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ETF Value Adherence Report: Do Self-Described "Value" ETFs Actually Hold Value Securities?

Assessing Whether MSCI Enhanced Value ETFs Provide True Value Exposure or Merely Sector-Relative Cheapness

ABSTRACT

Value ETFs are often used as a simple route to cheaper, more defensive, or more cyclically sensitive equity exposure. This report examines whether MSCI Enhanced Value ETFs deliver that exposure in practice, using valuation metrics, holdings-level data, sector allocation and external factor research.

The conclusion is nuanced. On MSCI's core value metrics — Forward P/E, EV/CFO and Price-to-Book — the analysed ETFs are clearly cheaper than growth-oriented peers and therefore valid within the MSCI Enhanced Value framework. However, because the methodology is sector-neutral, the index retains the sector weights of the parent MSCI World Index, including its large allocation to Information Technology.

As a result, these ETFs provide sector-relative value exposure rather than traditional absolute value exposure. For investors, the relevant question is not whether the products are "real value", but whether a sector-neutral value factor strategy fits the intended portfolio role.

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KEY TAKEAWAYS

QUESTION

Do MSCI Enhanced Value ETFs actually hold value securities, or does the large technology allocation weaken the value exposure investors expect?

FINDING

The ETFs are valid value products under the MSCI Enhanced Value methodology, but the value exposure is sector-relative rather than absolute. The large Information Technology allocation is therefore not a mistake or a disclosure gap, but a direct consequence of sector neutrality.

EVIDENCE

Across the main valuation metrics, the analysed value ETFs trade materially below the growth cohort: Forward P/E of roughly 12–16x versus 25–30x, EV/CFO of roughly 13–14x versus 21–34x, and Price-to-Book of roughly 1.6–2.5x versus 5–15x. Holdings-level analysis also shows that while some growth-like names are present by count, their portfolio weight is negligible because the value z-score methodology suppresses expensive names into small positions.

IMPLICATION

Investors should not interpret the word “value” as meaning absolute cheapness across the entire market. These ETFs are better understood as diversified, sector-neutral factor vehicles that select the cheapest stocks within each sector. This makes them useful for systematic value exposure, but less suitable for investors seeking strong macro alignment with traditional value sectors such as Financials, Energy and Materials.

WHAT TO WATCH

The key variables are the Information Technology weight, the valuation spread between value and growth, the performance of semiconductor-heavy holdings, and whether the macro environment continues to favour factor value. A sector-specific technology de-rating would be the most important stress test, because sector neutrality limits the ETF’s ability to reduce technology exposure.

1. Introduction

Value ETFs are commonly used by investors seeking exposure to companies trading at lower valuation multiples than the broader equity market. In practice, however, the term “value” can refer to different portfolio construction approaches. A traditional absolute value strategy seeks companies that are cheap relative to the overall market, often resulting in larger allocations to sectors such as Financials, Energy, Materials or Industrials. By contrast, the MSCI Enhanced Value methodology follows a sector-relative approach: it identifies the cheaper stocks within each sector while keeping sector weights close to the parent MSCI World Index.

This distinction is central to the analysis. The MSCI Enhanced Value Index is defined by three valuation metrics: Forward P/E, which compares share prices with expected future earnings; EV/CFO, which compares enterprise value with operating cash flow; and Price-to-Book, which compares market value with accounting book value. On these metrics, the analysed value ETFs trade materially below the growth cohort. Forward P/E stands at roughly 12–16x versus 25–30x for growth ETFs; EV/CFO at roughly 13–14x versus 21–34x; and Price-to-Book at roughly 1.6–2.5x versus 5–15x.

The more complex issue is structural. Because the MSCI Enhanced Value methodology is sector-neutral, each sector’s weight is designed to mirror the parent MSCI World Index. If Information Technology represents 41.91% of MSCI World, the Enhanced Value version must retain a similar sector weight. The value tilt therefore takes place within the Technology sleeve: the index selects the cheaper technology stocks relative to other technology stocks, rather than rotating away from Technology altogether.

This creates the central tension examined in this report. A company may qualify under MSCI’s sector-relative value framework even if it does not appear cheap in absolute terms. Intel, for example, can remain eligible despite a Forward P/E of 103x if it scores attractively against other technology stocks once the full value composite is considered. The analysis therefore focuses not only on whether the ETFs are cheaper than growth peers, but also on what type of value exposure they actually provide.

2. Analysis

2.1 *Historical Benchmark Comparison*

The value ETFs must be read against a structurally elevated market backdrop. [Invesco \(2025\)](#) places the US equity CAPE, a cyclically adjusted valuation measure, at 37–41x — levels exceeded historically

only during the 1998–2002 technology bubble and the 2020–2022 post-pandemic peak. [Federal Reserve's April 2025 Financial Stability Report](#) flags forward P/E multiples as “well above historical medians.” In this context, the value ETFs’ absolute multiples are modestly elevated versus pre-2015 norms, but their **relative discount to MSCI World remains intact**.

