

The Russell 2000 Index

Insights into the US small
cap market

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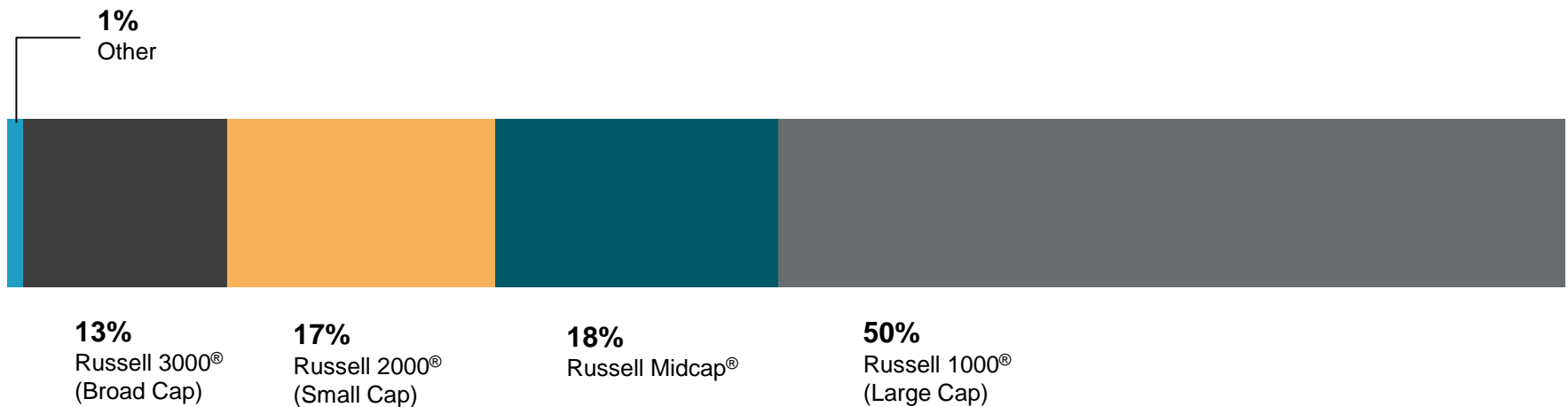
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Assets benchmarked to the Russell US Indexes

~ \$8 trillion in assets benchmarked to Russell US Indexes

- A long history of providing institutional investors with precise, predictable tools to build, manage and measure portfolios
- Tracked by 65% of active US equity institutional assets*
- 9 of the 10 US equity indexes most used by institutional investors*



Data as of December 31, 2018 as reported on April 1, 2019 by eVestment for institutional assets, Morningstar for retail mutual funds, insurance products, and ETFs, and additional passive assets directly collected by FTSE Russell. AUM data includes blended benchmarks and excludes futures and options. Passive assets directly collected by FTSE Russell have been removed from third party sources to prevent double counting. No assurances are given by FTSE Russell as to the accuracy of the data.

Russell 1000 large cap series includes the Russell 1000 index; Russell Midcap series includes the Russell Midcap index and the Russell 2500 index; Russell 2000 Small Cap series includes the Russell 2000 index and the Russell Small Cap Completeness index; Russell 3000 Broad Cap series includes the Russell 3000 index and the Russell 3000E index; Other includes the Russell Top 200 index and the Russell Top 50 index.

Summary of construction & methodology rules

Russell US Indexes

Inclusions

- Companies classified as US
- Must trade on major US exchange on rank day in May

Exclusions

- Pink sheet, OTC and bulletin board stocks
- Closed-end mutual funds, limited partnerships, royalty trusts
- Blank check/SPAC companies, BDCs
- Foreign Stocks and American Depositary Receipts (ADRs)
- Companies under \$30Million in total market capitalization
- Companies historically passing UBTI to shareholders*
- Stocks trading below \$1.00 (average used for the month of May for existing members)
- Stocks with 5% Floating market cap (or less)

Maintenance

- Stocks removed between reconstitution dates are NOT replaced
- Spin-offs and Initial Public Offerings are the only additions between reconstitution dates

