



PCS  
ADVISORS



# Russell Reconstitution Recap

---

Equity Review – July 2022

---

# Russell Index Reconstitution Analysis

# Russell's Annual Index Reconstitution: Changes to Note

---

- **Significant Stock Reclassification from Growth to Value**

- Every June, Russell reconstitutes the Equity indexes to account for market movements and adjust breakpoints by market cap and style.
- Russell's style indexes use the book/price ratio, IBES forecast medium-term growth (2 year) and the sales per share (5-year historical growth) to determine what constitutes a value or growth stock. Recent significant declines in stock prices put some names in value territory that were previously 100% growth, which is a meaningful shift to both value and growth asset managers.

- **Sector Shifts**

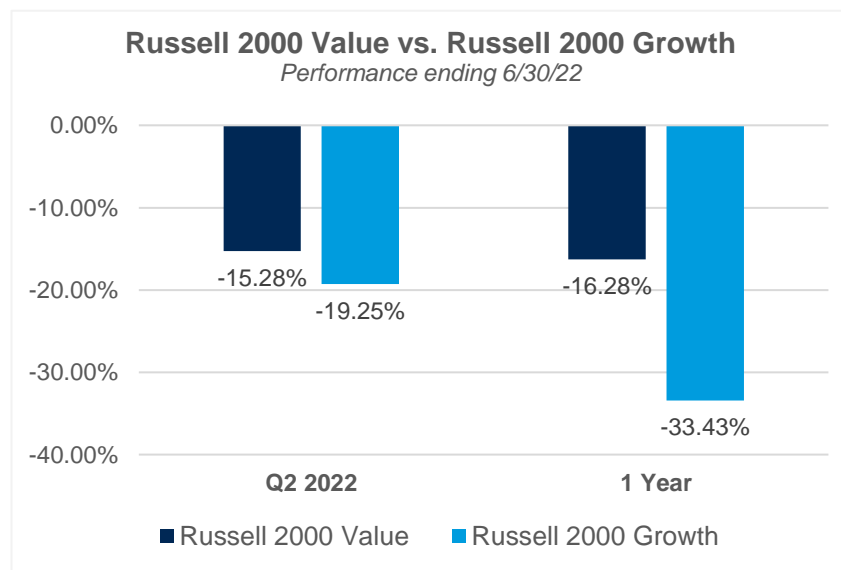
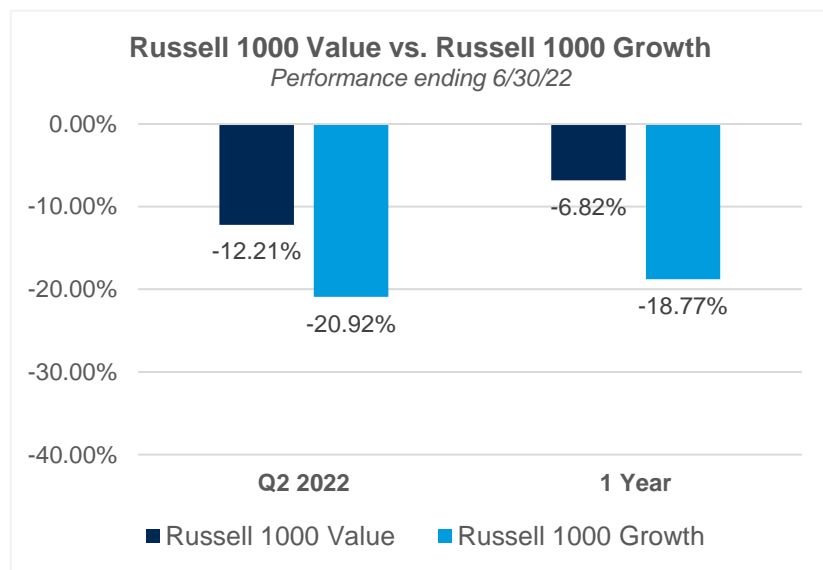
- The larger weight in the Russell 2000 Growth Energy sector (over 6%). This becomes a consideration when looking at performance of a manager who may not allocate at all to Energy.

- **Impact to Managers**

- Relative Performance
- Index Concentration
- Risk Controls (may be adjusted as a result of the reconstitution, or managers may be triggered to make changes to portfolio holdings as a result).

