

**FOR IMMEDIATE RELEASE**

Contact:

Chip Bergstrom  
Buttonwood Communications Group  
617-784-6145

**“Rethinking Survivorship Bias” Paper Finds Current Methodologies  
Distort Assessment of Active Managers’ Skill**

Washington, D.C. – July 30, 2020 – Survivorship bias adjustments introduce biases of their own and can distort the assessment of manager skill, concludes a new white paper, **Rethinking Survivorship Bias in Active/Passive Comparisons**, from the Investment Adviser Association’s Active Managers Council (AMC). The study illustrates the limitations of survivorship bias adjustments, when used to assess active manager skill and suggests investors reconsider their methodologies to achieve a more accurate assessment of that skill.

Adjusting for survivorship bias has been standard practice in the evaluation of fund performance for the past 30 years. These adjustments aim to reduce the risk that average performance of both mutual funds and hedge funds is overstated because the returns of now defunct – but likely underperforming – funds have been excluded from the calculation. However, in recent years, researchers have pointed out that survivorship bias adjustments may go too far in the other direction and result in an assessment of manager skill that is too negative.

A central insight of the analysis is that the survivorship of passive funds is not significantly different from the survivorship of active funds. This data calls into question the assumption that active funds are closed solely because of a lack of manager skill.

“As the paper demonstrates, survivorship bias adjustments can present a distorted view of active manager skill, yet they are routinely used in broad comparisons of active managers against passive benchmarks such as the Morningstar Active/Passive Barometer or the SPIVA scorecards,” noted IAA President and CEO, Karen Barr. “Investors need to be aware of the limitations of these adjustments in order to make an accurate assessment of actively managed funds.”

To review the paper, [Rethinking Survivorship Bias in Active/Passive Comparisons](#), or learn more about active management, please visit [www.activemanagers.com](http://www.activemanagers.com).

**About the IAA**

The Investment Adviser Association (IAA) is the leading trade association representing the interests of SEC-registered investment adviser firms. The IAA’s more than 650 investment adviser member firms collectively manage assets in excess of \$25 trillion for a wide variety of institutional and individual

investors. For more information, visit [www.investmentadviser.org](http://www.investmentadviser.org) or follow us on [Twitter](#), [LinkedIn](#), and [YouTube](#).

#### **About the AMC**

The IAA formed the Active Managers Council to support education and research on the value of active management for investors and the capital markets and to engage on relevant public policy issues. For more information, visit [www.activemanagers.com](http://www.activemanagers.com) or follow us on [Twitter](#), [LinkedIn](#) and [YouTube](#).