

A Changing Index Landscape: The 2026 Russell Reconstitution

The Russell Reconstitution

The Russell reconstitution is a semi-annual event in which FTSE Russell updates membership in its U.S. equity indexes to ensure they continue to accurately represent the evolving U.S. stock market.

Unlike S&P Dow Jones Indices, which relies on a committee, the Russell process is systematic and rules-based. FTSE Russell ranks its investable U.S. equity universe by total market capitalization, allocating the 1,000 largest stocks to the Russell 1000 Index and the next 2,000 to the Russell 2000 Index.

Stocks are then evaluated for style using book-to-price ratio, estimated earnings growth, and historical sales growth. The market capitalization of companies with mixed style characteristics is allocated between value and growth indexes rather than the stock being assigned exclusively to one style index.

Key June 2026 Index Changes

- Mega-cap exposure within the Russell 1000 Value Index increased, raising concentration risk; information technology became a much more heavily weighted sector.
- Semiconductor stocks now represent nearly one-third of the Russell 1000 Growth Index.¹
- The market-cap threshold separating Russell 1000 and Russell 2000 companies rose to \$5.7 billion.

Highlights of the Reconstitution

FTSE Russell finalized the June reconstitution of its U.S. equity indexes after the market close on Friday, June 26. Consistent with previous reconstitutions, this event triggered one of the highest trading volume days of the year as passive funds, exchange-traded funds, and active managers realigned their portfolios to reflect the updated benchmarks.

Reconstitutions reshuffle FTSE Russell's entire U.S. equity universe, leading to major changes in the composition of its indexes. The June 2026 reconstitution led to some particularly notable shifts, driven by a significant increase in the size of the U.S. equity market and changes in company fundamentals, among other factors.

We discuss some of the most meaningful impacts below, as well as their implications for investors.

Large-Cap Value Adds Tech Heavyweights; Amazon Classified Almost Exclusively as Value

Apple and Microsoft joined the Russell 1000 Value Index, shifting from exclusive membership in the Russell 1000 Growth Index to being included in both benchmarks. Compared with other large-cap companies, their growth has slowed and their valuations have become more attractive. For similar reasons, FTSE Russell classified Amazon's market capitalization as 92% value and 8% growth.² This a major shift from allocations of 27% value and 73% growth in June 2025, when Amazon was included in the Russell 1000 Value Index for the first time.²

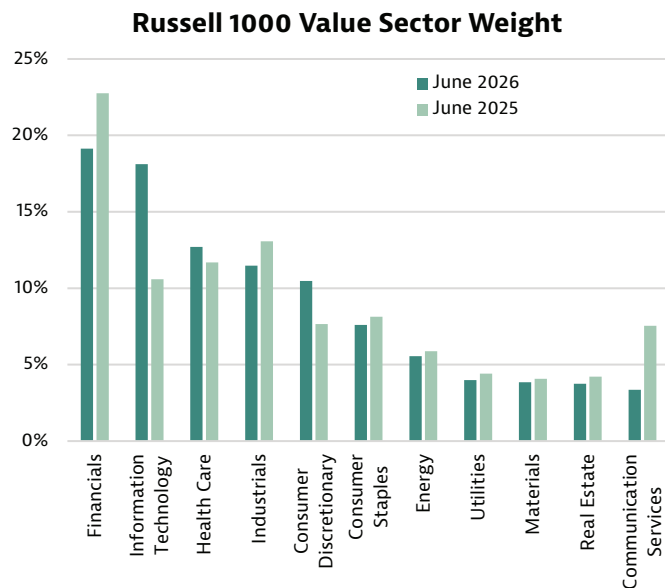
Information Technology Nearly Surpasses Financials as Top Large-Cap Value Sector

Information technology became the Russell 1000 Value Index's second-biggest sector, nearly edging out financials for first place. Information technology now represents nearly 18% of the Index's market capitalization, up from approximately 11% after the previous reconstitution. The inclusion of Apple and Microsoft contributed to this increase, as did greater exposure to software stocks more broadly, which have historically tended to be more growth-oriented.

At the same time, exposure to traditionally value-oriented semiconductor stocks increased in the Russell 1000 Growth Index as demand for artificial intelligence (AI) infrastructure fueled strong sales across AI-focused chip companies. The semiconductors and semiconductor equipment industry now makes up over 30% of the Index.¹

Information Technology Rises in the Sector Ranks of the Russell 1000 Value Index

Information technology's weight is well above historical levels.



Source: Factset, retrieved on June 29, 2026

Underlying Holdings Matter More Than Labels

These benchmark changes illustrate how the distinction between value and growth has become increasingly ambiguous. Large-cap value investors will have to get used to seeing stocks in their portfolios that were historically considered growth stocks but are now less growthy on a relative basis. Likewise, large-cap growth investors will need to adjust to the outsized weight of semiconductor stocks. This will require looking beyond benchmark names and legacy style definitions and focusing instead on underlying holdings and exposures.

The eroding boundary between value and growth helps play into our strengths as managers of the Homestead Value Fund. In contrast to deep value managers, we are relative value managers seeking to invest in “quality value” companies — companies with strong returns on invested capital, solid earnings outlooks, and reasonable valuations. For example, we have long considered Microsoft to be a quality value business and have held an out-of-benchmark position in the Value Fund for over a decade.

A More Concentrated Large-Cap Value Benchmark

Amazon, Apple, and Microsoft — all \$1 trillion-plus companies — are the biggest stocks in the Russell 1000 Value Index after having modest or no representation before the June reconstitution. With weights of 5.8%, 5.3%, and 3.9%, respectively, they make up approximately 15% of the Index's market capitalization as of the June 29, 2026 market open.¹ By comparison, last year's top three names accounted for about 8% of the Index.¹

Large-cap growth managers have grappled with concentration issues throughout the past decade. Now large-cap value managers will have to deal with some of the challenges that concentration creates. A handful of stocks may have a disproportionate effect on portfolio returns, and limits on position sizes may increase tracking error versus the benchmark. Investors should be aware that large-cap value portfolios may not be as diversified as in the past.

