

Executive summary

# Russell Indexes reconstitution



# Reconstitution

What is it?

Construction & methodology

Why reconstitution is important



# Reconstitution

## What is it?





# We rebalance

the Russell series of  
indexes, including U.S.  
and Global Indexes,  
simultaneously  
every year...



to ensure the  
indexes accurately  
reflect the  
**changing  
market**  
environment...



avoid  
capitalization  
& style  
slippage...

and ensure the  
**true opportunity**  
set is accurately represented  
for each asset class.

For example

A small-cap security can

**grow**

into the mid-cap range  
over time.

For example

Lack of complete  
reconstitution results in  
**sector,  
capitalization  
and style  
biases...**



all of which  
challenge the  
ability of an index to  
**represent**  
**the market.**

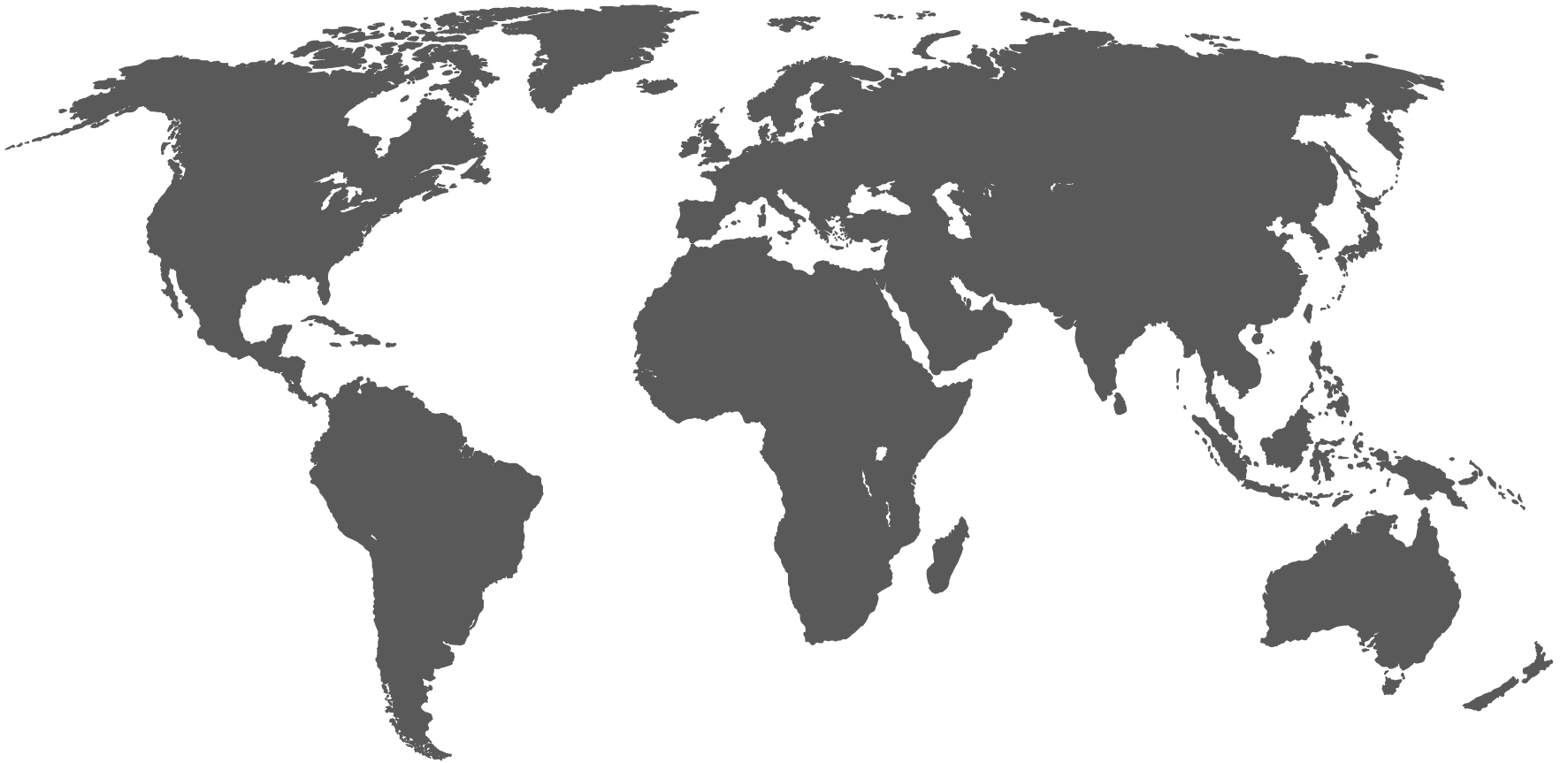
How to meet the challenge?

