The Recipe for a Top-Performing Value Strategy Requires Different Ingredients

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Key Takeaways

- The WisdomTree U.S. Value Fund (WTV) leverages a unique shareholder yield-focused approach, outperforming the Russell 1000 Value Index across key periods, making a compelling case for its efficacy in value investing.
- WTV's emphasis on share buybacks over traditional value metrics like dividends results in a shareholder yield more than five times that of the Russell 1000 Value Index, showcasing its distinct investment strategy.

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How do you beat the market?1 For many investors, this is among the first questions that leap to mind and a motivating reason that attracts them to the craft of investing.

However, it is one of the most challenging endeavors in business.

Being Different Is Difficult

A critical first step in attempting to beat the market is deciding how to be different than the market. Each difference can create risk—that risk can drive either underperformance or outperformance.

A classic strategy, far easier said than done, is to simply "buy undervalued stocks." The deceptive aspect is that there has not yet been a single way discovered to value businesses that gets to the correct place all of the time. We instead have a plethora of valuation metrics, some of which tend to add different levels of value in different market environments.

WisdomTree's Unique U.S. Value Strategy

WisdomTree U.S. Value Fund (WTV): The strategy seeks income and capital appreciation by investing primarily in U.S. equity securities that provide a high total shareholder yield with favorable relative quality characteristics. For the purposes of looking at a performance benchmark, we can compare WTV to the Russell 1000 Value Index.

Figure 1: Standardized Performance

Fund/Index Name	Fund Ticker Symbol	Fund Inception Date	Fund Expense Ratio	SEC 30-Day Yield	Year-to-Date	1-Year	3-Year	5-Year	10-Year
WisdomTree U.S. Value Fund (NAV)	WTV	2/23/2007	0.12%	1.62%	18.33%	31.73%	12.58%	14.94%	11.96%
WisdomTree U.S. Value Fund (MP)	WTV	2/23/2007	0.12%	1.62%	18.25%	31.72%	12.52%	14.91%	11.95%
Russell 1000 Value Index					16.68%	27.76%	9.03%	10.69%	9.23%

Source: WisdomTree, as of 9/30/24. NAV denotes total return performance at net asset value. MP denotes market price performance. In the case of WTV, the Fund's objective changed effective 12/18/17. Prior to 12/18/17, Fund performance reflects the investment objective of the Fund when it tracked the performance, before fees and expenses, of the WisdomTree U.S. LargeCap Value Index. Past performance is not indicative of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For the most recent month-end and standardized performances, click here.

