Zacks Opinion

RPV is best suited for those seeking to invest in undervalued stocks in the large-cap segment. These stocks are considered value stocks because they exhibit characteristics such as lower price-to-book ratio, lower price-to-earnings ratio, higher dividend yields and lower projected growth rates than other stocks. The huge number of coronavirus-infected domestic cases led to shut down of economic activities thereby, affecting the U.S. economic fundamentals. However, Fed’s dovish stance on interest rates might prove beneficial for this fund. Meanwhile, uncertainty surrounding the coronavirus pandemic may weigh on the fund. However, since investors are facing threats from easing global economic growth estimations, value stocks might outperform growth stocks in the days ahead. This is because investors will look for stability in their portfolio in tumultuous times in the stock market.

Key Points

- Thinly traded U.S. equity ETF
- Diversified exposure to value stocks
- Modest expense ratio but high trading costs

Reasons to Buy

- Stability and capital appreciation, Dovish Fed

Reasons to Sell

- Value stocks underperform in a bull market

The data on the front page and all the charts in the report represent market data as of 10/30/2020, while the report’s text is as of 09/03/2020
**Holdings Breakdown**

The fund holds 104 stocks in its basket and has an allocation of 21.82% to its top 10 holdings. From a sector look, the ETF has top exposure to Financials (33.1%), followed by Consumer Discretionary (16.1%) and Healthcare (10.6%).

**Performance**

RPV mostly remained on an uptrend since the fourth quarter of 2019 till around mid-February 2020. The upside can be attributed to improving Sino-US trade relationships and the Fed's dovish stance. The fund then remained on a downtrend till late-March before turning mostly volatile (as of Sep 2). It has lost 23.4% in the year-to-date frame and 12.6% in a year. The fund has a dividend yield of 2.99%.

**RPV Top 5 Holdings**

<table>
<thead>
<tr>
<th>Name</th>
<th>Weight %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Berkshire Hathaway Inc</td>
<td>3.33%</td>
</tr>
<tr>
<td>Kroger Co/The</td>
<td>2.39%</td>
</tr>
<tr>
<td>Ford Motor Co</td>
<td>2.39%</td>
</tr>
<tr>
<td>Archer-Daniels-Midland Co</td>
<td>2.38%</td>
</tr>
<tr>
<td>General Motors Co</td>
<td>2.38%</td>
</tr>
</tbody>
</table>

**Investment Objective**

RPV seeks to replicate the performance of the S&P 500 Pure Value Index. The fund holds at least 90% of its total assets in securities that comprise the Index.

**Analysis**

Those seeking to invest in ETFs, which have exposure to large-cap U.S. equities and which represent strong value, should look for RPV. The fund manages an asset base of $642.92 million and charges 35 basis points as fees. It trades in three months average volume of around 291,000 shares.

**2-Year Comparative**

<table>
<thead>
<tr>
<th>Fundamentals</th>
<th>RPV</th>
<th>VTV</th>
<th>IWD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>$49.93</td>
<td>$102.61</td>
<td>$116.73</td>
</tr>
<tr>
<td>AUM (million)</td>
<td>$621.63</td>
<td>$50,083.94</td>
<td>$35,456.74</td>
</tr>
<tr>
<td>Expense Ratio</td>
<td>0.35%</td>
<td>0.04%</td>
<td>0.19%</td>
</tr>
<tr>
<td>Dividend Yield</td>
<td>2.90%</td>
<td>3.08%</td>
<td>2.88%</td>
</tr>
<tr>
<td>Assets in top 10</td>
<td>23.28%</td>
<td>22.88%</td>
<td>16.75%</td>
</tr>
<tr>
<td>Beta</td>
<td>1.35</td>
<td>0.95</td>
<td>1.00</td>
</tr>
<tr>
<td>YTD % Price Change</td>
<td>-26.37%</td>
<td>-12.51%</td>
<td>-12.85%</td>
</tr>
</tbody>
</table>

**Description**

Launched in March 2006, Invesco S&P 500 Pure Value ETF (RPV) is a passively managed ETF designed to track the performance of stocks traded in the U.S. equity markets, which exhibit strong value investing characteristics.
Detailed Analysis

The fund is a good option for those planning to bet on the large cap value space. Value investing is simply buying a stock based on its intrinsic value, which can be calculated by analyzing the fundamental strength of the company. Additionally, value stocks and the resultant ETF exhibit a lower degree of volatility compared to growth stocks.

