

TERUGKEER VAN ACTIEF BELEGGEN

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gaan dan alpha

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CALL FOR PAPERS

Beyond the Portfolio: Welke extra Skills en Gedragsaspecten heeft de beleggings-professional vandaag de dag nodig?

De redactie van het VBA Journaal nodigt auteurs uit om bijdragen in te dienen voor een themanummer over de brede rol van de beleggingsprofessional. De klassieke belegger die vooral kennis heeft over asset allocation, security selection en risicomanagement, is niet langer voldoende. De moderne vermogensbeheerder, portfolio manager, advisor of investment professional opereert in een complex krachtenveld van behavioral finance, geopolitiek, social media, customer experience (CX), ESG, operationele uitvoering, juridische en regulatorie uitdagingen, communicatie-eisen én de strenge eisen rond passendheid en geschiktheid onder MiFID. Cliënten, toezichthouders, media en de samenleving verwachten meer.

- Welke extra Skills en Gedragsaspecten zijn in de tijd (nog) meer noodzakelijk geworden?
- Hoe combineert de professional analytische scherpte met gedragsinzichten, kennis van risicopreferenties, politiek-maatschappelijk bewustzijn, ESG-kennis, sterke communicatie en een scherp oog voor client experience – terwijl hij of zij tegelijk zorgt voor de beste rendementen?

We zoeken zowel academische analyses als praktijkgerichte bijdragen die deze verbreding van het vakgebied duiden. Voorbeelden van artikel-ideeën

- Behavioral finance als kerncompetentie:** hoe vertaalt kennis van biases, heuristics, mental accounting en risicopreferenties zich naar betere besluitvorming én betere client conversations?
- Communicatieskills onder druk:** hoe leg je complexe beleggingskeuzes, tegenvallers en onzekerheid uit aan cliënten, bestuurders, media en toezichthouders?
- De belegger als 'politicus':** geopolitieke vaardigheden, scenario-denken en het duiden van politieke risico's in portefeuilles en client-communicatie.
- Social media en reputatierisico:** hoe beïnvloeden platforms, influencers en snelle informatiedeling het werk van de beleggingsprofessional, en welke media- en communicatieskills zijn nodig?
- De multi-skill professional:** welke combinatie van harde en zachte skills onderscheidt succesvolle beleggingsprofessionals vandaag?
- Praktijkcases:** organisaties die succesvol of juist moeizaam de verbreding van

competenties (inclusief behavioral finance en MiFID-compliance) hebben vormgegeven.

- Toekomstperspectief:** welke skills worden de komende vijf tot tien jaar nog belangrijker (AI-geletterdheid, systems thinking, stakeholder management)?
- Risicopreferentieonderzoek in de praktijk:** hoe betrouwbaar zijn huidige methoden om risicobereidheid en risicodraagkracht vast te stellen, en welke nieuwe benaderingen verbeteren de kwaliteit van de geschiktheidstoets?
- ESG als geïntegreerde competentie:** niet alleen kennis van frameworks, maar ook het vermogen om waarden, trade-offs en impact te communiceren naar verschillende stakeholders.
- Passendheid en geschiktheid onder MiFID:** hoe kunnen behavioral insights bijdragen aan robuustere en beter verdedigbare toetsingsprocessen?
- Customer Experience (CX) in vermogensbeheer:** van pure performance naar de totale beleving van de dienstverlening – welke skills vereist dit van de professional?

Geïnteresseerde auteurs worden verzocht uiterlijk **15 november 2026** een korte samenvatting van hun bijdrage te sturen naar de redactie (irma.willemsen@cfasociety.nl).

The Return of Active Investing?

Few topics in investment management have generated as much debate over the past two decades as the question of active versus passive investing. Following years of strong growth in passive strategies, low-cost indexing appeared to have settled the discussion for many investors. Yet recent developments suggest that reality may be more nuanced. The rise of customized benchmarks, geopolitical uncertainty, growing market concentration, advances in artificial intelligence, and the increasing importance of sustainability considerations are challenging traditional definitions of both active and passive investing. Against this backdrop, we present a new edition of the CFA-VBA Journal with the theme *The Return of Active Investing?*

What quickly became apparent while compiling this issue is that active management is no longer a simple question of outperforming a benchmark through stock selection. Several authors argue that investment management is evolving toward a broader spectrum of active decisions, ranging from benchmark construction and portfolio design to risk management, sustainability integration, and governance.

In our first article, Arjen Dibbets, Arie Gravendeel and Tom Meijer explore how the Dutch pension reform (Wtp) reshapes the discussion around active management. They argue that active investing increasingly extends beyond alpha generation and now encompasses benchmark design, risk preferences, sustainability choices, and communication with pension participants. Similarly, Daria Plakhova, Durga Shankar, Gaston Siegelaer, and Hendro Sugandi demonstrate that even passive ESG investing contains important active elements, as benchmark customization and exclusion rules materially influence risk and return outcomes.

The active-passive debate is further explored from different perspectives. Hania Schmidt argues that structural shifts in markets, including the growth of passive investing itself, retail participation, and advances in AI, continue to create opportunities for active

systematic investors. Dirk Broeders and Kristy Jansen provide a thoughtful counterbalance by presenting what they call "the uneasy case for active management": a recognition that changing market regimes, tail risks, and investor constraints may justify active decision-making, while simultaneously acknowledging how difficult it remains to consistently add value after costs.

The practical reality of active investing is illustrated by Ilya van den Bosch, whose Peer Group Success Score highlights significant differences across regions and styles. His findings suggest that the question is not whether active management works, but where it works. Meanwhile, Ronald Kok's interview with industry leaders from State Street, Carmignac, and DWS reveals how the traditional boundary between active and passive investing is becoming increasingly blurred through hybrid approaches, active ETFs, and alternative index designs.

Beyond the active-passive discussion, this edition also examines the Total Portfolio Approach through an interview with Tatjana Ulićević, reflects on impact investing through a CFA Society Netherlands roundtable, and includes a scientific contribution on sustainability mindsets among investment professionals.

Taken together, the contributions in this edition suggest that the future of investing may not be active or passive. Rather, it may be about understanding where active decisions are being made, how they influence outcomes, and whether they truly add value.

We hope this edition provides fresh perspectives; challenges established assumptions and stimulates thoughtful discussion on active versus passive investing. Enjoy reading!

Ronald Kok
Reinout van Tuyll
Gerben de Zwart

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Check out our educational programs, such as the RBA Program, MiFID II and more at www.cfasociety.nl.



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Aldert Zwart, CFA

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Finance Run 2026: Community, Fun and Achievement!

On September 11th, we proudly joined the Finance Run for the second time, once again with a CFA Society Netherlands Running Team made up of both newcomers and returning runners! A total of 19 enthusiastic participants took part in the 10 km and 5 km races, representing our society with energy and determination. 🏃🏃🏃

We look back with great pride on the enthusiasm shown by our runners and thoroughly enjoyed sharing this unique experience with finance professionals from across the industry. After a few drops of rain at the early start of the half marathon, the sun came out, and we were able to enjoy some well-deserved drinks afterwards on the terrace overlooking the water.

It was much more than a race – it was a celebration of Community, Fun and Achievement that brought us closer together. At the same time, participating in such a broad industry event gave

CFA Society Netherlands valuable visibility across the wider financial community. With professionals from organizations throughout the industry coming together, the Finance Run offered a great opportunity to strengthen our presence, connect with peers, and showcase the vibrant community behind our society. 😎

Beyond the finish line, the impact was even more meaningful. Together with the broader Finance Run community, we helped raise an outstanding €170,000 in support of Kikid and Eurowijs, two organizations making a real difference for young people.

This wonderful combination of sport, community spirit, industry connection, and social impact showed the very best of what our professional network can achieve when we come together and demonstrate what our society stands for – even beyond our daily work.

A heartfelt thank you to all our runners, supporters, and organizers for their commitment, passion, and enthusiasm. We are already looking forward to next year's edition on September 3rd 2027!!

👏👏👏 Thomas Peijnenburg, Rick Tolboom, Philip Jan Looijen, Sebastiaan Zitman, Eric de Rouw, Leon Kirksothen, Yimin Qin, Michael Field, David Grover, Eelco van der Schagt, Gül Poslu, Maartje Schriever, Stanislav Kupriyanov, Robert Roest, Natalja Sesterikova, Babette den Houting, Joost van der Mandele, Heleen de Vlaam and Vladimir Tilipan.

Heleen de Vlaam



AGENDA		
26 oktober 2026 Algemene ledenvergadering	17 november 2026 The Total Portfolio Approach: From Principles to Practice	25 november 2026 Dutch Performance Measurement Round Table 2026
4 november 2026 Researchseminar 2026: 'Are you being served?': Het Nederlandse investerings-klimaat	26 november 2026 ALM en beleggingskeuzes in een tijd van geopolitieke schokken en AI-versnelling	

Annual Dinner 2026

On 16 September, CFA Society Netherlands welcomed 300 members and guests to a sold-out Annual Dinner at the Muziekgebouw aan 't IJ in Amsterdam. Under the theme Technology as an Engine of Growth: From Innovation to Investment Impact, the evening offered inspiring perspectives, lively discussion and excellent opportunities to connect. Keynote speakers Peter Wennink, former President and CEO of ASML, and Dominic Gallelo, Managing Director and Head of Digital & AI at Bridgepoint, explored the theme from complementary perspectives, expertly guided by moderator Marije Tolsma-Groen.

Following the opening remarks by Inge van den Doel, President of CFA Society Netherlands, Peter Wennink delivered an urgent yet ultimately optimistic message about The Netherlands' future prosperity. In a world where the peace dividend has disappeared and technology has become increasingly important from a strategic perspective, Europe must strengthen its competitiveness. Innovation, he argued, requires intuition and a willingness to take informed risks. His message to investors was equally clear: fiduciary responsibility is not only about protecting capital, but also about creating long-term value.

The Netherlands still has the talent, knowledge and creativity needed to succeed. Realising this potential, however, requires closer cooperation between government,

investors and businesses, fewer regulatory barriers and a greater willingness to allocate capital to innovation. Wennink's call to action was compelling: reduce unnecessary regulation, identify the friction that holds innovation back, find the right partners and be prepared to take informed risks.

Following the first course, Dominic Gallelo brought the discussion directly into the investment process. He explored how AI is changing investment analysis, asset-selection criteria and value creation within portfolio companies. His practical message was not to pursue sweeping transformation for its own sake. Strong data foundations must come first. From there, organisations should start with focused use cases, develop them in depth and scale what demonstrably works.

Gallelo also observed that, for many corporate functions, buying proven solutions may be more effective than building them internally. At the same time, effective transformation governance is essential to achieve momentum, manage implementation and deliver measurable results. His insights provided plenty of food for thought, both figuratively and literally, as the discussions continued over the second course, dessert, and drinks.

The evening demonstrated that technology alone does not create prosperity. Possibilities become progress only through collaboration and the choices made by investors, companies and policymakers. With thought-provoking contributions, an engaged audience and many new connections, the Annual Dinner once again highlighted the value of bringing the investment community together.

John Kuijt RBA





Why more impact data is not yet leading to better decisions

The Responsible Investments Committee of the CFA Society Netherlands convened a closed-door roundtable on impact measurement and management on 23 September 2026. It brought together 23 senior investment professionals from across the impact investing value chain: asset owners, asset managers, venture capital, development finance institutions, private wealth, data and measurement providers, and academia. The discussion was held under the Chatham House Rule. This article reflects views and perspectives shared during the roundtable discussion, not the position of the CFA Society Netherlands Responsible Investments Committee.

The aim was to explore how a lack of clarity and consensus on impact measurement and management practices is seen as one of the industry's biggest challenges today, one that makes decision-making genuinely difficult. The focus was deliberately forward-looking with the aim of having an open conversation about the practical barriers that exist and what it would take to overcome them.

More data, same old problem

The Sustainable Finance Disclosure Regulation (SFDR) has formalised requirements for sustainability reporting. Yet participants described a persistent gap between the growing volume of data reported and its use in investment decisions. Obtaining impact data, reporting it, and using it to guide investment decision remain three separate steps. Much of what is reported is still not used when decisions are made.

Part of the problem is how information reaches decision makers. Pension boards typically see only a summary, assembled by a fiduciary manager. Private-market investors collect a much larger and more granular set of data points directly from portfolio companies, but little of that detail reaches the board in its original form. In public market impact investing, boards do not end up spending enough time evaluating these metrics. This is partly a practical constraint on time, and partly because boards are reviewing the data for a different purpose than the one it was originally collected for.

Obtaining impact data, reporting it, and using it to guide investment decision remain three separate steps

Combining impact data into a single portfolio-level figure creates further difficulties. Value tends to dilute as it passes through longer chains of intermediaries between an investor and the eventual beneficiary, and over the long time horizons many of these outcomes take to materialise. Aggregating outcomes also creates a risk of double counting, and the resulting figure depends heavily on the framework used.

A single rollup metric such as lives impacted was raised as a possible aggregate measure. Work on refining such a measure, with the right caveats and adjustments, continues. It is not a solved problem today. It rests on numerous assumptions, and it does not translate cleanly across every theme. A different approach raised in the discussion was to report validated individual outcome stories, each backed by its own outcome-specific KPI, rather than treating this as a like-for-like substitute for an aggregate figure. It was seen as suited to specific areas or conditions rather than a general solution to the same problem. Independent third-party validation sitting underneath each story was seen as the element that actually gives it credibility.



A wider concern was whether improvements in measurement were translating into sufficient capital allocation to impact investing. The discussion therefore turned to what would build allocators' confidence and encourage greater investment.

Comparable, but not always relevant

A recurring frustration in the room was the absence of a shared industry standard for impact measurement. Comparable, standardised metrics can make performance easier to compare and communicate, but they can also remove the context that gives the data meaning. Some outcomes only make sense when judged against a specific reference group or counterfactual, not a single universal benchmark. The group did not see a way to resolve this tension fully.

When proof becomes the enemy of progress

A theme that ran through much of the discussion was the pursuit of perfect additionality and attribution: proving precisely that a given outcome would not have happened without a specific investor's capital. Participants distinguished a direct causal claim, where an investment's own activity clearly caused an outcome, from a broader enabling contribution, where capital supports a transition without a clearly demonstrable link to specific outcomes.

Measurement can therefore narrow the investable universe rather than build confidence in it

The group's general direction was to stop chasing proof that cannot realistically be delivered. The alternative favoured was to explain clearly what capital contributed, why an investment happened, and whether the outcome would plausibly look different without it.

This shift comes with a real trade-off. Claiming impact still calls for a degree of reporting and verification if stakeholders are going to trust the claim. Third-party validation kept coming up as the element that earns that trust, more so than any single aggregate number. One clear concern is that measurability itself can quietly reshape which investments get made. Holding managers accountable to predefined, easily measured targets can push them toward safer, more predictable investments. The harder, higher-risk activities that impact investing is meant to support often lose priority instead. Measurement can therefore narrow the investable universe rather than build confidence in it.

Where accountability starts

Setting targets was seen as important for giving a portfolio direction. Practical, attainable targets were judged more useful than perfect ones. One example raised was the NAB's 10 percent target, which pushes Dutch pension funds, asset managers, insurers, and banks toward committing at least ten percent of assets under management to impact investments, with four percent earmarked for emerging markets. Whether targets should focus on specific outcomes or broader themes remained an open question.

The goal is not perfect measurement, but measurement that supports better decisions

What came through more clearly is what makes a target matter in practice: a link back to financial or commercial performance. Without that link, a decision to walk away from an underperforming investment carries little real consequence. Where weak impact performance coincides with commercial underperformance, investors have a clearer basis for action.

An upfront engagement plan was raised as one practical way to keep this conversation active rather than letting it lapse until an exit decision. This included annual check-ins, short-term target KPIs set during due diligence, and a near-term plan covering the first few months of investment.

Views in the room diverged on how far that link should go. One view was to stay engaged and give the company time to improve, rather than exit early. Another argued for realism in the target itself, including whether it should be set in absolute terms or relative to the rest of the industry. Both engagement and exit were treated as legitimate tools, befitting the appropriate situations.

Patience, not perfection

The group did not expect these challenges to be resolved soon, or once and for all. Disagreement, and new problems, will likely keep surfacing as the practice develops. The way forward discussed was not a single end state. It was steady progress: recognising the limits of measurement while continuing to allocate capital, direct it more effectively and improve the outcomes it supports.

One comparison raised during the discussion was that natural capital investing took more than two decades to establish itself as a recognised asset class. Impact investing may simply be earlier in that same process, not stuck or behind it. Traditional capital markets offer a related parallel. Investors have never agreed on one true way to value risk, return, or liquidity. The market still functions efficiently through an ongoing process of consensus, not a single settled answer. Impact investing is not really missing something the rest of investing has already solved.

Manish Saxena, CFA

Door Wtp zal actief beheer over meer gaan dan alpha

Arjen Dobbets, Arie Gravendeel en Tom Meijer

De Wtp verbreedt de rationale voor actief beheer. Naast verwachte alpha telt ook de aansluiting bij beleidsdoelen, risicohouding, cohorten, duurzaamheid en uitlegbaarheid. Dit artikel analyseert wat deze verbreding betekent voor de keuzes van pensioenfondsbesturen en laat zien waarom ook een operationeel passieve portefeuille strategisch actieve keuzes kan bevatten. Wat verandert de Wtp aan de beoordeling van actief beheer, op welke niveaus speelt dit en wat vraagt dit van pensioenfondsbesturen?

Wtp maakt actief beheer niet automatisch meer of minder wenselijk, maar stelt wel hogere eisen aan de onderbouwing ervan en de verantwoording naar deelnemers. Pensioenfondsen moeten scherper onderscheiden of actieve keuzes worden gemaakt in het beleid, de tactische allocatie of de uitvoering, en hoe de bijbehorende risico's en resultaten doorwerken per life-cycle en cohort.

Maatwerkbenchmarks vragen bijzondere aandacht. Een portefeuille kan een maatwerkbenchmark passief volgen, terwijl de benchmark zelf een strategisch actieve afwijking van de brede markt bevat. Als dit risico niet zichtbaar is in de ALM, kan een onvolledig beeld ontstaan van de aansluiting op de risicohouding.

Actief beheer wordt daarmee nadrukkelijker een bestuurlijk vraagstuk. De keuze moet passen bij beleid en risicohouding, uitvoerbaar en begrensd zijn en vooraf zijn verbonden met monitoring, rapportage en communicatie.

ACTIEF BEHEER KENT VERSCHILLENDE DEFINITIES

In dit artikel wordt onderscheid gemaakt tussen actief beheer als uitvoerings-, tactische of strategische keuze. De analyse zal ook uitwijzen dat de overgang naar de Wtp op verschillende niveaus kan spelen.

In dit artikel behandelen wij actief beheer binnen de *uitvoering*, als het bewust afwijken van een benchmark binnen een beleggingscategorie om extra nettorendement (alpha) te behalen.

Arjen Dobbets (l)
Senior Investment
Consultant bij Montae &
Partners

Arie Gravendeel RBA (m)
Senior Investment
Consultant bij Montae &
Partners

Tom Meijer (r)
Investment Consultant
bij Montae & Partners



Na de *Global Financial Crisis (GFC)* stelden enkele invloedrijke studies¹ het nut van actief beheer in termen van alpha aan de kaak. De actieve rendementen stelden teleur, en dat maakte ook de hoge kosten, waar men toen toch al kritischer over werd, akelig zichtbaar. Dit leidde ertoe dat pensioenfondsen grootscheeps zijn overgestapt van actief naar volledig passief beheer.

In toenemende mate² definiëren institutionele beleggers zelf *strategisch* hun (maatwerk)benchmarks, en worden de resulterende afwijkingen ten opzichte van een gangbare marktindex als actieve keuzes gezien. Eigenlijk zijn pensioenfondsen de eerder vol overtuiging gekozen passieve benadering geleidelijk aan gaan personaliseren met uitlegbare principiële (met name ESG) en financiële (o.a. alternatieve bètastrategieën, home bias) beleidsregels. Zodoende wordt passief een benchmark gerepliceerd, maar is deze benchmark zelf actief bepaald; na het definiëren van die benchmark heeft het pensioenfonds weer de voordelen van replicatie, zoals lage kosten en beperkte inspanningen.

In zowel de uitvoerings- als de strategische variant wordt bewust afgeweken van de marktindices die ten grondslag liggen aan de via de ALM-studie vastgestelde strategische assetallocatie (SAA) en het financiële doelprofiel. Rendementsverschillen worden op kortere termijn geaccepteerd vanuit de overtuiging dat het risico-rendementsprofiel op langere termijn of de niet-financiële aspecten beter zullen zijn voor de deelnemers. De tussentijdse mate van rendementsafwijking wordt dan uitgedrukt in tracking error. Daarnaast worden benchmarkafwijkingen gebruikt om niet-financiële meerwaarde te meten.

ACTIEF BEHEER GAAT VERDER DAN ALPHA

Op *tactisch* niveau speelt actief beheer ten opzichte van de SAA door bijvoorbeeld bewuste keuzes om de allocatie van een beleggingscategorie te over- of onderwegen versus de strategische weging, of een andere renteafdekking te kiezen dan de strategische. Het doel, extra rendement of minder risico, is een derde vorm van alpha-generatie.

Het is belangrijk om op te merken dat private assets in de praktijk vrijwel altijd actief beheerd worden. Binnen private markten is actief beheer immers inherent aan de beleggingscategorie, omdat brede, liquide en volledig repliceerbare marktindices ontbreken of slechts beperkt bruikbaar zijn.

De vervolgvraag is of de Wtp gevolgen heeft voor actief beheer, en zo ja op welk niveau? Op basis van dit inzicht kan een pensioenfonds de bestaande keuzes voor actief dan wel passief beheer heroverwegen, en onderzoeken of beleid moet worden aangepast.

