

# **Manager Selection vs. Strategy Labels**

*Why Process Matters More Than Categories*

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## Abstract

Institutional portfolios are organized around asset class and strategy labels that facilitate governance, benchmarking, and communication. However, these categories describe where capital is allocated rather than how returns are generated. Evidence across asset classes shows substantial performance dispersion among managers operating within the same strategies, indicating that manager-specific investment processes are a primary driver of outcomes. This paper argues that while strategy labels remain necessary for institutional portfolio construction, they provide only a partial explanation of performance. A process-oriented perspective—focused on sourcing, underwriting, portfolio construction, value creation capabilities, and risk management—offers a more complete framework for manager selection and portfolio analysis. Integrating strategy classification with process evaluation and underlying risk exposures improves decision-making and provides a clearer understanding of how capital compounds.

**Keywords:** manager selection, asset allocation, strategy labels, investment process, institutional investing, portfolio construction, risk drivers, performance dispersion, private markets, hedge funds

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## 1. Strategy Labels and the Organization of Institutional Portfolios

Institutional investors organize portfolios around asset classes and strategy labels such as public equities, fixed income, hedge funds, private equity, private credit, real estate, and infrastructure. These categories provide a practical framework for structuring asset allocation, benchmarking performance, and communicating investment decisions within governance structures. Investment committees frequently approve allocations at the asset class level, consultants make recommendations within these categories, and portfolio reports are often structured around them. As a result, asset class and strategy labels have become the dominant lens through which institutional portfolios are constructed and evaluated.

This categorization serves an important function within institutional governance. Institutional portfolios must be understandable to boards, trustees, and stakeholders who oversee long-term investment decisions. Asset class labels create a common language for discussing diversification, performance, and portfolio structure. Institutional portfolio construction frameworks typically organize investments around asset class categories in order to facilitate governance, long-term allocation decisions, and portfolio oversight (Swensen 2009). They also enable benchmarking and performance comparison across managers operating within similar strategy categories. Without such labels, institutional investment processes would be significantly more difficult to coordinate and monitor.

However, strategy labels primarily describe where capital is deployed, not how investment returns are generated. A strategy label such as “private equity” or “hedge fund” identifies a broad category of investment vehicles, but it does not capture the underlying processes through which managers identify opportunities, construct portfolios, or manage risk. Within any given strategy category, investment approaches can vary significantly across managers, reflecting differences in sourcing advantages, underwriting discipline, portfolio construction frameworks, and risk management practices.

As a result, strategy labels provide only a partial explanation of investment outcomes. Two managers operating within the same strategy category may pursue fundamentally different investment processes and expose their portfolios to different sources of risk and return. Conversely, managers operating under different strategy labels may rely on similar economic drivers or investment philosophies. The categorization of investments by strategy therefore organizes portfolios administratively, but it does not explain how returns are generated.

Recognizing this distinction is important for understanding the role of manager selection in institutional investing. If strategy labels primarily serve organizational and governance purposes, then differences in investment outcomes within those categories must arise from factors that extend beyond the categories themselves. One of the clearest indications of this dynamic is the significant dispersion in performance observed across managers operating within the same strategies.

Asset class and strategy labels organize institutional portfolios, but investment processes determine how returns are generated. Asset class categories provide a governance structure for allocating capital, benchmarking performance, and communicating portfolio decisions. However, the drivers of performance are embedded in how managers source opportunities, evaluate risk, construct portfolios, and execute investment decisions.

