



Going Active?

Then Get REALLY Active!

You decide that this is the year you are going to get in shape. You hire a personal trainer but after a few workouts, you realize he is just repeating the same workouts that you have on your P90X® dvd's! Feel like you aren't getting what you paid for?

How Active Is Your Portfolio

Manager?

Highly Active	80-100%
Active	60-80%
	40-60%
Closet Indexers	20-40%
Passive	0-20%

Something similar can happen with active managers. You decide that you want to try to outperform the index, so you hire an active manager. After a few years, your results hover extremely close to the index. After more investigation, you discover that your actively managed fund has a very high degree of similarity to the index. You are angry because you are paying for a manager's expertise while they are really indexing.

*So how do you avoid this? **By finding a manager with high active share.***

What is Active Share?

Active share compares the holdings of a manager with the holdings of its benchmark index. Active share is measured on a scale of 0-100%. An index fund will have less than 20% active share since they closely mirror their benchmarks, while a fund with more than 80% active share is considered to be highly active.

Why is Active Share Important?

Knowing a manager's active share is important for two reasons: 1) it helps you avoid paying unnecessary fees and 2) it can help you identify managers who are actively working to outperform their benchmarks.

Avoiding Unnecessary Fees:

Index huggers, or closet indexers (20-60% active share), refer to a mutual fund or portfolios of equities that are marketed as actively managed, but have a very high

degree of similarity to an index, either in names or weight. You don't want to get caught in the position of paying for a manager's expertise when they are just following the index.

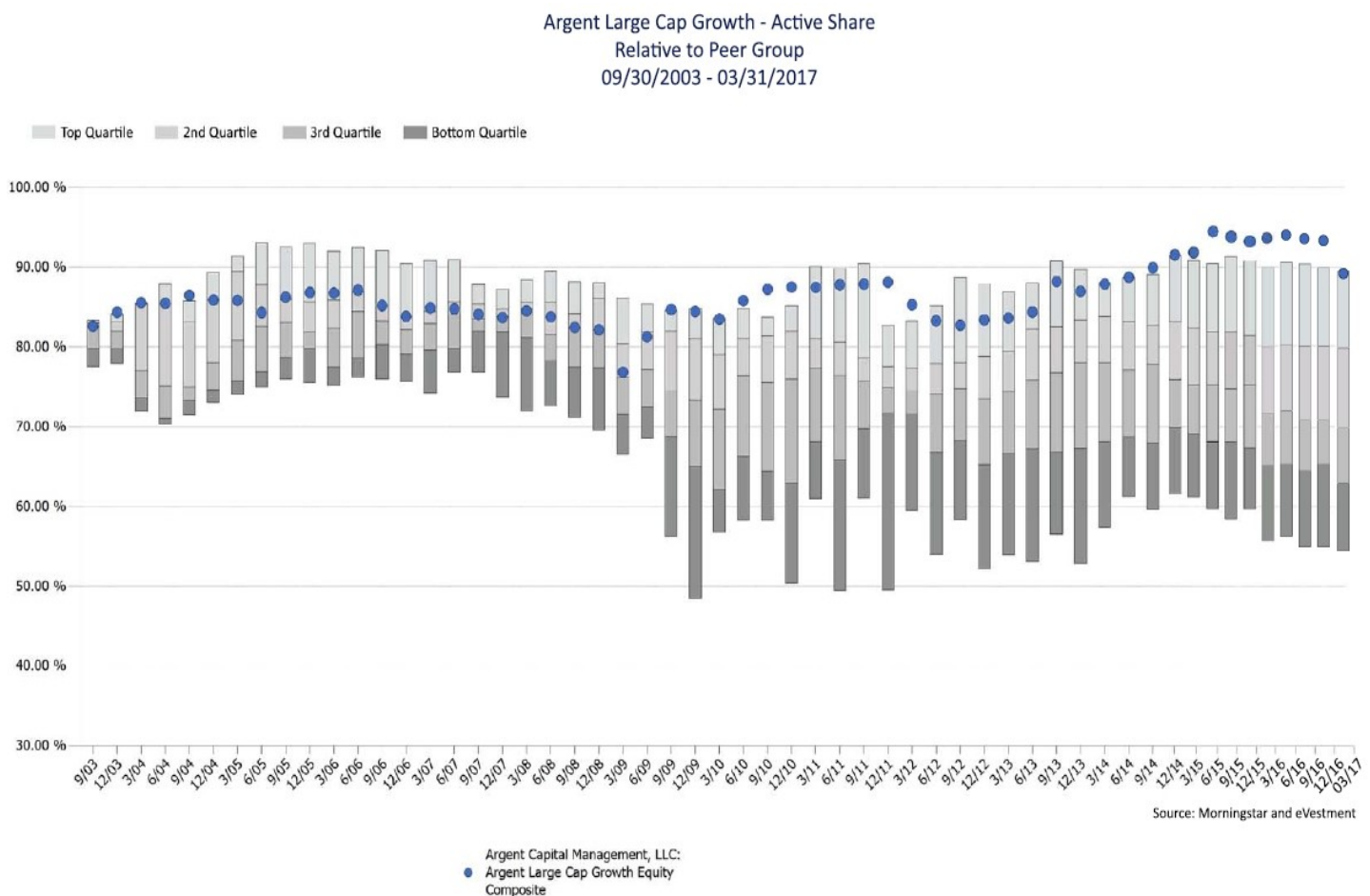
Indicator of Possible Outperformance:

A 2009 study by two Yale School of Management professors argues that active share has been shown to have a significant correlation with a fund's historic ability to outperform its index, even after taking management fees into account. By contrast, they found that non-index funds with low active share underperformed their benchmarks (see Endnote).

Argent and Active Share

Argent's Large Cap Growth strategy has consistently maintained a high active share since 2003. As of March 31, 2017, **Argent's active share is 88.4%**, well above the 80% needed to be considered as "highly active." (See Figure 1).

Figure 1



Conclusion

Although active share is not the only factor that should be considered in selecting a fund manager who has the potential for achieving superior investment returns over the long term, it is definitely an important factor. Active share does not shed light on a manager's stock picking skills, but it does give an indication of a manager's conviction level and willingness to manage beyond the benchmark. We encourage investors to review other factors as well when selecting a manager such as: the investment team, stock selection skills, portfolio turnover rate, and investment process. In summary, high active share won't guarantee that a portfolio will outperform, but you won't have the opportunity to beat the index if your manager is merely mimicking the benchmark.

Endnote:

Cremers, Martijn and Antti Petajisto, "How Active is Your Fund Manager? A New Measure That Predicts Performance," (March 31, 2009). AFA 2007 Chicago Meetings Paper; EFA 2007 Ljubljana Meetings Paper; Yale ICF Working Paper No. 06-14. Available at SSRN: <https://ssrn.com/abstract=891719> or <http://dx.doi.org/10.2139/ssrn.891719>.

For more information about active share or Argent's portfolio strategies, contact **Argent Capital Management**, at: 1-800-521-9924 ,



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