VERTREKPUNTEN VAN DE ANALYSE

Deze paragraaf behandelt de aspecten van het beleggingsbeleid, communicatie en de uitvoering die door de overgang naar de Wtp veranderen.³

VAN DEKKINGSGRAAD NAAR PENSIOENUITKOMSTEN PER COHORT

Onder het FTK stond de dekkingsgraad centraal als collectieve maatstaf voor de financiële positie van het pensioenfonds. Onder Wtp verschuift het zwaartepunt naar individuele pensioenvermogens en pensioenuitkomsten per cohort. Daarmee wordt niet alleen het totale fondsrendement relevant, maar vooral de vraag hoe risico's en rendementen doorwerken voor verschillende groepen deelnemers. Actief beheer moet daarom niet uitsluitend op fondsniveau worden beoordeeld, maar ook vanuit de bijdrage aan de pensioenuitkomsten van afzonderlijke cohorten.

Het individuele pensioenvermogen wordt bovendien zichtbaarder voor deelnemers. Daardoor worden beleggingsresultaten, kosten en afwijkingen van marktindices directer uitlegbaarheids- en communicatievraagstukken.

RENDEMENTSTOEDELING: BESCHERMINGSRENDEMENT EN OVERRENDEMENT

Een belangrijk verschil met het FTK is dat rendementen onder de Wtp explicieter worden toegedeeld. Waar rendementen onder het FTK generiek via de dekkingsgraad doorwerkten, wordt onder de Wtp onderscheid gemaakt tussen beschermingsrendement en overrendement. Dit maakt zichtbaarder waar actieve keuzes landen en welke deelnemersgroepen daarvan profiteren of juist risico lopen. Bij actief beheer moet daarom vooraf duidelijk zijn of de keuze vooral relevant is voor het beschermingsdeel, het overrendement of de solidariteitsreserve, en of de aard van het risico past bij de functie van dat onderdeel.

RISICOHOUDING ALS NIEUW BELEIDSANKER

Onder de Wtp wordt de risicohouding van deelnemers door wettelijke eisen een belangrijker anker voor het beleggingsbeleid. Actieve keuzes moeten daarom niet alleen passen binnen het verwachte risicorendementsprofiel van het fonds, maar ook aantoonbaar aansluiten bij de vastgestelde risicohouding per cohort of life-cycle.

LIFE-CYCLE EN COHORTDIFFERENTIATIE

De Wtp bevat life-cycle beleggen en leeftijdsafhankelijke risicosturing. Ook wanneer collectief wordt belegd, zoals binnen de SPR, vindt toedeling plaats naar leeftijdsc cohorten. Daardoor moet op verschillende niveaus worden beoordeeld of de beleidsdoelen zijn behaald. Een actief risico dat voor jonge deelnemers passend kan zijn vanwege hun lange beleggingshorizon, kan voor oudere deelnemers minder geschikt zijn als tegenvallers sneller zichtbaar worden in het verwachte pensioen. De beoordeling van actief beheer wordt daarmee specifiek en gevoeliger voor de verdeling van risico's over cohorten.

BEGRENZING VAN HERVERDELING EN ACTIEF RISICO

Onder Wtp is herverdeling naar verwachting explicieter begrensd en moeten risico's vooraf beter worden onderbouwd. De relevante vraag is niet langer alleen of actief beheer naar verwachting waarde toevoegt, maar ook waar het fonds bereid is actief risico te nemen en waarom juist daar. Dit vraagt om duidelijke risicobudgetten, uitlegbare keuzes, monitoring per regeling en cohort en een consistente verbinding met risicohouding, life-cycle-inrichting en communicatie naar deelnemers.

SPR EN FPR WERKEN VERSCHILLEND UIT VOOR ACTIEF BEHEER

De implicaties zijn niet gelijk voor de SPR en de FPR. In de SPR blijft collectieve toedeling via beschermingsrendement, overrendement en solidariteitsreserve relevant, terwijl in de FPR resultaten directer doorwerken in het individuele pensioenvermogen. Daardoor wordt actief beheer onder de FPR sneller zichtbaar, en dient het explicieter uitgelegd te worden, vooral bij negatieve resultaten.

DE INVLOED VAN DE WTP OP ACTIEF BEHEER, VERSCHILLEN PER REGELING

De rol van een benchmark verschuift, zoals hiervoor beschreven, van hoofdzakelijk het meten van alpha, naar meer het weergeven van bredere bestuurlijke keuzes.

Uit onze Wtp-advisering komen met name vijf beleidsdoelstellingen naar voren waar de transitie kan raken aan actief beheer (tabel 1). Samen vormen zij een praktisch kader om in kaart te

brengen waar bestuurlijke aandacht nodig is omtrent strategische, tactische en uitvoeringsmatige actieve keuzes bij de overgang naar Wtp. Het kader verbindt de beleidsdoelstelling aan de risicohouding, uitvoering, rapportage en monitoring. In het vervolg van dit artikel worden de vijf gebieden uitgewerkt.

ACTIEF BEHEER EN DE SPR

Onder de SPR blijft collectieve risicodeling via het beschermingsrendement en de toedeling van het overrendement onderdeel van het beleggingsbeleid. Door het wegvallen van buffereisen, maakt dit illiquide beleggingen en daaraan gekoppelde keuzes voor actief beheer makkelijker te implementeren en te verantwoorden dan in het geval van de FPR.

PASSIEF BELEGGEN KAN ACTIEF ZIJN

De wettelijke plicht om rendementen toe te rekenen aan beschermingsrendement en overrendement is een wezenlijk verschil met de gang van zaken onder het FTK, waarbij alle rendementen generiek via de dekkingsgraad verrekend werden. In de praktijk van de Wtp zien we dat de beleggingen voor het beschermingsrendement om praktische redenen vaak op dezelfde manier worden belegd als de overige beleggingen. De vraag is of actieve beleggingen qua aard en doelstelling wel op dezelfde manier

Tabel 1
Beleidsgebieden die aandacht vragen voor actief beheer onder Wtp

Gebied	Kernvraag	Wat dit toetst	Valkuilen	Aandachtsgebieden*
1. Rechtvaardiging	Welke beleidsdoelstelling rechtvaardigt de afwijking van de brede markt? Is deze financieel, duurzaamheid gerelateerd, identiteit gedreven of risico gedreven?	Of er een concrete, vooraf benoembare reden is om af te wijken, en niet "omdat het kan".	De doelstelling is niet te herleiden tot één van de vier categorieën, of meerdere doelstellingen lopen door elkaar zonder duidelijke prioriteit.	A, d, e
2. Risico consistentie	Past het actieve risico binnen ALM, risicohouding en cohorttoedeling?	Of het risico van de afwijking is gemodelleerd en past binnen de vastgestelde risicohouding, per cohort.	Het risico is niet (goed) gemodelleerd in de ALM, of de uitkomst valt voor specifieke cohorten buiten de risicohouding.	B, c, e
3. Uitvoerbaarheid	Is de keuze uitvoerbaar tegen redelijke kosten?	Of de verwachte meerwaarde opweegt tegen de kosten van constructie, onderhoud en monitoring.	De kosten verlagen structureel een substantieel deel van de verwachte meerwaarde, of de uitvoering vraagt expertise of additionele capaciteit.	C, a, e
4. Uitlegbaarheid	Is de uitkomst uitlegbaar als het tijdelijk tegenvalt?	Of het bestuur vóór implementatie een begrijpelijk verhaal heeft voor deelnemers en toezichthouder bij tegenvallende resultaten.	De enige uitleg bij tegenvallers is technisch of defensief, in plaats van herleidbaar tot de vooraf vastgelegde doelstelling.	D, a, e
5. Exit en bijsturing	Is vooraf duidelijk wanneer wordt bijgestuurd of gestopt?	Of er concrete, meetbare criteria zijn afgesproken waarop het bestuur de keuze herijkt.	Er zijn geen vooraf vastgelegde herijkingsmomenten of -criteria, waardoor bijsturing pas ad hoc plaatsvindt onder druk van tegenvallende resultaten.	E, c, d

* Primaire aandachtsgebieden zijn steeds met hoofdletter en vetgedrukt. A = Beleid en investment beliefs; B = ALM, SAA en risicohouding; C = Mandaat, liquiditeit en governance; D = Rapportage en communicatie; E = Monitoring en besluitvorming
Bron: Montae & Partners

behandeld kunnen worden binnen de solidariteitsreserve en ‘algemene’ rendementsportefeuille. Immers, de solidariteitsreserve kan een veel kortere duratie hebben, waardoor tussen-tijdse underperformance vervelend kan uitpakken. Dit is een onderwerp dat wellicht niet direct in beeld komt, maar wel een bestuurlijke afweging en rechtvaardiging vraagt.

ACTIEF BEHEER EN DE FPR

Hét kenmerk van de FPR, een volledig individueel pensioenvermogen, leidt tot een directe relatie tussen het behaalde rendement en het individuele vermogen. Dit betekent dat zowel positieve als negatieve resultaten op actieve beleggingen onder een vergrootglas komen te liggen. Met name de uitleg van negatieve resultaten kan voor pensioenfondsbesturen een extra uitdaging vormen. Vooral als de beleggingshorizon van de actieve belegging langer is dan de rapportagefrequentie. Een negatief kortetermijnresultaat kan voor een deelnemer zwaarder wegen dan de op lange termijn verwachte positieve opbrengst. Dit vraagt van het bestuur een gerichte en consistente communicatie over de rationale achter actieve beleggingskeuzes en de verwachte meerwaarde op lange termijn.

ACTIEF BEHEER ONDER BEIDE REGELINGEN

Kosten voor actief beheer zijn altijd een gevoelig punt in discussies met deelnemers. Het pensioenfonds doet er goed aan om expliciet te communiceren in rendementen na kosten. Hierdoor is het duidelijk of de investering ook echt geloond heeft voor de deelnemer. Het vergt stuurmanskunst om niet op voorhand te besluiten tot passieve mandaten in de verschillende beleggingscategorieën en de voordelen van succesvolle actieve producten onterecht links te laten liggen vanwege communicatieve complexiteit.

MAAK ACTIEF RISICO EXPLICIET ZICHTBAAR

Een ander aandachtspunt is het liquiditeitsmanagement op portefeuilleniveau. Het liquiditeitsmanagement tussen de verschillende life-cycles kan extra complexiteit veroorzaken en daarmee inherent een opdrijving van kosten. De mate waarin dit speelt, kan in de praktijk verschillen. Daarnaast ontbreekt risicodeling, waardoor het beleggingsbeleid minder gemakkelijk aangepast kan worden. Vanuit liquiditeitsperspectief kan actief beheer in dat opzicht minder wenselijk zijn onder de FPR.

Samengevat zijn er operationele eisen die ertoe kunnen leiden dat onder de FPR de allocatie naar actieve beleggingen onder druk komt te staan omdat het eenvoudiger en goedkoper is om minder actief te beleggen. De Wtp brengt daarnaast al meer communicatieverplichtingen richting deelnemers met zich mee. Actief beheer vergroot deze communicatielast verder, doordat de toegevoegde waarde en de daarmee samenhangende kosten expliciet moeten worden verantwoord. Bovendien mag actief

beheer niet strijdig zijn met de risicohouding van deelnemers in de verschillende cohorten.

ACTIEF STUREN OP (MAATWERK)BENCHMARKS

Onder het FTK diende de benchmark vooral als verantwoordingsinstrument binnen een collectief kader, met de dekkingsgraad en het fondsrendement als centrale maatstaven. Onder de Wtp worden resultaten beoordeeld aan de hand van meerdere maatstaven, die verschillen tussen SPR en FPR en tussen cohorten. Door life-cycle beleggen en de toerekening van pensioenvermogens worden uiteenlopende risicoprofielen en resultaten per cohort zichtbaar. Dit vraagt om meer transparantie over afwijkingen van de brede markt en biedt tegelijk ruimte voor een onderscheidend beleggingsbeleid en een eigen fondsidentiteit. Ook wordt de risicoruimte niet langer begrensd door de collectieve dekkingsgraad en het Vereist Eigen Vermogen, waardoor het beleggingsbeleid verder kan differentiëren.

Overigens volgen verschillende fondsen al zo’n aanpak, omdat ze specifieke strategische keuzes formeel willen inbedden in de portefeuille. Te denken valt aan ESG-screenings, sectoruitsluitingen of stijlvoorkeuren. Het definiëren van een maatwerkbenchmark maakt de onderliggende keuzes dan ook helder communiceerbaar naar de achterban en uitvoerders, en bovendien kan het repliceren van zo’n benchmark tegen relatief lage uitvoeringskosten.

BENCHMARK ALS BELEIDSINSTRUMENT

Onder de Wtp wordt de benchmark meer dan een meetlat voor relatieve performance. Pensioenfondsbesturen kunnen ervoor kiezen een maatwerkbenchmark te definiëren die vooraf vastlegt welke portefeuille-eigenschappen het bestuur bewust kiest, zoals risico, duurzaamheid en afwijking van de brede markt. Daarmee verschuift actief beheer deels van uitvoering naar beleid: de portefeuille volgt de maatwerkbenchmark zo nauw mogelijk, terwijl de keuze voor die benchmark zelf een expliciet bestuursbesluit is.

ACTIEF RISICO EXPLICIET BEGRENZEN

Maatwerkbenchmarks maken zichtbaar waar en hoeveel actief risico het fonds wil nemen. Het bestuur moet onderbouwen waarom van de brede markt wordt afgeweken, welke tracking error acceptabel is en hoe dit past bij risicohouding, ALM en life-cycle-inrichting.

VERANTWOORDING BLIJFT NODIG

Ook als de uitvoering operationeel passief is, blijft verantwoording nodig over het rendementseffect van de maatwerkkeuze. Fondsen moeten kunnen uitleggen hoe de benchmarkkeuze uitwerkt ten opzichte van de brede markt en hoe die effecten verschillen per cohort of life-cycle. Daarmee vormt de benchmark de schakel tussen beleid, uitvoering, rapportage en deelnemerscommunicatie.

BETEKENIS VAN MAATWERKBENCHMARKS VOOR ALM EN RISICOHOUDING

Als de strategische actieve keuze in de benchmark wordt vastgelegd, dan moet het daarin besloten actieve risico ook consistent zijn met de ALM-studie en de bijbehorende risicohouding per cohort. Gebeurt dat niet, dan ontstaat een blinde vlek.

Die blinde vlek ontstaat doordat ALM-studies in de praktijk vaak worden gevoed met traditionele marktindices. Een maatwerkbenchmark wijkt daar per definitie van af en voegt zo impliciet actief risico toe dat in de modellering niet automatisch wordt meegenomen. Het gevolg is dat scenario-uitkomsten, en daarmee het beeld van de risicohouding en de invulling van de portefeuille, worden gebaseerd op een referentie die niet overeenkomt met de portefeuille die het fonds werkelijk aanhoudt. De uitkomsten geven dan een vertekend beeld, waarna op basis van incomplete informatie wordt besloten. Sterker nog: in een extreem geval kan ten onrechte worden geconcludeerd dat het beleid past in de Wtp-risicohouding. Juist het risico dat het bestuur bewust heeft gekozen, ontbreekt dan in de studie waarmee het fonds de strategische allocatie onderbouwt, het risicoprofiel per cohort vaststelt en toetst of de gesimuleerde pensioenuitkomsten in gunstige en ongunstige scenario's nog passen binnen de vastgelegde risicohouding.

Dit vraagt om afstemming tussen ALM, beleid en uitvoering. Het gaat niet langer om drie losse trajecten, maar om één samenhangend geheel waarin de benchmarkkeuze, de risicokaders en de uitvoering op elkaar aansluiten.

DE BENCHMARK WORDT BELEIDSINSTRUMENT

Tegelijkertijd roept dat de vraag op hoe daar in de praktijk mee om te gaan. Idealiter neemt een fonds de maatwerkbenchmark rechtstreeks mee in de ALM, zodat het actieve risico integraal wordt meegewogen. In de praktijk is dat lastig: maatwerkbenchmarks laten zich niet altijd eenvoudig vertalen naar de bouwstenen van een ALM-model, onder meer door een gebrek aan representatieve historische data.

De oplossing ligt daarom eerder in een tussenweg. Cruciaal is dat het actieve risico expliciet wordt gemodelleerd, al is het bij benadering, zodat het de besluitvorming van het bestuur faciliteert in plaats van buiten beeld te blijven. Waar mogelijk kunnen daarbij bijvoorbeeld ook deterministische klimaatscenario's worden meegenomen, omdat duurzaamheids- en klimaat-effecten steeds vaker onderdeel zijn van het beleid.

Een werkbare invulling van die tussenweg is om de ALM in de kern traditioneel uit te voeren, op basis van standaardindices, en daarbinnen expliciet ruimte voor afwijking toe te staan door middel van een zekere tracking error. Het moet dan wel duidelijk

zijn hoe die ruimtes doorwerken per cohort. Daarbinnen kan de maatwerkbenchmark zijn eigenschappen tot uitdrukking brengen, terwijl het bestuur een hanteerbaar en consistent modelkader behoudt. Zo wordt het actieve risico begrensd én zichtbaar, zonder dat de maatwerkbenchmark volledig in het ALM-model hoeft te worden nagebootst.

De sturing verschuift daarmee van één kengetal naar de samenhang tussen benchmark, ALM en risicokaders. De tracking error blijft relevant, net als analyse van uitkomsten in slechte scenario's. Deze uitvoeringsmaatstaven laten zien hoeveel de portefeuille afwijkt van de benchmark en hoeveel risico wordt genomen, maar niet of de portefeuille ook past bij het beleid en de risicohouding. De kernvraag wordt daarom: sluiten benchmark, ALM en risicokaders onderling op elkaar aan? Die samenhang moet bovendien navolgbaar zijn in de verantwoording.

De praktische implicatie is dat pensioenfondsen na de inrichting van hun Wtp-portefeuille ook de invulling binnen beleggingscategorieën opnieuw moeten beoordelen, namelijk of die niet conflicteert met de gestelde ruimte. Binnen de nieuwe life-cycle-context moeten de benchmarkkeuzes en actieve mandaten opnieuw worden getoetst aan beleid, risicobudget, uitlegbaarheid en rapportage. Dit zijn geen eenmalige acties bij de overgang, maar zaken die regelmatig herhaald moeten worden. Daarmee verschuift de aandacht van de implementatie van de Wtp naar de werking van de portefeuille in het nieuwe stelsel.

GEVOLGEN VOOR RAPPORTAGE EN COMMUNICATIE

Wordt gekozen voor een maatwerkbenchmark, dan moeten rapportage en communicatie daarop worden afgestemd, zowel richting toezicht en bestuur als richting deelnemers.

RAPPORTAGE OVER GEMAAKTE BELEIDSKEUZES

Bij maatwerkbenchmarks verschuift rapportage van uitsluitend relatieve performance naar inzicht in de vooraf gekozen benchmarkeigenschappen en het actieve risico dat daarin besloten ligt. Naast het rendement van de portefeuille ten opzichte van de maatwerkbenchmark moet daarom ook zichtbaar zijn wat de maatwerkbenchmark zelf heeft toegevoegd of gekost ten opzichte van een brede marktindex.

DOORWERKING PER COHORT OF LIFE-CYCLE

Onder Wtp is een totaalrendement op fondsniveau onvoldoende. Benchmarkkeuzes werken via beschermingsrendement en overrendement verschillend door voor cohorten en life-cycles. Rapportage moet daarom laten zien of de uitkomsten per groep nog passen bij de risicohouding en de eerder gemaakte beleidskeuzes.

UITLEGBAARHEID RICHTING DEELNEMERS

Deelnemers zien hun pensioenvermogen directer bewegen en zullen vooral willen begrijpen waarom dat gebeurt. Communicatie moet daarom niet technisch uitleggen of de benchmark is gevolgd, maar helder maken welke keuzes zijn gemaakt, hoe die hebben uitgewerkt en waarom die passen binnen het beleid.

Zo sluiten beleid, benchmarkconstructie, rapportage en deelnemerscommunicatie op elkaar aan.

De communicatie wordt dus explicieter en gedetailleerder, maar dat betekent niet dat actief beheer onder de Wtp moet worden vermeden: als een fonds overtuigend kan onderbouwen dat een actieve keuze waarde toevoegt, beter aansluit bij de deelnemerspopulatie of past bij de identiteit van het fonds, kan het juist onwenselijk zijn om die keuze niet te maken.

Van belang is wel dat bij maatwerkbenchmarks of actief beheer rapportage niet pas achteraf moet zoeken naar verklaringen. Nodig zijn vooraf afgesproken attributieregels: welk deel van het resultaat komt door marktbewegingen, benchmarkkeuzes, managersselectie, ESG- of uitsluitingsbeleid, renteafdekking of life-cycletoedeling. Dit maakt verantwoording consistent en voorkomt dat communicatie ad hoc wordt bij tegenvallende resultaten.

UITLEGBAARHEID BEGINT VÓÓR IMPLEMENTATIE

Keuzes voor duurzaamheid, impact, sectororiëntatie, beleggingen dicht bij de eigen deelnemerspopulatie of een specifieke risicohouding zijn niet alleen technische portefeuillekeuzes, maar ook manieren waarop een fonds herkenbaar wordt voor deelnemers en werkgevers. Dat kan een legitieme reden zijn om af te wijken van een brede marktindex, mits de keuze financieel verantwoord, uitlegbaar en consistent uitgevoerd wordt.

HANDELINGSPERSPECTIEF

Pensioenfondsen die actief willen blijven beleggen of overwegen om na invaren actief te gaan beleggen, moeten rekening houden met een aantal belangrijke aandachtspunten.

- **Definieer actief beheer scherp.** Maak daarbij helder onderscheid tussen strategische benchmarkkeuzes, tactische allocatiebesluiten en actieve uitvoering.
- **Bepaal waar actief risico bewust wordt genomen.** Leg vast in welke beleggingscategorieën, cohorten of life-cycles actief risico passend is, en waar passief of eenvoudiger beheer de voorkeur heeft.

- **Toets de keuze aan risicohouding en ALM.** Zorg dat actief beheer, in welke vorm dan ook, past binnen de risicohouding en dat actieve risico's zichtbaar zijn in scenario's en risicobudgetten.
- **Begrens en monitor het actieve risico.** Maximaal toegestane tracking errors kunnen hier helpen, mits er ook vooraf bepaalde escalatiegrenzen en evaluatie- of bijsturingsmomenten zijn.
- **Regel rapportage en attributie vooraf.** Spreek vóór implementatie af hoe resultaten worden uitgesplitst naar marktontwikkeling, benchmarkkeuze, managersselectie, kosten, duurzaamheid en life-cycletoedeling.
- **Maak de communicatiestrategie onderdeel van het besluit.** Het bestuur moet ook bij tegenvallende resultaten helder kunnen uitleggen waarom bepaalde keuzes eerder zijn gemaakt, en hoe die bijdragen aan het pensioenresultaat of niet-financiële doelen.

