Understanding the Benchmark:

The Russell 1000 Value Index

Benchmarks are often treated as passive reference points and neutral yardsticks against which investment performance is measured. Yet beneath the surface lies a dynamic system that continuously adapts to changes in market prices, investor behavior, and prevailing risk appetites. Understanding how these benchmarks evolve is particularly important during periods when market leadership becomes narrow and valuations extend beyond historical norms.

Investor psychology is not static, and it evolves with the market cycle. During sustained bull markets, such as the one we are currently experiencing, optimism and fear of missing out tend to dominate. Capital flows toward stocks and sectors that are already performing well, leadership narrows, and momentum becomes increasingly concentrated. Over time, this behavior is often accompanied by a gradual loosening of risk tolerance. The opposite dynamic typically emerges in bear markets, when losses prompt investors to prioritize risk avoidance and capital preservation.

Benchmark indexes, while constructed using rules-based methodologies, inevitably translate these shifts in investor behavior into changes in index composition and valuation. During periods of exuberance, rising prices and expanding market capitalizations can push index weights toward companies whose valuations assume that favorable conditions will persist. During periods of stress, falling prices and contracting market caps can compress valuations to levels that imply little expectation of recovery. Because these indexes are market cap-weighted, the largest and most popular companies exert a disproportionate influence, amplifying the impact of these valuation extremes on overall index behavior.

What is often overlooked, however, is how these dynamics interact with index construction, specifically with respect to the Russell 1000 Growth and Value indexes. The two are not separate silos, but interconnected components of the same system. As market prices and investor preferences evolve, the mechanics of the index quietly reallocate exposure between Growth and Value, with important implications for index composition and performance over time.

We have broadly explored index construction and the applications and limitations when evaluating investment managers in an earlier report, "Shining a Light on Indexes." The purpose of this follow-up piece is to pull back the curtain on the Russell 1000 Value Index, including how it is constructed, how it has evolved, and why its changing composition has amplified certain market trends. Our goal is to provide clarity, reaffirm our disciplined approach at Confluence, and underscore why we believe remaining true to our philosophy positions us well over the long term.

The Origins and Evolution of Growth and Value Indexes

To appreciate the nuances of the Russell indexes, it is helpful to understand their history. In 1984, the Frank Russell Company (now FTSE Russell) introduced the Russell 1000 Index, which is composed of the largest 1,000 US companies by market capitalization. In 1987, Russell launched the companion Growth and Value indexes to deconstruct the parent index into two primary investment styles.

At inception, companies were sorted using price-to-book, a measure of market price relative to net assets, chosen largely for its simplicity and broad availability at the time. The Russell 1000 was then divided by total market capitalization such that the half with the lowest price-to-book ratios was assigned to the Value index, while the half with the highest price-to-book ratios was assigned to Growth. Constructed this way, the Growth and Value indexes could be recombined to replicate the performance of the Russell 1000, a trait referred to as "completeness."

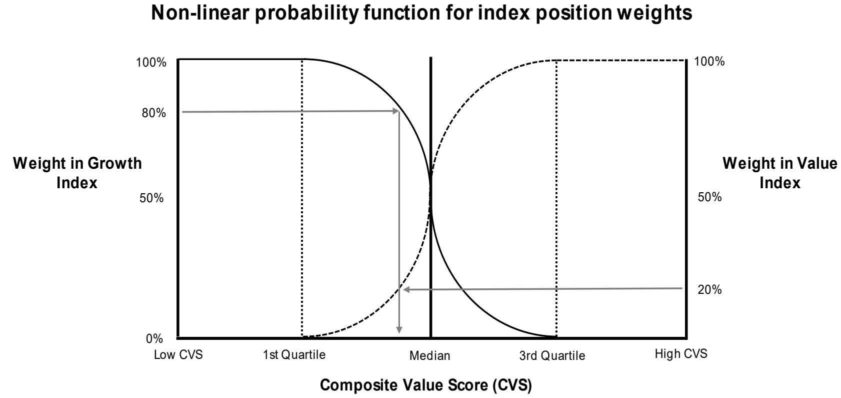
Over time, however, this methodology revealed meaningful limitations. First, the economy's shift toward asset-light, technology-oriented business models reduced the usefulness of price-to-book as a distinguishing metric. This is because many intangible assets, such as internally developed software, intellectual property, data, and brand equity, are not fully captured by price-to-book.

