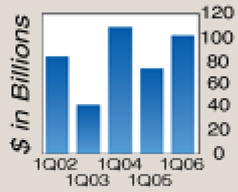
Money Management Executive



**Data Points**

**Long-Term Fund Flows**




*Driven by strong international inflows, the first quarter of 2006 has brought in over $100 billion. The $16 billion in domestic equity net flows generated in the quarter is the lowest total since the first quarter of 2003, and the second-lowest over the last five years. The highest quarterly net sales for the domestic equity objective over the last five years was the $70 billion garnered in the first quarter of 2004, leaving many to wonder when those levels will be seen again.*

*Source: Financial Research Corp.*

## More Actively Managed Funds Tied to Indexes

*August 21, 2006*

*By Editorial Staff*

Investors can have a hard time identifying "closet indexing"--when an actively managed fund actually is built around an index--but new measures might be useful to predict fund performance.

**Antti Petajisto** and **Martijn Cremers**, two Yale University professors, developed an easy way of measuring to what degree a fund's holdings are actively managed, as opposed to passively mirroring an index, according to *The Wall Street Journal*. The measure, called the "active share" of a portfolio, matches the holdings reported by Securities and Exchange Commission filings against the components of an index, and then measures the percentage of overlap.

For example, if **General Electric** and **Exxon Mobil** each account for 4% of an index and a fund had a portfolio exactly mirroring the index except it had 8% in GE and nothing in Exxon, its active shares would be 4%. The more a portfolio differs from an index, the higher the active share percentage.

Additionally, the study found that the average fund using the Standard & Poor's 500 Index as a benchmark has an average active-share percentage of 66%. Basically, the average large-company stock fund had a portfolio that was 66% different than the benchmark and the rest essentially mirrored the index.

The study also revealed an increase in funds that could be depicted as closet indexing during the 1990s, a period of major growth in the mutual-fund industry. The study looked at data from 1980 through the end of 2003 and closet index funds contained about 30% of all assets in 2003, up from practically no assets in the 1980s.

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