A complete set of rules can be found at <http://www.ftse.com/products/downloads/Russell-US-indexes.pdf>

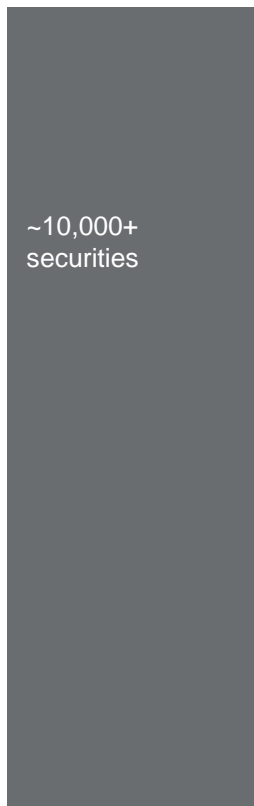
*and not blocking future UBTI to shareholders

Russell US Indexes

Construction summary

1

Start with all US equity securities



2

Remove ineligible securities



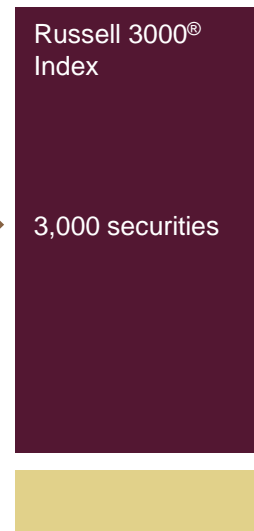
3

Rank and capture top 4,000 securities above \$30M in market capitalization



4

Create the Russell 3000 for US securities



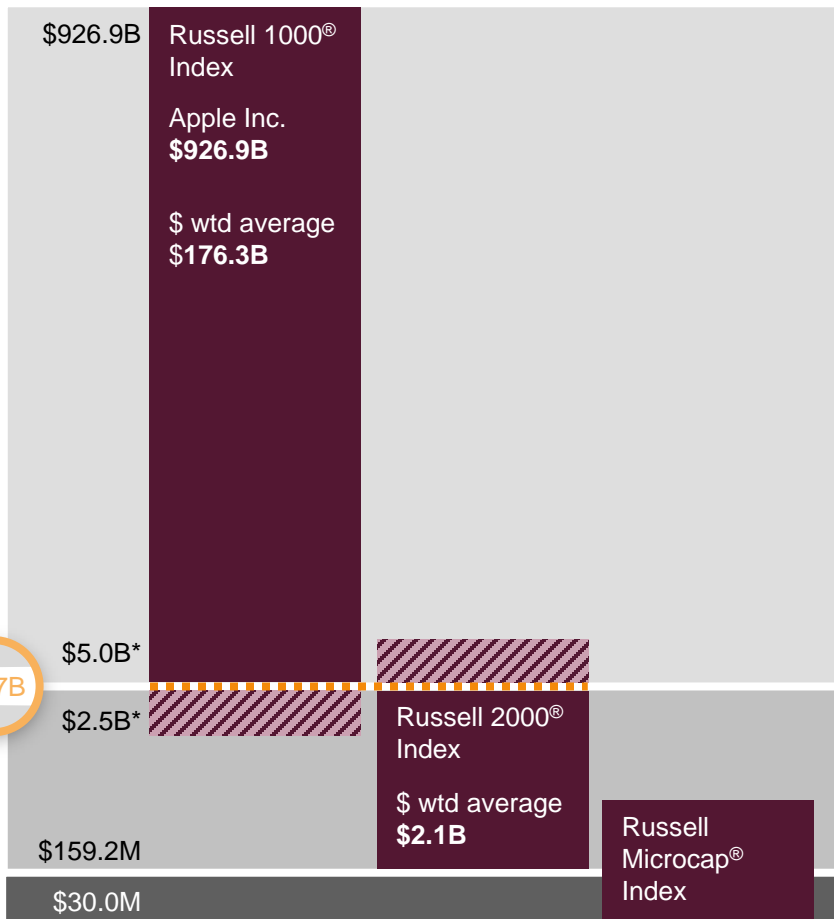
The Russell US Indexes are completely recalibrated each year in June during Russell Reconstitution