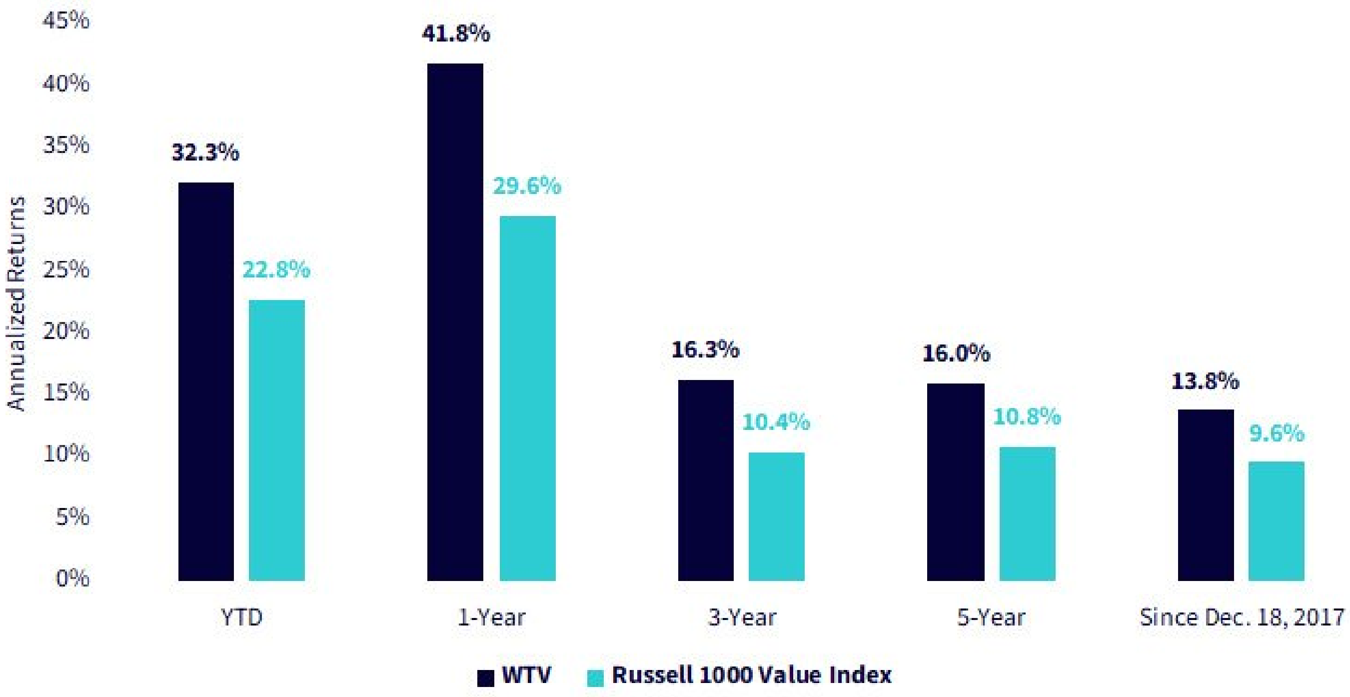
The First Test: Performance

Focusing on total shareholder yield has been gaining prominence, but in the realm of "value strategies," it is still nowhere as close in popularity as the longstanding "book-to-market" ratio.2 Therefore, WTV first must prove a capability to outperform a value benchmark to showcase the potential efficacy of defining value this way.

Looking at figure 2, measuring as of November 22, 2024, we can see:

- WTV has beaten the returns of the Russell 1000 Value Index across all relevant periods for which it has had its current methodology in place.
- The recent "Year-to-Date" and "1-Year" periods look particularly strong on a comparative basis, and we caution investors from expecting these types of outperformance. The company AppLovin has seen its share price appreciate significantly, and it has been a company that has also looked very strong on a shareholder yield basis, doing large share buybacks.3

Figure 2: Proof Is in the Performance (NAV, Total Returns Shown)



Source: WisdomTree, as of 11/30/24. Returns shown at NAV. In the case of WTV, the Fund's objective changed effective 12/18/17. Prior to 12/18/17, Fund performance reflects the investment objective of the Fund when it tracked the performance, before fees and expenses, of the WisdomTree U.S. LargeCap Value Index. Past performance is not indicative of future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For the most recent month-end and standardized performances, click here.

