EDITOR'S NOTE

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Malcolm Gladwell, in his book *The Tipping Point: How Little Things Can Make a Big Difference*, defines a tipping point as "the moment of critical mass, the threshold, the boiling point." Gladwell believes it takes three agents of change, "connectors," "mavens," and "salesmen," to spread ideas and products like viruses spread diseases. We are now at a tipping point for environmental, social, and governance (ESG) investing. The "connectors" are individuals such as Ron Cordes, Rochelle Gunn, and Debbie McCoy, who embraced ESG early in its evolution. The "mavens" are information specialists such as George Serafeim and Savita Subramanian, who know how to share knowledge. And the "salesmen" are persuaders such as Paul Pohlman and Andy Sieg.

In this issue, we begin with a roundtable discussion about the challenges and opportunities of ESG and impact investing with the *Journal of Investment Consulting*'s Masters Series. One persistent challenge advisors confront is that investors have varying perspectives about what ESG and sustainable impact investing encompasses. Advisors also ponder how to incorporate non-financial ESG metrics within traditional financial analysis. The Sustainability Accounting Standards Board (SASB) has done a great deal to move this effort forward (https://www.sasb.org/). Finally, performance measurement as it pertains to ESG investing is an area ripe for further research and discussion.

Although not directly ESG-related, two articles in this edition provide useful insights regarding emerging markets. Aron Gottesman and Matthew Morey examine the relationship between active share and emerging market equity performance.[1] Looking at a sample population of U.S.-based actively managed diversified emerging markets funds, the authors find a positive and significant relationship between the average level of a fund's active share and fund performance. Focusing on a completely different aspect of emerging markets, Cheng Yan demonstrates that hot money in U.S. equity flows to emerging markets has a significant impact on the local stocks, but not vice versa.[2] Yan's findings suggest a new factor regarding equity predictability and profitability that both investment advisors and policymakers may take into account.

In the area of ETFs (exchange-traded funds), we look at two novel insights. David Blitz examines the subset of the ETF universe that attempts to harvest factor premiums. Blitz points out that factor-based ETFs have been growing strongly in recent years. Using a comprehensive sample of U.S. equity ETFs, Blitz finds that many funds offer a large positive exposure to target factors, such as size, value, momentum, and low volatility; others offer a large negative exposure to these factors. He concludes that, on aggregate, the exposures toward the size, value, momentum, and low volatility factors turn out to be close to zero. The finding that ETFs are collectively neutral on factors argues against the concern that factor premiums are being rapidly arbitraged away by ETF investors. In the area of leveraged exchanged-traded funds (LETFs), William J. Trainor, Jr., uncovers risks for investors that use LETFs over longer time horizons. Specifically, he finds that for investors with longer time horizons, this constant leverage results in returns substantially less than the daily multiple might imply due to the volatility of returns.

Best wishes to all for a joyous holiday season!

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ENDNOTES

1. Matthew Morey is a member of the *Journal of Investment Consulting* editorial advisory board.
2. Cheng Yan's research was funded by a *Journal of Investment Consulting* research grant.