

Unpacking the “Value” in the WisdomTree U.S. Value Fund

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Matt Wagner, CFA

Director, Research

Key Takeaways

- The [WisdomTree U.S. Value Fund \(WTV\)](#) follows a rules-based active strategy, emphasizing high shareholder yields while seeking to avoid potential value traps through strict profitability and dividend sustainability screens.
- Despite a multi-year growth-driven market, [WTV](#) has consistently maintained a strong value orientation, reflected in lower valuation metrics like price-to-earnings compared to the Russell 1000 Value Index.
- [WTV's](#) sector tilts, notably its consistent over-weight in Consumer Discretionary, excluding mega-cap growth names like Amazon and Tesla, reinforce its commitment to authentic value investing.

Listen to the blog post below:

Anytime a value fund jumps on the radar during a growth-led rally, a natural question pops up: how "value" is the fund?

In other words, someone would rightly want to know if the fund is "value-lite" and sits on the edge of being value or core.

A related question: has the fund had style drift in recent years, shifting from value into core, either intentionally or unintentionally?

In this post, we aim to unpack the "value" in the [WisdomTree U.S. Value Fund \(WTV\)](#).

The Investment Process

Not all fund managers are transparent about the process of how securities end up in the portfolio.

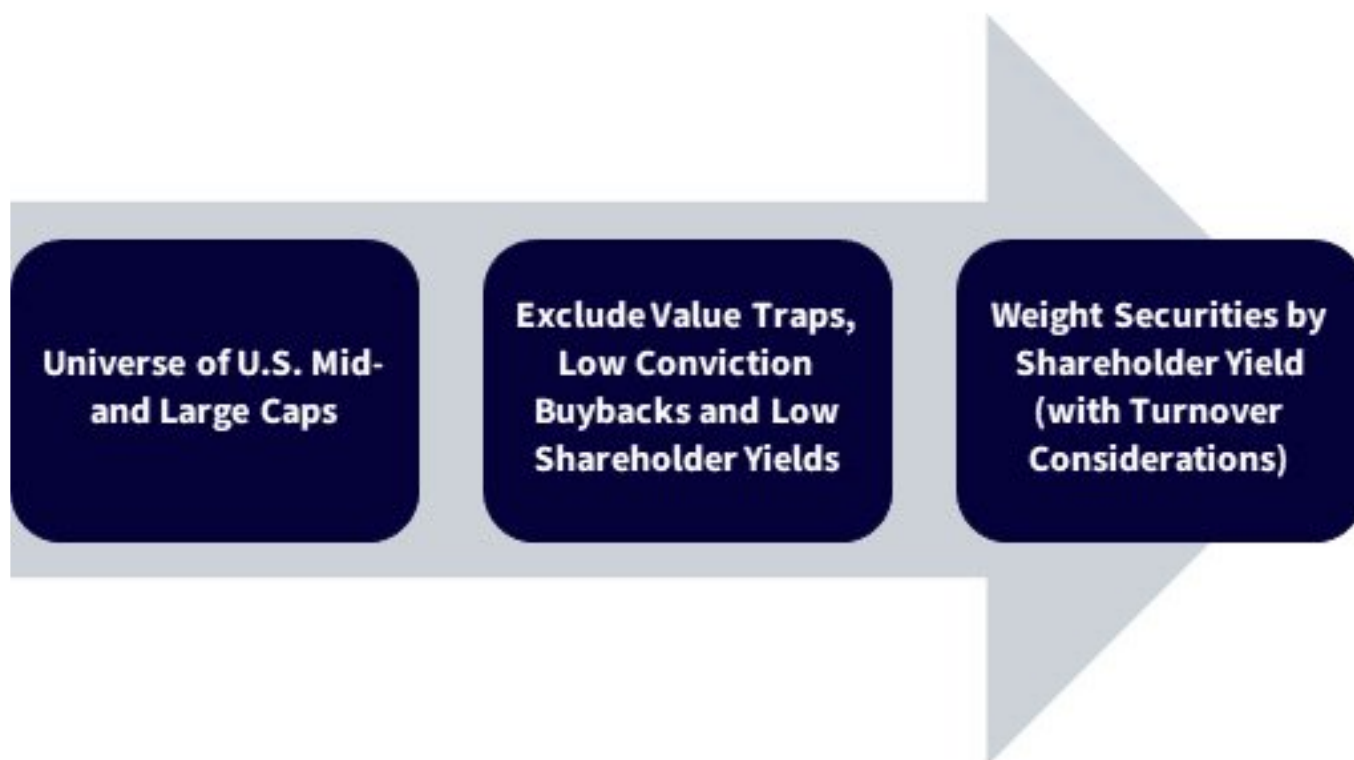
The [WTV](#) is a rules-based active ETF. This means we have a quantitative model (the rules) that our research team runs that serves as the primary basis for investment decisions.