CONCLUSIE

De Wtp verandert de economische voor- en nadelen van actief beheer niet, maar maakt de gevolgen ervan zichtbaarder én mogelijk verschillend per life-cycle en cohort. Dat vraagt om een scherp onderscheid tussen strategische benchmarkkeuzes, tactische besluiten en actieve uitvoering. Vooral maatwerkbenchmarks verdienen aandacht: een operationeel passieve uitvoering kan actief risico bevatten dat niet vanzelf zichtbaar is in de ALM.

De centrale vraag is daarom niet of actief beheer onder de Wtp wenselijker of minder wenselijk wordt, maar of iedere afwijking van de brede markt bewust is gekozen, aantoonbaar past bij de risicohouding en ook bij tegenvallende resultaten uitlegbaar blijft. Alleen dan vormen beleid, ALM, uitvoering, monitoring en communicatie één consistent geheel.

Noten

- 1 o.a. Fama, E.F. & French, K.R. (2010). Luck versus Skill in the Cross-Section of Mutual Fund Returns. Journal of Finance
- 2 o.a. MSCI en andere indexproviders, Bloomberg, Chief Investment Officer (CIO) special coverage (2025) Custom Benchmarks and Performance Management
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Timeless Opportunities for Active Systematic Investing in Today's Complex Markets

Hania Schmidt

INTRODUCTION

Each time the active-versus-passive question appears resolved, the market finds a new way to reopen it. For the better part of two decades, the empirical record has appeared to favor passive strategies because implementation costs are lower, outcomes seem more predictable, and the historical underperformance of the average active manager after fees in the most liquid equity market segments. For instance, over the 10 years ending December 2025, only 11% of active managers in Europe and 21% in the US survived and beat their benchmarks or passive rivals (Morningstar, 2025). This has led many to jump to conclude that active management is a relic of a less efficient era.

Fama's (1970) foundational work on market efficiency established the theoretical benchmark for active management, but even Fama distinguished between degrees of efficiency. The empirical record has not conformed to the strong-form hypothesis, as systematic cognitive biases prevent investors from processing information rationally consistently (Kahneman and Tversky, 1979), and anomalies have proven persistent; price-to-earnings ratios continue to predict returns (Basu, 1977), and momentum effects reward disciplined trend-following (Jegadeesh and Titman, 1993).

Active management's efficacy is conditional. Alpha is zero net supply, such that if some active managers have the potential to generate positive alpha by beating the market, other market participants must be potential "sources" of alpha who lag the market (as aggregate excess return must be zero). Then, what really matters is variation among market participants in their insights and implementation abilities, as relative performance depends on investors' relative, not absolute skill. Therefore, while most active funds trail their benchmarks in highly liquid, large-cap developed markets (Morningstar, 2025), the more relevant question for an allocator is whether the conditions for skilled, repeatable alpha generation still exist. We believe they do. Structural changes in markets have expanded the opportunity set for managers equipped with the right tools and resources, by shaping where and how alpha can be captured, driven at least by these three forces: the rise of pure passive investing, the rise of retail participation, and the dispersion of market characteristics across regions.

WHY PURE PASSIVE IS NOT NEUTRAL

Over the past decade, asset flows in most developed markets have shifted into passive or index-tracking investments, lured by the potential for lower costs and more predictable performance,

leading to a growing share of passive company ownership around the world. From the start of 2015 through December 2025, cumulative flows into US passive mutual funds and ETFs have reached \$3.5 trillion, while slightly more (\$3.6 trillion) has flowed out of active equity funds. Moreover, the passive ownership of the S&P 500 grew to 24% by September 2025, up from less than 10% in 2000 (Goldman Sachs Global Investment Research, 2025). At this scale, passive capital drives short-term price formation rather than merely tracking it, as flows impact price fluctuations in inelastic markets (Gabaix and Koijen, 2021; Bouchaud, 2022). Because passive capital moves mechanically and indifferently to fundamentals, it creates structural, exploitable dislocations.

The most immediate issue is concentration. Market-capitalization weighted indices direct the largest allocations toward the biggest stocks, by construction. Technology giants now account for 39% of the S&P 500 (S&P Dow Jones Indices, 2026) by market capitalization – the highest single-decile concentration since

Hania Schmidt

Head of Quantitative Investment Strategies (QIS) in EMEA and Global Co-Head of Client Portfolio Management for QIS



the early 1970s. At the global level, the top ten constituents of the MSCI ACWI exceed 25% (MSCI, 2026) of the index. Investors holding these benchmarks are not diversified; they unintentionally hold highly concentrated positions by default. Furthermore, market-cap weighting carries embedded biases: a systematic tendency to overweight overvalued stocks as prices rise, elevated exposure to high-volatility names at cyclical peaks, and the mechanical amplification of momentum (Ghayur, Heaney, and Platt, 2019). These are active risks, embedded invisibly and without discretion.

Passive flows also create predictable dislocations at index reconstitution, as when stocks are added to or removed from major indices, passive funds must trade in size regardless of valuation. These dislocations are documented by Li (2021), noting a distinct buy-high sell-low pattern driven by mechanical rebalancing on the reconstitution day at the closing price. Notably, Li finds that for index additions, stock prices rise by an average of 67 basis points (bps) during the 5 days prior to the index rebalance date (Day 0), and following the rebalance, a price reversal of 20 bps occurs over the next 20 days, leaving a net permanent price impact of 47 bps. As such, index-tracking flows temporarily push prices away from fundamental value in a predictable manner, which can allow active managers to position selectively ahead of the crowded buying pressure and subsequent reversion.

THE RISE OF RETAIL

The equity market structure has changed substantially over the past thirty years. Alongside traditional institutional investors and passive vehicles, retail participation in US equity trading volumes has doubled since 2010, rising to over 20% by 2025 (Goldman Sachs Asset Management and Bloomberg, 2025). A similar trend is visible across European markets, with countries including Germany, Spain, Switzerland, and the UK showing meaningfully elevated retail volumes.

The significance of this shift lies not only in the size of retail participation, but also in its nature. Retail investors do not, in aggregate, behave as rational price-setters. Academic research documents a consistent retail preference for stocks with lottery-

like characteristics – low share prices, high volatility, weak profitability, and limited institutional coverage (Kumar, 2009).

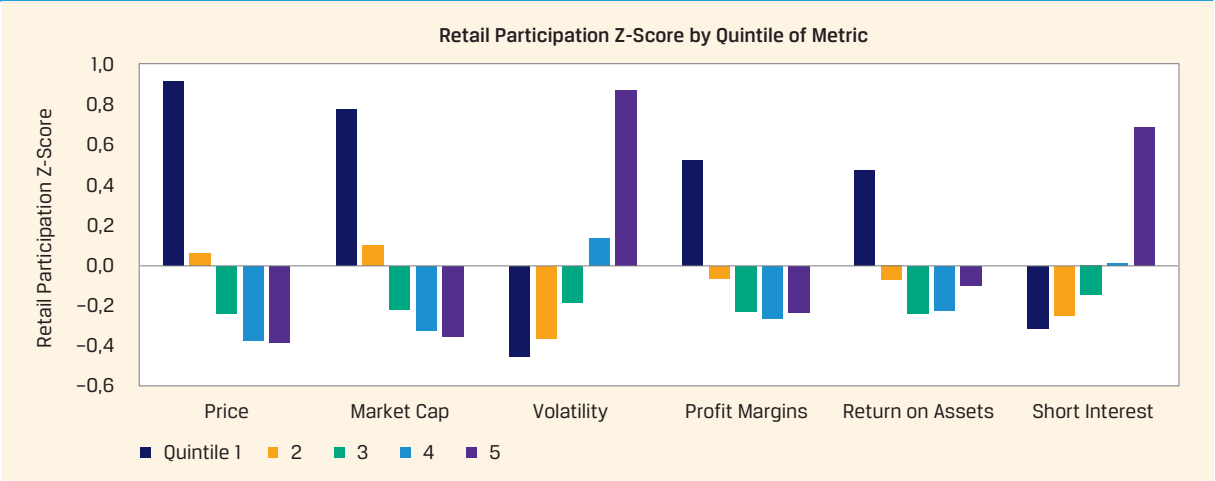
Figure 1 examines this empirically using daily US equity total market data from January 2020 to July 2025. We calculate a daily retail participation z-score (the number of standard deviations by which the stock’s retail flow exceeds the cross-sectional mean among all other stocks on that date) for every stock across equal-sized quintiles of key metrics (price, market capitalization, volatility, profit margins, return on assets, and short interest). For each quintile, the chart plots the average retail participation z-score across dates (Goldman Sachs Asset Management, 2025a).

We observe that retail participation increases monotonically as price, market capitalization, profitability, and return on assets fall, and as volatility and short interest rise. For example, stocks in the bottom quintile of market capitalization show average retail participation z-scores of approximately 0.78 standard deviations above the mean, compared to 0.35 standard deviations below the mean for the top quintile. Similarly, the most volatile quintile exhibits a z-score of 0.87 standard deviations above the mean compared to 0.46 standard deviations below the mean for the least volatile quintile. This concentration of retail flow in specific, speculative segments creates significant, localized price dislocations.

Considering all six metrics, the retail trading pattern is consistent with the preferences documented by Kumar (2009): retail investors are disproportionately drawn to smaller, less profitable, and more heavily shorted stocks – the same characteristics associated with lottery-like return distributions. For our purposes, it establishes that retail flow is not uniformly distributed across the market but concentrated in identifiable segments where its price impact is likely to be greatest.

Consistent with the crowded nature of these trading patterns, we expect these flows to drive positive price pressure from retail buys and negative price pressure from retail sells in the respective market segments where they take place in the short term.

Figure 1
Retail Participation
Z-Score by Quintile
of Metric



However, given the nature of these trades tend to be price insensitive and disconnected from fundamental characteristics, we expect that in the medium to long term, institutional trading drives prices back to fair value in reasserting fundamental value.

Performance data supports this. Figures 2 and 3 plot the cumulative long-only returns (gross of fees) of actively managed mutual funds and equity hedge funds from January 2020 to July 2025, considering stocks within the US total equity market universe, segmented by high and low retail participation. We first rank each stock every day by the number of shares traded by retail/total volume based on internal data processing to define high retail participation as the group of stocks within the top quartile of retail flow for every daily observation, and low retail participation as stocks in the bottom quartile of retail flow (Goldman Sachs Asset Management, 2025b). Then for each segment of stocks, we compute the performance of a hypothetical long/short portfolio tracking mutual fund net buys in figure 2, and hedge fund net buys in figure 3 based on proprietary data. The plotted performance thus represents that of a portfolio composed of the stocks that mutual funds or hedge funds have, on net, bought over a given time frame, serving as a proxy for the respective institutional investors’ long performance. With this, we observe that long performance of both fund types has been significantly superior among stocks with high retail participation, suggesting that sophisticated investors successfully exploit the aforementioned slow-enough-to-correct retail dislocations.

A case study from early 2025 highlights these dynamics. Following the April 2025 “Liberation Day” tariff announcement, retail investors bought the dip in European equities before reverting to net selling, while institutional investors steadily reduced risk. Net flows between the two groups were –74.5% correlated over the January to October 2025 period, illustrating a clear informational and behavioral divide.

INVESTING GLOBALLY: FRAGMENTED AND HETEROGENEOUS MARKETS

The active alpha opportunity set is highly distinct across regions, even among developed markets. While US large-cap equities are deeply researched and inefficiency sources may mainly rely on dislocations like the ones outlined above, international markets like Europe and Japan feature distinct dynamics with a broader alpha opportunity set: wider breadth, thinner coverage, asymmetrical information distribution, and heterogeneous investor behavior, leading to slower price discovery. This calls for differentiated strategies across regions.

EUROPE: FRAGMENTATION AS AN OPPORTUNITY

Europe’s diverse, fragmented, and complex equity market structure leads to slower price discovery and persistent pricing anomalies. It operates across more than 50 countries, 24 official languages, more than 20 stock exchanges (World Federation of Exchanges, 2024), and corporate tax rates ranging from 9% to 35% (Tax Foundation Europe, 2024) – a structural fragmentation that complicates information flow. Analyst coverage in Europe averages 24 analysts per stock on a market-cap weighted basis, compared to 43 in the US (Bloomberg, MSCI and Goldman Sachs Asset Management, 2026). Furthermore, only 58% of European equities are domestically owned, compared to 82% in the US (Goldman Sachs Global Investment Research, 2025). Foreign capital is often deployed through index-driven mandates or macroeconomic signals, whereas domestic investors leverage local-language access and regulatory familiarity. These divergent objectives, time horizons, and information sets create persistent disconnections in flow directionality that active managers might be able to exploit.

This environment causes information to diffuse slowly, allowing pricing anomalies to persist for longer. For one, momentum-based factors have historically delivered better performance and

Figure 2
Mutual Fund Long Returns by Retail Participation

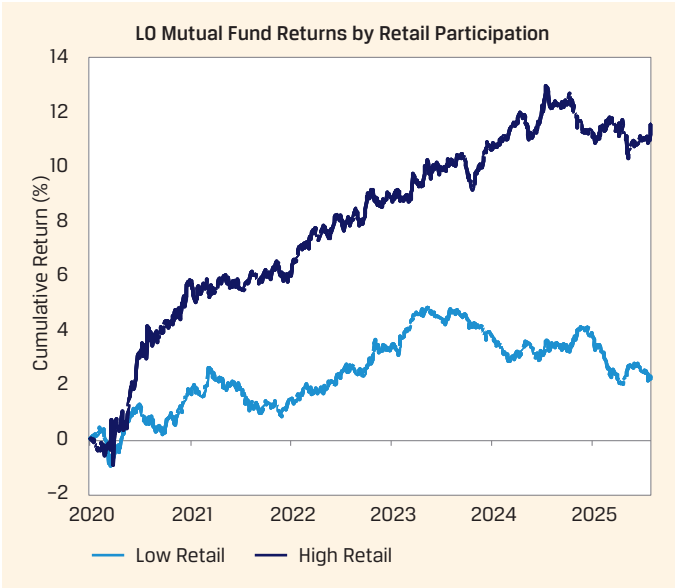
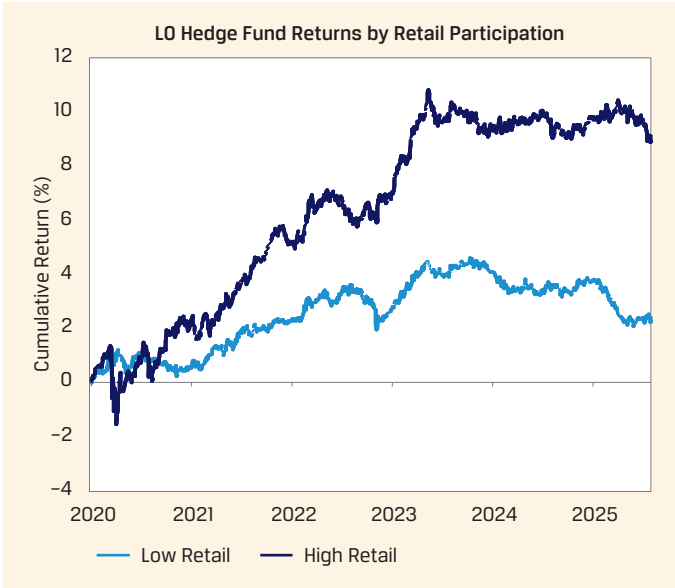


Figure 3
Hedge Fund Long Returns by Retail Participation



higher persistence in Europe. The market’s reaction to earnings calls further exemplifies this: European investors exhibit a greater trading volume spike around earnings announcements than US investors (2.86x vs. 2.42x of the 60-day median volume), indicating higher informational dependency on formal reports, while the impact of sell-side analyst revisions decays much more slower in Europe – after 63 days, the excess returns attributable to EPS revisions remain at 73% of their initial 5-day impact in Europe, compared to just 28% in the US (Goldman Sachs Asset Management, 2025c). This slower price discovery offers a temporal advantage to systematic managers.

This structural advantage is reflected in manager performance: over the ten years to June 2025, 69% of active European equity managers achieved positive excess returns versus their benchmarks (averaging +0.82% gross of fees), compared to only 42% of active US large-cap managers (averaging –0.41%) (MSCI, Goldman Sachs Asset Management, and eVestment, 2025).

JAPAN: CONTRARIAN DYNAMICS AND INFORMATION ASYMMETRY

Japan is structurally homogeneous (with a single exchange, language, and unified regulatory framework) but informationally asymmetric and contrarian. Its contrarian character is evident in factor dynamics: relative valuation signals based on price-to-book ratios have historically delivered more resilient and persistent returns in Japan than in any other major developed market, recently further reinforced by the Tokyo Stock Exchange’s corporate governance reforms encouraging capital efficiency. Analyst coverage is remarkably sparse: the median number of analysts per stock is 24 in the S&P 500 and 19 in the MSCI Europe, but drops to 1 for the TOPIX, where 41% of constituents have zero coverage (Figure 4), with a stark skew towards the largest stocks (Bloomberg and Goldman Sachs Asset Management, 2026).

Language remains a major barrier: only 57% of Japanese earnings reports in 2025 were available in English, falling even lower for mid- and small-cap firms, creating important inaccessibility for global capital without dedicated Japanese-language processing

capabilities. Additionally, foreign institutional investors (who drive over 54% of trading volume) often exhibit momentum-oriented behavior, while domestic institutions trade in a contrarian fashion (Japan Exchange Group, 2025). This friction produces complex, multi-layered price dynamics that may challenge traditional fundamental analysis but favor systematic, data-driven approaches.

SHIFTING RETURN DRIVERS: THE WEAKENING LINK BETWEEN FUNDAMENTALS AND SHORT-TERM PRICES

In our view, compounding market evolutions have made asset prices increasingly reactive to short-term dynamics rather than long-term fundamentals. This structural shift is evidenced by Figure 5, showcasing a severe decline in the explanatory power (R^2) of current reported earnings for subsequent stock price movements, which has nearly halved since 2010, which we believe supports the idea that investors, when setting stock prices, have come to rely less on current reported earnings compared to other information released concurrently with earnings. The sample for this analysis comprises all companies in the Russell 1000 index universe from 1Q2010 to 4Q2025 (64 quarterly observations). The earnings-specific metric plotted is the R-squared from a series of quarterly cross-sectional regressions of stocks’ earnings announcement window excess return (where for each stock, the announcement window is the day before and the day of the earnings announcement, days –1 and 0) on stocks’ earnings surprise (defined as the difference between actual and forecasted earnings scaled by the stock’s price). As the metric is subject to statistical “noise” in any given quarter, the results presented in the exhibit are smoothed over rolling 20-quarter periods. Thus, each point on the curve represents the trailing 20-quarter mean of the corresponding statistic (Goldman Sachs Asset Management, FTSE Russell, IBES, 2025).

This decline demonstrates that the relevance of reported earnings in explaining cross-sectional stock price variation has degraded substantially over the past years. Consequently, traditional financial data must be increasingly supplemented with nuanced, forward-looking indicators and a deep understanding of the non-fundamental forces shaping prices.

Figure 4
Analyst Coverage in Japan Spans Only a Fraction of the Market unlike in Other Developed Market Peers

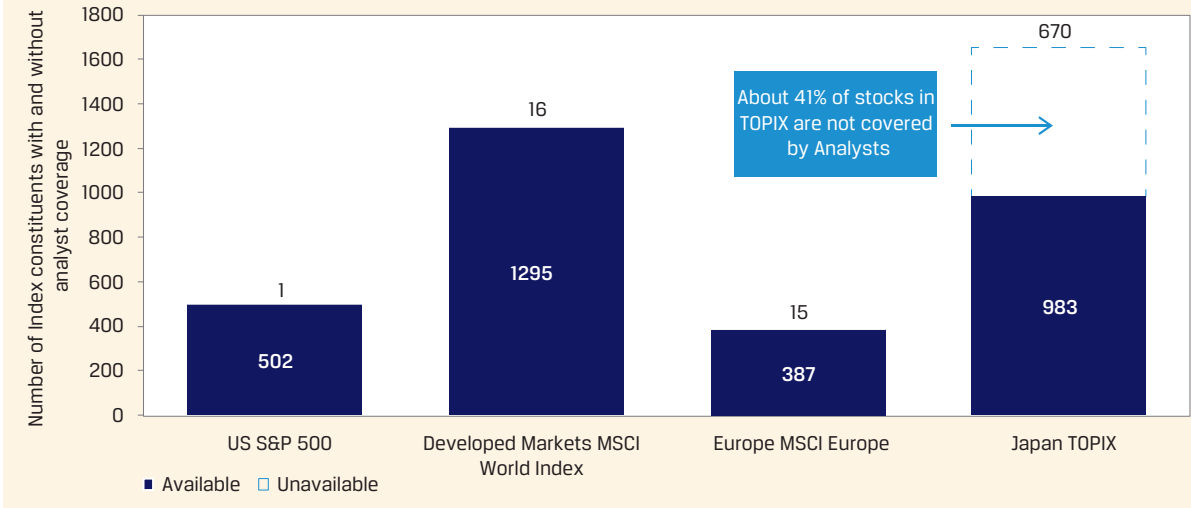
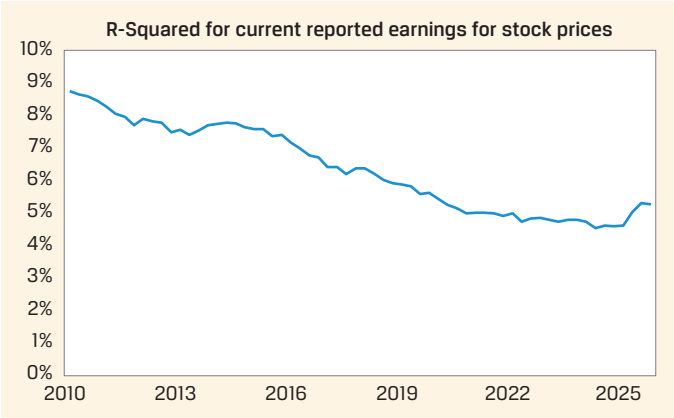


Figure 5
R-Squared for current reported earnings for stock prices



As inefficiencies multiply across participant types, geographies, and data dimensions, the tools for capturing alpha must evolve. Quantitative approaches are uniquely suited to this high-dimensional environment because the scale, speed, and dimensionality of the current informational landscape now exceed the limits of unaided human cognition.

