

RUSSELL RECONSTITUTION COULD EXTEND OPPORTUNITIES FOR ACTIVE MANAGERS

The Russell U.S. indexes are reconstituted annually to help maintain accurate representation, with the breakpoints between large-, mid- and small-cap stocks redefined to capture market changes in the preceding year. In 2021, the reconstituted indexes take effect after the market close on June 25, with June 28 being the first trading day on which the indexes are rebalanced. Historically, that first trading day is one of the busiest of the year, as passive funds and active funds with sector constraints adjust to the rebalance. This year, we anticipate a significant amount of sector rotation between the Russell 1000 Growth and Russell 1000 Value indexes. For the growth index, the number of names is expected to increase in Consumer Discretionary and Industrials and decrease in Health Care. These moves will likely be accompanied by reciprocal changes in the value index, where Health Care is expected to increase and Discretionary and Industrials decrease.

The reconstitution also causes a slight reversion from the unprecedented levels of concentration among names in the growth index. As the number of large growth names has increased, Russell has been forced to move names into the value index to keep the aggregate market cap of the styles equal. By the 2020 reconstitution, the Russell 1000 Growth Index had fallen to 432 names, the lowest level since the inception of the indexes in 1979. Meanwhile, the Russell 1000 Value Index had swelled to 838 names, the second highest in its history. Preliminary Russell data indicates the growth index will move back to 496 names this year, which is still relatively concentrated, while the value index will stay diversified with 831 names.

We find the continued concentration of the growth index particularly interesting, given that periods of high concentration in the index have coincided with periods of outperformance by large-cap growth managers. As the largest names in the cap-weighted index begin to dominate, they get expensive, and subsequently underperform going forward, dragging cap-weighted index returns down. The table on page 2 shows the outperformance of mutual funds during years since 1989 when the Russell 1000 Value Index had at least 200 more names than the Russell 1000 Growth, which corresponds to the orange line in the chart being above the central gridline. In these time periods, about 69% of large-cap growth managers have outperformed the Russell 1000 Growth Index, on average, while 61% of large-cap blend managers have outperformed the Russell 1000, compared to just 40% and 35% outperformance, respectively, in the other years. Last year's record divergence of 406 names corresponded with 64% of large-cap growth managers and 70% of large-cap blend managers outperforming year to date. (For more information on our thesis on concentration and its relationship to outperformance, please see our [Insights: Is a Return to a More Rational Market on the Horizon?](#)) Given this historical relationship between concentration and outperformance, which seems to be continuing in 2021's market, it seems reasonable that this is an opportunity for active management to take back the reins.

