RESEARCH NOTE

Emerging Managers should be a portfolio function, not just a manager category.

A research-informed thesis on private-markets portfolio architecture.

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Emerging Managers should be a portfolio function, not just a manager category.

VeraDaniel & Company · September 2026

Institutional private-markets portfolios generally know what they want from established general partners.

Scale. Continuity across vintages. Proven investment processes. Organizational durability. The ability to deploy meaningful amounts of capital with comparatively greater confidence in execution. Established managers are an important part of the core of any institutional private-markets program, and that is appropriate.

Recent research on emerging managers raises a different question. If established managers already perform that function, should emerging managers simply be asked to do the same job?

> *We are increasingly unconvinced that they should.*

The thesis of this note is that emerging managers should be considered as a distinct functional sleeve within an institution's private-markets portfolio, with their own mandate, risk budget, portfolio-construction framework, and performance objectives. Not because emerging managers deserve a different investment standard, but because they may serve a different investment function.

RESEARCH FINDING 01

Access changes outcomes.

Sensoy, Wang & Weisbach · Journal of Financial Economics (2014)

The first piece was a 2014 study by Sensoy, Wang and Weisbach. They examined 14,380 LP investments across 1,250 buyout and venture funds and revisited the historical outperformance of university endowments in private markets.

14,380
LP INVESTMENTS

1,250
FUNDS

Their finding was important: the earlier endowment advantage was driven substantially by greater access to top-performing venture-capital partnerships, rather than simply superior manager-selection ability. When that access advantage diminished, so did the performance advantage.

> *Private-market outcomes depend partly on the quality of the opportunity set an institution can actually access.*

The distinction is consequential. Private markets are not public markets, and the theoretical universe of attractive funds and the universe actually available to an LP are not necessarily the same.

Source: Sensoy, Wang & Weisbach, Limited Partner Performance and the Maturing of the Private Equity Industry, Journal of Financial Economics (2014).

RESEARCH FINDING 02

Incumbent capacity is finite.

Goyal, Wahal & Yavuz · Journal of Financial Economics (2026)

The second piece was the 2026 Journal of Financial Economics paper by Goyal, Wahal and Yavuz, Picking Partners: Manager Selection in Private Markets. Their study analyzes more than 61,000 institutional commitments and finds that LPs are surprisingly willing to invest with first-time and young managers.

But those selections did not subsequently generate superior returns on average. That is an important warning.

Institutional investors have not demonstrated that simply allocating to first-time or young managers, even managers selected through their own investment processes, reliably produces excess returns.

> *But the same paper also offers an important explanation for why institutions continue to fund them. The authors' preferred explanation is that institutional demand for private-market exposure is not fully satisfied by incumbent managers. High-quality established-manager capacity is finite. New and young managers therefore serve an important market function even before we make any claims about outperformance: they expand the feasible private-market opportunity set.*

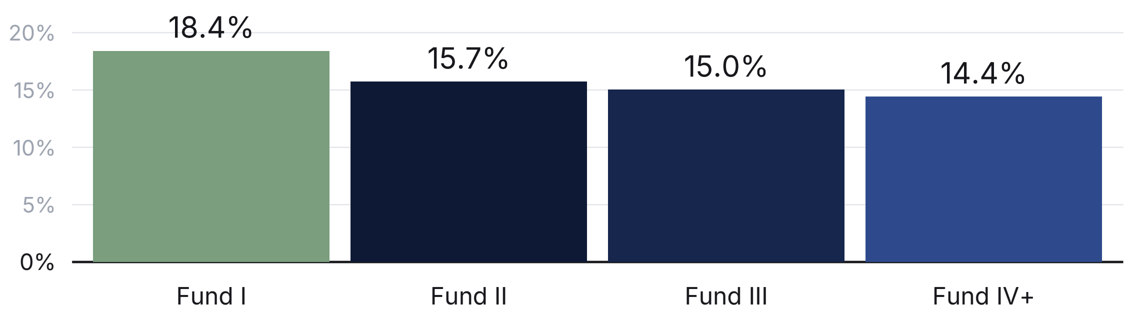
Source: Goyal, Wahal & Yavuz, Picking Partners: Manager Selection in Private Markets, Journal of Financial Economics (2026).

RESEARCH FINDING 03

Early-sequence buyout funds show a different return profile.

StepStone · The Case for Emerging Managers (2026)

MEDIAN NET IRR BY FUND SEQUENCE · BUYOUT



ABOVE-MEDIAN NET TVM
Share of funds in the upper half of the asset-class distribution.

