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# Russell U.S. Equity Indexes Construction and Methodology

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**Objective and comprehensive:** Russell Indexes are constructed to be unbiased and comprehensive, each incorporating the entire market segment it is designed to represent.

**Transparent and rules-based:** All rules regarding the construction and maintenance of the Russell Indexes are published and publicly available. This process allows the indexes to be tracked and replicated, which makes better benchmarks for retail investors and both active and passive managers.

**Full annual reconstitution:** To ensure that market segments are accurately represented, Russell Indexes are completely rebuilt annually. Over time, securities change in size and style characteristics, and thus annual reconstitution ensures that securities are included in the appropriate market cap and style index. New entries to the market – specifically, initial public offerings – are added quarterly.

**Leading methodology:** Much of Russell's index methodology is now considered industry-standard. Russell Indexes have been float-adjusted since inception, and multi-factor/multi-style style methodology has been basic to Russell Indexes since 1994.

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# Updated sections

This document has been updated since the previous published version, in the following section:

Section 3: Clarified UBTI screening



# Russell U.S. Equity Indexes Construction and Methodology

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SECTION 1

# Introduction

Russell Indexes are designed to be comprehensive representations of the investable U.S. equity market and its segments. The indexes are float-adjusted and market cap weighted, and they include only common stocks belonging to corporations determined to be U.S. companies (see Section 3).

### Purpose

Russell Indexes serve three main purposes:

- To act as performance standards for active managers.
- To serve as proxies for asset allocation purposes.
- To become purchasable and replicable vehicles for passive investment strategies.

### Available indexes

All Russell U.S. equity indexes are subsets of the Russell 3000E Index. A list of available tickers and index values can be found in Appendix B.

Broad Market U.S. Indexes	Large Cap U.S. Indexes	Midcap U.S. Indexes
Russell 3000E Index	Russell 1000 <sup>®</sup> Index	Russell Midcap <sup>®</sup> Index
Russell 3000E Value Index	Russell 1000 <sup>®</sup> Value Index	Russell Midcap <sup>®</sup> Value Index
Russell 3000E Growth Index	Russell 1000 <sup>®</sup> Growth Index	Russell Midcap <sup>®</sup> Growth Index
Russell 3000 <sup>®</sup> Index	Russell 1000 <sup>®</sup> Defensive Index™	Russell Midcap <sup>®</sup> Defensive Index™
Russell 3000 <sup>®</sup> Value Index	Russell 1000 <sup>®</sup> Dynamic Index™	Russell Midcap <sup>®</sup> Dynamic Index™
Russell 3000 <sup>®</sup> Growth Index	Russell 1000 <sup>®</sup> Dividend Achievers Index	
Russell 3000 <sup>®</sup> Defensive Index™	Russell Top 200 <sup>®</sup> Index	
Russell 3000 <sup>®</sup> Dynamic Index™	Russell Top 200 <sup>®</sup> Value Index	
Russell 3000 <sup>®</sup> Dividend Achievers Index	Russell Top 200 <sup>®</sup> Growth Index	
	Russell Top 200 <sup>®</sup> Defensive Index™	
	Russell Top 200 <sup>®</sup> Dynamic Index™	
	Russell Top 50 <sup>®</sup> Index	
Small-Mid U.S. Indexes	Small Cap U.S. Indexes	Microcap U.S. Indexes
Russell 2500™ Index	Russell 2000 <sup>®</sup> Index	Russell Microcap <sup>®</sup> Index
Russell 2500™ Value Index	Russell 2000 <sup>®</sup> Value Index	Russell Microcap <sup>®</sup> Value Index
Russell 2500™ Growth Index	Russell 2000 <sup>®</sup> Growth Index	Russell Microcap <sup>®</sup> Growth Index
Russell 2500™ Defensive Index™	Russell 2000 <sup>®</sup> Defensive Index™	
Russell 2500™ Dynamic Index™	Russell 2000 <sup>®</sup> Dynamic Index™	
	Russell 2000 <sup>®</sup> Dividend Achievers Index	
	Russell Small Cap Completeness <sup>®</sup> Index	
	Russell Small Cap Completeness <sup>®</sup> Value Index	
	Russell Small Cap Completeness <sup>®</sup> Growth Index	



## SECTION 2

## Basic methodology

Russell Indexes are objectively constructed and based on transparent rules. The broadest U.S. index is the Russell 3000E Index, which contains the largest 4,000 U.S. companies. Sub-indexes in the Russell 3000E Index are broken out by market capitalization and style.

The members of the Russell 3000E Index and its subsets are determined each year during annual reconstitution and enhanced quarterly with the addition of initial public offerings (IPOs).

### Annual reconstitution

Annual reconstitution is the process by which Russell Indexes are completely rebuilt. Reconstitution is a vital part of the creation of a benchmark that accurately represents a particular market segment. Companies may get bigger or smaller over time, or periodically undergo change in their style characteristics. Reconstitution ensures that companies are correctly represented in the appropriate Russell Indexes.

On the last trading day in May, all eligible securities are ranked by their total market capitalization. The largest 4,000 become the Russell 3000E Index, and the other Russell Indexes are determined from that set of securities. If 4,000 eligible securities do not exist in the U.S. market, the entire eligible set is included.

Reconstitution occurs on the last Friday in June. However, at times this date precedes a long U.S. holiday weekend, when liquidity is low. In order to ensure proper liquidity in the markets, when the last Friday in June is the 28th, 29th or 30th, reconstitution will occur on the preceding Friday.

### Quarterly initial public offerings

Eligible initial public offerings (IPOs) are added to the Russell Indexes at the end of each calendar quarter in accordance with the schedule in [section 4](#). Russell adds IPOs each quarter to ensure new additions to the investing opportunity set are reflected in representative indexes. Russell focuses on IPOs each quarter because they were not available at reconstitution, and it is important to reflect market additions between reconstitution periods. Companies filing an initial public offering registration statement (or local equivalent if outside of the U.S.) regardless of previous trading activity are reviewed for eligibility.

## SECTION 3

## Defining eligible securities

Russell U.S. Indexes capture approximately 99% of the U.S. equity market and 100% of the investable U.S. market. The full investment opportunity set of managers in each U.S. market segment. Below are the requirements for securities' inclusion in the Russell U.S. Indexes.

### Security inclusion criteria

#### Determining U.S. Companies

Historically, asset owners have diversified their risk by assigning assets to specific countries. Some companies incorporate in a specific country for tax reasons, while some companies choose better access to capital. Therefore, to most closely track country risk, Russell uses objective criteria to assign companies to the U.S. equity market. All companies that are determined to be part of the U.S. equity market are included in the Russell U.S. Indexes, and those determined to be non-U.S become members of the Russell Global ex-U.S. Index.

#### Home country indicators (HCIs)

If a company incorporates in, has a stated headquarters location in, and also trades in the same country, (ADRs and ADSs are not eligible), the company is assigned to its country of incorporation. If any of the three criteria do not match, Russell then defines three home country indicators (HCIs). The HCIs are as follows:

1. Country of incorporation
2. Country of headquarters
3. Country of the most liquid exchange as defined by two-year average daily dollar trading volume (ADDTV) from all exchanges within a country

After the HCIs are defined, the next step in the country assignment involves an analysis of assets by location. Russell cross-compares the primary location of the company's assets with the three HCIs. If the primary location of assets matches ANY of the HCIs, then the company is assigned to its primary asset location (see [appendix C](#) for specifics on the definition of primary asset/revenue location).

If there is not enough information to conclude a company's primary location of assets, Russell uses the primary location of the company's revenue for the same cross-comparison and assigns the company to the appropriate country in a similar fashion. Russell uses an average of two years of assets or revenues data for analysis to reduce potential turnover.

If conclusive country details cannot be derived from assets or revenue, Russell assigns the company to the country in which its headquarters are located unless the country is a Benefit Driven Incorporation (BDI) country (see [appendix C](#) for a list of BDI countries). If the country in which its headquarters are located is a BDI, the company is assigned to the country of its most liquid stock exchange.

**Steps to determining U.S. country assignment:**

<b>Step 1</b>	Is the company incorporated in, traded in, and headquartered in one unique country?	YES – Classified in the unique country	NO – Move to step 2
<b>Step 2</b>	Are the company's reported assets primarily located in one of the HCIs?	YES – Classified in the country of primary assets	NO – Move to step 3
<b>Step 3</b>	Are the company's reported revenues primarily derived from one of the HCIs?	YES – Classified in the country of primary revenue	NO – Move to Step 4
<b>Step 4</b>	Is the company headquartered in a non-BDI country?	YES – Classified in the country of Headquarters	NO – Assign to primary exchange country

Note: If the company does not trade on a major U.S. exchange it is not eligible.

**Example 1:**

**XYZ Company**

HCIs: Incorporation: U.S.  
Headquarters: China  
Trading locations: U.S., U.K., Hong Kong (most liquid exchange: U.S.)  
Asset location: 100% in Canada

<b>Step 1</b>	Is the company incorporated in, traded in, and headquartered in one unique country?	NO – Move to Step 2	
<b>Step 2</b>	Are the company's reported assets primarily located in the one of the HCIs?	NO – Canada Move to Step 3	
<b>Step 3</b>	Are the company's reported revenues primarily located in one of the HCIs?	NO – No Data Move to Step 4	
<b>Step 4</b>	Is the company headquartered in a non-BDI country?	YES – China	CLASSIFICATION: China

## Example 2:

### ABC Company:

HCI	Incorporation: Ireland
	Headquarters: Ireland
	Trading locations: U.S., Ireland, Germany (most liquid exchange: U.S.)
Asset location:	85% in U.S.

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<b>Step 1</b> Is the company incorporated in, traded in, and headquartered in one unique country?	YES – Ireland Assigned to Ireland
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### Trading requirements

All securities eligible for inclusion in Russell U.S. Indexes must trade on a major U.S. exchange. Bulletin board, pink sheet or over-the-counter (OTC) traded securities are not eligible for inclusion.

