ADVISOR WHITE PAPER

Capital-FORCE ETF

Understanding Active Share

The one number that tells you whether your client is paying for active management or just paying for it

Summary

- Active Share, created by finance professors Martijn Cremers and Antti Petajisto,* compares what a portfolio owns against what its benchmark owns, position by position, weight by weight.
- Between 0 and 60%, you are looking at a closet indexer. The portfolio mimics the benchmark while charging active fees.
- Active Share looks at holdings. It tells you what you own. Tracking Error looks at returns. It tells you how the portfolio behaved.
- A high score is not a promise. It measures difference, not skill.

Every advisor has sat across from a client holding a fund fact sheet, trying to explain why the portfolio costs 1.20% a year. The client asks a fair question. What am I paying for?

Most fact sheets answer that question badly. They list manager tenure, star rating, three-year return, and a paragraph about a rigorous investment process. None of that tells you whether the fund actually owned anything different from the index. Active Share does.

What the number measures

Active Share, created by finance professors Martijn Cremers and Antti Petajisto, compares what a portfolio owns against what its benchmark owns, position by position, weight by weight. The result runs from 0% to 100%. Zero means the portfolio is a photocopy of the index. One hundred means there is no overlap at all, not a single shared name.

Think of it as a structural measurement rather than a performance measurement. It answers one question, and only one. How different does this portfolio look in comparison to the benchmark on a particular date?

The math is simple enough to do on a napkin. Take the absolute difference between each stock's portfolio weight and its benchmark weight. Add all those differences together. Divide by two.

Why divide by two? Because every overweight in a fully invested portfolio creates a matching underweight somewhere else. Counting both sides would double the answer. The division corrects for that.

A three stock example

Picture a market with exactly three stocks. Apple, Microsoft, Google.

The benchmark holds Apple at 30%, Microsoft at 30%, Google at 40%. Your manager holds Apple at 60%, Microsoft at 40%, and skips Google entirely.

The differences: 30% on Apple, 10% on Microsoft, 40% on Google. Sum them and you get 80%. Divide by two. Active Share is 40%.

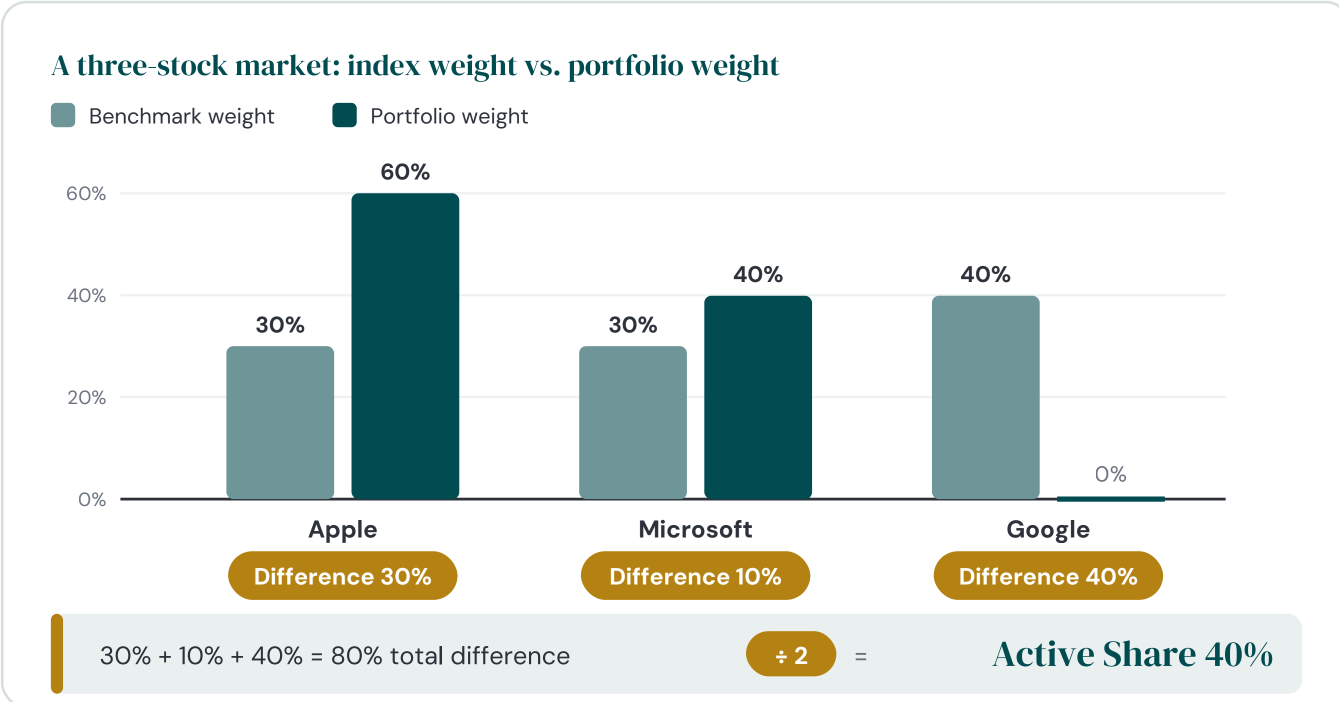

EXHIBIT 1 The napkin calculation. Sum the absolute weight differences, then divide by two. The portfolio overlaps the index by 60% and departs from it by 40%.

