



Product Profile | Equity

The Russell 3000 Index

Rigor, precision and predictable coverage

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Mapping the US market since 1984

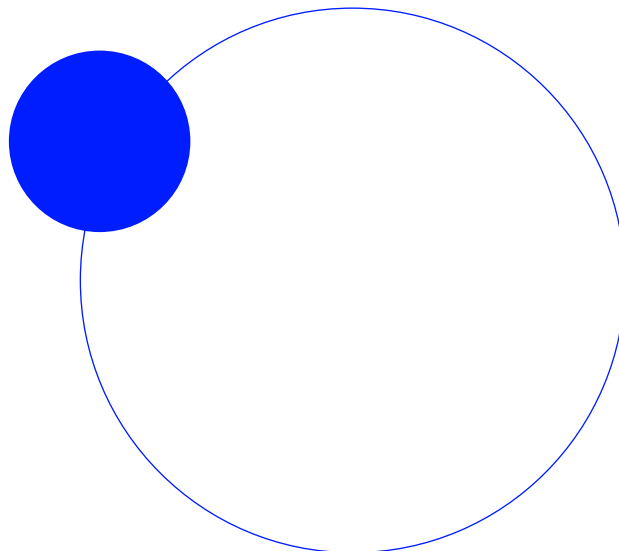
In 1984, FTSE Russell (previously Russell Indexes) introduced the Russell 3000® Index, the first of its kind to provide institutional investors with a comprehensive, accurate and objective representation of the world's largest and most liquid (US) equity market¹.

At the time of inception, existing US equity indexes were unrepresentative of the opportunity set, either lacking small and mid-cap stocks (missing out on an important source of returns) or being too broad (causing managers to run up against liquidity and regulatory constraints such as those set out by the SEC²).

The Russell 3000 Index balances completeness and investability, allowing clients to invest in large and small cap stocks (separately or in combination) and associated investment styles. It consists of the well-known Russell 1000® (large cap) and Russell 2000® (small cap) sub-indexes, as well as their growth and value style components.

All US indexes undergo methodological enhancements over time and, every June, the Russell 3000 is fully reconstituted to ensure an accurate representation of the evolving US equity market and its segments.

Now with approximately \$12trn benchmarked to them, these indexes are widely accepted by institutional investors to be the leading US equity benchmarks, aiding performance measurement and passive investment via products including index funds and exchange-traded funds (ETFs).



¹ See https://content.ftserussell.com/sites/default/files/russell_fa_fact_sheet_v5.pdf.

² SEC = Securities and Exchange Commission.

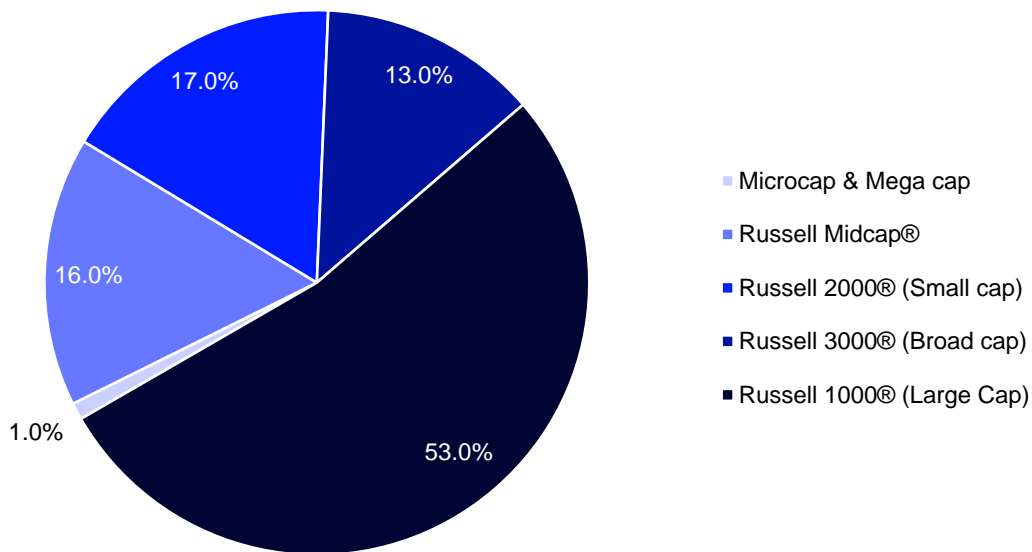
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Approximately \$12trn is benchmarked to Russell US Index

Approximately \$12trn³ is now benchmarked to the Russell 1000, 2000, 3000 Indexes and their sub-components, with 70% of these assets benchmarked to a Russell Growth or Value style index.