Metric	IWVL / XDEV (w.avg)	Historical Value Avg	MSCI World (official)	MSCI World Enh. Value (official)	Growth ETFs (w.avg)
Fwd P/E	14.4x	~11–13x	24.74x	12.87x	25–30x
P/Book	1.63x	~1.2–1.5x	4.14x	1.90x	5–15x
FCF Yield	5.11%	~5–7%	~2% est.	—	2.5–3.7%
EV/EBITDA	11.2x	~8–10x	~16x est.	—	15–21x
EV/CFO	12.96x	~10–14x	—	—	21–34x

The median holding of the two analysed MSCI World Value ETFs, iShares MSCI World Value Factor ETF (IWVL) and Xtrackers MSCI World Value Factor ETF (XDEV), trades at just 12.1x Forward P/E and 1.40x P/B, below even the official MSCI Enhanced Value Index’s market-cap-weighted figures of 12.87x and 1.90x respectively. This confirms that the typical holding is value-oriented. The weighted average is slightly higher at 14.4x Forward P/E because larger portfolio positions have more influence on the overall multiple, particularly selected large-cap technology holdings discussed below.

According to [J.P. Morgan Asset Management](#) citing Bloomberg and MSCI data, the value-to-growth valuation spread remained wider than its technology-bubble peak even after significant value outperformance in 2020–2022. This suggests that the current discount is not anomalous, but structurally persistent.

2.2 Technology Exposure under Sector Neutrality

The defining structural challenge is the **41.91% Information Technology** weight in the MSCI World Enhanced Value Index, identical to the sector’s weight in the parent MSCI World Index and mandated by MSCI’s sector-neutral methodology ([MSCI Factsheet, May 2026](#)). Sector neutrality means that the index can select cheaper stocks within each sector, but it cannot materially reduce a sector’s overall allocation simply because that sector appears expensive in absolute terms.

The consequence is visible in the top 10 holdings:

Rank	Name	Index Weight	Selected Metrics	Why Included
1	Micron Technology	12.22%	Fwd P/E 18.5x P/S 21.1x	Cheapest memory chip stock vs. sector peers
2	Intel Corp	5.63%	Fwd P/E 103.1x EV/EBITDA 30.9x	Earnings collapse; P/B and EV/CFO anchor inclusion
3	Cisco Systems	4.25%	Fwd P/E 29.6x P/B 5.8x	Relatively cheap vs. software/network peers
4	Qualcomm	2.52%	Fwd P/E 23.2x P/S 6.1x	Borderline; cheapest fabless semi vs. peers
5	Western Digital	1.80%	Fwd P/E 59.9x EV/EBITDA 40.1x	NAND cycle trough; P/B and asset value dominate

Sector-relative versus absolute value is the core tension. MSCI scores each stock against peers within its own sector, rather than against the full market. A technology stock at 50x earnings may therefore qualify as “value” if it is cheaper than the broader technology peer group. The index does not **primarily ask whether a stock is cheap in absolute terms; it asks which stocks are cheapest within each sector**. This is methodologically defensible, because different industries structurally trade at different valuation multiples, but it differs from what many investors intuitively associate with traditional value investing.

Several flagged technology holdings also reflect **semiconductor-cycle distortions** rather than straightforward structural overvaluation. Intel’s 103x Forward P/E reflects foundry margin pressure, Western Digital’s 60x multiple reflects NAND cycle trough conditions, and STMicro’s 65x multiple reflects automotive inventory normalization. In these cases, MSCI’s use of Price-to-Book and EV/CFO alongside Forward P/E helps reduce reliance on a single earnings-based metric that may be temporarily distorted. This is precisely the purpose of using a three-metric value composite.

2.3 Holdings-Level Value Purity

A holdings-level screen shows that some growth-like characteristics remain present by name count. Using thresholds of Forward P/E above 25x, EV/EBITDA above 20x, P/S above 6x, P/B above 5x, or

EV/CFO above 30x, 79 of 398 IWVL holdings, or 19.8%, are flagged on at least one metric. The equivalent figures are 80 of 400 holdings for XDEV, or 20.0%, and 46 of 154 holdings for VLUE, or 29.9%.