### Minimum closing price

Stocks must have a close price at or above \$1.00 (on its primary exchange) on the last trading day in May to be considered eligible for inclusion. In order to reduce unnecessary turnover, if an existing member's closing price is less than \$1.00 on the last day of May, it will be considered eligible if the average of the daily closing prices (from its primary exchange) during the month of May is equal to or greater than \$1.00. Quarterly IPO additions must have a close price at or above \$1.00 on the last day of their eligibility period in order to qualify for index inclusion.

### Primary exchange pricing

If a stock, new or existing, does not have a close price at or above \$1.00 (on its primary exchange) on the last trading day in May, but does have a close price at or above \$1.00 on another major U.S. exchange, the stock will be eligible for inclusion..

### Minimum total market capitalization

Companies with a total market capitalization less than \$30 million are not eligible for the Russell U.S. indexes.

### Minimum available shares / float requirement

Companies with only a small portion of their shares available in the marketplace are not eligible for the Russell Indexes. Companies with 5% or less will be removed from eligibility. See Section 5: Adjustments to Members' Shares Outstanding (Float), for details on calculations of available shares.

### Company structure

Companies structured in the following ways are excluded from inclusion in Russell Indexes: royalty trusts, U.S. limited liability companies, closed-end investment companies (Business Development Companies [BDCs] are eligible), blank-check companies, special-purpose acquisition companies (SPACs), and limited partnerships.

### UBTI screening

Companies that produce unrelated business taxable income (UBTI) are restricted from ownership for tax-exempt investors. In recognition of this, Russell screens all REIT's and PTP's, removing any security from

eligibility that generates or has historically generated UBTI and has not taken steps to block UBTI to equity holders. The research process is conducted as part of Russell's annual rebalance effort. Additional screening will not be assessed or changed outside of the reconstitution period. Information used to confirm UBTI impact includes the following publicly available sources: 10-K, SEC Form S-3, K-1, company annual report, dividend notices or company website.

For UBTI to be passed to a security holder, the UBTI must be produced by the company directly. UBTI incurred by a subsidiary will not be realized by the holder of the parent entity and would not require removal of the parent company from eligibility.

If a company restructures to block UBTI, they will remain eligible for index inclusion. Acceptable forms of restructure are as follows:

- 1) Formal creation of a shell entity or offshore vehicle ensuring that any dividend payment is void of UBTI.
- 2) If within a public filing (SEC filing, dividend disclosure, press release) the company declares that any UBTI producing assets have been sold AND no future intent to purchase UBTI producing assets exists. This declaration of intent must clearly state that the company's past investment strategy has changed and the intent is to remove the exposure of UBTI to the end holder.

### **Shares excluded**

Because Russell Indexes are built to capture performance of each company's primary equity vehicle, the following share types are not eligible for inclusion: preferred and convertible preferred stock, redeemable shares, participating preferred stock, warrants, rights, and trust receipts.

### **Deadline for inclusion**

Stocks must be listed on the last trading day in May and Russell must have access to documentation on that date supporting the company's eligibility for inclusion. This includes corporate description, verification of incorporation, number of shares outstanding and other information needed to determine eligibility. IPOs will be considered for inclusion on a quarterly basis.

## SECTION 4

## Defining membership by size (market capitalization)

Russell calculates the total market capitalization of each security to determine whether it is large enough for inclusion in one or more of the Russell Indexes. Total market capitalization is determined by multiplying total outstanding shares by the market price as of the last trading day in May for those securities being considered at annual reconstitution. IPO eligibility is determined each quarter.

### Determining total shares outstanding

Common stock, non-restricted exchangeable shares and partnership units/membership interests (in certain cases- see below) are used to calculate a company's total market capitalization. Exchangeable Shares are shares which may be exchanged any time, at the holder's option, on a one-for-one basis for common stock. Membership or partnership units/interests represent an economic interest in a limited liability company or limited partnership. Russell includes membership or partnership units/interests as part of total market capitalization when the company in question is merely a holding company of an underlying entity that issues membership or partnership units/interests and these membership units are the company's sole asset. This is not to be confused with operating partnership units that are issued in conjunction with UPREITs. In these cases, total market capitalization will be calculated based on 100% of the value of all membership interests.

Any other form of shares – such as preferred or convertible preferred stock, redeemable shares, participating preferred stock, warrants and rights or trust receipts – are excluded from the calculation. If multiple share classes of common stock exist, they are combined. In cases where the common stock share classes act independently of each other (e.g., tracking stocks), each class is considered for inclusion separately.

### Determining price

During annual reconstitution, the last price traded on the last trading day in May on the primary exchange is used to determine market capitalization. If a security does not trade on its primary exchange, the lowest price from another major U.S. exchange is used. In the case where multiple share classes exist, a primary trading vehicle is determined, and the price of that primary trading vehicle (usually the most liquid) is used in our calculations.

### Primary trading vehicle

Primary trading vehicles are determined by the last two year's average trading volume, as of the last trading day in May. For new members, the common share class with the highest trading volume will be considered the primary trading vehicle, and its associated price and trading symbol will be included in the Russell U.S. Indexes. If the volume of each share class is close, within 20%, the one with the largest available shares is used. For share classes without two years of history, all available volume data is used. At least 100 day trading volume is necessary to consider the class as a primary vehicle for existing members. New members will be analyzed on all available data, even if data available is less than 100 days. If applicable, shares held across different share classes will be represented on a mathematically equivalent basis.

### Initial public offerings (IPOs)

IPOs are added to Russell indexes on the basis of total market capitalization ranking within the market-adjusted capitalization breaks established during the most recent reconstitution. Country assignment determination is made using data provided in prospectuses or other filings. Market adjustments to the capitalization breaks are made using the returns of the broad market Russell 3000E Index. Eligible IPOs will be added to the Russell growth / value indexes using their industry's average style probability established at the latest reconstitution. All IPO's are assigned as 100% dynamic for the Stability indexes.

### Russell's U.S. Indexes IPO calendar:

QUARTERLY ADDITIONS	THIRD-QUARTER ADDITIONS	FOURTH-QUARTER ADDITIONS	FIRST-QUARTER ADDITIONS
Initial Offering Period	IPOs which initially price/trade between June 1 and August 31	IPOs which initially price/trade between September 1 and November 30	IPOs which initially price/trade between December 1-February 28/29
Rank Date	31-Aug	30-Nov	February 28/29
Announce Date	15-Sep	Monday prior to Add date	15-Mar
Effective Date*	30-Sep	Third Friday in December	31-Mar

\*After the close

In order to be added during a quarter outside of reconstitution, IPOs must meet all Russell U.S. Index eligibility requirements. Additionally, IPOs must meet the following criteria on the final trading day of the month prior to quarter-end: (1) it is priced and traded; and (2) rank larger in total market capitalization than the market-adjusted smallest company in the Russell 3000E Index as of the latest June reconstitution. See appendix E for illustration.

### Determining index membership

Once the market capitalization for each security is determined by use of total shares and price (as described above), each security is placed in the appropriate Russell market capitalization-based index. The largest 4,000 securities become members of the Russell 3000E Index. If eligible securities total less than 4,000, the Russell 3000E and Russell Microcap Index will include all eligible securities. The other index capitalization breaks remain unchanged. All remaining indexes are a subset of this index. A market capitalization breakpoint is determined by the break between the companies below.

Index	Companies Included (based on descending total market capitalization)
Russell 3000E Index	Companies #1-4,000 or 100% of the eligible securities
Russell 3000 Index	Companies #1-3,000
Russell Top 200 Index	Companies #1-200
Russell 1000 Index	Companies #1-1,000
Russell Midcap Index	Companies #201-1,000
Russell 2000 Index	Companies #1,001-3,000
Russell 2500 Index	Companies #501-3,000
Russell Microcap Index	Companies #2,001-4,000 or 100% of the eligible securities

After the initial market capitalization breakpoints are determined by the ranges listed above, new members are assigned on the basis of the breakpoints and existing members are reviewed to determine if they fall within a cumulative 5% market cap range around these new market capitalization breakpoints. If an existing member's market cap falls within this cumulative 5% of the market capitalization breakpoint, it will remain in its current index rather than be moved to a different market capitalization–based Russell index. Companies that fall on the edge of market capitalization breakpoints are often still within the manager's opportunity set, since they have not significantly grown or declined in market capitalization.

Exceptions: There will be no percentile banding at the bottom of the Russell 3000 Index (stock 3000) or the Russell 3000E Index (stock 4000). In addition, due to the small market cap percentage, the Russell Microcap Index will be banded at 1% around stock 2000.

**Steps in calculating percentile ranges of the new index:**

1. Sort the Russell 3000E Index members in descending order by total market capitalization.
2. Calculate the total market capitalization of the Russell 3000E Index by summing all members' total market capitalizations.
3. Calculate percentiles for each company in the Russell 3000E by dividing the cumulative market cap associated with each member by the total market cap of the Russell 3000E Index.
4. Calculate a range of five percentiles around the newly determined market cap breakpoints, by subtracting, and then adding, 2.5% from/to the calculated percentile of the market cap breakpoint.

**Example:**

Assume the market capitalization of security 1000 is \$2 billion (i.e., the breakpoint between the Russell 1000 and the Russell 2000). Current members of the Russell 1000 smaller than \$2B are slated to be moved to the Russell 2000, while current members of the Russell 2000 larger than \$2B are slated to be moved to the Russell 1000. However, since they are current members, they are further assessed for the magnitude of their differences from the market capitalization breakpoint.