Breakdown of assets benchmarked to a Russell index



1,000 + 2,000 = 3,000.

It's really that simple.

The Russell 1000 Index—The largest 1,000 stocks by market cap, comprehensively covering the large cap opportunity set.

The Russell 2000 Index—The next 2,000 largest stocks by market cap, comprehensively covering the small cap opportunity set.

The Russell 3000 Index—This broad cap index of the top 3,000 US stocks by market cap covers 98% of the US equity investable universe.

The shortcomings of existing US equity benchmarks led to the launch in 1984 of the Russell 3000 Index, the first index to balance broad market representation with investor accessibility and to weight the index according to float (our innovation).

³ Data as of December 31, 2021 as reported on April 1, 2022 by eVestment for active institutional funds, Morningstar for active retail mutual funds, insurance products, and ETFs, and passive assets directly collected by FTSE Russell. AUM includes blended benchmarks and excludes futures and options. AUM data does not include active and passive assets not reported to a third-party source or FTSE Russell. For funds where the AUM was not reported as of December 31, 2021, the previous period AUM was used as an estimate. No assurances are given by FTSE Russell as to the accuracy of the data.

Four design principles of our US indexes

Principle I: A “naïve” construction approach

A benchmark should yield the return and risk an investor could obtain without any extraordinary knowledge of the investment opportunity set;

Principle II: Completeness

Given the purpose of a benchmark, it should include all the assets available for investment;

Principle III: Simplicity

A benchmark should be constructed using a transparent methodology that can be replicated by users;

Principle IV: Representative weighting

A benchmark should be capitalization-weighted and then float-adjusted wherever possible as restricted shares, shares that are never traded, or shares otherwise not available for purchase do not reflect the true opportunity set.

Why float adjustment matters

We pioneered the float adjustment method in 1984 and continuously adjust our index membership weights for free float shares.

Below is an example of why float adjustment, as referenced in Principle IV (representative weighting), matters.

An extraordinary S&P 500 Index inclusion effect occurred on December 7, 1999, the day before Yahoo! Inc. was added to the index. On that day, Yahoo!'s price rose by \$67.25 per share or 24%. Why? The reason had to do with the way the S&P 500 is weighted.

Yahoo! was included in the index at its full capitalization weight, even though most of the company's shares were held by employees, venture capitalists and other investors who are restricted in their ability to sell the shares.

In reality, only approximately 10% of the shares were actually available for purchase—in other words, Yahoo!'s free float did not match its capitalization. Amongst passive US equity funds worldwide, S&P had the largest volume of assets tracking its index at the time. Therefore, a significant number of index funds had to buy the stock to replicate the index weight, creating a mismatch in supply and demand and resulting in a huge price spike.

The annual Russell Index reconstitution

The Russell 3000 is reconstituted once a year, as with all of our indexes, towards the end of June. Reconstitution refers to the addition and deletion of securities to and from the index and the adjustment of the weights among the securities in the index.

