Shades of Value
Navigating the Nuances of Value Index Differences

Authors

Cameron McLennan, CFA
Director, Senior Portfolio Manager,
Systematic Global Equities

Sumali Sanyal, CFA
Managing Director, Senior Portfolio
Manager, Systematic Global Equities

In our prior insights piece "Decoding the Shifting Landscape of the S&P 500 Value Index: Unveiling Insights from Changes in Active Risk Exposure, and Companies During the Annual Style Rebalance," we highlighted that the high level of turnover and the importance of Momentum as a driver of the risk, sector and stock changes in the S&P 500 style rebalance could result in some unexpected tilts in this index from that provided by other index companies. In this update we review the results of the most recent Russell 1000 Large Cap Value annual Style Index rebalance that occurred on June 23rd. We also compare the exposures of the Russell 1000 Value index versus the S&P 500 Value index at 06/30/23 and consider the potential impact of factor and sector differences between the indexes on investors targeting large cap value exposure.

The Russell Style indices employ two factors to evaluate a company's exposure to growth and one factor for value. The factors are presented in the table (**Table 1**) provided below. Unlike the S&P style index construction, momentum is not used as measure of growth in the Russell methodology.

The following chart (**Chart 1**) shows the turnover of the Russell 1000 Value during the past ten annual rebalances.

The addition of the 10-year average highlights the consistency of the annual turnover for this index. In the past decade, the turnover rates for the index have remained close to the 10-year average of 13.1%. The turnover in 2023 was 12.7%, up slightly from the 2022 level but in line with the average. For those managing an index portfolio targeting this index, this low and consistent turnover can be particularly beneficial. It means lower transaction costs and enhanced predictability of portfolio management, allowing for better risk assessment and optimized asset allocation.

Table 1 | **Russell 1000 Style Indices**
Evaluation Factors

Growth Factors	Value Factors
Two-Year Forecast Earnings per Share Growth	Book Value to Price Ratio
Five-Year Historical Sales per Share Growth Rate	

Source: Russell U.S. Style Indices Methodology

Chart 1 | **Russell 1000 Value Index**
Annual Rebalance Turnover
As of 2023
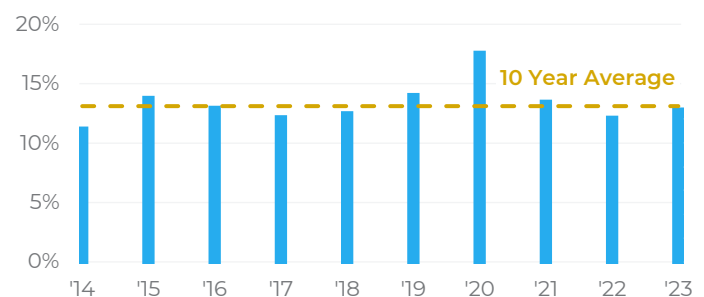
Source: FactSet

Changes in Active Risk, Sector, and Stock Exposures

When examining the changes in risk exposures of the Russell 1000 Value index versus the broad Russell 1000 index, it is evident that annual changes mostly remain within a tight band, emphasizing the stability of the index exposures over the decade. Most changes are less than 0.05 standard deviations, suggesting subtle adjustments or maintenance in the index's composition rather than significant directional shifts.

Table 2 | **Change in Russell 1000 Value Index Active Risk Factor Exposure**
Standard Deviations versus the Russell 1000 Index

