Invesco

White Paper

Transparency and control – the multi-manager challenge

This marketing communication is for professional investors only.

Authored by

Georg Elsaesser
Senior Portfolio Manager

Sebastian Lehner
Portfolio Management Associate

A generational opportunity to re-think manager line-ups and rebuild core equity portfolios

Many institutional pension investors face a common portfolio-construction challenge: investment decisions have legacy, evolve over time, become complex, expensive to monitor and often difficult to assess at a total-portfolio level.

In a world where scale and consolidation is being driven in a singular direction by global government policies, nowhere is this being most acutely felt than the Local Government Pension Scheme "LGPS" in the UK where we are witnessing one of the largest assets transitions in the UK markets history.

It is important to state that this inherited complexity is not the result of poor intent or weak individual managers, but more-so reflects the natural accumulation of differing mandates over time, manager styles, fee structures, not to mention large shifts in organizational reporting lines.

The real-world consequence of this is that CIO's and key stakeholders then grapple with portfolios that have become more challenging to govern and less differentiated than initially intended.

In this paper, we consider this broad-based institutional challenge through two case studies: first, the well-known analysis of active management in the Norwegian Government Pension Fund Global; and second, an illustrative UK LGPS global equity portfolio example.

The intention is not to single out the LGPS rather recognise that at this pivotal time of consolidation how these portfolios are combined efficiently is more pertinent than ever.

LGPS "pooling" provides a timely and relevant case study of a wider issue facing large institutional investors globally: how to combine scale, governance, implementation discipline and cost-awareness in a way that improves net outcomes and value for money.

Using equity allocations as a starting point, we discuss how intentional, benchmark-aware and risk-controlled implementation can help investors improve transparency, strengthen accountability, target more stable active returns and reduce unnecessary complexity.

Invesco Quantitative Strategies team

The Invesco Quantitative Strategies team combines data, research, and technology to build systematic investment strategies that help investors navigate markets with discipline, controlled risk and transparency.

In many ways the “easy” step is agreeing that assets should be pooled. Real scale creates value only when it is combined with efficient implementation, clear governance, disciplined risk management and accountability for net results.

Background from the UK: Mansion House, the Pensions Investment Review and LGPS pooling reform

The UK policy backdrop is the Government’s Pensions Investment Review and the package of Mansion House reforms announced in November 2024. The Government’s stated objectives were to improve pension outcomes and increase investment in the UK, by addressing their perceived fragmentation and inefficiency of the Local Government Pension Scheme in England and Wales.

For the LGPS, the Government’s Fit for the Future consultation and subsequent response set out a clearer direction of travel for asset pooling, governance and local investment.

The policy does not remove the role of the 86 underlying stakeholder funds entirely, but rather seeks to create a more defined division of responsibilities: That is, administering authorities retain responsibility for setting investment strategy, while the 6 consolidation pools now take responsibility for implementation and principal investment advice.

The Government has confirmed minimum standards for pooling. These include requirements for administering authorities to delegate implementation of their investment strategy to their pool, take principal investment advice from their pool, transfer all investments to pool management, and for pools to be FCA-authorised investment management companies with the expertise and capacity to implement strategies. Pools are also expected to develop capability around local investment due diligence and management.

This agenda reflects a broader belief that scale can support better governance, greater investment capability, improved access to a wider range of assets and stronger cost discipline. However, scale alone is not sufficient. Consolidation can reduce duplication and improve oversight, but it will not automatically solve overlapping exposures, gaps in total-portfolio transparency or benchmark-like outcomes after fees.

The **implementation model** matters as much as the **pooling structure**.

Overall, the reforms should be understood as part of a wider move toward clearer accountability, centralised implementation and stronger governance, rather than as a criticism of the LGPS. The ultimate exam question for all large institutional investors is how to turn scale into better portfolio outcomes?

Defining the task: four interlinked challenges

The UK Government's review of the LGPS is focused on addressing

1. Fragmentation and inefficiency,
2. Unlocking wider investment potential through asset consolidation
3. Enhanced governance/lower fees
4. Strengthening the focus on local investment.

The LGPS in England and Wales comprises 86 administering authorities and is one of the largest funded pension arrangements in the UK. The policy direction is therefore not simply about reducing the number of providers or structures; it is about creating arrangements that can support better implementation, clearer accountability and stronger net outcomes over time.

Many pension investors **do not suffer from poor manager selection** or a **lack of investment ideas. Instead,** they often **face too much implementation complexity.**

Over time, manager line-ups can grow organically, governance and monitoring structures can become layered, and reporting can become harder to interpret at a total-portfolio level. The result can be portfolios that are expensive to run, difficult to monitor and less differentiated than intended.

