The Russell 1000® Growth Index has new clothes

From Winslow Capital

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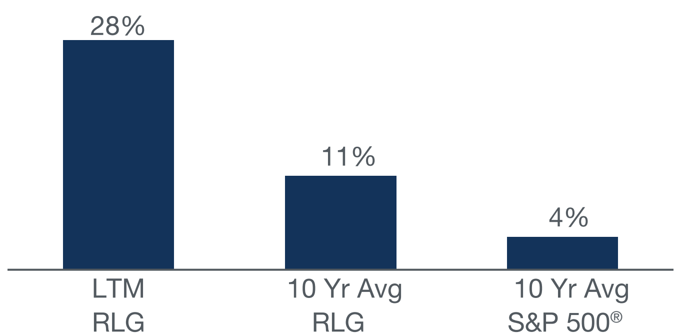
Over the last twelve months, turnover in the Russell 1000® Growth Index (RLG) reached a staggering 28%. That number alone tells you there is nothing passive about the RLG. Three forces are driving the churn: antiquated rules for measuring value, unintended concentration that triggers quarterly rebalancing and a structural shift in the growth market from a consumer-led to a capital spending-led economy. We have written extensively about how the RLG is not the U.S. large cap growth market (linked here). In this paper, we seek to shed light on how profoundly the recently reconstituted Index has changed compared to the last ten years; the investment implications are significant.

As a reminder, the RLG is reconstituted once per year based on two growth factors and one value factor. The value factor is based on the antiquated price-to-book factor, which was more relevant in the asset-based economy in the 1970s and 1980s. Price-to-earnings or cash flow are not used in determining value. This has led to massive distortions in the RLG, including Home Depot (0.8% weight) having a larger weight than Amazon (0.6% weight down from 4.7%). Home Depot is not a growth company. They have almost no footprint expansion and comparable store sales have been stagnant for three years. We do expect Russell to change the definition of value in the next two years, which will result in further significant turnover. The conclusion for investors is straightforward. Owning the RLG is not a passive decision but a very active one — and instead of hiring a team with an established process, you are effectively hiring the index team at Russell.

The recently reconstituted RLG reflects the Index methodology shortcomings but it also represents a substantial change in our economy. The growth engine of corporate America has shifted from consumer spending to capital investment spending. The capital spending boom is a result of the substantial advances in generative artificial intelligence (AI). The resulting economic boom has resulted in the RLG becoming a faster-growing, more volatile and more concentrated index than ever before.

Exhibit 1: Index Turnover[1,2]



[1] Source: FactSet. 10 year average 2016-2025.

[2] Source: Standard and Poor's, Goldman Sachs Global Investment Research.

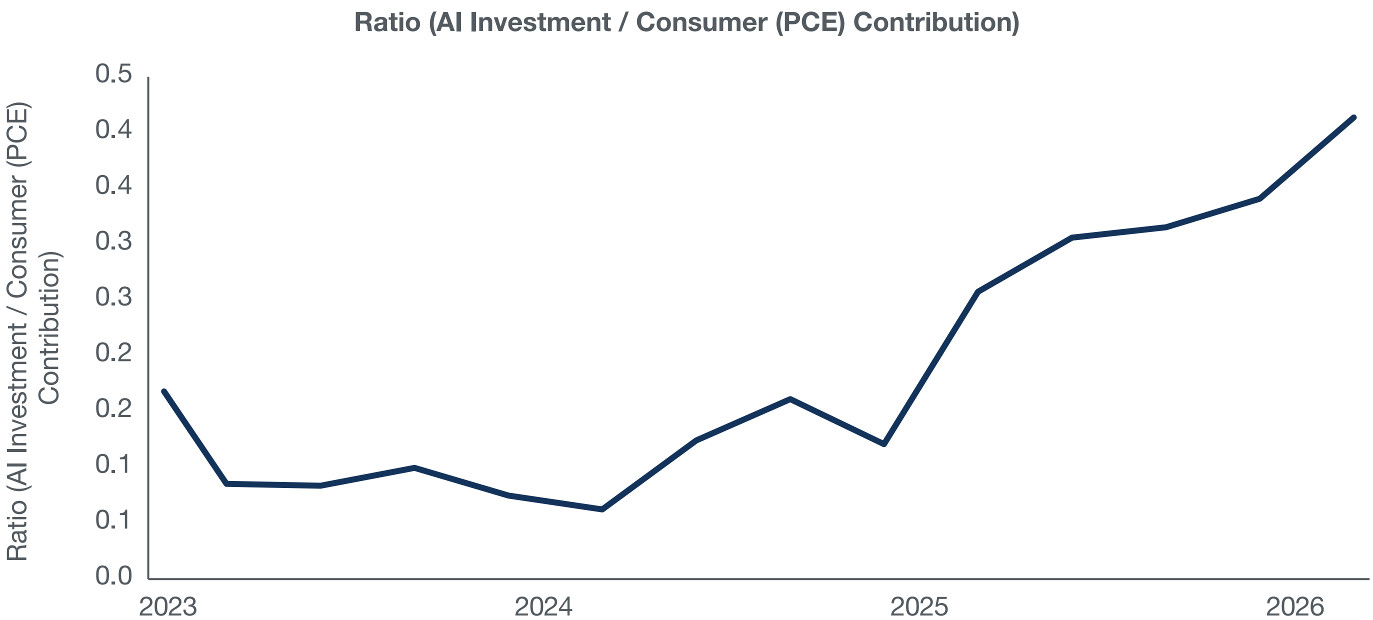
Exhibit 2: Russell 1000® Growth Index – Characteristics[3]

