

Consultation on capping the Russell US Style Indexes

August 2024



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Introduction

FTSE Russell is conducting a consultation with market participants in response to the recent increase in market concentration within the large and mega cap growth indexes, which has caused some Russell US Style Indexes to breach 25/5/50 US RIC IRS capping thresholds.

Responding to the consultation

The questions posed as part of this consultation are intended to gather feedback from all market participants and may or may not result in changes to our indices.

Index users and market stakeholders are invited to respond by **30 August 2024**.

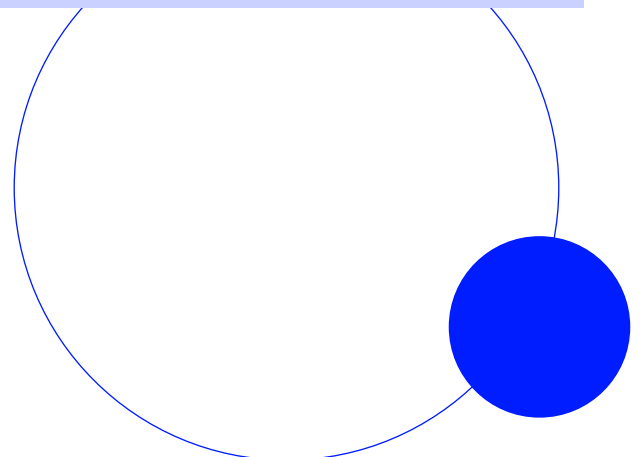
The consultation results will be reviewed by the FTSE Russell Index Governance Board in accordance with the [FTSE Russell Policy for Benchmark Methodology Changes: Ground Rules \(lseg.com\)](https://www.ftserussell.com/lseg.com).

Any changes will be communicated by via an announcement, which will be available on the FTSE Russell public website.

Please submit your response to the questions included in this consultation online at <https://www.surveymonkey.com/r/MY8H7YS>

All responses will be treated as confidential. FTSE Russell may publish a summary of the consultation feedback, but no individual responses will be published and no respondents will be named.

If you have any questions about this survey, or if you encounter any technical issues, please contact committeesecretary@ftserussell.com.



Background and Context for the Market Consultation

FTSE Russell is conducting a consultation with market participants in response to the recent increase in market concentration within the large and mega cap growth indexes, which has caused some Russell US Style Indexes to breach 25/5/50 US RIC IRS capping thresholds.

Historically, FTSE Russell has provided exclusion and regulatory capping methodologies in addition to the index family and has maintained the standard index as uncapped, in order to provide an accurate reflection of the markets.

In response to growing market concentration and the impact to our clients, FTSE Russell is consulting regarding potential methodology changes impacting style component weighting methodology to be applied to the standard Russell US Style Indexes and the sentiment across our client base regarding the need to align with regulatory diversification rules that apply to investable products.

Example impact of US RIC Capping methodology on the Russell Top 200 Growth Index as of June 28, 2024:

| Index constituent | Russell Top 200 Growth Index | Russell Top 200 Growth RIC Capped Index | Weight difference |
|---|------------------------------|---|-------------------|
| Microsoft | 13.2% | 11.8% | -1.5% |
| Apple | 12.2% | 11.0% | -1.2% |
| Nvidia | 11.7% | 10.7% | -1.0% |
| Amazon.com | 6.9% | 6.5% | -0.4% |
| Alphabet Class A | 4.3% | 4.1% | -0.2% |
| Alphabet Class C | 3.7% | 3.5% | -0.2% |
| Aggregate weight of companies >5% | 52.0% | 47.6% | -4.4% |

Source: FTSE Russell, data as of US market close on June 28, 2024. Alphabet company weight includes both Class A and Class C shares.

The following indexes are impacted by this consultation (refer to [Russell US Equity Indices Ground Rules \(lseg.com\)](https://www.lseg.com)):

- Russell 1000[®] Growth Index
- Russell 1000[®] Value Index
- Russell Top 200[®] Growth Index
- Russell Top 200[®] Value Index
- Russell Midcap[®] Growth Index
- Russell Midcap[®] Value Index



- Russell 2500™ Growth Index
- Russell 2500™ Value Index
- Russell 2000® Growth Index
- Russell 2000® Value Index
- Russell 3000® Growth Index
- Russell 3000® Value Index
- Russell Small Cap Completeness® Growth Index
- Russell Small Cap Completeness® Value Index
- Russell Top 500 Growth Index
- Russell Top 500 Value Index
- Russell 3000E™ Growth Index
- Russell 3000E™ Value Index
- Russell Microcap® Growth Index
- Russell Microcap® Value Index

FTSE Russell's RIC Capping methodology summary

To limit over concentration in any single security, constituents are capped quarterly so that no more than 20% of the index's weight may be allocated to a single constituent and the sum of the weights of all constituents representing more than 4.5% of the index should not exceed 48% of the total index weight. The index is reconstituted annually in June and reviewed quarterly in line with the underlying Russell Index. For more information, refer to [Capping Methodology \(lseq.com\)](#).

Russell RIC Capped Indexes

Capping process aims to adhere to the RIC concentration requirements while

- Reducing the probability that index constituents breach the 25/5/50 rule
- Reflecting the distribution profile of the underlying uncapped index weights

| | Regulated Investment Company (RIC) rules | FTSE Russell index | Why the difference? |
|-----------------------------------|---|---|--|
| Individual company weights | Limited to 25% | Limited to 20% | Reduces the concentration of the largest companies |
| Aggregate company weights | Companies whose weights >5% cannot be greater than 50% in aggregate | Companies whose weights >4.5% cannot be greater than 48% in aggregate | Provides a buffer to prevent breaching RIC rules |
| Combined rule | 25/5/50 | 20/4.5/48 | Combined approach reduces the possibility of breaching RIC rules at implementation |
| Review frequency | Quarter close | Quarterly in March, June, September, December | Reflect target opportunity set |

Source: FTSE Russell.

