THREE HORIZONS CAPITAL · RESEARCH

Diversified by Name. Concentrated by Exposure.

Allocators often read a long list of managers as a well-diversified roster. We mapped 265 global equity funds by what their returns show they hold. 166 of them, from 72 manager firms and holding 86.5% of the money, sit in one place. Ninety of those 166 are sold as active.

166 of 265

Funds in one factor-exposure cluster, run by 72 different manager firms and holding 86.5% of the assets analysed

79%

Share of funds whose closest factor neighbour is run by a different manager firm

82% and 84%

How much of the weekly return a fixed blend of five ETFs explains for the core's active-labelled funds and its index trackers

THE FINDING IN ONE LINE

In a large, widely held global equity category, the number of manager names on a roster overstates its diversification: most of the money sits in one exposure, and an active label does not show whether a fund sits inside it.

Three Horizons Capital, Portfolio Analytics. Morningstar Global Large-Cap Blend Equity category, EUR-denominated Irish and Luxembourg UCITS funds; weekly returns 3 July 2023 to 2 October 2026.

01 A long list of managers is not the same as a diversified roster

A roster of twenty, forty or sixty global equity funds is usually read as twenty, forty or sixty independent views of the market. That reading holds only if the managers actually hold different things. It is rarely tested at the level of the whole roster, because testing it means comparing what each fund's returns show it holds, across every manager at once, rather than reading labels and factsheets.

We ran that test on one category: Morningstar Global Large-Cap Blend Equity, restricted to EUR-denominated UCITS funds domiciled in Ireland and Luxembourg. It is large, with 511 funds from 189 manager firms in the live snapshot. It is central to institutional portfolios. And it is the category where the charge of closet indexing comes up most often. The question was narrow and testable: put funds from different firms into one common factor space, built from their own realised returns, and count how many land in the same place.

02 How we tested it

We kept the 265 funds with a complete, comparable weekly return history over 170 weeks, from 3 July 2023 to 2 October 2026, and ran two linked tests.

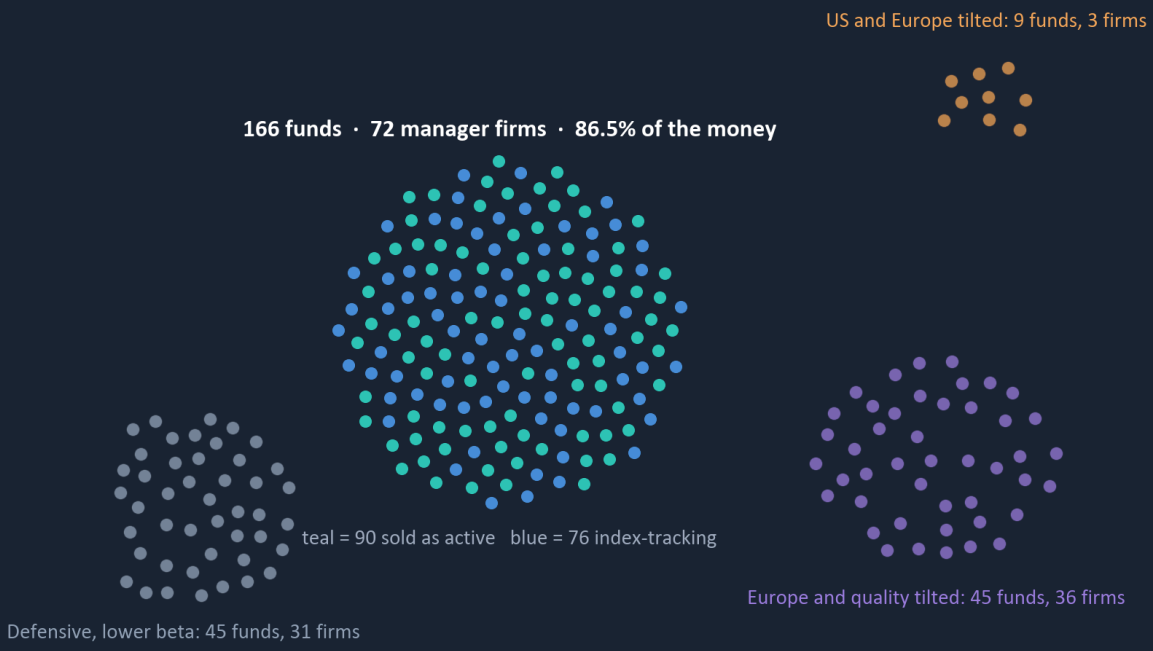
- **Test one: find the factors, then group the funds.** Rather than assume a factor model, we let the data choose one. We screened a menu of 67 liquid ETFs covering regions, sectors, styles and themes, and kept the factors that repeatedly separate this category's funds. Five cleared the bar: global market, momentum, wide-moat quality, US market and Europe. Each fund's exposure to those five is its fingerprint. We grouped the 265 fingerprints, and the best-separated solution has four groups. Separately, for every fund we found its closest neighbour run by a different manager firm.
- **Test two: try to rebuild each group from five ETFs.** Sitting in the same place in factor space does not prove an investor could have bought the same return off the shelf. So for each group we fitted a fixed blend of the five factor ETFs to the group's equal-weighted weekly return, set once and never rebalanced over the 170 weeks, and measured how closely it tracked.

