

Russell-Axioma Factor Indexes

SUMMARY

MOMENTUM

- A stock's tendency to maintain its return trajectory over a specified period of time.

LEVERAGE

- A measure of a company's exposure to debt levels.

LIQUIDITY

- A measure of a stock's trading activity, or lack thereof.

BETA (MARKET SENSITIVITY)

- A measure of a stock's under or over performance relative to the broad market based on historical performance.

VOLATILITY

- A measure of a stock's relative volatility over time based on historical performance.

Innovative. Efficient. Accessible.

A practical solution for risk management.

The Russell-Axioma Factor Indexes are designed to track isolated risk factor exposure for investors managing targeted investment strategies. These indexes provide practical tools for tracking factor performance returns while managing index turnover and maintaining non-target factor neutrality.

Construction summary

The Russell-Axioma Factor Indexes are constructed for the Russell 1000®, Russell 2000®, and Russell 3000® Indexes using Axioma's financial optimization and risk modeling expertise combined with Russell Indexes innovative and industry leading construction and methodology.

This family of indexes was created for investors who wish to leverage their exposure to certain risk factors and are intended to serve as the underlying index for investable products such as ETFs and swaps. The optimization methodology used to construct these indexes has been tested extensively and validates the realized index characteristics and returns.

Key benefits

- › The Russell-Axioma Factor Indexes track each risk factor closely while simultaneously possessing a number of desirable, practical features related to index implementation and minimization of non-target factors. The indexes have the following key benefits:
- › **Familiar investment universes.** Constructed using the constituents comprising the Russell 1000, 2000, and 3000 Indexes.
- › **True factor returns.** Performance returns that closely match those obtained by a factor portfolio that buys the 35% of the base index universe with the highest factor scores in a cap-weighted fashion and sells the 35% of the base index universe with the lowest factor scores.
- › **Easily implemented.** Designed to be replicated at low costs including controlled turnover, restricted transaction size, and hard limits on the number of constituents held.
- › **Neutral to non-target factors.** Minimal exposure to other systemic "risk style" factors such as size, exchange rate sensitivity, and value.

The following Russell-Axioma Factor Indexes are available as market neutral long-short, long-only, or short-only indexes:

- › Russell-Axioma U.S. (Small, Large, and Broad Cap) Beta Index
- › Russell-Axioma U.S. (Small, Large, and Broad Cap) Leverage Index
- › Russell-Axioma U.S. (Small, Large, and Broad Cap) Liquidity Index
- › Russell-Axioma U.S. (Small, Large, and Broad Cap) Momentum Index
- › Russell-Axioma U.S. (Small, Large, and Broad Cap) Volatility Index

Methodology summary

The following optimization is run and implemented monthly.

Basic constraints:

- › The resulting indexes are long-short dollar neutral.
- › The resulting indexes include only those constituents included in the base index.
- › For the Russell-Axioma U.S. Large Cap Factor Index series, the maximum number of long names is 200 and the maximum number of short names is 200.
- › For the Russell-Axioma U.S. Small Cap Factor Index series, the maximum number of long names is 300 and the maximum number of short names is 300.
- › The Russell-Axioma U.S. Broad Cap Factor Index series is equal to the sum of the Large and Small Cap Factor Index series.
- › The maximum absolute weight (long or short) in any constituent is the smaller of:
 - 2%, or
 - 10% of the 20-day average daily volume traded. For example, shares traded could not exceed 1,000 in the index if the 20-day average daily trading volume of is 10,000 shares.

Additional constraints:

Annual tracking error: constrained to less than $\pm 2.5\%$

- › Tracks true factor performance based on a 35% cap-weight long-short factor benchmark.
- › The benchmark is based on securities with the highest/lowest factor within the Russell 1000 and Russell 2000 and Russell 3000 Indexes.

Non-relevant factor neutrality: constrained to less than 25%

- › Factor neutrality is defined as one quarter of one standard deviation of the universe Z scores.
- › Factors include: leverage, liquidity, market sensitivity, momentum, and volatility.

For further information detailing the factor index optimization procedure please consult the Russell-Axioma Factor Indexes Construction and Methodology document at www.Russell.com/Indexes/Data/Factor/Russell_Axioma_Factor_Indexes.asp

For more information about Russell Indexes call us or visit www.russell.com/indexes

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First used May 2010. Revised December 2010.
CORP-6425