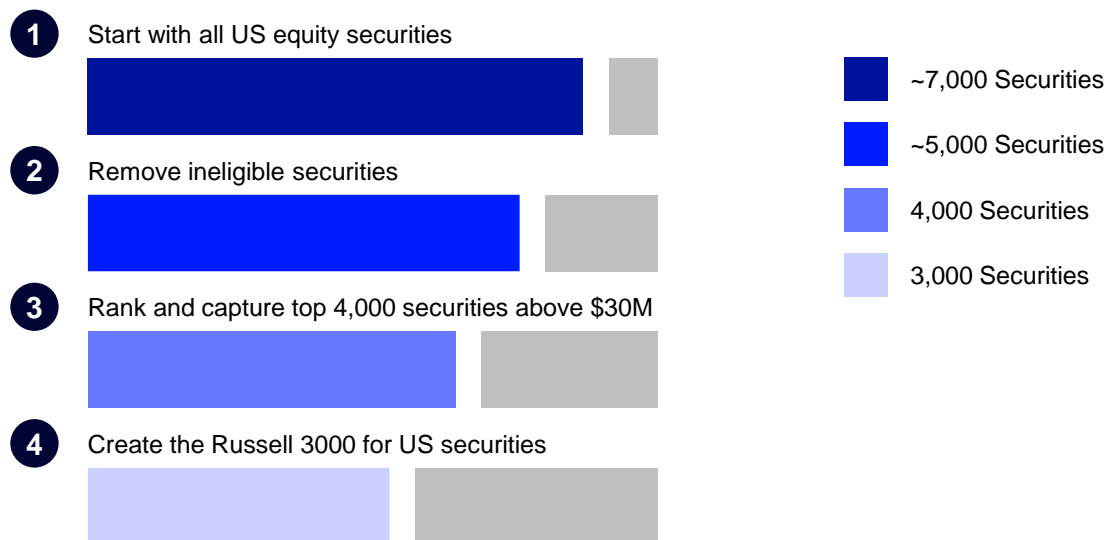
Each year as of the rank date, all eligible stocks in the US are ranked by total market capitalization in descending order.

Starting with all US equity securities (around 7,000 individual companies), we first remove ineligible securities such as those trading below the minimum price, or those with inadequate liquidity. This step reduces the list to around 5,000 companies. We then capture and rank the largest 4,000 by total market capitalization above \$30 million, the largest 3,000 of which form the Russell 3000 Index.

The largest 1,000 stocks in the Russell 3000 Index become the large cap Russell 1000 Index, and the next 2,000 stocks become the Russell 2000 Index.

One of the most highly anticipated US market events each year, our annual reconstitution, is of utmost importance due to the dynamism of the stock market. Successful companies grow, resulting in a rise in their stock price and, consequently, a rise in capitalization. Other companies are less successful and their stock price declines. Annual reconstitution ensures that the Russell Indexes reflect these changes on a predictable schedule. Russell research and Russell client sentiment has supported the annual rebalance schedule, as it strikes a reasonable balance between accurate representation and cost.⁴

Russell's annual reconstitution



Our unbiased approach to capturing the US market defines the breaks between large, mid and small cap and determines where companies fall along the growth/value spectrum.

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

⁴ [Reconstitution frequently asked questions | FTSE Russell.](#)

Russell US Style Indexes

The Russell US Style Indexes, introduced in 1987, measure the performance of the growth and value investment styles, as well as the defensive/dynamic styles introduced in 2011.

The Russell Growth and Value Indexes use several variables to determine categorization as to whether a company is part of the growth or value investment universe: book-to-price, I/B/E/S two-year forecast growth and historical five-year sales-per-share growth.

The Russell Defensive and Dynamic Indexes segment the US equity market according to stocks' sensitivity to economic cycles, credit cycles and market volatility.

When company stock characteristics do not allow for an absolute style distinction, the Russell Style Indexes proportion the firm's market capitalization to both growth and value stocks.

However, there is no double counting and sub-indexes roll up to the parent index: for example, the Russell 3000 Value Index and the Russell 3000 Growth Index always amount to the Russell 3000 Index.