# Reconstitution

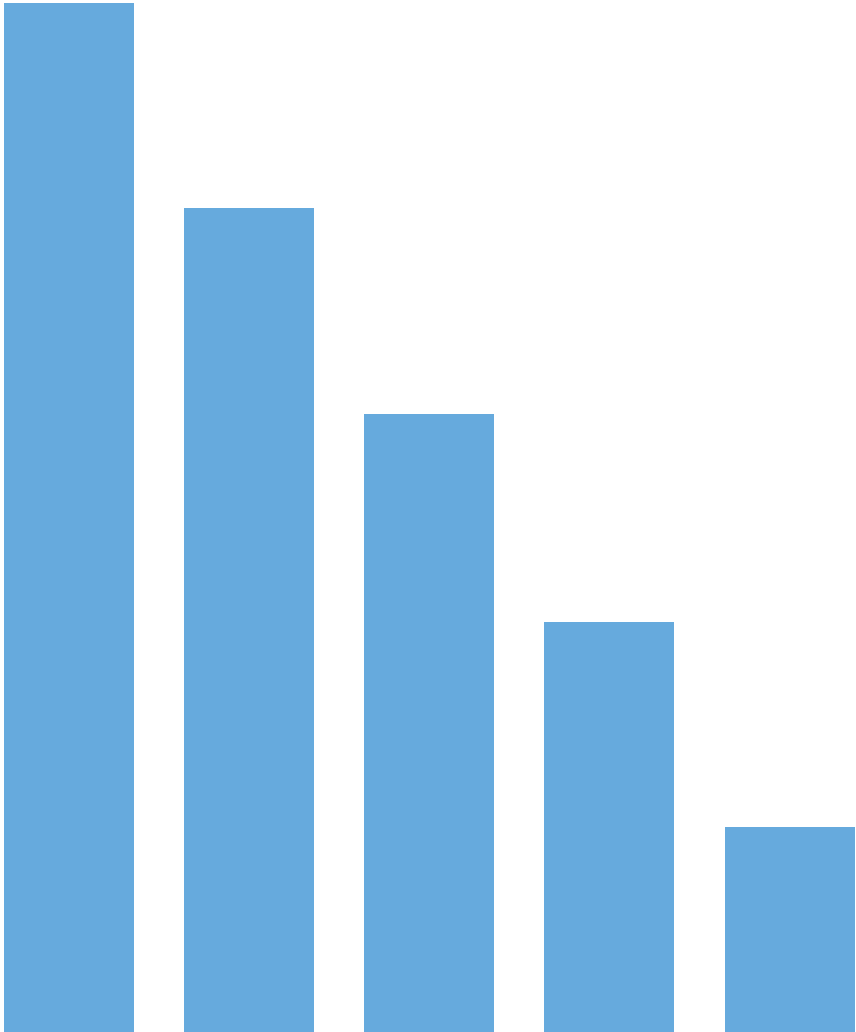
# Reconstitution construction & methodology

