The Russell 1000® Growth Index is not the U.S. large cap growth market

From Winslow Capital

The Russell 1000® Growth Index (the "RLG"), we believe, has become a deeply flawed index and investors should no longer accept it as representative of the U.S. large cap growth market. The methodology used to construct the RLG has led investors to increase portfolio concentration risk and portfolio turnover, to underweight growth during a decade-long period of dramatic outperformance and lose real insight to active manager skill. The rigidity of the construction methodology has led to major distortions caused by increasingly frequent and material changes to the Index (i.e. now quarterly versus annually) and could soon result in yet another methodology change in June 2026.

Index methodology review

The current index methodology systematically classifies companies within the Russell 1000® Index into Growth ("RLG") and Value (the Russell 1000® Value Index, or the "RLV") segments using a blend of market capitalization, value and growth metrics. Russell evaluates each company using style factors between growth and value characteristics. The value factor is measured by a single price-to-book ratio, while growth is assessed through two metrics: two-year forward earnings growth and historical five-year sales growth. The single value factor carries a 50% weight, while the two growth factors carry a combined 50% weight. A composite scoring system and algorithm next assign growth and value weights based on the style characteristics, with approximately 30% of companies overlapping both styles. Lastly, half of the Russell 1000®'s market value is allocated to the RLG and half to the RLV ensuring equal market capitalizations for both indexes.

Increased portfolio concentration risk

The RLG is an extremely concentrated Index with eight companies representing nearly 60% of the entire Index weight. The same eight companies within the market cap-weighted S&P 500® Index represent 37% of that Index. The concentration of the RLG stems from two factors. First, the definition of value, based exclusively on price-to-book ratios, has distorted the Index. For example, Apple's lower growth factors would warrant inclusion in the RLV yet the company's high price-to- book ratio places the stock within the growth index. The methodology fails to recognize Apple's price-to-book as inflated due to massive stock repurchase programs.

The specific securities identified do not represent all of the securities purchased, sold or recommended for advisory clients. The reader should not assume that investments in the securities identified and discussed were or will be profitable.

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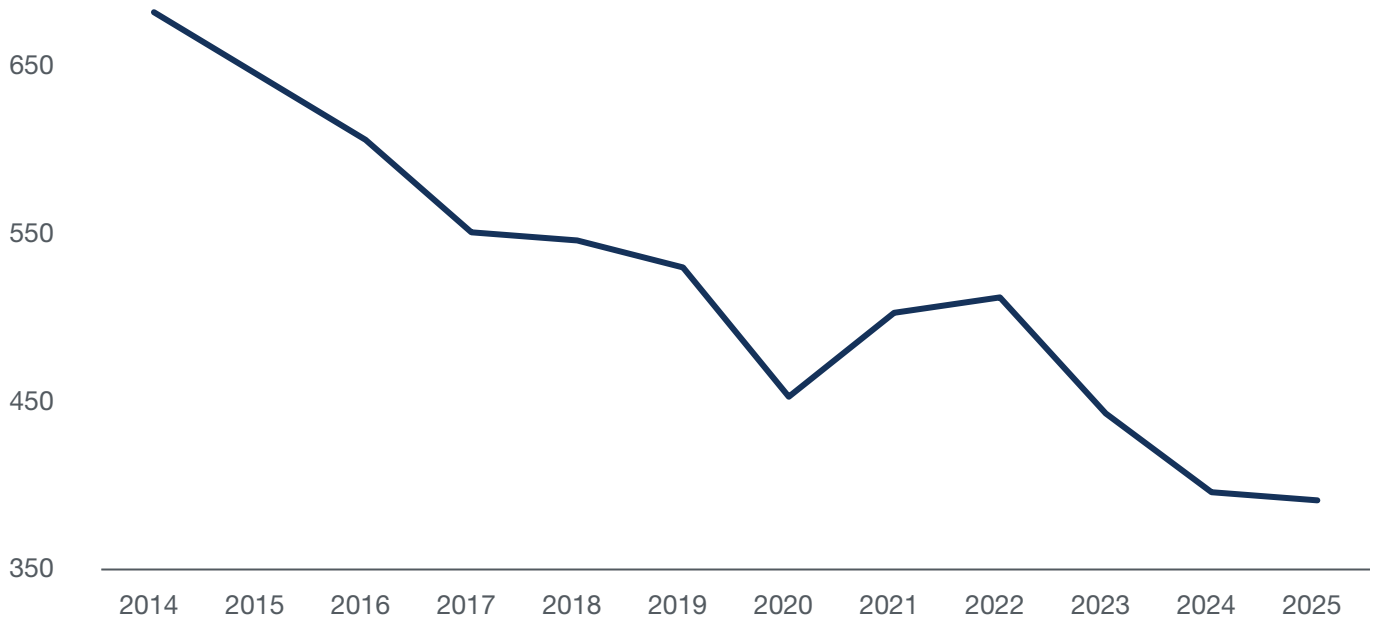
The second factor driving concentration is the forced mechanism to balance market capitalization between the RLG and RLV. Mega cap technology companies tend to have strong growth characteristics and/or little value based on the single antiquated metric, leading Russell to allocate the vast majority of market capitalization to the growth style. Because the aggregate RLG capitalization cannot outweigh that of the RLV, the number of growth companies eligible for inclusion shrinks. In fact, the RLG now has only 385 companies versus the RLV at 855 companies.