03 One cluster holds most of the funds and most of the money

The four groups are very different in size. Three make distinct bets. The fourth, the global-market core, holds 166 of the 265 funds, run by 72 different manager firms, with about €969bn of the €1,120bn analysed: 86.5% of the money.

166 of 265 funds from 72 manager firms sit in one place in factor space

Each dot is one fund, grouped by its factor-exposure cluster. Group sizes are exact; positions are schematic.



Source: 3HC portfolio analytics; 265 EUR-denominated Irish and Luxembourg UCITS funds, weekly returns 3 Jul 2023 to 2 Oct 2026.

Each dot is one fund. Group sizes are exact; positions within the picture are schematic, drawn to show grouping rather than distance.

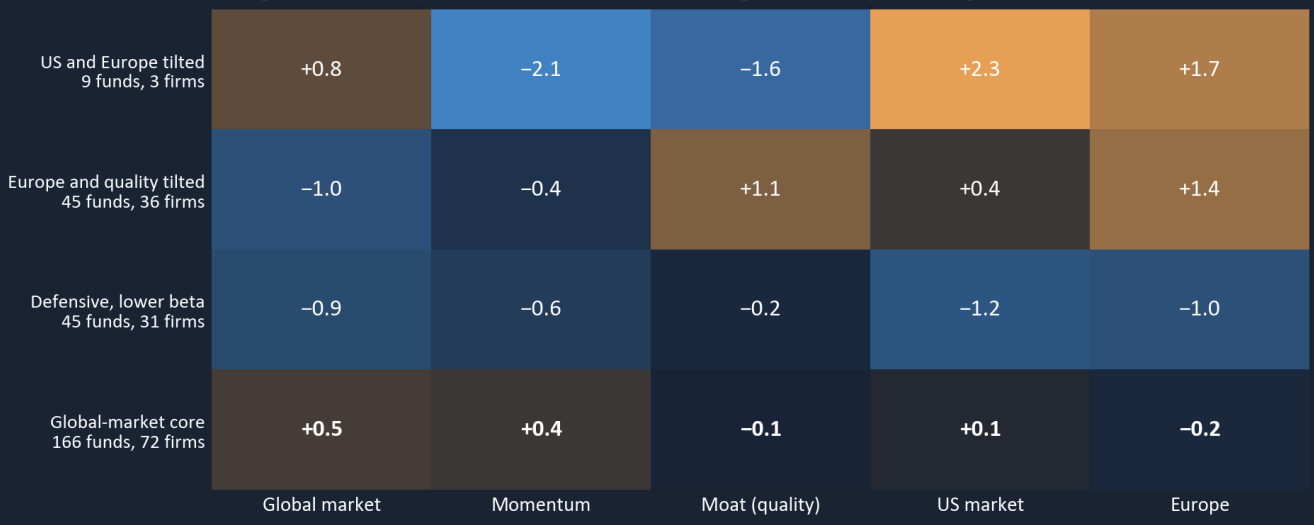
GROUP	FUNDS	MANAGER FIRMS	LABELLED INDEX FUNDS	HOW IT LEANS
US and Europe tilted	9	3	89%	Long US and Europe, short momentum and quality
Europe and quality tilted	45	36	16%	Long Europe and wide-moat quality
Defensive, lower beta	45	31	2%	Below the panel on market, US and Europe
Global-market core	166	72	46%	Close to the market on every factor

Manager firms are counted as distinct legal management entities. Source: 3HC portfolio analytics.

The fingerprints show why the core reads as one exposure. Its average tilt is no more than half a standard deviation from the panel on any of the five factors, while the other three groups lean hard in their own directions.

Three groups make distinct bets; the core sits close to the market on every factor

Average standardised exposure to each discovered factor; orange = above the panel average, blue = below



Source: 3HC portfolio analytics; 265 EUR-denominated Irish and Luxembourg UCITS funds, weekly returns 3 Jul 2023 to 2 Oct 2026.