**Illustration:**

1. Sort the new Russell 3000E Index members by descending market capitalization (see below).
2. Calculate the total market capitalization of the Russell 3000E Index. Assume for illustration purposes that the index = \$182,500 (\$M). (Note: Total market cap has been dramatically reduced for simpler illustration.)
3. Calculate percentiles for each company (see below).
4. Calculate a 5 percentile range around the \$2 billion market cap percentile (89.99 for this illustration):
  1.  $89.99 - 2.5 = 87.49$
  2.  $89.99 + 2.5 = 92.49$Range = 87.49% – 92.49%

Rank	Company	Current R1 member	Current R2 member	Company market cap (\$M)	Cumulative market cap	Cumulative percentile	New index membership
995	XYZ Company	Y	N	\$2,115	\$154,000	84.38%	R1
996	ABC Company	N	Y	\$2,105	\$156,105	85.54%	R1
997	Drugstore Inc.	Y	N	\$2,100	\$158,205	86.69%	R1
998	PYK Shipping	N	Y	\$2,011	\$160,216	87.79%	R2
999	Z Technology	N	Y	\$2,010	\$162,226	88.89%	R2
1000	RE Trust	N	Y	\$2,000	\$164,226	89.99%	R2
1001	Foods Inc.	Y	N	\$1,995	\$166,221	91.08%	R1
1002	PETs & More	N	Y	\$1,950	\$168,171	92.15%	R2
1003	RYT Inc.	Y	N	\$1,923	\$170,094	93.20%	R2

Therefore, the market capitalization of current Russell 2000 Index members PYK Shipping, Z Technology and RE Trust have not changed significantly enough to require a membership move into the Russell 1000, and current Russell 1000 Index member Food Inc.'s market capitalization has not changed significantly enough to require a membership move out of the Russell 1000 (although it is smaller than \$2B). These companies remain in their current indexes.

## SECTION 5

## Adjustments to members' shares outstanding (float)

After membership is determined, a security's shares are adjusted to include only those shares available to the public. This is often referred to as "free float." The purpose of this adjustment is to exclude from market calculations the capitalization that is not available for purchase and is not part of the investable opportunity set. Stocks are weighted in the Russell U.S. Indexes by their available (also called float-adjusted) market capitalization, which is calculated by multiplying the primary closing price by the available shares.

### Capitalization adjustments

The following types of shares are removed from total market capitalization to arrive at free float or available market capitalization. Adjustments are based on information recorded in SEC corporate filings, including DEF 14, 424B, and 10K filings, or other reliable sources in the event of missing or questionable data: . Please note that 13F filings are not reviewed.

- **Cross-ownership by another Russell 3000E Index or Russell Global Index member:** Shares held by another member of a Russell index (including Russell global indexes) is considered cross-ownership, and all shares will be adjusted regardless of percentage held.
- **Large corporate and private holdings:** Shares held by another listed company (non-member) or by private individuals will be adjusted if they are greater than 10% of shares outstanding. Share percentage is determined by those shares held by either an individual or a group of individuals acting together. For example, officers' and directors' holdings would be summed together to determine whether they exceed 10%. Not included in this class, however, are institutional holdings, including investment companies, partnerships, insurance companies, mutual funds, banks or venture capital firms unless these firms have a direct relationship to the company, such as board representation. In that case, they are considered strategic holdings and are included with the officers/directors group.
- **ESOP or LESOP shares** that comprise 10% or more of the shares outstanding are adjusted.
- **Unlisted share classes:** Classes of common stock that are not traded on a U.S. exchange are adjusted.
- **IPO lock-ups:** Shares locked up during an initial public offering are not available to the public and will be excluded from the market value at the time the IPO enters the index.
- **Government Holdings:**
  - **Direct government holders:** Those holdings listed as "government of" are considered unavailable and will be removed entirely from available shares.
  - **Indirect government holders:** Shares held by government investment boards and/or investment arms will be treated similar to large private holdings and removed if the holding is greater than 10%.
  - **Government pensions:** Any holding by a government pension plan is considered institutional holdings and will not be removed from available shares.

## SECTION 6

## Determining style

Russell Investments uses a “non-linear probability” method to assign stocks to the growth and value style valuation indexes and to assign stocks to the defensive and dynamic Russell Stability Indexes™.

### Russell Growth and Value Indexes

Beginning 2011 reconstitution, Russell will use three variables in the determination of growth and value. On the value side, book-to-price will continue to be used, while on the growth side, the I/B/E/S long-term growth variable will be replaced by two variables- I/B/E/S forecast medium-term growth (2 yr) and sales per share historical growth (5 yr).

The term “probability” is used to indicate the degree of certainty that a stock is value or growth, based on its relative book-to-price (B/P) ratio, I/B/E/S forecast medium-term growth (2 yr), and sales per share historical growth (5 yr). This method allows stocks to be represented as having both growth and value characteristics, while preserving the additive nature of the indexes. The process for assigning growth and value weights is applied separately to the stocks in the Russell 1000 and Russell 2000 and to the smallest 1000 stocks in the Russell Microcap Indexes. Research indicates that on average, valuations of small stocks differ from those of large stocks. Treating the Russell 1000, Russell 2000 and smallest Russell Microcap stocks separately prevents the possible distortion to relative valuations that may occur if the Russell 3000E is used as the base index.

For each base index (the Russell 1000 and Russell 2000, and the smallest 1000 in Russell Microcap), stocks are ranked by their adjusted book-to-price ratio (B/P), their I/B/E/S forecast medium-term growth (2 yr) and sales per share historical growth (5 yr). These rankings are converted to standardized units, where the value variable represents 50% of the score and the two growth variables represent the remaining 50%. They are then combined to produce a composite value score (CVS). Stocks are then ranked by their CVS, and a probability algorithm is applied to the CVS distribution to assign growth and value weights to each stock. In general, a stock with a lower CVS is considered growth, a stock with a higher CVS is considered value and a stock with a CVS in the middle range is considered to have both growth and value characteristics, and is weighted proportionately in the growth and value index. Stocks are always fully represented by the combination of their growth and value weights; e.g., a stock that is given a 20% weight in a Russell value index will have an 80% weight in the same Russell growth index.

### Russell Defensive and Dynamic Indexes

The Russell Stability Indexes add a Third Dimension of Style™ to the Russell Style Indexes. Stability is measured in terms of volatility (price and earnings), leverage and return on assets. Stability Indexes are created in a similar fashion as the growth and value indexes in that they involve splitting an existing applicable Russell Index in half based on the combination of the stability indicators. The more stable half of the split is called “Defensive,” and the less stable half is called “Dynamic.”

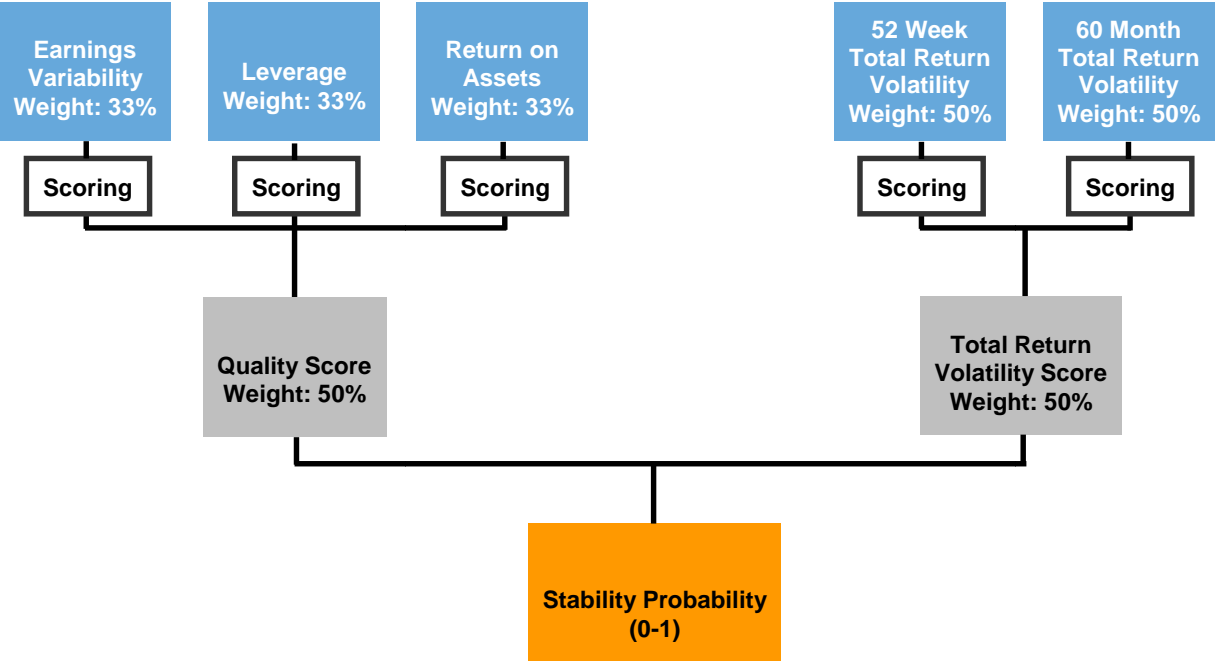
The Russell Defensive Indexes™ measure the performance of companies that have relatively stable business conditions which are less sensitive to economic cycles, credit cycles and market volatility based on their stability indicators. The Russell Dynamic Indexes™ measure the performance of companies that have relatively less stable business conditions and are more sensitive to those market cycles.

For each base index (Russell 1000 and Russell 2000), there are five specific fundamentals used to determine the probability of being defensive or dynamic: Debt/Equity, Return on Assets (ROA), Earnings Variability, and Total Return Volatility (52 week & 60 month). Among other things, a company has risks related to balance sheet leverage, economic cycles and industry/product cycles, and weaknesses in its business model. Russell uses debt/equity ratios as a proxy for risks related to balance sheet leverage. Earnings variability is used as a proxy for risks related to economic cycles and industry/product cycles. Return on assets (ROA) is used as a proxy for risks related to the strength of a company’s business model. The final component used as an indicator of a company’s risk is the volatility of its stock’s returns. Total return volatility reflects aspects of a company’s stability or risk not captured by the other three inputs to a company’s stability probability.

Using the Russell non-linear style algorithm, companies with high stability probabilities are included in the Russell Defensive Indexes. Companies with low stability probabilities are included in the Russell Dynamic Indexes.

Russell has assigned the label “Quality” to the score, resulting from an equal weight of the three accounting-based indicators (earnings variability, debt/equity ratios, and ROA). Together, these three indicators comprise 50% of the stability probability. The “Volatility” score makes up the other half of the stability probability, and is based on an equal weight of the past 52 weeks of the stock price’s weekly volatility and the past 60 months of the stock price’s monthly volatility.

