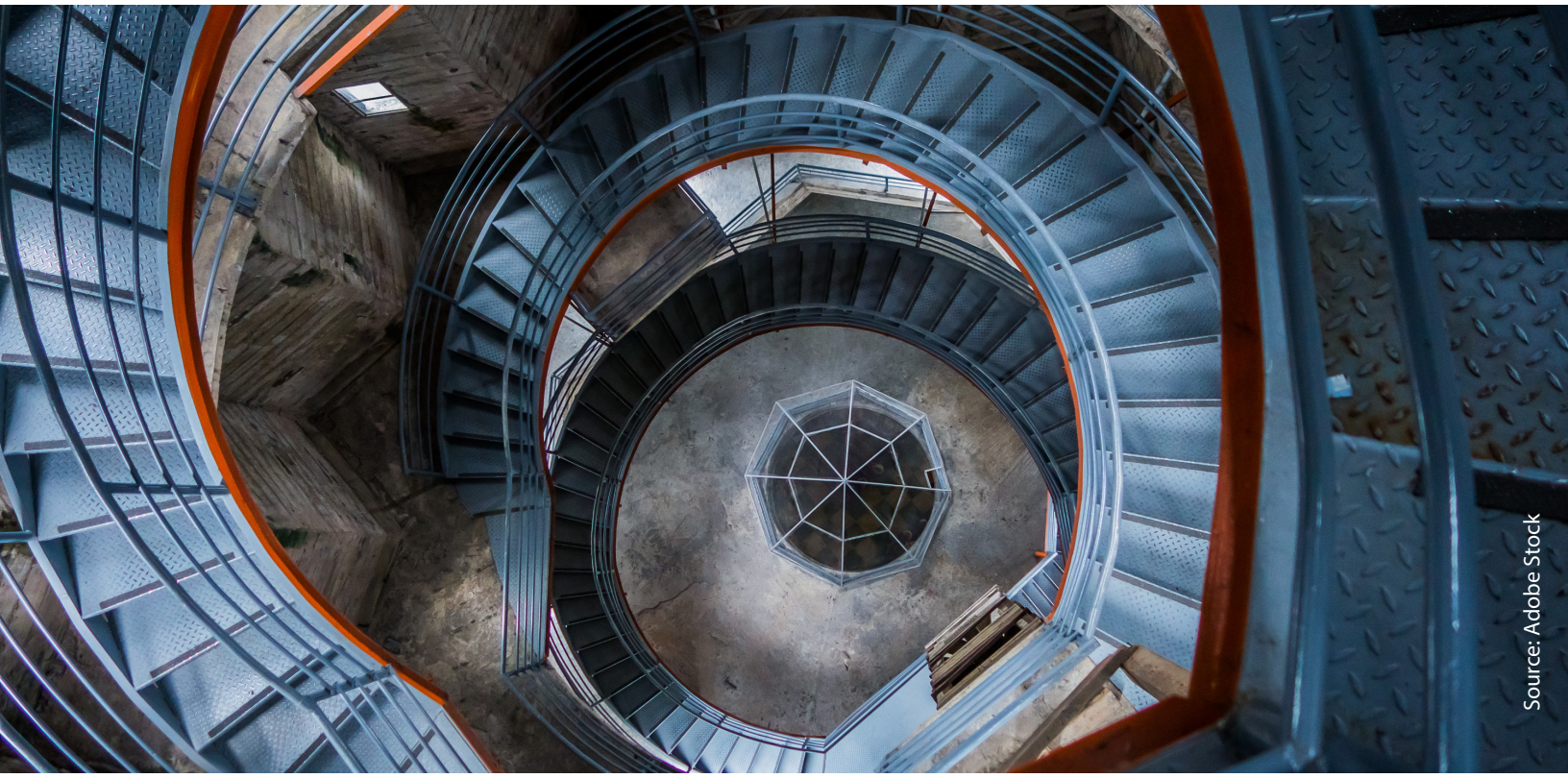
The Irresistible Temptation to Index



September 2026

Beutel Goodman
Global Equities Team

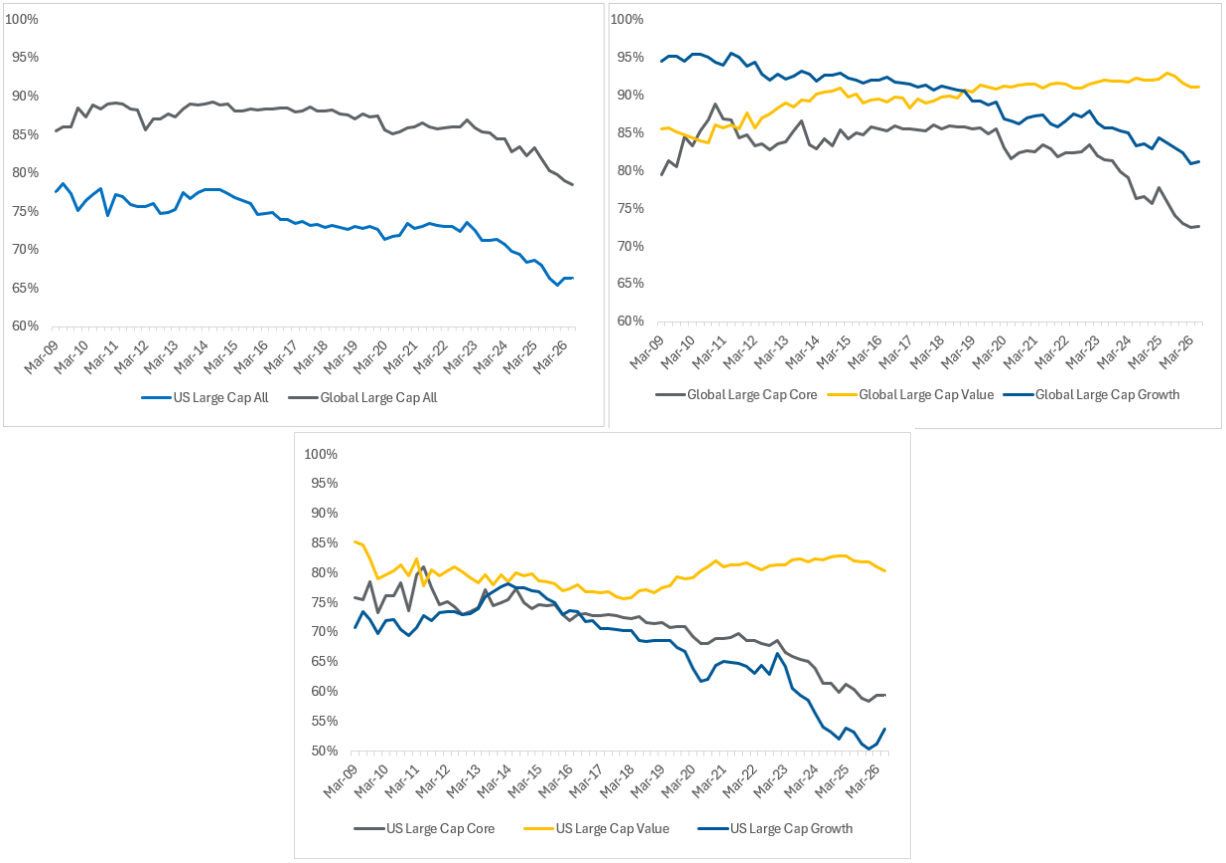
Active management has retreated, likely due to fears of missing expected perpetual gains from large Tech companies. Active managers are responding with immediacy to benchmark composition changes of large Tech companies, such that the convergence between Value and Growth is glaring. Beyond aggregate metrics of Active Share declining, this tail-wagging-the-dog effect raises questions about whether research has become less independent across the investment industry.

Active Share Trends

Active Share, a direct sum of an active manager's portfolio weights relative to its benchmark, has broadly declined over the past 15+ years. Mathematically, this cannot be due to fewer opportunities. For example, the S&P 500 universe has always had ~500 security choices. While there is no one decisive reason for this trend, our familiarity with the industry would offer two influences. One is adherence to over-engineered quantitative risk models which effectively force portfolio managers toward the index. The other is a fundamental phobia of being underweight the next digital breakthrough, regardless of risks or price, when companies with digital breakthrough histories are added to benchmarks.

