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How High Is Too High? Taking Stock of Index Concentration in U.S. Large Cap Growth

March 2025

Key Highlights

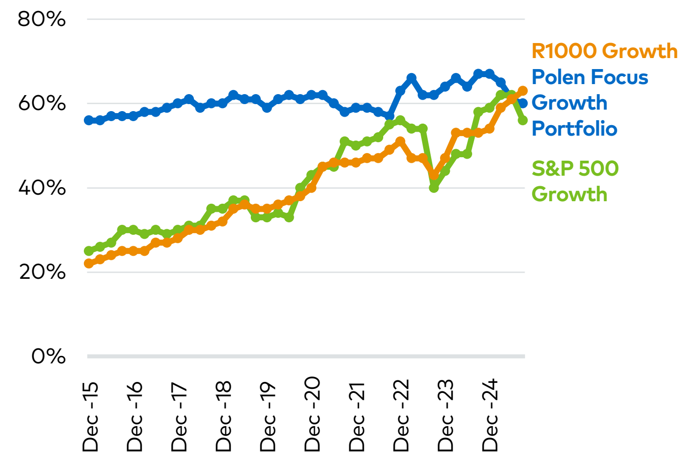
- The concentration of major U.S. large cap market-weighted indices has reached extreme levels by historical standards, inviting questions about limits and potential risks.
- Investors are wise to question how these market dynamics can impact their portfolio allocations and decision-making.
- Opportunities could emerge for skilled, active managers as concentration unwinds.

Increasing concentration has been a significant feature in market-cap-weighted indices over the past decade, elevating terms like "FAANG"[1] and the "Magnificent 7"[2] into the mainstream. Yet, beyond the buzzwords, the rise in concentration tells a striking story: Today's market-cap-weighted indices exceed the concentration of the Tech Bubble's late 1990s mania[3] and rival the extremes last seen in the 1960s Nifty Fifty era.[4]

While concentration may have temporarily diminished the signal value of some indices, investors and allocators are wise to evaluate indices more critically than they may have historically. In our view, a holistic framework for measuring performance and making allocation decisions is increasingly important.

Index concentration is often illustrated by the market value percentage represented by the top 5 or 10 holdings—for good reason, as reflected in Figure 1. Over the past decade, the top 10 holdings have seen their share of index market value expand significantly, increasing 2-3x, regardless of the index in question. Here, we plot this trend alongside Polen's Focus Growth Portfolio as a point of comparison.

Figure 1. Growing U.S. Large Cap Index Concentration
Top 10 Constituents by Percent of Market Value, 2015-2024



Source: Bloomberg and Polen Capital, as of 12-31-2024.

1 FAANG is an acronym for the stocks of five prominent U.S. technology companies: Meta (formerly known as Facebook), Amazon, Apple, Netflix, and Alphabet (formerly known as Google).

2 The Magnificent 7 refers to Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla.

3 The Tech Bubble was a rapid rise in U.S. technology stock equity valuations fueled by investments in Internet-based companies in the late 1990s. During this period, the S&P peaked in March 2000 and bottomed in October 2002.

4 The Nifty Fifty was a group of 50 large cap stocks on the New York Stock Exchange in the 1960s and 1970s, characterized by their consistent earnings growth and high price/earnings ratios.

While an intuitive illustration of the historical changes in concentration, this chart invites questions about how investors should consider the limits of concentration. If the Russell 1000 Growth[5] has over 63% of its market value in 10 companies, how much is too much? Is the limit 65%? 70%? More? Many have convincingly argued that this concentration is justified, as the companies at its core have consistently delivered sustainable, well-above-average earnings growth over many years. This quality aligns closely with the philosophy we embrace at Polen Capital, which is why we seek to invest in many such businesses across our strategies.

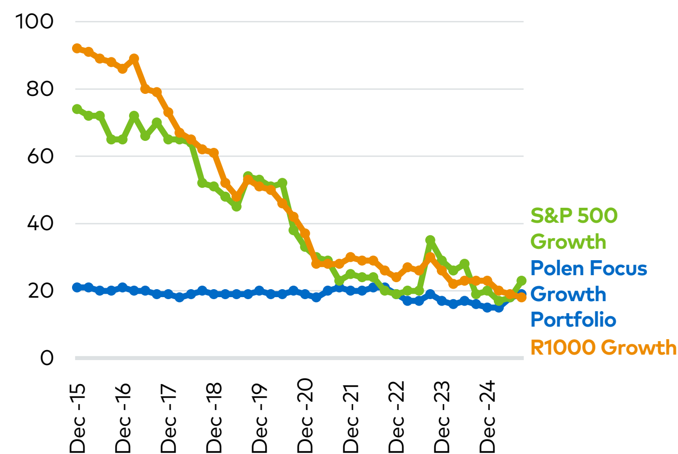
Looking Through a Fresh Lens: Effective vs. Actual Name Count