	6/30/26	Average of last 10 years
Forward Growth Rate*	27%	11%
Annual Predicted Volatility	22%	17%
AI Datacenter Representation	40%	<5%

[3] Source: FactSet. 10 year average 2016-2025.

*Forward Growth Rate is CY 2027 consensus estimates.

Exhibit 3: AI Capital Spending vs. Consumption Spending (% of GDP Contribution)[4]

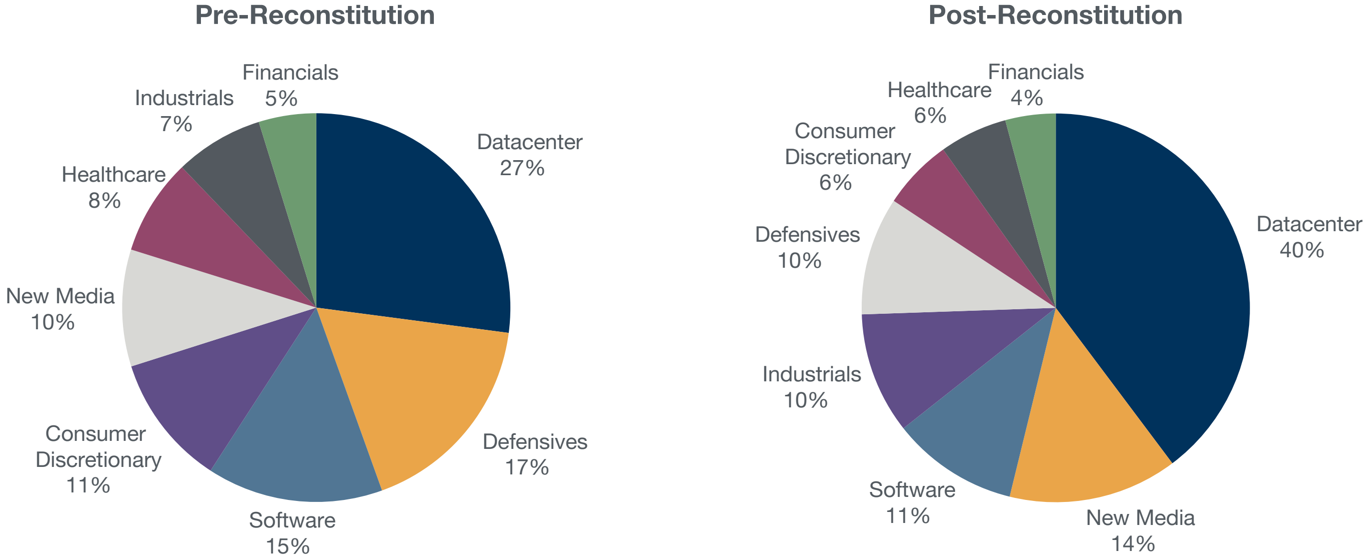


[4] Source: Bloomberg 1/1/2023 through 3/31/2026.

The AI spending boom has accelerated the average growth rate of the Index and our portfolio. As of June 30, 2026, our portfolio had the fastest earnings growth rate ever at 30% based on consensus estimates.[5] Companies such as Seagate Technology, Broadcom and Arista Networks are experiencing unprecedented demand growth. The most surprising thing about this incredible growth is that the valuations are within historical bands. In other words, there isn't much of a premium embedded in these companies for their superior growth. We believe this is a very constructive backdrop for future returns.

With higher growth comes higher volatility. We expect the volatility of the reconstituted Index to increase substantially for two reasons. First, a higher growth rate implies a wider range of outcomes. Second, the Index is less diversified than in the past with 40% of the Index now in just one sector we call AI Datacenter (Datacenter)[6] — companies whose primary growth driver is selling their wares and services to AI datacenters.

Exhibit 4: Reconstitution of the Russell 1000® Growth Index - Winslow PM Portfolio Map[6]



[5] Source: FactSet as of 6/30/2026 based on 2027 consensus estimates.

[6] Source: Weights as of 6/30/2026. Winslow Capital's internal PM Portfolio Mapping as of 6/30/2026. Percents may not sum due to rounding.