# Value Continues to Beat Growth

- The difference between the Russell 1000 Growth versus the Russell 1000 Value continues to be meaningful for the second quarter, though the one-year returns demonstrate a trend that has persisted.
- Small Cap Growth has also suffered, particularly over the one-year, but second quarter 2022 returns between small growth and value have narrowed.



Source: Morningstar Direct as of June 30, 2022.

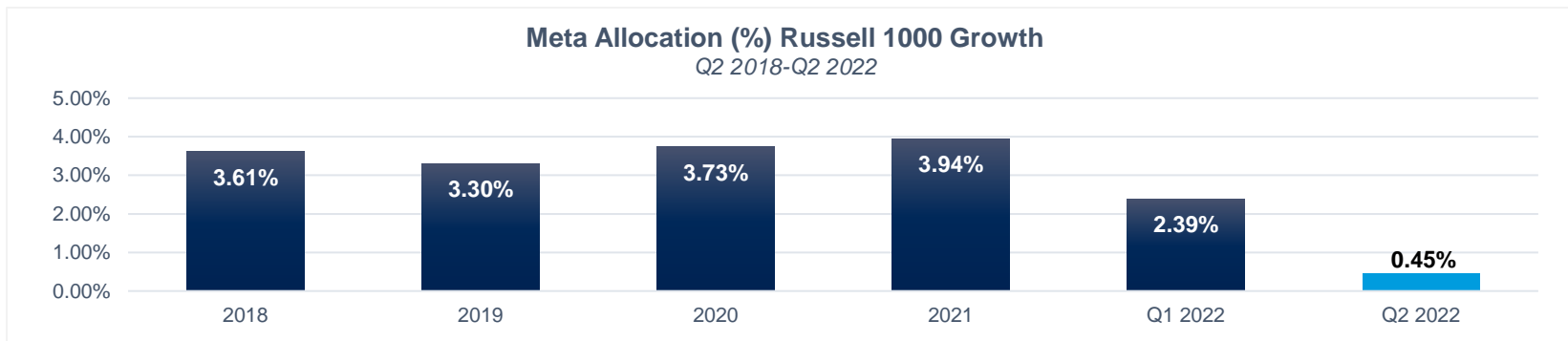
# Key Russell 1000 Value & Growth Index Changes

- Style changes, while not uncommon, were rather unusual this year as many technology names suffered large price declines, impacting their book to price ratios and putting them in value territory.

All four stocks are now considered value stocks per the reconstitution



Meta (Facebook) is now the **6<sup>th</sup> largest holding (1.65%) in the Russell 1000 Value Index**, though it fell to the **39<sup>th</sup> largest holding (0.45%) in the Russell 1000 Growth Index** as of 6/27/22. For context, it was formerly the 7<sup>th</sup> largest weight in the Russell 1000 Growth as of 3/31/22.