Questions

1. In light of recent market concentration, do you feel that FTSE Russell should consider applying the above RIC capping methodology to the standard Russell Growth and Value indexes?

Yes

No

Comments:

2. If you agree with question 1, what is the single most important reason driving your response to this question?

Comments:

3. Which indexes should be in scope for applying quarterly RIC capping?

Comments:

4. Do you feel that FTSE Russell should maintain the standard Russell growth/value/core benchmark components as unrestrained, and that FTSE Russell should provide regulatory capping methodology products as additional indexes separate from the standard indexes?

Yes

No

Comments:

5. If you agree with question 4, what is the single most important reason driving your response to this question?

Comments:

6. Do you agree that the capping methodology should be applied as part of the quarterly index review process (i.e. no need to cap intra-review)? (The capping cut-off date will be based on prices at close on the Friday of the review month one week ahead of implementation)

Yes

No

Comments:

7. Do you feel the proposed standard RIC buffers are sufficient?

- Yes
- No

8. If you answered no to question 7, please provide detail regarding alternative approaches that should be considered

Comments:

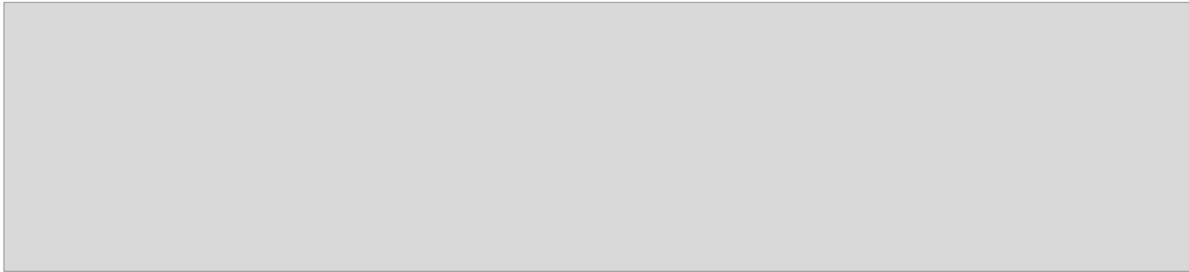
9. If capping adjustment is made to one style component (e.g. Russell 1000 Growth), do you agree that the core weight (e.g. Russell 1000) should NOT be reduced to force the growth and value components to sum to core?

- Yes
- No

Comments:

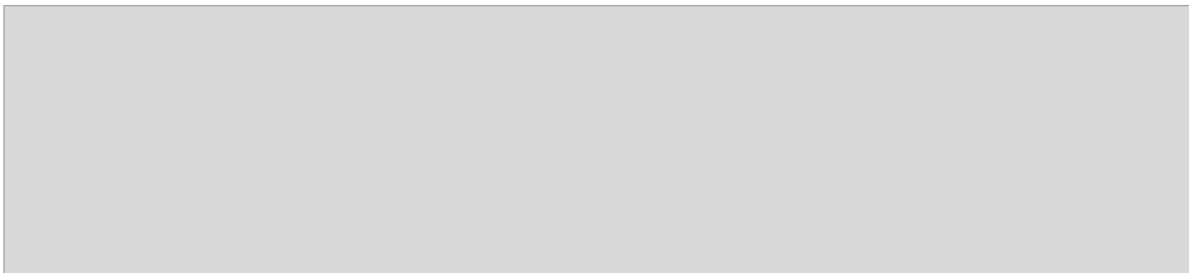
10. If you answered no to question 8, please explain what issues you feel this creates

Comments:



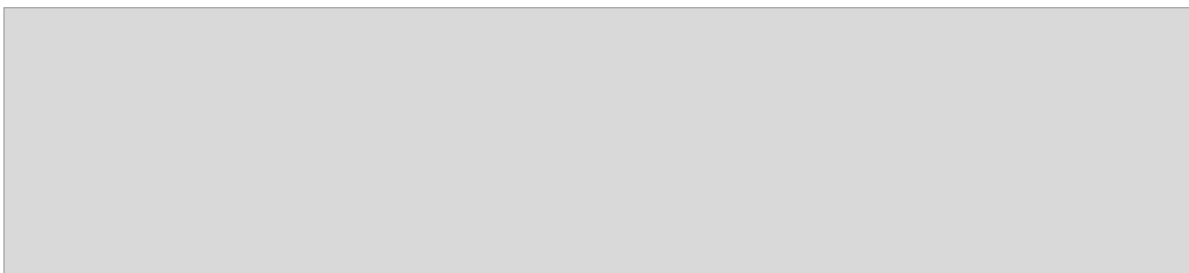
11. If the FTSE Russell Index Governance Board was to approve capping the standard Russell Growth and Value indices, how much advanced notice do you require to be prepared to implement this?

Comments:



12. Do you have any additional comments or questions regarding the proposed changes?

Comments:



Please contact your local client services team on info@ftserussell.com or your respective account manager if you have any questions or would like to schedule a call to discuss this topic in greater detail.

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For over 35 years we have been at the forefront of driving change for the investor, always innovating to shape the next generation of benchmarks and investment solutions that open up new opportunities for the global investment community.

CONTACT US

To learn more, visit [lseg.com/ftse-russell](https://www.ftserussell.com); email info@ftserussell.com; or call your regional Client Service team office:

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