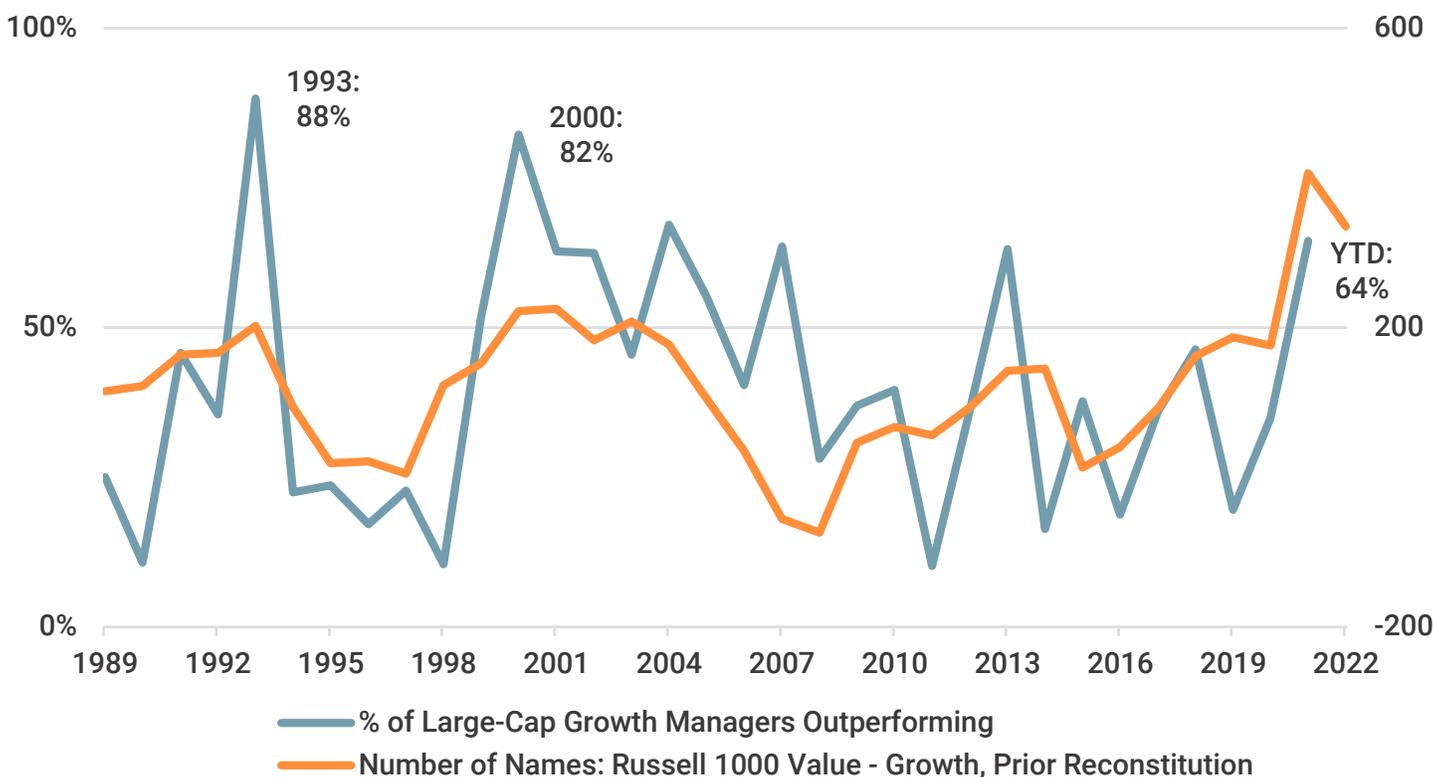
The views expressed represent the opinions of certain GIM portfolio managers as of June 21, 2021 and are not intended as a recommendation of any security, sector or product, and any security identified herein may or may not have been bought, held and/or sold by GIM-managed portfolios. Any opinions or projections herein are based on information available at the time of publication and may change thereafter. Information obtained from third-party sources is assumed to be reliable, but accuracy is not guaranteed. Future developments (including performance) may differ materially from expectations and projections noted herein due to various risks and uncertainties and changes in underlying assumptions. For institutional and professional investors only; not for retail clients.

Mutual Funds, Percent Outperforming versus Count of Names, Russell 1000 Value - Russell 1000 Growth

Periods with Difference > 200:	Russell 1000 Value - Growth Count	Outperform % Large-Cap Blend	Outperform % Large-Cap Growth
1993	202	52%	88%
2000	222	70%	82%
2001	225	61%	63%
2003	208	52%	45%
2021	406	70%	64%
Avg, >200 Diff.	253	61%	69%
Avg, <200 Diff	93	31%	35%
Avg, All Periods	117	35%	40%

Source: Glenmede Investment Management LP and FactSet Data as of 5/30/2021
 Performance is for calendar years, with the exception of the current year, which runs through May 31. Concentration for the year is based on the Russell Reconstitution from the prior June.

Percent of Large-Cap Growth Managers Outperforming versus Number of Names in Russell 1000 Value less Russell 1000 Growth



Source: Glenmede Investment Management LP and FactSet Data as of 5/30/2021
 Universe is Morningstar LC Growth Managers with tracking error of at least 2% to the Russell 1000 Growth Index on a trailing 3-year basis. Results prior to 2000 are based on the universe as of August 31, 1999.

The views expressed represent the opinions of certain GIM portfolio managers as of June 21, 2021 and are not intended as a recommendation of any security, sector or product, and any security identified herein may or may not have been bought, held and/or sold by GIM-managed portfolios. Any opinions or projections herein are based on information available at the time of publication and may change thereafter. Information obtained from third-party sources is assumed to be reliable, but accuracy is not guaranteed. Future developments (including performance) may differ materially from expectations and projections noted herein due to various risks and uncertainties and changes in underlying assumptions. For institutional and professional investors only, not for retail clients.