THE SCANNER

Built by investors for investors

Luck isn't always a good thing!

Every fund fact sheet tells the same flattering story: a rising line, a market-beating CAGR, a manager's photograph and a paragraph about "conviction" and "process." What it may not tell you is whether that outperformance came from genuine investment skill, or from a few lucky bets that could just as easily have gone the other way. Separating the two is one of the oldest and hardest problems in investment management. This matters enormously for anyone selecting where to park long-term capital, especially against a shapeshifting environment that is engendering unprecedented investment opportunities while witnessing heightened volatility.

What the research says

The academic literature has wrestled with this for decades. Eugene Fama and Kenneth French's influential 2010 study used bootstrap simulations to strip out the effect of chance from the cross-section of US mutual fund returns, and found that the aggregate portfolio of actively managed funds looked close to the market portfolio before costs, with evidence of superior and inferior performance visible only in the extreme tails of the distribution once costs were added back.

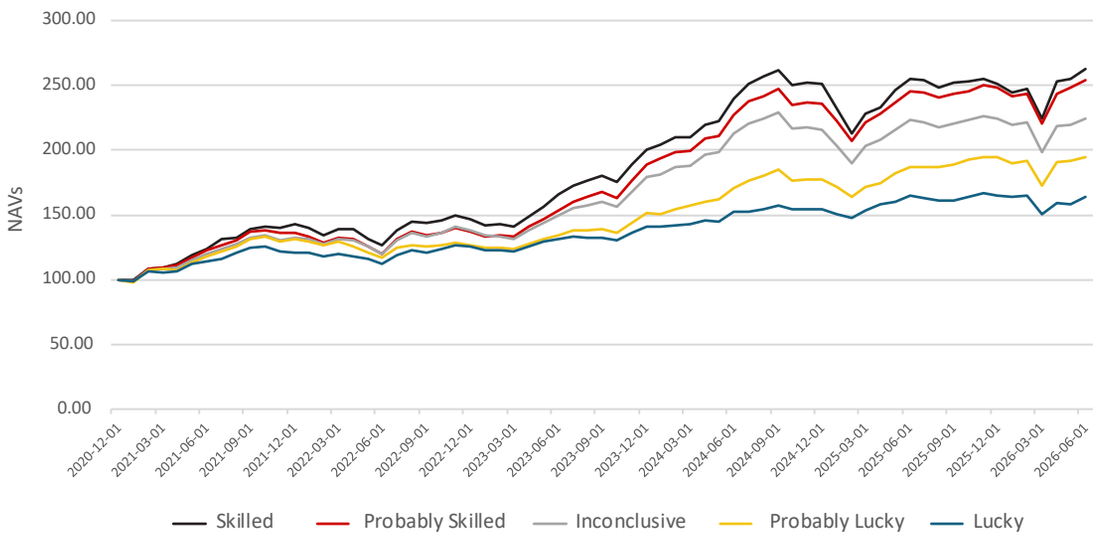
The consistent thread across this research: with hundreds of funds running, some will look brilliant purely by chance, while some will be truly skilful. Research powered by relevant statistical techniques can tell the two apart.

From theory to practice: the Multi-Act quant model

This is precisely the gap the Multi-Act quant model is built to bridge.. Rather than judging a fund manager on a single CAGR number, it buckets fund managers into five statistically-derived tiers:

In its most simplistic format, these buckets are based on how consistently and significantly their returns beat what chance alone would produce. And the risk/return profile of the funds in each bucket can be fairly telling.