04 A fund's nearest twin is usually at another firm

For 79% of the 265 funds, the closest fund in factor space is run by a different manager firm. The overlap runs across firms, which is where a roster expects diversification to come from, not only within one firm's range.

The 14 closest cross-firm pairs sit between 0.013 and 0.086 apart in standardised factor space. For scale, the median distance between any two funds in the panel is well above 1.0. Most of those pairs are two world-index trackers from two providers, which is what you would expect. The pair worth noticing is an ETF sold under an active label, as a research-enhanced index strategy, sitting 0.076 from a plain world-index tracker: closer than the typical pair of funds by more than ten times.

05 The active label does not move a fund out of the core

The core is not just index funds. Only 45.8% of its 166 funds are labelled as index trackers. The other 90, with €124bn of assets across 60 distinct manager firms, are sold as active strategies, at a median active fee of 0.89%. On their factor fingerprint they are statistically inseparable from the index trackers next to them.

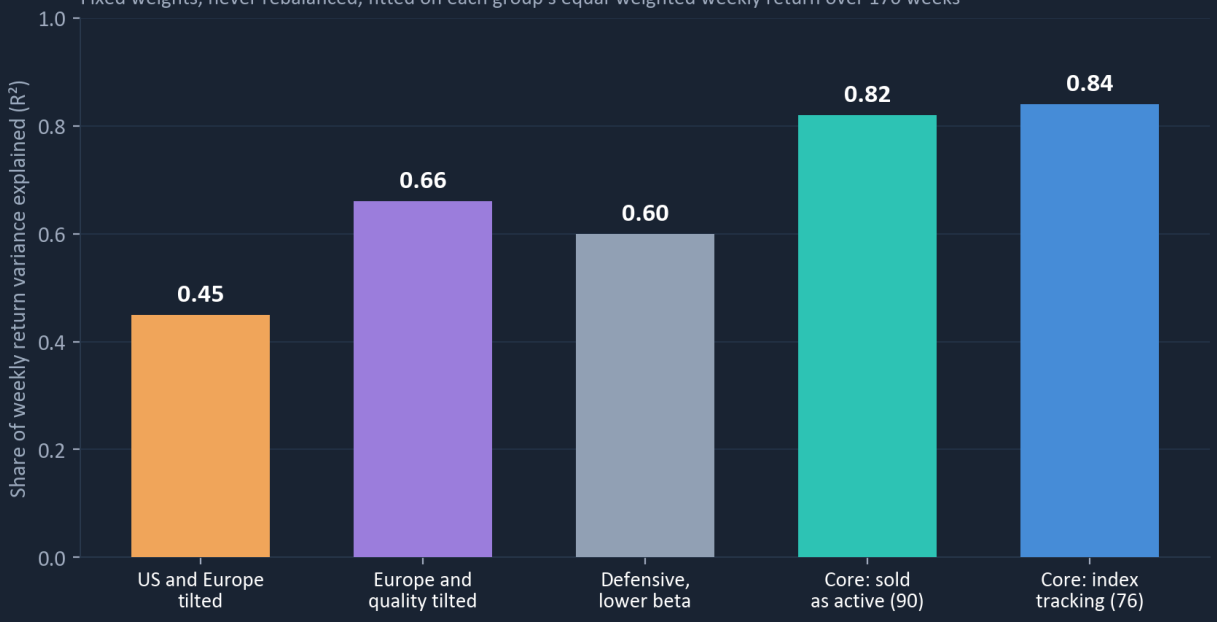
> **WHAT THIS MEANS FOR A ROSTER**
>
> An allocator who spreads a global equity allocation across 60 active brands in this core is, in factor terms, holding one exposure many times over, and paying an active fee on each.

06 Five ETFs explain active and index funds in the core equally well

The second test asks whether that shared fingerprint is also a shared return stream. A fixed blend of five ETFs, never rebalanced, explains 82.3% of the weekly return variance of the core's 90 active-labelled funds, and 83.6% for its 76 index trackers. Correlation is 0.91 for both, and tracking error is 5.3% a year for both.

The same five-ETF blend explains active and index funds in the core equally well

Fixed weights, never rebalanced, fitted on each group's equal-weighted weekly return over 170 weeks



Source: 3HC portfolio analytics; 265 EUR-denominated Irish and Luxembourg UCITS funds, weekly returns 3 Jul 2023 to 2 Oct 2026.