## **2. Performance Dispersion Within Strategies**

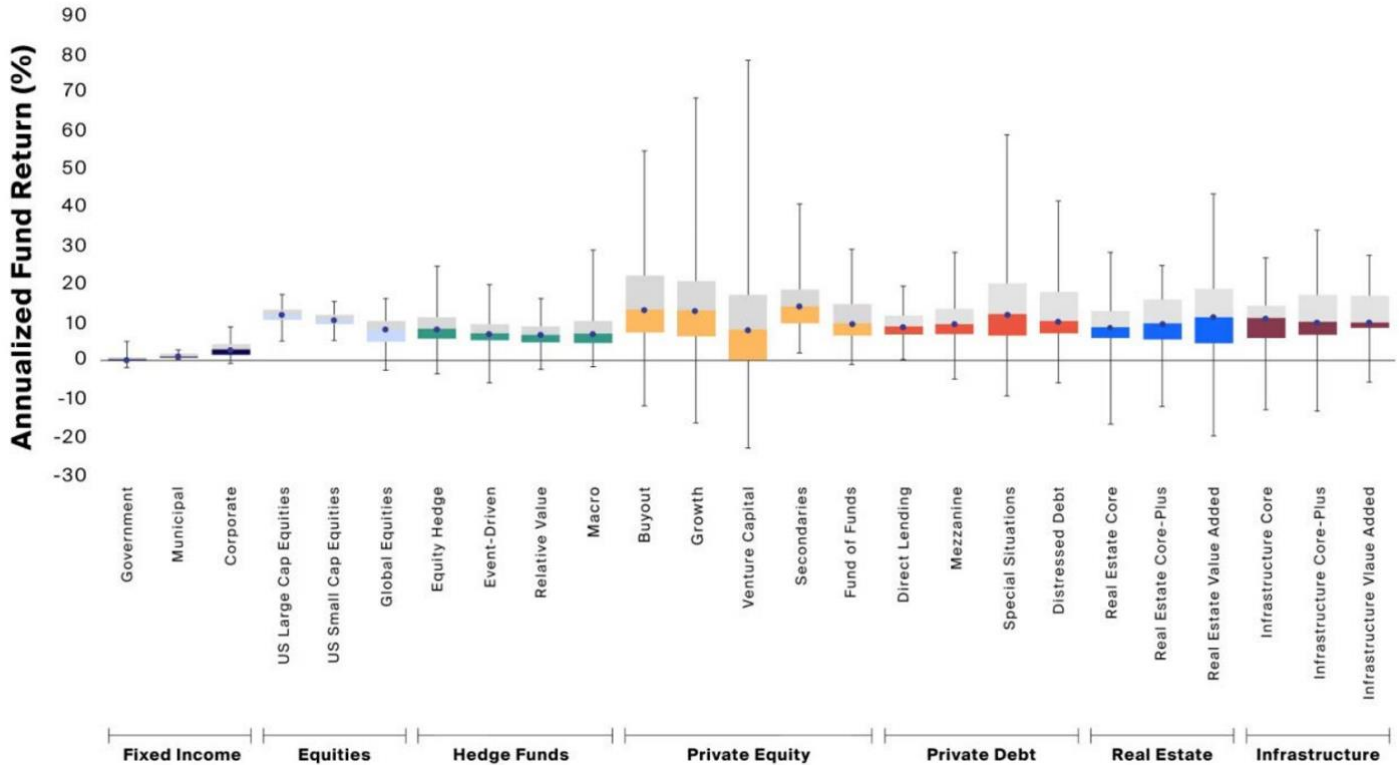
Empirical evidence across multiple asset classes demonstrates that performance dispersion among managers within the same strategy can be substantial. In many cases, variation in outcomes among managers pursuing similar strategies exceeds differences in average returns across asset classes. This pattern indicates that manager selection plays a central role in determining outcomes, even after an institution has set its strategy allocation.

Private equity and venture capital provide some of the clearest examples. Studies of private investment funds consistently show large differences between top- and bottom-quartile performance (Kaplan, Schoar 2005; Harris, Jenkinson, Kaplan 2014). Institutional benchmark reports also document substantial dispersion across private investment funds, reinforcing the importance of manager selection within strategy categories (Cambridge Associates 2020). These quartile spreads reflect meaningful variation in sourcing, underwriting, and value creation capabilities. While categories such as buyout, growth equity, or venture capital describe the focus of investment activity, they do not explain why certain managers consistently outperform others within the same category (Kaplan, Schoar 2005; Harris, Jenkinson, Kaplan 2014).