Second, because companies were assigned entirely to either Growth or Value, small changes in underlying data often caused stocks near the cutoff to flip back and forth between indexes, resulting in excessive turnover.

Beginning in the mid-1990s, Russell revised its methodology to address these shortcomings. To better capture style characteristics, the firm incorporated long-term growth estimates alongside valuation measures.

To reduce unnecessary turnover, Russell also introduced split classifications, allowing some companies to be partially allocated to both Growth and Value. Under this framework, the 25% of Russell 1000 market capitalization deemed most “growth-like” is allocated entirely to the Growth index, while the 25% most “value-like” is allocated entirely to Value. The remaining 50% is distributed proportionally based on each company’s relative characteristics – for example, a stock might be split 50/50, 70/30, or 20/80 between Growth and Value (see Figure 1).

Figure 1



Russell has continued to refine this approach over time. Today, companies are scored using a composite framework that includes price-to-book (50%), a two-year earnings growth forecast (25%), and historical five-year sales-per-share growth (25%). In 2007, Russell introduced buffers to limit changes in split weightings unless there is a meaningful shift in rankings. More recent enhancements include caps on individual stock weights and a transition to semiannual reconstitution beginning in 2026.

Linked Indexes: Growth, Value, and Market Dynamics

Broad market indexes – whether the S&P 500, the Russell 1000, or its Growth and Value sub-indexes – are market cap-weighted. As market capitalization has increasingly concentrated within a small group of mega-cap companies, the indexes have become more sensitive to the price movements of a relatively small number of stocks.

Not surprisingly, many of today’s largest companies exhibit strong growth characteristics. Nine of the 10 largest companies in the market are held in the Growth index (see Figure 2).

This has important implications for how the Russell 1000 Growth and Value indexes are constructed. At each rebalance, half of the Russell 1000’s total market capitalization must be allocated to Growth and half to Value. When a handful of exceptionally large, growth-oriented companies account for a substantial portion of that 50% Growth allocation, the Growth index reaches its market cap target with fewer companies. The natural consequence is that the Value index must extend further into the growth-value spectrum, absorbing companies that may still appear “growthy” by traditional measures, in order to reach its own 50% allocation.

Figure 2

November 21, 2025

Ticker	Company	Market Cap ($b)	Growth Weight	Value Weight
NVDA	NVIDIA CORP	4,154	12.9%	
AAPL	APPLE INC	4,017	12.2%	
MSFT	MICROSOFT CORP	3,539	10.8%	
GOOG	ALPHABET INC CLASS A & C	3,338	6.4%	3.9%
AMZN	AMAZON COM INC	2,365	4.3%	2.0%
TSLA	TESLA INC	1,554	3.5%	
AVGO	BROADCOM INC	1,540	4.9%	
META	META PLATFORMS INC CLASS A	1,415	3.1%	0.8%
BRK.B	BERKSHIRE HATHAWAY INC CLASS B	1,088		3.2%
LLY	ELI LILLY	985	2.8%	

In this way, the Growth and Value indexes are inextricably linked. It is a mistake to assume that developments at the extreme end of the growth and size spectrum, such as a dramatic increase in NVIDIA’s market capitalization, are isolated to the Growth index. In practice, these shifts ripple through the entire system, influencing how companies are classified and weighted across both indexes. One visible outcome of this dynamic is the widening gap in the number of companies held in each sub-index. Since the Global Financial Crisis, the Value index has steadily expanded in breadth, such that nearly 90% of the largest 1,000 companies now have some representation in Value.