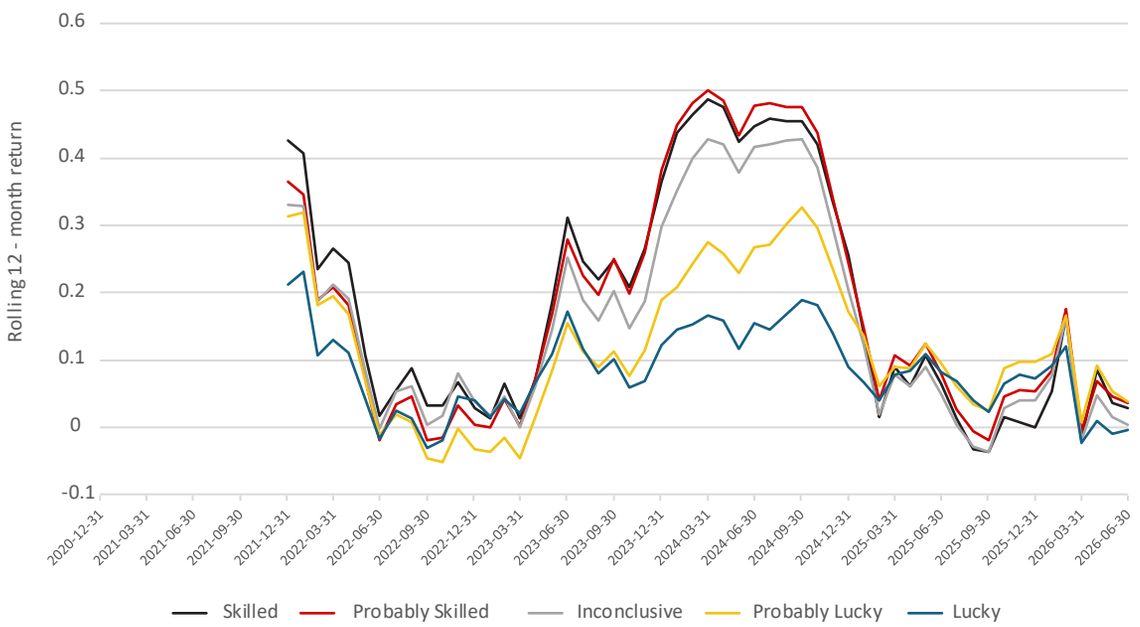
Exhibit : Cumulative performance



The cumulative performance chart tracks INR 100 invested across the full period, rebalanced into each new classification as it's re-cut over time. It shows the skilled cohort steadily pulling away from the rest, particularly from 2023 onward. The Skilled fund managers compounded at +19.21% versus +9.42% for Lucky, ending at INR 164 versus INR 263 for INR 100 invested in December 2020, nearly doubling the end value. However, it is important to highlight that this outperformance carried somewhat higher volatility and drawdown, a reminder that skill isn't free of risk.

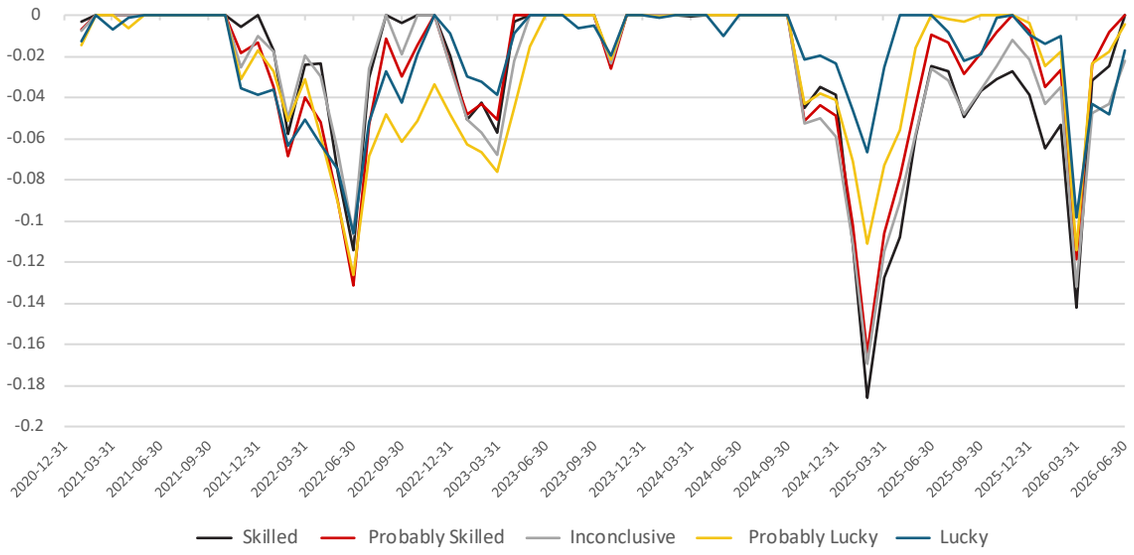
One caveat: the Lucky basket had only three funds at the December 2020 cut, and no funds at later cuts, so the series effectively continued to hold those original three funds.

