ROBECO QUANTITATIVE INVESTING

What really drives alpha in active bonds and equities?

ROBECO
The Investment Engineers

- Many active bond and equity funds share similar structural risk exposures.
- In investment grade credit, duration and credit tilts explain much of performance dispersion.
- In high yield and equities, issuer selection and factor tilts play a larger role.

Understanding what drives active investment performance has long been a challenge. While headline returns are often attributed to skill, they may also reflect systematic risk exposures embedded in portfolios.

In two recent research papers, Robeco's Chief Quant Researcher David Blitz examines this question across both fixed income and equity markets. He takes a research-driven perspective on portfolio construction by stepping back and asking: What is driving returns? Is it intentional? Is it proportional to the risks taken?

Drawing on a large dataset of active funds from the eVestment database over the 2015-2024 period, he analyzes how active returns move relative to peers and what underlying factors explain differences in performance.

> *“ What often looks like alpha is simply exposure to common risk factors*

The findings reveal striking similarities across asset classes. While the dynamics differ across segments of the market, in both bonds and equities, active returns show strong co-movement and are often driven by common structural exposures rather than purely independent security selection.

For example, in investment grade credit, systematic tilts toward credit risk and duration explain much of the dispersion in returns. In high yield, by contrast, simply taking more risk does not reliably lead to outperformance. In equities, off-benchmark factor exposures such as size, style and regional tilts play a similar role.

Common risk exposures in credit funds

To examine what drives active credit returns, Blitz constructs a peer-group performance series by taking the average monthly outperformance of all credit managers and then measures how individual funds are exposed to that collective performance. The results show that around 90% of funds exhibit a positive beta to their peers' performance, meaning that when peers outperform, most funds tend to outperform as well. In practice, because these common exposures also drive deviations from the benchmark, they become a major source of tracking error and explain a substantial part of active returns.

ARTICLE APRIL 2026

Marketing material for professional investors, not for onward distribution

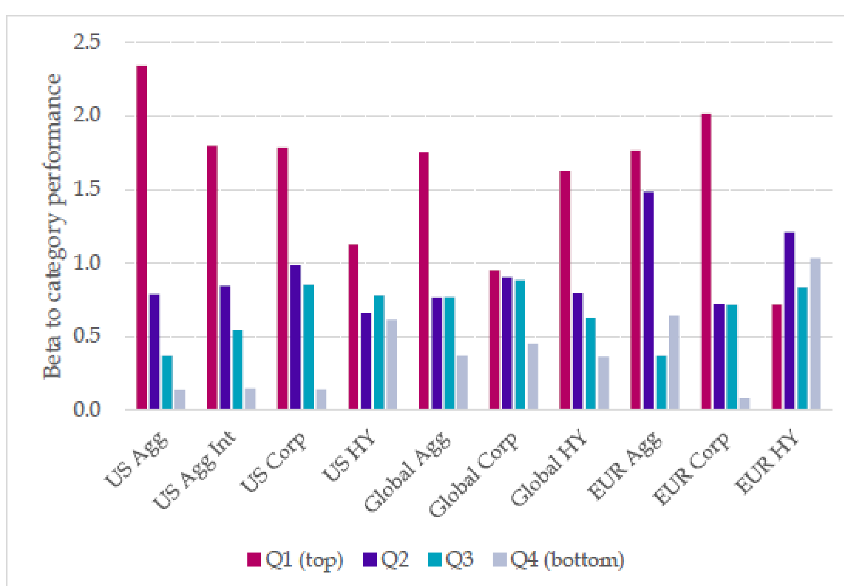
David Blitz
Chief Quant Researcher

Jessica Monkovitch
Investment writer

Further analysis reveals that across US, global and euro bond funds, active returns move together far more than they would if managers were independently selecting bonds. Blitz attributes this co-movement to two common structural positions: running shorter duration than the benchmark and holding more risky, higher-yielding bonds. In practice this often means underweighting government bonds and higher-quality credit, while overweighting lower-quality spread assets.

The result is a clear pattern, as shown in Figure 1. Funds tend to perform well when yields rise, reflecting their shorter duration positioning, and when spreads tighten, reflecting their higher credit exposure. What appears to be alpha, in many cases, is therefore simply beta to credit risk. Blitz estimates that more than half of the cross-sectional differences in fund returns can be explained by these systematic factor tilts alone.

Figure 1 | Median beta to category performance across quartile portfolios, ranked by average active return



Historical analysis is provided for illustrative and informational purposes only. Past performance is no guarantee of future results. Source: eVestment, Robeco, March 2026.

Consequences for investors

Firstly, the findings highlight a lack of diversification across the industry. If many managers adopt similar structural positions – for example by taking on more credit risk – their returns will naturally move together. As a result, comparing managers purely on headline performance can be misleading.

Indeed, when consultants rank asset managers, those appearing in the top quartile often carry the largest credit overweights and the shortest duration positions, while managers sitting lower in the rankings tend to be closer to the benchmark.