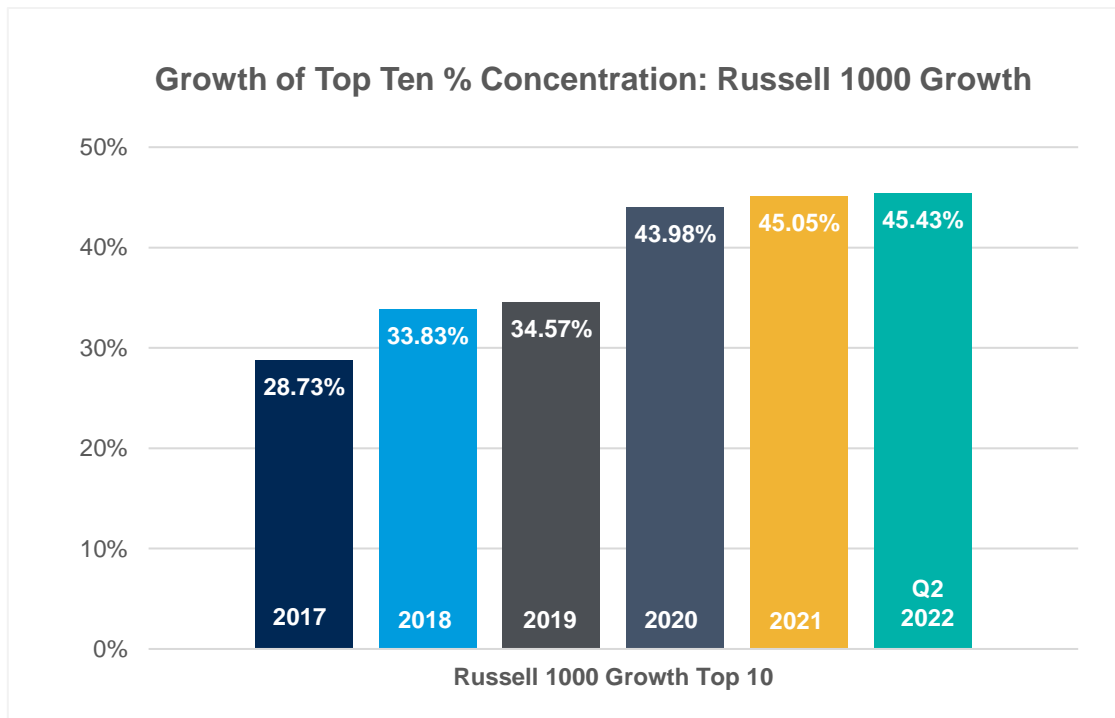


Source: Morningstar Direct as of June 30, 2022.

Use of Indices and Benchmark Return Indices cannot be invested in directly. Index performance is reported gross of fees and expenses and assumes the reinvest dividends and capital gains. Past performance does not indicate future performance and there is a possibility of a loss. See disclosure page for indices representing each asset class.

# Russell 1000 Growth Index Concentration

- The concentration in the Russell 1000 Growth Index has been steadily climbing since 2017. The top ten names, shown right, have tremendous influence over index performance.



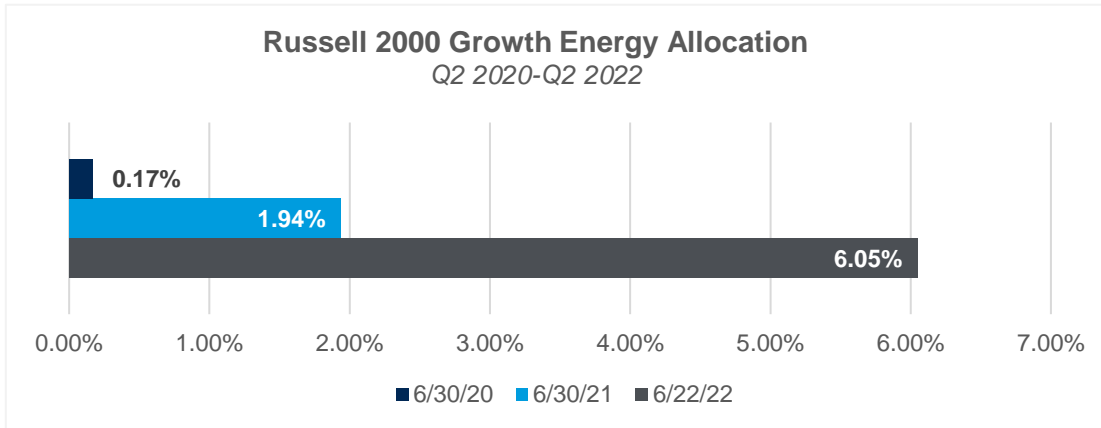
Russell 1000 Growth Top 10 Holdings	Q2 2022
Apple	11.84%
Microsoft	10.89%
Amazon	5.35%
Tesla	3.24%
Alphabet Class A	3.23%
Alphabet Class C	2.96%
UnitedHealth Group	2.48%
NVIDIA	2.07%
Visa	1.84%
Mastercard	1.54%

Source: Morningstar Direct. Annual data as of 6/30/17, 6/30/18, 6/30/19, 6/30/20, 6/30/21 and 6/30/22.

