

Rapid Response

2025 FTSE Russell® US Equity Index Reconstitution Brings Significant Changes

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The FTSE Russell® index reconstitution happens once per year, typically at the end of June. This year's rebalance took place after market close on Friday, June 27 and went into effect on Monday, June 30.

Beginning in November 2026, Russell will move to semi-annual market-cap rebalancing. It is important to note, however, that the November rebalance will be market cap only, with no style shifts between value and growth.

This year, the index rebalance brought some significant shifts – particularly for the Russell 1000® Value Index and the Russell® Midcap Growth Index.

The most significant changes of the 2025 reconstitution are the addition of sizeable positions in Amazon, Alphabet and Meta to the Russell 1000® Value Index and the elimination of Palantir and AppLovin from the Russell® Midcap Growth Index.

US Large Cap Style Benchmarks

Key factors used in composing the large cap style benchmarks.

FTSE Russell® uses three variables to determine growth and value:

- One value metric – Book/Price
- Two growth metrics, one forward looking and one backward looking.
 - 1) I/B/E/S forecast medium-term (two year) growth
 - 2) Five-year historical sales per share growth

FTSE Russell®'s process assigns a value and growth score that, along with market cap, helps determine each company's weight in a given style index. Companies that meet their growth and value characteristics can live in both the value and the growth benchmarks. In fact, at the end of Q1 2025, more than 250 holdings were owned in both large cap style benchmarks.

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Key R1V Stock Additions

COMPANY NAME AS OF 6/30/2025	R1V CURRENT	R1V PROVISIONAL	CHANGE IN BENCH WEIGHT	CONSENSUS 2026(E) P/E
ALPHABET INC (classes A&C)	0.00	2.38%	2.38%	17.6x
AMAZON.COM INC	0.00	2.08%	2.08%	30.3x
META PLATFORMS INC	0.00	1.03%	1.03%	25.4x
Total Weight		5.42%	5.42%	

Source: Factset

All three names remain large holdings within the Russell 1000® Growth Index.

COMPANY NAME AS OF 6/30/2025	R1G WEIGHT	R1G RANK	R1V WEIGHT	R1V RANK
ALPHABET (classes A&C)	4.08%	#7	2.38%	#3
AMAZON.COM	5.18%	#4	2.08%	#4
META PLATFORMS	4.50%	#5	1.03%	#10

Source: Factset

Importantly, the benchmark changes affect each index differently. For example, the Russell 1000® Growth Index is more concentrated and has a higher weighted average market capitalization as compared to the Russell 1000® Value Index. Therefore, the stock weight changes of the upcoming reconstitution affect the two benchmarks differently. Amazon, Alphabet and Meta are coming into the Value Index with a combined 5.37% weight, but their combined weight in the Russell 1000® Growth Index is only declining by 3.41%. This means that the overall level of concentration and exposure to mega-cap technology names in the Russell 1000® Growth Index will remain relatively constant, although the underlying security weights are shifting.

These benchmark changes occur annually and are based on what happened during the prior year. At MFS, we have always constructed portfolios based on bottom-up, fundamental analysis using a long-term view of what we think will happen over the next five to ten years. We look at both absolute and relative risks and make decisions based on what we believe is in the best long-term interest of our clients. We will continue to thoughtfully assess the rapidly changing landscape and ensure that the MFS Growth and Value portfolios remain reflective of those views.

Value Team Perspective

We don't label companies as growth companies or value companies. We have a time-tested, consistent investment process that guides our assessment of investment opportunities and which companies to include in this portfolio. Investing in companies that have long-term, durable and resilient business franchises that trade at attractive valuations has been a key factor in generating consistent, strong, risk-adjusted returns for clients through time. Critically, we have also always maintained a robust focus on downside risk management. While our foundational investment philosophy has remained unchanged for thirty years, this does not mean that our investable universe is also unchanged. Maintaining a disciplined investment approach over time is not equivalent to having an unchanged investment opportunity set, however. We are constantly evaluating how the evolving external landscape affects companies and the resulting impact this necessarily has on our investable universe going forward. We maintain an open-minded, curious approach to our assessment of companies and are not dogmatic in our views.

