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ETFs, ETPs & Indexing

To open this issue, Belev and DiBartolomeo focus on the challenges posed by benchmarking private equity performance and the solutions that have evolved in practice. The article puts in four general categories the practical approaches used by investors and describes the relevant characteristics that distinguish each category, the typical circumstances in which it normally arises, and areas where each type of approach presents opportunities for improvement.

Next, Dekker, Houweling, and Muskens examine factors in the cross-section of emerging market hard currency corporate bonds and find that the size, value, momentum, and low-risk factors predict future excess returns. The results show that the factor portfolios benefit from bottom-up allocations to countries, sectors, ratings, maturity segments, and bond selection within these segments. Kanuri, Malm, and Malhlotra evaluate the absolute and risk-adjusted-performance of tactical allocation mutual funds and benchmark them to various benchmark index. Their findings indicate that tactical allocation funds did not outperform the benchmarks, and for most investors, sticking to a long-term strategic allocation is possibly the best course of action.

To complete this issue, the final articles represent the expanding scope of *The Journal of Index Investing* as we transition to *The Journal of Beta Investment Strategies* in spring 2022. *JII* started as annual guides to cover ETFs and enhanced indexing beginning in 2000. By 2010, interest had grown, and we launched the journal. Over the past 11 years, the field has continued to evolve into a wide range of beta strategies: indexing, smart beta, factor indexing, enhanced indexing, active and passive ETFs, ETNs, mutual funds, and direct indexing. To stay abreast with current developments in the field, we are relaunching in 2022 to provide research into all areas of beta strategies.

First, Coy and Robbins study the capture ratio as a mutual fund screening tool and its ability to predict future fund performance. They find that capture ratios measured over shorter periods, such as one year, do not exhibit subsequent performance predictability. However, the three-year and five-year capture ratios are useful for investors in the full sample. Next, Du and Overway discuss direct indexing as a tool for improving after-tax returns for taxable clients. Based on 20 years of simulated portfolios, the authors find that higher active risk could potentially provide more tax alpha without sacrificing pre-tax performance. Higher active risk is most beneficial in years with large drawdowns and during the earliest years since inception.

As always, we welcome your submissions. Please encourage those you know who have papers on all beta strategies: indexing, smart beta, factor indexing, enhanced indexing, active and passive ETFs, ETNs, mutual funds, and direct indexing to submit them for consideration to our newly rebranded journal. We value your comments and suggestions, so please email us at journals@investmentresearch.org.

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TOPICS: *Private equity, performance measurement, mutual funds/passive investing/indexing, fixed income and structured finance, emerging markets, analysis of individual factors/risk premia, portfolio construction, wealth management, risk management, financial crises and financial market history**

Brian Bruce
Editor-in-Chief

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