This unbiased approach to capturing the US market, which defines the breaks between large, mid and small cap and determines where companies fall along the growth/value spectrum, is one of the most anticipated US market events each year

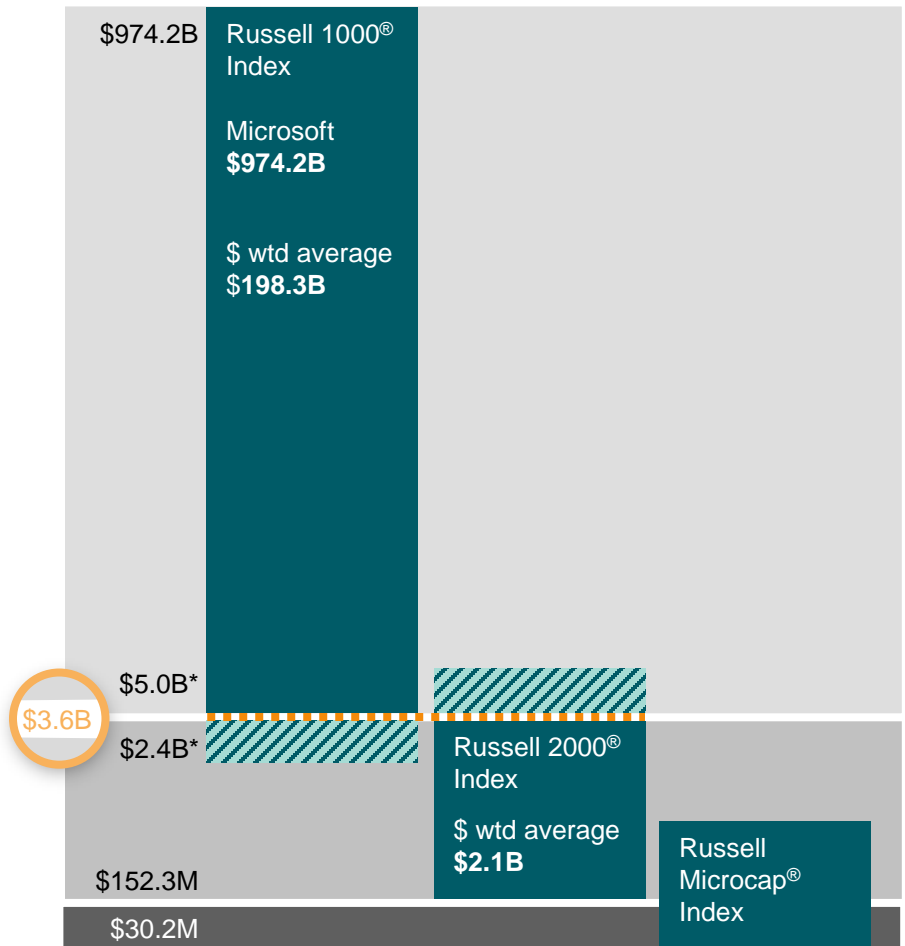
Note: If there are fewer than 4,000 eligible companies above \$30M in size, the R3000E will contain fewer than 4,000 companies.