That challenge has four linked dimensions.

First, transparency can weaken when multiple managers, consultants, fee structures and mandates sit across separate sleeves.

Second, governance demands increase because committees and investment teams must monitor numerous decision-makers rather than one coherent implementation framework.

Third, total costs can drift upwards through management fees, transition costs and duplication of research and trading.

Fourth, outcomes may disappoint when active views offset one another, leaving the total portfolio with limited differentiation from the benchmark after costs.

Before turning to the illustrative UK LGPS equity portfolio example, the first case study summarises some important findings about the structural drivers of active returns for large-scale institutional investors.

Case study A: the structural drivers of active returns

The seminal 2009 study Evaluation of Active Management of the Norwegian Government Pension Fund – Global by Ang, Goetzmann and Schaefer evaluates the active management of the Norwegian Government Pension Fund Global (GPFG) and reaches a set of influential conclusions about the nature of its performance and optimal portfolio design.

The authors find that, while the fund generated slightly positive excess returns over its benchmark, the overall contribution of active management was modest and at times negative, notably during the 2008–2009 crisis. In aggregate, active management played only a relatively small role in explaining the fund's performance over time.

A key insight is that a large share of the apparent outperformance can be explained by systematic factor exposures such as value, size and momentum, rather than true stock-specific alpha.

In other words, what looked like manager skill was, to a significant extent, compensation for taking on well-known factor risk premia. This finding was central and became highly influential in the subsequent rise of factor investing: the systematic design of portfolios with intentional exposures to structurally rewarding investment factors while neutralising potentially unrewarded risks, such as stock-specific idiosyncratic risk.

From a theoretical perspective, the report acknowledges that markets are not perfectly efficient, but it also emphasises that persistent, risk-adjusted alpha from traditional active management is rare. As a result, the case for traditional discretionary active management is more limited for a large, diversified sovereign fund. The implication is to focus on persistent, systematic structural drivers of risk and return, rather than relying primarily on traditional skill-based and typically more concentrated stock-selection approaches. Put differently, core equity allocations may be better served by strategies that seek moderate, more stable excess returns that can compound over time, rather than by shorter-term high-alpha conviction investments.

The main practical recommendation follows directly from these findings: the fund should explicitly incorporate factor premia into its strategic asset allocation, rather than seeking them indirectly through active managers. This implies a shift from a traditional asset-class framework toward a more systematic, factor-based portfolio construction approach.

In summary, the report reframes the GPFG's investment process: returns are largely driven by systematic exposures rather than manager skill. Those exposures should therefore be managed deliberately through strategic allocation to rewarded risk factors, rather than accessed indirectly through costly and uncertain traditional active management.

Case study B: an illustrative LGPS example

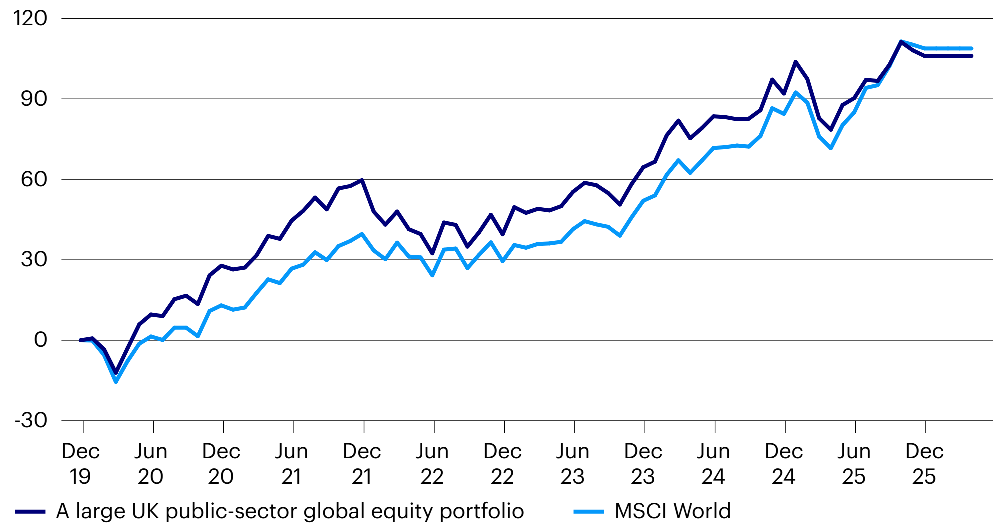
The UK LGPS provides a timely illustration of the broader institutional challenges described above.

The purpose of the example is not to criticise the LGPS, but to highlight a portfolio-construction issue that can arise in any large multi-manager structure.

