White Paper

Active Extension

A Potential Solution for Improving Equity Returns

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With equity valuations elevated and future return expectations subdued, investors face mounting challenges in meeting long-term objectives through traditional passive or long-only active allocations. Active Extension (AE)—a long-short framework that uses modest leverage to short less attractive stocks and overweight more attractive stocks—offers a liquid, capital-efficient alternative. By relaxing the long-only constraint, AE enhances active risk efficiency, mitigates index concentration, and expands the opportunity set for generating alpha. Historical evidence shows that well-managed AE strategies have delivered higher active returns than long-only peers,[1] potentially translating into meaningfully greater long-term wealth. When implemented by skilled managers with experience in shorting, trading, and risk control, AE may improve diversification and portfolio efficiency—providing investors with a compelling approach to active equity investing in today's challenging environment.

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[1] Refer to Exhibit 5 herein.

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