UNSTRUCTURED DATA, BOUNDED RATIONALITY AND AI: THE NEW INFORMATIONAL FRONTIER

While the explosion of unstructured data (news, patents, earnings transcripts, audio, web-traffic) offers a richer information set, it also dramatically increases market noise, exposing the limits of human cognitive processing, as deeply researched in literature. Simon (1955) evidenced the psychological and physiological limits of the human brain that prevent human decision-makers from acting as the classical “economic man” with perfect information and infinite computational capacity. Moreover, Hwang and Lin (1999) empirically documented an inverted U-curve in decision quality, demonstrating that both information diversity and density independently and adversely impact decision quality once they cross a cognitive threshold.

Today’s complex data landscape represents an explosion in both diversity (via unstructured alternative data) and density (via sheer volume), worsening the decision quality of traditional, human-centric investment processes, such that systematic data-driven managers are best positioned to navigate this ecosystem. A systematic process can evaluate thousands of securities simultaneously, fusing traditional data with unstructured alternative sources, free from anchoring biases, emotional drift, and attention limits, and doing so with speed and scale. Notably, quantitative managers may also have the ability to address regional inefficiencies at scale. For example, in Europe, overcoming informational sparsity and complex, fragmented relationships across low-coverage stocks by systematically consolidating data into a unified, actionable picture; and in Japan overcoming linguistic barriers by processing Japanese-language filings, disclosures, and patent data at a scale that is physically infeasible for traditional international allocators.

Notably, even among data-driven managers, we believe that beyond access to raw information alone, the edge increasingly lies in ability of interpretation, judgment and implementation. Despite the theoretical availability of alternative data, a significant execution gap remains: over 80% of institutional buy-side investors are still looking to increase their use of alternative data (Exabel, 2026). Because raw data requires complex cleaning, standardization, and integration, the true active edge has migrated from simple data access to superior interpretation and implementation.

Artificial Intelligence (AI) plays a dual, tension-filled role in modern active management. On one hand, AI serves as a mechanism to relax the limitations of bounded rationality. By automating the gathering, synthesis, and analysis of vast quantities of unstructured data, it significantly lowers the cost of processing high-value information. In this capacity, AI acts as an analytical amplifier, expanding the cognitive boundaries of human decision-makers. On the other hand, the mass adoption of generative AI introduces a new source of market noise. By lowering the barrier to generating and consuming low-value, derivative data – such as machine-generated commentary, redundant signals, and insufficiently grounded outputs – AI dramatically increases both the diversity and density of the informational landscape. Consequently, AI accelerates the traversal of the information curve documented by Hwang and Lin (1999) in both directions. While it reduces the cost of processing high-value data, it equally lowers the barrier to generating low-value, derivative noise that contains little independent information, ultimately threatening to degrade decision quality.

Three critical considerations emerge for active managers:

- 1. Alpha Migration: As identical AI tools may be increasingly deployed on the same public datasets, alpha shifts from data access to proprietary differentiation and interpretive discipline.
- 2. Model Reliability and Biases: Large language models (LLMs) can generate inaccurate or insufficiently grounded conclusions, as well as misclassify domain-specific financial terminology, introducing systematic biases into quantitative signals.
- 3. Amplified Behavioral Crowding: Structural inefficiencies – such as retail dislocations from price-insensitive trading (Kumar, 2009) and mandate-driven passive index reconstitutions – remain highly persistent. If widespread AI adoption leads market participants to utilize similar models with converging outputs, retail and institutional crowding into identical trades may actually be amplified.

Consequently, the binding constraint on active managers could be interpreted as having shifted from Simon’s (1955) original focus on cognitive capacity to interpretive discipline: the judgment to determine which data are worth acquiring, which models are worth trusting, and which outputs are worth acting on.

SOURCING DATA-DRIVEN ALPHA: HYPOTHESES AND ADVANCED TECHNIQUES

Sourcing alpha from the market dislocations generated by passive and retail flows requires a systematic framework for decoding participant behavior. We believe the key lies in formulating informed hypotheses regarding how different market actors impact price dynamics and then executing on those insights in a disciplined manner. Sophisticated quant managers recognize that not all trading activity carries the same informational content.

For instance, aggressive trades by institutional investors may be considered more “informed” than retail, with directional patterns that carry genuine predictive signals for future returns. Domestic investors may be assumed an informational edge over international allocators, who may face language barriers and less granular access to local market data. Passive ETF reconstitutions, by contrast, could be considered fundamentally “uninformed” flows; however, investors should recognize that these events generate temporary price impacts as massive volumes of mechanistic, index-tracking trades push stocks away from fair value – dislocations that tend to revert over time and can be profitably captured. This pattern closely mirrors what occurs with retail investor behavior. Even simple breadth-of-ownership signals, such as tracking whether more funds are net buyers than sellers of a given stock regardless of volume, have been shown to positively predict near-term returns (Chen, Hong and Stein, 2002). The more sophisticated quant managers weave these disparate participant-level insights into a unified, continuously updated view of market microstructure that enables the dynamism required to navigate today’s inefficiencies.

To translate these insights into portfolio alpha, quantitative firms may need to deploy an arsenal of machine learning techniques and alternative data across several interconnected dimensions, focusing on two key components. First, inferring sentiment across various market participants (including buy-side positioning, sell-side analyst tone, management language on earnings calls, and broader market attention) by utilizing NLP and transformer-based models to extract nuanced signals from vast quantities of unstructured text and audio data. Second, analyzing flow data to detect distinct trading patterns among different investor types, allowing them to capture the dislocation reversal opportunities stemming from retail herding behavior or the predictable pressures of passive ETF reconstitutions. By combining sentiment analysis, participant-level trade inference and flow scrutiny within a disciplined, technology-powered framework, we believe skilled quant managers are well-positioned to dynamically navigate an increasingly fragmented and complex alpha landscape.

CONCLUSION

The empirical and structural realities of modern equity markets challenge the conventional wisdom that active management is a relic of a bygone, less efficient era. Markets are not becoming simpler or more efficient. Instead, they are increasingly complex: markedly fragmented, highly reactive to short-term behavioral flows, and heavily influenced by heterogeneous participant types

with divergent incentives. The rise of valuation-indifferent passive capital, the expansion of speculative retail participation, and the diverse persistent structural frictions across regions like Europe and Japan collectively mark persistent structural inefficiencies in global equity markets, widening the gap between short-term asset prices and long-term fundamental values.

We believe these inefficiencies are structural and persistent. Retail participation remains a permanent market feature, passive capital continues to generate scale-proportional dislocations, and regional complexities in Europe and Japan demand specialized approaches beyond the reach of single, human-led frameworks. However, because markets continuously evolve, consistent active success requires managers to dynamically adapt their strategies, leveraging the expanding data and technology landscape, including AI, as tools for proprietary differentiation rather than crowded replication.

For allocators, the traditional binary choice between active and passive investing is a false dichotomy. Pure passive investing is itself an active allocation decision, one that implicitly accepts extreme index concentration, unmonitored factor biases, and drives predictable reconstitution-driven dislocations that active investors may profit from. While the market dynamics shaping a new alpha landscape may not reward the average active manager, the more productive inquiry is not whether the average active manager can outperform, but whether the right conditions are in place for relatively more skilled managers with the right resources, tools and processes to capitalize on inefficiencies.

While the market dislocations outlined can overwhelm the bounded rationality of traditional, human-centric investment processes, they present a structural and repeatable opportunity set for systematic, data-driven active managers. Equipped with advanced quantitative frameworks, natural language processing, and interpretive discipline, systematic managers are uniquely positioned to scale across geographies, filter out high-dimensional noise, and capture the predictable price reversions left in the wake of passive and retail flows. Ultimately, as market structures continue to evolve, we believe the active edge belongs to those who can systematically translate complex, unstructured data into disciplined, dynamic portfolio execution.

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DECLARATION OF INTEREST STATEMENT

The authors declare the following financial interests which may be considered as potential competing interests.

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Built Before It Had a Name

Interview by Ronald Kok RBA

Tatjana Ulićević, PhD, spent more than 20 years in systematic equity and risk management at Optiver, ING Investment Management and Shell Asset Management Company (SAMCO). At SAMCO she co-designed and chaired the Capital Markets Meeting, a cross-asset forum that brought teams across capital markets into a single debate before "Total Portfolio Approach" became widely discussed. In this interview she reflects on what that experience taught her about culture, governance and judgment in the Total Portfolio Approach (TPA), which a growing number of Dutch pension funds are adopting as they move into the new pension system.

BEFORE TPA HAD A NAME, WHERE DID THIS START?

It didn't start with a boardroom blueprint or a TPA mandate. It started with a need to break down silos, so that teams across all capital markets shared their views instead of forming them in isolation. What was needed was a change in culture, not a new governance structure. The cross-asset meetings started in 2020; the formal view came in 2021, once there was demand for one. Even then, fixed income and equity didn't design something new: they formalised what was already happening in the meetings, in a shared dashboard capturing a short-term cross-asset view that became an input for client meetings. The structure followed the culture, not the other way round.

Most institutions approach TPA by redrawing the governance chart first, setting risk budgets, reference portfolios and formal mandates. We started with people and habits instead: a shared vocabulary, norms for debate, and a willingness to hear a view from another asset class before defending your own. Those habits are what a real total-portfolio discussion requires, and no framework can install them for you.

HOW WAS THE CAPITAL MARKETS MEETING BUILT, AND HOW DID IT COMPARE WITH FORMAL TPA MODELS?

I co-designed the forum with a colleague. It worked in two layers, and I chaired both. Every month, a small group of portfolio managers and analysts went through the shared dashboard, together with input from the individual asset-class teams, and turned it into one cross-asset investment view. That view was then taken to the broader Capital Markets Meeting with the wider front office, where it was challenged before it fed into client meetings and into the positioning of the books of the individual portfolio managers. The small group did the analytical work; the broad group tested it. That set-up ran for five years (2021-2025).



Tatjana Ulićević, PhD, has over 20 years of experience in quantitative finance, portfolio management and cross-asset governance. As Senior Equity Portfolio Manager at Shell Asset Management Company (SAMCO) from 2010 to 2026, she built and scaled systematic equity strategies to over EUR 1 billion in assets under management. Her work spanned portfolio risk allocation and the integration of an AI-driven signal and ESG data into live portfolios. Her current focus is the Total Portfolio Approach and investment governance. Views expressed are her own.

The dashboard tracked government bonds, credit and equities against economic data, fundamentals, valuations and credit spreads, with room left for qualitative judgment. Performance ran through a paper portfolio on a three-to-six-month horizon. Beyond the view itself, the process produced something less visible but just as valuable: a sharper read of each asset class's own macro drivers, because each had to be explained to, and questioned by, people looking at it from a different angle.

It's worth being explicit about scale. The institutions most associated with TPA, Australia's Future Fund and the New Zealand Superannuation Fund, are asset owners managing entire balance sheets. Our forum sat inside a dedicated pension fund asset manager, operating across asset classes within a larger organisation. That's a narrower mandate, but a useful place to test whether the cultural mechanism works at all. In the framework that Filbeck and Bok (2025) describe, it sat closest to the Top-Down TPA stage, though without the formal reference portfolio or top-of-house authority that stage typically implies. Risk wasn't pre-allocated. Every view had to be justified against what it cost the total portfolio, and sleeve limits weren't accepted as justification on their own. The forum was advisory, not fiduciary: it shaped positioning through argument, not authority. Without formal power, an idea only won by being better.

WHAT MADE THE FORUM WORK, AND WHY DID IT LAST?

Four things made the forum work, with one discipline underneath them. First, the dashboard. It gave everyone a common starting point rather than a set of answers to hide behind. Second, we worked hard to keep hierarchy outside the room. The best idea had to win regardless of who raised it, because left alone, status would have quietly shaped outcomes. Third, the people. Over five years the forum outlasted several personnel changes, because participants were chosen for cross-asset curiosity rather than seniority or book size. Deep specialists willing to think beyond their own asset class did best; generalists without depth struggled to anchor the debate, and specialists without breadth tended to defend their sleeve. Fourth, the language changed, from "my book" to "what does this add to the total portfolio."

AND THE DISCIPLINE UNDERNEATH?

The most dangerous moment in any forum isn't disagreement. It's immediate consensus. When every view aligns quickly and every signal points the same way, that feels like conviction. More often it's a warning. A single large directional bet, however well-reasoned, isn't total-portfolio thinking. It can look diversified on paper and rarely is once you trace it back to one view. Checking the whole before acting on the part is what "single portfolio culture" means in practice. It's a habit of mind, and it has to be defended every time the room feels too comfortable.

WHAT DID YOUR YEARS OF QUANTITATIVE EQUITY WORK TEACH YOU ABOUT TOTAL-PORTFOLIO THINKING?

Risk factors were the lens, not to label strategies but to see through them. Allocating capital strategy by strategy isn't enough. What matters is looking through each strategy to its underlying factor exposures, and understanding how those exposures aggregate across the whole: where concentration hides, where strategies silently offset each other, where apparent diversification isn't real. Once you stop asking "how much capital does this strategy deserve" and start asking "what factor exposures does the total portfolio need," you've already made the conceptual leap TPA asks for at the cross-asset level. The unit of analysis changes. The underlying logic does not. A total-portfolio lens isn't a refinement of good equity management; it's often a precondition for it.

Factor investing taught me a second, harder lesson. Factors rarely fail on their own. They fail when quantitative models turn from starting points into unquestioned rules. The best teams treat factors as tools: applied with judgment, tested against the environment, held to their limits. The weaker pattern is just as common: value, momentum and quality stop being inputs and become conclusions. The factor becomes the answer when it should have stayed a question. The same risk exists at the total-portfolio level. Models don't make decisions; people with judgment do, and that judgment needs a room.

HOW DO YOU DISTINGUISH COURAGE FROM OVERCONFIDENCE IN CROSS-ASSET DECISIONS? AND CAN YOU GIVE AN EXAMPLE?

Courage is holding a well-reasoned view under pressure while the evidence still supports it. Overconfidence is holding the same view once the evidence no longer does, and calling that conviction. From outside, the two look identical. The difference is entirely in how the decision-maker relates to the evidence.

Late 2021 and early 2022 were the real test. Market-implied inflation expectations had reached new highs while the ECB still expected inflation to fade. Our fixed income team flagged that breakevens were inconsistent with that guidance, and that nominal yields were too low for the backdrop. That's exactly the kind of cross-asset signal the forum existed to act on: a fixed income insight with direct implications for equity positioning, a conversation that doesn't happen in silos.

The fixed income team got it right on both counts, and both their own book and the paper portfolio reflected it. Equity didn't fully follow. We were late reducing equity exposure in the paper portfolio, even though several individual portfolio managers picked up the signal in their own books and tilted toward value. Part of the reason was structural: individual PMs could act the next day, while the collective view moved on a monthly cycle. But part of it was us holding on to the equity view after the evidence had turned. That is what overconfidence looks like from the inside. It rarely feels like arrogance; it feels like patience.

The forum could produce courage, but it couldn't protect us from overconfidence on its own. That still takes someone in the room willing to say the view has changed.

WHERE DO TPA AND TAA GENUINELY PART WAYS?

Less in the analysis than in what institutions are willing to act on. Many tactical asset allocation (TAA) implementations gravitate back to the policy portfolio and ask which tilts will outperform it, so the benchmark stays the centre of gravity. Genuine TPA anchors to the fund's objective instead and runs a real competition for capital: what is the best marginal use of the next unit, regardless of asset class? That's a real structural difference, but it only matters if the culture supports acting on it. Our forum sat between the two: structure set the rules of the game, and culture determined how far we could go within them.

WHAT SHOULD INSTITUTIONS ASK FIRST?

The first question isn't which governance structure to adopt. It's who needs to be in the room, and whether those people are genuinely willing to think together. Everything else depends on that. Before the risk budget is set, the forum needs a shared language to debate it honestly. Before the TPA label goes on, the culture needs to be able to act on what the process reveals. For institutions that can't yet make the full structural leap, including fiduciary managers and pension funds whose liability

constraints make whole-of-fund restructuring impractical, the fact that culture comes first is good news. Culture can take root inside a TAA structure, and the investment architecture can follow later. You don't need to win the structural argument to start building the cultural one.

WHY "BUILT BEFORE IT HAD A NAME", AND WHAT COMES NEXT?

Because that's how it happened for us, and I suspect for many others. The practices came first: cross-asset debate, shared language, checking the whole before acting on the part. The TPA label arrived later. Looking ahead, I expect more Dutch pension funds to adopt elements of TPA as they move into the new pension system and rethink their investment governance. The risk is that they adopt the label and the structure without the culture to act on it. That's where TPA will succeed or fail: not in the design, but in the room. The name matters less than the habits. Build those first.

Reference

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'Active or passive investing? The line is blurring'

By Ronald Kok RBA

Active or passive investing? For many years, the choice appeared clear-cut. Investors favouring active management relied on fund managers' expertise and conviction to outperform the market, while passive investors focused on broad market exposure at the lowest possible cost. Today, however, the investment landscape is evolving rapidly, and the traditional distinction between active and passive investing is becoming increasingly blurred.

As a result, the key question is no longer whether active or passive investing is superior. Instead, investors are increasingly focused on identifying where active decisions genuinely add value and where low-cost market exposure is sufficient. Important considerations include costs, concentration risks, alternative indexing methodologies, and the broader implications of the continued growth of passive investing.

In this interview, we spoke with **Marcel Danen** (State Street), **Kevin Thozet** (Carmignac), and **Peter Warken** (DWS) about the future of active and passive investing. They discuss differences across asset classes, the impact of AI, the emergence of hybrid investment approaches, evolving cost dynamics, and whether market-cap-weighted indices will retain their dominant position.

DO YOU SEE SIGNIFICANT DIFFERENCES IN THE ACTIVE-TO-PASSIVE SPLIT ACROSS INVESTMENT CATEGORIES?

Marcel Danen, State Street: Yes, the balance varies quite significantly across asset classes. Passive investing tends to be particularly prevalent in large, liquid and transparent equity markets, where broad market exposure can be replicated relatively easily and at low cost. In less efficient or more complex markets, active management may offer greater opportunities to add value. The choice between active and passive investing therefore depends to a large extent on the characteristics and efficiency of the market in question.

Kevin Thozet, Carmignac: There is no single active-to-passive split: it varies considerably by asset class, geography and investment style. In equities, almost 70% of US equity fund assets are now managed passively, rising to roughly 75% in UK equities. The picture is more balanced elsewhere, with passive

Marcel Danen
State Street



Kevin Thozet
Carmignac



Peter Warken
DWS



strategies accounting for around 47% of European equity assets, 43% of global equities and 45% of emerging-market equities.

The differences are even more striking when we look beneath these headline figures. In US equities, active managers still account for 54% of growth assets and 80% of value assets. By contrast, around 73% of assets in blend strategies are managed passively. A similar pattern can be seen in European and global equities, where more than 95% of growth assets and over 85% of value assets remain actively managed.

Fixed income is a very different market: close to 80% of assets are still actively managed. One reason is the construction of bond benchmarks. In an equity index, the largest weights generally go to the largest companies. In a bond index, they can go to the largest borrowers. The more debt an issuer has outstanding, the greater its representation in the benchmark may become.

That is not necessarily a risk investor want to own mechanically. It leaves considerable room for active managers to add value through credit selection, duration and liquidity management – and, just as importantly, through the decision not to own certain issuers at all.

Peter Warken, DWS: Very clearly. To back this with some numerical evidence, Morningstar reported in August 2026 that only 28.4% of active equity managers succeeded against passive peers over the preceding year. On the other hand, the one-year success rate for examined active bond managers came in at 46.8% at the end of June 2026 (European Active/Passive Barometer Report: Mid-Year 2026 | Morningstar).¹

In multi asset, the distinction is less binary. We can actively express a view on global technology stocks through a technology ETF or implement rates views by selecting short-duration bond ETFs. The instrument may be passive, but the investment decision is highly active.

WILL AI MAKE MARKETS MORE EFFICIENT, AND COULD THIS UNDERMINE ACTIVE MANAGEMENT?

Marcel Danen, State Street: AI makes it possible to process information faster and on a much larger scale, which may reduce some of the traditional information advantages available to active investors. At the same time, AI also creates new opportunities for active managers, for example by allowing them to analyse much larger and more complex datasets. The real value lies in combining technology with human expertise. Investment teams still need to understand the context, ask the right questions and assess the results. AI can therefore become an additional tool for active management, rather than simply a threat to it.

Kevin Thozet, Carmignac: AI will make markets faster, but we still need humans to make the right decision. It will clearly improve our ability to collect and process information, and every

investor will do it quicker, but having more data, or getting it faster, does not necessarily mean reaching the right conclusion.

That is where I think the role of the active manager remains important. Markets are also about positioning, liquidity, expectations and, ultimately, human behaviour. Two investors can look at exactly the same information and come to very different conclusions.

So, I see AI primarily as a tool for investment teams. It can help us analyse more information, challenge an investment case or test different scenarios. But there are still many situations where judgement matters enormously, and in the first place the human. An AI will never meet a management team, understand how a business is changing, or take a decision when the data are missing.

AI will raise the bar for active managers. And this is probably a good thing: it will make it harder to claim to be active if, in reality, you are just following a benchmark.

Peter Warken, DWS: AI is becoming an increasingly powerful enabler for portfolio management. By helping portfolio managers process more information, identify patterns more efficiently, and reduce manual effort, it enhances their ability to make well-informed investment decisions. At DWS, we are currently focused on practical applications that integrate AI into the investment workflow, allowing portfolio managers to spend more time on what matters most. When access to information becomes more democratized, the differentiating factor increasingly lies in the ability to synthesize insights, apply differentiated judgment, and translate conviction into well-constructed portfolios. AI will complement portfolio managers, making human expertise and judgment even more valuable in generating investment outcomes for clients.

