WHAT IS ACTIVE SHARE?

THE EQUITY COMPASS EDITION 16

Understand how different an equity portfolio is from its benchmark.

Imagine two chefs asked to prepare a meal using the same reference recipe.

The first follows the recipe almost exactly. The second changes several ingredients and their proportions based on their own judgement.

Both use the same recipe as a reference, but the second chef's meal is more different from it.

Active Share follows a similar idea. It **measures how different an equity portfolio's holdings and weights are from those of its benchmark.**

Active Share helps investors understand the extent to which a fund manager has constructed a portfolio differently from the benchmark. However, it **does not indicate whether those differences will lead to better or worse returns.**

WHAT IS ACTIVE SHARE?

Active Share compares the weight of every stock in a portfolio with its weight in the benchmark.

These differences are added together to arrive at a **single percentage.**

Formula:

$$\text{Active Share} = \frac{1}{2} \times \text{Sum of } |\text{Portfolio Weight} - \text{Benchmark Weight}|$$

Why is the total divided by 2? Because every overweight position is matched by an underweight position. Dividing by 2 **avoids counting the same portfolio difference twice.**

A SIMPLE EXAMPLE

Stock	Portfolio Weight	Benchmark Weight	Absolute Difference
Company A	40%	25%	15%
Company B	30%	35%	5%
Company C	20%	25%	5%
Company D	10%	15%	5%
Total	**100%**	**100%**	**30%**

For illustrative purpose only

$$\text{Active Share} = \frac{1}{2} \times 30\% = 15\%$$

This means **15% of the portfolio differs from the benchmark** by stock selection, portfolio weights, or both.

Name of MF – Bajaj Finserv Mutual Fund | Registration no. – MF/078/23/04

WHAT DOES ACTIVE SHARE TELL US?

Active Share	What It May Suggest
Higher Active Share	The portfolio differs more from the benchmark in its stock holdings, their weights, or both.
Lower Active Share	The portfolio is more similar to the benchmark in its stock holdings and weights.
0% Active Share	The portfolio holdings and weights are identical to the benchmark.
100% Active Share*	In a conventional long-only portfolio, there is no overlap with the benchmark.

*The practical range and interpretation may differ for portfolios using short positions, derivatives, leverage, or cash allocations.

Important: A higher Active Share indicates greater differentiation - not better performance. A fund may have high Active Share and still underperform, while a fund with lower Active Share may outperform.

ACTIVE SHARE IN MUTUAL FUNDS

- Active Share helps assess **how actively an equity fund is positioned relative to its stated benchmark.**
- It reflects differences arising from **stocks held outside the benchmark, benchmark stocks not held by the fund, and different weights assigned to common holdings.**
- It can help investors understand whether the portfolio is **substantially different from the benchmark or positioned relatively close to it.**

Example:
Suppose two actively managed funds use the same benchmark. **Fund A has an Active Share of 80%, while Fund B has an Active Share of 35%.** Fund A's portfolio is more different from the benchmark. This alone does not tell us which fund will deliver better returns or take more risk.

ACTIVE SHARE AND TRACKING ERROR

Active Share	Tracking Error
Looks at portfolio holdings and weights at a point in time.	Looks at how differently the fund's returns have moved from the benchmark over a period.

The two measures complement each other: one examines **portfolio composition,** while the other examines **return behaviour.**

IMPORTANT POINTS :

- Active Share changes as portfolio and benchmark weights change; therefore, it should be **observed over time rather than at a single point.**
- The **choice of benchmark matters.** An unsuitable benchmark can make the measure less meaningful.
- Active Share **does not measure performance, risk, portfolio quality, or the fund manager's ability on its own.**
- It should be read along with **returns, portfolio concentration, investment style, costs, and consistency of performance.**

Active Share shows how differently a fund is positioned from its benchmark - not whether those differences will succeed.