



Index Insights | Equities

Your index matters: using the right building blocks for your US equity portfolio

June 2025

**FTSE
RUSSELL**
An LSEG Business

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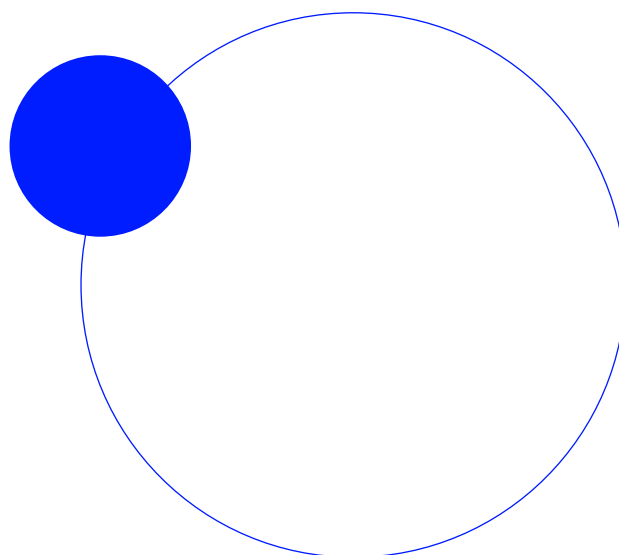
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Why consistent index selection matters

Large-cap value? Small-cap growth? Many investors view the equity market through both size and style lenses.

Indexes help them to do this. They serve as the performance targets of index-tracking funds and as benchmarks in active management. Your index choice matters, because a well-designed and modular index framework can help investment portfolios achieve their investment goals with greater precision. But you could end up with a badly designed framework if you combine size and style indexes from different index providers without checking what you're getting.



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The need to know your index

Over the past several decades, index-based investing has become an increasingly important part of the financial ecosystem.

But what does “index” mean? It’s simply a hypothetical portfolio representing a financial market, a market segment or a particular style or strategy, built using transparent rules.

The index’s published methodology (or “ground rules”) dictates how it is put together and how it functions. Construction, weighting and calculation are all important elements of the methodology, which is determined by the index provider.

Although indexes are transparent, it’s vital for market participants to understand how they are designed and built. That’s because subtle differences in methodology between similar-sounding indexes from different providers may contribute to unintended outcomes.

Differences in index providers’ style classifications

Russell Investments created the first equity style indexes in 1987. They were originally introduced to help measure the performance of different cohorts of asset managers—some of whom preferred to invest in growth stocks, while others preferred value stocks.

Over time, tracker funds based on Russell style indexes also became hugely popular: at end-2023, \$7.2trn in assets were either benchmarked to or invested in products following our style indexes, which is over two-thirds of all the assets following Russell US indexes.

But style indexes from different providers follow different rules. For example, Russell, CRSP and S&P all use equity book-to-price ratios to assess a company’s value. From there, approaches differ.

CRSP’s model uses 11 factors to determine whether a stock falls into the value or growth category¹, S&P uses six² and Russell uses three factors. For Russell, these three are the book-to-price ratio, the medium-term forecast earnings growth rate based on I/B/E/S two-year forecasts, and the sales-per-share growth rate based on five-year historical sales³.

There’s a further difference between index firms’ approaches that’s worth noting: CRSP designates each equity as either a growth or value stock, but S&P and Russell both allow a subset of index names to be allocated to both growth and value categories.

In Exhibit 1, we show how Russell defines a growth or value stock and in Exhibit 2 we show how three theoretical stocks (called “A”, “G” and “E”) are split between growth and value indexes. Meanwhile, companies C, B and D are pure growth stocks and companies H and F are pure value stocks.