US capitalization rank comparison

2018 market cap range



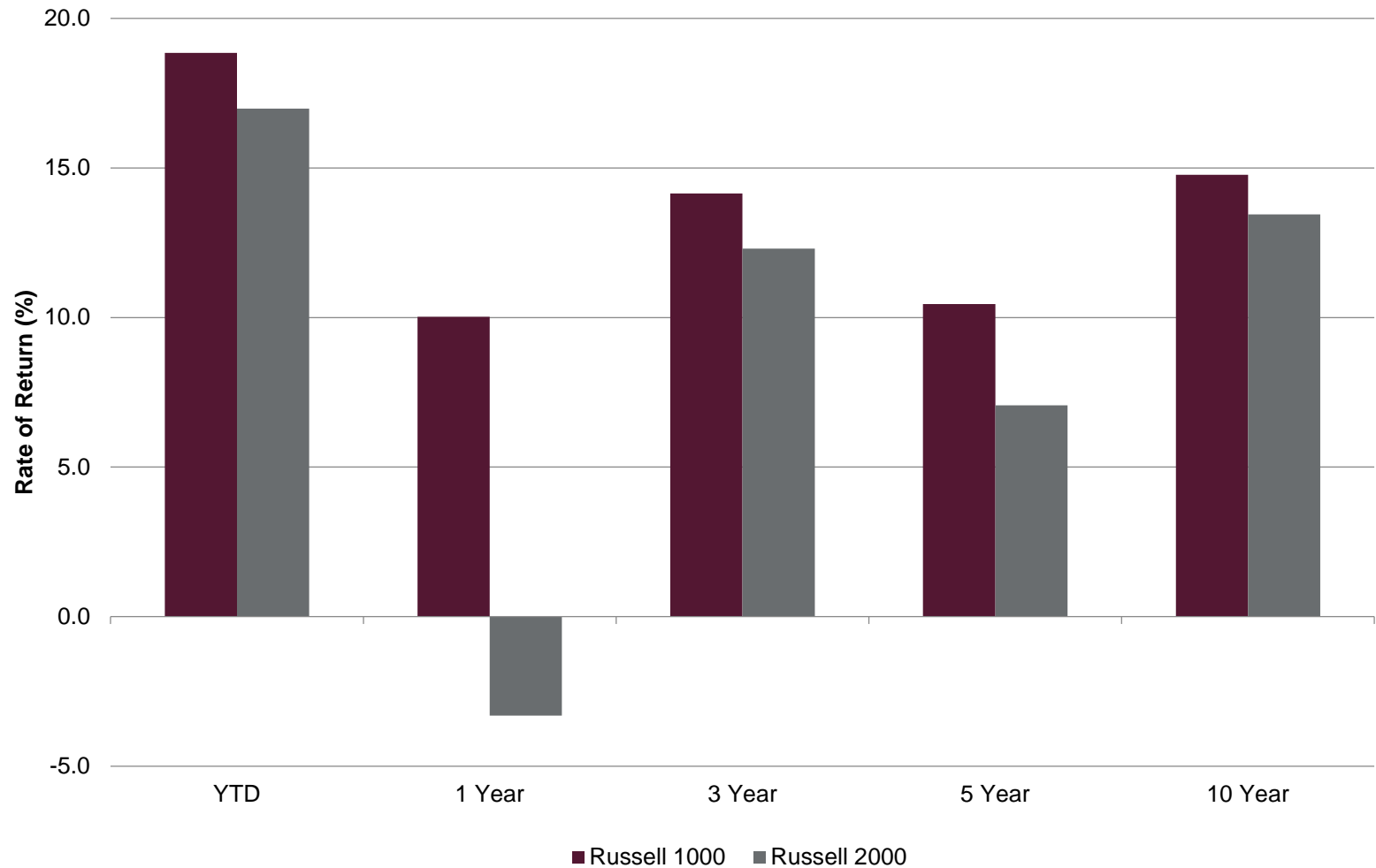
2019 market cap range



* Reflects banding. Data as of May 11, 2018 and May 10, 2019 respectively.