Risk Factors – Axioma	Rebalance Year									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Dividend Yield	0.06	0.02	0.04	-0.01	0.00	0.01	-0.06	0.00	0.00	0.04
MidCap	0.00	0.00	0.00	0.00	0.00	0.01	-0.01	0.00	0.00	0.01
Volatility	-0.02	0.01	0.01	0.01	0.00	0.02	-0.02	-0.01	0.00	0.01
Earnings Yield	0.02	0.02	0.04	0.03	0.02	0.02	0.00	0.02	0.01	0.01
Value (B/P)	0.00	0.01	-0.01	-0.01	-0.03	0.02	-0.06	0.02	0.02	0.00
Exchange Rate Sensitivity	0.02	-0.07	-0.02	0.01	-0.01	0.00	0.00	0.00	-0.02	0.00
Leverage	0.04	0.03	0.05	-0.01	0.05	0.00	0.05	-0.09	0.01	0.00
Liquidity	-0.04	0.03	-0.01	0.01	0.00	0.02	0.01	-0.03	0.06	-0.01
Profitability	0.01	0.02	0.03	0.03	0.02	0.01	0.05	-0.01	0.01	-0.01
Growth	-0.04	0.03	0.01	0.05	0.03	0.00	0.01	0.02	0.02	-0.02
Size	0.00	0.00	0.00	-0.01	0.00	-0.02	0.01	0.01	0.00	-0.02
Market Sensitivity (beta)	-0.02	0.05	-0.02	-0.02	-0.02	0.00	0.03	-0.05	0.08	-0.04
Medium-Term Momentum	-0.10	-0.11	-0.06	-0.10	-0.05	-0.10	-0.03	-0.07	-0.09	-0.05

Source: FactSet

Green	change > 0.05 (std dev)
Red	change > -0.05 (std dev)

The table below illustrates the annual changes in active sector exposure relative to the Russell 1000 index, sorted by the size of the changes observed in 2023.

Table 3 | **Change in Russell 1000 Value Index Active Sector Exposure**
versus the Russell 1000 Index

Sector	Rebalance Year									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Industrials	0.3	0.0	-0.5	-1.6	0.0	1.7	2.8	-1.6	-0.6	2.1
Information Technology	-0.4	2.1	-1.7	-1.6	0.7	-3.7	3.1	1.2	0.2	1.0
Consumer Staples	1.4	-0.4	1.7	0.9	0.2	0.9	-1.9	0.2	-0.7	1.0
Materials	0.4	-0.1	-0.1	-0.2	1.1	0.4	-0.2	-1.0	0.5	0.5
Real Estate	0.1	0.0	0.3	0.3	0.0	0.0	-0.3	-0.1	0.4	0.5
Energy	-1.4	3.6	-0.2	-0.8	-1.2	0.2	-1.0	-0.4	-0.2	0.5
Utilities	0.0	0.0	0.0	-0.2	-0.2	0.0	-1.1	0.1	0.2	0.0
Financials	0.2	-1.0	-0.2	-1.7	-2.7	1.1	-2.5	-0.4	-0.2	-0.3
Health Care	-0.2	-3.2	-0.8	2.8	-0.6	-2.2	-0.9	4.6	-2.2	-0.3
Consumer Discretionary	-0.2	-1.2	0.1	2.4	2.0	0.6	1.1	-2.1	0.9	-0.9
Communication Services	-0.1	0.3	1.4	-0.2	0.6	0.9	0.9	-0.6	1.7	-4.1

Source: FactSet

Green	change > 2.0%
Red	change > -2.0%

The direction of annual sector changes is less consistent versus the changes in risk factors, but most have been small at +/-2%. At the stock level (**Table 4**), the increased weight in the Industrials sector is driven by gains in companies like United Parcel Service and Union Pacific Corporation. Meta Platforms had the largest decrease in weight, which accounts for most of the decrease in Communication Services.

In summary, low consistent turnover and slight changes in risk factors, sector, and stock weights highlight the stability of the Russell 1000 Value index's relative exposures versus the broad Russell 1000 index over time. This contrasts with the elevated level of turnover and considerable changes in risk factor, sector and stock weights that resulted during the S&P 500 Value index rebalance.

Comparison of Russell 1000 Value Sector and Risk Factor Exposures versus the S&P 500 Value index – 06/30/23

The sector (**Table 5**) and risk factor (**Table 6**) exposures between the Russell 1000 Value and the S&P 500 Value indexes provide insights into the depth of their value orientation.