Figure 3

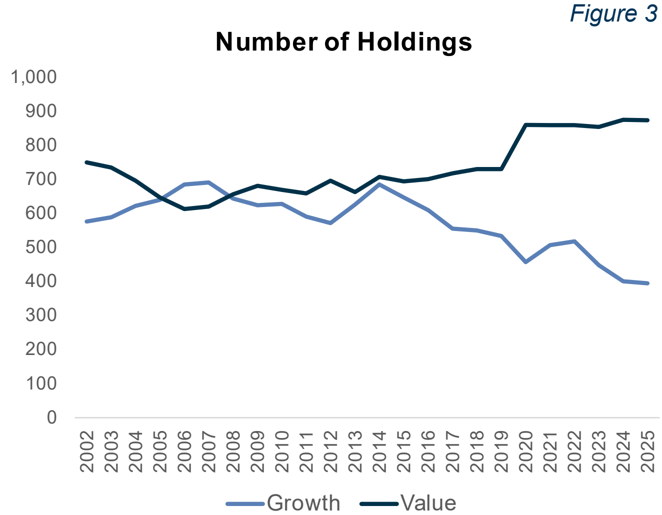
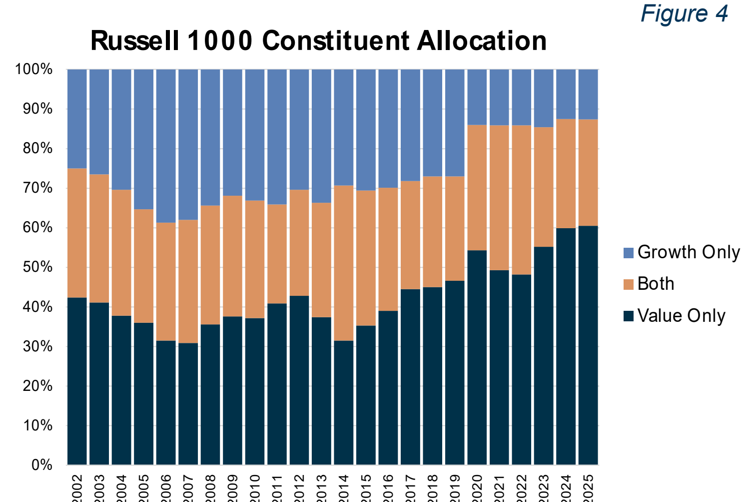


Figure 4



These structural changes are also evident at the industry level. In 2005, Information Technology, Consumer Discretionary, and Communication Services collectively represented 38% of the Growth index. Today, those same sectors account for more than 76% of the index. While the Value index has also evolved, it remains more broadly diversified across industries. As the Growth index has become increasingly concentrated in tech-adjacent sectors, a crowding-out effect has pushed a diversified set of otherwise "growth-oriented" businesses into the Value index.

Figure 5

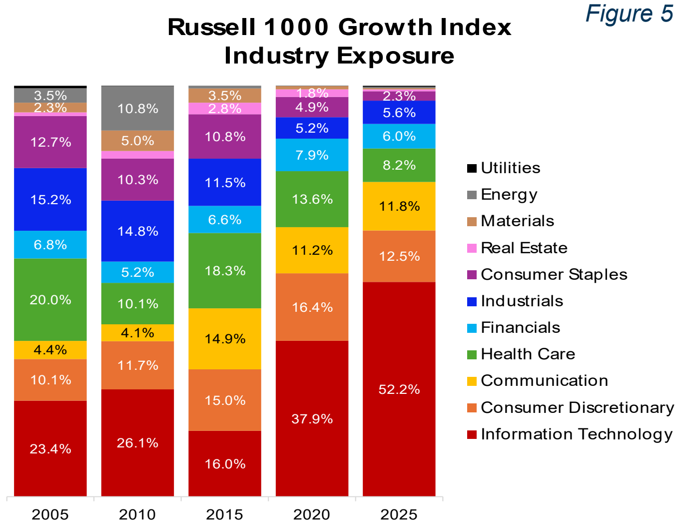
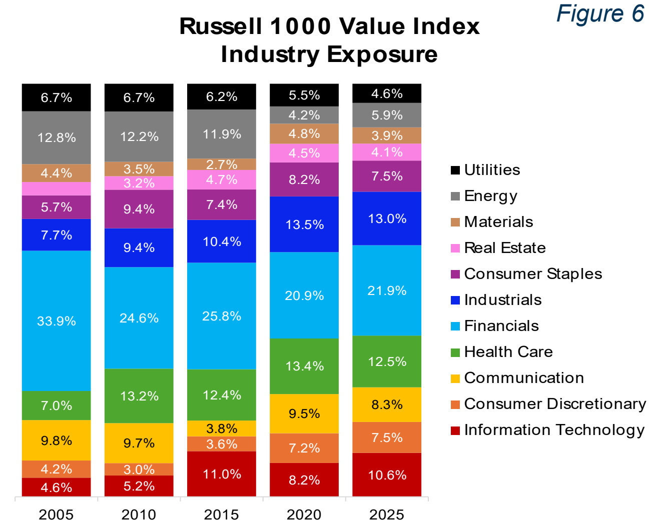