The model, summarized in figure 1, sorts on mid- and large-cap U.S. equities that have high total shareholder yields (dividend yield + buyback yield).

To sidestep potential value traps and/or "low conviction" buybacks, the model excludes companies with higher-risk dividends (looking at metrics including profitability, risk-adjustment momentum and dividend yield) and companies that haven't reduced shares outstanding over the last year.

Securities are initially weighted based on shareholder yield with considerations to constrain turnover and sector over- and under-weights.

Figure 1: Quantitative Model Process



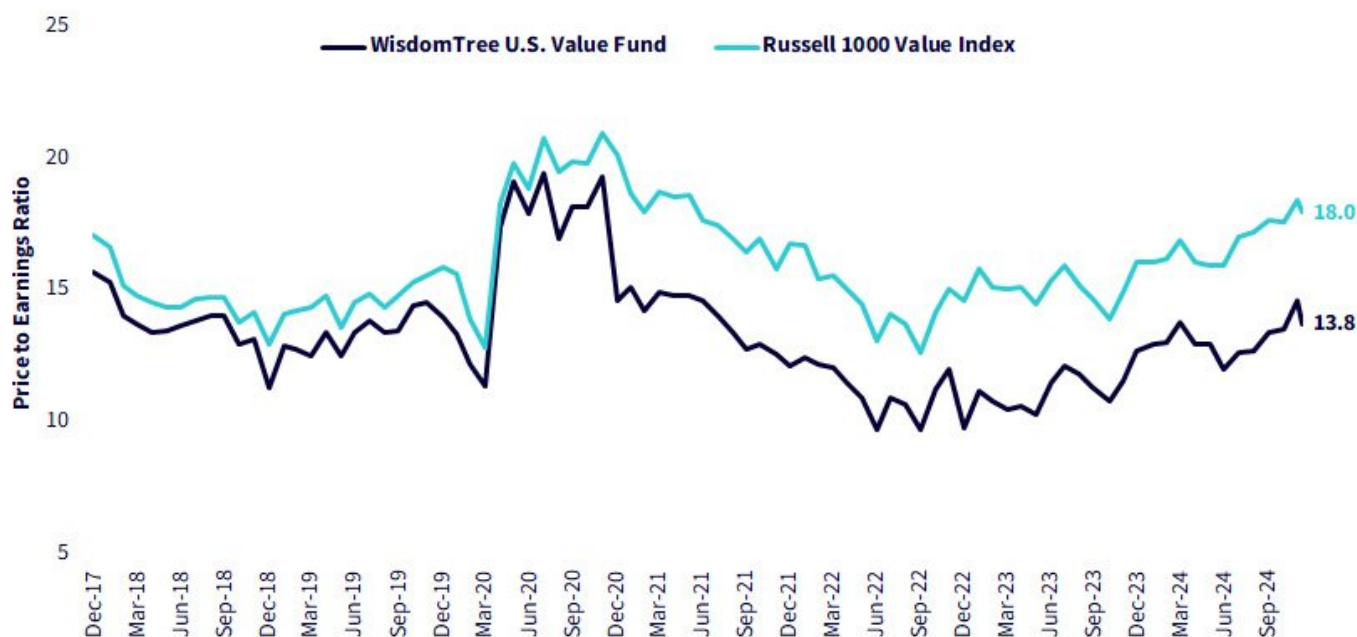
Holdings-Based: Valuations

We believe that valuations are the most straightforward way to get a sense of a fund's tilts without having to know anything about the investment process.

Because securities in [WTV](#) are selected based on shareholder yield, the Fund tends to include securities that have low valuation ratios on other traditional valuation metrics like price-to-earnings.

Over the last seven years, we can see in figure 2 that [WTV](#) has consistently had a price-to-earnings (P/E) ratio below the Russell 1000 Value, a valuation gap that has generally widened in recent years.

Figure 2: Forward Price-to-Earnings



Sources: WisdomTree, Russell, FactSet, 12/29/17–12/10/24. Period chosen to coincide with the start of the shareholder yield-focused investment process of the WisdomTree U.S. Value Fund in December 2017. You cannot invest directly in an index.

Regression-Based: Factor Tilts

Another way of reviewing potential style drift over time is with factor regressions.