Determining membership for the  
Russell Indexes

At each annual reconstitution period (end of May), we  
take **98% of the investable universe**



and rank stocks from  
largest to smallest  
market capitalization



Largest 98% of Russell  
Global market cap

stocks become the Russell  
Global Index

Largest 90%

of stocks become the Russell  
Global Large Cap Index

Next 10%

become the Russell Global  
Small Cap Index

Banding is applied to existing  
members of the underlying indexes

Russell  
Global  
Index

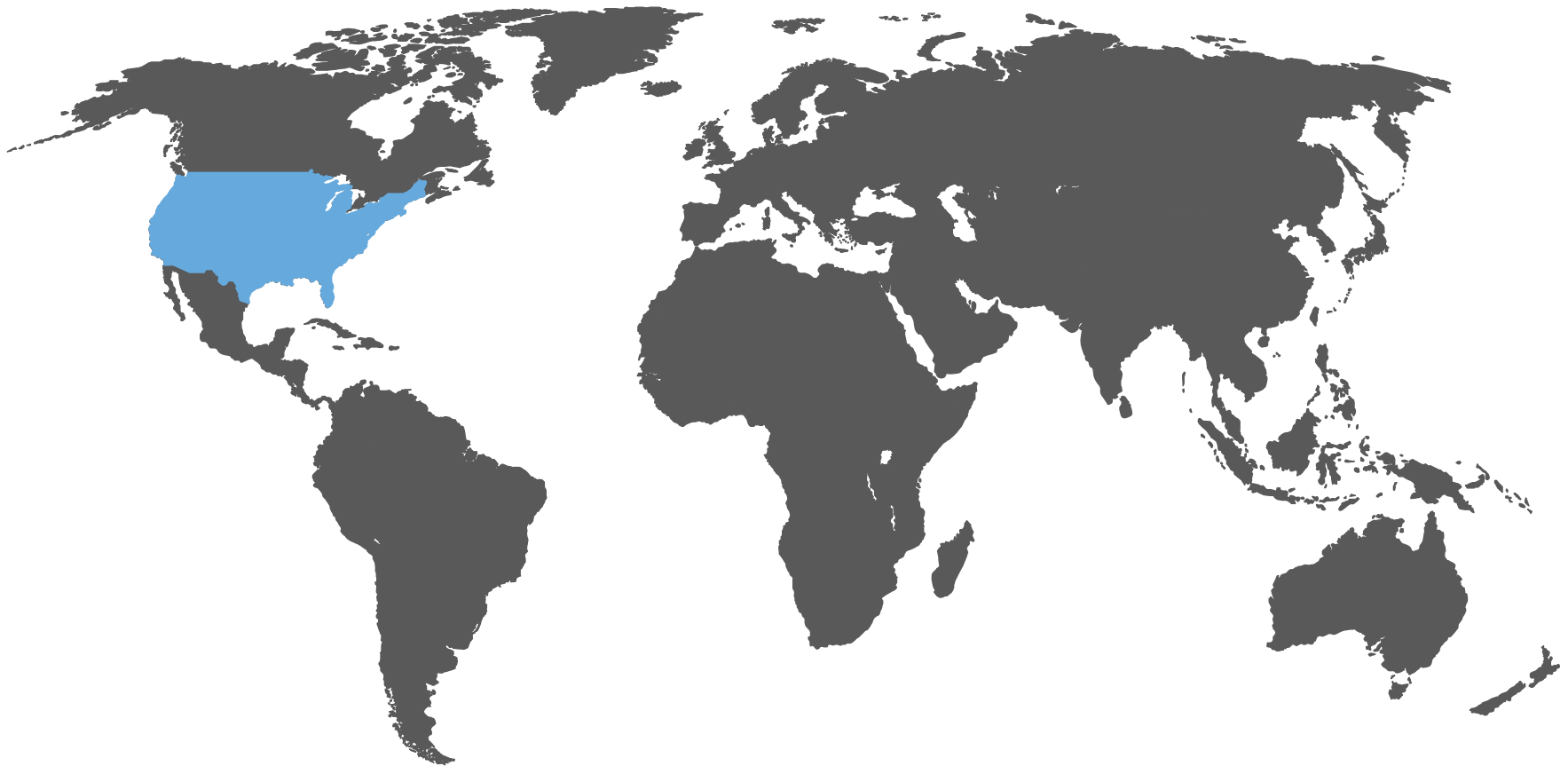
Russell  
Global  
Large  
Cap  
Index

Large Cap

Small Cap

Russell  
Global  
Small Cap  
Index

The U.S. component of the Russell  
Global Index is the broad market  
Russell 3000 Index