The example below compares a real-life LGPS global equity portfolio with the MSCI World. Over the past six years, cumulative returns are, at first glance, almost indistinguishable. Despite the intention to generate positive alpha, the active portfolio delivered modest underperformance relative to the benchmark over the period shown.

Past performance does not predict future returns.

Figure 1: Cumulative performance (%)



Source: UK Public Pension Pool, Alpha Portfolio, Holdings Report (Q2 2025).
Data as at 30 April 2026[2].

Past performance does not predict future returns.

Figure 2: Performance overview

Annualised periods through April 2026	QTD	YTD	1 year	3 years	5 years	Since 12/31/2019
A large UK public-sector global equity portfolio	5.63	-1.61	13.54	10.95	7.84	11.80
MSCI World	6.39	4.77	27.47	17.16	12.26	13.16
Excess Return	-0.76	-6.38	-13.94	-6.21	-4.42	-1.36
Tracking Error	2.22	2.08	2.36	2.76	3.26	3.51

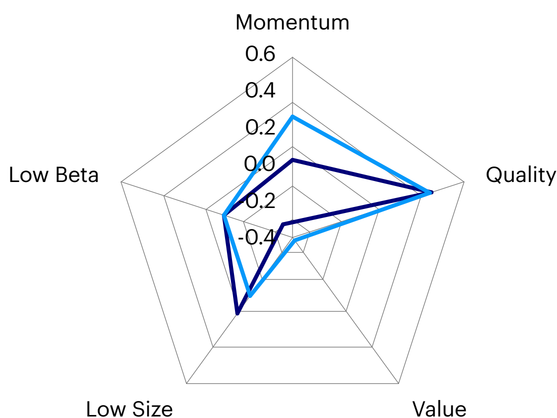
Source: MSCI, MSCI World Index. Data as at 30 April 2026.

A high-level analysis of the portfolio's exposures to well-known structural investment factors suggests that the aggregate factor profile closely aligns with that of the MSCI World, with only modest deviations across momentum, quality, value and volatility characteristics. In other words, the aggregate portfolio appears broadly neutral to negative with respect to the most prominent structural drivers of return.

2. Source: UK Public Pension Pool, Alpha Portfolio, Holdings Report (Q2 2025).
Data as at 30 April 2026.

Figure 3: Chart and tables show a large UK public-sector global equity portfolio vs MSCI World.

Sector weights (%) ■ Portfolio ■ MSCI World



Basic factor characteristics		Portfolio	Benchmark
Market	Beta	1.06	—
Momentum	12-1 Momentum	-3.40%	19.80%
Quality	Return on Equity	31.60%	30.10%
Value	Earnings Yield	5.10%	5.10%
	Cashflow Yield	6.00%	5.60%
	Dividend Yield	1.20%	1.40%

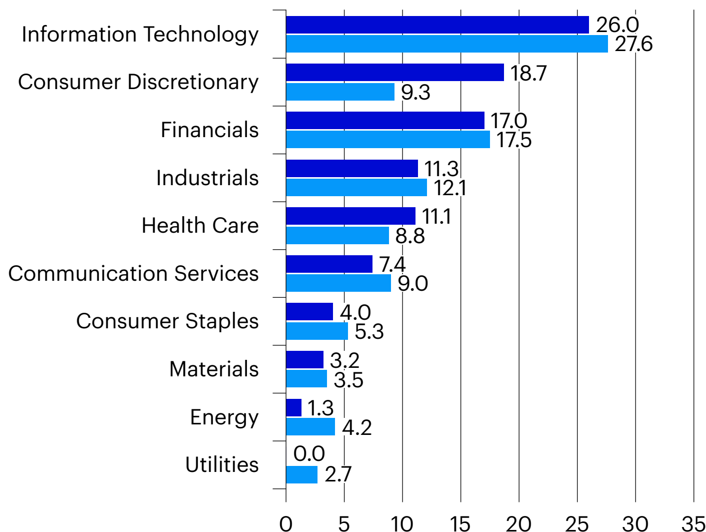
General characteristics	Portfolio	Benchmark
Holdings	159	1,309
Wtd Avg Mkt Cap	$723,063 M	$950,490 M
Annual Turnover	48.50%	—
Active Share	72.70%	—

Source: Invesco as of 30 April 2026.