CAN HYBRID PORTFOLIOS OFFER THE BEST OF BOTH WORLDS?

Marcel Danen, State Street: If we consider active ETFs a hybrid form, they do indeed combine features of both active and passive investing. They offer active stock selection and the potential to outperform the market, while also providing some of the benefits of the ETF structure, such as liquidity, accessibility and relatively competitive costs. The strong growth of active ETFs suggests that this combination is gaining traction. In the first quarter of 2026, active ETFs accounted for 31% of global ETF inflows.

Kevin Thozet, Carmignac: For many investors, yes, but a hybrid approach doesn't mean the best of the two worlds. ETFs can be very useful when you want quick and inexpensive exposure to market beta. It can also be a permanent component of a diversified portfolio. This is always the same question on your allocation, and each investor has his own objectives. If you believe a fund manager can offer something genuinely different, through stock selection opportunities that are poorly represented

in the indices, managing concentration risk, or avoiding areas of excessive concentration, then paying for active management can make sense.

The future is therefore unlikely to be a simple choice between active and passive. The most logical approach for many investors will be to use passive strategies where straightforward market exposure is sufficient and active management where judgement and differentiation can genuinely add value. For me, the part of the industry most at risk is the middle ground: closet trackers that charge active-management fees while remaining very close to their benchmarks.

Peter Warken, DWS: We see considerable potential in hybrid products, such as active ETFs. They broaden the implementation toolkit, giving investors access to additional sources of alpha within the ETF structure. But the wrapper should not be confused with the quality of the underlying strategy: a mediocre active strategy does not become a good one simply because it is packaged as an ETF.

HOW DO YOU EXPECT FEES FOR ACTIVE AND PASSIVE STRATEGIES TO EVOLVE?

Marcel Danen, State Street: We expect cost pressure to continue across both active and passive management. In passive products, scale and competition have already brought down the cost of broad market exposure considerably, leaving less room for further significant price reductions. At the same time, active ETFs are increasing competition within active management by offering active strategies through what is generally a lower-cost ETF structure. For active managers, it will therefore become increasingly important to ensure that fees are proportionate to the value they actually deliver.

Kevin Thozet, Carmignac: Fee pressure is structural and is likely to continue across the industry. Passive products have already brought the cost down considerably, so for these strategies the scale remain crucial. Further fee reductions are possible, but the scope for more cuts are naturally more limited when prices are already very low.

Active managers face pressure from both low-cost passive products and an increasingly concentrated distribution landscape. In addition, investors are understandably asking what they are actually paying for. Those that cannot demonstrate clear differentiation or added value will find it progressively harder to defend their fees.

We therefore expect industry to become more polarised: very low-cost products at one hand and very specialized and high conviction boutiques on the other hand. Being in the middle means that every euro has to be earned by delivering performance and high-quality service.

Ultimately, I don't think the debate is about active being expensive and passive being cheap. It is about whether the price

of an investment strategy is consistent with what the investor actually gets in return.

Peter Warken, DWS: The future is not simply lower fees. It is a closer alignment between fees, differentiation and value delivered. Fee pressure is likely to remain a feature across both active and passive strategies, but its impact will differ by market segment and investment approach. In established passive markets, tracking quality, liquidity and trading costs are likely to remain important alongside headline fees. Across active solutions, investors will continue to consider fees alongside the expertise, differentiation and value proposition of a strategy. Pricing will therefore reflect not only the investment approach, but also portfolio flexibility, implementation quality and alignment with the objectives.

ARE THERE CREDIBLE ALTERNATIVES TO MARKET-CAPITALISATION-WEIGHTED INDICES?

Marcel Danen, State Street: Yes. In addition to traditional indices that weight companies according to their market capitalisation, there are, for example, equal-weighted indices, where each stock is given the same weight, and fundamentally weighted indices, where weightings are based on company characteristics. There are also factor strategies that target characteristics such as value, quality or low volatility. Enhanced or systematic active strategies go a step further, using quantitative signals to deliberately overweight or underweight stocks relative to a benchmark.

Kevin Thozet, Carmignac: Over the past 10 to 15 years, investors have gained access to all sorts of alternatives to traditional market-cap indices – equal-weighted, factor-based, fundamentally weighted strategies and so on. They can be useful, but none of them has really displaced market-cap weighting, which remains simple, liquid and highly scalable.

For us, the bigger issue is not really the index methodology itself. It is what happens when too much capital is allocated mechanically according to an index. When markets are already highly concentrated, these flows can reinforce existing trends. And if a growing share of investors simply follows market prices rather than forming a view on them, you also have to ask what that means for price discovery over time.

Active investors play a role here. They analyse companies, challenge valuations, engage with management teams and decide where they want – or do not want – to allocate capital. That is particularly important for companies that sit outside the major indices and still need access to financing.

There is also a European dimension. More and more European savings are being channelled through passive strategies linked to global indices that are heavily tilted towards the US. The issue is not that these products are managed by US firms. The question is whether the way European savings are invested is consistent with Europe's own financing needs. If we want to finance

European innovation, the energy transition or strategic industries, we also need to maintain strong investment expertise here in Europe.

Alternative indices can certainly help address some of the concentration issues of traditional benchmarks. But they are still based on a set of predefined rules. At some point, you still need investors willing to make a judgement.

Peter Warken, DWS: Yes. Alternatives include equal-weighted, factor-based and fundamentally weighted indices. However, there is no universally superior index methodology. Even market-cap-weighted indices are not entirely decision-free, as this year's debate over the fast-track inclusion of exceptionally large IPOs illustrates. Alternative approaches may mitigate concentration or provide targeted exposure to particular investment factors, but they replace one set of portfolio characteristics with another, potentially introducing higher turnover, factor biases and greater dependence on model design. Every methodology creates its own exposures and risks. The multi-asset manager's role is to understand these trade-offs and select the solution best suited to the portfolio's objectives.

CONCLUSION

While the debate between active and passive investing is often presented as a binary choice, the views expressed in this interview suggest a more nuanced reality. The distinction between the two approaches is becoming less clear-cut as investors increasingly combine passive building blocks, active insights and alternative implementation techniques. Rather than asking whether active or passive investing will prevail, the more relevant question may be how each can be used most effectively within a portfolio. The future of investing is therefore unlikely to be active or passive. Instead, it will be defined by investors' ability to combine the strengths of both approaches in pursuit of better outcomes.

Note

- 1 <https://www.morningstar.com/en-gb/business/insights/research/european-active-passive-barometer>

The Active Side of ESG Index Investing

WHO YOU EXCLUDE MATTERS MORE THAN HOW MUCH YOU EXCLUDE

Daria Plakhova, Durga Shankar, Gaston Siegelaer and Hendro Sugandi

Customizations driven by sustainability preferences are widely used to create indices that lie somewhere between two ends of investing style – active and passive. Previous research has shown that different sustainability-driven customizations lead to different active risk-return outcomes. This paper shows that not all exclusions are created equal. The impact of sustainability-driven exclusions depends not only on how much of the benchmark weight is removed, but also on which companies are excluded. Excluding a few benchmark-relevant large-cap companies can have a greater impact on tracking error than excluding a similar aggregate weight spread across many smaller companies. We further show that index methodology matters. The choice of index construction approach can materially affect benchmark replication effectiveness, highlighting the importance of research-driven index design choices, ongoing monitoring and regular evaluation of whether the methodology remains aligned with the index’s objectives.

Daria Plakhova CQF (l)
Quantitative researcher
within the Index
Solutions team at APG
Asset Management

Hendro Sugandi PhD (ml)
Quantitative researcher
within the Index
Solutions team at APG
Asset Management

Gaston Siegelaer PhD (mr)
Senior investment
specialist at APG Asset
Management

Durga Shankar CFA (r)
Quantitative researcher
within the Index
Solutions team at APG
Asset Management



PASSIVE INVESTING IN ESG INDICES HAS RAISED NEW QUESTIONS

In the past twenty years two trends characterized the development of the institutional investment industry: a trend towards more passive investing and the emergence of ESG investing. Cost awareness and increased cost transparency required by regulation drove pension funds towards larger passive mandates at the expense of actively managed mandates. At the same time, ESG investing policies of the pension funds required benchmarks for their mandates that aligned with those policies. In the early years, off-the-shelf ESG indices from index providers were being used as benchmarks. However, more sophisticated ESG policies triggered the need for tailor-made indices for their passive mandates. Those customized indices not only had to feature the elements of the pension fund’s ESG policy, but they also had to be fit for purpose for passive mandates.

The prudent-person rule for pension funds requires the investment portfolio to be sufficiently diversified. A typical way to address this fiduciary and regulatory requirement is to try to mimic a broad market index by using a specific index construction method for the customized ESG index. This broad market index, hereafter referred to as the parent index, serves as the basis for the customized ESG index. The customized ESG index is derived from the parent index through constituent exclusions or reweightings. Ideally, in the long run the investment performance of the customized ESG index is expected to be roughly similar to the performance of the parent index. The ex-ante tracking error of the customized index versus the parent index is a pragmatic indicator of the possible performance deviation between the two indices. The lower the ex-ante tracking error, the higher the likelihood that the customized index will perform in line with the parent index. One could expect the tracking error to be larger for an index which excludes a larger aggregate weight of companies, than for an index which excludes a lower aggregate weight of companies. However, this relationship is not linear and furthermore it also depends on the size, number and interrelatedness of excluded individual companies. The research question of this paper is: how do exclusion intensity and the size of the companies retained in the index affect the ability of a customized index to effectively replicate its parent index?

When investigating this research question, we consider various kinds of customization, both with regard to ESG policies and with regard to index construction. We consider two ESG policies. The first uses carbon intensity as a criterion for inclusion or exclusion. The second is based on MSCI ESG ratings and excludes companies with the lowest ESG ratings.

For index construction, we apply two different approaches. One approach uses pro rata reweighting of the companies in the customized index after taking out the weights of the excluded companies, such that the total weight sums up to 100% again. The second approach uses minimization of the ex-ante tracking error of the customized index versus the parent index. Other possible optimization approaches may use factor tilts or beta as

measure, but in this paper, we want to make an apples-to-apples comparison and therefore we use tracking error as the variable in scope. We will investigate how the tracking error behaves for different ESG policies leading to different weight patterns of exclusions and for different index construction approaches.

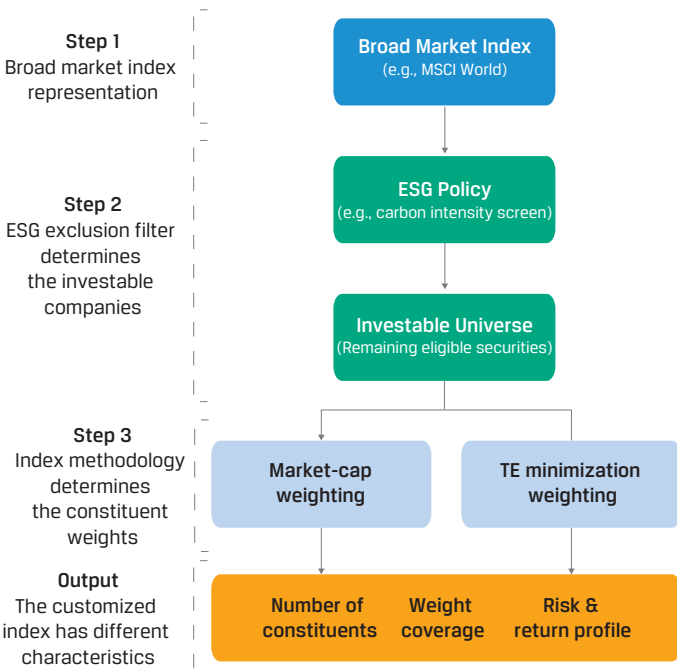
Other authors have analyzed the interaction between ESG policies and the investment risk-return profile (Huij et al., 2025) and have looked into the level of diversification (Brögger et al., 2025). Our paper adds to this literature by specifically focusing on the interaction of the size of excluded companies and index construction approaches.

Furthermore, we show in this paper how past performance of an optimized index can be compared with a pro rata reweighted index, which adds to the paper by Lammers et al. (2024) who analyzed a capped benchmark derived from an exclusion benchmark.

UNDERSTANDING THE IMPACT OF ESG EXCLUSIONS ON BROAD MARKET INDEX REPLICATION

As illustrated in Exhibit 1, the construction of a customized index can be viewed as a sequence of decisions. Starting from a broad market index, an ESG policy determines the investable universe by excluding companies that do not satisfy the investor’s sustainability criteria. An index methodology is then applied to assign weights to the remaining companies, resulting in the final customized index. Both decisions influence the benchmark’s characteristics, including its number of constituents, weight coverage, factor exposures, and risk-return profile.

Exhibit [1]
Conceptual Framework for ESG-Driven Index Customization



For investors seeking broad market exposure, an important question is how closely a customized index continues to represent its parent index. We use ex-ante and ex-post tracking error (TE) as the primary measure of benchmark representativeness. A lower tracking error indicates that the customized index is expected to exhibit risk and return characteristics similar to those of the parent index, whereas a higher tracking error implies greater deviations from the broad market benchmark.

Under a standard risk-model framework, tracking error is determined by the active weights relative to the parent index and the covariance structure of the underlying securities. Consequently, the impact of an ESG exclusion depends not only on the aggregate benchmark weight removed, but also on the characteristics of the excluded companies and the extent to which their exposures can be replicated using the remaining investable universe.

Our central hypothesis is that not all exclusions are created equal. Excluding large companies is expected to have a greater impact on benchmark replication than excluding a similar aggregate weight of relatively smaller sized companies. Large companies often represent economically important factor exposures and may contain idiosyncratic risk that cannot be fully replicated by the remaining universe. As a result, exclusions concentrated in a small number of large constituents may create structural gaps in systematic exposures and concentrated stock-specific risk. By contrast, exclusions spread across many smaller constituents are more likely to preserve the overall factor structure of the parent index and keep idiosyncratic risk diversified.

This distinction has important implications for index construction. When exclusions are broad and diversified, tracking-error minimization is expected to be more effective because the optimizer can replicate the parent index’s exposures using the remaining investable securities. Conversely, when exclusions are concentrated in a few large constituents, tracking-error minimization may be less effective because the missing exposures cannot be fully replicated through reweighting. For example, excluding a large constituent such as NVIDIA from a developed-markets benchmark may disproportionately increase tracking error because its sizeable weight and distinctive combination of semiconductor-industry risk and stock-specific risk are difficult to replicate.

EMPIRICAL ILLUSTRATION OF CUSTOMIZATION IMPACT

It is widely recognized that sustainability-driven customizations introduce an active component to index investing and lead to a different risk-return profile compared to the parent index. The magnitude of these deviations, however, need not be a surprise. The characteristics of an ESG policy – particularly the nature and size of its exclusions – already provide valuable information about the expected quality of benchmark replication and can, to a certain extent, even be controlled through smart choices in index construction.

To illustrate this effect, we construct two stylized ESG policies that differ primarily in the size characteristics of the excluded companies (Exhibit 2). The first policy is based on carbon-emission intensity. While approximately 35-40% of the parent-index weight is excluded, the exclusions are concentrated in smaller companies, leaving most large companies-particularly technology stocks-investable. The second policy is based on MSCI ESG ratings, excluding a similar share of the parent index weight, but primarily through large-cap names.

ESG policy is only one component of benchmark design. Other components of index methodology, such as the index objective and weighting scheme, are equally important. In this study, we examine how much information ESG exclusions reveal about the resulting benchmark and to what extent their effect on the relative risk can be mitigated through index construction. To illustrate this interaction, we compare two weighting schemes: traditional market-cap weighting and ex-ante tracking-error minimization. In the latter case, standard implementation constraints are applied, including constraints on active country and industry exposure relative to the parent index.

This analysis uses the MSCI World Index as the starting universe, providing broad representation of developed equity markets. The backtest covers the period from May 2022 to May 2026, with semi-annual rebalancing in May and November – a common schedule among index providers. As the objective is to illustrate the impact of different exclusion policies on benchmark replication, the selected period is intended as a recent and practically relevant case study rather than a long-run empirical analysis.

Combining the two ESG policies with the two weighting approaches results in four benchmark variants, shown in Exhibit 3. These cases allow us to isolate the effect of two key design choices: the size of the ESG exclusions and the index objective.

Exhibit [2] Illustrative ESG exclusion policies	Policy	ESG Policy	ESG Policy Description	Primary Impact
	1	Carbon Intensity	Excludes MSCI Laggards and companies with carbon-emission intensity (Scopes 1, 2, and estimated Scope 3 emissions) using Enterprise Value Including Cash (EVIC) above the median of the parent index	Exclusions driven primarily by smaller companies
	2	MSCI ESG Ratings	Excludes MSCI Laggards and the bottom quartile of the parent index based on MSCI ESG rating	Exclusions driven primarily by large-cap names

Exhibit [3]
Index Variants and
Results

Case	Description	Number of Constituents	MSCI Weight Coverage (%)	Relative Return (%)	Ex-post TE (%)	Ex-ante TE (%)
1	TE minimization, ESG Policy 1 (Carbon)	493	58	-0.6	1.6	1.3
2	TE minimization, ESG Policy 2 (MSCI ESG Scores)	704	59	-2.0	2.4	1.6
3	Market-cap weighting, ESG Policy 1 (Carbon)	678	62	0.7	2.6	2.4
4	Market-cap weighting, ESG Policy 2 (MSCI ESG Scores)	1025	67	-1.0	2.4	1.9

Notes: Number of Constituents and MSCI Weight Coverage (%) are reported as averages across rebalancing dates. Relative Return (%) denotes the annualized relative return of each case versus the MSCI World Index over the sample period. Ex-post Tracking Error (%) is the annualized standard deviation of daily active returns. Ex-ante Tracking Error (%) is the average monthly ex-ante tracking error estimate during the sample period, annualized. The sample period is from May 2022 to May 2026.

The results summarized can be analyzed from two perspectives. First, comparing the two ESG policies under the same weighting approach (Cases 1 and 2 and Cases 3 and 4), highlights the impact of the exclusion profile. Because the carbon-based policy primarily removes smaller companies, it results in fewer constituents than the ESG rating-based policy, regardless of the weighting approach. Some differences in excess returns are observed across the cases, although these are not the primary focus of the analysis. Both ex-post and ex-ante tracking error indicate higher relative risk under the carbon-based policy when no explicit risk controls are applied, as evidenced by Cases 3 and 4. The second perspective concerns the index objective. Comparing the two weighting approaches under the same ESG policy (Cases 1 and 3 and Cases 2 and 4), confirms, as expected, that tracking-error minimization reduces active risk relative to market-cap weighting. The more interesting observation, however, is that the effectiveness of optimization differs substantially between the two ESG policies.

Under the carbon-based policy, market-cap weighting results in an ex-ante tracking error of 2.4% (Case 3), while the introduction of the tracking error minimization allows the ex-ante tracking error to be reduced to just 1.3% (Case 1). The policy that appears most challenging from a benchmark replication perspective becomes the easiest to manage through optimization.

OPTIMIZATION HELPS STRIKE AN EFFECTIVE
BALANCE BETWEEN BENCHMARK
REPLICATION AND ESG POLICY OBJECTIVES

The opposite pattern emerges under the ESG rating-based policy. While optimization also reduces tracking error, the improvement is much smaller. Moving from market-cap weighting (Case 4) to tracking-error minimization (Case 2) lowers ex-ante tracking error from 1.9% to 1.6%, a considerably more modest reduction than observed under the carbon-based policy.

This leads to the central question of the study: to what extent can the quality of parent index replication be inferred from the size

of exclusions, and how much active risk can be mitigated through index design choices?

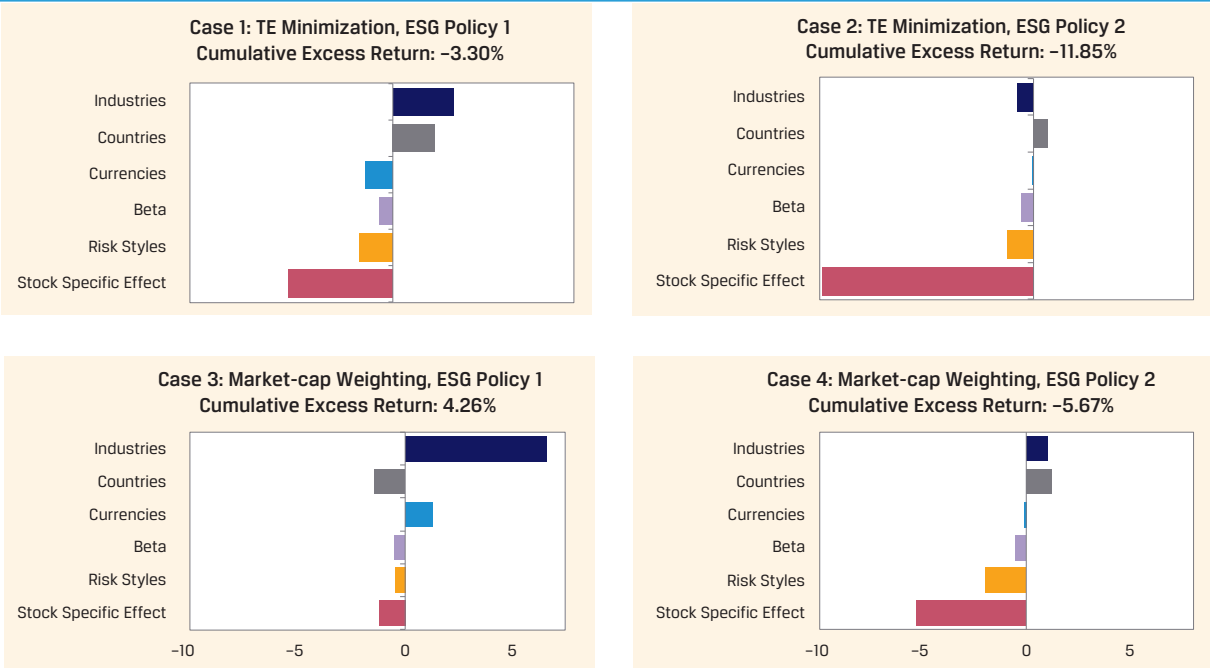
When comparing the ex-ante and ex-post tracking error, the difference between the two measures is expected, as the former is a model-based forecast while the latter reflects realized outcomes. However, the magnitude of this difference varies under the two ESG policies, regardless of the weighting approach. For example, in Case 2, where ex-ante tracking-error minimization is applied and the ESG rating-based policy excludes large benchmark-relevant names, the ex-post tracking error reaches 2.4% compared to an ex-ante estimate of 1.6%.