Read it the other way and it clicks. The portfolio overlaps the index by 60% and departs from it by 40%. That is the whole idea.

Reading the score

Cremers and Petajisto proposed rough bands, and the industry has mostly adopted them.

Between 80 and 100%, the manager takes real positions away from the index. Research suggests high Active Share portfolios have better potential to beat their benchmarks over time, though they carry a different risk profile and a potentially rougher ride.

Between 0 and 60%, you are looking at a closet indexer. The portfolio mimics the benchmark while charging active fees. Frankly, this is the category that should make you uncomfortable, because the client is paying for something they are potentially not receiving.

The middle, roughly 60 to 80%, is a judgment zone. Some diversified large cap strategies live there honestly. Some closet indexers hide there.

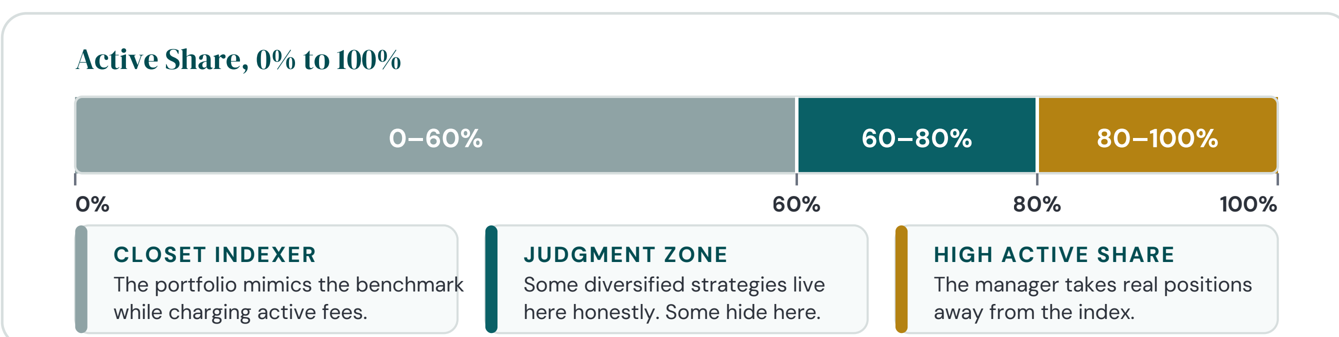

EXHIBIT 2 The bands Cremers and Petajisto proposed. Rough bands the industry has mostly adopted.

Active share and tracking error are not the same thing

In our experience, advisors mix these up constantly. They measure different dimensions, and you need both.

Active Share looks at holdings. It uses weights at a single moment in time. It tells you what you own.

Tracking Error looks at returns. It calculates the standard deviation of the portfolio's excess return against the benchmark over a period. It tells you how the portfolio behaved.

A portfolio can own completely different stocks and still deliver returns that track the market closely. Another portfolio can own the same names as the index while producing wild swings through concentration and timing. Neither metric catches both cases on its own.

Cremers and Petajisto plotted the two together and produced four categories worth memorizing.

The true active manager picks different names and takes factor positions. Concentrated growth stock picking usually lands here. The diversified stock picker owns names the index never touches but spreads the risk widely enough that the portfolio still behaves like the market, which describes many diversified small cap funds. The factor taker owns the same stocks as the index and changes the weights, or uses leverage, creating volatile performance differences. And the closet indexer hugs the benchmark while potentially charging an active price.