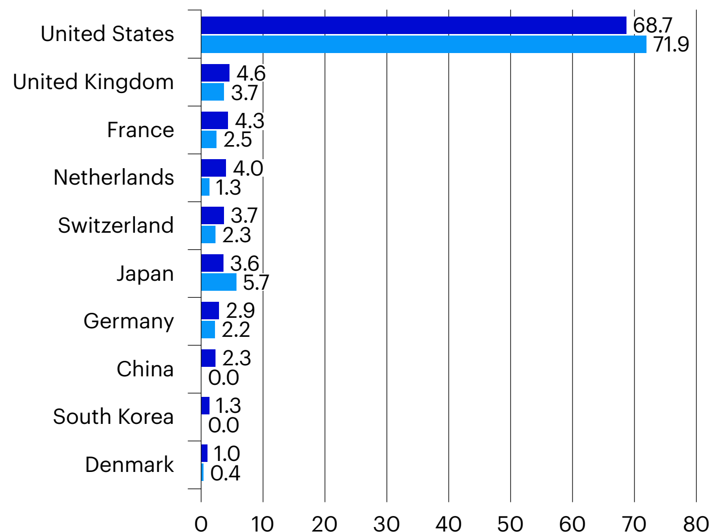
In addition, the results suggest that, despite reasonably high active share – i.e. a genuinely active portfolio – active positions can offset each other at total-portfolio level. Active sector, country and single-stock positions may therefore create aggregate exposures that are not fully intentional, and which may represent risks that are not expected to be structurally rewarded.

Figure 4: Charts show a large UK public-sector global equity portfolio vs MSCI World.

Sector weights (%) ■ Portfolio ■ Benchmark



Country weights (%) ■ Portfolio ■ Benchmark

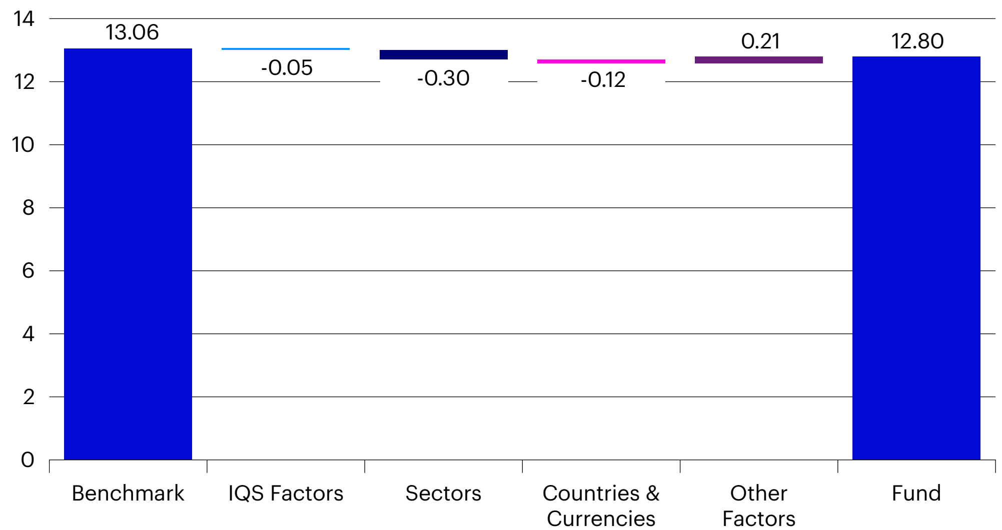


Source: Invesco as of 30 April 2026.

The attribution below is consistent with the exposure analysis above. It indicates that, in the absence of intentional factor exposures, factor control is limited and the portfolio does not benefit meaningfully from factor contributions to active returns. Intentional active positions within individual investment strategies do not translate into positive aggregate investment results in this example.

The portfolio remains highly benchmark-like in both risk and return terms, even though it is implemented through multiple active decisions and is genuinely active at the underlying mandate level. It also incurs meaningful management and governance costs.

Figure 5: Portfolio vs. Benchmark (%)



Source: Invesco as of 30 April 2026.

This illustrates a common challenge in multi-manager structures: meaningful active risk can be taken, governance and monitoring can become more demanding, active fees can be incurred, and yet the combined outcome may offer limited differentiation from the benchmark once viewed through a total-portfolio lens.

The lesson is not simply that assets should be pooled. The key lesson is that scale creates value only when supported by efficient implementation, risk-controlled investment strategies, intentional exposures, cost-awareness and clear accountability.

This is consistent with the findings from the Norwegian Government Pension Fund Global described above. In that sense, the LGPS example should be read as one illustration of a broader challenge in large-scale institutional investing, rather than as a niche UK policy issue.

From manager selection to total-portfolio construction

A common challenge for multi-manager structures is that they can look diversified at manager level but remain relatively undifferentiated at total-fund level.

One manager may overweight value-related stocks while another underweights them; one may add quality exposure while another neutralises it elsewhere. Investors can therefore pay for many active decisions while the aggregate portfolio still ends up close to the benchmark.