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Exhibit A: Active Share of Median Products across Variety of eVestment Universes. March 2009 through June 2026 trend (quarter-end datapoints).



Source: eVestment. Minimum number of observations is 10, leading to March 2009 starting point. # observations: Global Large Cap Core: 24-139; Global Large Cap Growth: 10-139; Global Large Cap Value: 10-131; US Large Cap Core: 16-333; US Large Cap Growth: 14-255; US Large Cap Value: 16-329.

While we see generally stable and high Active Share across Value universes, **Core and Growth universes have all experienced consequent drops**, all the way to 50% levels for US Large Cap Core and Growth, over the past 15+ years (Exhibits A and B). When considering product AUM ("Current (weighted)" column in Exhibit B), asset-weighted Active Share drops further across categories, all the way to mid-40% (US Large Cap Growth) and mid-50% (US Large Cap Core) levels.

Exhibit B: Active Share of Median Products across Variety of eVestment Universes. March 2009 through June 2026 (median versus current).

	HISTORICAL MEDIAN*	CURRENT*	CHANGE*	CURRENT (Weighted)*
Global Large Cap Core	83.5%	72.6%	**-10.9%**	64%
Global Large Cap Growth	91.1%	81.2%	**-9.9%**	79%
Global Large Cap Value	90.1%	91.0%	*+0.9%*	85%
US Large Cap Core	72.6%	59.4%	**-13.2%**	55%
US Large Cap Growth	70.0%	53.7%	**-16.3%**	46%
US Large Cap Value	80.1%	80.4%	*Stable*	70%

Source: eVestment. Median of universe median over time (2009-2026), quarterly datapoints. Current: median universe datapoint, June 30, 2026. Current (Wtd): Asset-weighted datapoint as of June 30, 2026. Change: current universe median minus historical "(2009-2026) median.

U.S. Equities

U.S. Large Cap Value: Russell Style Reconstitutions Increasingly Drastic

Appreciating that the economy naturally evolves, and benchmarks should no longer include companies like Kodak or Blockbuster, recent changes in the Russell 1000 Value index have been unusually abrupt. On a single day in June 2026, over 21% of the index was expelled and replaced with what was not (or was less) "Value" the prior afternoon. This came exactly one year after a consequential reconstitution in late June 2025 when a wave of Big Tech stocks entered the Value index. Furthermore, Russell has moved to a 6-month reconstitution cycle starting this year (2026), so that we may expect consequential reshufflings twice a year, up from just once. While the semi-annual reconstitution should, in theory, smooth out the magnitude of changes, we question if the pace of current markets (with Momentum often in the driver's seat) could produce the opposite effect.

Exhibit C: Russell 1000 Value (RLV) Index Reconstitutions, 2022-2026.

	One-Way Turnover	Top 10 increases	Top 10 decreases	Increases	Decreases
2022	12.0%	5.1%	-5.5%	The dominant story was **Meta Platforms**' entry	**UnitedHealth** was the largest weight reduction
				Other additions (Linde, The Home Depot, PayPal, Starbucks, Netflix) reflected broad valuation compression in growth-adjacent names in 2022	
2023	12.7%	3.4%	-7.2%	Diffuse gains across names such as IBM, Procter & Gamble, Union Pacific & Nike (both new)	The defining event was **Meta Platforms**' complete exit reversing 2022 entry
					Netflix, The Home Depot, Alphabet were also removed
2024	13.0%	5.6%	-3.5%	**UnitedHealth** was the largest weight increase	**Merck** was the biggest removal; Oracle was also removed
				Accenture & AbbVie large new additions	
2025	12.6%	8.5%	-3.9%	Landmark rebalance for Big Tech into RLV: **Amazon.com, Alphabet, Meta Platforms** all entered, collectively adding +5.5%	GE Aerospace and AbbVie largest removals, along with GE Vernova and Trane Tech
2026	21.4%	16.7%	-13.1%	**Apple** and **Microsoft** entered RLV, **Amazon.com's** existing weight surged large increase, together adding over 13% of new weight to the index	**Micron** was the largest removal, followed by **Alphabet** (both classes), along with Advanced Micro Devices, Applied Materials, and Caterpillar

Source: Bloomberg. Top 10 increases / decreases represent the combined weights of changes.

