

## **GUIDANCE FOR CALCULATION OF ACTIVE SHARE FOR EQUITY FUNDS**

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Adopted on May 18th 2015.

### **Active Share for equity funds**

The Swedish Investment Fund Association recommends<sup>1</sup> its members to publish Active Share for equity funds in order to give a description of the activity of a fund in comparison to a relevant benchmark. There are different ways to calculate Active Share and to facilitate for the fund companies calculations and to promote a consistent and comparable calculation method, the Association has decided on the following guidance. If deviations from the calculation method are made this should be explained.

### **General principles**

- The aim of reporting Active Share is to give the investors an understanding of the activity of a specific fund and should be seen as a complement to the key ratios already presented today, for example tracking error and return comparisons against a benchmark.
- The Association notes that it is difficult to reach a high Active Share in some equity markets and the aim is not to encourage high risk taking but instead to achieve high transparency. The Association does not recommend either high nor low Active Share.
- Active Share reporting applies to funds that primarily invest directly in equity.
- The Association is aware that not all equity funds can calculate Active Share. It may be due to that a relevant benchmark index is missing or that the cost of acquiring index constituents is unreasonably high for smaller fund companies.
- The selection of the benchmark may have a large impact on the Active Share. It is therefore important that a relevant benchmark is selected. In choosing the benchmark the primary consideration should be the index suitability as a reference for evaluating the result of the managers investment strategy, but other considerations may be adequate as well, such as whether the index is well established and recognized and the cost of obtaining the index data.
- The calculation of the holdings may be very complex, while some holdings may be of less importance for the outcome of the calculation. A balance must therefore be made between the complexity of the calculation and the holding's influence on the result.
- Active Share should be calculated based on the fund's holdings the last day of the relevant reporting period.

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<sup>1</sup> See "Guidelines for key ratio accounting of Swedish UCITS and special funds".

## Calculation method

Active Share compares the holdings in a fund with the holdings in its benchmark. It is defined as<sup>2</sup>:

$$\text{Active Share} = \frac{1}{2} \sum_{i=1}^N |\omega_{\text{fund},i} - \omega_{\text{benchmark index},i}|$$

where  $\omega_{\text{fund},i}$  and  $\omega_{\text{benchmark index},i}$  are weights of asset  $i$  in the fund and in the benchmark.

Certain instruments may provide a very similar exposure as an investment in a share that is part of the benchmark. This could for example be the case with shares issued in multiple series, depositary receipts and derivatives. Generally the selection of the instrument would be an active decision by the manager aimed at generating outperformance, and as such an investment in a different instrument than the share in the benchmark should be considered to increase Active Share. However, if the manager is indifferent to which instrument the investment is made into to gain exposure to a certain issuer, Active Share should be published excluding the impact of the relevant instruments. Further, the selection of certain instruments should not be made with the aim of affecting Active Share.

Cash positions are generally considered to be holdings which will affect active risk taking. It should therefore be included in the calculation of Active Share, and the consequence is that Active Share increases.

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<sup>2</sup> Cremers, M and Petajisto, A. How Active Is Your Fund Manager? A New Measure That Predicts Performance. 2006