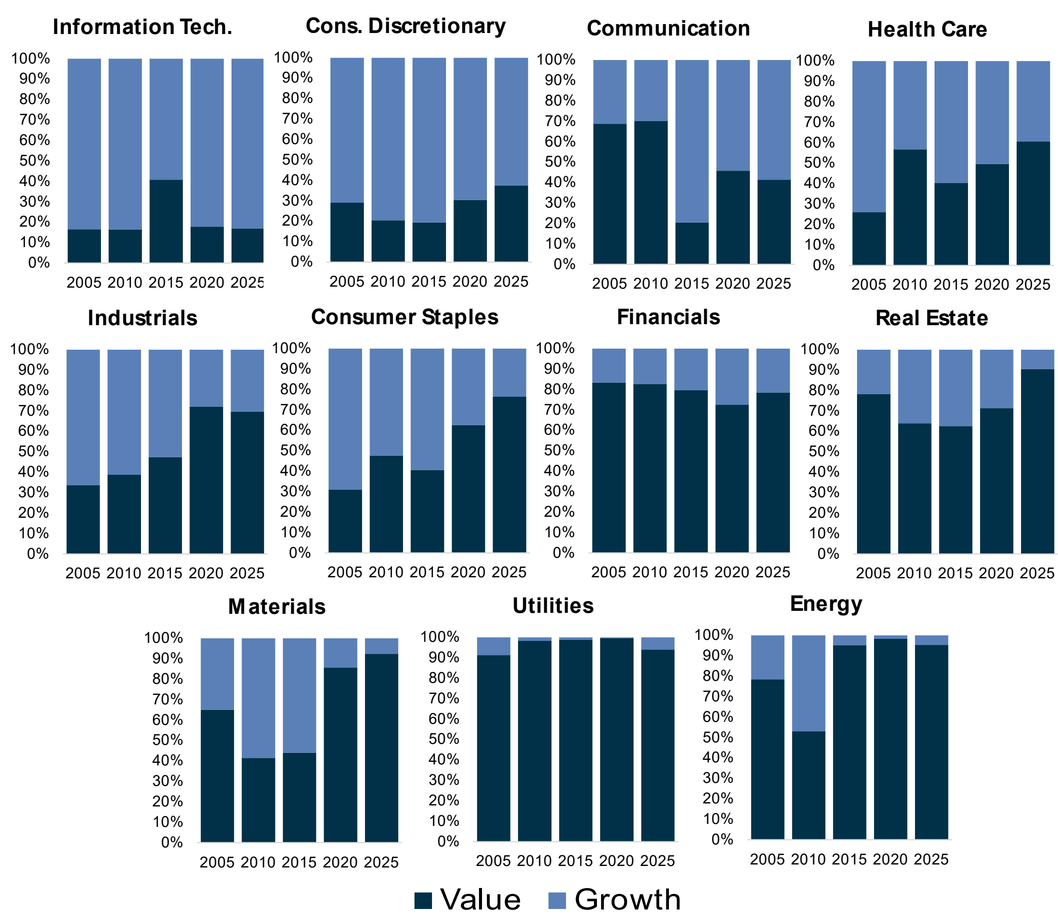
Figure 6



There have also been periodic reclassifications of the industry sectors themselves, largely precipitated by the significant expansion of the Information Technology sector and the need to reallocate its constituents into other sectors. In 2018, the Telecommunication Services sector was renamed Communication Services and absorbed many entertainment and interactive media companies that were previously considered IT or Consumer Discretionary (observed above in the changing Russell 1000 Value sector weights between 2015-2020). In 2023, a host of data and financial services companies were moved out of IT and into Financials. Thus, the expansion of the Information Technology sector has occurred despite many companies being carved out and reclassified into other sectors.

Beyond changes in overall sector weights, it is also instructive to examine how industry market capitalization is allocated between Growth and Value. The charts above illustrate this evolution over time. For example, in 2005, roughly 70% of the Consumer Staples sector's market capitalization was classified as Growth. Today, approximately 75% of the Consumer Staples market capitalization is classified as Value.

Figure 7



Today's Composition: Who's in Growth and Value?

Russell reconstitutes and rebalances the indexes at the end of June. The tables below highlight the top 10 largest holdings in the Value index at the start of 2025 compared to November 2025. Worth pointing out is the increased concentration of the 10 largest positions.