In Q2 2026, US Large Cap Value managers piled into Apple, Microsoft, and Amazon, reflecting the consequent Russell style indices reconstitution in late June. For reference, quarter-on-quarter changes in portfolio ownership in the US Large Cap Value universe (as compiled in the eVestment database) are typically in the -4% / +4% range, with outlier numbers explainable (as an example, many portfolios liquidated Kenvue after it was announced the company was being acquired by Kimberly-Clark).

Exhibit D: eVestment US Large Cap Value Universe Holdings. Comparing Q2 2026 with Q1 Holdings across the Most Consequent Additions/Deletions.

	Index Weights		% Portfolio Ownership			Effective Weight*			Rank (Peer Weight)*		
	Pre-recon	Post-recon	Q1	Q2	QoQ	Q1	Q2	QoQ	Q1	Q2	QoQ
MICROSOFT	0%	3.9%	52%	65%	**+25%**	2.7%	3.6%	**33.9%**	3	1	**2**
AMAZON	1.8%	5.9%	39%	48%	**+23%**	2.9%	4.3%	**51.8%**	7	2	**5**
ALPHABET	3.6%	0.0%	63%	56%	**-11%**	3.6%	3.3%	**-8.0%**	1	3	**-2**
APPLE	0%	5.4%	20%	39%	**+95%**	2.9%	3.7%	**25.4%**	23	5	**18**

Source: eVestment, Bloomberg. Rank represents most held name positioning across eVestment's US Large Cap Value universe based on both level of portfolio ownership and weight of security. Peer weight: simple average of the weight that a security is held within all products in the universe. Effective weight: Weight of a security in only portfolios that hold the given security.

The table above reads as follows: As of Q1 2026, 39% of Value portfolios that reported holdings held **Amazon** at an average 2.9% weight. As of Q2 2026, 48% of portfolios held Amazon at an average weight of 4.3%. While the most significant bump in effective weight goes to Amazon, the biggest bump in portfolio ownership goes to **Apple**, which now ranks fifth (up from twenty-third) when considering both portfolio ownership and weight. Conversely, while **Alphabet** remains a core US Large Cap Value universe holding, both portfolio ownership (63% to 56%) and weight (down 30bps) have come down. As evidenced by such drastic shifts, **Russell's style reconstitutions have effectively forced the hand of many Value managers for fear of under-representation across mega-cap Tech and Tech-adjacent stocks.**

US Large Cap Value and US Large Cap Growth: Blurred Boundaries

The convergence between Value and Growth around mega-cap Tech is glaring when comparing June-end Top 20 holdings overlap between the US Large Cap Value and US Large Cap Growth universes over the past 15 years. Name and weighting overlap in the past was generally confined to 2 to 3 names always including Microsoft — a staple of both Value and Growth portfolios — adding up to single-digit overlap percentage. Overlap has grown to reach its highest-ever level of 16.6% as of June 30, 2026, across five names: Microsoft, Amazon, Alphabet, Apple, and Meta. While all but one of these holdings (Alphabet) are currently represented across both the Value and Growth indices, active managers seem to be contorting to accept index providers' formulae for style index inclusion and weighting.

Exhibit E: Top 20 Holdings Overlap between US Large Cap Value (US LCV) and US Large Cap Growth (US LCG). Comparing eVestment Universe Top 20 Holdings over the past 20 Years (June 30 datapoints).

	2026			2016		
	Names	US LCV	US LCG	Names	US LCV	US LCG
1	Microsoft	3.6%	4.4%	Microsoft	2.5%	2.9%
2	Amazon	4.3%	4.2%	Apple	2.0%	3.6%
3	Alphabet	3.3%	8.1%			
4	Apple	3.7%	5.7%			
5	META	1.8%	3.2%			
	Overlap	**16.6%**		**Overlap**	**4.5%**	

Source: eVestment

Global Equities

Turning our attention to Global Large Cap universes, we note a similar familiarity with top holdings overlap across Value, Core, and Growth universes.