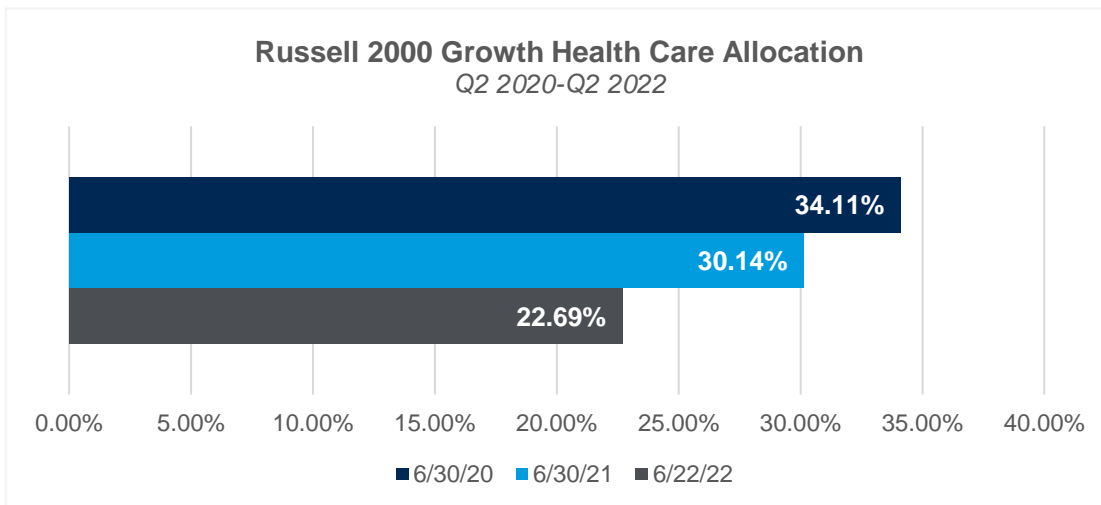
Use of Indices and Benchmark Return Indices cannot be invested in directly. Index performance is reported gross of fees and expenses and assumes the reinvest dividends and capital gains. Past performance does not indicate future performance and there is a possibility of a loss. See disclosure page for indices representing each asset class.

# Russell 2000 Growth Index Sector Allocation Shift

- The reconstitution was particularly impactful in the Russell 2000 Growth in two sectors; Energy and Healthcare.



*Small Growth managers who previously had a low or zero weight to Energy may struggle to ignore Energy as a result of the reconstitution.*



*The decline in the Health Care allocation within the Russell 2000 Growth is meaningful for Small Growth managers. Many focus on biotech and medical device companies and may find themselves significantly overweight the index following the reconstitution.*

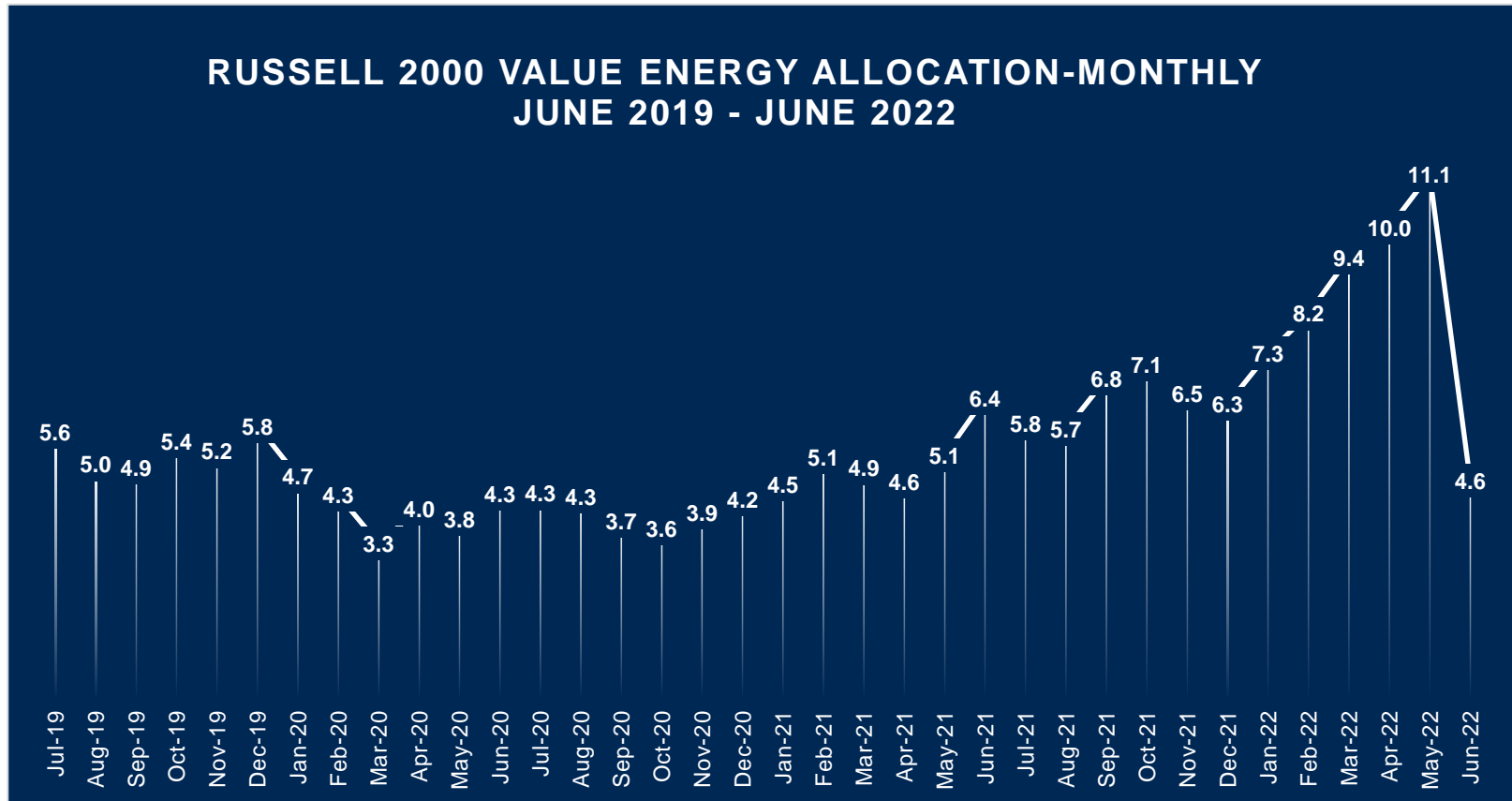
Source: Morningstar Direct as of June 30, 2022.