Currently, around 30 percent by market capitalization of both the large-cap Russell 1000[®] index and the small-cap Russell 2000[®] index is split between the two styles in this way. In the case of the uncapped Russell style “Benchmark” indexes⁴, the two style index market caps always sum to the market cap of the parent index. This ensures that there’s no

¹ See https://www.crsp.org/wp-content/uploads/CRSP_Market_Indexes_Key_Concepts_Brochure.pdf

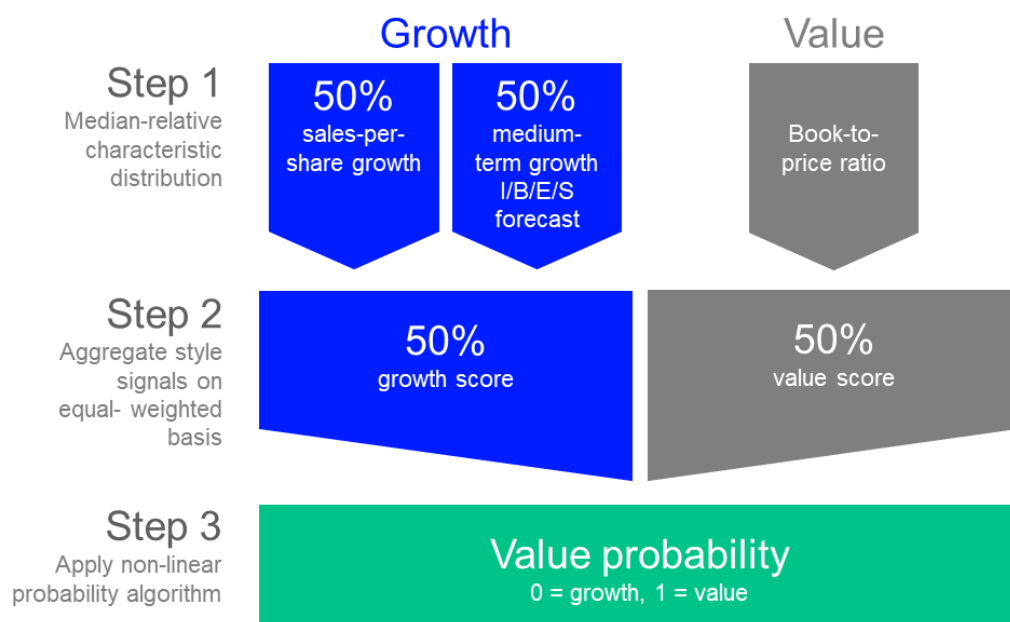
² See <https://www.spglobal.com/spdji/en/documents/methodologies/methodology-sp-us-style.pdf>

³ See [FTSE Russell Growth and Value Indexes: The Enduring Utility of Style](#)

⁴ Effective March 2025, Russell US Style Indexes apply a capping methodology in consideration of RIC 5/50 diversification limits. The Russell US Style Indexes that do not apply capping include “Benchmark” in the index name, e.g., “Russell 1000 Growth Benchmark Index”. For more information, refer to the technical notice: research.ftserussell.com/products/index-notice/home/getmethodology/?id=2614011. For more information on the capping methodology, refer to: [Capping Methodology](#)

double-counting in our benchmark indexes (see the Appendix for more on Russell's modular approach to index construction).

Exhibit 1: How Russell defines growth and value



Percentages shown are weights FTSE Russell applies when determining whether a security falls into the Value or Growth Index

Exhibit 2: How Russell allocates stocks to growth and value categories

SECURITY	VALUE PROBABILITY	GROWTH PROBABILITY	NUMBER OF SHARES	VALUE INDEX	GROWTH INDEX
Company C	0	1	1500	0	1500
Company B	0	1	2000	0	2000
Company D	0	1	50	0	50
Company A	.10	.90	500	50	450
Company G	.35	.65	1500	525	975
Company E	.80	.20	450	360	90
Company H	1	0	1200	1200	0
Company F	1	0	2000	2000	0

Source: FTSE Russell. For illustrative purposes only. Does not represent actual data.

Are the Magnificent Seven all growth stocks?

The “Magnificent Seven” tech stocks, which recently represented about a quarter of the whole US equity market by weight, don’t necessarily fall into the growth stock category.