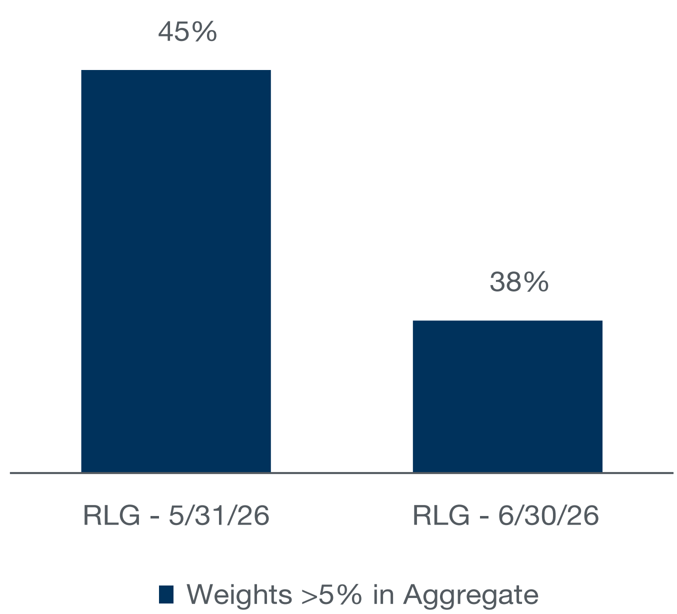
From a risk perspective, one may not observe many changes to the Index since the GICS® sector weightings have not changed meaningfully. For example, during the recent RLG reconstitution the Information Technology sector increased only 2.6%. But the real story is beneath the surface. A year ago, we coined a new sector called Datacenter whose constituents include not only technology and semiconductor companies but also the entire AI supply chain. The Datacenter weight increased 13% during the recent RLG reconstitution. Many of the Datacenter companies show up under GICS® classification as Industrials. In our view, that is not a proper classification of future correlations or risk.

Another area where investors may be misunderstanding risk is the level of concentration of the RLG, which on the surface is declining. During the recent reconstitution, Russell has intentionally manipulated the weights of large stocks such as Microsoft, Amazon and Apple to decrease the concentration that was causing quarterly rebalances in order to be in compliance with the 5/50 RIC rule. But in reality, the RLG is continuing on its ever-increasing concentration path as evidenced by the dramatic concentration in the Datacenter sector and continued decline in the number of Index stocks.

An elevated risk management program is not just about using existing tools but about deeply understanding real- world connections and developing proprietary tools as well. Another example of our continuously improving risk management program is the upgrading of our factor model software from Barra to Arcana.

Over the past calendar year, Barra models have explained less than 25% of the moves in growth stocks compared to their 10 year historical explanatory rate of 41%. Arcana, by contrast, incorporates factors we believe are more relevant today, including ownership crowding and technical signals.

Exhibit 5: 5/50 Concentration Rule[7]



[7] Source: FactSet.

The AI economy is reshaping everything and the pace of change is accelerating. U.S. large cap growth stocks sit at the epicenter of this change. The increase in complexity in understanding the winners and losers in the age of AI disruption (linked here), combined with an ever-changing non-passive RLG benchmark will likely prove too much for some active managers whose systems are not adaptable enough. Winslow Capital's deep benchmark understanding, flexible investment process and information advantage continue to provide material differentiation. Our information advantage in the age of AI is from our private equity business which has invested in the major AI platforms such as Anthropic, OpenAI, SpaceX, Databricks, Stripe, Anduril and others. The insights gleaned from these companies have turned out to be an extraordinary advantage in navigating the fast-changing U.S. large cap growth market.

AI is an amazing technology that has the potential to accelerate productivity and thus earnings growth. There is no question the future investment environment could be incredibly rosy. But AI is a nascent technology and with faster growth comes bigger risks. Experienced active managers with adaptable processes and strong risk management programs should be able to outperform the increasingly active RLG. If investors would like to augment active management with a passive index, we believe their only true passive choice is the S&P 500® Index which has a 2-4% annual turnover. It is our view that over the long term every manager should be benchmarked against the S&P 500® Index. The RLG is simply not the U.S. large cap growth market. It is an active index and should only be relied upon as such. The RLG has gone fast fashion. Investors may be wise to look for a more stable wardrobe (manager).

Exhibit 6: RLG Constituents (# of Stocks)[7]

[7]Source: FactSet.

In summary, the investment world has joined the geopolitical landscape in the land of uncertainty. We believe in order to win in the new economic order the best managers will have an information advantage, an adaptable process and 'light grip' on current portfolio positioning. Winslow Capital is a learning machine and our process is continuously adjusting to new information — good or bad. We do not hope; we invest based on what we observe and what we can reasonably forecast. We believe if AI hits a roadblock we will adjust quickly and much quicker than the RLG. We do not have a "preferred habitat"; we have a "client outcome" habitat.

ENDNOTES

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