Considering the changes from the 2025 index reconstitution, it's natural for some to feel a sense of apprehension given the impact of the 2022-2023 rebalance. In the 2022 FTSE Russell® index reconstitution, Meta came into the value index as the sixth largest position with an index weight of 165 basis points. Though its shares underperformed the market coming into June 2022, in early 2023, the market's enthusiasm for generative artificial intelligence began to accelerate meaningfully, and Meta's share price increased by nearly 140% during the first half of 2023. Not including it in the MFS Value Fund therefore presented significant relative performance headwinds for us in 2023. The reason we

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did not own Meta at the time was based not on valuation — its shares were certainly not expensive in 2022 — but rather due to concerns about the long-term durability of its business in the face of likely regulatory changes, significant shifts in the personal digital advertising model and a major corporate pivot toward the Metaverse (including changing its name to Meta), all of which could have resulted in a wide range of potential outcomes for the company. Over the last several years, many of these issues have been resolved favorably, and the company has evolved its positioning, which is reflected in its valuation.

Today, there are important differences from the 2022 landscape that provide some comfort that it is highly unlikely we will see a repeat of the magnitude of performance swings we saw in the first half of 2023. The names coming into the Russell 1000® Value Index today have a vastly different relative performance history over the prior 6 to 12 months, as well as a much higher valuation at their entry points. This doesn't mean that Amazon, Alphabet and Meta aren't worthy of consideration. We have done work on these stocks prior to this period and will continue to assess their long-term durability, the range of potential outcomes moving forward and how valuation does or doesn't provide an appropriate level of downside risk management to fit into the MFS Value Fund.

COMPANY NAME	1H22 PERFORMANCE	TRAILING 12 MO PERFORMANCE (ENDED 6/30/25)	NTM P/E	1H25 PERFORMANCE	TRAILING 12 MO PERFORMANCE (ENDED 6/30/25)	NTM P/E
ALPHABET INC				(6.63%)	(2.82%)	17.6x
AMAZON.COM INC				0.00%	13.53%	30.3x
META PLATFORMS INC	(52.06%)	(53.62%)	14x	26.26%	46.87%	25.4x
S&P 500	(19.96%)	(10.62%)	17.5x	6.20%	15.16%	20.7x
Russell 1000® Value	(12.86%)	(6.82%)	13.1x	6.00%	13.70%	16.2x

Source: Factset

Growth Team Perspective

This year's rebalance is essentially shuffling the weight of the Magnificent Seven stocks. While the aggregate weight of the Magnificent Seven is not changing much, the composition of weights is shifting. In our opinion, the framework of Magnificent 7 is very backward looking, reflecting the past, highly correlated returns. The table below illustrates the old and new weights of the large benchmark weights. Even though Amazon, Meta and Alphabet will become significant weights in the Russell 1000® Value Index, their stocks are still in the top five weights of the growth index and continue to account for a significant portion of the Russell 1000® Growth Index. Alphabet has been displaced as the 6th largest weight by Broadcom, which is now 4.3% of the index. Importantly, we continue to see diverging trends in the fundamentals of these companies, which are driving increased dispersion in returns. Moving forward, we would not expect returns of these top weights to be as correlated as the past three years.

Megacap Stocks – Change in Weight

COMPANY NAME	R1G WEIGHT MAY 31, 2025 (%)	R1G WEIGHT JUNE 30, 2025 (%)	CHANGE IN INDEX WEIGHT VS MAY (%)
MICROSOFT CORP	11.39	12.52	1.13
NVIDIA CORP	10.53	12.55	2.02
APPLE INC.	9.83	10.27	0.44
AMAZON.COM	6.46	5.18	-1.28
ALPHABET (A & C)	6.21	4.08	-2.13
META PLATFORMS	4.33	4.50	0.17
TESLA	3.38	3.03	-0.35
Total	52.13	52.13	

Source: Factset

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Proposed changes in sector weights are driven by shifts within mega-cap names. A few other notable changes include Broadcom increasing to 4.3% topping Tesla and Alphabet. Others include, GE Aerospace increasing to -72 basis points, and GE Vernova increasing to 48 basis points. These and other sector weight changes are detailed below.