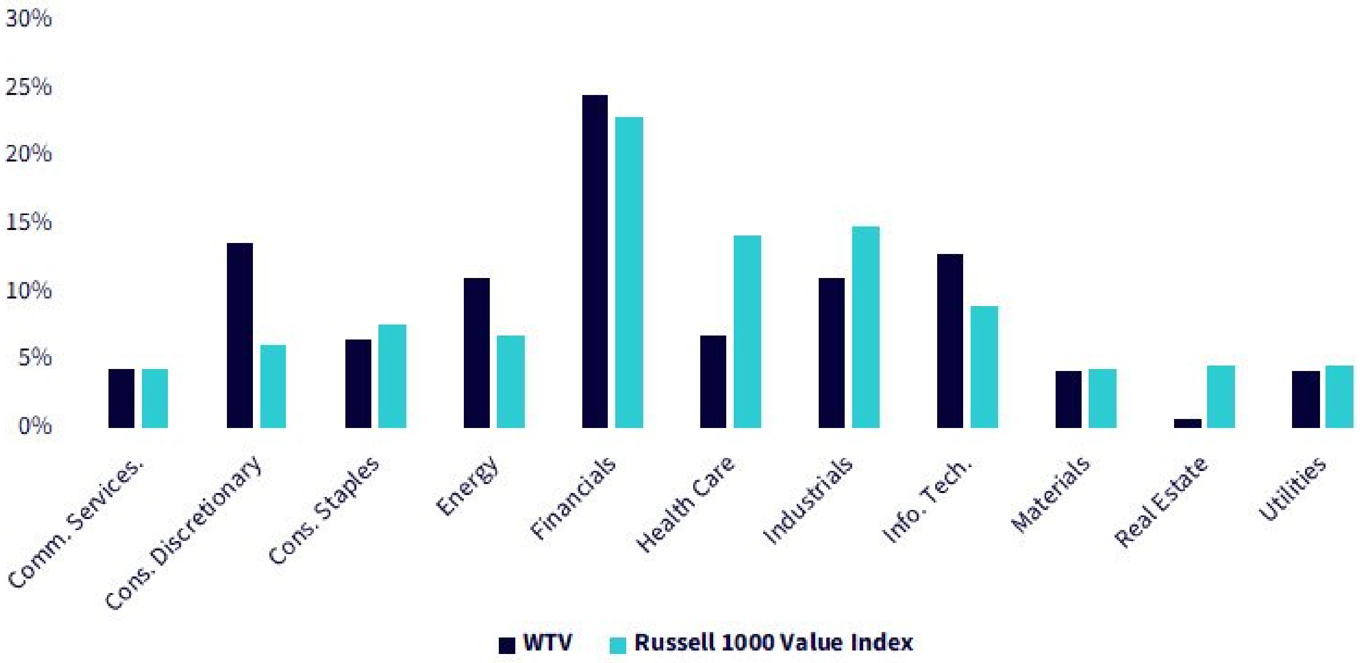
Next, a Look at Sector Exposure

Sector exposures get a lot of attention against benchmarks because they feel very intuitive and are easy to measure. Investors appreciate outperformance that is generated without being dramatically different across too many sectors since this is seen as "less risky."

In figure 3, we examine the sector similarities and differences:

- It's clear that WTV has very similar sector exposures as the Russell 1000 Value Index, with a couple of key exceptions.
- The Russell 1000 Value Index has over-weight positions in Consumer Staples, Health Care and Real Estate.
- From these differences, it is possible that, on a sector basis, the Russell 1000 Value Index is appearing a bit more defensively oriented than WTV.

Figure 3: Sector Exposures



Source: WisdomTree, through the Fund Comparison Tool within the PATH suite of tools. Data is as of 11/30/24. Weightings are subject to change. You cannot directly invest in an index.

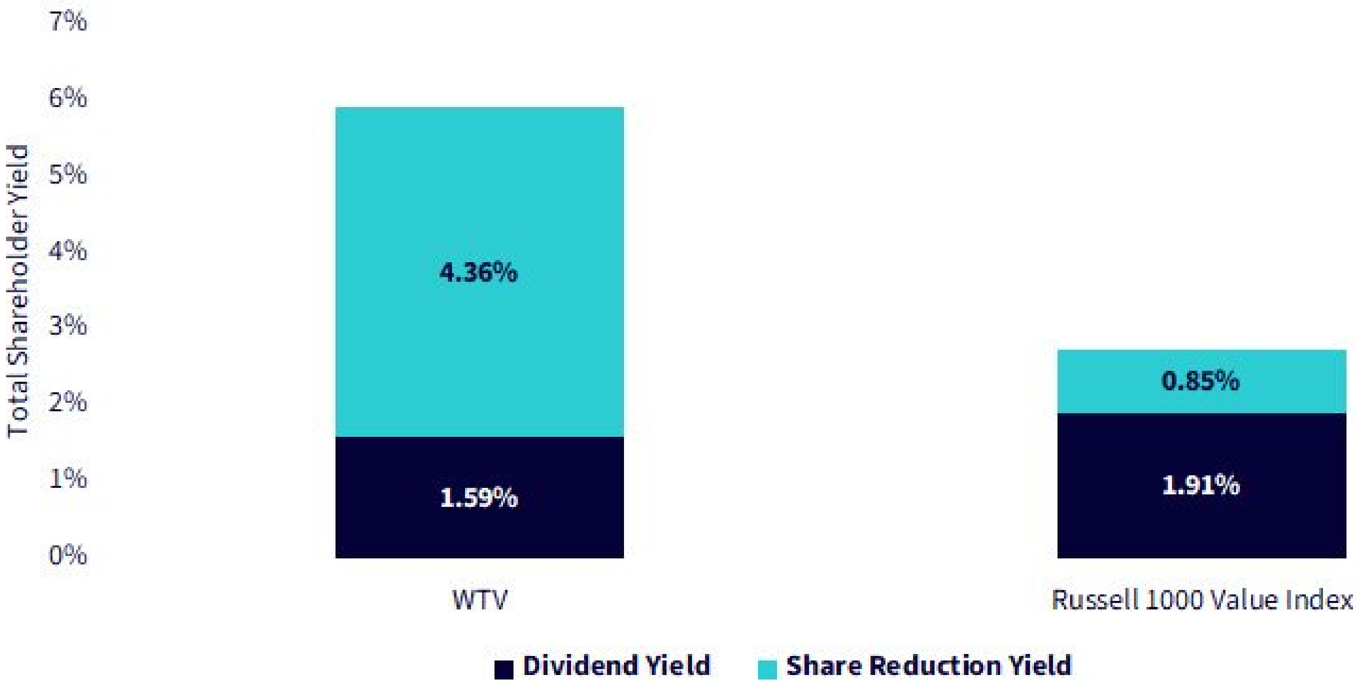
Shareholder Yield: A Focus of the Strategy Design