Figure 1: Russell 1000® Growth Index – constituents



Source: FactSet. Pre-trade number of securities (ex cash and dividends) from 12/31/2004 to 9/30/2025.

Modern portfolio theory would not advise allocating nearly 60% of a portfolio to eight stocks. If one chooses to invest passively, there is no option to change the portfolio if these companies were to fail. To further highlight the concentration risk, nearly all the mega cap companies are levered to one theme - the exciting, yet nascent advances in artificial intelligence. The RLG is conventionally seen as the least risky way to participate in large cap growth; however, the level of concentration suggests the passive approach could carry substantially more risk than an active strategy given the Index concentration is an outcome of an antiquated rules-based methodology. To reinforce this point, we believe the Index methodology could change again, validating the unnecessary levels of current portfolio concentration.

A costly tilt to value

According to FactSet, the RLG dramatically outperformed the RLV over the last decade. Given the advantages of free cash flow margins and compounding growth, we believe the RLG may continue to outperform. With a largely agnostic approach mainly based on market capitalization, the S&P 500® Index has evolved to comprise roughly 68% growth and 32% value-based factors. In fact, the S&P 500® Index is becoming a large cap growth index. As growth companies have increased as a percentage of the S&P 500® Index, investors have greatly benefited as growth has continued to outperform. Alternatively, using the forced equal growth and value market capitalization approach used by Russell, investors may have been misled into underweighting growth. As an example, if investors had allocated 65% of their capital in the RLG over the last ten years versus 50% they would have increased their return by 43% purely based on the 15% difference in weighting.*

*Example is being presented in an effort to show concentration levels of the Russell 1000®' Growth Index. For an avoidance of doubt, the example is not being presented to illustrate the performance that could be achieved by a portfolio.

