

Closet indexing of the Russian mutual funds

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Based on the Active Share concept (Cremers and Pestajisto, 2009), which shows how the portfolio of an mutual fund deviates from the portfolio of fund's benchmark, the paper researches the impact of the Active Share level on the investors' profit. Concept's authors attribute the funds whose Active Share is less than 60% to closet indexers.

The list of the samples consist of open-ended mutual funds that invest not less than 50% in the Russian equity and those NVA are not less than 10 million rubles. There are 48 active and 14 passive (or index) funds. This is ca. half (in numbers) and 64% (in NVA) of all Russian equity funds, including the index ones. The regression shows that increase of Active Share by 1 standard deviation decreases financial result by 11% of alpha standard deviation. That means, that the more active are the managers the worse is the risk adjusted financial result for investors. The results for index funds are even more drastic: increase of Active Share by 1 standard deviation decreases financial result by 86% of alpha standard deviation. In addition, calculation of the bench-mark adjusted return (not risk adjusted) shows that, in average, index funds outperform the active ones.

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