Focusing on shareholder yield to define which companies look value-oriented is our “different ingredient.” While other value strategies may incorporate attentiveness to dividends and buybacks, WTV's approach has this as the primary manner of defining which companies tick the right boxes to be considered “value.”

Figure 4 makes this very clear:

- The total shareholder yield, as we defined it, is comprised of dividend yield + share reduction yield.
- On a dividend yield basis, the Russell 1000 Value Index is actually ahead of WTV.
- However, the focus of the strategy comes through clearly with a focus on companies that are reducing their shares outstanding through buybacks. The share reduction yield of WTV is more than 5x larger than that of the Russell 1000 Value Index.

Figure 4: Share Reduction Yield as the Difference Design Make



Source: WisdomTree, through the Fund Comparison Tool within the PATH suite of tools. Data is as of 10/31/24. Past performance is not indicative of future results. You cannot directly invest in an index.

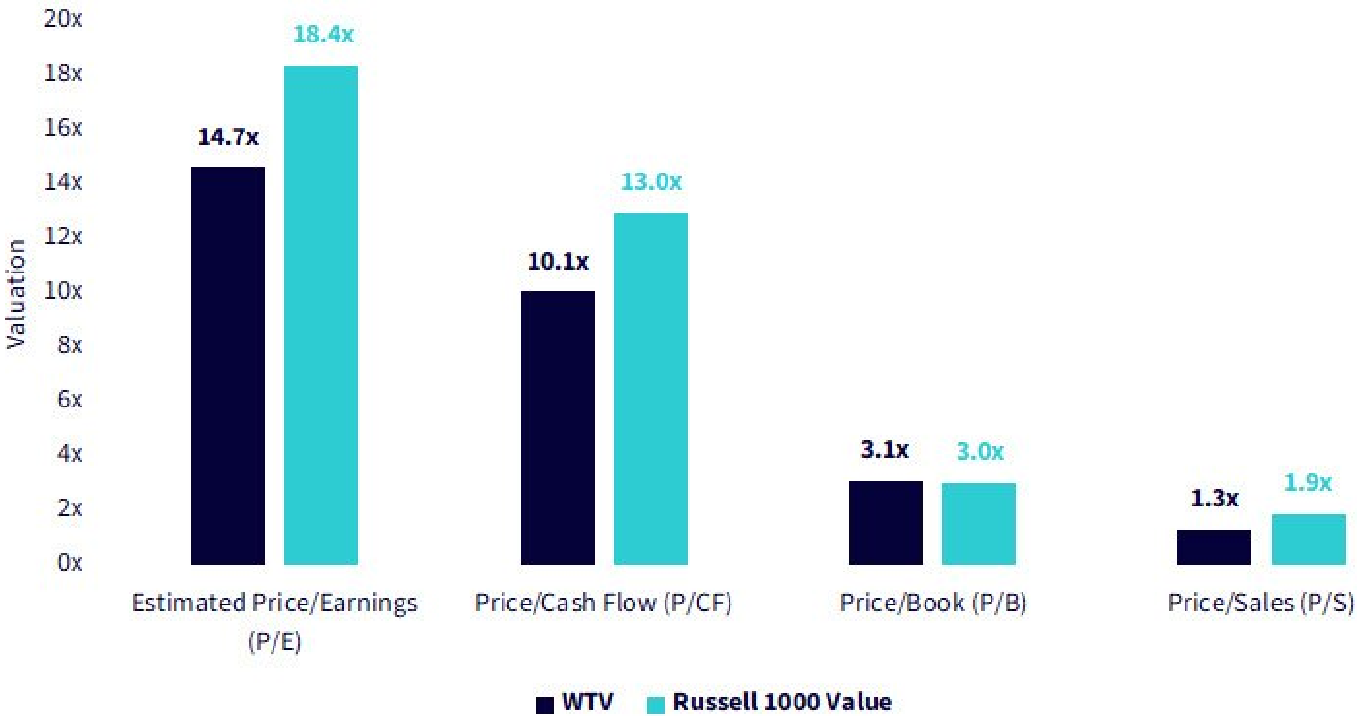
A Test of Robustness—What about the Other Value Metrics?