Figure 8

January 1, 2025

Ticker	Company	R1000V Weight
BRK.B	BERKSHIRE HATHAWAY INC CLASS B	3.4%
JPM	JPMORGAN CHASE & CO	2.7%
XOM	EXXON MOBIL CORP	2.0%
UNH	UNITEDHEALTH GROUP INC	1.8%
WMT	WALMART INC	1.6%
JNJ	JOHNSON & JOHNSON	1.4%
PG	PROCTER & GAMBLE	1.3%
BAC	BANK OF AMERICA CORP	1.2%
CVX	CHEVRON CORP	1.0%
CSCO	CISCO SYSTEMS INC	1.0%
	Top 10:	17.3%

November 21, 2025

Ticker	Company	R1000V Weight
GOOG	ALPHABET INC CLASS A & C	3.9%
BRK.B	BERKSHIRE HATHAWAY INC CLASS B	3.2%
JPM	JPMORGAN CHASE & CO	2.9%
AMZN	AMAZON COM INC	2.0%
XOM	EXXON MOBIL CORP	1.7%
JNJ	JOHNSON & JOHNSON	1.7%
WMT	WALMART INC	1.4%
PG	PROCTER & GAMBLE	1.2%
BAC	BANK OF AMERICA CORP	1.1%
CSCO	CISCO SYSTEMS INC	1.0%
	Top 10:	20.2%

New addition to Russell 1000 Value

During the most recent rebalance, 35 companies that had previously been held exclusively in the Growth index were reallocated – either partially or in full – into the Russell 1000 Value Index. This table (Figure 9) highlights the five largest of these additions. Most notable is the inclusion of several mega-cap technology companies, including Alphabet, Amazon, and Meta. While movement between the Growth and Value indexes is expected, the migration of companies of this size has a material impact on index composition and weighting.

Figure 9

November 21, 2025

Ticker	Company	R1000V Weight	Style Migration
GOOG	ALPHABET INC CLASS A & C	3.9%	From Growth to Both
AMZN	AMAZON COM INC	2.0%	From Growth to Both
MRK	MERCK & CO INC	0.8%	From Growth to Value
META	META PLATFORMS INC CLASS A	0.8%	From Growth to Both
ODFL	OLD DOMINION FREIGHT LINE INC	0.1%	From Growth to Both

It is also instructive to consider the valuations of the companies that moved into the Value index this year. The 35 companies that were previously classified entirely as Growth but are now split between Growth and Value trade at a median price-to-earnings multiple above 26x. This underscores how far the Growth/Value boundary has shifted as market capitalization has become increasingly concentrated in a narrow set of large, growth-oriented businesses.

Figure 10

	Migration into Value (1/1/25-11/21/25)			
	From Growth to Both	Growth to Value	None to Value	Both to Value
Holdings (Nov 21)	35	9	24	41
Median PE	26.4x	19.4x	17.2x	21.0x
Median EV/EBITDA	14.8x	12.9x	11.6x	13.9x
Median P/Book	6.6x	3.2x	2.2x	4.0x

Figure 11 provides additional perspective on the current construction of the indexes. The Russell 1000 Value Index now comprises 868 companies, including 619 held exclusively in Value and 249 that are split-weighted between Growth and Value. As expected, companies held exclusively in the Value index trade at the lowest valuations, those held exclusively in Growth trade at premium valuations, and split-weighted companies fall somewhere between the two. By contrast, the Growth index contains just 389 constituents and is highly concentrated, with the top 10 largest holdings accounting for more than 60% of the index's total weight.

Figure 11

	Russell 1000
Holdings (Nov 21)	1008
Median PE	20.4x
Median EV/EBITDA	13.7x
Median P/Book	3.2x

	Growth Only	Both	Value Only
Holdings (Nov 21)	140	249	619
Median PE	35.4x	22.9x	18.0x
Median EV/EBITDA	25.2x	16.3x	12.2x
Median P/Book	14.1x	5.5x	2.2x

	Russell 1000 Growth	Russell 1000 Value
Holdings (Nov 21)	389	868
Median PE	26.5x	19.1x
Median EV/EBITDA	18.0x	12.9x
Median P/Book	7.8x	2.7x

Performance Drivers in the Value Index

When we rank the current constituents of the Russell 1000 Value Index by year-to-date performance, several high-level patterns emerge. The top-performing quintile (median return of approximately +43%) is characterized by faster sales and EBITDA growth. Notably, these higher-performing stocks tend to exhibit lower profit margins, weaker cash flow generation, and lower returns on invested capital.