Looking at the June-end Top 10 holdings across the Global Large Cap Core, Growth, and Value universes, as well as the commonly used MSCI World and MSCI ACWI indices (Exhibit F below), we note the following:

- The Top 10 holdings overlap across Global Large Cap Core and Growth is currently 100%, and 70-80% with the World and ACWI benchmarks.
- It is relatively uncommon, as well as a more recent phenomenon, to have **3 of the Top 10 holdings** (Alphabet, TSMC, and Microsoft) **significantly represented across the Core, Growth, and Value universes**, and the MSCI World and ACWI indices.

Exhibit F: Top 10 Holdings Overlap between Global Large Cap Core, Value and Growth versus MSCI Indices. As of June 30, 2026.

	Core	Value	Growth	MSCI World	MSCI ACWI
1	NVIDIA	Alphabet	NVIDIA	NVIDIA	NVIDIA
2	Alphabet	TSMC	Alphabet	Apple	Apple
3	Microsoft	Microsoft	TSMC	Alphabet	Alphabet
4	Apple	Samsung	Amazon	Microsoft	Microsoft
5	TSMC	Cisco	Microsoft	Amazon	Amazon
6	Amazon	Shell	ASML	Broadcom	TSMC
7	Broadcom	Merck	Broadcom	Micron	Broadcom
8	ASML	Total	Apple	META	Micron
9	Visa	JPMorgan	Visa	Tesla	META
10	META	Bristol-Myers	META	Eli Lilly	Tesla

Source: eVestment, Bloomberg.

- Compared to ten years ago, **convergence resulting from the temptation to mimic a concentrated index that reflects a technological revolution is evident:**
  - Core portfolios have gone from 60% to 80% overlap with the MSCI ACWI Index, currently owning 16 of the top 20 index names
  - Growth portfolios have gone from 35% to 65% overlap
  - Value portfolios have gone from 15% (large banks/energy as prior overlaps) to 35% overlap (now including mega-cap Tech).

Exhibit G: Top 20 Holdings Overlap between Global Large Cap Core, Growth and Value versus MSCI ACWI Index. As of June 30, 2026, 2021, and 2016.

	2026					2021					2016			
	MXWD	Core	Value	Growth		MXWD	Core	Value	Growth		MXWD	Core	Value	Growth
1	NVIDIA Corp	1		1	1	Apple Inc	3		9	1	Apple Inc	4		14
2	Apple Inc	4		8	2	Microsoft Corp	1		2	2	ExxonMobil			
3	Alphabet *2	2	1	2	3	Amazon.com Inc	4		3	3	Microsoft Corp	2		15
4	Microsoft Corp	3	3	5	4	Meta Platforms	6		4	4	Johnson & Johnson	3		
5	Amazon.com Inc	6		4	5	Alphabet Inc	2		1	5	General Electric			
6	Taiwan Semi.	5	2	3	6	Taiwan Semi.	7		11	6	Amazon.com Inc	13		4
7	Broadcom Inc	7		7	7	Tesla Inc				7	AT&T Inc	17		
8	Micron Technology	15			8	NVIDIA Corp			16	8	Meta Platforms Inc			2
9	Meta Platforms	10	18	10	9	JPMorgan	14	12		9	Nestle SA	6		7
10	Tesla Inc				10	Johnson & Johnson	17			10	Procter & Gamble			
11	Samsung	19	4		11	Tencent Holdings	18		10	11	Wells Fargo	10	11	
12	Eli Lilly & Co	12		14	12	Alibaba Group	19		14	12	JPMorgan	7	1	
13	Advanced Micro Devices	16		19	13	Visa Inc	5		5	13	Verizon		13	
14	SK hynix Inc			18	14	Berkshire Hathaway		4		14	Pfizer Inc	12		
15	JPMorgan	13	9		15	UnitedHealth Group	11			15	Alphabet Inc	1		1
16	ASML Holding NV	8		5	16	Nestle SA	15		19	16	Chevron Corp			
17	Berkshire Hathaway				17	Home Depot				17	Novartis AG	9		
18	Intel Corp				18	Samsung		3		18	Coca-Cola			
19	Johnson & Johnson	17	12		19	Procter & Gamble				19	Roche Holding	5		10
20	Visa Inc	9		9	20	PayPal Holdings			6	20	Berkshire Hathaway			
	Overlap #	**16**	**7**	**13**		**Overlap #**	**13**	**3**	**12**		**Overlap #**	**12**	**3**	**7**
	Overlap %	**80%**	**35%**	**65%**		**Overlap %**	**65%**	**15%**	**60%**		**Overlap %**	**60%**	**15%**	**35%**