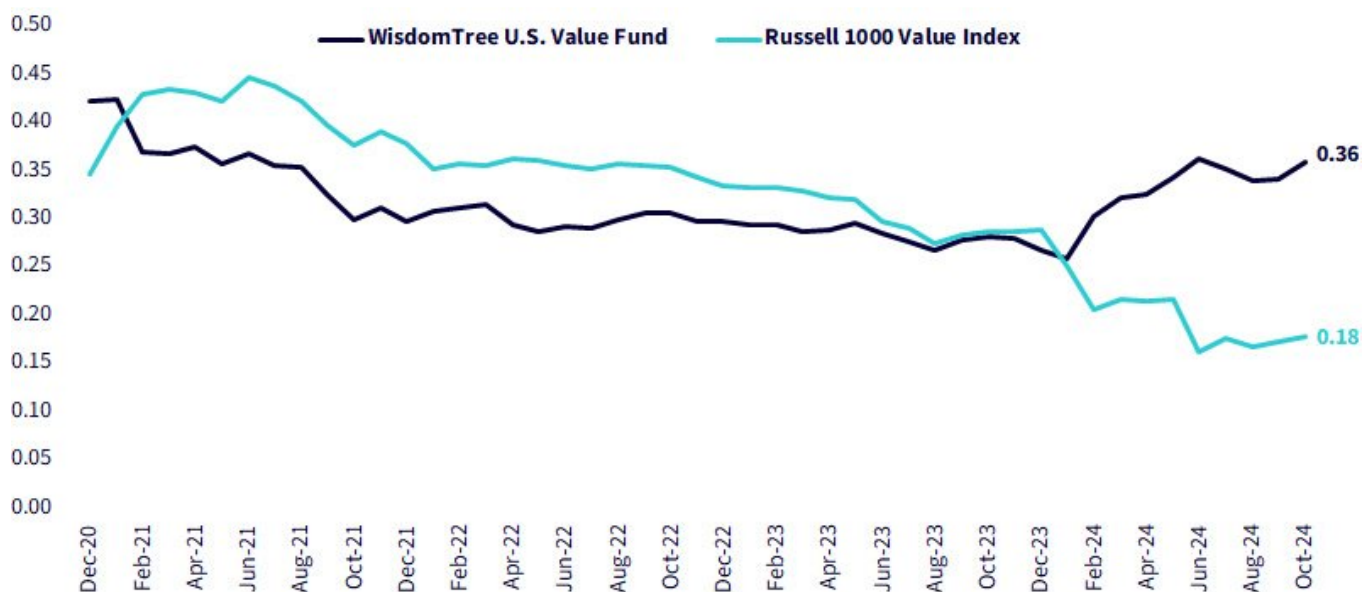
Using the Fama-French 5-Factor Model, we can evaluate how a fund's tilt to value has shifted over time.

Over the full period, [WTV](#) has an High Minus Low (HML), or value factor, loading of 0.33, slightly greater than the loading for the Russell 1000 Value Index of 0.30.

In figure 3, we show a rolling three-year factor loading for the HML (value) factor. Over the course of this year, as [WTV](#) has outperformed the Russell 1000 Value Index, we see a greater (not lessened) tilt to the value factor.

The Russell 1000 Value Index, on the other hand, has (curiously) had a steady decline in its exposure to the value factor.

Figure 3: Rolling Three-Year HML Loading



Sources: WisdomTree, Fama French Data Library, 12/31/17–10/31/24. Period chosen based on data availability and to coincide with the start of the shareholder yield-focused investment process of the WisdomTree U.S. Value Fund in December 2017. HML refers to high-minus-low and is the sensitivity or factor loading to value, specifically the book value-to-market value ratio, with higher meaning more loading toward value. Past performance is not indicative of future results.

Sector Tilts

There are a few sectors that tend to be synonymous with value and others with growth. Looking at sectors is an imperfect way of evaluating a manager's style, but we believe it is important nonetheless.