In early 2025, while Russell and CRSP considered all seven as growth stocks, S&P allocated Apple, Microsoft and Amazon to both growth and value categories (see Exhibit 3).

For S&P, Meta had switched from a growth to a value stock in December 2022, before moving back to growth in December 2023. During that period, it remained a growth stock for both CRSP and Russell.

During the June 2025 index constitution, Russell will be reallocating part of the market capitalization of Alphabet, Amazon.com and Meta from the growth to the partially value category, following an increase in these stocks' book-to-price ratios and a decline in their two-year forecast earnings growth rates.⁵

Exhibit 3: Growth/value classifications of Magnificent Seven stocks by index provider

Company	Russell	S&P	CRSP
APPLE INC	Growth	Growth and Value	Growth
MICROSOFT CORP	Growth	Growth and Value	Growth
NVIDIA CORP	Growth	Growth	Growth
AMAZON COM INC	Growth	Growth and Value	Growth
META PLATFORMS INC	Growth	Growth	Growth
ALPHABET INC CL A & C	Growth	Growth	Growth
TESLA INC	Growth	Growth	Growth

Source: FTSE Russell, Data as of March 31, 2025.

It's also worth noting that style index rebalancing policies differ between index providers. For example, CRSP splits a stock's transition between growth and value categories over two consecutive quarterly rebalancing events, whereas Russell does this once at the annual end-June index reconstitution.

Differences in index providers' size classifications

What about the way different index providers allocate stocks to the large-capitalization, mid-capitalization and small-capitalization categories? Here, also, there's a variety of approaches.

When dividing its US equity market universe into large-, mid- and small-cap indexes, CRSP targets specific percentages of market capitalization (such as 0%–85% of the total market value for the large-cap index). However, Russell and S&P use fixed stock counts to define large caps (1,000 for the Russell 1000 index and 500 for the S&P 500 index).

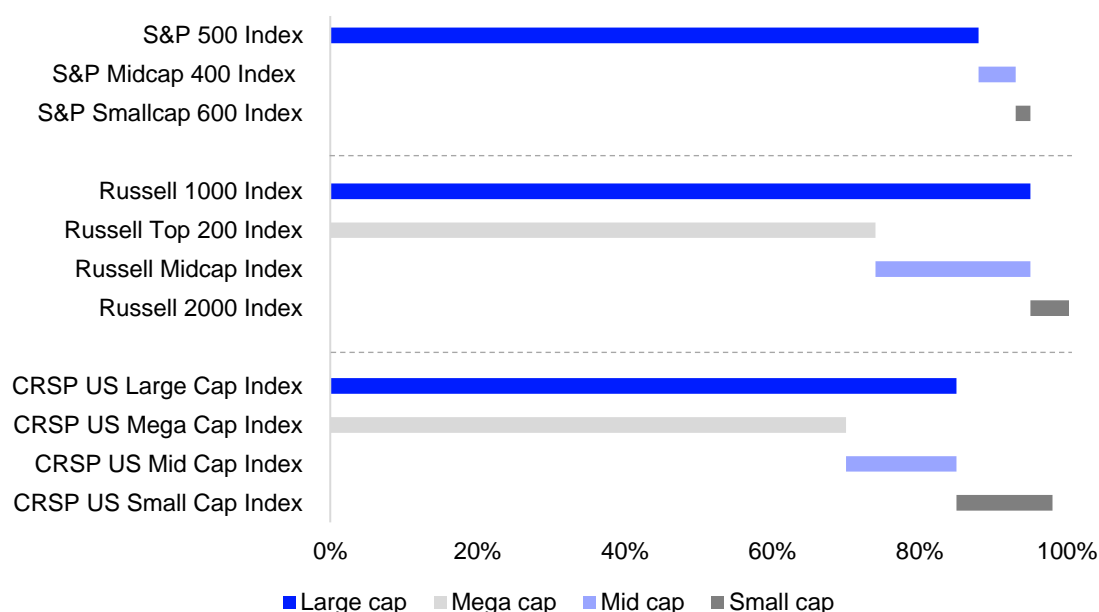
Russell then defines small caps as the smallest 2,000 stocks of the 3,000 stocks in the Russell 3000 index, ranked in descending order by market capitalization. S&P uses a different count: its ranking means the large-cap S&P 500 index is followed by the mid-cap S&P Midcap 400 index and then the S&P SmallCap 600 index.

