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CEO

## Is my Active equity fund really active?

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Dear Investors and Partners,

In this letter, let me talk about a simple but useful metric for equity-oriented funds, which most active portfolio managers track. It is known as the Active Share.

Amidst the ongoing debate in India over active v/s passive management, this metric can be quite useful in evaluating a fund, by the distributor and investor alike. It has become quite popular as a gauge of how “active” is the underlying portfolio, or whether the portfolio manager is a closet indexer. But before we move towards its interpretation, let’s first see the definition and how it is calculated. Active Share measures the difference between the mutual fund scheme portfolio holdings and that of its benchmark index. Suppose, a particular stock has 5% weight in the portfolio and has 2% weight in the benchmark index then this particular stock position contributes 3% Active Share in the overall portfolio. Likewise, summation of all such positions will add up to the Active Share of the overall portfolio. Note that we are not taking into account overweight or underweight positions here while calculating, but the absolute difference. Thus, the Active Share for a passively managed fund will theoretically be zero and a portfolio with all the stocks outside the benchmark will have Active Share of 100%. An investor looking for genuine active management may hence look at funds with higher Active Share. Higher Active Share is the one way to produce results different from the benchmark, which may lead to outperformance if the investment decisions go right. However, higher Active Share may lead to higher active risk as well. This active risk may be mitigated to an extent by diversifying over a sufficiently large number of stocks. At PGIM India, we endeavour to maintain a high Active Share while keeping the active risk in check. As an example, PGIM India Midcap Opportunities Fund had an Active Share of 64.6% as on May 31, 2023 and the portfolio was spread over 67 stocks.

There are a few other points to note about Active Share. Firstly, Active Share for a particular portfolio may change over a period of time. Secondly, two portfolios with similar Active Share may have completely different levels of risk. For example, one may have exposure to defensive stocks outside the benchmark, while the other may be exposed more towards high beta stocks. Lastly, Active Share may be derived from a few large concentrated positions, or it can be diversified across a large number of stocks. These nuances can lend different risk-return characteristics to the portfolio, which Active Share alone cannot capture. The concept of Active Share can further be combined with measures like Tracking Error (measure of deviation of scheme return from its benchmark index, using statistical tools like standard deviation of returns) to measure the volatility in returns compared to a benchmark index, to assess the impact of active risk undertaken in the portfolio. The objective is to have a deeper understanding of the portfolio manager’s activity and his sources of returns. Nevertheless, a track record of consistently higher Active Share may be a good starting point to shortlist active managers, if one is looking to make allocations to actively managed equity schemes.

Overall, what’s the Active Share of the equity fund, is a good question for investors, to ask their advisors, fund managers, as it can establish the nature of expectation from their investment from the very beginning.

At PGIM India, we believe a higher Active Share combined with better risk management can produce desirable outcomes for investors. Thank you for your continued trust and confidence in our investment management services. If you have any questions or concerns, please do not hesitate to reach out to the PGIM India team or our distributor partners.

Stay safe & happy investing.

pgim india mutual fund 

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**PGIM India Midcap Opportunities Fund**  
(Mid Cap Fund- An open ended equity scheme predominantly investing in mid cap stocks)

**This product is suitable for investors who are seeking\*:**

- Capital appreciation over long run.
- To achieve long term capital appreciation by predominantly investing in equity and equity related instruments of mid cap companies.
- Degree of risk – VERY HIGH



Investors understand that their principal will be at very high risk

\* Investors should consult their financial advisors if in doubt about whether the product is suitable for them.