Source: eVestment

A reminder on Russell's Style Index Methodology

Russell's methodology for attributing a weight in either (or both) its Value or Growth index relies on each stock's Composite Value Score (CVS), comprised of three metrics: two Growth variables accounting for 50% of the final score — I/B/E/S® forecast medium-term growth (two-year) and sales per share historical growth (five-year), and one Value metric accounting for the other 50% of the score — the Price/Book (P/B). Stocks are ranked according to these three metrics, and these rankings are then converted to standardized units. These units are subsequently combined to produce the CVS, and a probability algorithm is applied to the CVS distribution to assign Growth and Value weights to each stock.

There are various advantages in using the Price/Book ratio, namely its relative stability and ready availability in measuring a company's net asset value per share, providing a clear comparison to market value. It can also be helpful when other valuation metrics such as Price/Earnings are not suitable (e.g. when a company has negative earnings).

That said, the Price/Book ratio has several important limitations that make its relevance as a standalone metric somewhat dubious. The Price/Book ratio may not account for a company's intangible assets such as patents or brands, which can represent a significant portion of a company's value. As such, Price/Book can be considered useful for capital-intensive businesses, but less so for businesses with fewer tangible assets such as Luxury Goods or Software. Another drawback is that Book Value is based on historical cost which may not reflect the current market value of assets, especially for companies with older assets. Book Value is also subject to accounting discretion, particularly around acquisitions, making it less reliable as a valuation metric.

While the Price/Book ratio is a valuable tool for investors, the Price/Earnings ratio focuses on a company's profitability and future earnings potential, making it a more reliable indicator for identifying undervalued stocks.

Price/Book value classification anomalies include stocks such as **Amgen** ("28% Value / 72% Growth"), where the metric (21x), technically belonging to the most expensive valuation quintile, is largely irrelevant. Amgen's drug development pipeline, intellectual property, and patents represent significant assets not fully reflected in the company's book value. Further, as Amgen conducts research and develops drugs, those costs are expensed and never appear among assets or equity on the balance sheet, though Amgen owns the fruits of this work. Meanwhile, we would point to a forward P/E of less than 16x as offering a solid discount to the overall market for a high-quality franchise. Conversely, trucking company **Knight-Swift** ("100% Value") has a large balance sheet primarily from PP&E and goodwill & intangibles (past acquisitions). A low P/B is a function of this large reported balance sheet. Meanwhile, the stock has performed strongly on the back of a turning freight cycle and now trades at nearly 30x forward earnings.

Exhibit H: Amgen versus Knight-Swift Composite Value Score. June 30, 2026.

	FPE	P/Book	RLV weight	RLG weight	CVS Score
AMGEN	15.8x	21.3x	0.16%	0.41%	28% Value 72% Growth
KNIGHT-SWIFT	27.9x	1.8x	0.03%	0.00%	100% Value

Source: Bloomberg. FPE: Forward P/E (BF12M); RLV: Russell 1000 Value; RLG: Russell 1000 Growth

Neither Price/Book nor Price/Earnings can perfectly capture company values in isolation, but the earnings multiple is closer to free cash flows. The value of a business is, after all, the discounted sum of all future cash flows.

In Conclusion

Convergence across styles, indices, and product universes reflects, in part, the evolving landscape of markets, with one major theme, AI, having a profound impact across the corporate landscape, and particularly in Tech and Tech-adjacent areas such as Communication Services and Consumer Discretionary.

While we are cognizant of these dramatic changes, the Beutel Goodman Global Equities Team has stayed true to our approach to Value investing, which focuses on uncovering the rare opportunities that meet both our stringent Quality criteria and Valuation hurdles.

Our process has historically steered us, and continues to steer us, towards a portfolio that is very different from the index. We expect this consistency and differentiation to benefit our clients as the lines have blurred between what has traditionally been considered sound diversification across styles.

We continue to believe in the value of research independence, valuation discipline, style consistency, and downside protection. BG

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