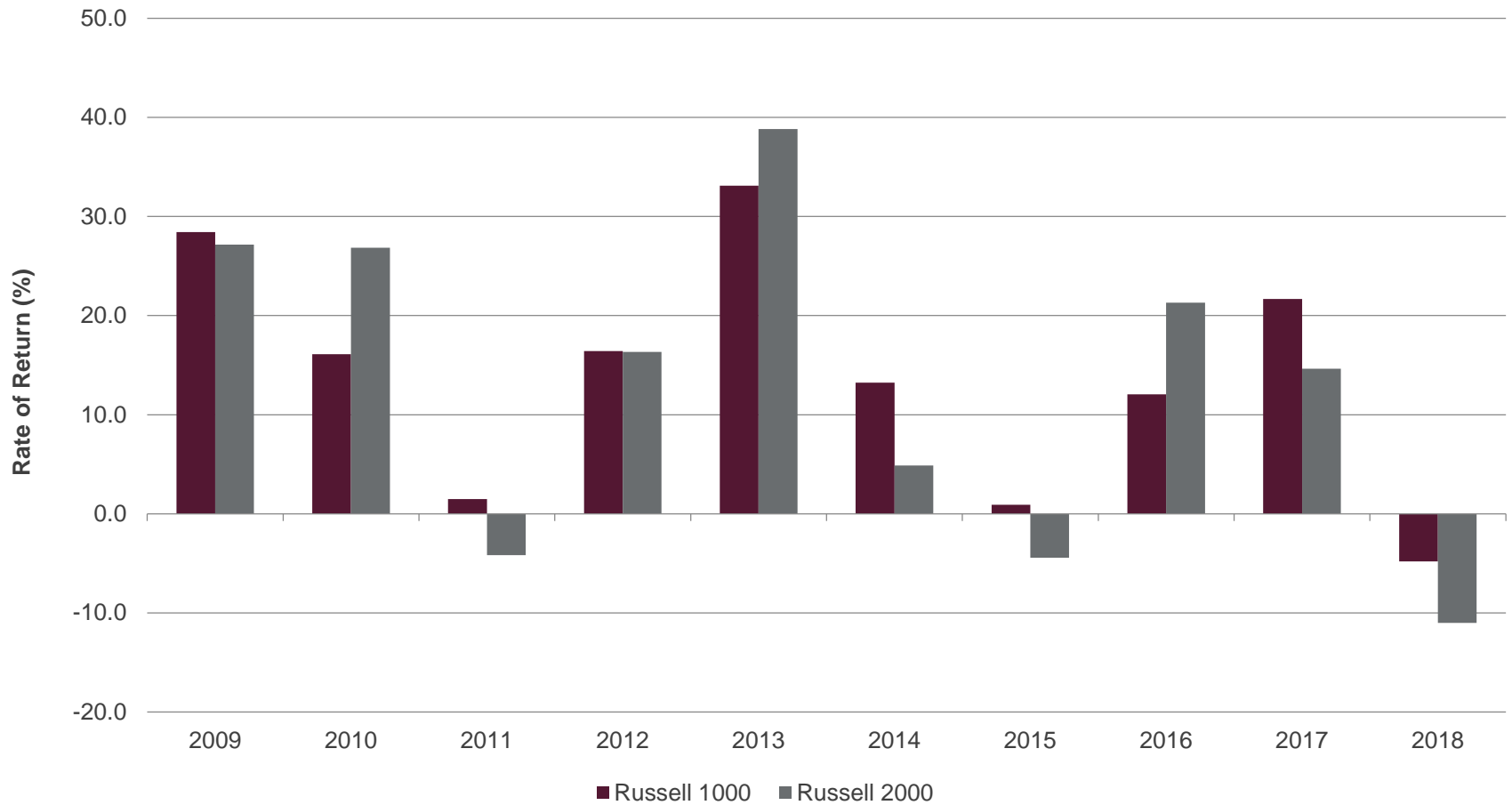
Historical performance

Periods ending June 30, 2019



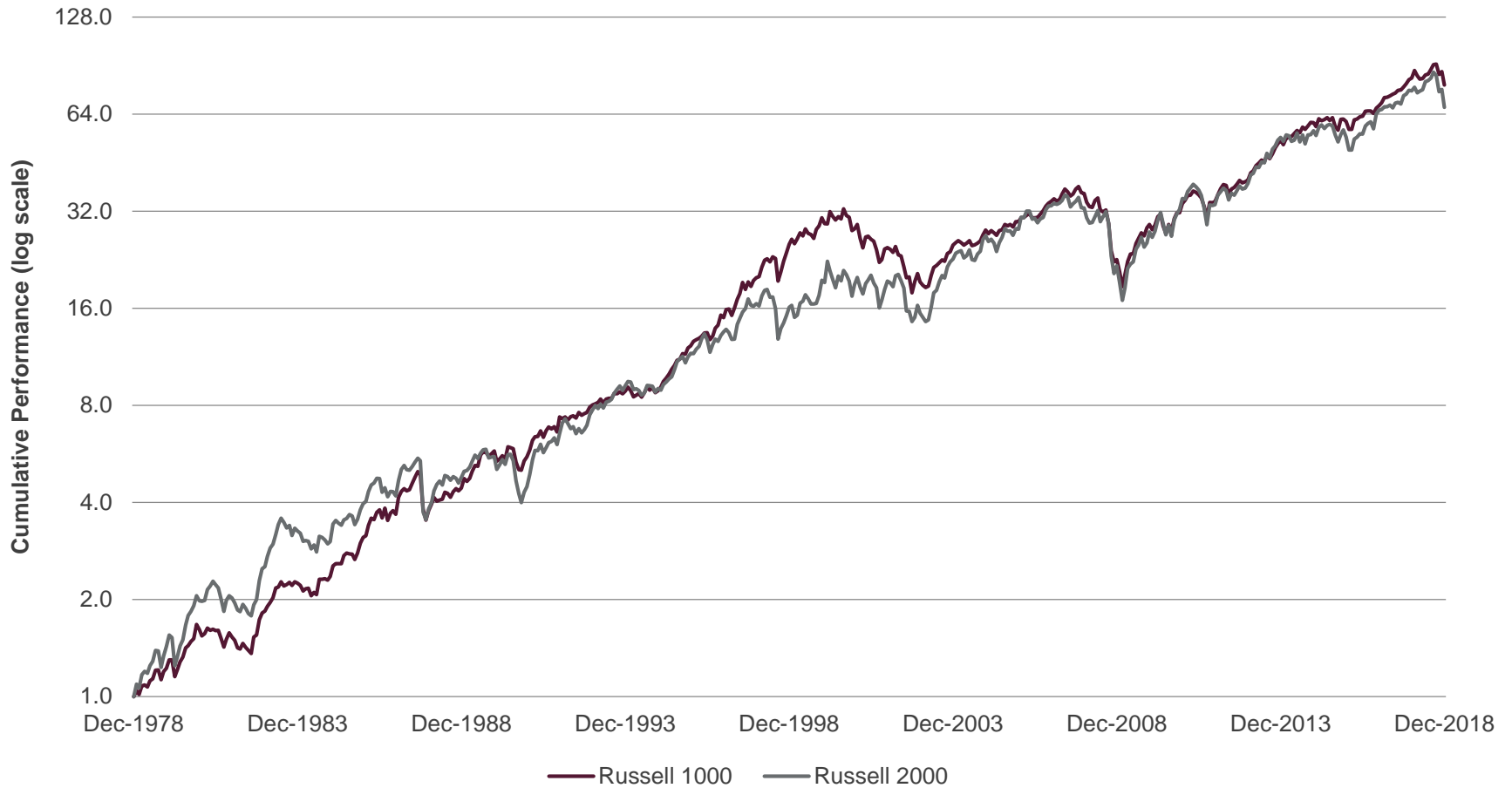
Source: FTSE Russell. Past performance is no guarantee of future results. Please see the end for important legal disclosures.

Calendar Year performance



Source: FTSE Russell. Past performance is no guarantee of future results. Please see the end for important legal disclosures.

Long Term performance



Source: FTSE Russell as of December 31, 2018. Past performance is no guarantee of future results. Please see the end for important legal disclosures.