As shown in Figure 1 below, dispersion within asset classes is often as large as, or larger than, differences across asset classes. In private markets, the spread between top- and bottom-quartile managers can be particularly pronounced. This reinforces that manager selection is a primary driver of outcomes, even within well-defined strategy categories. Higher-return strategies often exhibit wider dispersion, increasing both the cost of poor manager selection and the value of disciplined selection processes. For institutional investors, this dispersion represents both risk and opportunity—risk if selection is weak, and opportunity if selection processes are robust and repeatable.

**Figure 1. Performance Dispersion Across Asset Classes (Illustrative Institutional Benchmarks)**

The dispersion of returns across and within asset classes is often illustrated using “football field” charts, which show the range of outcomes across quartiles and median returns for different strategies.



Source: CAIS Group (2022), based on data from HFRI, Cambridge Associates, Preqin, PitchBook, and Bloomberg.

Similar patterns appear across other asset classes. Hedge fund performance varies widely even within well-defined strategies such as long/short equity, macro, or relative value (Fung, Hsieh 2004). Managers within the same category may employ very different approaches to trading, risk management, and portfolio construction, leading to materially different outcomes (Fung, Hsieh 2004). Active public equity managers also exhibit meaningful dispersion relative to benchmarks, despite operating within similar opportunity sets (Berk, Green 2004).

This variation reflects the importance of manager-specific factors. Differences in research capability, decision-making processes, risk management discipline, and organizational structure can materially influence outcomes. Even within the same strategy category, variation in process and execution can produce very different risk-return profiles.

For institutional investors, the implications are direct. If outcomes vary widely among managers pursuing similar strategies, selecting the right manager may be more consequential than selecting

the strategy itself. Portfolio performance depends not only on where capital is allocated, but on how effectively managers within those categories deploy capital.

These observations do not imply that asset allocation is irrelevant. Asset class exposures continue to shape diversification, liquidity, and long-term return expectations. However, the magnitude of dispersion within strategies shows that strategy labels alone provide limited insight into how returns are generated. Understanding why some managers consistently outperform requires examining the investment processes operating beneath these categories.

### **3. Manager Processes as the True Drivers of Returns**

While strategy labels categorize investments at a high level, outcomes are determined by the processes through which managers identify opportunities, evaluate risk, and construct portfolios. These processes define the economic exposures embedded within portfolios and influence how managers respond to changing market conditions. As a result, two managers operating within the same strategy category may generate returns through fundamentally different approaches.

Investment processes differ across several dimensions, including opportunity sourcing, underwriting, portfolio construction, and risk management. Organizational factors such as decision-making structure, team composition, and incentive alignment also affect how consistently these processes are executed. Together, these elements determine whether a manager can repeatedly identify and exploit investment opportunities.

Differences in process are evident even within narrowly defined strategy categories. In institutional venture capital portfolios, early-stage and later-stage investors often follow fundamentally different processes despite sharing the same label. Early-stage investors focus on identifying promising ideas or emerging technologies before business models have matured, relying heavily on qualitative assessments of founders, product potential, and early indicators of market adoption. By contrast, later-stage or growth investors evaluate companies with established revenue and measurable traction, using financial modeling, market expansion analysis, and scenario-based projections. Although both operate within venture capital, their processes—and the risks embedded within their portfolios—differ materially.

Similar distinctions appear in private equity. Buyout investors emphasize operational improvement, financial structuring, and strategic repositioning of established businesses. This approach relies on disciplined sourcing, rigorous due diligence, and the ability to implement operational change post-acquisition. In some respects, this process resembles that of value-oriented or quality-focused long-biased hedge fund managers in public markets, who seek to invest in companies where intrinsic value exceeds market price. While the asset classes differ, the underlying logic—identifying underappreciated businesses and realizing or enhancing their value over time—is often similar.