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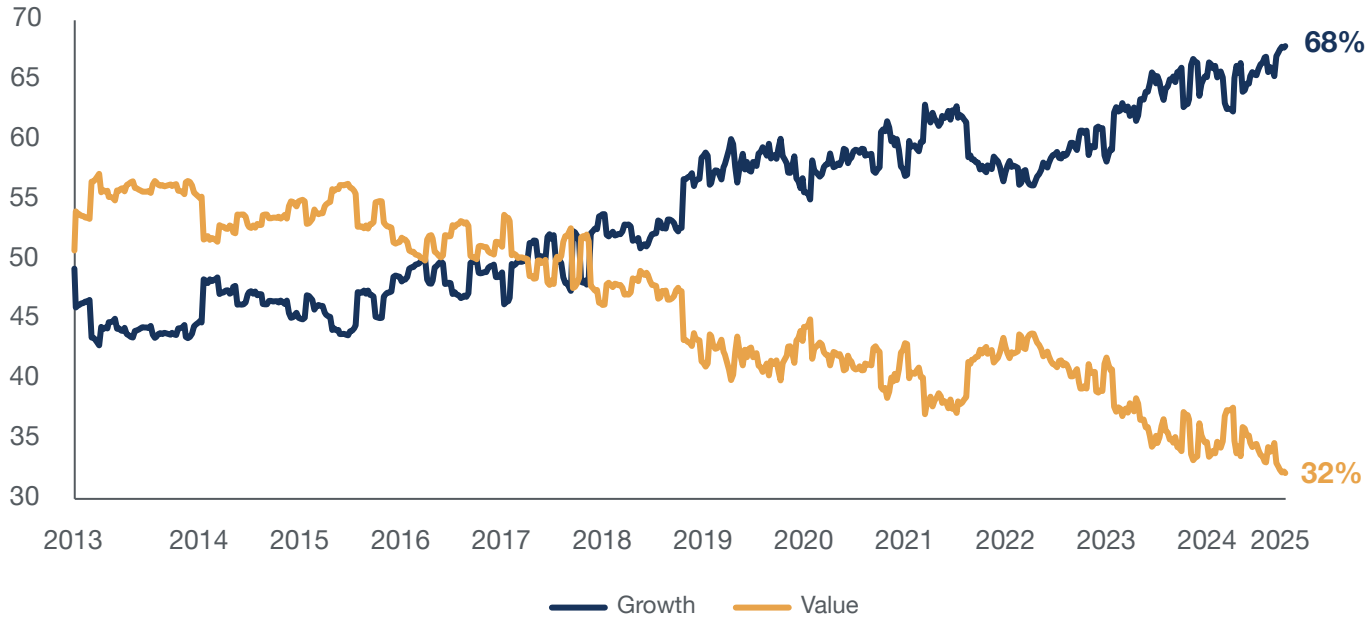
When measuring relative performance versus the Russell style indexes, value managers have done better against the RLV than growth managers compared to the RLG. Growth managers have had a structural bias to be under or equal weight in the mega cap companies if giving consideration to portfolio diversification benefits. Value investors have been competing against relatively weak companies based on free cash flow margins and growth. The better performing value managers have bought growth stocks in a style drift to outperform the RLV whereas growth investors have had no alternative to the largest stocks. A bet on active value managers, paradoxically, is a bet that growth will continue to outperform value. If that is the belief, investors may consider an active growth approach and select an active growth manager to have an option to change course if the largest stocks fail due to disruptions in artificial intelligence.

Figure 2: The S&P 500® Index is becoming a large cap growth stock index

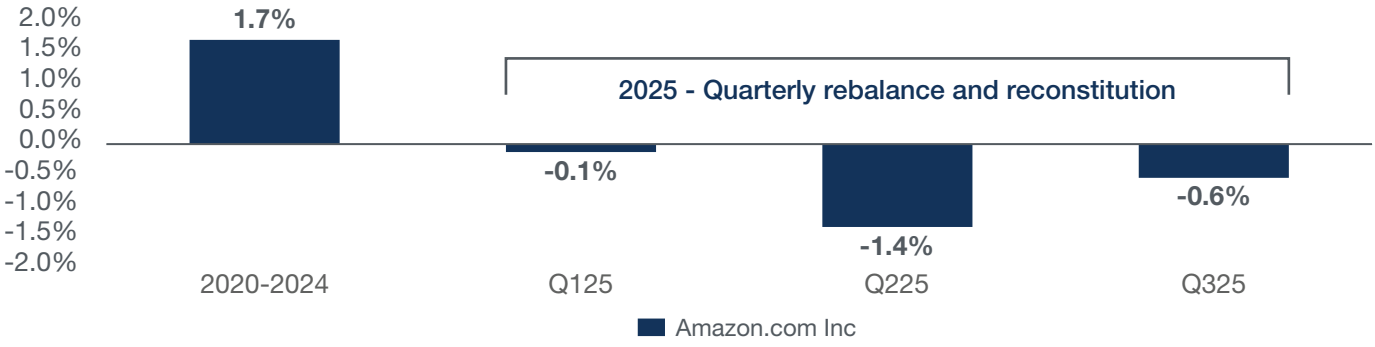


Source: Factset as of 9/30/2025. Growth/Value style factors based on Winslow Capital's custom Factset methodology categorizing value and growth securities using different attributes as part of a multi-dimensional framework. In instances where security attributes are split equally between Growth and Value, Winslow Capital allocated 50% of the weight to each Growth and Value.