A company may be included in both the defensive and dynamic indexes based on its stability probability. However, the number of shares for each index will be divided based on its stability probability. The total shares will be the same as the parent index.



**Quality Score (comprises 50% of the overall stability probability)**

There are three stability indicators which comprise the Quality Score-- Debt/Equity, Pre-Tax ROA, and Earnings Variability. Each indicator comprises one third of the Quality score.

**Debt/Equity:** The debt/equity ratio is based on the most recent quarterly SEC filing.

**Pre-Tax ROA:** The pre-tax ROA is based on the last year's pre-tax income divided by the average of the assets for the previous year ((current assets + same quarter one year prior)/2).

**Earnings Variability:** The earnings variability computation uses quarterly EPS for the previous 5 years. It is based on the standard error of the linear earnings-per-share (EPS) trend regression. The rationale for using the standard error is that if there is a trend in the EPS over time, then the trend itself should not contribute to EPS variability. The standard error is then dividend by the median EPS (of the 20 observations).This scaling normalizes the information to make each company directly comparable to other companies regardless of the relative level of EPS.

Negative (or zero) EPS numbers are included in the standard error calculation, however, a negative or zero median EPS value will not be used to calculate EPS variability. Rather, EPS variability is excluded in the analysis and set to zero/dynamic. Assigning this value is equivalent to characterizing the company has having very high earnings variability.

If there are less than 20 observations for EPS (or standard error is equal to zero), it is considered NULL and standard error will not be calculated (see missing variables below);

**Volatility Score (comprises 50% of the overall stability probability)**

Total return volatility (standard deviation) is measured over two horizons, over the previous year and over the previous five years. Each indicator represents one half of the volatility score.

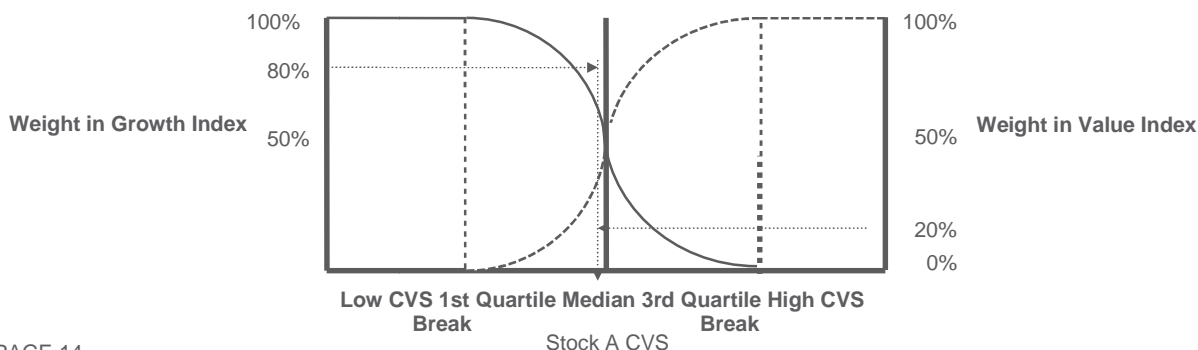
**52 week price volatility (1 year):** The one year-volatility is the standard deviation based on the 52 weekly returns that end on the last Friday on or before May 31.

**60 month price volatility (5 year):** Trailing five-year volatility is the standard deviation based on monthly returns. Thus, for a score based on May 31, 2010 data, the five-year volatility is based on the 60 monthly returns for the period that starts on May 31, 2005 and ends on May 31, 2010.

**Description of non-linear probability algorithm**

Stock A, in Figure 1, is a security with 20% of its available shares assigned to the value index and the remaining 80% assigned to the growth index. The growth and value probabilities (or defensive and dynamic) will always sum to 100%. Hence, the sum of a stock's market capitalization in the growth and value index will always equal its market capitalization in the Russell 1000 Index, Russell 2000 Index, or Russell Microcap Index.

**Figure 1: Non-Linear Probability Function for Index Position Weights.**



In Figure 1, the quartile breaks are calculated such that approximately 25% of the available market capitalization lies in each quartile. Stocks at the median are divided 50% in each style index. Stocks below the first quartile are 100% in the growth index. Stocks above the third quartile are 100% in the value index. Stocks falling between the first and third quartile breaks are in both indexes to varying degrees; depending on how far they are above or below the median and how close they are to the first or third quartile breaks.

### 5% rule

Roughly 70% of the available market capitalization is classified as all-growth or all-value (or all-defensive or all-dynamic). The remaining 30% of stocks have some portion of their market value in either the value or growth index, depending on their relative distance from the median value score. The astute observer may note that since the percentage of capitalization between the first quartile and the third quartile is 50%, we would expect that 50% of the capitalization would be found in both indexes. What happened to the 20% (i.e., 50% to 30%)? The source for the disappearance of the 20% is our decision to institute a small position cutoff rule. If a stock's weight is more than 95% in one style index, we increase its weight to 100% in that index. This rule eliminates many small weightings and makes passive management easier.

### Banding rule

In an effort to mitigate unnecessary turnover, Russell implements a banding methodology at the Composite Value Score (CVS) level of the growth and value style algorithm. If a company's CVS change from the previous year is  $\leq$  to  $\pm .10$  AND the company remains in the same core index (Russell 1000 or Russell 2000), then the CVS remains unchanged during the next reconstitution process. Keeping the CVS static for these companies does not mean the probability (growth/value) will remain unchanged in all cases due to the relation of that CVS score to the overall index. However, this banding methodology has proven to reduce turnover caused by smaller, less meaningful movements while continuing to allow the larger, more meaningful changes to occur, signaling a true change in a company's relation to the market.

### Market capitalization of growth/value and defensive/dynamic indexes

The market capitalization of the growth and value style indexes, as well as that of the defensive and dynamic stability indexes, may not each equal 50% of their base index. At first glance, this seems counterintuitive, since the methodology uses capitalization-weighted medians and quartiles, which in turn implies that 50% of the capitalization is above and below the median. However, asymmetry in the capitalization distributions within the second and third quartiles results in a skewed distribution of CVS. When CVS is normally distributed, 50% will be in each index.

### Missing, negative values, or low coverage

For valuation styles (growth and value), stocks with missing or negative values for B/P, or missing values for I/B/E/S growth (negative IBES medium-term growth is valid), or missing sales per share historical growth (5yr) (6 years of quarterly numbers are required), are allocated by using the mean value score of the base index (Russell 1000, Russell 2000, Russell Microcap) industry, subsector, or sector group into which the company falls. Each missing (or negative B/P) variable is substituted with the industry, subsector or sector group independently. An industry must have five members or the substitution reverts to the subsector, and so forth to the sector. This method was found to produce the fewest distortions, and it has the added advantage of being very simple. In addition, a weighted value score is calculated for securities with low analyst coverage for I/B/E/S Medium Term Growth. For securities with a single analyst covering the security, 2/3 of the industry, subsector, or sector group value score is weighted with 1/3 the security's independent value score. For those securities with coverage by 2 analysts, 2/3 of the independent security's value score is used and only 1/3 of

the industry, subsector, or sector group is weighted. For those securities with at least three analysts contributing to the I/B/E/S Medium Term Growth, 100% of the independent security's value score is used.

For stability indexes (defensive and dynamic), if the quality or volatility indicator is not available, the company receives a stability score for that indicator of 0.25. Since zero is the worst possible score and one is the best, this conservative assumption mandates that missing data will result in a lower than average stability probability.

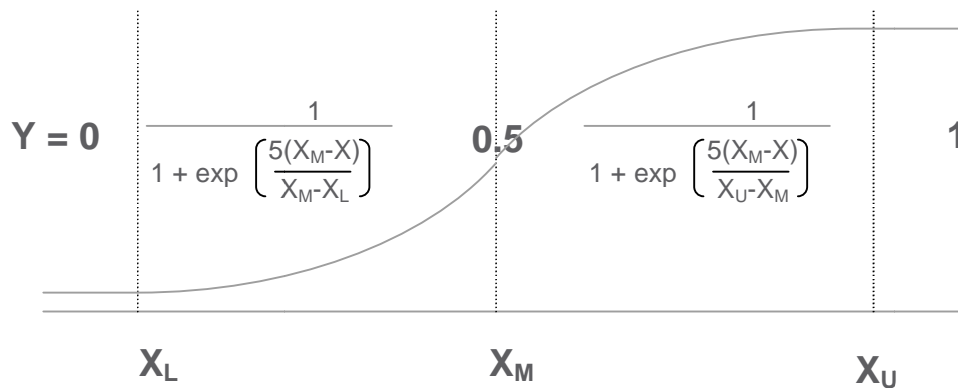
### Book value adjustments

Correct book value is critical in determining book-to-price measure. Therefore, the following method is used to estimate the proper adjustments to B/P and book value.

A company's reported book value is adjusted to reflect write-offs stemming from the Financial Accounting Standards Board (FASB)-issued Statement of Financial Accounting Standards numbers 106 and 109 (FAS 106 & 109) since June 30, 1993. Assuming that each company amortized the FAS 106 & 109 transition obligation over a 20-year period beginning with year of adoption, the unamortized portion of the write-off is added back to the reported book value. During reconstitution 2007, Russell also made an adjustment to book value for FASB 158. The date companies were required to be compliant left uncomparable book values across companies for reconstitution in June. However, in 2008, all companies were required to comply with the standard, making companies evenly compared and the adjustment unnecessary.

The adjusted book-to-price ratio is calculated by use of this adjusted book value; the adjusted ratio is used in place of reported book-to-price when ranking companies for style.

### Russell non-linear probability algorithm



## SECTION 7

## Corporate action–driven changes

### Timing and treatment of corporate actions

Russell applies corporate actions to the Russell Indexes on a daily basis, both to reflect the evolution of securities and to assure that the index remains highly representative of the U.S. equity market. A company's index membership and its weight in the index can be impacted by these corporate actions. Russell uses a variety of reliable public sources to determine when an action is final, including a company's press releases and regulatory filings; local exchange notifications; and official updates from other data providers Russell deems trustworthy. Prior to the completion of a corporate action, Russell estimates the effective date on the basis of the same above sources. As new information becomes available, Russell may revise the anticipated effective date and the terms of the corporate action, before ultimately confirming its effective date.