For investors, this has important consequences, with proper evaluation requiring adjusting for the risks taken and ensuring like-for-like comparisons. For example, a client may believe they own exposure to the US Aggregate Index, yet the portfolio may in reality resemble US Aggregate minus Treasuries plus additional exposure to BBBs, BBs, CoCos and new issuance.

Thus, performance should not be viewed in isolation. Understanding the underlying risk exposures in portfolios, and assessing returns on a risk-adjusted basis, is essential for meaningful manager comparison and portfolio construction.

High yield: A different dynamic

When it comes to high yield, Blitz finds something of a mirror image. High yield managers tend to shy away from the really 'junky' bonds like CCCs and Cs and focus more on BBs and Bs – sometimes even BBBs. So in a sense, investment grade managers are moving slightly into high yield territory by taking more credit risk, while high yield managers are leaning slightly toward less risk. The benchmarks are cleanly delineated, but in practice it's more blurred.

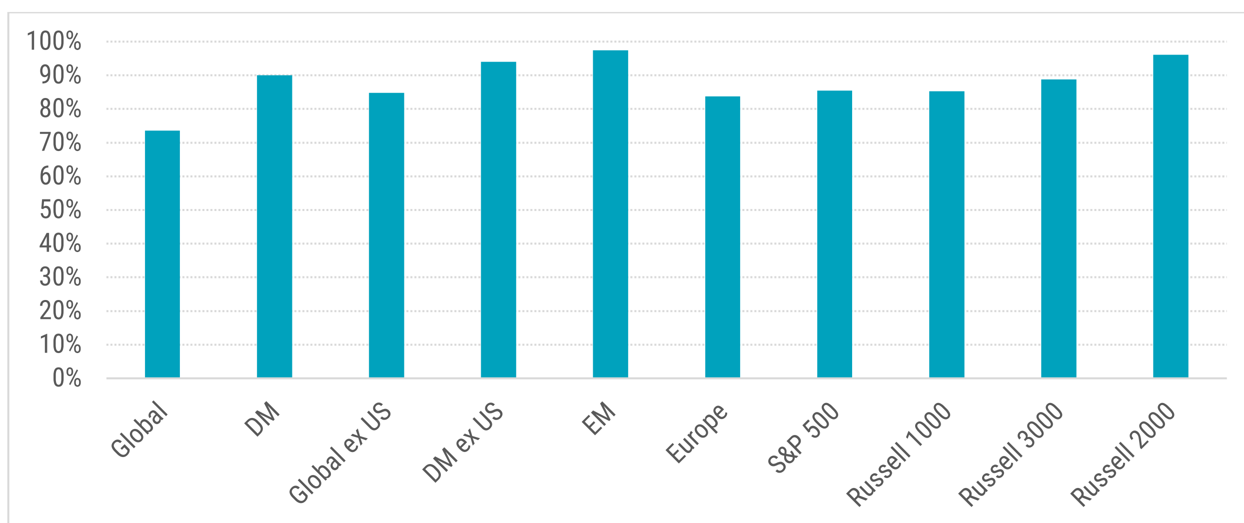
In high yield, returns are less driven by broad market credit exposure and more by issuer selection and risk management. Systematic beta explains far less of the variation in performance than in investment grade, where dispersion is more closely tied to structural credit and duration tilts. Simply put, adding more risk in high yield does not reliably lead to better performance. Instead, performance differences tend to reflect drawdown control, avoiding weaker credits, sector positioning and quality selection.

Patterns in equities

The findings for active equity funds echo the patterns observed in fixed income. Blitz examined active returns across ten major equity categories, including US large cap, developed markets, emerging markets and global mandates. Once again, the results show strong co-movement in active returns.

Up to 90% of equity funds have a positive beta to the average performance of their peers. In other words, when managers in a given category outperform collectively, most individual funds do too, and when peers struggle, the majority struggle together.

Figure 2 | Percentage of funds with a positive beta toward their category performance



Historical analysis is provided for illustrative and informational purposes only. Past performance is no guarantee of future results. Source: eVestment, Robeco, March 2026

Looking more closely, Blitz finds that many equity funds carry structural exposures that differ from their stated benchmarks. In some cases these are off-benchmark positions: large-cap funds tend to hold small-cap stocks, while developed market funds often have some emerging market exposure. Benchmarks may appear cleanly defined, but in practice portfolio positioning is more blurred.

> *"Many active portfolios appear differentiated, but their returns are driven by similar structural exposures.*

At the same time, funds also exhibit common factor tilts within their benchmarks. International funds tend to lean toward growth stocks, while US funds display a stronger value bias. These shared factor tilts explain a significant portion of active return dispersion. High active-risk funds show the strongest exposures to common risk factors, while low active-risk funds exhibit more idiosyncratic behavior.

The implication is similar to that in credit: a substantial part of what appears to be alpha can often be traced back to systematic risk exposures rather than purely independent security selection.