GROUP	FUNDS	R²	CORRELATION	TRACKING ERROR, A YEAR	CUMULATIVE RETURN: ACTUAL VS FIVE-ETF BLEND
US and Europe tilted	9	0.45	0.67	12.3%	58.0% vs 61.9%
Europe and quality tilted	45	0.66	0.81	5.7%	30.9% vs 31.6%
Defensive, lower beta	45	0.60	0.78	6.9%	53.0% vs 54.2%
Global-market core, all	166	0.83	0.91	5.2%	59.5% vs 60.2%
Core, sold as active	90	0.82	0.91	5.3%	55.3% vs 56.0%
Core, index tracking	76	0.84	0.91	5.3%	64.6% vs 65.4%

Equal-weighted weekly group returns, 3 July 2023 to 2 October 2026; blend weights fitted once over the full window. Source: 3HC portfolio analytics.

The active-labelled group and the index group did not return the same: 55.3% against 64.6% over the window. The point is that the same simple blend reproduces each of them almost exactly, at 56.0% and 65.4%. The active label does not change how replicable the return stream is. The three groups outside the core are visibly harder to rebuild, which is what a genuinely different exposure looks like.

The result is not an artefact of one sampling choice. Re-run on monthly returns, the blend explains 0.846 of the active group's variance and 0.860 of the index group's, with correlations of 0.920 and 0.927. A rebuild of the clusters under a different data-cleaning rule returned the same 166 funds, 72 firms and €968.8bn.

07 What this does and does not show

This is not a finding that active management adds no value, or that every active fund in this category tracks the index. Three of the four groups, 99 funds, make clearly differentiated bets, and 76 of the 166 funds in the core openly say they track an index. The finding is narrower and more useful: manager count and brand variety are not a reliable measure of exposure diversification, and the gap is large and concentrated in the biggest funds.

The method has limits we state plainly. It reads exposure from returns, not from disclosed holdings. The five factors are the ones that separate this category over this window; another category or period could surface different ones. Only funds with a full 170-week history are included, which tilts the panel toward older and larger funds, and only EUR share classes domiciled in Ireland and Luxembourg, which understates overlap across borders. The five-ETF blends are fitted and judged on the same window and never rebalanced, so they show how replicable each group was, not a live backtest. Four groups is the best-separated grouping, not the only defensible one.

08 What changes for a roster, and for a manager

For an allocator building or reviewing a global equity roster:

- **Compare fingerprints before counting names.** Run a factor-fingerprint comparison across the roster before using manager count as the diversification argument.
- **Make the replication test the bar.** Where two funds sit within noise distance of each other, ask whether the one charging an active fee is earning it over an investable five-ETF alternative.
- **Treat an active label as a marketing fact, not a risk fact.** On its own it says nothing about whether a fund's exposure differs from its neighbours'.

For a manager selling into that roster, the same test is coming from the buyer's side. The funds that win the next allocation review will be the ones that can show, in the allocator's own terms, where their fingerprint sits and why it is worth its fee. A fund in the core can make that case on cost and implementation. A fund outside it can make it on difference. Either case is stronger made with the evidence than without it.

09 What we measured

- **Universe:** Morningstar Global Large-Cap Blend Equity category, EUR-denominated UCITS funds domiciled in Ireland and Luxembourg; 511 funds from 189 manager firms in the live snapshot, of which 265 had a complete weekly return history from 3 July 2023 to 2 October 2026 (170 weeks).
- **Test one:** factors discovered by stability-selection LASSO over a menu of 67 ETFs; five factors kept (global market, momentum, wide-moat quality, US market, Europe). Fund-by-fund exposures form each fingerprint. Ward hierarchical clustering, with four groups chosen as the best-separated (silhouette) solution. Nearest neighbour run by a different firm found in standardised five-factor space.
- **Test two:** each group's equal-weighted weekly return regressed on the five factor ETFs' weekly returns (ordinary least squares, fixed weights, never rebalanced) over the full window; robustness re-run on monthly returns. Proxy ETF returns are before their own expense ratios, which are below 10bp, and before any trading cost.
- **Manager firms:** counted as distinct legal management entities. A group that manages funds through two legal entities is counted twice, so a manager-brand view would show a somewhat smaller firm count.
- **Assets, fees and labels:** each fund's most recent record, dated 20 October 2026 for 245 of the 265 funds and no earlier than 22 September 2026 for the rest.
- Past fund and factor behaviour is not indicative of future results. This paper is research, not investment advice, and is not a recommendation to buy or sell any fund.

IF THIS IS USEFUL

This read joins fund returns, a factor model discovered from 67 ETFs and fund-level assets, fees and labels on one platform. If you allocate across global equity managers, or run a global equity fund and want to show buyers where your fingerprint sits, talk to us at threehorizonscapital.com.