Depending upon the time an action is determined to be final, Russell either (1) applies the action before the open on the ex-date or (2) applies the action providing appropriate notice, referred to as a "delayed action" (see specific action types for details on timing and procedure). The timing of when corporate actions are applied is critical for accurate market representation, and it impacts tracking for passive managers. Russell believes this methodology strikes the best balance between the two. The impact of the action and the effective date will be communicated to clients on a regular schedule, via the daily cumulative change files and the calendar. For a schedule and sample of notifications, see appendix D.

For the purpose of index calculation, Russell generally applies the most recently available market prices to the index for corporate action adjustments.

There are many types of corporate actions, but the most common are described below, along with their treatment within the Russell Indexes.

### "No replacement" rule

Securities that leave the index for any reason (e.g., mergers, acquisitions or other similar corporate activity) are not replaced. Thus, the number of securities in the indexes over the year will fluctuate according to corporate activity.

### Mergers and acquisitions

A merger is the combination of two companies to form a new company. An acquisition involves an acquiring company purchasing a target company without forming a new company. Mergers and acquisitions (M&A) activity may result in changes to index membership as well as to the shares included in the Russell Index and a company's style probabilities. Adjustments due to mergers and acquisitions are applied to the index after the action is determined to be final, providing appropriate notice.

**M&A between index members:** If both the acquiring company and the target company are current Russell 3000E or the Russell Global Index members, the target company is deleted from the index and the company's market capitalization simultaneously moves to the acquiring stock, according to the M&A terms. Cross-ownership and style of the surviving entity is determined by a weighted average (by market value) of the cross-ownership and style probabilities of the two (or more) previous companies prior to the merger. Market values the day before the Russell effective date are used for this determination. Given sufficient market hours after the confirmation of the M&A, Russell effects the action after the close on the last day of trade of the target company.

**If Russell is able to determine the status of the action to be final prior to 1:00 p.m. Eastern:** These actions will be applied after the close of the current day. Deletes will be removed at the last traded price, and increases to shares outstanding of the acquiring company will be adjusted simultaneously.

**If Russell is able to determine the status of the action to be final after 1:00 p.m. Eastern:** These actions will be deemed a “delayed action” and will be applied after the close of the following day. A synthetic position of the company will remain in the index for one day, and a calculated closing price for the acquired entity or merged entity will be established. The calculated price is determined by the terms of the action and based on the last traded price of the acquiring company. See Appendix E for calculations. For real-time calculations, intra-day trading will reflect a stale price for the acquired entity. If the merger involves an election, the default terms will be used.

**M&A between an index member and a non-member:** A non-member is defined as a company that is not a member of the Russell 3000E or the Russell Global Index. The M&A between an index member and a non-member can involve either of two scenarios: 1) the acquiring company is an existing member and the target company is not, or 2) the target company is an existing member and the acquiring company is not. If the target company is the index member, it is deleted from the index after the action is determined as final. Cumulative market capitalization of the target company decreases. If the acquiring company is the index member, its shares are adjusted by adding the target company’s market capitalization through a month-end share adjustment (if the increase in shares is greater than 5%).

**Cross-border M&A:** In the event of a merger or acquisition in which the acquiring company and the target company are in different countries, Russell applies the action when the M&A is determined as final. The target company is deleted from its local country index and the company’s market capitalization moves to the acquiring stock according to the M&A terms. Cumulative market capitalization of the acquiring company increases, while the cumulative market capitalization of the target company decreases by the same amount.

Note: Microcap and Frontier index members are not currently assigned a Stability score. When an index member is merging with a Microcap or Frontier index member the shares will be updated according to the terms of the merger, but the stability probability will not change.

**Reverse mergers:** When a Russell 3000 Index member is acquired or merged with a private, non-publicly-traded company or OTC company, Russell will review the action to determine whether it is considered a reverse merger (note: this rules does not apply to Russell Microcap only members, standard corporate action rules apply). A reverse merger is defined as a transaction that results in a publicly traded company that meets all requirements for inclusion in a Russell index. If it is determined that an action is a reverse merger, the following rules will be applied:

1. The newly formed entity will be placed in the appropriate market capitalization index after the close of the day following the completion of the merger. The delay is necessary to capture an opening price. Index placement will be determined by using the market-adjusted breakpoints from the last reconstitution.
2. The acquired company will be simultaneously removed from the current index, capturing synthetic performance for the day of the delay.
3. The growth/value of the surviving entity is determined by the industry average. For defensive/dynamic, the surviving entity takes on the existing members’ characteristic.
4. Cross-ownership will be determined on the basis of the most recent SEC filings

For example, private Company A acquires Russell 3000 Member B, currently a member of the Russell 2000; the acquisition is determined to be a reverse merger. The newly formed entity, Company C, will be analyzed for inclusion through the following steps:

First, the new entity's market capitalization will be determined by use of the opening price on the effective date (typically the first price available). Second, this market capitalization will be compared to the latest reconstitution breakpoints after adjusting for market performance, using the Russell 3000E to determine index placement. Assuming the determination (based on the new market capitalization) is to place the newly formed entity in the Russell 1000, after the close of the effective date, Company B will be deleted from the Russell 2000 and Company C will be added to the Russell 1000.

**Standard action:** The acquired company is deleted after the action is final.

**If Russell is able to determine the status of the action to be final prior to 1:00 p.m. Eastern:** Actions resulting in a delete will result in the company's removal after the close of the current day at the last traded price.

**If Russell is able to determine the status of the action to be final after 1:00 p.m. Eastern:** These actions will be deemed a "delayed action" and will be applied after the close of the following day. The deleted company will remain in the index at a stale price, based on the previous day's close, and will be removed the following day at a synthetic price of the acquiring company. See Appendix E for calculations.

### Reincorporations

Members of the index that are reincorporated to another country are analyzed for country assignment the following year during reconstitution, as long as they continue to trade in the U.S. Companies that reincorporate and no longer trade in the U.S. are immediately deleted from the U.S. indexes and placed in the appropriate country within the Russell Global Index. Those that reincorporate to the U.S. during the year will be assessed during reconstitution for membership.

### Reclassifications of shares (primary vehicles)

Primary vehicles will not be assessed or changed outside of a reconstitution period unless the existing class ceases to exist. In the event of extenuating circumstances signaling a necessary primary vehicle change, proper notification will be made.

### Rights offerings

Rights offers: A rights offer/issue is essentially a company's offering to shareholders of the right to purchase additional shares at a given subscription price. The subscription price of the rights is generally at a discount to the prevailing market price of the stock, to make the offer enticing to shareholders and to ensure that the rights offering is fully subscribed. Russell will not apply poison pill rights or entitlements that give shareholders the right to purchase ineligible securities such as convertible debt.

Russell will only adjust the index to account for a right if the subscription price of the right is at a discount to the market price of the stock. Provided Russell has been alerted to the rights offer prior to the ex-date, a price adjustment will be applied before the open on the ex-date to account for the value of the rights, and shares increased according to the terms of the offering. The treatment is consistent for both transferable and non-transferable rights. If Russell is unable to provide prior notice, the price adjustment and share increase will be delayed until appropriate notice is given. In these circumstances the price of the stock involved is adjusted to delay the performance due to the rights issue. See appendix E for calculations.

### Changes to shares outstanding

Changes to shares outstanding due to buybacks (including Dutch auctions), secondary offerings, merger activity with a non-index member and other potential changes are updated at the end of the month in which the change is reflected in vendor-supplied updates and are verified by Russell by use of an SEC filing.

For a change in shares to occur, the cumulative change to available shares must be greater than 5%. These share changes are communicated to premier clients three trading days prior to month-end and include shares provided by the vendor and verified by Russell four days prior to month-end. The float factor determined at reconstitution is applied to the new shares issued or bought back. For example, assuming that a new issuance of 1,000 shares is greater than 5% of the available shares and that the current float factor is 50%, 500 shares would be added to the index. (Note: If any new shares issued are unavailable according to the filing, that portion will not be added to the index.)

November and December month-end share changes as well as fourth quarter IPO additions will be processed as one event after the close on the third Friday of each December. This is a result of low liquidity in the financial markets at year end and the proximity of a separate November process.

June month-end share changes are not processed at month end, residual share changes that are not addressed as part of the annual reconstitution process are rolled into the following July month end process.

### Spin-offs

A spin-off is a new entity resulting from the spinning-off of assets and equity from a parent company. In a pure spin-off, a parent company distributes 100% of its ownership interests in a subsidiary operation as dividends to its existing shareholders. After the spin-off, there are two (or more) separate, publicly held firms with exactly the same shareholder base, and cumulative market capitalization as the original company. The spin-off company's style index is determined by the style index membership of the parent entity. As an exception, spin-offs entering the Russell Stability Indexes during the first two weeks of recon will be (ranked appropriately) defaulted to 100% dynamic.

See Appendix E for further description of the calculation of market-adjusted total market capitalization in the Russell 3000E Index.

If the price of a spin-off is not available, a price will be established by first using an exchange provided estimate or a Russell calculated estimate if the exchange does not provide one. After the close of trading on ex-date, a synthetic price/performance will be calculated to account for the actual opening price of the spin-off. This price/performance is calculated to capture accurate performance of both the spin-off and parent for the day. Note, real time calculations will reflect only the estimated performance on the parent and child companies as actual performance is not captured until end of day.

**Domestic spin-offs:** Spin-off companies are added to the Russell Indexes at the time they are spun-off from their parent company, subject to the following rules:

- The spun-off company meets all index eligibility requirements and its market cap is larger than the market adjusted total market cap of the smallest company in the Russell 3000E at the latest reconstitution. (If the spun-off company is to become a member of the Global Indexes, the smallest stock in the Russell Global Indexes will be used as the basis of eligibility.)
- The newly formed entity will be placed in the parent's index on the completion date and the spun-off company's style index is determined by the style index membership of the parent entity.
- The parent company's market value will be reduced simultaneously on the Russell effective date.