ETF	Type	Fwd P/E < 18	EV/EBITDA < 14	FCF Yield > 3%	P/S < 4	P/B < 3	EV/CFO < 20
iShares MSCI World Value (IWVL)	VALUE	82.9%	82.5%	76.3%	84.7%	93.0%	82.7%
Xtrackers MSCI World Value (XDEV)	VALUE	82.9%	82.5%	76.3%	84.5%	93.0%	82.4%
iShares MSCI USA Value (VLUE)	VALUE	71.5%	75.0%	85.1%	78.4%	77.8%	83.6%
iShares MSCI EAFE Growth	GROWTH	40.2%	63.3%	71.2%	66.2%	39.6%	59.6%
iShares S&P US Growth	GROWTH	35.2%	43.9%	63.2%	47.3%	21.3%	42.8%
Vanguard S&P 500 Growth	GROWTH	22.1%	26.1%	55.2%	32.6%	12.0%	28.6%

Figure 1: The analysed value ETFs maintain 71–93% value purity across the selected metrics, while the growth ETF cohort falls to 12–71%. Source: Holdings-level analysis of LSEG Refinitiv data.

The critical distinction is between **name count and portfolio weight**. While a meaningful number of holdings trigger at least one growth-like metric, these flagged names collectively represent only around **0.37–0.50% of total fund weight**. In other words, the issue is visible when counting holdings but largely disappears when measured by actual portfolio exposure.

This reflects the MSCI value scoring process. Stocks that screen expensively across the core value metrics receive weaker value scores and are therefore pushed into very small positions. As a result, the presence of some growth-like names by count does not translate into meaningful contamination of fund-level value exposure or factor loadings.

2.4 *Mosaic Evidence: External Research*

The lost decade context. Robeco's factor research documents that the value factor delivered negative returns between 2010 and 2019, against a historical average outperformance of approximately +3.95% per annum. The driver was the sustained re-rating of technology and growth equities in zero-rate conditions, which mechanically widened the value-growth valuation spread to levels wider than the TMT bubble peak — a fact documented by J.P. Morgan Asset Management using Bloomberg and MSCI data.

The 2025 inflection. The MSCI FaCS Factsheet (2026) reports the MSCI World Enhanced Value Index returned **+39.39% in 2025 versus +21.09% for MSCI World** — an 18.3 percentage-point outperformance. Vanguard's April 2026 analysis confirms continued relative attractiveness of value over growth entering Q2 2026. The factor payoff is not theoretical — it has been occurring.

Current valuation spread. Natixis Investment Managers (2025) reports average forward P/E for growth stocks at approximately 27x versus approximately 18x for value, a 9-turn spread. The Federal Reserve Financial Stability Report (April 2025) explicitly flags US forward P/E as "well above its historical median," providing a macro-prudential context for the relative attractiveness of the value ETFs' 14–16x profiles. Invesco (2025) notes US equity CAPE has been higher only 6–8% of monthly observations since 1983.

2.5 *Sector Neutrality as a Design Trade-Off*

Sector neutrality should be understood as a deliberate design trade-off. Without it, an absolute value screen applied to MSCI World would likely produce a portfolio dominated by sectors such as Financials, Energy and Materials, which currently screen cheaper in absolute terms. Such a portfolio would reduce Technology exposure substantially, but it would also introduce significant sector concentration and behave more like a sector rotation strategy than a diversified value factor strategy.

The case for sector neutrality is therefore diversification and comparability. Different industries structurally trade at different valuation multiples, so comparing banks, software companies, energy producers and healthcare firms on the same absolute valuation scale can create unintended sector bets. By comparing companies within their own sectors, MSCI aims to isolate the value signal while keeping the portfolio close to the parent index's sector structure.

The cost of this approach is weaker macro alignment with traditional value exposure. In 2026, Information Technology represents 41.91% of the MSCI World Enhanced Value Index. This limits the index's ability to behave like a classic reflationary value allocation, which investors may associate with Financials, Energy, Materials, rising rates, inflationary recoveries or commodity cycles. By neutralizing sector exposures, **MSCI simultaneously reduces correlation to the macro conditions that historically drove the value premium. An investor seeking genuine duration risk reduction and value factor exposure in a reflationary environment may find these ETFs provide less macro alignment than expected.**

The net assessment is that sector neutrality is not a flaw, but an important portfolio construction choice. It prioritizes diversification, lower tracking error to the parent index and the purity of the within-sector value signal. The trade-off is reduced absolute valuation discipline and weaker macro factor alignment. Investors seeking broad-market cheapness or stronger exposure to traditional value sectors should therefore consider whether a non-sector-neutral or pure-value strategy would better match their objective.

3. Implications

The main implication is that investors should distinguish between two different definitions of value. The first is absolute value: buying companies that are cheap relative to the broader market, usually with low multiples, high cash-flow yields, and often high exposure to sectors such as Financials, Energy, Materials or Industrials. The second is sector-relative value: buying the cheapest companies within each sector, while keeping sector weights close to the parent benchmark. MSCI Enhanced Value follows the second definition.

