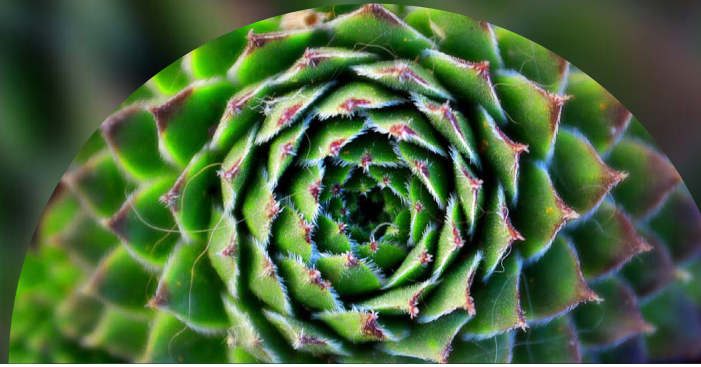


SOLUTION OVERVIEW

Russell US Indexes



How Russell indexes are built

Transparent

FTSE Russell's methodology is constructed using transparent rules, written to be easily understood by any financial professional. So your index is always predictable.

Unbiased rules

FTSE Russell follows published rules, allowing the market to determine which companies are included in the indexes, ensuring the purest reflection of stock market performance.

Style distinction

To create its style indexes, FTSE Russell employs a multi-variable approach, using book-to-price, I/B/E/S forecast medium-term growth and historical sales per share growth to determine whether a company is part of the growth or value investment universe. When company stock characteristics don't allow for absolute style distinction, FTSE Russell's indexes allocate portions of the firm's market capitalization to both growth and value stocks.

FTSE Russell also offers stability indexes. The Russell Defensive Index® and Russell Dynamic Index® measure a portion of the market based on the sensitivity to economic cycles, credit cycles and market volatility. Stability is measured at the company level in terms of volatility (price and earnings), leverage and return on assets.

Float adjusted

Russell, which pioneered the now industry standard float adjustment in 1984, adjusts its index membership weights for float shares to accurately represent the investable universe. To be eligible for the Russell US Indexes, companies must have minimum 5% shares available in the marketplace.

Regular index maintenance

The indexes are regularly and proactively maintained. Updates such as daily corporate actions, quarterly share adjustments, quarterly IPO inclusions and annual total reconstitution ensure that the indexes accurately represent the entire opportunity set while balancing turnover costs.

A series of US equity indices

Russell US Indexes—based on the broad market Russell 3000® Index—include two well known subsets: the large-cap Russell 1000® Index and the small-cap Russell 2000® Index.

Russell's US equity indexes were introduced in 1984 to create a more accurate and comprehensive system for evaluating the performance of investment managers. Today, FTSE Russell offers a comprehensive series of both US and global indices.

Our modular index construction allows investors to track current and historical market performance by specific market segment (large/mid/small cap) or investment style (growth/value/defensive/dynamic). All sub-indices roll up to the Russell 3000 Index with no gaps or overlaps.

A complete description of index construction and methodology is available at: lseg.com/ftse-russell

Purpose

- Act as a performance standard for active managers
- Serve as a proxy for asset allocation purposes
- Become a replicable vehicle for passive investment strategies



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Methodology summary

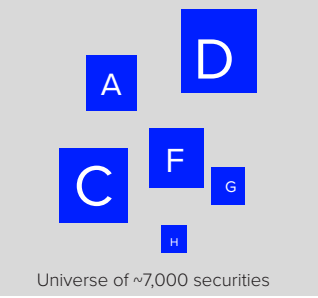
All Russell US indexes are subsets of the Russell 3000E Index, which represents approximately 99% of the US equity market. Index membership is determined during annual reconstitution, which begins with “rank day”¹. As of rank day, all eligible stocks are ranked by total market capitalization in descending order. The largest 4,000 become the Russell 3000E Index, and the other Russell US indexes are determined from that set of securities. Reconstitution becomes effective after US market close on the fourth Friday each June.

Determining index membership

1

Identify eligible securities

Refresh universe of publicly traded US companies and remove ineligible securities.




Universe of ~7,000 securities

2

Rank eligible US common stocks

In descending order by total market capitalization and capture the largest 4,000 securities above \$30M in market capitalization to create the Russell 3000E Index.