It is quite difficult to prove unequivocally that a particular metric has no value for investors. Far more often, what we see is just an ever-expanding list of ways that one can define different factors—and sometimes, we even see an ever-expanding list of factors!4

In figure 5, we sought to test WTV on some of the more traditional measures of value. Remember, the Russell 1000 Value Index is directly focused on three things: a measure of value relative to book value, earnings and sales.

- In terms of estimated price/earnings, price/book and price/sales, the discussion is much closer than it was in figure 4 with the share reduction yield, but WTV is still coming out as “less expensive.” This means that it is competing well within the measures that the Russell 1000 Value Index is directly focused on within its methodology.
- We also brought in price/cash flow—WTV looks less expensive there as well.

Figure 5: Testing Robustness across More Classic Value Measures



Source: WisdomTree, FactSet, as of 11/31/24. For definitions of terms in the chart above, please visit the glossary.

Conclusion: Taking on the Entire Morningstar Peer Group

Though we compare WTV to a large cap value benchmark in the analysis above, it is placed within the U.S. Mid-Cap Value category under Morningstar's methodology. Figure 6 indicates some of the details about this peer group, where there are many, many other managers issuing both ETFs and mutual funds.

- The 10-year period includes performance from before December 18, 2017, so it is important to recognize that it is mixing in some time with the prior methodology for WTV. Nonetheless, it stands alone as the best performer within its category during this timeframe.

Figure 6: How Does WTV Rank within the U.S. Large Value Peer Group?

	1-Year			4/1/22 to 9/30/24		
	Return	Peer Group Rank	% of Peer Group Beaten	Return	Peer Group Rank	% of Peer Group Beaten
GDE	71.93%	1	100	17.54%	2	100
Number of Managers		1,410			1,316	

Source: Morningstar Direct, as of 11/30/24. Returns shown at NAV. U.S. Fund Mid Value. Morningstar, Inc. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance, rankings and ratings are no guarantee of future results. Regarding ranking of funds, 1=Best. Morningstar rankings are based on a fund's average annual total return relative to all funds in the same Morningstar category. Fund performance used within the rankings reflects certain fee waivers, without which returns and Morningstar rankings would have been lower. The highest (or most favorable) percentile rank is 1, and the lowest (or least favorable) percentile rank is 100. Past performance is not indicative of future results.

While we know there are never any guarantees that such strong rankings can be maintained, we believe that total shareholder yield as a measure of value is making a strong case to become a more mainstream "value factor" within U.S. equities.

1 Market typically refers to broad, benchmark indexes across large-, mid- and small-cap stocks, such as the Russell 3000 Index.

2 The book-to-market ratio was referenced in Eugene Fama & Kenneth French's "The Cross-Section of Expected Stock Returns," first published in 1992 within the Journal of Finance.

3 Source: Emily Bary, "AppLovin's stock easily seals its best week ever. It's now up 600% this year," *MarketWatch*, 11/8/24.

4 Source: Campbell R. Harvey & Yan Liu, "A Census of the Factor Zoo," *SSRN*, 2019. This paper referenced more than 400 different factors.

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