Private credit provides another illustration. Venture debt strategies focus on lending to early-stage technology companies that may not yet be profitable but have strong growth potential and

backing from venture investors. These lenders evaluate technological viability, investor support, and the likelihood of follow-on financing rather than relying on traditional credit metrics. By contrast, direct lending funds financing private equity-backed businesses emphasize stable cash flows, leverage ratios, and covenant protections. Other strategies, such as real estate lending to international borrowers without domestic credit histories, rely on collateral quality, loan-to-value ratios, project feasibility, and jurisdictional risk. While these approaches fall under the same private credit umbrella, their underwriting processes and risk profiles differ materially.

These examples illustrate a broader principle: strategy labels do not explain how returns are generated. Outcomes depend on how managers source opportunities, structure investments, and manage portfolios over time. Understanding these processes is therefore essential for evaluating managers and interpreting the drivers of portfolio performance.

#### **4. The Limits of Strategy Labels in Portfolio Construction**

If manager processes determine how returns are generated, then organizing portfolios primarily around asset class and strategy labels can obscure important differences in underlying risk exposures. Strategy categories often group together managers with heterogeneous processes while separating managers who may share similar economic drivers of return.

One challenge arises from the internal diversity within strategy labels. Categories such as hedge funds, private equity, or real assets encompass a wide range of investment approaches. Hedge funds may include long/short equity managers, discretionary macro traders, quantitative strategies, event-driven specialists, or relative value arbitrageurs. Private equity can encompass buyouts, growth equity, venture capital, special situations, and secondaries. Even real asset categories such as infrastructure or real estate may include strategies that differ significantly in terms of leverage, regulatory exposure, and development risk.

As a result, portfolios constructed primarily around strategy labels may appear diversified even when underlying risk exposures are more concentrated than expected. Multiple strategies categorized under different labels may ultimately depend on similar economic conditions, such as equity market growth, credit availability, or liquidity. Conversely, managers within the same strategy category may provide exposure to very different return drivers.

This issue becomes particularly relevant when institutional investors evaluate diversification across asset classes. Strategy labels can create the impression that exposures are distributed across distinct segments of the investment universe, even when underlying economic risks overlap. For example, a portfolio that includes venture capital, growth equity, and crossover public equity strategies may appear diversified across asset classes but may still rely heavily on the performance of high-growth companies. Similarly, private credit and certain hedge fund strategies may both derive returns from credit spreads and liquidity conditions, despite being categorized separately in institutional reporting frameworks.

These observations do not imply that strategy labels should be abandoned. Asset class categories remain essential for governance, benchmarking, and communication within institutional investment organizations. However, relying exclusively on these labels can lead to an incomplete understanding of portfolio risk and return. A more comprehensive perspective requires examining how managers generate returns and what underlying risk exposures those processes introduce into the portfolio.

Recognizing these limitations encourages a more nuanced approach to manager evaluation and portfolio construction. Rather than treating strategy categories as the primary analytical framework, institutional investors benefit from supplementing them with a deeper understanding of manager processes and the drivers of investment performance.

Evaluating portfolios solely through strategy classifications therefore provides an incomplete view of risk and return. A more complete framework integrates strategy categories with a deeper analysis of the processes through which managers generate returns.

## **5. Integrating Strategy Labels and Process Evaluation**

The limitations of strategy labels do not imply that institutional investors should abandon them. Asset class and strategy categories continue to serve important governance and operational functions. They provide a framework for setting allocation targets, communicating portfolio structure to investment committees and stakeholders, and benchmarking performance against appropriate peer groups. Without such categories, institutional portfolios would be significantly more difficult to organize, monitor, and evaluate.

