Decoding signalling and opacity in asset management

The asset manager with nothing to prove - and the one with nothing to show - can look alike.

EXECUTIVE SUMMARY

A manager's willingness to disclose is a strategic choice. The same secrecy can protect a valuable investment process or shelter a weak one. Economic theory explains why those motives can coexist. Recent empirical research shows why inconsistencies in risk disclosure deserve separate scrutiny. For allocators, the distinction turns on what is withheld, what remains verifiable and how quickly the available evidence allows different explanations of performance to be separated.

1. When silence carries more than one meaning

KEY TAKEAWAYS

The same opacity can serve very different economic interests.

Protecting an investment strategy does not explain every information gap.

The information available for verification matters as much as the stated reason for secrecy.

An attractive track record does not settle what limited disclosure means. An asset manager may be protecting a process that competitors could copy. A manager without a durable edge could offer the same explanation. Strong reported returns can make either account appear credible, while leaving the underlying difference unresolved.

The ambiguity lies in the relationship between performance and disclosure. A selective investor base, a confident presentation or a claim of proprietary methods adds to the narrative, but does not necessarily distinguish its competing explanations. What matters is whether the information available over time makes those explanations easier to separate.

2. Two routes to demonstrating ability

Investors can learn about managerial skill from both performance and transparency. Disclosure speeds learning but costs money and can leak valuable strategies. Highly skilled managers may therefore rely on results over time. Low-skilled managers choose opacity too, benefiting from being initially grouped with stronger managers. Intermediate managers can instead disclose to distinguish themselves from weak ones.[1]

This is countersignalling: the strongest type need not use the signal chosen by an intermediate type. It is a conditional theoretical result, not a ranking rule for actual funds. Transparency does not establish mediocrity; secrecy does not establish talent. The model explains why a disclosure choice alone need not identify ability.[1]

3. The information game and its limits

Exhibit 1. Different motives can produce the same disclosure choice

High skill	Protect the value of the strategy	→	Opacity
Intermediate skill	Distinguish from weak managers	→	Transparency
Low skill	Delay recognition of weak ability	→	Opacity

Based on Gervais and Strobl (2020).[1] Conceptual illustration of the model's countersignalling equilibrium; these are theoretical types, not observed classifications of funds.

The mechanism depends on costly transparency and informative performance. Its relevance weakens when neither route lets investors learn much. A long record may still leave an allocator unable to disentangle skill from leverage, market exposure or valuation choices. That is a reason to specify the evidence needed to assess the manager, rather than treating the passage of time as verification.

A useful distinction is between confidentiality about how returns are generated and accountability for how capital is managed. In our application of the theory, a manager can protect trade construction while still offering a credible way to verify exposures, valuation procedures and conflicts. The appropriate information arrangement will depend on the strategy and mandate.

4. Recent evidence on selective disclosure

Approximately 40% of hedge-fund adviser disclosures in a 2014–2018 sample contained inconsistencies concerning operational or investment risks when compared with other public information. Inconsistent funds subsequently performed worse, without corresponding differences in fund flows. The study concerns SEC-registered advisers matched to the Lipper TASS hedge-fund database, which supplies fund returns and characteristics; it is not a current census of the industry.[2]

Exhibit 2. Confidentiality and verification can coexist

Confidential information	Alternative evidence to request
Trade signals and execution logic	Aggregated exposures and return attribution
Individual positions in a live strategy	Lagged holdings or independent exposure checks
Proprietary research and models	Documented controls, valuation and conflicts

Y-CG analytical framework. Illustrative verification requests, not regulatory requirements or findings estimated in the cited studies. Access and independence should be established for the specific mandate.

5. The value of making differences observable

The two studies concern different information choices. The model explains how secrecy can coexist with skill; the empirical study examines inconsistencies in risk disclosures. Together they suggest a distinction between information that protects the production of returns and information that helps investors interpret those returns. Their implications meet at the question of what remains observable, even when some details remain private.[1,2]

The practical implication is that the value of disclosure depends on the uncertainty it resolves. A detailed account of an investment philosophy may leave the sources of returns difficult to assess. More limited information about exposures, valuation or conflicts may do more to separate competing explanations of performance. The volume of communication and its usefulness for evaluation need not move together.

Opacity also has a time dimension. Its significance depends on whether subsequent evidence can reveal differences that are initially hidden. Where independent verification remains possible, confidentiality can coexist with meaningful evaluation. Where the explanation for secrecy also prevents that evaluation, ambiguity can persist. The analytical focus therefore shifts from how much a manager reveals to how the information arrangement affects learning about the manager.

References

[1] Gervais, S., & Strobl, G. (2020). Transparency and talent allocation in money management. The Review of Financial Studies, 33(8), 3889–3924.

[2] Liu, Y., Madsen, J., & Zhou, F. S. (2026). Strategic (inconsistent) disclosures and sophisticated investors: Evidence from hedge funds. Journal of Accounting Research, 64(2), 923–978. First published online September 2, 2025.

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