Use of Indices and Benchmark Return Indices cannot be invested in directly. Index performance is reported gross of fees and expenses and assumes the reinvest dividends and capital gains. Past performance does not indicate future performance and there is a possibility of a loss. See disclosure page for indices representing each asset class.



# Russell 2000 Value Index Sector Allocation Shift

- The Russell 2000 Value's Energy allocation began climbing last summer before hitting its peak at 11.15% in May of 2022. Post reconstitution, the allocation fell drastically to **4.61%**.



Source: Morningstar Direct as of June 30, 2022.

Use of Indices and Benchmark Return Indices cannot be invested in directly. Index performance is reported gross of fees and expenses and assumes the reinvest dividends and capital gains. Past performance does not indicate future performance and there is a possibility of a loss. See disclosure page for indices representing each asset class.

# Disclosures and Definitions

---

Fiducient PCS Advisors marketing communications disclosure language:

This document is intended for the exclusive use of clients or prospective clients of PCS Advisors. Any additional dissemination or distribution is strictly prohibited. Information provided in this document is for informational and/or educational purposes only and is not, in any way, to be considered investment advice nor a recommendation of any investment product or service. Advice may only be provided after entering into an engagement agreement and providing PCS Advisors with all requested background and account information.

In partnership with Fiducient Advisors, the included information has been obtained from a variety of sources believed to be reliable though not independently verified. Any forecasts represent future expectations and actual returns, volatilities and correlations will differ from forecasts. Past performance does not indicate future performance and there is a possibility of a loss.

Please visit [www.pcsbd.net/disclosures](http://www.pcsbd.net/disclosures) for other important disclosures. Private Client Services is an SEC Registered Investment Advisor doing business as PCS Advisors. For information about Fiducient Advisors please visit [www.fiducientadvisors.com](http://www.fiducientadvisors.com).

When referencing asset class returns or statistics, the following indices are used to represent those asset classes, unless otherwise notes. Each index is unmanaged, and investors can not actually invest directly into an index:

- **Russell 1000 Growth** measures the performance of those Russell 1000 companies with higher P/B ratios and higher forecasted growth values.
- **Russell 1000 Value** measures the performance of those Russell 1000 companies with lower P/B ratios and lower forecasted growth values.
- **Russell 2000 Growth** measures the performance of the Russell 2000 companies with higher P/B ratios and higher forecasted growth values.
- **Russell 2000 Value** measures the performance of those Russell 2000 companies with lower P/B ratios and lower forecasted growth values.