Increased portfolio turnover

As the antiquated Index methodology has persisted over time, the RLG has become so concentrated it has come close to breaching the 25/5/50 U.S. Regulated Investment Company IRS capping thresholds. In response, Russell implemented a quarterly rebalancing in March 2025. The quarterly rebalancing methodology is incredibly complex and has caught many investors by surprise. The new rebalancing oddly reduces the smaller-weighted mega cap stocks over 4.5% weight, rather than the largest stocks, in order to have fewer names close to the 5% threshold for aggregation purposes. This has led to a more dramatic reduction in weighting to Meta Platforms Inc and Amazon.com Inc than the much larger weighted Microsoft Corp, NVIDIA Corp and Apple Inc. Since the quarterly rebalancing began, the top eight names have had their weight reduced by over 3% over three quarterly rebalances. This stands in sharp contrast to the previous five years in which these same stocks were reweighted higher in annual style reconstitutions by 7.3%. As the mega cap stocks appreciated, many of which were exclusively allocated to the RLG, their higher reweighting forced Russell to move even more stocks to the RLV in order to maintain market cap parity between the two. To illustrate the point, we look at Amazon.com Inc weight changes over the last six years unrelated to price performance. Investors in both active and passive growth vehicles have not been well served by this forced turnover.

Figure 3: Reconstitution impact



Source: Reconstitution impact data from FactSet for calendar years 2020-2024, and quarterly reconstitution and quarterly capping rebalance in 2025. Amazon.com Inc represents the largest aggregate position reconstitution impact for the period beginning in 2020 through 2024.

A Loss of insight to active manager skill

Given the RLG is a widely accepted benchmark for U.S. large cap growth, it has been accepted as the "riskless" vehicle to participate in the U.S. large cap growth market. Ironically, the Index may have more risk than most active large cap growth managers. Further, we believe that it is not a good method by which to assess manager skill given the antiquated rules-based methodology and level of concentration. How can you compare a manager who is trying to diversify risk with a portfolio of non-correlated growth companies to a benchmark where nearly 60% of the Index is in eight names all levered to the artificial intelligence theme? We encourage large cap growth stakeholders to consider using peer ranking and a comparison to the S&P 500® Index as additional ways of assessing manager skill. It does bear to reinforce that all style managers, including value and small cap, should be held accountable to outperforming the S&P 500® Index over any ten-year period of time. The S&P 500® Index is the market. And the market is increasingly a large cap growth market. Further, we believe the market, as measured by the S&P 500® Index, is the best match against future liabilities of our clients.

Are material changes coming in June of 2026?

Russell's clients have become increasingly vocal about the flaws in their rigid constitution methodology and alternative indexes are increasingly being used. Feeling the pressure, Russell has become more amenable to modifying the methodology and is actively collecting investor input for the first time. We believe any change is likely to be centered on expanding their definition of value to include an additional metric to pair with the current exclusive price- to-book methodology. Depending on how this unfolds, we could see weight shifts of up to 20% between the RLG and the RLV in June 2026. A change of this magnitude could increase the name count in the RLG. While this again may drive unwelcome turnover for asset owners, it may begin a normalization process that allows the RLG to begin resembling the U.S. large cap growth market. Only time will tell if major changes are coming, but if implemented, such alterations will serve to further reinforce our opinion that the RLG has provided little value in assessing active manager skill in recent years. The RLG goal posts are moving at an accelerating rate.

Summary

In our over 30 years experience of investing in growth equities, we remain constructive on the long-term opportunities ahead. The pace of innovation is surely accelerating, and most leading growth companies are in a period of expanding profit margins. This is such an exciting time for investors and our Team has never been more energized. Please reach out to us if you would like to explore any of the topics in this paper further. We encourage healthy debate and remain open minded about other perspectives.

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ENDNOTES

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