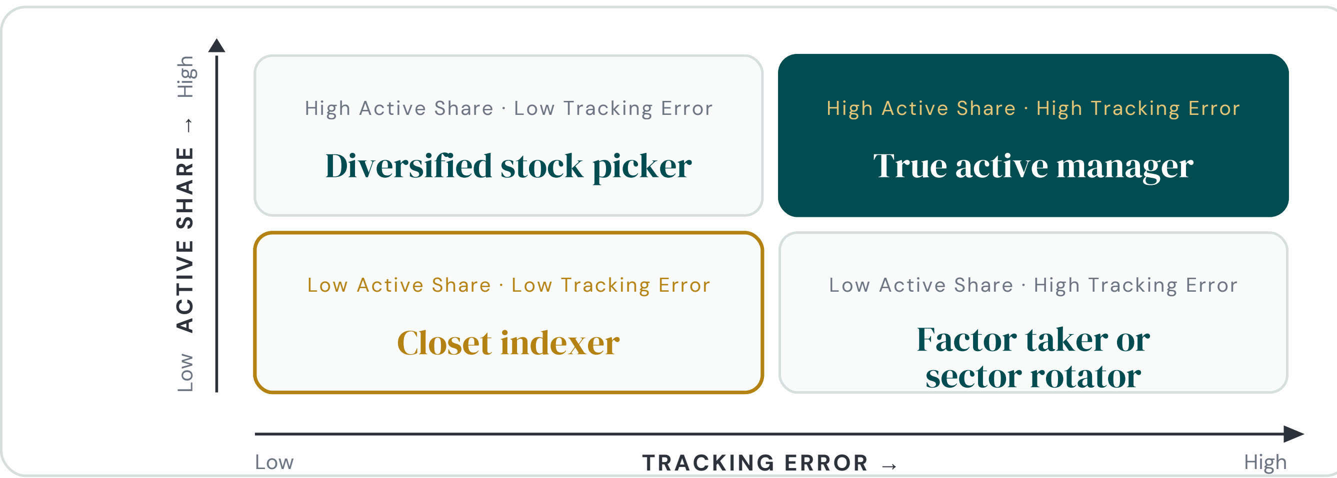

EXHIBIT 3 Four categories worth memorizing. Holdings on one axis, return behaviour on the other.

The effective fee problem

Suppose a portfolio posts an Active Share of 20%. That means 80% of the portfolio duplicates the benchmark and only 20% reflects any real decision by the manager.

Strip out the cost of the part you could have replicated yourself, and the fee attributable to the genuinely active slice climbs to roughly 6% of that slice.

6%. On the only portion doing any work. The manager now has to generate returns on a fifth of the portfolio large enough to cover a fee that would embarrass a hedge fund, just to finish level with the index. That is not a difficult assignment. It is close to an impossible one.

Why closet indexing persists

> *“It is not incompetence. It is incentive.”*

Asset managers protect assets under management. A manager who takes bold positions and trails the benchmark for two years watches money walk out the door, and the firm watches revenue follow it. Hugging the index removes that career risk. The manager never underperforms badly, which guarantees they never outperform meaningfully either, at least not after fees.

A worked example: BOUT against the S&P 500

Theory is fine. Here is a live calculation on a real portfolio, using the CapForce IBD Breakout Opportunities ETF (BOUT), as of the August 18, 2026, composition, measured against the S&P 500.

BOUT held 25 positions. Nine of them were S&P 500 constituents at that time.

BOUT holdings that are also S&P 500 constituents

Name/ Ticker	BOUT weight	S&P 500 weight	Overlap
Micron Technology Inc (MU)	4.00%	1.59%	**1.59%**
Bank of America Corp (BAC)	6.00%	0.62%	**0.62%**
Bank of New York Mellon Corp (BNY)	4.00%	0.15%	**0.15%**
PNC Financial Services Group Inc (PNC)	6.00%	0.14%	**0.14%**
U.S. Bancorp (USB)	7.00%	0.14%	**0.14%**
Emerson Electric Co. (EMR)	6.00%	0.12%	**0.12%**
Teradyne, Inc (TER)	2.00%	0.09%	**0.09%**
Garmin Ltd (GRMN)	1.00%	0.08%	**0.08%**
Expedia Group, Inc (EXPE)	1.00%	0.06%	**0.06%**
Total overlap			**2.99%**

EXHIBIT 4 The complete overlap calculation. The nine shared names and their index weights, as calculated by CapForce ETF from the August 18, 2026, BOUT composition against S&P 500 constituent weights as of August 20, 2026. Holdings are subject to change.

In every single case the portfolio weight sits above the index weight, so the overlap term is just the sum of those nine index weights. That total comes to 2.99%.

Active Share equals 100%, minus 2.99%, or 97.01%.

The other 16 positions contribute their full weight. Three are non-U.S. issuers the index cannot hold. One is float restricted. The remaining twelve are mid and small caps that sit outside the S&P 500 universe. Meanwhile roughly 490 index names, including the entire mega cap complex except Micron, appear nowhere in the fund.

Two honest caveats belong with that number. The benchmark weights came from an August 20 snapshot rather than the August 18 portfolio date, which moves the answer by a few basis points at most. And three borderline names, ATI Inc., Natera Inc., and Credo Technology Group Holding Ltd, deserve a check against your own index source, though their weights are small enough that the result stays between 96.9 and 97.0% either way.