**Cross-border spin-offs:** If the parent company spins off an entity that is incorporated in a different country, the spun-off company will be assigned to the new country according to the country-assignment rules discussed in Section 3 and may become a member of the Russell Global Indexes. Otherwise, the same rules apply between domestic or cross-border spin-off additions.

### **Tender offers**

A tender offer is an offer to purchase shareholders' shares in a corporation. The price offered is usually higher than the market price, providing an incentive to shareholders to "tender". The target company's shareholders are asked to "tender" or surrender their stock holdings for a stated value, subject to the agreement of a minimum and/or maximum number of shareholders. For instance, if a corporation's stock were trading at \$1 per share, an acquirer might offer the shareholders \$1.15 per share on the condition that 51% of the shareholders agree.

In the case of a cash tender offer, the target company will be removed from the index when:

- The offer period completes (initial, extension or subsequent); and
- Shareholders have validly tendered, not withdrawn, and the shares have been accepted for payment; and
- All regulatory requirements have been fulfilled; and
- The acquiring company is able to finalize the acquisition via short-form merger, top-up option or other compulsory mechanism

If the requirements have been fulfilled, with the exception being the acquirer is unable to finalize the acquisition through a compulsory mechanism, an adjustment will be applied to the target company's float-adjusted shares if they have decreased by 30% or more, and the tender offer has fully complete and closed. The adjustment will occur on a date pre-announced by Russell.

### **Delisting**

Only companies listed on U.S. exchanges are included in the Russell U.S. indexes. Therefore, when a company is delisted from a U.S. exchange and moved to OTC, the company is removed from the Russell Indexes. When this occurs, the company is removed either at the close of the current day at the last traded price, or the following day, using the closing OTC price.

#### **Securities continuing to trade on the primary exchange (non-halted):**

**If Russell determines the status of the action to be final prior to 1:00 p.m. Eastern:** These deletes will be applied after the close of the current day, using the last traded price.

**If Russell determines the status of the action to be final after 1:00 p.m. Eastern:** These deletes will be deemed "delayed actions" and will be carried out after the close of the following day, using the closing OTC price.

Securities previously halted that fail to trade on the primary exchange prior to being moved to the OTC will always be removed the following day at the OTC closing price, regardless of the time of notification.

### **Bankruptcy and voluntary liquidations**

Companies filing for Chapter 7 bankruptcy or have filed a liquidation plan will be removed from the Russell U.S. indexes at the time of filing. Companies filing for Chapter 11 reorganization bankruptcy will remain members of the index, unless the companies are delisted from the primary exchange. In that case, normal

delisting rules will apply. If a company files for bankruptcy, is delisted and it can be confirmed that it will not trade OTC, Russell may remove the stock at a nominal price of \$0.0001.

### **Change of company structure - Business Development Company**

In the event a company changes its corporate designation from that of a Business Development Company (BDC), Russell will remove the member as ineligible for index inclusion and provide two-days notice of its removal.

### **Stock distributions**

Stock distributions can take two forms: (1) a stated amount of stock distributed on the ex-date, or (2) an undetermined amount of stock based on earnings and profits to be distributed at a future date. In both cases, a price adjustment is done on the ex-date of the distribution. Shares are increased on the ex-date for category (1) and on the pay-date for category (2).

### **Dividends**

Gross dividends are included in the daily total return calculation of the indexes on the basis of their ex-dates. The ex-date is used rather than the pay-date because the marketplace price adjustment for the dividend occurs on the ex-date. If a dividend is payable in stock and cash and the stock rate cannot be determined by the ex-date, the dividend is treated as all cash.

**Regular cash dividends:** Regular cash dividends are those paid to shareholders out of a company's profits or reserves. Regular cash dividends impact the total return and are reinvested across the index at the close on the dividend ex-date. Monthly, quarterly and annual total returns are calculated by compounding the reinvestment of dividends daily. The reinvestment and compounding is at the total index level, not at the security level.

**Special cash dividends:** In addition to paying regular dividends, a company may at times pay special cash dividends. These are paid outside a company's regular dividend schedule and can occur for a variety of reasons, such as a major litigation win, the sale of a business or liquidation of an investment. For special cash dividends, the price of the stock is adjusted to deduct the dividend amount before the open on the ex-date.

### **Halted securities**

When a stock's trading has been halted, Russell holds the security at its most recent closing price until trading is resumed or is officially delisted.

In addition, Russell will review stocks in two categories for removal: (1) Stocks halted due to financial difficulty/debt or cash flow issues for a period longer than 40 calendar days or (2) those stocks suspended due to exchange listing rules or legal regulatory issues longer than one calendar quarter. Determination for removal will be made on a case-by-case basis and based upon reasonable likelihood of trade resumption and likelihood of residual value returned to equity holders.

Should removal be deemed appropriate, announcement will be made with monthly share changes and removed on month-end at zero value (for system purposes the actual value used is .0001, in local currency).

Stocks that are scheduled for removal but suspended or not trading through reconstitution due to low liquidity or those that are suspended by the exchange or other governing body due to liquidity issues will be monitored for trade resumption. Once trading resumes, these securities will be removed from the index with announcement as usual. Securities will be removed using the primary exchange close price.

## APPENDIX A

## Russell U.S. Dividend Achievers Indexes

Russell Dividend Achievers Indexes are objectively constructed and based on transparent rules. The members of the Russell Dividend Achievers Indexes are also members of the Russell U.S. indexes and follow all the same objective rules for membership with an additional requirement of being defined as a dividend achiever.

### Available indexes

Russell 1000<sup>®</sup> Dividend Achievers  
Russell 3000<sup>®</sup> Dividend Achievers

Russell 2000<sup>®</sup> Dividend Achievers

### Eligible Dividend Achievers Securities

Russell Dividend Achievers Indexes start by including those companies that are members of the Russell 3000E Index or one of its subsets. The index is then reduced down to those securities which meet the requirements to be a Dividend Achiever.

Companies are considered Dividend Achievers if they have raised annual regular cash dividend payments for at least each of the last ten consecutive calendar or fiscal years for U.S. companies. In addition, they must have a two month average trading liquidity of \$500,000 average daily cash volume (Nov & Dec). A Dividend Achiever is established in February of each year using the latest available dividend payable date for the previous calendar or fiscal year to calculate the total annual regular dividend payment.

To be included during Russell's annual reconstitution these companies are reviewed again on the last trading day in May to ensure they have not reduced their dividend payments since the last annual Dividend Achiever reconstitution date. Liquidity is not re-assessed. For non-North American companies the change in dividends will be reviewed on a trailing 12 month basis. For North American companies with a payment frequency code, the change in dividends will be based on their forward looking Indicated Annual Dividend (i.e., dividend payment amount \* dividend payment frequency).

### Index maintenance / Corporate action-driven changes

The members of the Russell U.S. Dividend Achievers Index and its subsets are proactively maintained and reflect daily changes in the U.S. equity market. Russell Dividend Achievers Indexes follow all of Russell's rules for corporate actions with the following exceptions:

#### Mergers and acquisitions

In the event of a merger between two companies included in the Russell Dividend Achievers Index, the common shares of the combined surviving company will continue to be represented in the Russell Dividend Achievers Indexes. In the event of a merger between a company in the Russell Dividend Achievers Index and a company not in the Russell Dividend Achievers Index, the surviving company will only be included in the Broad Dividend Achievers Index if the company in the Russell Dividend Achievers Index is the surviving company.

#### Spin-offs

Spin-offs from a Russell Dividend Achievers member will not be added to the index at the time of spin-off.

APPENDIX B

# Index tickers and base values

RUSSELL INDEX	CUSIP	Reuters	BLOOMBERG SYMBOL PRICE RETURN	BLOOMBERG SYMBOL TOTAL RETURN	AMEX	ETF
Russell 1000 <sup>®</sup>		US&RUI	RIY	RU10INTR		IWB
Russell 1000 <sup>®</sup> Mini		US&RUI.M	RXU			
Russell 1000 <sup>®</sup> Value		US&RUIP	RLV	RU10VATR	RLV	IWD
Russell 1000 <sup>®</sup> Growth		US&RUIE	RLG	RU10GRTR	RLG	IWF
Russell 1000 <sup>®</sup> Defensive Index™			RU1000DF			
Russell 1000 <sup>®</sup> Dynamic Index™			RU1000DY			
Russell 2000 <sup>®</sup>	12483510	US&RUT	RTY	RU20INTR		IWM
Russell 2000 <sup>®</sup> Mini		US&RUT.M				
Russell 2000 <sup>®</sup> Value		US&RUTP	RUJ	RU20VATR	RUJ	IWN
Russell 2000 <sup>®</sup> Growth		US&RUTE	RUO	RU20GRTR	RUO	IWO
Russell 2000 <sup>®</sup> Defensive Index™			RU2000DF			
Russell 2000 <sup>®</sup> Dynamic Index™			RU2000DY			
Russell 3000 <sup>®</sup>		US&RUA	RAY	RU30INTR		IWV
Russell 3000 <sup>®</sup> Mini		US&RUA.M				
Russell 3000 <sup>®</sup> Value		US&RUAP	RAV	RU30VATR	RAV	IWW
Russell 3000 <sup>®</sup> Growth		US&RUAЕ	RAG	RU30GRTR	RAG	IWZ
Russell 3000 <sup>®</sup> Defensive Index™			RU3000DF			
Russell 3000 <sup>®</sup> Dynamic Index™			RU3000DY			
Russell 2500™		US&RUB	R2500	RU25INTR		
Russell 2500™ Value		US&RUBP	R2500V	RU25VATR		
Russell 2500™ Growth		US&RUBE	R2500G	RU25GRTR		
Russell 2500™ Defensive Index™			RU2500DF			
Russell 2500™ Dynamic Index™			RU2500DY			
Russell Midcap <sup>®</sup>		US&RUM	RMC	RUMCINTR	RMC	IWR
Russell Midcap <sup>®</sup> Value		US&RUMP	RMV	RUMCVATR	RMV	IWS
Russell Midcap <sup>®</sup> Growth		US&RUME	RDG	RUMCGRTR	RCG	IWP
Russell Midcap <sup>®</sup> Defensive Index™			RUMCAPDF			
Russell Midcap <sup>®</sup> Dynamic Index™			RUMCAPDY			
Russell Top 200 <sup>®</sup>		US&RUL	R200	RUTPINTR	RTL	IWL
Russell Top 200 <sup>®</sup> Value		US&RULP	R200V	RUTPVATR	RVA	IWX
Russell Top 200 <sup>®</sup> Growth		US&RULE	R200G	RUTPGRTR	RTS	IWY
Russell Top 200 <sup>®</sup> Defensive Index™			RUT200DF			
Russell Top 200 <sup>®</sup> Dynamic Index™			RUT200DY			
Russell Small Cap Completeness <sup>®</sup>		US&RSC	RSCC	RSCCINTR		
Russell Small Cap Completeness <sup>®</sup> Value		US&RSCP	RSCCV	RSCCVATR		
Russell Small Cap Completeness <sup>®</sup> Growth		US&RSCE	RSCCG	RSCCGRTR		
Russell Top 50 <sup>®</sup>		US&RU50	RTOP50	RUTP50TR		
Russell Microcap <sup>®</sup>		US&RUMIC	RMICRO	RUTPMCTR		IWC
Russell Microcap <sup>®</sup> Value			RMICROV	RUMRVATR		
Russell Microcap <sup>®</sup> Growth			RMICROG	RUMRGRTR		