Russell  
3000®  
Index

U.S. market

Top 3,000 stocks become  
the Russell 3000 Index

Large Cap

Small Cap



Largest 1,000  
stocks become the  
Russell 1000 Index

Russell  
3000®  
Index

Russell  
1000®  
Index

Large Cap

Small Cap

Next 2,000

stocks become the  
Russell 2000 Index

Banding is applied to  
existing members of the  
underlying indexes

Russell  
3000®  
Index

Russell  
1000®  
Index

Large Cap

Small Cap

Russell  
2000®  
Index

# Inclusions

Companies classified as U.S. being their country of risk.\*

Must trade on major U.S. exchange on the last business day in May.

\*See U.S. Index construction methodology

# Exclusions

- Stocks trading below \$1.00\*
- Pink sheet and bulletin board stocks
- Closed-end mutual funds, limited partnerships, royalty trusts, etc.
- Blank check/SPAC companies
- Float of 5% or less
- Failed UBTI screening

\*Average used for the month of May for existing members.

# Exclusions

- Foreign stocks and American Depositary Receipts (ADRs)
- Shares not available to the public
- Companies under \$30 M in total market cap

# Maintenance

Stocks deleted between reconstitution dates are *not* replaced.

Spin-offs and initial public offerings are the only additions between reconstitution dates.

Apply corporate actions such as splits, mergers, and acquisitions, rights, and dividends daily.

Why is  
reconstitution  
important?  
markets **change**

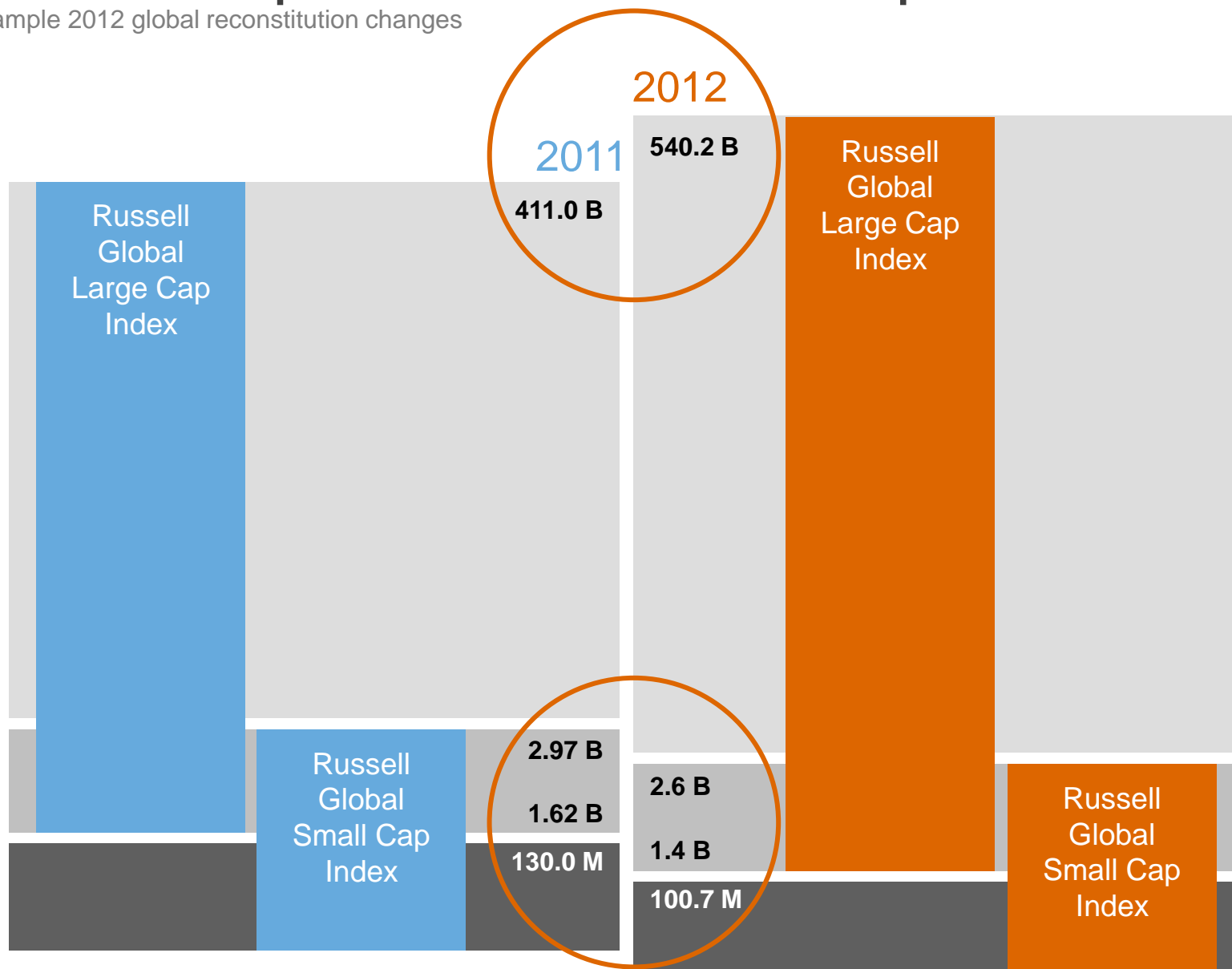
The markets  
see a lot of  
**change**  
each year.