We propose a different perspective on assessing index concentration by applying the Herfindahl-Hirschman Index ("HHI") framework. Widely used in antitrust analysis, the HHI measures market concentration and helps evaluate competition within industries. Regulators often rely on HHI to evaluate industry or sector concentration and its implications for competitive markets. We have chosen to apply this framework to understand the "effective" name count[6] of a given index and the distinction from its actual name count. In an equal-weighted portfolio, the actual name count is identical to the "effective" name count as measured by the HHI coefficient. By contrast, any degree of concentration results in an effective name count falling below the actual name count.

At the end of 2024, the Russell 1000 Growth Index's high concentration and outsized exposure to Technology significantly reduced its diversification. Effectively, the Index resembled an 18-stock portfolio—a stark contrast to its 396 actual holdings. Similarly, even the S&P 500—widely regarded as a core index representing the U.S. large cap opportunity set—saw its effective name count shrink to just 48 holdings due to rising concentration.

Figure 2 shows this trend with Polen's Focus Growth Portfolio as an added reference point. Given that we are among the most concentrated U.S. large cap growth managers, it's notable that the Russell 1000 Growth Index effectively matches our degree of concentration.

Figure 2. Vanishing Index Diversification
"Effective" Name Count, 2015-2024



Source: Bloomberg and Polen Capital, as of 12-31-2024.

What's the Purpose of a Benchmark?

In our view, the primary role of an index is to provide a viable investment alternative for investors seeking a "market return" representing a chosen market segment.

With current concentration levels reducing the Russell 1000 Growth such that it resembles an 18-stock, tech-heavy portfolio, it falls decidedly short of this definition. Considering this from the perspective of a fiduciary adds another dimension to the discussion, given the critical responsibility of ensuring adequate diversification. Under the Investment Company Act of 1940, "diversified" mutual funds must comply with the "5/25 rule," which stipulates that no more than 25% of the overall portfolio can be allocated to positions larger than 5% each. Authorities introduced this regulation to protect investors, ensuring they do not unknowingly assume excessive levels of risk.

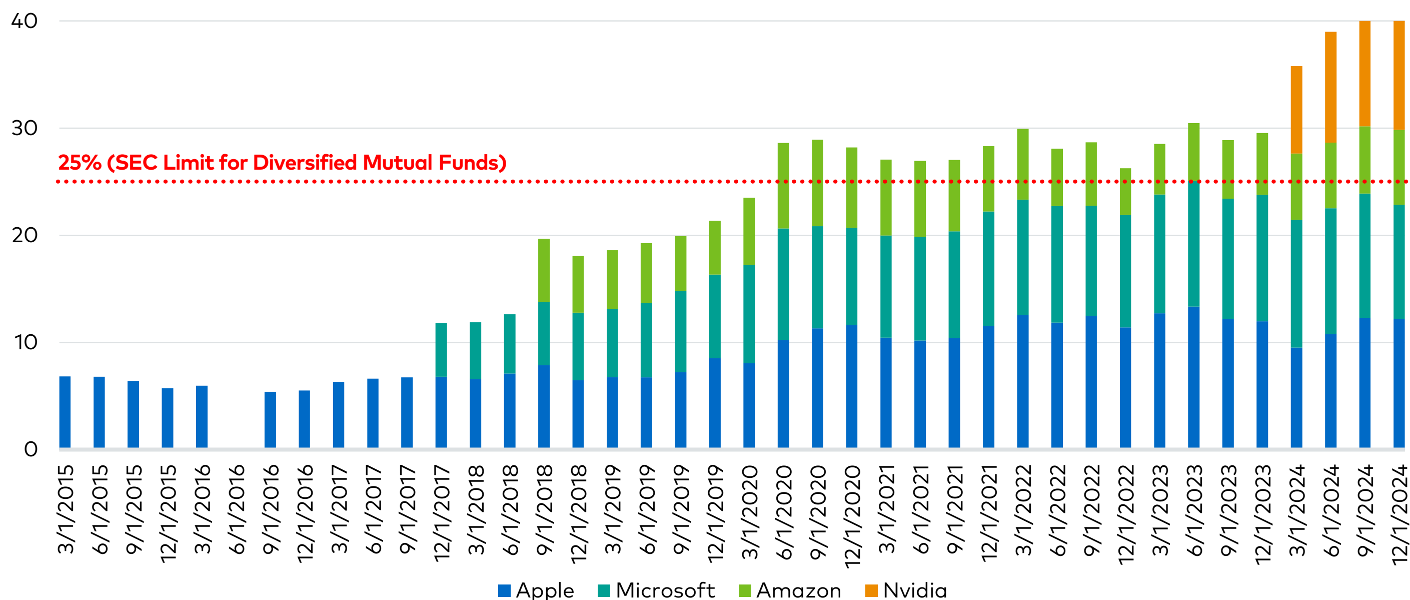
Ironically, the Russell 1000 Growth Index has itself consistently violated this rule since mid-2020 (Figure 3).[7] At the end of 2024, the Index had an aggregate weight of 40% in individual holdings over 5%—far above the 25% threshold.