The index value is the compounded result of the cumulative daily (or monthly) return percentages, where the starting value of the index is equal to the base value and base date. Returns between any two dates can then be derived by dividing the ending period index value (IV1) by the beginning period (IV0) index value (Return = [(IV1 / IV0) - 1]\*100).

Index	Calculated by Russell		Calculated real time by Reuters	
	Base Date/Value	Inception	Base Date/Value	Inception
Russell 1000 <sup>®</sup>	12/31/78 = 100.00	12/31/78	12/31/86 = 130.00	12/31/86
Russell 1000 <sup>®</sup> Value	12/31/90 = 100.00	12/31/78	08/31/92 = 200.00	08/31/92
Russell 1000 <sup>®</sup> Growth	12/31/90 = 100.00	12/31/78	08/31/92 = 200.00	08/31/92
Russell 1000 <sup>®</sup> Defensive	12/31/10 = 1000.00	7/1/96	NA	NA
Russell 1000 <sup>®</sup> Dynamic	12/31/10 = 1000.00	7/1/96	NA	NA
Russell 2000 <sup>®</sup>	12/31/78 = 100.00	12/31/78	12/31/86 = 135.00	12/31/86
Russell 2000 <sup>®</sup> Growth	05/31/93 = 1000.00	12/31/78	03/16/00 = 500.00	03/16/00
Russell 2000 <sup>®</sup> Value	05/31/93 = 1000.00	12/31/78	03/16/00 = 500.00	03/16/00
Russell 2000 <sup>®</sup> Defensive	12/31/10 = 1000.00	7/1/96	NA	NA
Russell 2000 <sup>®</sup> Dynamic	12/31/10 = 1000.00	7/1/96	NA	NA
Russell 3000 <sup>®</sup>	12/31/78 = 100.00	12/31/78	12/31/86 = 140.00	12/31/86
Russell 3000 <sup>®</sup> Growth	05/31/95 = 1000.00	12/31/78	03/16/00 = 700.00	03/16/00
Russell 3000 <sup>®</sup> Value	05/31/95 = 1000.00	12/31/78	03/16/00 = 700.00	03/16/00
Russell 3000 <sup>®</sup> Defensive	12/31/10 = 1000.00	7/1/96	NA	NA
Russell 3000 <sup>®</sup> Dynamic	12/31/10 = 1000.00	7/1/96	NA	NA
Russell Midcap <sup>®</sup>	12/31/78 = 100.00	12/31/78	08/31/92 = 200.00	08/31/92
Russell Midcap <sup>®</sup> Growth	12/31/85 = 100.00	12/31/85	03/16/00 = 500.00	03/16/00
Russell Midcap <sup>®</sup> Value	12/31/85 = 100.00	12/31/85	03/16/00 = 500.00	03/16/00
Russell Midcap <sup>®</sup> Defensive	12/31/10 = 1000.00	7/1/96	NA	NA
Russell Midcap <sup>®</sup> Dynamic	12/31/10 = 1000.00	7/1/96	NA	NA
Russell Top 200 <sup>®</sup>	12/31/78 = 100.00	12/31/78	03/16/00 = 400.00	03/16/00
Russell Top 200 <sup>®</sup> Growth	12/31/85 = 100.00	12/31/85	03/16/00 = 400.00	03/16/00
Russell Top 200 <sup>®</sup> Value	12/31/85 = 100.00	12/31/85	03/16/00 = 400.00	03/16/00
Russell Top 200 <sup>®</sup> Defensive	12/31/10 = 1000.00	7/1/96	NA	NA
Russell Top 200 <sup>®</sup> Dynamic	12/31/10 = 1000.00	7/1/96	NA	NA
Russell 2500 <sup>™</sup>	12/31/90 = 100.00	12/31/78	11/30/03 = 200	11/30/03
Russell 2500 <sup>™</sup> Growth	05/31/95 = 1000.00	12/31/85	11/30/03 = 200	11/30/03
Russell 2500 <sup>™</sup> Value	05/31/95 = 1000.00	12/31/85	11/30/03 = 200	11/30/03
Russell 2500 <sup>™</sup> Defensive	12/31/10 = 1000.00	7/1/07	NA	NA
Russell 2500 <sup>™</sup> Dynamic	12/31/10 = 1000.00	7/1/07	NA	NA
Russell Small Cap Completeness <sup>®</sup> (RSCC)	3/31/99 = 1000.00	12/31/79	11/30/03 = 500	11/30/03
Russell SCC Growth	3/31/99 = 1000.00	12/31/79	11/30/03 = 500	11/30/03
Russell SCC Value	3/31/99 = 1000.00	12/31/79	11/30/03 = 500	11/30/03
Russell Top 50 <sup>®</sup> Index	12/31/01 = 1000.00	3/21/05	915.03	3/18/05
Russell Microcap <sup>®</sup> Index	6/24/05 = 1000.00	6/30/00	9/25/05 = 300	9/25/05
Russell Microcap <sup>®</sup> Growth	6/30/06 = 1000.00	6/30/00	NA	
Russell Microcap <sup>®</sup> Value	6/30/06 = 1000.00	6/30/00	NA	
Russell 3000E Index	6/24/05 = 1000.00	6/24/05	NA	

## APPENDIX C

## Country assignment methodology details

### Home Country Indicators (HCI)

- Country of incorporation
- Country of headquarters
- Country of most liquid exchange as defined by the two-year average daily dollar trading volume (ADDTV).

**Headquarters:** Russell defines headquarters as the address of principal executive offices. For those companies reporting in the U.S., Russell uses the SEC filings to determine the location of headquarters. For those companies reporting outside of U.S. reporting requirements, multiple vendor sources and independent Russell research are used. In a case where multiple headquarters are listed on the SEC filings and a Home Country Indicator (HCI) needs to be determined, Russell assigns the HCI for headquarters to the location with the highest average daily trading volume. If the HCI for headquarters cannot be determined (for example, if there is no trading in any headquarters location) the two remaining HCIs are used.

**Asset/Revenue Data Sources and Requirements defined:** Assets and revenues data are retrieved from the company's annual reports (10-Ks, 20Fs, 40Fs, or prospectuses in the case of IPOs) as of the last trading day in May. Any filings published after that date are not used. Russell will use an average of two years of assets or revenues data to reduce potential turnover. However, if only one year of data is available (a company either starts or stops reporting by location) one year of data will be used. The two-year average will be calculated using the percentage by county/region in the previous year and the percentage by country/region in the current year.

### Assets and Revenue Reporting:

Assets and/or revenue found in the text or table of the geographical segment section of the filing is given preference over other information in the filing. "Substantially all" or "majority of" assets and/or revenue are considered inconclusive statements, as they do not allow Russell to confirm our stated tolerance. Assets and/or revenue must be reported as numbers or percentages which allow us to confirm substantial tolerance is met or stating ALL assets/revenue come from a specific country will be used to designate primary country of risk.

Russell gives preference to long-lived/long-term assets over total assets if both are listed. However, either type will be used prior to reviewing revenue.

If intangible assets are reported separately as part of a total assets table, Russell removes intangibles from consideration. In other words, preference is given to tangible assets.

Total and net revenue are both considered. If both exist in table form, total takes precedent.

### Country versus Regional Reporting

- Country-level reporting takes precedent if both country and regional are reported.
- If a company changes their detailed level of reporting (country to regional or regional to country), Russell first utilizes the more detailed level of reporting, but also reviews the less detailed reporting to ensure accuracy and monitor current trends.

- The majority of assets/revenue is determined by the absolute difference between those percentages. For example, a 20% difference WOULD be achieved if assets were 44% in one country and 20% in another. A 20% difference WOULD NOT be recognized if one country was reported as 30% and another country was reported as 20% higher at 36%.

Company Reports by:	Requirements to be determined “majority”*
<b>Country:</b> (used when more than one country is reported)	Total assets and/or revenues for HCI country is 20 percentage points greater than that of any other reported country
<b>Region:</b> (used when more than one region is reported)	Total assets and/or revenues for region containing only one HCI country is greater than 20 percentage points of any other reported region
<b>Combination of single country &amp; region(s):</b>	Total assets/revenues for HCI country is greater than 20 percentage points of any reported region
<b>Combination of single country or single region and rest of the world:</b>	Total assets/revenue for HCI is 40 or more percentage points of the rest of the world category
<b>No, or insufficient, data available:</b>	Defaults to headquarters or most liquid exchange if BDI country

\* Majority of assets/revenue is determined by the absolute difference between those percentages. For example, 20% difference would be achieved if assets were 44% in one country and 20% in another. 20% difference would NOT be recognized if country one was 30% and country two was 20% higher at 36%.