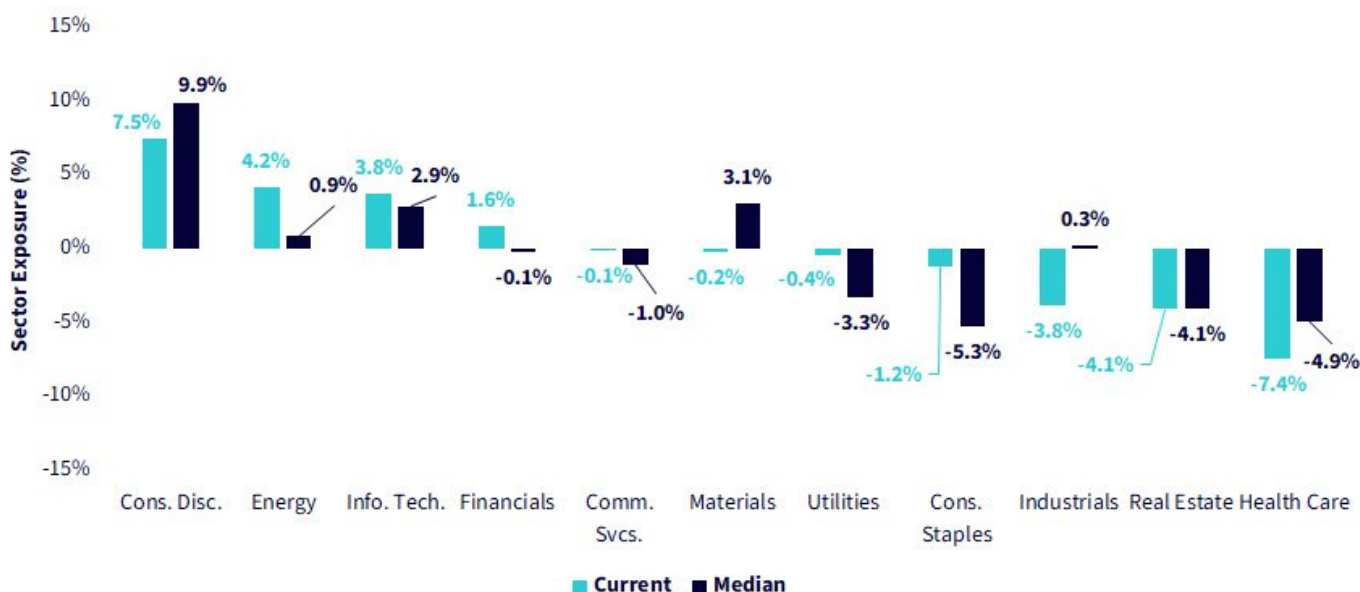
A value fund with no Financials exposure, for example, might raise eyebrows just in the way that a growth fund with no Information Technology might.

Figure 4 shows the relative sector exposures of WTV versus the Russell 1000 Value Index. This provides a way to gauge the type of sector "bets" the Fund is taking currently and compare to how it has positioned historically.

The greatest sector differential has been the 9.9% over-weight in Consumer Discretionary historically and the 7.5% over-weight currently.

Consumer Discretionary is a traditional value sector that has been complicated by mega-cap growth companies like Amazon and Tesla (names never held by WTV).

Figure 4: Relative Sector Exposures: WTV vs. Russell 1000 Value Index



Sources: WisdomTree, Russell, FactSet, as of 12/10/24. Median from 12/29/17–12/10/24. Period chosen to coincide with the start of the shareholder yield-focused investment process of the WisdomTree U.S. Value Fund in December 2017. You cannot invest directly in an index.

Value by Any Measure

WTV offers a pure-play value exposure, in our view.

Among WisdomTree's lineup of ETFs, it is relatively more focused in its holdings, with 163 names. Its more evenly distributed weighting also gives it a tilt to mid-caps, a size factor exposure we believe should also enhance returns over the long run.

The primary screen on shareholder yield is evident in the comparison to the Russell 1000 Value in figure 5—WTV has a shareholder yield advantage of 300 basis points. But even without screening explicitly on metrics like price-to-earnings, price-to-book and price-to-sales, the Fund has similar or lower valuations than the Russell 1000 Value Index on those ratios, as well.