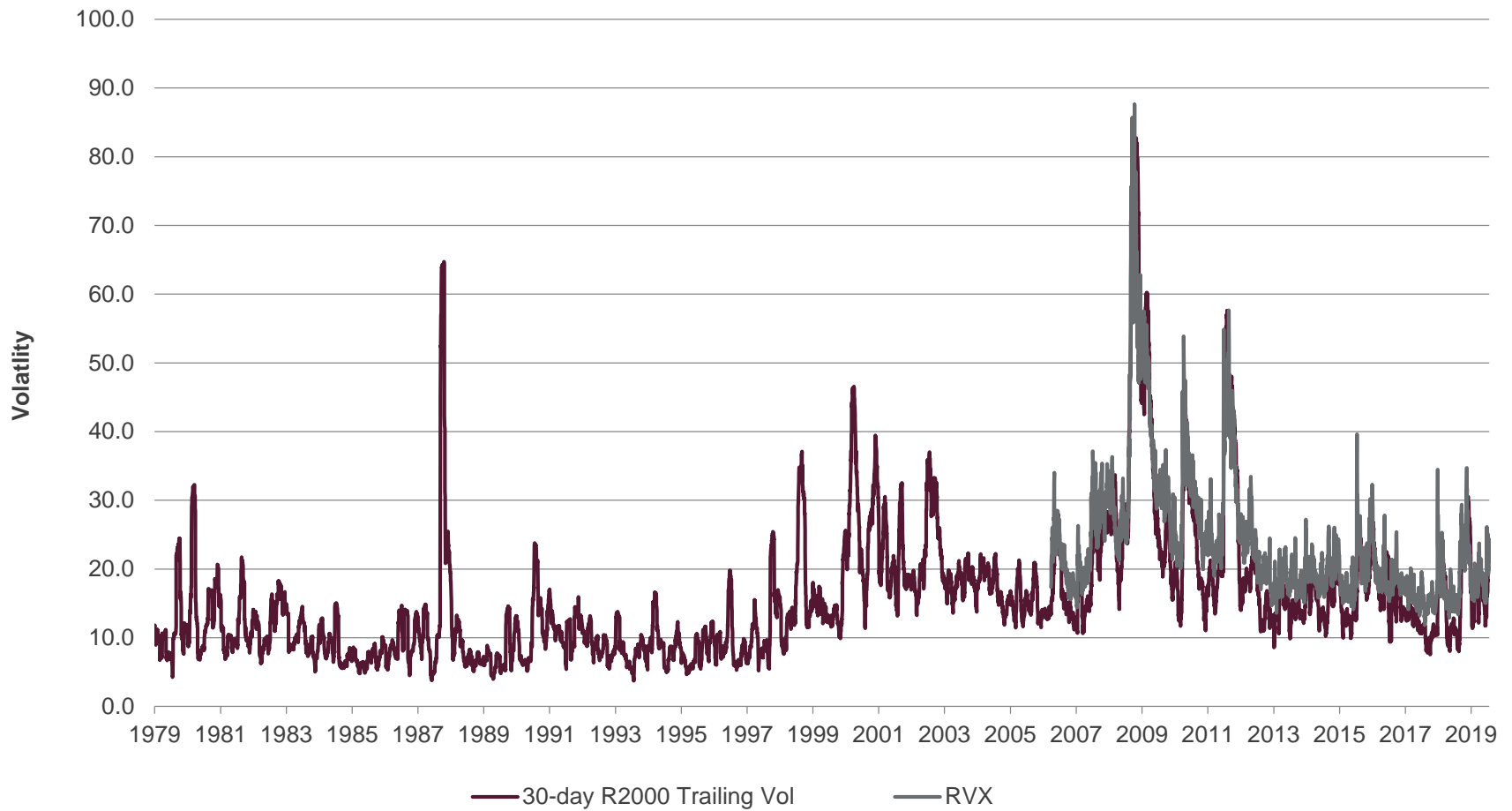
Recent small cap cycles are not as pronounced

Rolling 3- and 5-Year Excess Returns (Russell 2000 / Russell 1000)