While discrepancies between ex-ante and ex-post tracking error can arise from changing market conditions, realized factor returns, and risk-model estimation error, the larger gap may also be attributable to idiosyncratic risk. Excluding large benchmark constituents removes stock-specific risk exposures that cannot be easily replicated. As a result, idiosyncratic risk accounts for a larger share of total tracking error. Because ex-post tracking error depends on the realized performance of the excluded stocks over the sample period, outcomes become more sensitive to stock-specific return surprises, increasing the likelihood that realized tracking error deviates materially from its ex-ante estimate.

UNDERSTANDING THE DRIVERS OF CUSTOMIZATION
IMPACT

To better understand how different ESG policies impact broad market replication, we first examine the results through performance attribution for the four customized index variants (Exhibit 4). A notable distinction between the two ESG policies is the contribution of the stock-specific effect. Comparing the two ESG policies under the same weighting scheme (Cases 1 and 2, and similarly Cases 3 and 4), a lower absolute contribution from the idiosyncratic factor is observed in the benchmarks based on the carbon-emission intensity policy as opposed to those based on the ESG rating-based policy, regardless of the weighting approach. This difference can be traced back to the nature of the exclusions. The ESG rating-based policy excludes a larger number of large-cap companies, making it more difficult to replicate the parent index and increasing exposure to idiosyncratic return drivers.

Exhibit [4]
Performance
Attribution Over
the Backtest Period



The choice of weighting scheme also has a visible impact on the sources of excess return. Moving from market-cap weighting to tracking-error minimization reduces the contribution of systematic risk factors such as industries, countries, and risk styles in most cases. For example, in Case 3, where the carbon-based policy is applied with the market-cap weighting scheme, the Industries factor makes a significant positive contribution. This is mainly driven by an overweight in the Semiconductors and Computers & Electronics industries, which delivered strong positive returns over the backtest period, combined with an underweight in the Oil and Gas Exploration & Production industry, which experienced negative returns. Excluding companies with higher carbon-emission intensity while retaining exposure to large technology companies resulted in a favorable industry exposure effect over the sample period. Under the same ESG policy but with tracking-error minimization (Case 1), the portfolio’s factor exposures are aligned more closely with those of the parent index. As a result, the contribution from the Industries factor declines substantially.

At the same time, the contribution of the stock-specific effect becomes more pronounced under the tracking-error minimization approach. While systematic factor exposures can be replicated relatively closely using the remaining constituents, stock-specific effects are unique to individual securities and may therefore be more difficult to replicate once those securities are excluded.

Performance attribution provides insight into the realized consequences of the exclusions, but it does not directly address future benchmark risk. For that purpose, ex-ante tracking error decomposition offers a relevant perspective (Exhibit 5). By separating tracking error into factor and stock-specific components, it allows us to identify which sources of risk are

introduced by the ESG policy and which can potentially be mitigated through index construction.

To isolate the effect of the exclusion policy itself, we begin with the market-cap-weighted cases (Cases 3 and 4). These portfolios involve minimal intervention through index design and therefore provide the clearest representation of the underlying ESG policies.

PERFORMANCE ATTRIBUTION AND TRACKING ERROR DECOMPOSITION REVEAL WHAT DRIVES INDEX RISK AND RETURN, CREATING A FEEDBACK LOOP THAT CAN IMPROVE INDEX DESIGN

In the market-cap-weighted cases, tracking error is higher under the carbon-based ESG policy, which retains most of the large names in the index and achieves exclusions primarily through relatively smaller companies. The key difference, similar to the performance attribution analysis, lies in the contribution of idiosyncratic risk. Under the carbon-based policy, stock-specific risk accounts for less than 50% of total ex-ante tracking error in most cases, with significant contributions coming from Industries (48% on average) and Risk Styles (12% on average). In contrast, under the ESG rating-based policy, excluding more large names, idiosyncratic risk is the dominant driver of tracking error, with its contribution increasing from 46% in May 2022 to 75% in May 2026.

This illustrates how sustainability-driven exclusions affect index composition. Excluding a large number of benchmark-relevant large companies introduces stock-specific risk that cannot be easily replicated. As a result, even though overall ex-ante tracking error is higher for the carbon-based ESG policy (Case 3) than for the ESG rating-based policy (Case 4), the contribution from idiosyncratic risk – arguably the most difficult risk component to manage and impossible to fully replicate in the presence of exclusions – is actually lower in Case 3.

A RECURRING QUESTION: DOES THE INDEX REMAIN FIT FOR PURPOSE OR WARRANT REFINEMENT?

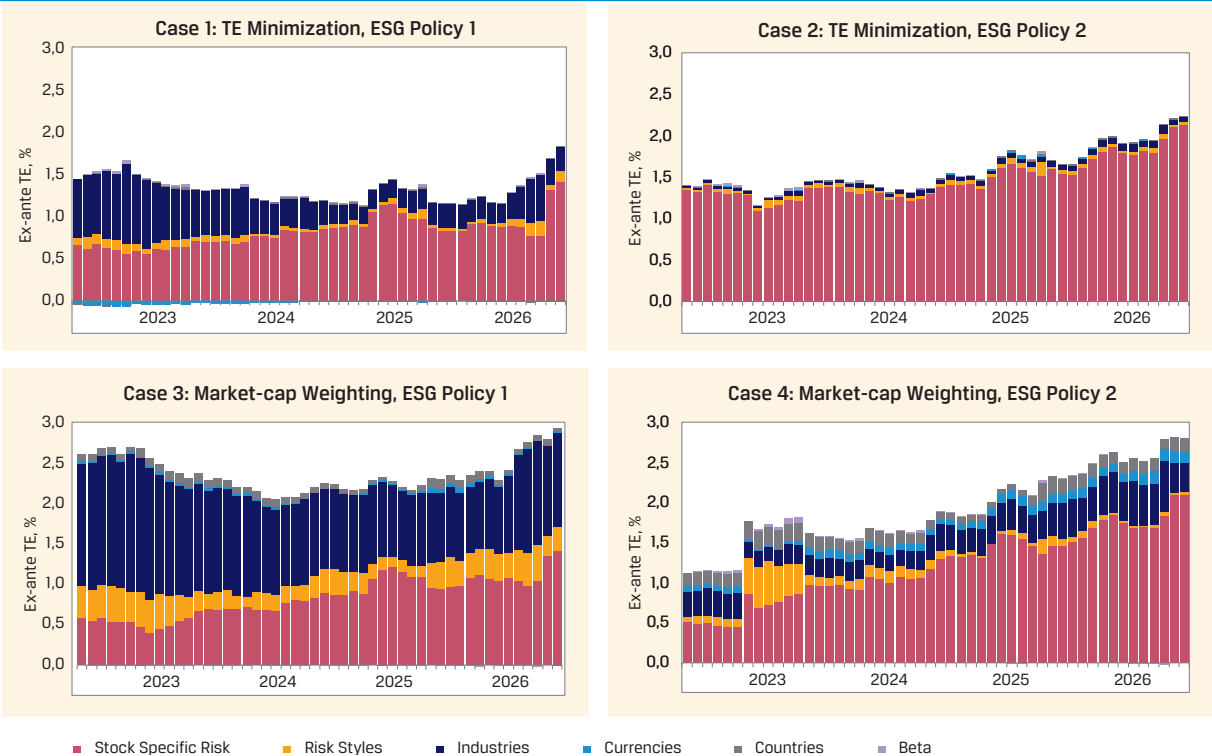
This observation helps explain why the tracking-error minimization proves more effective under the carbon-based policy, where exclusions are concentrated in relatively smaller companies, than under the ESG rating-based policy, where many large companies are excluded. Factor risk can be managed through tools such as tracking-error minimization as the optimization seeks to match factor exposures to those of the parent index as closely as possible. This results in a noticeable reduction in factor-risk contributions under both policies. However, the reduction is substantially larger under the carbon-based policy, as a greater share of the active risk originates from factor exposures. Under the ESG rating-based policy, a much larger proportion of active risk is idiosyncratic in nature and therefore cannot be effectively mitigated through optimization alone.

Another observation highlights the importance of every element of index design. Comparing the weighting schemes under the ESG rating-based policy (Cases 2 and 4), we observe that at the beginning of the backtest period there were several months when ex-ante tracking error under the optimized approach was higher than under market-cap weighting. At first glance, this may appear counterintuitive. However, it can be explained by the implementation constraints applied in the optimization, such as limits on active industry and country exposures.

Compared to the unconstrained market-cap-weighted case, optimization with constraints introduces safeguards intended to ensure close alignment of custom index characteristics with those of the parent index. However, when these constraints become binding, optimization can no longer achieve the unconstrained objective. This trade-off is important to keep in mind not only during index construction but also throughout the life of the index. The interaction between objectives and constraints may evolve over time as market conditions change, which was also evident from the performance attribution results discussed earlier.

A final observation relates to the importance of ongoing monitoring. Time-series tracking error decomposition reveals how the drivers of active risk evolve over time and can provide valuable information for investors. For example, under the ESG rating-based policy, ex-ante tracking error increases over the backtest period, primarily due to a rising contribution from stock-specific risk. Such a trend may warrant further investigation and illustrate the need for periodic evaluation of a custom benchmark.

Exhibit [5]
Time-Series of
Ex-Ante Tracking
Error Decomposition
Over the Backtest
Period



PRACTICAL IMPLICATIONS FOR INDEX DESIGN AND CONCLUSION

In this study, we show how the size characteristics of ESG exclusions provide important information about the expected quality of broad market index replication by a customized index. In general, the more large-cap companies are excluded, the more difficult it becomes to replicate the broad market index.

We explore this effect through the lens of ex-ante tracking error decomposition. Excluding benchmark-relevant large companies typically increases idiosyncratic risk, which cannot be effectively replicated through index construction techniques. As a result, tracking-error minimization is less effective in reducing active risk. By contrast, when sustainability-driven exclusions are mostly concentrated in relatively smaller companies, tracking-error minimization can significantly reduce active risk primarily by aligning the systematic factor exposures of the customized index with those of the parent index. Therefore, the size factor of exclusions interacts closely with index construction rules and can provide useful guidance on which approach is likely to be more effective under a given ESG policy. This is an important consideration for investors when integrating sustainability-driven exclusions into index design.

A further implication is that index design and management should be viewed as an ongoing process rather than a one-off exercise. Even when the ESG policy remains unchanged, the

drivers of active risk may evolve over time as market conditions and index characteristics change. For this reason, regular monitoring and periodic reassessment are essential to ensure that the customized index remains relevant and continues to function as intended. The objective is not only to ensure that the index continues to align with the intended investment objectives and represents the target asset class, but also that its risk-return characteristics remain consistent with expectations. From a practitioner's perspective, the recurring question is simple: is this index still fulfilling the purpose it was originally designed for?

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End Note

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The uneasy case for active management

Dirk Broeders & Kristy Jansen

ABSTRACT¹

Passive investing is compelling, but incomplete. Real-world investors face changing market regimes, fat-tailed risks and path-dependent wealth outcomes that are not fully captured by standard models. These features create a role for active management focused on adaptation and robustness: dynamic risk control, regime awareness and protection against severe losses. But they do not make active management easy. Markets remain hard to forecast, costs matter and apparent skill may reflect hidden tail risk. The case for active management is therefore real, but uneasy.

INTRODUCTION

The central economic problem in investment management is simple to state but difficult to solve: how should investors allocate capital when the future distribution of returns is unknown? One classic answer is passive investing. A passive investor holds every security in a pre-determined market in proportion to its market capitalisation (Sharpe, 1991). This view grew out of mean-variance optimisation in the 1950s, the Capital Asset Pricing Model in the 1960s and the efficient market hypothesis as formalised around 1970. Classical mean-variance analysis evaluates portfolio choices in terms of expected returns, variances and covariances. It has been enormously useful: it has improved diversification, lowered costs and challenged the

performance of high-fee active strategies (Broeders, van Oord and Rijsbergen, 2019).

There is also another powerful arithmetic behind the passive case. Active investors as a group hold the market. Before costs, the average actively managed euro must therefore earn the market return; after fees and trading costs, it must underperform the average passively managed euro (Sharpe, 1991). This arithmetic does not imply that every active manager must underperform. It implies that active management is a zero-sum game before costs and a negative-sum game after costs. For active management to be worthwhile, some investors must possess skill, access, discipline or risk-bearing capacity that others lack. The traditional Fundamental Law of Active Management, associated with Grinold and Kahn (1999), gives the active manager's version of this logic:

$$IR = IC \times \sqrt{\text{breadth}}$$

The information ratio, (*IR*), rises with forecasting skill, measured by the information coefficient, (*IC*) and with the number of independent active bets, measured by breadth. The formula is elegant and intuitive. If a manager has a positive edge and can apply it across many independent opportunities, active management can add value. But this formula presumes that

Dirk Broeders

Professor of Finance at the School of Business and Economics of Maastricht University and Senior Lead Financial Risk Expert at the European Central Bank



Kristy Jansen

Assistant Professor of Finance and Business Economics at the University of Southern California Marshall School of Business and a Research Affiliate at CEPR



the environment is sufficiently stable for skill to be estimated, that active bets are genuinely independent, and that risk can be adequately summarised by variance.

Financial markets do not consistently satisfy these conditions. Return distributions are non-stationary: parameters change, regimes shift and correlations rise when diversification is most needed. Returns are also fat-tailed: crashes and large dislocations occur more often than a normal distribution would imply, and a small number of extreme events can significantly affect realised wealth. Wealth dynamics are non-ergodic: investors experience one path through time, not the average of all possible paths. A severe loss early in the horizon can permanently impair the ability to meet future objectives, even if the long-run average return looks attractive.

The classical passive prescription assumes that investors share the same opportunity set and differ mainly in their mix of the market portfolio and the risk-free asset. In practice, they have different liabilities, different funding and liquidity constraints, and different non-tradable exposures. Nor can anyone hold the complete market portfolio, which includes inaccessible or illiquid assets. Strategic asset allocation should therefore reflect each investor's liabilities, endowments and feasible opportunity set. This limitation of CAPM supports tailored, liability-aware investing without implying that active security selection generates alpha.

This is especially relevant for institutional investors such as pension funds, insurers, sovereign wealth funds and endowments. Their objective is not merely to earn a high risk-adjusted return. It is to meet future liabilities, preserve solvency, manage drawdowns and avoid losses from which recovery may be impossible. For such investors, risk is not just volatility around an expected return. It is the possibility that the realised path of returns prevents the investor from achieving the investment objective. Further, institutional investors often also face challenges in balancing financial returns with social impact objectives. Through deliberative processes, investor democracy enables stakeholders to navigate these trade-offs collectively (Bauer et al., 2026).

PASSIVE IS POWERFUL

This article argues that these facts do not invalidate passive investing, nor do they vindicate active management in general. They change the question. The issue is not whether active managers can reliably predict next period's returns. It is whether investors need adaptive decision-making to survive in a world where return distributions move, extremes dominate and paths matter. In that world, the more defensible role for active management is not heroic stock-picking, but regime awareness, dynamic risk control, explicit tail-risk management and robust

position sizing. At the same time, it remains an uneasy case: the same features that create the need for active management also make it difficult to execute successfully.

The rest of the article first explains why non-stationarity, fat tails and path dependence make fixed or mechanically maintained allocations incomplete. It then shows how these same features create a role for adaptive risk management, before explaining why that role remains difficult to implement in practice.

WHY PASSIVE INVESTING LEAVES IMPORTANT PORTFOLIO CHOICES UNRESOLVED

In this article, we use "passive investing" as an umbrella term for rules-based investment approaches that do not seek to exploit discretionary views about mispricing or changing investment opportunities. This includes index-tracking strategies, such as cap-weighted ETFs, whose security weights change mechanically with prices, corporate actions and index composition. It also includes buy-and-hold strategies, in which portfolio weights drift with realised returns after the initial allocation. These approaches differ from one another: cap-weighted indexing is not a fixed portfolio, and buy-and-hold is not the same as benchmark replication. The issue is therefore not passive investing as such, but the stronger assumption that a fixed or mechanically maintained allocation is sufficient when return distributions are non-stationary, fat-tailed and path-dependent.

The case for low-cost passive investing is compelling. It does not, however, determine how much market risk an investor should bear, which liabilities should be hedged or how much liquidity should be maintained. These decisions depend on the investor's objectives and constraints and may change as market conditions evolve. Non-stationarity, fat tails and path dependence therefore warrant closer examination of asset allocation and risk management.

NON-STATIONARITY: PARAMETERS CHANGE

Non-stationarity means that the data-generating process for asset returns changes over time. Expected returns, volatilities, correlations, factor loadings and higher-order co-moments may drift, jump or vary across regimes (Ang and Bekaert, 2002; Broeders and Jansen, 2020). In such an environment, long historical samples are not necessarily reliable guides to future return distributions. This is a practical manifestation of the Lucas Critique in financial markets. Financial markets are prone to boom-bust cycles, in which periods of apparent stability encourage leverage and risk-taking until a Minsky moment exposes the fragility that had accumulated beneath the surface (Kocken, 2012).

This creates a challenge for portfolio allocations calibrated using historical estimates of expected returns, variances and covariances. Mean-variance optimization can incorporate updated estimates, but maintaining allocations based on outdated inputs may leave portfolios poorly aligned with prevailing risks. In practice, key parameters are moving targets. A covariance matrix estimated over several decades may combine inflationary and disinflationary

regimes, financial repression and liberalisation, crises and calm markets. The estimate may be statistically significant and yet misrepresent the risks that matter today. Long historical samples can nevertheless remain informative when structural breaks are explicitly modelled (Pástor and Stambaugh, 2001).

Expected returns and factor exposures are similarly conditional on the prevailing environment. Risk premia embedded in equity valuations, bond yields and currency exchange rates may compress or widen as macroeconomic conditions, policy regimes and market structure change. Broad diversification strategies that are beneficial from the perspective of individual institutions may become a source of systemic risk when many institutions hold similar exposures and market stress prompts them to de-risk simultaneously (“diversification paradox”, Beale et al., 2011). Factor models estimated under the assumption of time invariance may misstate the contemporary risks embedded in traded portfolios.

FAT TAILS: EXTREMES DOMINATE LONG-RUN OUTCOMES

Fat tails mean that asset returns exhibit extreme observations more frequently than a normal distribution would predict (Gabaix et al., 2006). Large price moves, abrupt regime changes and volatility spikes are not rare anomalies; they are recurring features of financial markets. Crashes occur more often, and with greater severity, than standard Gaussian models imply.

The consequence is that long-run wealth can be shaped disproportionately by a small number of extreme events. Ordinary daily fluctuations matter less than large losses and, in some cases, very large gains. This concentration also appears across securities: a small minority of individual stocks accounts for a disproportionate share of the aggregate stock market’s long-run wealth creation, while most stocks underperform Treasury bills (Bessembinder, 2018).

Standard deviation of returns (“volatility”) compresses risk into an average measure of dispersion. In fat-tailed markets this can be misleading, because the main concern is not ordinary fluctuation but the probability and size of severe losses (or gains). A portfolio with acceptable volatility may still expose an investor to drawdowns large enough to force asset sales, breach constraints or permanently impair wealth (Goldstein and Taleb, 2007).

NON-ERGODICITY: A SINGLE PATH MATTERS MORE THAN THE ENSEMBLE

Non-ergodicity means that an investor experiences one realised path through time, not the average across all possible paths. In an ergodic system, the ensemble average and the time average coincide: what happens on average across many realisations is also a good guide to what one investor experiences over time. Financial wealth, however, does not behave in this way. It accumulates multiplicatively and is exposed to absorbing states such as default, forced selling, liquidation or breach of regulatory constraints. A sufficiently large adverse shock can permanently alter, or even terminate, the investment path. A common mistake in investment analysis is to treat the average outcome across many possible paths as equivalent to the realised

path of a single investor. This is called the ergodic illusion. For institutions with liabilities, leverage or solvency constraints, a portfolio that looks attractive in expectation may still be unacceptable if it creates a material risk of forced selling, deleveraging or irreversible loss (Shleifer and Vishny, 1997).

SURVIVAL MATTERS MORE THAN AVERAGES

This is also why the sequence of returns matters. For investors with cash in and out flows, liabilities, leverage or binding constraints, two return paths can have the same arithmetic average return and volatility, yet lead to very different outcomes if losses occur early rather than late. A large early loss reduces the capital base available to meet withdrawals, absorb further shocks or satisfy collateral and solvency requirements. The advice to “ride out” short-term volatility assumes an idealised horizon and the absence of binding constraints. While conventional wisdom may suggest that stocks are less risky for long-term investors, Bodie (1995) demonstrates that the cost of insuring against stock shortfalls relative to the risk-free return actually increases with the length of the investment horizon. In practice, investors can benefit from long-run risk premia only if interim losses do not force them to sell assets, breach constraints or abandon the strategy (Liu and Longstaff, 2004).

HOW THIS STRENGTHENS THE CASE FOR ACTIVE MANAGEMENT

If return distributions are non-stationarity, fat tailed and non-ergodic a passive approach may be incomplete. This argument should not be read as a claim that these features alone guarantee excess returns. In information-efficient markets, successful active management still requires an informational, analytical, behavioral, or structural edge over the marginal investor. Non-stationarity, for instance, does not remove this requirement. Nor does it imply that pure cap-weighted indexing is necessarily naive: cap-weighted indices adjust automatically as prices change and index composition evolves according to rules. To the extent that markets are informationally efficient, such an index may be less exposed to errors from naive historical estimation than an active strategy calibrated on past returns. Even when prices efficiently reflect available information, investors must still make active choices about asset-class exposures, benchmarks, liquidity, hedging, rebalancing, and tail-risk protection. The case made here is therefore less a claim about “alpha” and more an argument for adaptive portfolio construction and risk management under changing market conditions and depending on investor-specific risk aversion and constraints. Horizon, liabilities, liquidity needs, solvency requirements, and mandate restrictions on tracking error, leverage, derivatives, or cash holdings determine how much flexibility an investor has to adapt exposures as conditions change. We explore four implications.