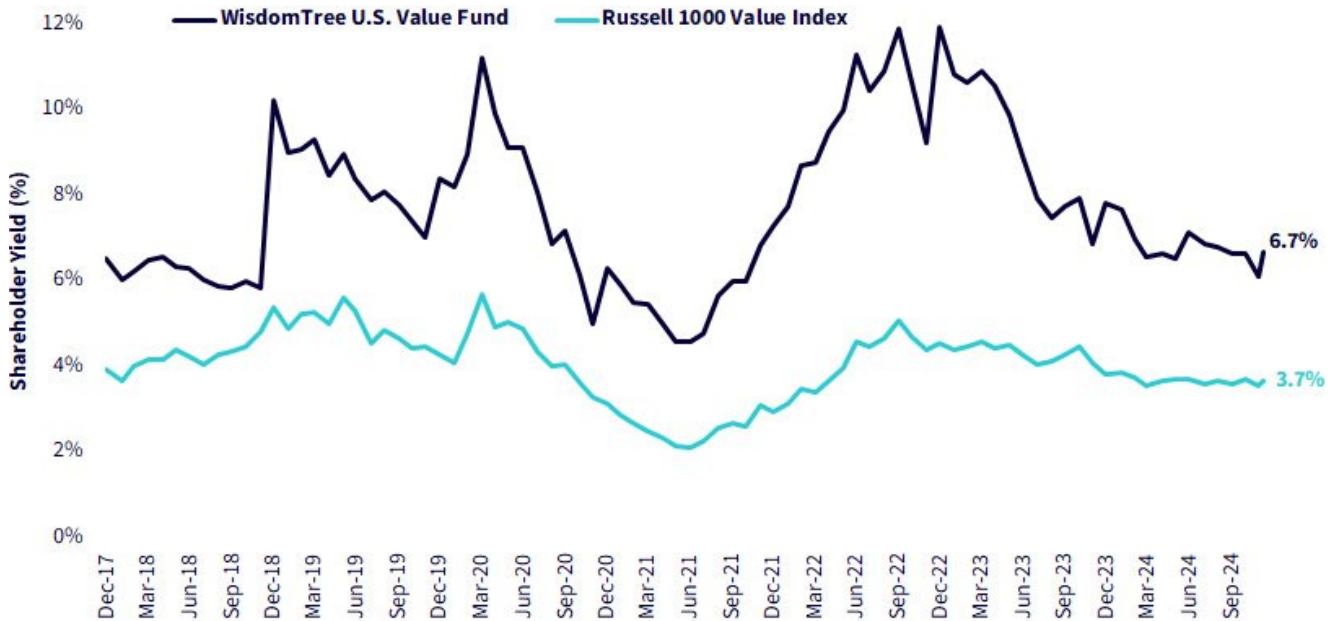
Figure 5: Characteristics

Characteristics	WTV	Russell 1000 Value	S&P 500
Size			
Weighted Avg. Market Cap (\$bn)	\$66.5	\$158.9	\$1,011.3
More Than \$10 Billion	77.3%	93.2%	99.6%
\$2 billion-\$10 Billion	22.7%	6.7%	0.4%
Less Than \$2 Billion	0.0%	0.1%	0.0%
Number of Holdings	163	869	503
Valuation			
Dividend Yield	1.8%	2.0%	1.2%
Net Buyback Yield	4.9%	1.7%	1.5%
Shareholder Yield	6.7%	3.7%	2.7%
Price-to-Earnings	14.9x	21.5x	28.1x
Price-to-Book	2.9x	2.9x	5.4x
Price-to-Sales	1.2x	1.8x	3.1x
Return on Equity	17.8%	12.3%	17.9%
Return on Assets	2.7%	2.6%	4.2%

Sources: WisdomTree, FactSet, Russell, S&P, as of 12/10/24. WTV 30-day SEC yield = 1.61% as of 12/16/24. You cannot invest directly in an index. Holdings subject to change. WTV expense ratio = 0.12% as of 12/17/24. 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](#). To download a prospectus, [click here](#).

And just as we saw with the low price-to-earnings ratios over time, we see a consistent picture in figure 6 of a higher shareholder yield for WTV, as expected based on our quantitative screening process.

Figure 6: Shareholder Yield



Sources: WisdomTree, Russell, FactSet, 12/29/17–12/10/24. Period chosen to coincide with the start of the shareholder yield-focused investment process of the WisdomTree U.S. Value Fund in December 2017. You cannot invest directly in an index.

Figure 7: Standardized Performance

Cumulative Performance			Cumulative Returns			Average Annual Total Returns					
Ticker	Fund	Inception Date	1-Month	3-Month	YTD	1-Year	3-Year	5-Year	10-Year	Since Inception	Common Period (2/23/07–12/16/24)
WTV	WisdomTree U.S. Value Fund (NAV)	2/23/07	0.35%	12.87%	27.27%	28.32%	12.32%	14.87%	12.61%	9.05%	9.05%

Sources: WisdomTree, as of 12/17/24. 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.

Important Risks Related to this Article

For current holdings, please click [here](#). Holdings are subject to risk and change.

There are risks associated with investing, including the possible loss of principal. Funds focusing their investments on certain sectors increase their vulnerability to any single economic or regulatory development. This may result in greater share price volatility. While the Fund is actively managed, the Fund's investment process is expected to be heavily dependent on quantitative models, and the models may not perform as intended. Please read the Fund's prospectus for specific details regarding the Fund's risk profile.