



# PORTFOLIO CONSTRUCTION

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## Deactivating Active Share

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The authors investigate Active Share, a measure meant to determine the level of active management in investment portfolios, and find it wanting.

The authors evaluate the claim that the measure predicts investment performance by considering theoretical arguments and via empirical analysis. They do not find strong economic motivations for why Active Share may correlate with performance.

The authors also use the same data set used in the original Active Share studies (Cremers and Petajisto, 2009 and Petajisto, 2013) to evaluate the robustness of the empirical results from those studies. They find that the empirical support for the measure is weak and is entirely driven by the strong correlation between Active Share and the benchmark type.

For example, Active Share correlates with benchmark returns, but does not predict actual fund returns; within individual benchmarks, Active Share is as likely to correlate positively with performance as it is to correlate negatively. The authors conclude that neither theory nor data justify the expectation that Active Share might help investors improve their returns.

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