However, recognizing these limitations suggests that strategy labels should be treated primarily as organizational tools rather than analytical endpoints. While these categories structure portfolio governance, they do not explain how returns are generated. Effective manager selection therefore requires examining the processes operating within those categories and understanding the economic drivers underlying those processes.

Institutional due diligence already evaluates key elements of manager process, including investment philosophy, sourcing advantages, underwriting discipline, value creation capabilities, portfolio construction frameworks, and risk management approaches. These assessments are central to manager selection decisions. However, portfolio discussions often remain strategy-first, with process evaluation occurring within predetermined allocation frameworks. As a result, institutions may allocate capital across categories without fully understanding how underlying return drivers overlap or concentrate at the portfolio level.

A more integrated approach recognizes that strategy labels and manager processes operate at different analytical levels. Strategy categories provide the governance structure for allocation, while manager processes determine how capital is deployed within those structures. Evaluating both simultaneously provides a clearer understanding of how managers generate returns and how those return drivers interact within the broader portfolio.

One way to frame this relationship is through three analytical layers of institutional investment decision-making.

Governance layer — strategy labels. They organize portfolios into categories that facilitate asset allocation decisions, benchmarking, and communication with investment committees and stakeholders. This layer provides structure and accountability for long-term portfolio management.

Decision layer — manager processes. At this level, investors evaluate how managers identify opportunities, conduct due diligence, construct portfolios, and manage risk. Differences in these processes often explain why managers within the same strategy category produce very different performance outcomes.

Risk layer — economic drivers. These drivers reflect the underlying market forces that ultimately determine investment performance, such as equity market growth, credit spreads, liquidity conditions, or macroeconomic volatility (Ang 2014; Ilmanen 2011). Managers with different strategy labels may still share exposure to similar economic drivers if their processes rely on similar market dynamics.

Viewing portfolios through these three layers clarifies the relationship between strategy labels and manager selection. Strategy categories organize portfolios, but understanding the processes and economic drivers operating beneath those categories provides a more complete view of how returns are generated. This perspective improves both manager evaluation and portfolio construction by identifying connections and risk concentrations that may not be visible when portfolios are viewed solely through strategy classifications.

### **5.1 A Process-Oriented Manager Evaluation Framework**

A practical implication of this perspective is that manager evaluation should focus on the processes through which returns are generated. While institutional due diligence already examines many aspects of manager behavior, organizing these evaluations around core process dimensions clarifies how different managers generate risk and return.

A process-oriented framework for manager evaluation can be structured around five key dimensions:

<b>Process Dimension</b>	<b>Key Questions</b>
Opportunity sourcing	How does the manager access differentiated investment opportunities?
Underwriting discipline	How are risks evaluated, and investment decisions structured?
Portfolio construction	How are positions sized and diversified?
Risk management	How are drawdowns, leverage, and liquidity managed?
Organizational structure	How are decisions made and incentives aligned?

## **6. Conclusion: From Strategy Categories to Return Drivers**

Institutional portfolios are organized around asset class and strategy labels that facilitate governance, benchmarking, and communication. These categories play a central role in structuring portfolio decisions and will remain as core features of institutional investment management. However, they describe where capital is allocated, not how returns are generated.

Evidence across asset classes shows substantial dispersion among managers operating within the same strategies. These differences reflect manager-specific factors such as sourcing capability, investment discipline, value creation, portfolio construction, and risk management. While strategy allocation shapes portfolio structure, the processes through which managers deploy capital ultimately determine outcomes.

Recognizing this distinction does not require abandoning asset class frameworks. Strategy labels should be viewed as organizational tools rather than explanations of portfolio behavior. Institutional investors benefit from supplementing strategy-based analysis with a deeper examination of manager processes and the underlying risk exposures those processes create.

A process-aware perspective shifts focus from labels to how returns are generated and risks are managed. This improves manager selection and provides a clearer view of portfolio exposures that may not be visible through strategy classifications alone.

Asset class and strategy labels organize portfolios, but investment processes determine how capital compounds.

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