### Benefit Driven Incorporation countries (BDIs), No Domestic Exchange countries (NDEs), and U.S. Territories

#### NDE and BDI countries

##### NDEs

Falkland Islands

Liechtenstein

Monaco

Suriname

##### BDIs

Anguilla

Antigua and Barbuda

Aruba

Bahamas

Barbados

Belize

Bermuda

Bonaire

British Virgin Islands

Cayman Islands

Channel Islands

Cook Islands

Curacao

Faroe Islands

Gibraltar

Isle of Man

Liberia
Marshall Islands
Panama
Saba
Sint Eustatius
Sint Maarten
Turks and Caicos Islands

### U.S. Territories

A U.S. HCI is assigned for any company incorporated or headquartered in a U.S. territory. This includes countries such as: Puerto Rico, Guam, and U.S. Virgin islands.

### Example by Country:

**Home Country Indicators:** Incorporated in U.S., Headquartered in China, Most liquid exchange U.S.

Country	Year 1 Assets/ Revenues (\$USD in millions)	Year 1 Calculated Percentage
US	6	30.00%
<b>China</b>	<b>3</b>	<b>15.00%</b>
Country 3	3	15.00%
Country 4	3	15.00%
Country 5	3	15.00%
Country 6	2	10.00%
Total	\$20M	100.00%

**Results:** Total assets/revenues from the U.S. is NOT 20 percentage points greater than that from any other individual country. Assuming assets and revenues are equal this example defaults to headquarters.

### Example by Region:

**Home Country Indicators:** Incorporated in U.S., Headquartered in UK, Most liquid exchange is U.S.

Region	Year 1 Assets/ Revenues (\$USD in millions)	Year 1 Calculated Percentage
<b>North America</b>	<b>6</b>	<b>37.50%</b>
Europe	2	12.50%
Asia	2	12.50%
Middle East	2	12.50%
Africa	2	12.50%
South America	2	12.50%
Total	\$16M	100.00%

**Results:** Total assets/revenues for North America is 20 percentage points greater than that from any other region. Also, the HCI countries are in different regions. Country assignment is U.S.

**Example by Single Country and Rest of the World Combination:**

**Home Country Indicators:** Incorporated in UK, Headquartered in U.S., Most liquid exchange is U.S.

<b>Reporting</b>	<b>Year 1 Assets/Sales (\$USD in millions)</b>	<b>Year 1 Calculated Percentage</b>
<b>U.S.</b>	<b>10M</b>	<b>77.00%</b>
All Other Countries	3M	23.00%
Total	\$13M	100.00%

**Results:** Total U.S. assets/revenues comprise more than 40% of the total assets compared to the rest of the world. Country assignment is U.S.



APPENDIX D

# Sample client notification

Timely communication regarding the impact of corporate events on the Russell U.S. indexes is vital for passive managers tracking the indexes. For this reason, Russell provides a calendar of predictive corporate action events and provides a daily schedule of e-mail notifications to Premier subscribers. The calendar provides a forecast of actions Russell expects to complete in the next two weeks and their anticipated effective dates. In addition, throughout the day, e-mail notifications are sent to clients regarding actions that are completing on the current and following market days. The status flag will indicate the likelihood that an action will be effective for the day. A final flag indicates that the action is confirmed as final. Notifications follow the schedule below. However, any information that becomes available between the scheduled times will be sent immediately.

### Schedule of notifications\*

Time of notification (Eastern Time)	Content of notification
10:00 a.m.	Actions effective after the close of the current day and the following day, both preliminary and final, are included.
2:00 p.m.	Final actions effective after the close of the current day and anticipated actions and final actions for the following day. Note: A notification is sent regardless of whether a change has occurred since the 10:00 a.m. notice.
6:30 p.m.	Actions anticipated to take effect after the close of the following day.

\* Note, on days when the markets close early only one report is generated which will serve as final notice. The report will be delivered an hour and a half prior to market close.

### Sample notification

Russell Global Indexes

#### Corporate Action Report

Russell 3000® Index									
Status	Effective	Ticker	Name	Action	Reason	New Share Amount	Share Change	Growth Change	Value Change
F	02/28/07	VLG	WIDGET INTERNATIONAL INC.			0	-2433	-2433	
F	02/28/07	VLG	WIDGET INC.			0	-2433	-2433	

Russell 1000® Index									
Status	Effective	Ticker	Name	Action	Reason	New Share Amount	Share Change	Growth Change	Value Change
>	F	02/28/07	VLG	VALLEY NATIONAL GASES	DELETE	0	-2433	-2433	
*	F	02/28/07	VLG	WIDGET INC.		0	-2433	-2433	

Russell 2000® Index									
Status	Effective	Ticker	Name	Action	Reason	Top 50	Top 200	Midcap	R2500
*	P	02/28/07	VLG	WIDGET INC.	DELETE	N	N	Y	Y
*	F	02/28/07	VLG	WIDGET INTERNATIONAL INC.		N	N	Y	Y

Russell Microcap™ Index									
Status	Effective	Ticker	Name	Action	Reason	New Share Amount	Share Change	Growth Change	Value Change
>	F	02/28/07	VLG	WIDGET INC.	DELETE	0	-2433	-2433	
*	F	02/28/07	VLG	VALLEY NATIONAL GASES	DELETE	0	-2433	-2433	

Other Indexes									
Status	Effective	Ticker	Name	Action	Reason	Top 50	Top 200	Midcap	R2500
>	F	02/28/07	VLG	VALLEY NATIONAL GASES		N	N	Y	Y
>	F	02/28/07	VLG	WIDGET INC.	DELETE	N	N	Y	Y

F = Final  
P = Pending  
\* = Change from previous notification  
☐ = Grayed out copy indicates delayed status  
> = Color coded arrows indicate linked actions  
Effective date: actions are applied AFTER the close on the date listed.

Note: Changes due to reconstruction...  
Russell Investment Group is the owner of the trademarks, services marks, and copyrights related to its indexes.  
This e-mail includes a list of the corporate actions....

### How to read e-mail notifications

**Status:** P = Preliminary; estimation based on available information  
F = Final; effective date has been confirmed

**Effective date:** The effective date refers to the date the action will occur after the close/before the open. A manager would want to put in a “market on close” order for the day of the effective date.

**Action:** Add = Addition of a name and shares to the applicable index  
Delete = Deletion of name and corresponding shares in applicable index  
Share Change = Increase or decrease in shares only. Name remains

**Reasons:** Primary Vehicle Change  
Acquisition / Merger  
Delisted  
Spin-off  
IPO



## APPENDIX E

## Performance algorithms and examples

### Calculation of a synthetic position or a “delayed action”

**Stock / Stock plus Cash Actions between members.** The closing price of the acquired company will be adjusted to capture the performance of the newly formed entity, according to the merger terms.

#### Adjusted closing price calculation:

$$= (\text{Acquiring company closing price per share} * \text{stock terms}) + \text{cash offer per share}$$

**Stock only example:** On trading day, Company A, a member of the Russell 1000, acquires Company B, a member of the Russell 2000, at the acquisition terms of 1:5 shares. Based on the time of final notification from the exchange, Russell classifies this as a “delayed action.” Therefore, for an entire trading day, Company B remains a member of the Russell 2000, although the action has been finalized and technically Company B no longer trades. At the close of that day, Company B’s price is adjusted to mimic the terms of the deal and capture the performance of Company A. After the close, Company B is removed from the Russell 2000, and Company A’s shares are increased in the correct proportion according to the merger terms.

Date	Company A (R1)	Company B (R2) - 1,200 shares
Closing Price (effective date)	\$10.00	\$2.00
Closing Price (effective date+1)	\$12.00	No longer trading
Adjusted Closing Price (effective date+1)	NA	\$2.40

**Stock + cash example:** In the same example as above, assume that the merger terms were stock plus cash, 1:5 plus \$2 per share.

Date	Company A (R1)	Company B (R2) - 1,200 shares
Closing Price (effective date)	\$10.00	\$4.00
Closing Price (effective date+1)	\$12.00	No longer trading
Adjusted Closing Price (effective date+1)	NA	\$4.40

**Cash only actions or actions involving non-members.** If a company is acquired for cash, the acquired company will remain in the index for an additional trading day at a stale price and will be removed at the cash price after the close of the following day.

**Cash example:** Company Z, a member of the Russell 2000 Index, is acquired for \$5.02 per share in cash. Based on the timing of final notification from the exchange, Russell considers this a “delayed action” and delays deletion for one trading day. Company Z remains in the index the following day at a stale price, and removed at the cash price, mimicking the cash received by investors. After the close, Company Z is removed from the index.

Date	Company Z (R2)
Closing Price (effective date)	\$5.00
Closing Price (effective date+1)	No longer trading
Cash Price (effective date+1)	\$5.02

### Rights offering

If the market value of a right does not exist, the ex-rights price is calculated by use of the following algorithm.

$$\frac{[(\# \text{ of rights required to buy one new shares} * \text{ closing price of stock}) + \text{ subscription price}]}{(1 + \# \text{ of rights required to buy one new share})}$$

A price adjustment is made to the security to account for the value of the right on the ex-rights date.

$$\text{Price adjustment} = \text{price per share with rights} - \text{price per share post rights}$$

### Market-adjusted breakpoints

Market-adjusted breakpoints are determined by applying the performance of the Russell 3000E Index to date to the latest reconstitution breakpoints.

**Example:** Russell 3000E Performance to date = 2.05%

Latest reconstitution breakpoint between R1 and R2 = \$1.8 billion

Market-adjusted breakpoint = \$1.8B \* 1.0205 = \$1.804

### Spin-off / stock distribution price adjustments

If a parent company spins off a portion of the existing company in the form of a stock distribution or a new company, the price of the parent company is adjusted to account for that difference in value. The price adjustment is calculated using the following algorithm:

$$\text{Price adjustment} = \text{value of spin-off / stock distribution} * \text{rate per share}$$

The value of the spin off / stock distribution is determined by the regular way or when-issued price, whichever is available. If a regular way or when-issued price is not available, the action is delayed until the time a price can be determined. When the appropriate price is determined a synthetic price of the parent and/or spin-off will be calculated to reflect accurate performance.

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