Here is a sample of the  
global reconstitution  
change  
from 2012

# Market capitalization rank comparison

Sample 2012 global reconstitution changes



# Market capitalization rank comparison

Sample 2012 global reconstitution changes

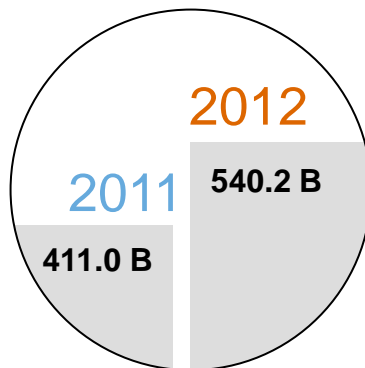
LARGE  
CAP

ExxonMobil

**\$411 B**

\$ weighted average

**\$57.7 B**



Apple Inc.

**\$540.2 B**

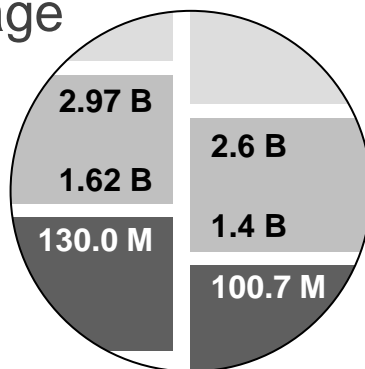
\$ weighted average

**\$67.9 B**

SMALL  
CAP

\$ weighted average

**\$1.2 B**



\$ weighted average

**\$1.1 B**

# Russell Global Index

Sample 2012 global reconstitution changes

	2011	2012
LARGE CAP		
Adds	177	171
Deletes	134	205
# of stocks	3,279	3,224
SMALL CAP		
Adds	844	906
Deletes	1115	992
# of stocks	6,880	6,673

# Russell Global Index summary

Sample 2012 global reconstitution changes

	2011	2012
Global summary		
# of stocks	10,389	9,897
Countries covered	48	47
Total market cap	\$49.7 T	\$44.2 T

# Reconstitution

Why just once a year?

Our research has shown that increasing the frequency of index reconstitution increases turnover costs to investors without offsetting benefits.

# Reconstitution

Why just once a year?

The combination of annual reconstitution and the quarterly addition of eligible initial public offerings (IPOs) results in the most effective balance between index turnover and market representation.

# Learn more

<http://www.russell.com/indexes>





# Russell Indexes

*by Russell Investments*

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The Russell 3000® Index measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market. The Russell 3000 Index is constructed to provide a comprehensive, unbiased, and stable barometer of the broad market and is completely reconstituted annually to ensure new and growing equities are reflected.

Russell 1000® Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000® Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 represents approximately 92% of the U.S. market. The Russell 1000 Index is constructed to provide a comprehensive and unbiased barometer for the large-cap segment and is completely reconstituted annually to ensure new and growing equities are reflected.

Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000 is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

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