5 The Russell 1000® Growth Index is a market capitalization weighted index that measures the performance of the large-cap growth segment of the U.S. equity universe. It includes Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values. The index is maintained by the FTSE Russell, a subsidiary of the London Stock Exchange Group. S&P 500® Growth Index measures constituents from the S&P 500 that are classified as growth stocks based on three factors: sales growth, the ratio of earnings change to price, and momentum. It is impossible to invest directly in an index. The performance of an index does not reflect any transaction costs, management fees, or taxes.

6 The HHI coefficient is a measure of concentration calculated by summing the squares of the relative weights of all constituents, with higher values indicating greater concentration. Here, we take a reciprocal of HHI to get the effective name count.

7 Amazon and Microsoft are holdings in Polen's Focus Growth and Global Growth portfolios as of 12/31/2024. Apple is a holding in Polen's Focus Growth portfolio as of 12/31/2024. Nvidia is not a holding in Polen portfolios as of the same date.

Figure 3. Applying the "5/25" Rule to the Russell 1000 Growth
Constituents Exceeding 5% of Index Value, 2015-2024



Source: Bloomberg and Polen Capital, as of 12-31-2024.

This issue has become so significant that FTSE Russell, the provider of the Russell 1000 Growth Index, announced a new capping methodology starting in March 2025.[8] The cap limits the aggregate weight of 4.5% positions to 45%, modestly reducing the weights of some of the largest constituents and alleviating certain challenges faced by diversified funds benchmarked against the Russell 1000 Growth.

At Polen Capital, we build concentrated portfolios through deep research and disciplined, purposeful portfolio construction, balancing allocations between growth and safety holdings across multiple sectors. Indices such as the Russell 1000 Growth have become "non-diversified" in a passive manner.[9] In such indices, new money is allocated disproportionately into a small group of "mega-cap tech" stocks that have performed well historically—an approach that offers no predictive value regarding their prospects. To us, this should give a fiduciary pause.

Concentration Cuts Both Ways

Index concentration is a defining feature of today's markets, and that is unlikely to change anytime soon. In light of this, examining historical patterns can provide valuable insights into what may lie ahead.