⁵ [Key mega-caps move from pure growth to partial value: 2025 Russell Recon Style shifts | LSEG](#)

Unlike S&P, both Russell and CRSP regard mid-caps as a subset of their large-cap indexes. For Russell, mid-caps are the smallest 800 stocks in the Russell 1000 index (expressed differently, those stocks in the Russell 1000 that fall outside the Russell Top 200 index).

Exhibit 4 summarises how these company size definitions vary amongst the three index providers. The differences are most noticeable when it comes to the shares of the US stock market represented by mid-cap and small-cap stocks (and the placing of those size segments with respect to the overall market).

Exhibit 4: US equity size classifications by index provider (shown as % of total US market capitalization)



Source: FTSE Russell, S&P, CRSP and Vanguard, as of March 31, 2025. Note, Russell and CRSP methodologies combine mega-cap and mid-cap into a combined large-cap segment.

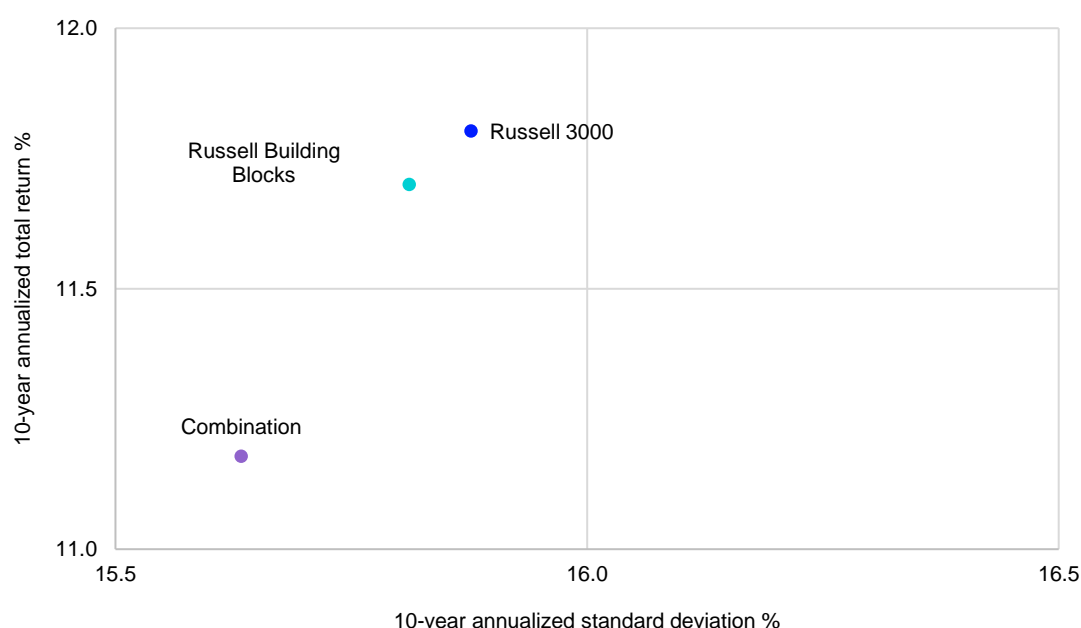
Choosing index building blocks

To show how different combinations of size and style indexes can affect investor outcomes, we conducted the following analysis over a ten-year period ending March 2025, using ETFs from Vanguard's range:

- Following the broad outlines of Russell's size classification (shown in Exhibit 4), we allocated 95% of the portfolio to large caps and 5% to small caps;
- We then split these segments into equal allocations to growth and value styles, resulting in a portfolio of four ETFs (large-cap growth, large-cap value, small-cap growth, small-cap value);
- Using the same portfolio weights, we formed a second portfolio using similar-named ETFs based on indexes from different providers (in this case, Russell and S&P);
- We compared the risk-return outcomes (see Exhibits 6 and 7).