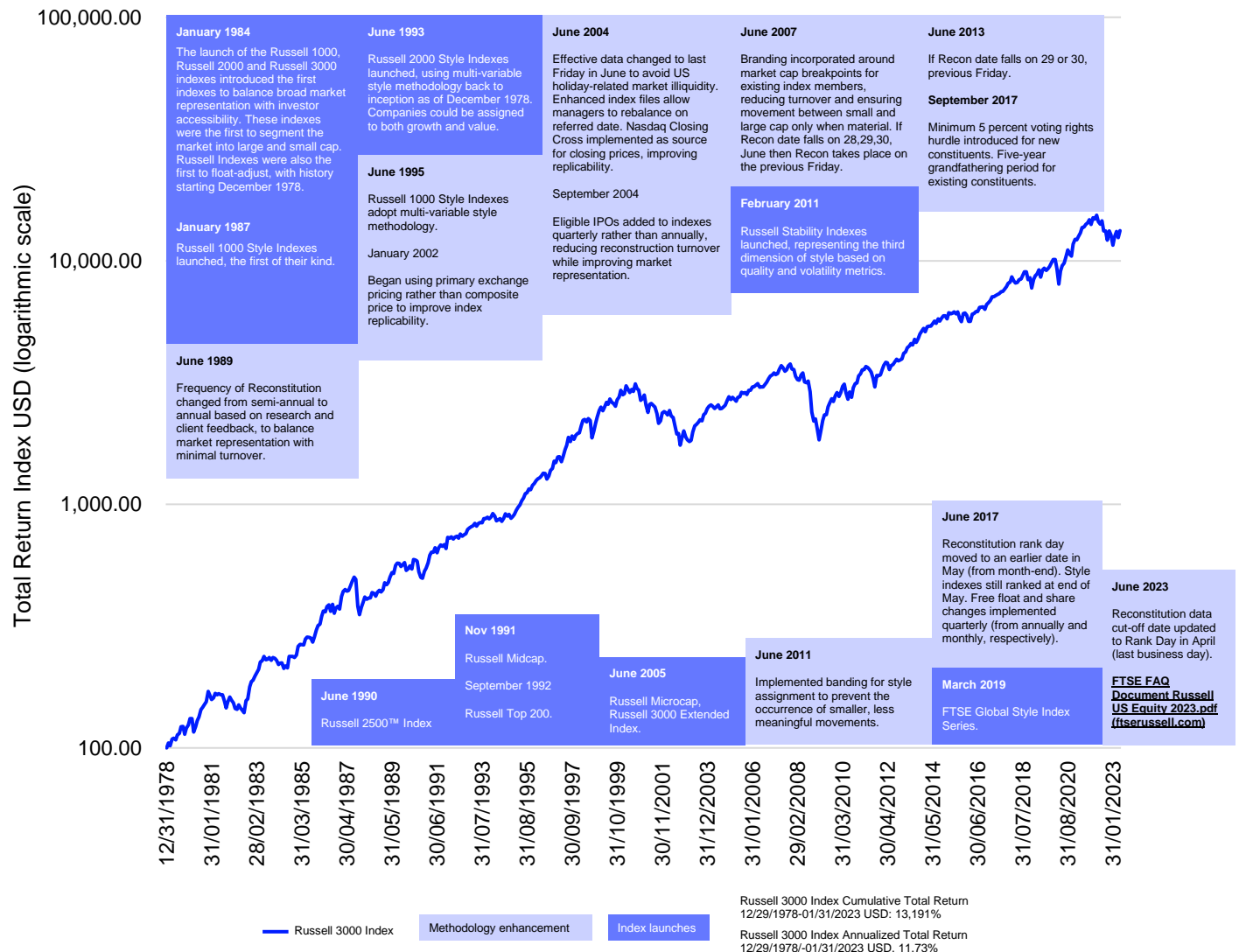
Since their launch in 1987, the Russell Growth and Value Style Indexes have become widely used as benchmarks for active management and as the basis for passive investment vehicles. Approximately \$8.5trn is benchmarked to a Russell Style Index, as of December 31, 2021.

A history of enhancements

Since their inception, the Russell US Indexes have undergone four decades of investor-focused innovation. Notable enhancements include:

- **1980s** – First float-adjusted, modular small cap, large cap, and broad market indexes (1984). First large cap growth and value indexes (1987). Annual reconstitution from 1989.
- **1990s** – Additional size segments, small cap style indexes (1993), multi-variable style methodology and distribution of some stocks across both growth and value indexes (1993).
- **2000s** – Primary exchange pricing (2002), reconstitution effective date fixed as last Friday in June, Nasdaq Closing Cross (2004), added “provisional” reconstitution files, IPOs added quarterly (2004), banding around market cap breakpoints (2007).
- **2010s** – Style methodology enhancements (2011), launch of alternatively-weighted indexes, acquisition of Russell Investments by LSEG (2014), addition of voting rights rule (2017), launch of the FTSE Global Style Index Series (2019). If the last Friday in June falls on the 29th or 30th, the Russell Index reconstitution effective date is the previous Friday (2013).

Four decades of innovation



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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.

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Back-tested performance is not actual performance, but is hypothetical. The back-test calculations are based on the same methodology that was in effect when the index was officially launched. However, back-tested data may reflect the application of the index methodology with the benefit of hindsight, and the historic calculations of an index may change from month to month based on revisions to the underlying economic data used in the calculation of the index.

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