

How Active Is Your Fund Manager? A New Measure That Predicts Performance

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Abstract

We introduce a new measure of active portfolio management, Active Share, which represents the share of portfolio holdings that differ from the benchmark index holdings. We compute Active Share for domestic equity mutual funds from 1980 to 2003. We relate Active Share to fund characteristics such as size, expenses, and turnover in the cross-section, and we also examine its evolution over time. Active Share predicts fund performance: funds with the highest Active Share significantly outperform their benchmarks, both before and after expenses, and they exhibit strong performance persistence. Nonindex funds with the lowest Active Share underperform their benchmarks.

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