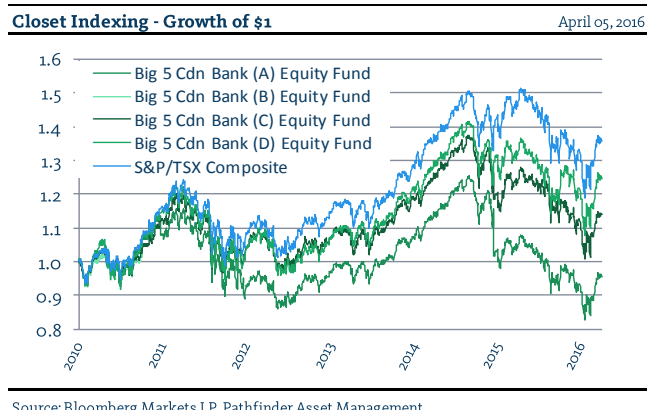


Pathfinder Portfolio Management

Spotlight: Closet Indexing

The term “active management” is commonly touted as the difference-maker by portfolio managers in marketing materials for mutual funds. We read a recent article on BNN commenting on the launch of an investigation by regulators to determine if active management is in fact being used or if they are “simply hugging an index.”

The Ontario Securities Commission is scrutinizing on claims that many mutual funds are advertising as active portfolio managers when in fact are exhibiting performance – good or bad – that mirror’s their respective benchmark index. The purpose of this investigation is to understand the security selection process used by mutual funds that disclose the use of “active management” strategies but parallel the returns of an index fund; albeit at a higher fee than an index ETF. The chart on the right demonstrates this point. We took the performance of Canadian equity funds from Canada’s Big Banks and superimposed it on the TSX Composite Index (blue line). Not only are the funds moving symmetrically with the TSX, they are lagging in terms of performance as well.



At Pathfinder we have been cognizant of this for many years and as investors we are aware that our clients are paying fees to have their money managed. So we decided to take it one step further by calculating the *active share* measurement of each of our funds in comparison to the same Canadian Equity funds in the chart above. Active share simply indicates whether or not a fund mimics the index. An active share of 0% specifies there isn’t any active management (i.e. an index). A 2006 Yale School of Management study found that those funds with an active share of 80% or higher beat their benchmark index by 1.49-1.59% after fees¹. It becomes evident why regulators are taking a closer look at “actively managed funds”.

Active Share Measurement April 05, 2016

	Partners' Fund	Real Return Plus Fund	Core Plus Fund	Core Equity
TSX Venture Composite Index	97.7%	-	-	-
TSX 60 Index	-	96.9%	91.3%	84.8%
S&P 500 Index	-	98.1%	90.8%	90.0%
	Big Bank Fund (A)	Big Bank Fund (B)	Big Bank Fund (C)	Big Bank Fund (D)
TSX 60 Index	25.7%	51.2%	38.1%	38.4%

Source: Bloomberg Markets LP, Pathfinder Asset Management

[Link to BNN article](#)

Nigel Andison, CIM | Investment Counsellor



Pathfinder Asset Management Ltd. | Equally Invested™

1320-885 W. Georgia Street, Vancouver, BC V6C 3E8

E info@paml.ca | T 604 682 7312 | www.paml.ca

Sources: Bloomberg, Pathfinder Asset Management Limited

Disclosure

National Instrument 31-103 requires registered firms to disclose information that a reasonable investor would expect to know, including any material conflicts with the firm or its representatives. Doug Johnson and/or Pathfinder Asset Management Limited are an insider of companies periodically mentioned in this report. Please visit www.paml.ca for full disclosures.

*All returns are time weighted and net of investment management fees. Returns from the Pathfinder Partners' Fund and Partners' Real Return Plus Fund are presented based on the masters series of each fund. The Pathfinder Core: Equity Portfolio and The Pathfinder Core: High Income Portfolio are live accounts. These are actual accounts owned by the Pathfinder CEO (Equity) and client (High Income) which contain no legacy positions, cash flows or other Pathfinder investment mandates or products. Monthly inception dates for each fund and portfolio are as follows: Pathfinder Core: Equity Portfolio (January 2011), Pathfinder Core: High Income Portfolio (October 2012) Partners' Fund (April 2011), Partners' Real Return Plus Fund (April, 2013), and Partners' Core Plus Fund (November 2014).

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1. <http://som.yale.edu/news/news/nearly-one-third-actively-managed-us-mutual-funds-are-closet-indexers-finds-new-study-yale>