TIME-VARYING RISK MANAGEMENT

Risk management relies on three broad tools whose effectiveness varies over time: diversification, hedging and risk transfer.

Diversification mitigates idiosyncratic risk by spreading exposures across assets, sectors, regions or risk factors whose returns are not perfectly correlated. Hedging uses symmetric instruments, including futures and swaps, to reduce or neutralise specific exposures. Risk transfer uses asymmetric instruments, including options and insurance contracts, to protect against risks that cannot be reliably diversified or hedged. In exchange for a premium, it transfers the financial consequences of low-probability, high-severity events to a third party. The effectiveness of all three depends on assumptions about correlations, hedge relationships, liquidity, and counterparty capacity – relationships that can change across regimes and may weaken during market stress.

Market conditions are not constant. Correlations, valuations and risk premia can shift across regimes, so a portfolio that is robust in one environment may be fragile in another. As Box 1 illustrates, in a regime-switching world portfolio risk comes not only from volatility within a given regime, but also from uncertainty about which regime will prevail. This strengthens the case for dynamic asset allocation: adjusting exposures to equities, bonds, cash and other asset classes as conditions change, rather than relying mechanically on a fixed mix calibrated to historical averages. Moreira and Muir (2017) find that scaling down risk exposure when volatility is high improves Sharpe ratios across several equity factors and in the currency carry trade.

The stock-bond correlation is a clear example. During the roughly two decades following the turn of the millennium, government bond returns typically moved inversely to equity returns, offering a diversification cushion during stock market downturns. More recently, stock-bond co-movement has increased, with global bond-stock betas turning positive in 2023-2025 (Campbell, Pflueger and Viceira, 2025). Since the diversification value of bonds depends on their covariance with equities, such shifts can materially alter the optimal stock-bond allocation (Campbell and Viceira, 2002; Campbell, Pflueger and Viceira, 2020; Pflueger, 2025). This is not primarily an argument about informational advantage or alpha generation, but a hedging-demand argument: when the state variables that determine investment opportunities change, the portfolio that best serves an investor's risk-management objective may also change.

REGIME SHIFTS AND MISPRICING

Market regimes are shaped by the economic, policy and institutional environment. Monetary policy, technology, regulation, investor behavior and financial conditions evolve, sometimes gradually and sometimes abruptly. Prices may adjust only gradually as investors interpret new information and reassess its implications. Information may diffuse slowly, investors may extrapolate the recent past, and institutional constraints may delay portfolio adjustment. Institutional

mandates, liquidity constraints, and risk limits prevent large funds from reallocating portfolios instantly (Duffie, 2010).

This creates the possibility of temporary mispricing. Credit spreads can become too tight before a default cycle, sectors can become crowded after strong performance, and neglected assets can trade below fundamental value. In principle, active managers can exploit such opportunities through timing, rotation or security selection if they can identify regime shifts in real time. Active management adds value if judgment improves decisions after costs and errors.

TAIL-RISK HEDGING

Fat-tailed markets make severe losses more likely than standard models imply. For investors with finite horizons, liabilities or solvency constraints, protection against large drawdowns may therefore be worth accepting, even at the cost of lower expected returns in normal times. Tail-risk management can take several forms: protective options, dynamic hedging, lower exposure to risky assets during periods of stress, or option-based strategies designed to pay off in severe equity or credit sell-offs. Modelling techniques that allow for time-varying volatility and fat tails, such as models from the GARCH family, can provide additional information by showing how portfolio losses behave in the tail of the return distribution. Such analysis may support precautionary adjustments to portfolio weights or hedging exposures. None is free. Options carry premia, dynamic hedging can fail when prices gap and liquidity disappears, and crisis strategies may disappoint if the next stress episode differs from the scenario for which they were designed.

These choices are inherently active. They require a judgment about which risks to insure, how much protection is worth paying for, and when protection is most valuable. A passive portfolio that ignores tail risk is not neutral. It simply accepts the full downside exposure embedded in the market.

POSITION SIZING

The size of a position matters as much as its expected return. An attractive risk premium can still be unacceptable if the exposure is large enough to create ruin, forced selling or an unrecoverable drawdown. Conversely, excessive caution may leave too little growth to meet long-term objectives.

The Kelly criterion formalises this trade-off by linking position size to the maximisation of long-term geometric wealth (Kelly, 1956). In principle, it favours larger allocations when expected returns are high and risks are low. In practice, however, full Kelly assumes a degree of knowledge investors rarely possess. Because the approach is highly sensitive to parameter estimation risk, overestimating expectations or understating tail risk triggers aggressive overbetting.

This is why fractional Kelly rules, such as half-Kelly or quarter-Kelly, are often more robust. They sacrifice some return in exchange for materially lower drawdowns and greater protection against model error. The broader lesson is that active management

is not only about selecting securities or timing markets. It is also about sizing exposures so that the investor survives. In a world where distributions move, paths matter and extremes dominate, survival is a precondition for compounding.

WHY THIS DOESN'T AUTOMATICALLY VINDICATE ACTIVE MANAGERS

The fact that non-stationarity, path dependency and fat tails create a role for active management does not mean that active managers can reliably add value. Active management still faces substantial challenges for three reasons.

First, forecasting is difficult. The same features that create potential opportunities also make those opportunities difficult to exploit. What looks like a new environment may be noise; what looks like noise may be the beginning of a new regime. Regime shifts, changing parameters and extreme events increase estimation error, and historical relationships may break down just when they appear most useful. A valuation signal may identify a genuine opportunity, or it may be the first sign of a deteriorating regime. A hedge may protect against one scenario while losses arise from another; alternatively, it may become too expensive precisely when it is most needed.

Second, costs remain decisive. Active management is not evaluated before costs, but after fees, trading costs and market impact. Even if some managers identify opportunities, those opportunities must be large enough to survive implementation. The arithmetic is unforgiving: before costs, active investors in aggregate hold the market; after costs, the average active investor must lag a low-cost passive alternative with comparable exposures.

Third, complexity is not the same as opportunity. Markets may be adaptive and shaped by frictions, constraints and investor flows, but that does not make them easy to trade. Apparent mispricings may reflect compensation for hidden risks, crowding, leverage, illiquidity or exposure to rare crash states. A strategy that looks skilful in normal times may simply be earning a premium for bearing risks that are revealed only in stress.

The bar for active management is therefore high. A credible strategy needs a clear economic rationale, evidence that the opportunity can be exploited after costs, robust implementation and disciplined risk management. Without these, the existence of opportunity in theory will not translate into reliable value for investors.

DEMAND-DRIVEN PRICING, INVESTOR FLOWS AND BENCHMARK SELECTION

A further, relatively recent, insight is that investor behavior also matters. Prices are not shaped only by fundamentals and macroeconomic shocks, but also by mandates, flows and benchmark-driven investor behavior demand. This insight is central to demand-based asset pricing. Traditional financial theory assumes highly elastic markets, where prices primarily

Box 1: Two Sources of Risk in a Regime-Switching World

Investors face two distinct sources of risk. The first is risk within a regime: even if the prevailing economic environment (*S*) were known, asset returns (*R*) would remain uncertain because of shocks specific to that environment. The second is regime uncertainty: investors may not know which economic environment will prevail, and different regimes can imply different expected returns and volatilities. Total variance can be decomposed into these two sources using the law of total variance:

$$\text{Var}(R) = \underbrace{\mathbb{E}[\text{Var}(R/S)]}_{\text{risk within regimes}} + \underbrace{\text{Var}(\mathbb{E}[R/S])}_{\text{risk from regime uncertainty}}$$

Regime uncertainty becomes particularly important when expected returns differ substantially across regimes, even if returns are relatively stable within each regime. In the case of two possible regimes, *{H, L}*, portfolio variance can be written as:

$$\text{Var}(R) = \underbrace{p\sigma_H^2 + (1-p)\sigma_L^2}_{\text{risk within regimes}} + \underbrace{p(1-p)(\mu_H - \mu_L)^2}_{\text{risk from regime uncertainty}}$$

where *p* is the probability of regime *H*, *μ_H* and *μ_L* are the portfolio's expected returns in the two regimes, and *σ_H* and *σ_L* are the corresponding standard deviations. Intuitively, regime uncertainty is greatest when both regimes are equally plausible (*p* = 1/2) and the portfolio would perform very differently in each.

reflect fundamental information. The demand system approach challenges this view by showing that prices can be materially affected by the mandates, constraints and latent demand shocks of different investor groups (Kojien and Yogo, 2019).

FLOWS MOVE MARKETS, TOO

Because aggregate investor demand is inelastic, large-scale capital reallocations – driven by institutional mandates, shifting preferences or behavioral sentiment – can have a substantial impact on the prices of the underlying securities (Jansen, 2025). Gabaix and Kojien (2021) formalise this mechanism in the inelastic markets hypothesis: when aggregate demand is insufficiently elastic, investor flows can move market prices materially. In this framework, a significant share of cross-sectional stock return variation and macroeconomic volatility is generated not by changes in cash-flow fundamentals alone, but also by who owns the assets and how they trade.

For active managers, information about demand and flows may therefore be valuable, especially when such flows are partly predictable and lead to systematic buying or selling. For example,

Pavlova and Sikorskaya (2023) show that increases in benchmarking intensity – that is, the extent to which investors manage portfolios closely against benchmark indices – generate inelastic demand, raise prices and reduce subsequent stock returns over horizons of up to five years.

This also complicates the meaning of passive investing. A passive strategy may minimise tracking error to an index, but the choice of that index is itself an active decision. Broeders and De Haan (2020) argue that a benchmark is not a neutral representation of the market. It reflects policy choices about objectives, risk exposures and eligible assets. Benchmark selection therefore shapes long-term outcomes and is one of the most important active decisions an investor makes.

AN UPDATED VIEW OF THE FUNDAMENTAL LAW OF ACTIVE MANAGEMENT

The traditional Fundamental Law of Active Management is elegant and useful, but it becomes less complete once we move beyond the assumptions of stable distributions, independent bets and variance-based risk. A robust active-management framework would need to recognise three additional points.

First, forecasting skill is regime-dependent. A signal is not valuable in isolation; its value depends on the environment in which it is applied. Buying high-yield bonds after spreads widen can be profitable during a normal slowdown, but dangerous if the economy is heading into a deep recession or banking crisis. The skill is therefore not merely observing that spreads are wide. It is understanding what kind of environment produced the widening, and whether the historical relationship on which the signal relies is still relevant.

Second, breadth should be measured economically, not mechanically. A large number of positions does not necessarily imply a large number of independent bets. A manager may invest in 100 different stocks, but if these are all small-cap growth companies in the same part of the US technology sector, the portfolio may in economic terms represent only one dominant exposure. Raw breadth can be large while effective breadth is small. What matters is not the number of securities, signals or trades, but the number of genuinely independent sources of return.

Third, apparent skill must be assessed after allowing for tail risk. Strategies that generate steady returns in normal times may be earning compensation for exposure to rare but severe losses. Currency carry illustrates the point. The currency carry trade – borrowing in low-yielding currencies and investing in high-yielding ones – can produce attractive returns in calm markets but suffer sharp losses when investors rush into safe-haven currencies during crises. Such losses reflect exposure to rare currency crashes that may be underrepresented in historical samples. What looks like persistent skill may partly be compensation for bearing tail risk.

This does not overturn the logic of the Fundamental Law. Rather, it changes how its ingredients should be interpreted in

real-world markets. Skill should be understood as regime-aware skill, breadth as effective and economically independent breadth, and risk as including exposure to severe drawdowns, not only ordinary volatility. In this view, active management is not simply about scaling many small forecasting edges. It is about building adaptive and robust strategies that can survive regime shifts, control tail risk and preserve capital.

ADAPT, HEDGE, SURVIVE

Advances in artificial intelligence may help implement this more adaptive approach. Kojien and Levy (2026) find that optimised agentic AI systems raise the R^2 for explaining contemporaneous stock returns around earnings announcements from 8% for standard benchmarks to nearly 20%, using only information available at announcement time. Relatedly, Gabaix et al. (2025) show that high-dimensional asset representations learned from portfolio holdings explain stock-return comovement better than a benchmark based on standard firm characteristics. These tools could help managers identify common exposures and assess whether diversification is economically meaningful. More broadly, better information processing and exposure measurement could support regime awareness and the assessment of emerging tail risks. These broader applications remain to be established, however: explaining contemporaneous returns and their comovement does not itself demonstrate an ability to anticipate regime shifts or extreme losses.

CONCLUSION: THE UNEASY CASE FOR ACTIVE MANAGEMENT

If return distributions shift over time, if wealth paths matter, and if extreme events dominate long-horizon outcomes, then a fixed buy-and-hold allocation to the market portfolio is an incomplete solution to the portfolio problem. Investors do not live in the long-run average. They experience a particular sequence of returns, with liabilities, constraints and finite horizons.

This provides an economic rationale for active, adaptive management: dynamic risk control, regime awareness, tail-risk management and careful position sizing. But it is not an unconditional endorsement of traditional active management. The fact that markets create scope for skill does not mean that most managers possess it, or can deploy it successfully after costs, estimation error and implementation frictions.

The conclusion is therefore modest. Passive investing remains a powerful benchmark and a useful core building block. But permanently holding a capitalisation-weighted index while ignoring changing risks is hard to justify. A stronger approach combines low-cost passive exposure with disciplined adaptation, whether through systematic allocation rules, risk overlays or carefully selected active managers to create robust investment strategies. That is the uneasy case for active management.

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Note

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Peer Group Success Score 2026

Ilja van den Bosch

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.

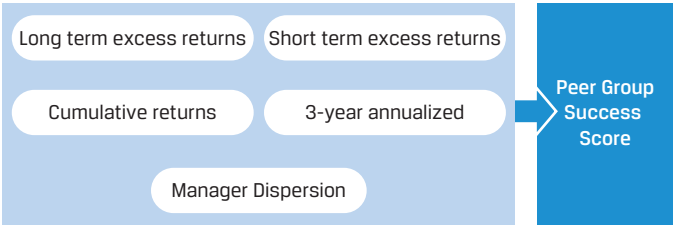
WHY THE PEER GROUP SUCCESS SCORE?

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.

Ilja van den Bosch
Manager Data, Research & Analyse – Achmea Investment Management



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

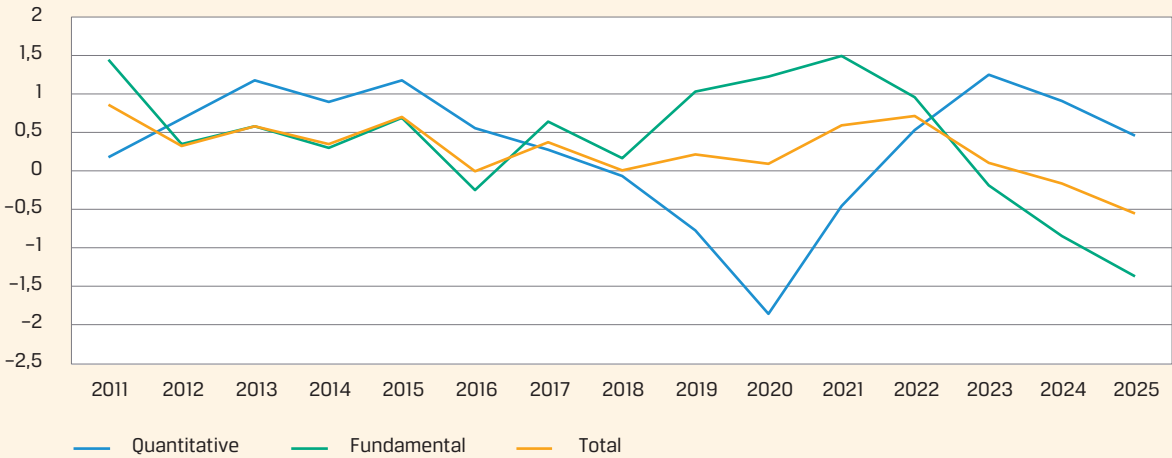


Table 1
PGS-Score

	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.

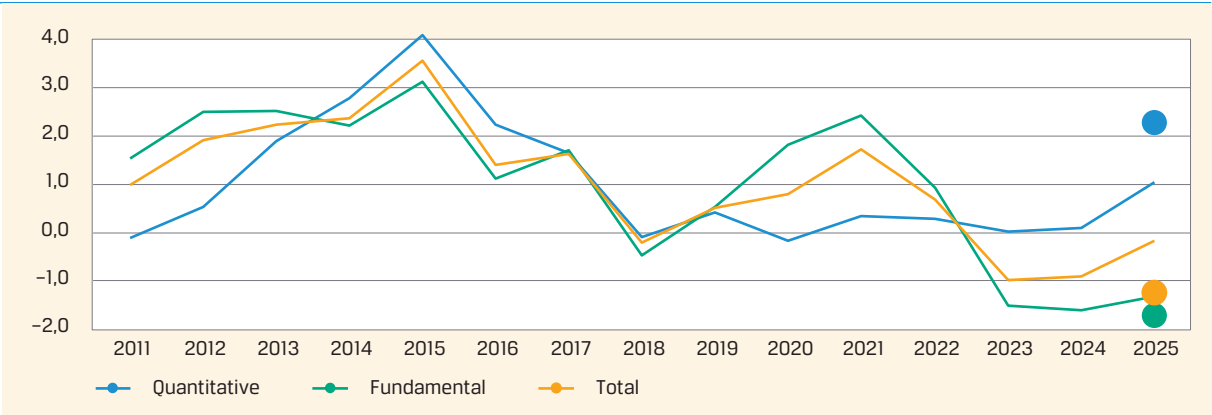
EUROPE: SLIDING BACKWARD

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

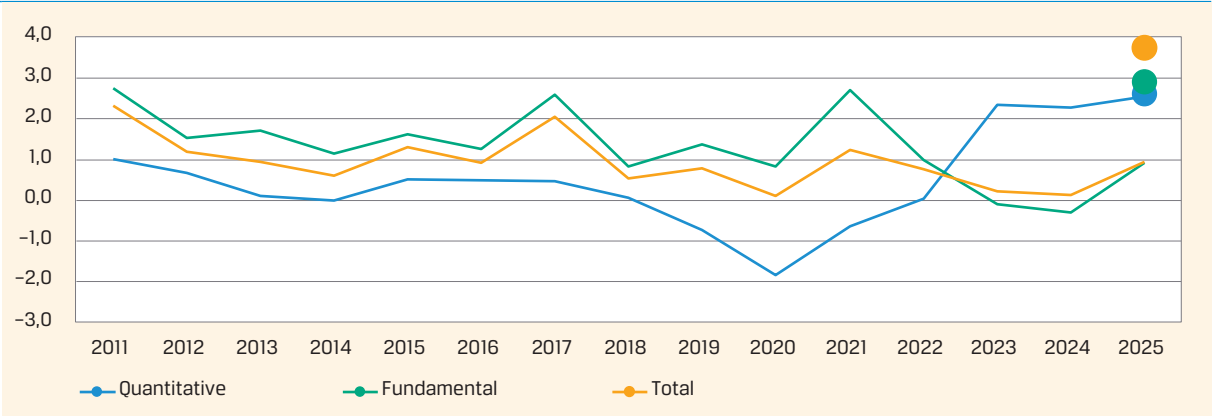
Japan stands alone as the undisputed winner. The 2025 PGS-score of +3.8, an increase of +2.0 from 2024, shows that this was the best place to capture outperformance, both for fundamental as well as quantitative strategies. Strong excess returns, positive manager dispersion and consistent outperformance 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.