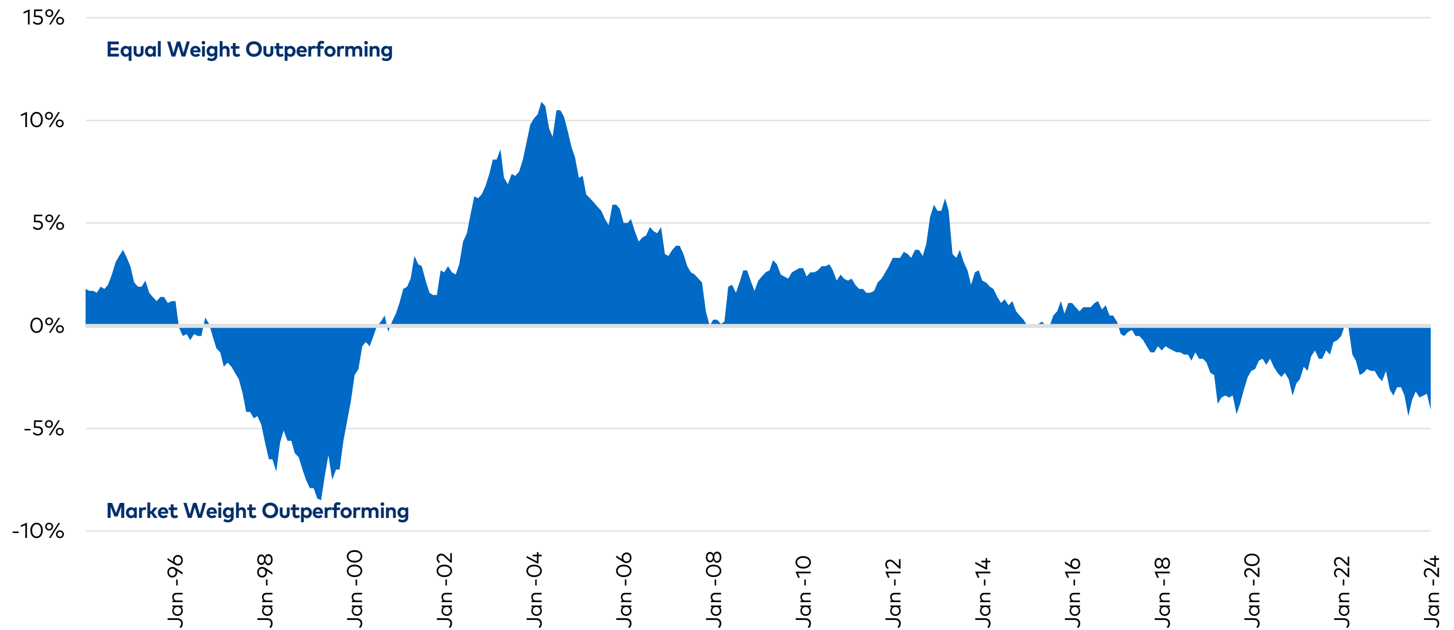
As the saying goes, "History doesn't repeat itself, but it often rhymes."

When evaluating its impact, it's essential to recognize that increasing index concentration has benefited active investors over the past decade. As displayed in Figure 4, the S&P 500 market cap-weighted index outperformed its equal-weighted counterpart by nearly +300 basis points for the 10-year period ending 12/31/2024. Over the longer term, however, we observe a roughly even split in relative outperformance cycles between equal-weighted and market-cap-weighted indices. Why? Much like a pendulum, concentration often swings too far in one direction before eventually self-correcting under the force of its own weight.

8 London Stock Exchange, FTSE Russell announces 2025 Russell US Indexes Reconstitution schedule, March 3, 2025.

9 It is worth noting that our Focus Growth mutual fund—the Polen Growth Fund—has always been classified as a "non-diversified fund" and, as such, is not beholden to the "5/25 rule" restrictions.

Figure 4. S&P 500: Equal Weight vs. Market Weight
Rolling 5Y Excess Return



Source: Bloomberg, as of 12-31-2024.

A Turning Point for Active Managers?

It's no accident that the last time the equal-weighted S&P 500 Index significantly outperformed its market-cap-weighted counterpart was in the aftermath of the Tech Bubble when concentration collapsed. In the five years following the Tech Bubble's peak, the equal-weighted S&P 500 outperformed the market cap-weighted index by +9.2% annualized. As earnings growth slows in the largest companies relative to the broader universe—and their valuations decline to reflect this—it's reasonable to expect a shift whereby concentration goes from being a persistent tailwind to a persistent headwind.

A recent reminder that concentration is a double-edged sword came during January's U.S. tech sell-off, sparked by Chinese AI firm DeepSeek. On January 27, the Russell 1000 Growth Index declined by -2.9%, yet 84% of its constituents outperformed the headline return with the median constituent posting a +0.2% gain on that day.[10]

This event could serve as a microcosm of what we may witness in the years ahead as the performance of the headline index continues to diverge from the average constituent return.

We see this as encouraging for skilled active managers. As the opportunity set broadens, success is no longer defined by positioning relative to a concentrated subset of prominent index positions. Instead, those active managers skilled at being selective and opportunistic should be well-situated to deliver above-benchmark returns as this index concentration winds down.

10 Polen Capital analysis based on Bloomberg data, March 2025.

Going Beyond with Polen Capital

Polen Capital is a team of experienced investment industry professionals who share an unwavering commitment to our clients, investors, community, and each other. We have been dedicated to serving investors by providing concentrated portfolios of what we believe are the highest-quality companies for more than three decades. At Polen Capital, we have built a culture of results, and in this, an inherent belief in going beyond what's expected for the people and communities we serve.

We adhere to a time-tested process of researching and analyzing companies around the globe—seeking only the best to build highly concentrated portfolios. Then, we invest for the long haul and with a business owner's mindset, giving these companies time to grow.

Connect with Us

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