The huge number of coronavirus-infected domestic cases led to shut down of economic activities thereby, affecting the U.S. economic fundamentals. Nonetheless, large-cap value stocks offer some protection as these are less inclined to volatility, especially when compared to their small-cap counterparts.

Value stocks generally have low-price multiples and high dividend yields. However, value stocks have a tendency to underperform in a bull market.

Given this, let’s evaluate two other alternative funds targeting the large cap value space and compare these with RPV.

Alternatives

iShares Russell 1000 Value ETF (IWD)

This fund tracks the Russell 1000 Value Index and is comprises large and mid-capitalization U.S. equities exhibiting value characteristics. The fund holds 836 securities in the basket. The product has so far amassed $37.47 billion in its asset base and witnesses average three months trading volumes of roughly 2.2 million shares.

The ETF has lost roughly 7.9% year to date. The product charges 19 basis points as fees per year and has a dividend yield of 2.79%.

Vanguard Value ETF (VTV)

This fund seeks to track the CRSP US Large Cap Value Index, which measures the performance of large-capitalization value stocks and holds about 347 securities in its basket. The product has nearly $52.01 billion in AUM and sees average three months trading volume of 2.2 million shares.

It charges only 4 basis points in annual fees and has a dividend yield of 2.83%. VTV has lost 7.4% year to date.

Our View

Each of the three funds is a good bet to invest in large cap value companies. They have a well-diversified portfolio and low-concentration risk. Particularly, VTV seems to be the most attractive option as it is the cheapest among the three, while RPV is the costliest. Both VTV and IWD are highly traded, keeping the bid/ask spread tight and thus incurring no additional cost for the fund. RPV on the other hand has a comparatively thin trading volume.
Glossary

ACTIVE MANAGEMENT: A portfolio management strategy where the manager uses variety of skills and attributes (like top-down approach, bottom-up approach, value investing, growth investing or absolute returns strategy) in the portfolio so that the fund outperforms the benchmark index.

ALPHA: A measure of outperformance that can be calculated as the return of the fund minus the benchmark s return. A positive alpha indicates the fund has outperformed the benchmark index whereas negative alpha means underperformance.

AMERICAN DEPOSITORY RECEIPT: A negotiable non-US security that trades in the US financial market.

AUTHORIZED PARTICIPANTS: An entity chosen by an ETF sponsor to undertake the responsibility of obtaining the underlying assets needed to create an ETF. Authorized participants are typically large institutional organizations, such as market makers or specialists.

AVERAGE YIELD TO MATURITY: The expected rate of return on a fund's portfolio if it is held until the maturity while reinvesting all coupon payments at the bond yield.

BASKET: A portfolio of several stocks or securities that are selected for the inclusion in the fund with different weightings.

BETA: A measure of risk compared to the market benchmark. A beta of less than 1 indicates that the fund is less volatile than the market and vice versa.

BID/ASK SPREAD: The difference between the highest price that a buyer is willing to pay (often called bid price) for the underlying assets of securities of the fund and the lowest price that a seller is willing to accept (often called as offer or ask price) for it.

CONTRARIAN: An investment style that goes against prevailing market trends (i.e. against the thinking of many) by buying assets that are performing poorly and then selling when they perform well.

CREATION UNIT: A set of securities or underlying assets that can be created or redeemed by Authorized Participants for a certain number of ETF shares with the fund or trust. The creation units can vary in size ranging from 25,000 to 600,000 shares each.

DIVIDEND YIELD: A financial ratio that measures how much a company pays out in dividends each year relative to its share price. It can be calculated as annual dividend per share divided by price per share.