Sectors with Traditional Value Affinity: Health Care and Energy show significantly higher weights in the Russell 1000 Value compared to the S&P 500 Value. Traditionally, these sectors are associated with more stable earnings, dividends, or undervaluation, suggesting a deeper tilt towards value characteristics in the Russell 1000 Value in these areas.

Technology and Growth Sectors: The Russell 1000 Value has notably less exposure to sectors like Information Technology and Consumer Discretionary, which are often associated with growth stocks. A lower allocation to these sectors underscores a stricter adherence to value criteria.

Positive exposures to factors like Dividend Yield, Volatility, and Value in the Russell 1000 Value, especially Dividend

Table 4 | **Most Significant Increased and Decreases in Stock-Level Weights**
As of 2023

Company Name	Sector	Change in Weight
International Business Machines Corp.	Information Technology	0.42
Procter & Gamble Company	Consumer Staples	0.41
United Parcel Service, Inc.	Industrials	0.40
Union Pacific Corporation	Industrials	0.37
Aon Plc	Financials	0.33
Netflix, Inc.	Consumer Discretionary	-0.55
Thermo Fisher Scientific Inc.	Health Care	-0.57
Salesforce, Inc.	Information Technology	-0.61
Home Depot, Inc.	Consumer Discretionary	-0.70
Meta Platforms Inc. Class A	Communication Services	-2.73

Source: FactSet

Table 5 | **Russell 1000 Value versus S&P 500 Value**
As of 2023

Sector	Russell 1000 Value	S&P 500 Value	Difference
Health Care	15.81	9.05	6.76
Energy	7.93	1.41	6.52
Materials	4.84	3.07	1.77
Consumer Staples	8.36	6.90	1.46
Financials	20.08	18.90	1.18
Industrials	13.47	12.46	1.01
Real Estate	4.91	4.39	0.52
Utilities	5.17	5.08	0.08
Communication Services	5.10	9.86	-4.76
Consumer Discretionary	5.28	10.99	-5.71
Information Technology	9.05	17.89	-8.84

Source: FactSet

Yield, signify a classic value inclination, focusing on companies paying consistent dividends, undervalued stocks, and potentially stocks with higher volatility.

The emphasis on traditional value sectors, combined with the risk factor exposures, suggests that the Russell 1000 Value might have a deeper value tilt than the S&P 500 Value.

Impact for investors

While both indexes cater to value-oriented investors, the Russell 1000 Value takes a more definite stance on value characteristics. Investors seeking a stronger tilt toward traditional value might find the Russell 1000 Value more appealing.

A passive strategy tracking the Russell 1000 Value would have a more traditional value tilt, which might mean more pronounced cyclical behavior — potentially underperforming during growth-led rallies but potentially outperforming in value-favorable conditions. Active investors aiming to outperform the value benchmark would need to consider the sector, risk factor, and stock weight differences when constructing their portfolios to ensure the excess return potential of their strategy is not overwhelmed by biases in the target benchmark. Understanding these biases is fundamental to attributing performance, be it stock selection or allocation decisions, and adjusting the strategy accordingly.

Table 6	Russell 1000 Value versus S&P 500 Value As of 2023	
Risk Factor		**Active Exposure**
Dividend Yield		0.18
Volatility		0.12
Value (B/P)		0.11
MidCap		0.09
Earnings Yield		0.09
Growth		0.06
Exchange Rate Sensitivity		0.04
Liquidity		0.01
Leverage		-0.07
Profitability		-0.07
Medium-Term Momentum		-0.11
Size		-0.13
Market Sensitivity (beta)		-0.30

Source: FactSet

Conclusion

Understanding the nuances between the two benchmark construction methodologies is essential for determining their appropriateness as a benchmark to measure the performance of investment strategies. The Russell 1000 Value index, with its consistent low turnover and stable sector, risk factor, and stock allocations, offers a more predictable and defined value orientation versus the S&P 500 Value Index. This stability and clarity can make it a preferable benchmark for those seeking a robust representation of value characteristics.