Exhibit 5: Two portfolios of large-cap/small-cap growth and value ETFs

Market segments	Russell Building Blocks (Portfolio A)	Combined Russell/S&P (Portfolio B)
Large-cap growth	47.5% Russell 1000 Growth	47.5% S&P 500 Growth
Large-cap value	47.5% Russell 1000 Value	47.5% Russell 1000 Value
Small-cap growth	2.5% Russell 2000 Growth	2.5% Russell 2000 Growth
Small-cap value	2.5% Russell 2000 Value	2.5% S&P SmallCap 600 Value

Exhibit 6: 10-year risk-return profiles of Russell-only and combination portfolios

Exhibit 7: Risk-return statistics for Russell-only and combination portfolios

10 years ended 3/31/2025	Annualized Total Return (%)	Annualized Standard Deviation (%)	Tracking Error (%)	Beta
Russell 3000 index	11.80	15.88	0.00	1.00
Russell Building Blocks (A)	11.70	15.81	0.46	1.00
Combination (B)	11.18	15.63	1.17	0.98

Source: FTSE Russell and Morningstar Direct, data as of March 31, 2025. Russell Building Blocks constructed with Vanguard ETFs representing: 47.5% Russell 1000 Growth, 47.5% Russell 1000 Value, 2.5% Russell 2000 Growth, and 2.5% Russell 2000 Value. Combination portfolio constructed with Vanguard ETFs representing: 47.5% Russell 1000 Value, 47.5% S&P 500 Growth, 2.5% Russell 2000 Growth, 2.5% S&P SmallCap 600 Value. Past performance does not guarantee future returns. Please see the end for important disclosures.

Interpreting the results

In theory, a building block approach using ETFs representing large-cap growth and large-cap value in equal proportions (adding up to 95% of the portfolio) and small-cap growth and small-cap value (adding up to 5% of the portfolio) should come close to tracking the Russell 3000® index as a representation of the whole US equity market. However, our two combination portfolios achieved different results in doing so.

Portfolio A, consisting of the Russell-only ETF building blocks, fell short of the index return by ten basis points a year over the ten years to March 2025. This difference is largely attributable to the fees in the Vanguard ETFs used in the analysis, whose annual expense ratios range from 7-10 basis points. Portfolio A also had a small tracking error (0.46% a year), but its beta remained at one.

Portfolio B, which used a combination of ETFs tracking Russell and S&P indexes, trailed the index by 62 basis points a year, much more than can be accounted for by Vanguard ETF fees alone. The tracking error was also more than double that of Portfolio A, while the beta of Portfolio B also fell short of one.

It's probably fair to regard the return differences between the two portfolios as random. But what could explain the higher tracking error and lower beta of Portfolio B?

Exhibit 4 shows that:

- Russell's and S&P's definitions of large cap are not the same, with Russell attributing a larger proportion of the overall US equity market capitalization to the large-cap category;
- S&P's small-cap category hardly overlaps with the Russell small-cap category (represented by the Russell 2000) at all.

When combined with the different ways the two index firms categorise the growth and value styles (see above), these market capitalization overlaps and gaps seem to have resulted in the introduction of unintended active risks into Portfolio B.

Conclusion

This analysis was not exhaustive—we didn't include ETFs based on CRSP indexes and we didn't look at all possible size/style building block combinations using Russell and S&P indexes.

However, our analysis of two different building block portfolios shows that if investors combine size and style ETFs based on indexes from different firms, they are likely to end up with return and risk outcomes that are less predictable.

The issue in the example described above is not which portfolio yielded the better results, but how well each portfolio captured the intended allocation. It's important that your beta building blocks behave as expected, instead of adding more active risk to the overall portfolio.