This does not mean that individual active managers lack skill. Many are highly capable and may have a clear role within a portfolio. The issue is whether the combined set of mandates creates intentional total-portfolio exposures that are capable of delivering better net returns with credible risk control and effective governance oversight.
If a structure delivers broadly index-like performance, or less, after fees, then the implementation model may not be efficient even if each individual mandate has a plausible investment rationale.

Consolidation is an important part of the answer because it can reduce duplication, improve buying power, support economies of scale, strengthen governance and make reporting more comparable. However, consolidation cannot solve the core problem if the underlying implementation remains a collection of overlapping active mandates. A larger structure can still be expensive, hard to supervise and un-differentiated if total-portfolio exposures are not managed deliberately.

For consolidation to translate into better investment outcomes, investors need an implementation model that makes total portfolios easier to understand, manage and control. That means fewer moving parts, more efficient risk management, and a more deliberate approach to intentional active exposures that are expected to be rewarded over the long term.

Intentional, targeted core equity strategies

In recent years, the trend toward more risk-controlled strategies in core equity allocations has intensified. A governing principle is the more efficient use of active risk, with a stronger focus on information ratios: active returns relative to active benchmark-deviation risk. This can lead to more intentional factor exposures while also freeing risk budgets elsewhere in the asset allocation, including for areas where investors may wish to allocate more capital to private markets or other less liquid assets.

In practice, risk-controlled, benchmark-aware and targeted factor exposures are typically implemented through active systematic multi-factor strategies with limited active risk, measured by tracking error.

Conceptually, these strategies offer a sweet spot between passive-like risk characteristics – low tracking error and strict risk control – and moderately positive active return expectations with the potential to compound over time. Such portfolios are typically broadly diversified, benchmark-aware, highly scalable and efficient to trade, with low transaction costs. They implement transparent, rules-based processes that explicitly tilt portfolios toward rewarded factor characteristics such as value, quality and momentum, while neutralising and diversifying stock-specific risk and traditional unintended bets.

The overarching objectives of systematic multi-factor strategies with low tracking error are control and transparency. Control includes governance, risk management, targeted exposures, monitoring, reporting and costs. Transparency comes from the application of proven, intuitive investment factors, the reduction of non-transparent investment decisions, precise return and risk attribution, exposure-based rather than purely skill-based investment processes, and an investment philosophy that is easier to communicate.

Conclusion: Fragmentation to control. Improving outcomes through transparency and implementation discipline

For the LGPS and institutional investors, whether in the UK or elsewhere, the appeal of systematic multi-factor strategies can go well beyond lower headline fees. The combination of control and transparency: consistent, targeted implementation, strong risk control and improved governance are really where they can come into their own.

Systematic, index-aware strategies can help increase investment efficiency by potentially creating allocations with greater structure, reducing manager overlap, improving the use of risk budgets and preserving broad market participation while (importantly) targeting active outperformance over time.

In practical terms, this means moving from a model of dispersed accountability to one of deliberate portfolio construction. Investors have an opportunity to target explicit return and risk objectives through structured, cost-efficient investments, exercise tighter control of active exposures, and shift governance from a manager-by-manager focus toward intentional total-portfolio management.

For the LGPS at its current inflection point, this presents a generational opportunity to move from fragmentation to control.

Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

Important information

This marketing communication is exclusively for use by professional investors in Continental Europe as defined below, and Professional Clients in Ireland. It is not intended for and should not be distributed to the public.

All information is provided as at 30 April 2026, sourced from Invesco unless otherwise stated.

For the distribution of this communication, Continental Europe is defined as Austria, Belgium, Denmark, Finland, France, Germany, Italy, Liechtenstein, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland.

This is marketing material and not financial advice. It is not intended as a recommendation to buy or sell any particular asset class, security or strategy. Regulatory requirements that require impartiality of investment/ investment strategy recommendations are therefore not applicable nor are any prohibitions to trade before publication.

Views and opinions are based on current market conditions and are subject to change.

By accepting this material, you consent to communicate with us in English, unless you inform us otherwise.

Issued by Invesco Management S.A., President Building, 37A Avenue JF Kennedy, L-1855 Luxembourg, regulated by the Commission de Surveillance du Secteur Financier, Luxembourg, Invesco Asset Management (Schweiz) AG, Talacker 34, 8001 Zurich, Switzerland, Invesco Asset Management Limited, Perpetual Park, Perpetual Park Drive, Henley-on-Thames, Oxfordshire RG9 1HH, UK. Authorised and regulated by the Financial Conduct Authority