GICS Sector	RUSSELL 1000 GROWTH MAY 31, 2025 WEIGHT (%)	RUSSELL 1000 GROWTH 2025 WEIGHT (%)	SECTOR CHANGE (%)
Communication Services (Alphabet -194bps)	13.2	11.5	-1.7
Consumer Discretionary (Amazon -135bps)	15.0	13.5	-1.5
Consumer Staples (Pepsico -39bps)	3.6	2.7	-0.9
Financials (Progressive Corp-Ohio -41bps)	7.3	6.6	-0.7
Materials (Ecolab -14bps)	0.6	0.3	-0.3
Energy (Hess Corp -8bps)	0.4	0.3	-0.1
Real Estate	0.5	0.5	0.0
Utilities	0.3	0.3	0.0
Health Care (Abbvie +64bps)	6.7	7.0	+0.3
Industrials (GE Aerospace +72bps)	4.8	6.0	+1.2
Information Technology (NVIDIA +98bps, Microsoft +95bps)	47.6	51.2	+3.6

Note: Top company name shifts shown.

Changes in benchmark weight will impact active weights in the portfolio. Ideally, we want to maintain our active positions relative to the index.

Russell Midcap® Growth – Some Relief from Growing Index Concentration

We will see some relief from the growing index concentration of the Russell Midcap® Growth Index. The top 10 weights in the index will decline from 24.6% to 20.4% of the index. This change is largely due to Palantir and AppLovin moving out of the index.

At -peak \$338 billion market cap, Palantir was as high as 9% of the index and at peak \$140 billion market cap, AppLovin was about 3.3%. When Russell calculated the initial rebalance on April 30th the mid/large market cap cut-off was estimated to be \$58.2billion. However, the market has rallied significantly since then, and the new largest market cap in the Russell Midcap Growth index is Coinbase at \$90 billion. (Russell® determines the market cap cutoff by the 201st largest market cap company in the universe, which is why it has been creeping higher each year.) On April 30, when Coinbase's inclusion in the index was first determined, its market capitalization stood at \$51.6 billion. Over the following two months, the stock rallied by more than 70%, pushing its market capitalization up to \$90 billion.

The largest weight in the index is now Royal Caribbean, with a weight of 2.6%. As of June 30, its market capitalization was approximately \$84 billion. Back on April 30, when Russell determined the new weights for the index, Royal Caribbean's market capitalization stood at \$58.3 billion. Since then, the stock has rallied by 45%. Notably, 7 of the top 10 weights in the index now have a market capitalization exceeding \$60 billion. This highlights an ongoing trend of significant market cap creep within the midcap universe.

We will also see significant changes to sector weights. Information technology will decline by more than 1100 basis points, primarily due to the exit of Palantir and AppLovin. Consumer discretionary will increase by about 850 basis points, which includes a 500 basis point increase in the travel and leisure industry, including Royal Caribbean and Flutter Entertainment. The weight of industrials is increasing primarily due to the large increase in Howmet Aerospace. Details of these sector weight changes are illustrated below.

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GICS Sector	RUSSELL MIDCAP GROWTH		SECTOR CHANGE (%)
	MAY 31, 2025 WEIGHT (%)	RUSSELL MIDCAP GROWTH WEIGHT (%)	
Information Technology (Palantir -820bps, Applovin -267bps)	29.5	17.9	-11.6
Financials (Coinbase -159bps)	12.4	10.6	-1.8
Energy	3.7	2.9	-0.9
Materials	1.0	0.2	-0.7
Consumer Staples	2.0	1.8	-0.2
Real Estate	1.1	1.3	+0.1
Utilities	2.1	3.2	+1.1
Health Care	12.7	13.8	+1.2
Communication Services	4.3	6.2	+1.8
Industrials (Howmet Aerospace +234bps)	17.4	20.1	+2.7
Consumer Discretionary (Royal Caribbean +185bps, Flutter Entertainment +135bps)	13.8	22.0	+8.2

Note: Top company name shifts shown.

After the index rebalance, our strategy will shift from having a large underweight position in information technology to a slight overweight. The team is comfortable with this positioning. In consumer discretionary, our positioning will move from approximately 200 basis points underweight to 1000 basis points underweight. This is outside of the normal risk control band of roughly 500 basis points and will most likely be adjusted. The team views Palantir's impact on the index as a unique, "unicorn"-type situation that is unlikely to repeat in the future, given the upcoming shift to semi-annual market cap rebalancing.

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