“Index ETFs can serve as high-quality, flexible building blocks for portfolios,” [says William A. Coleman, head of Vanguard's US ETF Capital Markets team.](#)

“Carefully selecting them with attention to whether the indexes complement each other and help achieve financial goals is essential to giving investors the best chance for investment success.”

Appendix—how Russell indexes provide a complete US market view

The Russell US Indexes, which celebrated their 40th anniversary in 2024⁶, are designed to provide comprehensive and modular representation of the US equity market, from large-cap to small-cap size segments and growth to value investment styles.

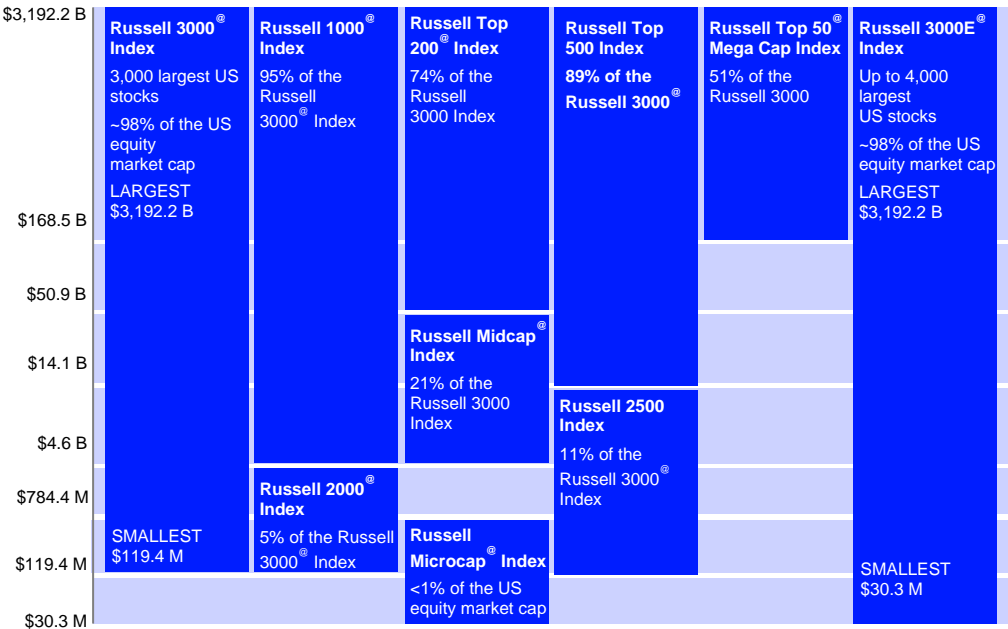
Modularity means that the sub-indexes sum to the parent indexes without overlaps or gaps: for example, the Russell 1000 index plus the Russell 2000 index make up the Russell 3000 index (see Exhibit 8). The Russell Top 200[®] index and the Russell Midcap[®] index sum to the Russell 1000 index, while the Russell Top 500 index and the Russell 2500[™] index sum to the Russell 3000 index.

Similarly, the Russell 1000 Growth Benchmark index and the Russell 1000 Value Benchmark index sum to the Russell 1000 index, and the Russell 2000 Growth Benchmark index and the Russell 2000 Value Benchmark index sum to the Russell 2000 index.

⁶ [How we built a better US equity benchmark – 40 years of the Russell US Indexes](#)

Exhibit 8: Modular design of Russell US indexes

Russell US Indexes — 2025



Source: FTSE Russell. Data as of April 30, 2025. Russell Index constituents represent the preliminary reconstitution constituents as of rank day, April 30, 2025, which will be effective after market close on June 27, 2025. May not equal 100% due to rounding.

The market capitalization breakpoints for the Russell Indexes are based on new additions as of 2025 reconstitution. The market capitalization ranges used above are absolute breakpoints for new members and do not include capitalization banding. Capitalization banding involves the implementation of a ±2.5% band around certain breakpoints. For further information, please refer to the Russell US Indexes construction and methodology document or contact FTSE Russell Client Service.

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