This distinction matters for portfolio construction. A sector-neutral value ETF may provide cleaner exposure to the value factor, but it will not necessarily provide the same macro exposure as a traditional value allocation. In an environment where investors expect rising rates, inflationary recovery, commodity strength or a steepening yield curve, they may expect value to behave like a reflationary or duration-short equity allocation. A sector-neutral value ETF with a large Information Technology sleeve may deliver less of that macro sensitivity than expected.

For client portfolios, the finding creates a communication issue. A client may hear “value ETF” and assume they are buying a portfolio of low-multiple, non-technology companies. In reality, these ETFs can still contain a large technology allocation because the methodology looks for relatively cheap

stocks within each sector. The product can therefore be suitable, but the label requires explanation. The right message is not that the ETF is mislabeled, but that the label refers to MSCI's factor methodology rather than to a traditional Graham-and-Dodd interpretation of value.

For risk management, the Information Technology allocation is the key stress point. If technology underperforms because of rising discount rates, margin pressure, semiconductor-cycle weakness or AI-related disappointment, the ETF may not be protected simply because it has a value label. Its technology holdings may be cheaper than other technology stocks, but they are still exposed to technology-sector risk. The value tilt may reduce valuation risk within the sector, but it does not remove the sector exposure itself.

The broader implication is that ETF due diligence cannot stop at the product name. Investors should review index methodology, sector weights, top holdings, valuation metrics, factor exposure and the weighting mechanism before assigning a role to a value ETF. The relevant question is not simply "Is this a value ETF?" but "What kind of value exposure does this ETF actually deliver?"

4. Limitations and Open Questions

We would like to outline the following limitations for further consideration.

First, the analysis is based on current holdings and current index characteristics. Sector weights, valuation spreads and constituent-level scores can change after index rebalancing or after large relative price moves. The conclusion therefore describes the current structure of the analysed ETFs rather than a permanent property of all value ETFs.

Second, the analysis focuses mainly on valuation adherence and index construction. It does not fully assess implementation factors such as fund fees, tracking difference, liquidity, securities lending, tax treatment, replication method or trading spreads. These factors matter for investors choosing between UCITS and US-domiciled products.

Third, the holdings-level analysis depends on the selected valuation thresholds. Classifying a holding as "growth-like" or "value-like" requires cut-offs for metrics such as Forward P/E, EV/EBITDA, P/S, P/B and EV/CF0. Different thresholds would change the count-level contamination results, even if the broader conclusion about sector-relative value remains intact.

Fourth, the report does not claim that sector neutrality is either superior or inferior in all market environments. Sector neutrality improves diversification and reduces unintended sector bets, but it

also weakens the connection to traditional macro value exposure. Whether this is desirable depends on the investor's objective.

Fifth, the analysis does not provide a forward-looking return forecast. The valuation spread between value and growth may remain wide, narrow gradually, or widen further. Cheapness alone is not a catalyst. Future performance will depend on earnings revisions, rates, sector leadership, macro conditions, investor positioning and the durability of technology-sector profits.

Open questions remain. Would a non-sector-neutral value ETF provide better macro alignment in a reflationary environment? How much technology exposure should a value investor tolerate before the product stops serving its intended portfolio role? Does sector-relative value outperform absolute value over full cycles, or mainly reduce tracking error? And if technology remains structurally dominant in global equity indices, will "value" increasingly become a within-technology selection problem rather than a rotation away from technology?

5. Conclusion

On valuation metrics, the analysed ETFs are predominantly valid value products for investors with a preference for passive strategies. Price-to-Book purity stands at 93% for IWVL/XDEV and 77.8% for VLUE, EV/CFO purity at 82–84%, and FCF Yield purity at 76–85%. The weakest metric is Forward P/E, particularly for VLUE at 71.5%, which reflects the elevated valuation baseline of the US large-cap universe.

The main challenge is not valuation adherence, but Information Technology concentration. The 41.91% Technology allocation is the most legitimate source of investor concern. In a scenario where the sector de-rates because of higher discount rates, weaker semiconductor earnings, margin pressure or regulatory pressure, these ETFs would not be fully insulated by their value tilt. Sector neutrality limits the index's ability to reduce Technology exposure in a sector-specific drawdown. This is not a disclosure gap, but a structural consequence of the methodology.

The conclusion is therefore nuanced. These ETFs are valid under MSCI's Enhanced Value framework, but that framework defines value as sector-relative cheapness rather than absolute cheapness. Investors expecting traditional Graham-and-Dodd-style value exposure across the full market may find the Technology sleeve structurally challenging. The key portfolio question is whether a sector-neutral value factor vehicle is the right instrument for the investor's objective. In our perspective,

investors should be aware of potential value dispositions and a strong bias towards the technology sector when investing in indexed products. The main advantage in active investing plays out when structural biases in the markets are proactively avoided or adjusted to the investors risk appetite.

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16	Primary Data: Holdings-level metrics from LSEG Refinitiv Workspace	Proprietary (user-provided Excel file)	All sections

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