In fact, the strongest- and weakest-performing groups within the Value index share similarly below-average margin and return profiles. The primary differentiator between winners and laggards this year has been growth, rather than profitability or capital efficiency.

Figure 12

		Median	4-Year Median							Current			
Quintile	Companies	YTD Return	Sales Growth	EBITDA Growth	NI Growth	EPS Growth	EBITDA Margin	NI Margin	FCF Margin	ROIC	Net Debt/ EBITDA	PE FY1	EV/ EBITDA FY1
1st	174	43%	6.4%	7.4%	4.2%	6.1%	20.1%	10.7%	8.3%	6.8%	1.2x	23.3x	15.6x
2nd	174	16%	5.4%	6.4%	3.3%	5.9%	23.0%	14.3%	12.5%	7.3%	2.1x	19.7x	12.6x
3rd	174	3%	4.8%	6.1%	4.6%	5.5%	25.0%	14.2%	13.3%	8.2%	1.7x	19.5x	13.0x
4th	173	-9%	4.7%	4.8%	3.0%	4.9%	27.6%	15.1%	14.2%	7.3%	2.0x	20.3x	13.9x
5th	173	-29%	3.5%	3.3%	-0.7%	2.0%	21.0%	10.0%	9.1%	6.7%	1.9x	16.1x	10.6x
R1000V	868	4%	5.0%	5.3%	2.9%	5.1%	22.8%	12.4%	11.3%	7.3%	1.8x	19.7x	13.0x

Confluence estimates 1/1/25-12/31/25

Staying Disciplined Through Market Cycles

At Confluence, our objective is to maintain a consistent risk profile throughout the market cycle. In practice, this means we do not abandon valuation discipline to chase stocks or sectors simply because they are in favor, nor do we become excessively defensive during periods of market stress. Put differently, our investment philosophy does not shift with the prevailing market narrative. At all times, our north star is to own a collection of competitively advantaged businesses that are conservatively financed and operated by experienced and long-term-oriented managers. Defensible competitive moats typically translate into high returns on capital and substantial cash flow generation, which we view as the necessary ingredients for multi-year compounding and outperformance. Further, we seek to purchase these businesses at a discount to our estimate of intrinsic value to provide a margin of safety. While this approach may not capture every updraft in risk-on environments, it has historically provided resilience when markets inevitably correct.

Equally important, we manage portfolios from a bottom-up perspective. While we are mindful of benchmark composition and use it as a reference point, we do not manage to the index, nor do we view tracking error as something to be minimized. Periods of divergence from the benchmark are a natural consequence of active management and a byproduct of maintaining conviction in our valuation discipline rather than conforming to shifting index exposures.

Linking Philosophy, Indexes, and Performance

The Russell 1000 Growth and Value indexes aim to deconstruct the largest 1,000 US publicly traded companies into two primary investment styles. Because these indexes are commonly used as benchmarks for large cap growth and value managers, understanding their construction, evolution, and implications is worthwhile. While it's obvious that indexes change over time, this analysis highlights how the Growth and Value indexes are linked and do not operate independently.

Our focus remains on owning businesses capable of weathering market cycles and delivering compounding returns over the long term. In the short run, market rotations spotlight different types of businesses. History shows, however, that sustained outperformance comes from high-quality companies with durable profitability and efficient capital use, not from chasing short-term momentum.

While we cannot control shifts in index construction or which sectors outperform in any given year, we can control our investment process and philosophy and whether we adhere to it consistently. Sticking to a disciplined, bottom-up approach that has delivered multi-decade success, rather than chasing trends or trying to mimic the index, is what we believe best protects and grows our clients' assets over time.

Confluence Value Equities Investment Committee

Mark Keller, CFA	Tore Stole	Tom Dugan, CFA	Dustin Hausladen	Brett Mawhiney, CFA	John Koenig, CFA
Daniel Winter, CFA	John Wobbe	Joe Hanzlik	Blair Brumley, CFA	Ben Kim, CFA	

Sources: Figure 1: Confluence, FTSE Russell; Russell US Equity Indexes – Construction and Methodology, v6.8 (August 2025). Figures 2-12: FactSet, Confluence.