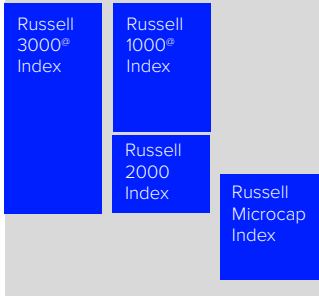
~4,000 securities* SMALLEST

* If there are fewer than 4,000 eligible companies above \$30M in size, the Russell 3000E Index will contain fewer than 4,000 companies.

3

Determine market segments

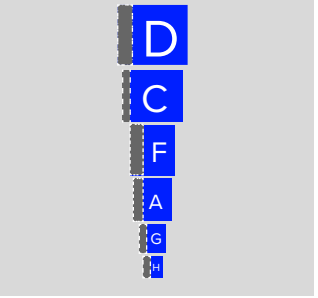
Apply breakpoints and banding to control turnover



4

Derive each security's index weight

Based on float-adjusted market capitalization

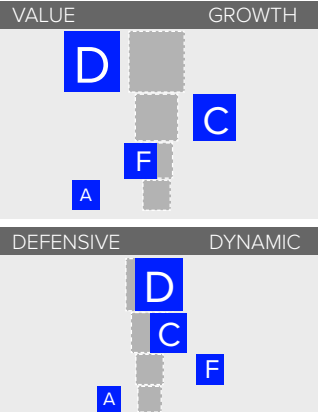


Determining style membership

1

Rank each stock by style variables

Large, small and micro cap² styles are calculated separately



2

Combine variables to create relevant scores

Style characteristics of the market are not static, nor are styles of individual companies

VALUATION

Composite Value Score (CVS)

1 Value and 2 Growth metrics

STABILITY

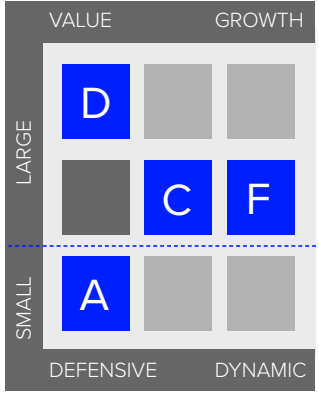
Composite Defensive Score (CDS)

3 Quality and 2 Volatility metrics

3

Rank stocks by CVS or CDS score

Determine weights of style membership
A stock's CVS may differ from its CDS

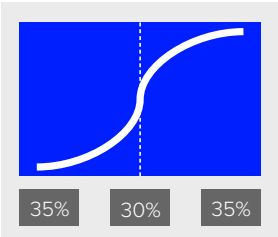


4

Apply non-linear probability algorithm for distribution

~70% classified as one style (value / growth; defensive / dynamic) ~30% weighted proportionately between styles

Probabilities that are 95% or more are increased to 100%



¹ Timetable is announced and made available on our website each spring.

² For micro cap stocks, only growth and value styles are calculated.

Maintenance

- Stocks deleted between reconstitution dates are not replaced
- Spin-offs are added to the parent stock's index between reconstitution dates
- IPOs that meet Russell's membership rules are added on the third Friday of March, September, and December
- Dividends are reinvested daily on the ex-date at the close of US markets

Exclusions

- Foreign Stocks and American Depositary Receipts (ADRs)
- Companies under \$30 Million in total market capitalization
- Stocks trading below \$1.00 (average used of the past 30 days for existing members)
- Stocks with less than 5% of shares available in free float
- Companies with less than 5% voting rights
- Bulletin board, pink sheet or over-the-counter (OTC) traded securities
- Royalty trusts, US limited liability companies (LLCs), closed-end investment companies
- Companies that are required to report acquired fund fees and expenses as defined by the SEC, including business development companies (BDCs)
- Blank check companies, special-purpose acquisition companies (SPACs), and limited partnerships
- Exchange traded funds (ETFs) and mutual funds
- REITs and publicly traded partnerships (PTPs) that generate or have historically generated unrelated business taxable income (UBTI) and have not taken steps to block UBTI to equity holders.

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FTSE Russell is a leading global provider of index and benchmark solutions, spanning diverse asset classes and investment objectives. As a trusted investment partner we help investors make better-informed investment decisions, manage risk, and seize opportunities.

Market participants look to us for our expertise in developing and managing global index solutions across asset classes. Asset owners, asset managers, ETF providers and investment banks choose FTSE Russell solutions to benchmark their investment performance and create investment funds, ETFs, structured products, and index-based derivatives. Our clients use our solutions for asset allocation, investment strategy analysis and risk management, and value us for our robust governance process and operational integrity.

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

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