

Russell Indexes at a glance



# Russell Global Index construction & methodology

## SUMMARY

98%

Global market coverage

65

Countries

26

Developed market countries

39

Emerging market countries

10,000+

Securities

Sectors

Russell Global Sectors (RGS) and GICS sectors

Currency

Multiple currencies (USD, EUR, JPY, CAD, AUD, CHF, GBP and local)

## A global view

The Russell Global Index represents the investable global equity market and its segments comprehensively. Consistent with the design of the family of Russell U.S. Equity Indexes, it is constructed using float-adjusted market capitalization weights and represents 98% of the investable global equity market. Our modular index construction supports a broad spectrum of sub-indexes based on country, region, sector, size or other customized needs. All sub-indexes roll up to the top level global index with no gaps or overlaps.

### How Russell Indexes are built

**Unbiased method** Russell constructs its indexes based on an unbiased ranking of each company's market capitalization. Rather than rely on subjective opinion, Russell allows the market to determine which companies are included in the indexes, ensuring the purest reflection of stock market performance.

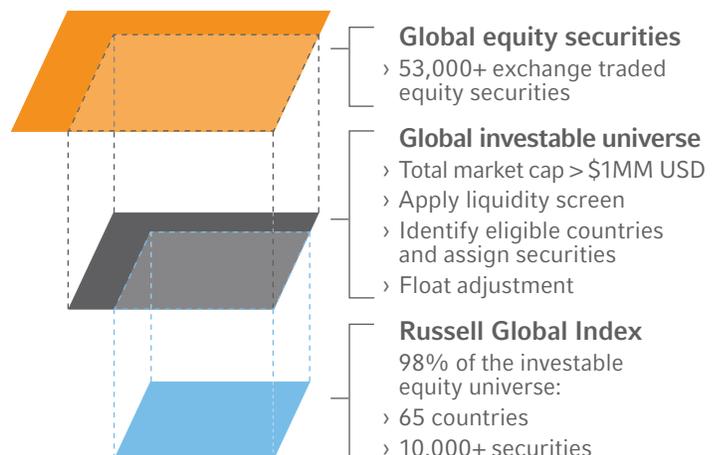
**The growth/value distinction** To create its style indexes, Russell uses a multi-variable approach, which uses book-to-price and long term growth estimates to determine style. When company stock characteristics don't allow for absolute style distinction, Russell's indexes allocate portions of the firm's market capitalization to both growth and value stocks.

Russell style methodology is also built from a global relative perspective. The true investable opportunity set is not an even 50/50 split between value and growth at the individual country level. Some countries, as with sectors, may display more of a growth or value bias.

**Float adjusted** Russell, which pioneered the now industry standard float adjustment in 1984, adjusts its index membership weights for float shares globally.

**Global-relative approach** Taking a unique perspective, Russell defines large and small companies globally. This allows investors to measure their own exposure to market cap segments more accurately and consistently across the globe.

**Regular index maintenance** The indices are regularly and proactively maintained to reflect the impact of global markets. Updates such as daily corporate actions, monthly share adjustments, quarterly IPO inclusions and annual total reconstitution ensure that the indexes accurately represent the true global opportunity set while balancing turnover costs.



## Methodology summary

Russell's global index series is built from a company-level, as opposed to a country-level, perspective. Companies are added as they gain adequate size and liquidity, rather than being excluded based on location. This translates into deep and broad coverage, which better reflects the investing opportunity set.

### Purpose

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

### Determining index membership

- › Assign securities to their home countries—each security is included in one, and only one, country
- › Take the top 98% of companies in the U.S. (Russell 3000® Index), and the top 98% of companies in the rest of the world
- › Derive each security's weight in the index using float-adjusted market capitalization
- › Combine macroeconomic and market criteria to create a robust classification methodologies for developed and emerging markets countries

### Determining style membership

- › Rank each stock in the Russell Global Indexes by two variables:

**Value variable**  
Book/price ratio

**Growth variable**  
Long-term growth forecast

- › Combine variables to create a composite value score (CVS) for each stock.
- › Rank the stocks by their CVS and apply a non-linear probability algorithm to the distribution to determine style membership weights.
- › Approximately 70% are classified as all value or all growth.
- › Approximately 30% are weighted proportionately to both value & growth.
- › Built from a global relative perspective so some countries, as with sectors, may display more of a growth or value bias.

### Maintenance

- › Daily adjustments for stock splits, dividends and de-listings
- › Month-end adjustment of stock buybacks and equity offerings
- › Quarterly review of IPO additions
- › Annual reconstitution of index

### Exclusions

- › Unavailable shares that are restricted by corporate governance or held by strategic investors
- › Securities in countries that do not allow foreign investment

For more information about Russell Indexes call us or visit [www.russell.com](http://www.russell.com).

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First used April 2009. Revised July 2009

CORP-5713