Exhibit : Rolling 12-month return



The rolling 12-month return chart tests whether that gap is a durable pattern or an artefact of a few strong quarters. In this case, the skilled and lucky lines diverge and converge repeatedly, but the skilled cohort's peaks are consistently higher across multiple distinct episodes, which is the kind of persistence a lucky run is unlikely to produce.

Exhibit : Drawdown from peak



Finally, drawdown data shows each group's decline from its own peak; interestingly, Skilled funds show the deepest single drawdown at about -18%. We know from other research, that the past 2 years, from September 2024 to 2026, have been particularly hard on quality section of the market, with the wide market itself being flat. The deeper drawdowns by the skilful funds underline that the classification measures return persistence, and not necessarily smoothness, and they are not independent of market movements.

Q&A

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What statistical test and confidence threshold does the model use to draw the line between "probably" and "skilled or lucky"?

If a fund's actual t-alpha is higher than that of portfolios generated purely by luck, it provides evidence that the manager's performance may reflect skill rather than chance. A higher t-alpha means greater confidence in the result—not necessarily greater skill.

How stable is a fund's classification over time? Do managers migrate between tiers, and how often?

The transition probability matrix below shows how funds in each basket moved over a six-month period.

	Skilled	Prob. Skilled	Inconclusive	Prob. Lucky	Lucky	Exited
Skilled	50%	12%	19%	0%	0%	19%
Prob. Skilled	25%	0%	67%	0%	0%	8%
Inconclusive	5%	4%	77%	4%	0%	10%
Prob. Lucky	0%	0%	62%	23%	0%	15%
Lucky	0%	0%	33%	33%	0%	33%
New entrant	8%	5%	79%	8%	0%	0%

Skilled funds showed relatively strong persistence, with 50% retaining their classification, while 31% moved to Inconclusive and 19% Exited; notably, none moved into the Lucky categories. Inconclusive funds were the most stable, with 77% remaining in the same basket, while 9% moved to Skilled and 8% to Lucky. Lucky funds showed considerably less persistence, with 62% moving to Inconclusive, 23% remaining Lucky, and 15% exiting.

Overall, the results suggest that evidence of skill tends to be more persistent than evidence of luck, while luck-driven performance often fades into the Inconclusive category.

Do funds classified as "Skilled" today continue to outperform going forward, or does the edge decay?

Under our continuous strategy, where the portfolio holds only Skilled or Lucky funds and is refreshed regularly, the rolling 12-month return exhibit shows Skilled funds generally outperforming Lucky funds over the period from December 2020 to June 2026, with periods of underperformance during 2025.

Assume we adopt a buy-and-hold approach, where Skilled funds are bought and never refreshed. In this case, the average excess returns of Skilled over Lucky funds increases from 4.67% in year 1 to a peak of 10.97% in year 2, and then fades to 4.22%, 2.56%, and -1.11% in years 3, 4, and 5, respectively. However, buying all Skilled funds in their first qualifying year and holding them indefinitely is not a logical portfolio approach.

Statutory Disclosure and Disclaimer:

Statutory Details: Multi-Act Trade and Investments Private Limited ("MATI") (SEBI Registered Investment Adviser – Registration No. INA000008589 and BASL Membership ID:- 1398)

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