62%	60%	55%	53%
FUND I	FUND II	FUND III	FUND IV+

Buyout funds, 2001–2020. Does not show that all emerging managers outperform.

The third piece was StepStone's 2026 The Case for Emerging Managers. Using a dataset of 2,090 buyout funds from 2001 to 2020, StepStone found a consistent decline in median net IRR as fund sequence increased: 18.4%, 15.7%, 15.0% and 14.4%. The share of funds producing above-median net TVM declined with sequence as well: 62%, 60%, 55% and 53%.

That does not mean Fund I–III managers universally outperform. They do not. StepStone also finds greater dispersion among early funds, and other academic research does not uniformly find a first-time-fund premium.

> *But that combination is precisely what makes the opportunity interesting. The emerging-manager universe may contain greater uncertainty, greater dispersion, and potentially greater relative-return opportunity.*

Source: StepStone Group, The Case for Emerging Managers (2026); 2,090 buyout funds, 2001–2020.

SYNTHESIS

Perhaps emerging managers are being asked to do the wrong job.

Read together, the three findings form a consistent picture. First, access to high-performing managers matters materially to private-market outcomes. Second, established-manager capacity is finite, and institutional demand for private-market exposure is not fully satisfied by incumbent GPs. Third, early-sequence buyout funds can exhibit distinct return characteristics, with higher dispersion and, on the available evidence, higher median net IRR and above-median participation.

If the established-GP portfolio already provides scalable deployment, continuity, mature infrastructure, and relatively high-confidence exposure to private-market strategies, why should an institution use its emerging-manager allocation simply to recreate the same portfolio with younger firms?

> *There may be a better function for that capital.*

The established-GP core provides scalable exposure, continuity, proven execution, and manager alpha. An emerging-manager sleeve serves a complementary function: alpha search, opportunity-set expansion, and future GP discovery.

THE MANDATE

The emerging-manager sleeve should have an explicit job.

> *To maximize the portfolio's exposure to new and differentiated sources of private-market alpha that are not efficiently available through the established-GP core, while controlling the capital cost of exploration.*

That could mean finding specialized strategies underrepresented in the core portfolio; attractive market segments too small for scaled incumbent managers; differentiated sourcing networks; new investment models; managers whose opportunity sets may change materially as they scale; and investment franchises that could eventually become core relationships.

This is not an argument for lowering the investment bar. It is the opposite. An emerging-manager sleeve containing higher-uncertainty managers requires rigorous underwriting, disciplined sizing, diversification, monitoring, and explicit limits on how much capital can be consumed by unsuccessful searches. And Goyal, Wahal and Yavuz give us good reason to remain humble about manager-selection skill: access to a high-dispersion opportunity set is not enough.

HOW THE SLEEVE SHOULD BE JUDGED

Evaluate the sleeve at the portfolio level.

An emerging manager could be a perfectly respectable investment and still be a poor addition to the emerging-manager sleeve if it simply replicates exposures already available through the established portfolio. Conversely, an individual emerging-manager investment may underperform while the overall sleeve remains economically successful if other managers generate sufficient differentiated excess returns.

THE WRONG QUESTIONS

- Did every emerging manager outperform?
- Did the average emerging manager outperform the average established manager?

THE RIGHT QUESTION

> *Did allocating capital to the emerging-manager sleeve improve the outcomes of the total private-markets portfolio relative to allocating that capital entirely to the established-manager opportunity set available to that institution?*

> Private-Markets Core + EM Sleeve > Private-Markets Core Alone

On an appropriately risk-adjusted basis. Sleeve-level targets should include excess-return contribution, upper-tail participation, permanent-capital-loss tolerance, diversification from the established-GP portfolio, strategy and opportunity-set differentiation, the capital cost of unsuccessful manager discovery, and the development of future investment relationships.

A DIFFERENT QUESTION FOR CIOs

Closing thought.

Not: *"Do emerging managers outperform established managers?"*

Instead: *"Can an institution allocate a deliberate risk budget to emerging managers in a way that expands its opportunity set and improves the expected outcomes of the total private-markets portfolio relative to an established-manager-only alternative?"*

> *That may be the more useful way to think about the role of emerging managers in institutional private markets. And one worth testing.*

RESEARCH INFORMING THIS THESIS

References.

Sensoy, L., Wang, T., & Weisbach, M. S. Limited Partner Performance and the Maturing of the Private Equity Industry. Journal of Financial Economics, 2014.

Goyal, A., Wahal, S., & Yavuz, M. C. Picking Partners: Manager Selection in Private Markets. Journal of Financial Economics, 2026.

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VeraDaniel & Company · Institutional Discipline. Entrepreneurial Execution. · September 2026