One more point of intellectual honesty. BOUT tracks a rules-based index, so its 97% reflects construction rather than a portfolio manager's daily conviction. That distinction matters when you explain it to a client. The exposure is genuinely different from the S&P 500. The reason it is different is methodology, not stock picking.

What Active Share will not tell you

A high score is not a promise. It measures difference, not skill. A manager can be spectacularly different and spectacularly wrong.

Benchmark selection changes everything. Run a small cap portfolio against the S&P 500 and you will get a number near 100% that tells you almost nothing, because the fund was never fishing in that pond. Compare it to the Russell 2000 instead and the score could drop to something meaningful. Always ask which index the calculation used, and whether that index reflects the strategy's actual universe.

It is also a snapshot. A portfolio can run high Active Share in March and drift toward the index by September. One reading is a photograph, not a film.

Where to find it

Active Share is not a required regulatory disclosure, which is why it rarely appears on a fact sheet. You have three practical routes.

The academic database (https://activeshare.nd.edu/data/) maintained by Professor Cremers publishes Active Share for thousands of mutual funds at no cost. Search the fund ticker and you get the current figure, the historical style plot, and the benchmark the fund should actually be measured against.

Commercial platforms carry it too. In Morningstar, pull up the ticker, click through to Ratings and Risk or Portfolio, and look under MPT Statistics or Style Analysis. You will usually find Active Share sitting near R squared and Tracking Error.

For newer or niche funds the screeners have not picked up, go to the source. SEC EDGAR (https://www.sec.gov/search-filings) carries Form N-PORT and Form N-CSR filings with the complete audited holdings list and exact percentage weights. Cross reference those against the benchmark's published components and run the calculation yourself. It takes an afternoon in a spreadsheet, and we believe for a fund you are about to put across a hundred client accounts, that afternoon is time well spent.

Putting it to work

Three rules make this practical tomorrow morning.

1. **Screen it.** Reject any portfolio marketed as active with an Active Share below 60% or demand a fee that matches what it actually delivers. If a portfolio behaves like an index, it should cost like one.
2. **Pair it.** Never read Active Share alone. Put it next to Tracking Error and place the fund in one of the four quadrants. That combination tells you whether the manager uses their freedom carefully or simply creates volatility nobody is paying for.
3. **Explain it.** Clients understand the sentence; 80% of this portfolio is identical to an index. They rarely understand standard deviation. Use the number that lands.

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* Cremers, K. J. Martijn, and Antti Petajisto. 2009. "How Active Is Your Fund Manager? A New Measure That Predicts Performance." *The Review of Financial Studies* 22 (9): 3329–3365.

Capital-FORCE ETF

Important Information

DISCLOSURES

For financial professional use. This material is for educational purposes and is not investment advice or a recommendation to buy or sell any security. Active Share figures shown for BOUT were calculated by CapForce ETF from the August 18, 2026, index composition and publicly available S&P 500 constituent weights as of August 20, 2026. Holdings and weights change. Past performance does not guarantee future results.

IMPORTANT RISK INFORMATION

Investing involves risks. Principal loss is possible. The Fund's return may not match the return of the Index. Along with general market risks, an ETF that concentrates its investments in the securities of a particular industry, market, sector, or geographic area may be more volatile than a fund that invests in a broader range of industries. Additionally, the Fund may invest in securities that have additional risks. Foreign companies can be more volatile, less liquid, and subject to the risk of currency fluctuations. This risk is greater for emerging markets. Small- and mid-cap companies can have limited liquidity and greater volatility than large-cap companies. Also, ETFs face numerous market trading risks, including the potential lack of an active market for Fund shares, losses from trading in secondary markets, periods of high volatility and disruption in the creation/ redemption process of the Fund.

ABOUT THE INDEXES AND FUNDS

The IBD® 50 Index is the fund's underlying index and is a proprietary index calculated by Investor's Business Daily® that ranks 50 leading U.S. growth stocks based on momentum and fundamental criteria. Index returns are gross of fund operating expenses and are not directly investable. For more information about CapForce IBD® 50 ETF (FFTY), including current holdings or the prospectus, go to https://www.capforceetf.com/FFTY/details.

The IBD® Breakout Stocks Index is the fund's underlying index and is a proprietary index calculated by Investor's Business Daily® that seeks to identify stock breakout opportunities, or stocks poised to experience a period of sustained price growth beyond the security's recent "resistance level", with consideration for various market conditions. For more information about CapForce IBD® Breakout Opportunities ETF (BOUT), including current holdings or the prospectus, go to https://www.capforceetf.com/BOUT/details.

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BEFORE INVESTING

Carefully consider the Fund's investment objectives, risks, charges, and expenses before investing. This and other information can be found in the Fund's statutory and summary prospectuses, which may be obtained at CapForceETF.com. Read the prospectus carefully before investing.

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