices keep spiking; however, the analysis highlights several key findings through the end of 2025:

- A total of 296 strategies currently carry the ESG-label (containing ESG, Sustainability, Green investments or Climate in the name of the strategy) indicating substantial growth within this segment, compared to 126 strategies by the end of 2015.

Graph 8
Developed (MSCI World) 3-year annualized median excess returns & PGS-score



Graph 9
Asia Pacific 3-year annualized median excess returns & PGS-score



- Over half of these ESG-strategies are managed within the Global or Developed region.
- ESG-strategies within the United States Large Cap & United States Small/Mid Cap peer groups are significantly underrepresented.

FROM SCORE TO DECISION

For an asset owner, the PGS-score is intended as a practical input at three decision points. First, in deciding where to allocate the active risk budget: it pinpoints the areas where active risk has historically been rewarded. Second, in manager selection and monitoring: because each strategy is scored against its relevant peer group rather than a broad benchmark, it separates manager-specific skill from a headwind or tailwind shared by the entire segment. Third, in implementation choices: the analysis supports favouring enhanced or low-tracking-error solutions in segments where only those score positively, and high-conviction mandates in the regions where high active risk is rewarded.

THE BIG PICTURE: THREE TAKEAWAYS & CONCLUSION

1. Quantitative seems to have outpaced fundamental, but it's not bulletproof. Across nearly every region, quantitative strategies were better positioned to capture excess returns in the recent year(s). However, even quant approaches have been showing strain in some markets.
2. Lower tracking error seems to be where the alpha lived. In both the US and global markets, the only consistently positive segments were low-tracking-error and enhanced index strategies. High-conviction, high-tracking-error approaches were getting punished.
3. Market concentration appears to have become the enemy of active management. The dominance of a handful of mega-cap stocks with strong outperformance versus their benchmark, particularly in the US, has made benchmark-beating structurally harder. Active managers who underweighted these names faced a persistent headwind.

Active management isn't dead, but it's on life support in many markets. Japan and emerging markets offered genuine opportunities. The United States and Europe demand extreme selectivity, with preference for quantitative, low-tracking-error approaches that do capture alpha. And the high-conviction stock pickers who used to deliver consistent alpha? In most developed markets, the data now argues for caution in allocating to such strategies.

We are tracking the forward-looking performance of the PGS-scores. While our historical backtest looks promising, the track record so far is too short to draw conclusions about predictive power. In future research, we also intend to extend the PGS-score to our fixed income universe.

Literature

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Notes

- 1 The overall peer group is constructed as an aggregation of underlying regional peer groups. For every region, only manager strategies are included that are benchmarked against the most used index for that region. For example, the Emerging Markets peer group contains only strategies benchmarked against MSCI Emerging Markets, excluding those tracking adjusted or different benchmarks such as MSCI EM Small Cap. This reduces biases arising from differing benchmarks or investment objectives. All strategies are compared against net benchmarks, and where managers did not report returns in EUR, those are converted from USD where available. Fees are not captured in this analysis.