EFFECTIVE DURATION: A measure of a fund's interest-rate sensitivity. The longer the duration, the more sensitive is the fund to the changes in interest rates.

ENHANCED INDEXING: An investment idea that attempts to amplify the returns of an underlying asset or the fund with lower tracking error. Enhanced indexing combines elements of both passive and active management.

EXCHANGE TRADED FUND: The fund represents a basket of securities (that typically track an index), and is listed and trades like stocks on an exchange. ETFs can be traded throughout the day in amounts as little as one share.

EXCHANGE-TRADED NOTE: The note is a senior, unsecured, unsubordinated debt issued by a major bank. It has a maturity date and is backed only by the credit of the issuer. The ETN however, do not actually hold any security, instead an issuing bank promises to pay to investors the amount reflected by the index's performance (minus fees).

EXPENSE RATIO: An annual fee that the fund or ETF charge from the investors in order to provide exposure to the underlying asset.

FUND OF FUNDS: A fund that invests in other funds instead of investing directly in stocks, bonds or other securities.

FUNDAMENTAL INDEXING: A type of equity index in which stocks or securities are selected based on fundamental metrics such as revenue, dividend rates, earnings or book value.

INDEX: An imaginary portfolio of securities representing a particular market or a portion of it.

INVERSE ETF: An ETF that provides opposite (inverse) exposure in the underlying index though use of various financial and money market instruments over a specified period of time. This ETF is similar to holding a short position in order to take profit from the falling prices.

INVESTMENT STYLE: A different style of investing such as growth, value and blend in a basket of asset.

LEVERAGED ETF: An ETF that uses various financial instruments to amplify the returns (up to 3 times) of the underlying index over a specified period of time.
LIQUIDITY: The degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity.

MARKET CAPITALIZATION: Represents the aggregate value of the fund or underlying asset.

NET ASSET VALUE: Value of an ETF on per share basis and is calculated as total asset minus total liabilities divided by number of shares.

PASSIVE MANAGEMENT: A portfolio management strategy where the fund is the mirror image of the performance of the benchmark index.

PORTFOLIO TURNOVER: A percentage of underlying assets bought and sold in a given year.

R-SQUARED: A measure of correlation with the market benchmark. An R-Squared of 100 indicates perfect correlation of the fund that of market while an R-Squared of 0 indicates no correlation.

SECTOR ROTATION: A strategy that involves moving from one sector to another by selling the underlying assets or securities of a sector and purchasing securities or assets in another.

SEC YIELD: A standard yield that the bond funds must pay to its shareholders based on the most recent 30-day period covered by the fund's filings with the SEC.

SHORT ETF: An investment strategy that offers to take short position in the underlying index through various financial instruments.

STYLE BOX: A visual representation of the fund, created by Morningstar, to determine risk-return structures of the portfolio. A style box is comprised of nine squares, or categories, that classify securities by size (small, mid and large cap) along the vertical axis and by value, growth and blend characteristics along the horizontal axis.

TARGET DATE FUND: A fund that invests exclusively in the assets or securities with a certain defined maturity.

TRACKING ERROR: A measure of how closely a portfolio follows the benchmark index. It is calculated as the difference between the returns of fund portfolio and the benchmark index.

TREASURY INFLATION PROTECTED SECURITIES: The bonds that are issued by the U.S. Treasury to protect against inflation. These securities pay interest on an inflated-principal amount (principal rises with inflation) and when the securities mature, investors get either the inflation-adjusted principal or the original principal, whichever is greater.

VOLATILITY: A measure of risk calculated by the annualized daily movement in the fund price. The lower the volatility of the fund the better it is.

VOLUME: The number of shares traded in the market during a given period of time.

YIELD CURVE: A line that plots the interest rates of bonds having equal credit quality but differing maturity dates. The yield curve provides an idea of future interest rate change and economic activity. It generally compares the three-month, two-year, five-year and 30-year U.S. Treasury debt.

WEIGHTED MATURITY: The remaining time to maturity of the underlying securities in a portfolio. A fund with a short average maturity is more sensitive to current interest rate fluctuations than one with longer average maturity.

Disclosure
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