Conclusion

Taken together, the research across both asset classes highlights a consistent message: alpha must be properly understood for active management to have value. Performance should be assessed alongside the risks taken to achieve it: this is essential for fair manager evaluation and meaningful diversification.

For asset owners and manager selectors, this means looking beyond headline returns and decomposing what is truly skill, what is structural beta, and how those exposures interact across portfolios. Only by making those distinctions can investors ensure they are comparing like with like and building portfolios that are genuinely diversified rather than simply overlapping in hidden ways.

Important information – Capital at risk
This information refers only to general information about Robeco Holding B.V. and/or its related, affiliated and subsidiary companies (“Robeco”), Robeco's approach, strategies and capabilities. This is a marketing communication solely intended for professional investors, defined as investors qualifying as professional clients, who have requested to be treated as professional clients or who are authorized to receive such information under any applicable laws. Unless otherwise stated, the data and information reported is sourced from Robeco, is, to the best knowledge of Robeco, accurate at the time of publication and comes without any warranties of any kind. Any opinion expressed is solely Robeco’s opinion, it is not a factual statement, and is subject to change, and in no way constitutes investment advice. This document is intended only to provide an overview of Robeco's approach and strategies. It is not a substitute for a prospectus or any other legal document concerning any specific financial instrument. The data, information, and opinions contained herein do not constitute and, under no circumstances, may be construed as an offer or an invitation or a recommendation to make investments or divestments or a solicitation to buy, sell, hold or subscribe for financial instruments or as financial, legal, tax, or investment research advice or as an invitation or to make any other use of it. All rights relating to the information in this document are and will remain the property of Robeco. This document may not be copied or used with the public. No part of this document may be reproduced or published in any form or by any means without Robeco's prior written permission. Robeco Institutional Asset Management B.V. has a license as manager of UCITS and AIFs of the Netherlands Authority for the Financial Markets in Amsterdam.

Parts of the marketing material may involve the use of AI-assisted tools to support the evaluation and review of marketing materials. These tools are designed to help ensure greater consistency and efficiency. All outcomes are reviewed by human evaluators.

United Kingdom
This information is provided by Robeco Institutional Asset Management UK Limited, 30 Fenchurch Street, Part Level 8, London EC3M 3BD, registered in England no.15362605. Robeco Institutional Asset Management UK Limited is authorised and regulated by the Financial Conduct Authority (FCA – Reference No: 1007814).
Switzerland
Robeco Switzerland Ltd is licensed by the Swiss Financial Market Supervisory Authority FINMA as a manager of collective assets.
Australia
This document is distributed in Australia by Robeco Hong Kong Limited (ARBN 156 512 659) which is exempt from the requirement to hold an Australian financial services license under the Corporations Act 2001 (Cth) pursuant to ASIC Class Order 03/1103. Robeco Hong Kong Limited is regulated by the Securities and Futures Commission under the laws of Hong Kong and those laws may differ from Australian laws.
New Zealand
In New Zealand, this document is only available to “wholesale investors” within the meaning of clause 3(2) of Schedule 1 of the Financial Markets Conduct Act 2013 (‘FMCA’). This document is issued by Robeco Hong Kong Limited which does not have a place of business in New Zealand.
Hong Kong
This document is issued by Robeco Hong Kong Limited, which is regulated by the Hong Kong Securities and Futures Commission (“SFC”). The contents of this document have not been reviewed by the SFC. Investment involves risks. This information does not constitute an offer to sell, a solicitation of an offer to buy, or a recommendation for any security.
Singapore
This information is for informational purposes only and should not be construed as an offer to sell or an invitation to buy any securities or products, nor as investment advice or recommendation. The contents of this document have not been reviewed by the Monetary Authority of Singapore (“MAS”). Robeco Singapore Private Limited holds a capital markets services licence for fund management issued by the MAS and is subject to certain clientele restrictions under such licence. An investment will involve a high degree of risk, and you should consider carefully whether an investment is suitable for you.
US
This document may be distributed in the US by Robeco Institutional Asset Management US, Inc. (“Robeco US”), an investment adviser registered with the US Securities and Exchange Commission (SEC). Such registration should not be interpreted as an endorsement or approval of Robeco US by the SEC. Robeco B.V. is considered “participating affiliate” and some of their employees are “associated persons” of Robeco US as per relevant SEC no-action guidance. Employees identified as associated persons of Robeco US perform activities directly or indirectly related to the investment advisory services provided by Robeco US. In those situations, these individuals are deemed to be acting on behalf of Robeco US. SEC regulations are applicable only to clients, prospects and investors of Robeco US. Robeco US is wholly owned subsidiary of ORIX Corporation Europe N.V. (“ORIX”), a Dutch Investment Management Firm located in Rotterdam, the Netherlands. Robeco US is located at 230 Park Avenue, 33rd floor, New York, NY 10169.

© Q1/2026 Robeco