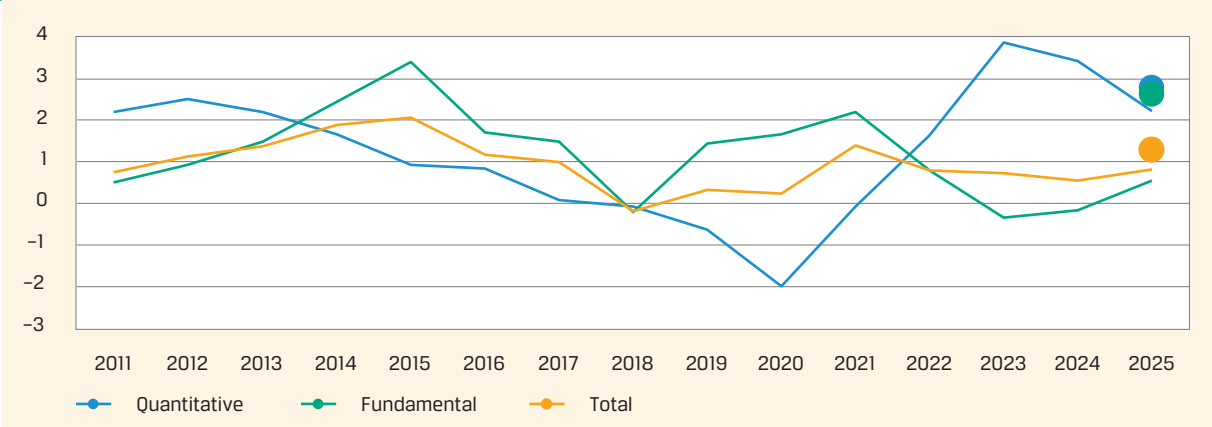
The Emerging Markets managers peer group improved its PGS-score by +1.0 as fundamental strategies are showing improved excess returns across one-, three-, and five-year horizons. This improvement came despite rising market concentration in names such as TSMC, Samsung, Tencent, Alibaba and SK Hynix, suggesting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

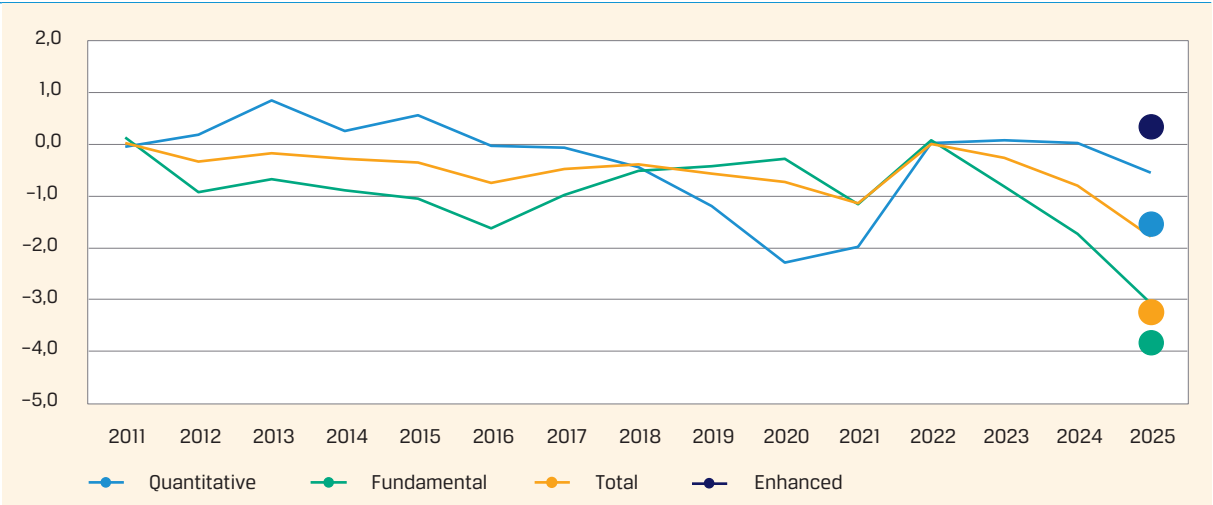
UNITED STATES LARGE CAP: THE GRAVEYARD OF ALPHA

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

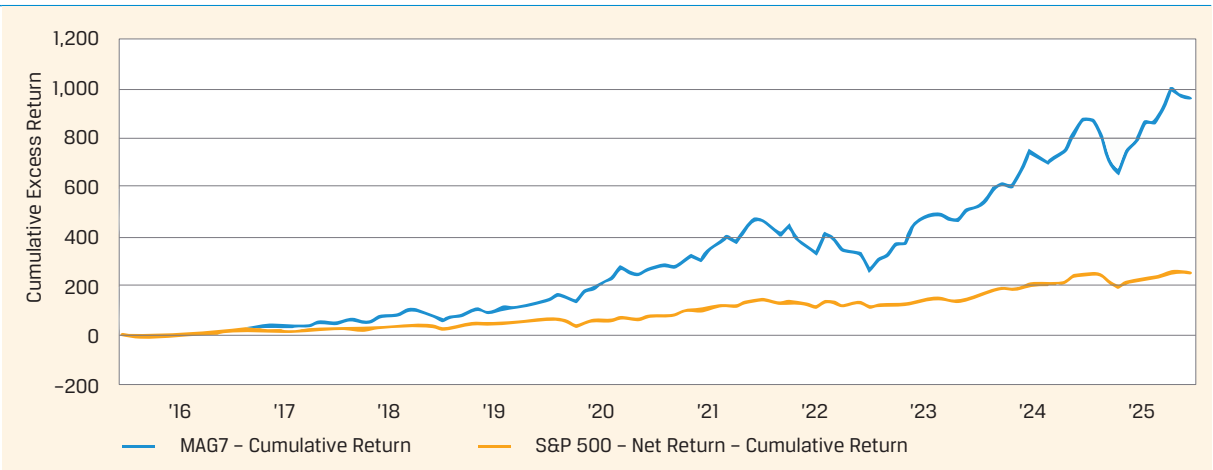
Graph 4
Emerging Markets
3-year annualized
median excess
returns & PGS-score



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.

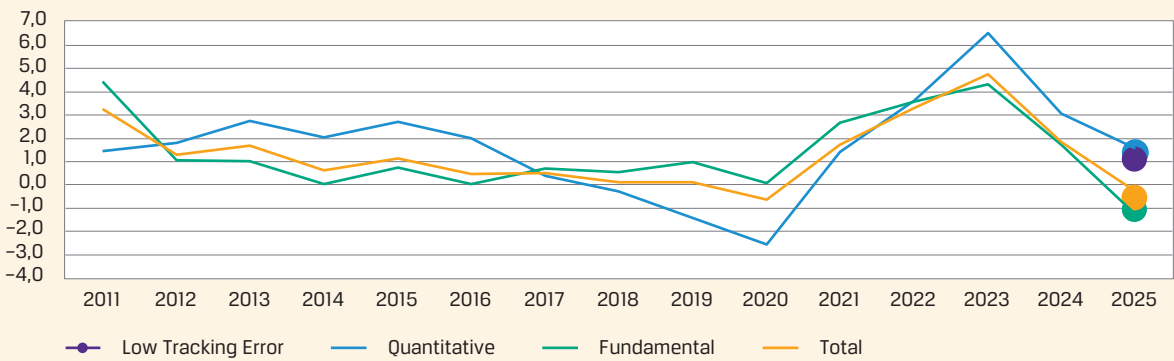
UNITED STATES SMALL CAP: THE FALL FROM GRACE

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.

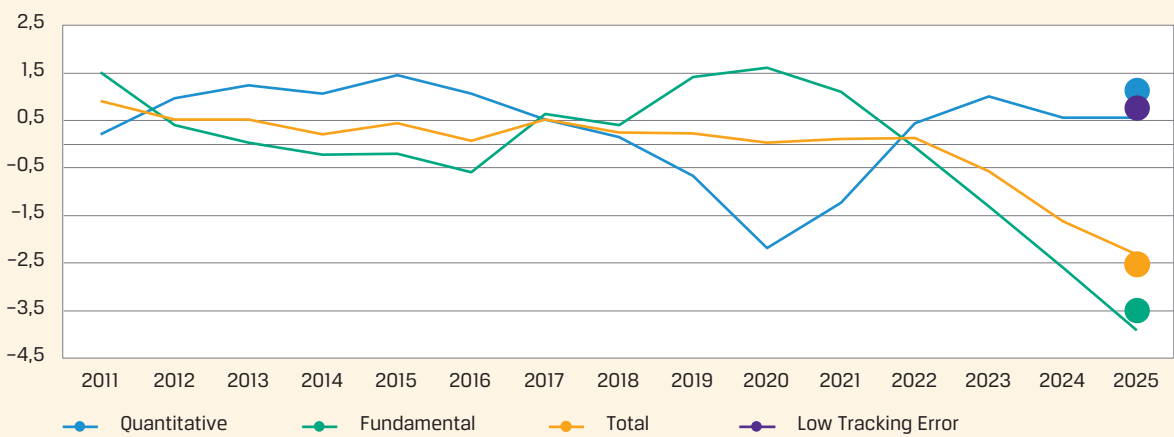
ESG: HOLDING ITS GROUND

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

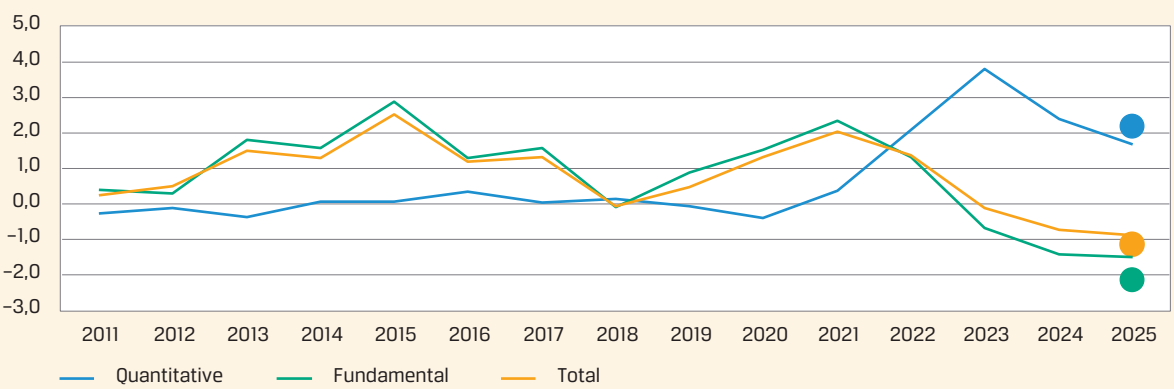
most ESG-strategies have a global focus and have a mix of underlying benchmarks. Nonetheless, ESG-strategies have demonstrated resilience, particularly the considerable challenge posed by oil price spikes in 2022 resulting from the war in Ukraine, as evidenced by a PGS-score of -0.1. The recent conflict 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.

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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.

De passieve fata morgana

Je kan er de klok op gelijkzetten. Om de zoveel jaar duikt het debat weer op in menig investment committee. Moet er actief of passief worden belegd? Voorstanders van passief beleggen wijzen op de slechte performance van actieve managers. Uit data van Morningstar komt naar voren dat minder dan de helft het op 1 jaar beter doet dan de benchmark. En op een langere horizon blijft slechts een handjevol managers de benchmark te kunnen verslaan. Voorstanders van actief wijzen daarentegen weer op managers met vermeende skill. En op markten waarin actief management wel waarde toe zou voegen, zoals emerging markets, credits en small caps.

En dan hebben we het nog niet eens over alle keuzes die in indices worden versleuteld. ESG-, factor-, klimaatindices: allemaal versleutelen ze tot op zekere hoogte 'actieve' keuzes in een index. Is het volgen van deze index dan nog passief te noemen? En misschien belangrijker nog: welke keuzes zijn er eigenlijk al gemaakt in de samenstelling van de index? S&P, FTSE Russell, MSCI hanteren allemaal hun eigen definities en segmentatie. Beleg je via een index van FTSE Russell dan is Zuid-Korea een ontwikkelde markt. MSCI vindt Zuid-Korea daarentegen nog steeds 'opkomend'. Om nog maar te zwijgen over alle afslagen, correctiefactoren en andere eigenheden die de indexbouwers in de index versleutelen om deze 'een betere weergave van het belegbare universum' te laten zijn.

Voor de oorsprong van passief beleggen moeten we terug naar medio vorige eeuw. Samuelson en Fama ontketenden een revolutie in de economie. Met Samuelsons mathematische kijk op de economie en investeren legde hij de fundamenten van het indexbeleggen. En Fama lanceerde het idee dat markten efficiënt zijn en beleggers rationeel. Nieuwe informatie wordt direct in de koersen verwerkt. Een belegger heeft dus, tenzij hij over niet-publieke informatie beschikt, weinig kans het beter te doen dan de (marktkapitalisatie-gewogen) markt.

Maar hoe efficiënt is de markt eigenlijk? Handel met voorkennis was tot in de jaren 80 van de vorige eeuw schering en inslag. Actieve aandelenmanagers gingen er zelfs

prat op dat zij unieke informatiebronnen hadden. Een mooie bron van alpha. Tot 2000. Toen gooide Regulation Fair Disclosure definitief roet in het eten. Belangrijke informatie mocht niet selectief worden vrijgegeven. De ideale omstandigheden voor passief beleggen waren geboren. Beleggers hoefden voortaan alleen een tracker te kopen en de efficiënte markten deden de rest. In de jaren daarna beslechtten de resultaten van trackers het debat in het voordeel van passief.

Of toch niet? In de recente jaren is er iets veranderd aan de hypothese. Waar de efficiënte markten uitgaan van publieke, vrijelijk toegankelijke en transparante markten, zijn steeds meer bedrijven afhankelijk van private markten. De spectaculaire winstgroei van Alphabet en Amazon in de afgelopen kwartalen is voor een belangrijk deel te danken aan hun *non-marketable securities*, lees hun aandelen in o.a. Anthropic en SpaceX. De eerste is voornemens om binnenkort naar de beurs te gaan. En SpaceX had eerder dit jaar een spectaculaire IPO. Voor veel aandelenbeleggers een bekend ritueel: inschrijven, met de eerste golf van optimisme omhoog en een paar dagen later weer uitstappen. Los van de vraag of een bedrijf dat op ruimtekastelen is gebouwd überhaupt een goede belegging is.

Voor de passieve belegger was de IPO van SpaceX sowieso een nieuwe gewaarwording. Vóór SpaceX was de IPO van Facebook in de afgelopen decennia de grootste toevoeging aan de index. En dit aandeel besloeg

destijds circa 0,6% van de totale marktkapitalisatie. Met een waardering van circa \$1,8 biljoen werd er afgelopen juni opeens 2,4% van de marktkapitalisatie aan de markt toegevoegd. Indexproviders zaten direct met een probleem: de normale regels volgen? Dan zou het enkele maanden duren voordat de passieve beleggers ook in deze gigant zouden gaan beleggen. Of de regels versoepelen? Dan zouden passieve beleggers dit aandeel mogelijk kopen voordat de markt alle informatie rondom het aandeel goed heeft kunnen verwerken. S&P koos voor het eerste. Onder andere Nasdaq en FTSE Russell voor het laatste.

En dit probleem zal komende jaren alleen maar groter worden. Door AI en technologische veranderingen zullen er nieuwe kampioenen ontstaan. Kampioenen die mogelijk tegen waarderingen van enkele biljoenen de publieke markten zullen betreden. En dan zijn de keuzes die de indexprovider van een 'passieve' index maakt opeens ook jouw keuzes. De hele discussie over actief of passief is daarmee eigenlijk overbodig. Ook passief beleggen is een actieve keuze.

Reinout van Tuyll, CFA, CAIA, Chief Investment Strategist at Family Office



How do investors see the world?

THE ROLE OF SUSTAINABILITY MINDSETS IN INVESTMENT PRACTICE

Annebeth Roor-Wubs recently defended her PhD at the Rotterdam School of Management, Erasmus University. Her research focuses on how social and environmental impacts can be measured and managed in investment portfolios. One of her papers shows that investment professionals use three different cognitive frames to understand and act in implementing sustainable investing. In a field where debates often focus on data quality, investment performance and measurement methodologies, this research highlights a deeper driver of decision-making: the sustainability mindsets – or cognitive frames – that shape how investment professionals interpret information and respond to sustainability challenges. As ESG considerations become increasingly politicized and established assumptions about sustainable investing are reconsidered, understanding these mindsets may become as important as understanding the data itself. This study was conducted at one of the largest pension providers in the Netherlands. Drawing on an extensive qualitative dataset of more than 2,000 codes from interviews, observations, and document analysis, the research applies the Gioia methodology to identify three distinct sustainability mindsets: the business case frame, the paradoxical frame, and the sustainability case frame. These frames explain why investment professionals often approach sustainability differently, but also demonstrate that each

Dr. Annebeth Roor-Wubs
Researcher and owner Sustainable Finance Consulting



perspective contributes valuable insights. Rather than viewing them as competing positions, organizations can use them as complementary lenses to strengthen sustainability integration. The **business case frame** approaches sustainability primarily through financial value creation. Professionals operating within this frame rely on neoclassical market principles and consider sustainability when it supports financial objectives. This results in a pragmatic, incremental approach based on established processes, leading to potential underestimation of emerging sustainability risks. They contribute financial discipline, implementation realism, and a strong emphasis on evidence-based decision-making. The **paradoxical frame** seeks to integrate sustainability while recognizing tensions between financial and sustainability objectives. Professionals in this frame experience high complexity and uncertainty, leading to a prudent but adaptive approach. Rather than seeking simple solutions, they emphasize experimentation, iterative learning, and "no-regret" or "least-regret" strategies that acknowledge the complexity of sustainability challenges. The **sustainability case frame** extends previous research on cognitive frames by integrating financial and sustainability objectives into a single investment objective. Rather than viewing sustainability as a constraint, professionals see it as essential to achieving long-term investment goals. This perspective reduces perceived complexity and encourages proactive, innovative approaches that reshape investment processes and identify new opportunities. Its identification contributes

to research on sustainability sensemaking, organizational change, and investment practice. A key finding is that all three frames contribute to effective implementation of sustainable investing. Progress depends on constructive interaction between perspectives. The business case frame provides financial rigor, the paradoxical frame supports learning and navigating complexity, and the sustainability case frame offers strategic ambition and long-term orientation. The research also shows that collaboration can stall when professionals fail to recognize the assumptions underlying their own perspectives. Beliefs about investor impact, market efficiency and climate risks shape how individuals interpret and evaluate opportunities. Discussing these assumptions may therefore be more productive than debating technical details alone. Cognitive frames are not fixed either; professionals can shift their perspectives. Leadership, cross-functional collaboration, and shared reflection can help organizations develop a common language around sustainability while preserving the diverse viewpoints needed for robust decision-making. For institutional investors facing growing pressure to address climate change, biodiversity loss, and broader societal transitions, the implications are clear. The future of sustainable investing will depend not only on better data and models, but also on understanding the sustainability mindsets that shape investment decisions and enabling these different perspectives to work together effectively.

Cognitive frame	Business case frame	Paradoxical frame	Sustainability case frame
Cognitive content	Only integrate sustainability insofar it aligns with financial objective	Juxtaposition of financial and sustainability objectives, even if contradictory	Convinced that financial and sustainability objectives can be jointly achieved
Cognitive structure	Low degree of complexity	High degree of complexity	Medium degree of complexity
Stance	Pragmatic stance	Prudent stance	Proactive stance

Grow the Pie

HOW GREAT COMPANIES DELIVER BOTH PURPOSE AND PROFIT

Review by Maarten Smit, CFA, Head of Quantitative Portfolio Management EMEA, SVP at Northern Trust Asset Management

In recent years, few debates have been as prominent in finance as the apparent tension between shareholder value and stakeholder capitalism. In *Grow the Pie*, Alex Edmans offers a compelling and largely convincing resolution: companies can create greater long-term profits precisely by serving employees, customers, suppliers, communities, and shareholders well. Rather than treating stakeholder interests as a constraint on profitability, Edmans argues that purposeful business can expand the total value created, the "pie", from which all stakeholders ultimately benefit.

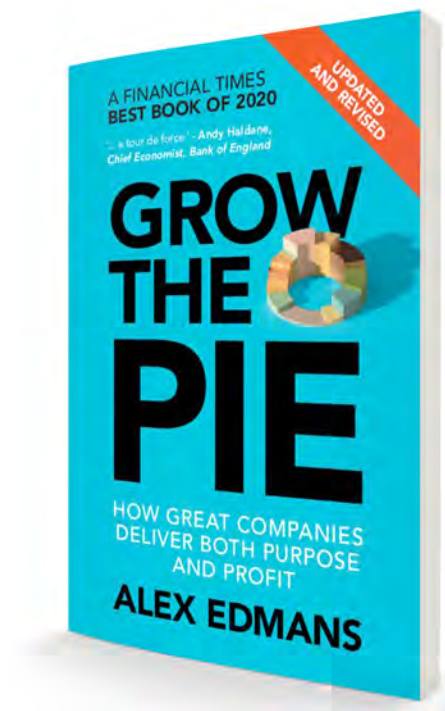
The book's greatest strength is not its conclusion, which some modern practitioners may already find intuitively appealing, but the intellectual rigor with which it is defended. Edmans avoids the slogans and ideological posturing that often characterize discussions of corporate purpose. Instead, he approaches the topic as a financial economist, carefully distinguishing correlation from causation, anecdotes from evidence, and aspiration from reality. The result is a book that speaks as comfortably to portfolio managers and analysts as it does to corporate executives.

For investment professionals, one of the book's most interesting contributions is the way Edmans connects stakeholder management to intangible assets and market mispricing. Drawing on his 2011 *Journal of Financial Economics* paper on employee satisfaction and equity prices, he argues that markets may underappreciate human capital, culture, innovation, and other drivers of long-term value. This gives the argument practical relevance for investors: stakeholder-oriented companies may benefit shareholders not because purpose is inherently virtuous, but because it can improve productivity, retention, customer loyalty, innovation, and operating performance over time. The book is therefore strongest when it treats purpose not as a slogan, but as one potential source of durable competitive advantage.

Importantly, *Grow the Pie* should not be mistaken for an uncritical endorsement of ESG investing. Indeed, one of the most refreshing aspects of both the book and Edmans's broader body of work is his willingness to challenge prevailing narratives. His 2023 article "The End of ESG" argues that ESG is simultaneously "extremely important and nothing special". ESG factors matter because they may affect long-term value creation, but they should not be elevated above other economically relevant intangibles such as innovation, management quality, or corporate culture. In Edmans's view, considering ESG factors is not a specialized form of investing, it is simply investing.

This later publication helps contextualize *Grow the Pie* and reveal why the book remains relevant. Rather than advocating stakeholder capitalism as a moral imperative alone, Edmans consistently applies the same analytical framework: identify activities that create long-term value, assess whether markets fully recognize that value, and invest accordingly. This approach is likely to resonate strongly with CFA charterholders, whose professional discipline is grounded in evidence, valuation, and fiduciary responsibility.

A potential weakness of *Grow the Pie* is that it focuses primarily on examples where serving stakeholders and creating



Author: Alex Edmans
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shareholder value are mutually reinforcing, while giving less attention to situations where genuine trade-offs exist. As a result, the book may leave some readers unconvinced about how managers should balance competing interests when social and financial objectives diverge. The argument is persuasive and well supported by evidence, but the prevalence of successful corporate case studies can sometimes make the conclusions appear more universally applicable than they may be in practice.

Ultimately, *Grow the Pie* succeeds because it reframes a polarized debate. Edmans rejects the false choice between maximizing shareholder value and serving society. Instead, he argues that the most successful companies create enduring value by investing in stakeholders, innovation, and other intangible assets that strengthen long-term competitive advantage. For investors, this is more than a philosophy of management, it is a framework for understanding where sustainable returns may originate.

For VBA Journaal readers seeking a thoughtful, empirically grounded perspective on purpose, ESG, and long-term value creation, *Grow the Pie* is highly recommended. It is one of the rare books that contributes meaningfully both to the theory of the firm and to the practice of investment management.

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Auteursinstructie
zie: www.cfasociety.nl

Fotografie en illustraties
Cor Salverius fotografie
Max Kisman

Advertenties
telefoon: 06 2917 8817
e-mail: irma.willemsen@cfasociety.nl

Abonnementen
CFA Society Netherlands
Professor J.H. Bavincklaan 2
1183 AT Amstelveen
telefoon: 06 2917 8817
e-mail: irma.willemsen@cfasociety.nl
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