The Bar Is Raised for Large-Cap Inclusion

The market capitalization breakpoint between the Russell 1000 Index and the Russell 2000 Index rose from \$4.6 billion to \$5.7 billion. This increase reflected the significant expansion in the size of the U.S. equity market since the June 2025 reconstitution.

Several stocks in the Russell 2000 Index posted gains in the months leading up to the June 2026 reconstitution. Their market values soared above \$20 billion and beyond, and their index weights climbed. FTSE Russell announced that, starting this year, it would add a second reconstitution in December that would mainly focus on market capitalization. This more frequent reset should help alleviate some of these types of distortions in the Russell 2000, potentially making it easier for managers to adhere to their small-cap disciplines.

Awareness of Index Changes Is Critical

The Russell reconstitution carries important implications for portfolio construction and risk management. Staying attuned to these benchmark changes may help investors avoid unintended consequences and better understand the impacts on their portfolios.

The June 2026 reconstitution produced some notable shifts. However, it is important to remember that these changes are not permanent, as future reconstitutions could make the benchmarks look very different from how they look today.

Equity Fund Management



Jim Polk, CFA® Head of Equity Investments

Jim co-manages Homestead Advisers' equity strategies. He is a graduate of Colby College, where he received a BA in English. He received his MBA from the Olin Graduate School of Business at Babson College. He holds the Chartered Financial Analyst designation.



Mark Long, CFA® Equity Portfolio Manager

Mark co-manages the Homestead Advisers' large-cap strategies. Mark is a graduate of Cornell University, where he received a BS in operations research and information engineering. He holds the Chartered Financial Analyst designation.

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Top 10 Holdings (as of March 31, 2026)

Value Fund: JPMorgan Chase & Co., 4.5%; Exxon Mobil Corp., 4.4%; Parker-Hannifin Corp., 3.5%; Alphabet, Inc., 3.4%; Lam Research Corp., 3.1%; Northrop Grumman Corp., 3.0%; Walmart, Inc., 2.9%; Deere & Co., 2.9%; Citigroup, Inc., 2.7%; AbbVie, Inc., 2.6%

Small-Company Stock Fund: Plexus Corp., 3.8%; Advanced Energy Industries, Inc., 3.6%; Applied Industrial Technologies, Inc., 3.5%; Gildan Activewear, Inc., 3.3%; Globus Medical, Inc., 3.3%; Federal Signal Corp., 3.2%; Element Solutions, Inc., 2.7%; CACI International, Inc., 2.6%; OPENLANE, Inc., 2.6%; FB Financial Corp., 2.6%

Book-to-Price Ratio: A company's net asset value divided by its stock price; a higher ratio may indicate an undervalued stock.

This material represents an assessment of the market and economic environment at a specific point in time and is not intended to be a forecast of future events or a guarantee of future results. Forward-looking statements are subject to certain risks and uncertainties. Actual results, performance, or achievements may differ materially from those expressed or implied. Information is based on data gathered from what we believe are reliable sources. It is not guaranteed as to accuracy, does not purport to be complete, and is not intended to be used as a primary basis for investment decisions. It should also not be construed as advice meeting the particular investment needs of any investor.

Portfolio holdings are subject to change without notice. Portfolio holdings should not be considered recommendations to buy or sell any security. It should not be assumed that investment in the security identified has been or will be profitable.

Equity securities generally have greater price volatility than fixed-income securities. The market price of equity securities may go up or down, sometimes rapidly and unpredictably. Equity securities may decline in value due to a number of factors including those relating to the issuer or equity securities markets generally, among others.

Growth and value stocks are subject to the risks, among others, that returns on stocks within these style categories will trail returns of stocks representing another style or the market overall over any period of time, and each style category may shift in and out of favor with investors generally, sometimes rapidly, depending on changes in market, economic, and other factors. Growth stocks can be volatile. These companies

typically invest a higher portion of their earnings in their businesses and therefore may not offer the level of dividends provided by a number of value stocks, which may have the potential to cushion stock prices in a falling market. Also, earnings disappointments can lead to sharply falling prices because investors frequently buy growth stocks in anticipation of superior earnings growth. Investments in value securities may be subject to risks that (1) the issuer's potential business prospects will not be realized; (2) their potential values will not be recognized by the market; and (3) they will not perform as anticipated.

As a general matter, securities of small and medium-sized companies tend to be riskier than those of larger companies. Compared to large companies, small and medium-sized companies may face greater business risks because, among other factors, they may lack the management depth or experience, financial resources, product diversification or competitive strengths of larger companies, and they may be more adversely affected by prevailing economic conditions. There also may be less publicly available information about smaller companies than larger companies. In addition, these companies may have been recently organized and may have little or no operational or performance track record.

Diversification does not ensure a profit or protect against loss. It is a method used to help manage investment risk.

The Russell 1000 Index measures the performance of the 1,000 largest companies in the Russell 3000, representing the large-cap U.S. equity market. The Russell 1000 Value Index and Russell 1000 Growth Index measure the performance of Russell 1000 companies with lower and higher price-to-book ratios and growth rates, respectively. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000, representing the small-cap U.S. equity market. The Russell 3000 Index measures the performance of the 3,000 largest publicly traded U.S. companies by market capitalization. Indices are unmanaged, and investors cannot invest directly in an index.

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¹Factset, retrieved on June 29, 2026.

²LSEG, "Growth, value or both? Key style shifts in the June 2026 Russell reconstitution." Published June 18, 2026.