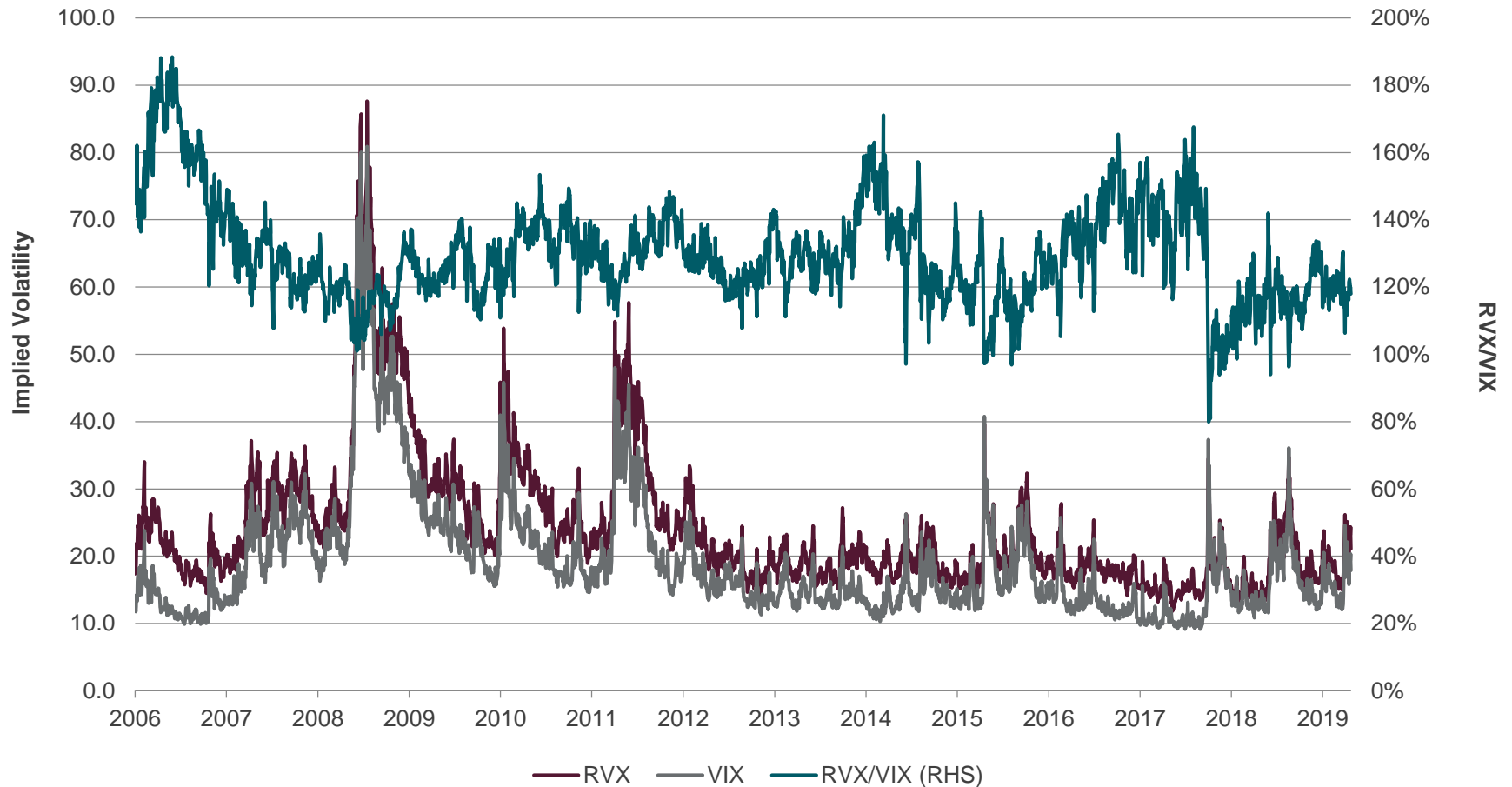
Source: FTSE Russell as of December 31, 2018. Past performance is no guarantee of future results. Please see the end for important legal disclosures.

Small cap volatility higher since the Tech bubble



Source: FTSE Russell, CBOE as of August 29, 2019. Past performance is no guarantee of future results. Please see the end for important legal disclosures.

Volatility has trended down slightly since GFC



Source: FTSE Russell, CBOE as of August 29, 2019. Past performance is no guarantee of future results. Please see the end for important legal disclosures.

Index Characteristics

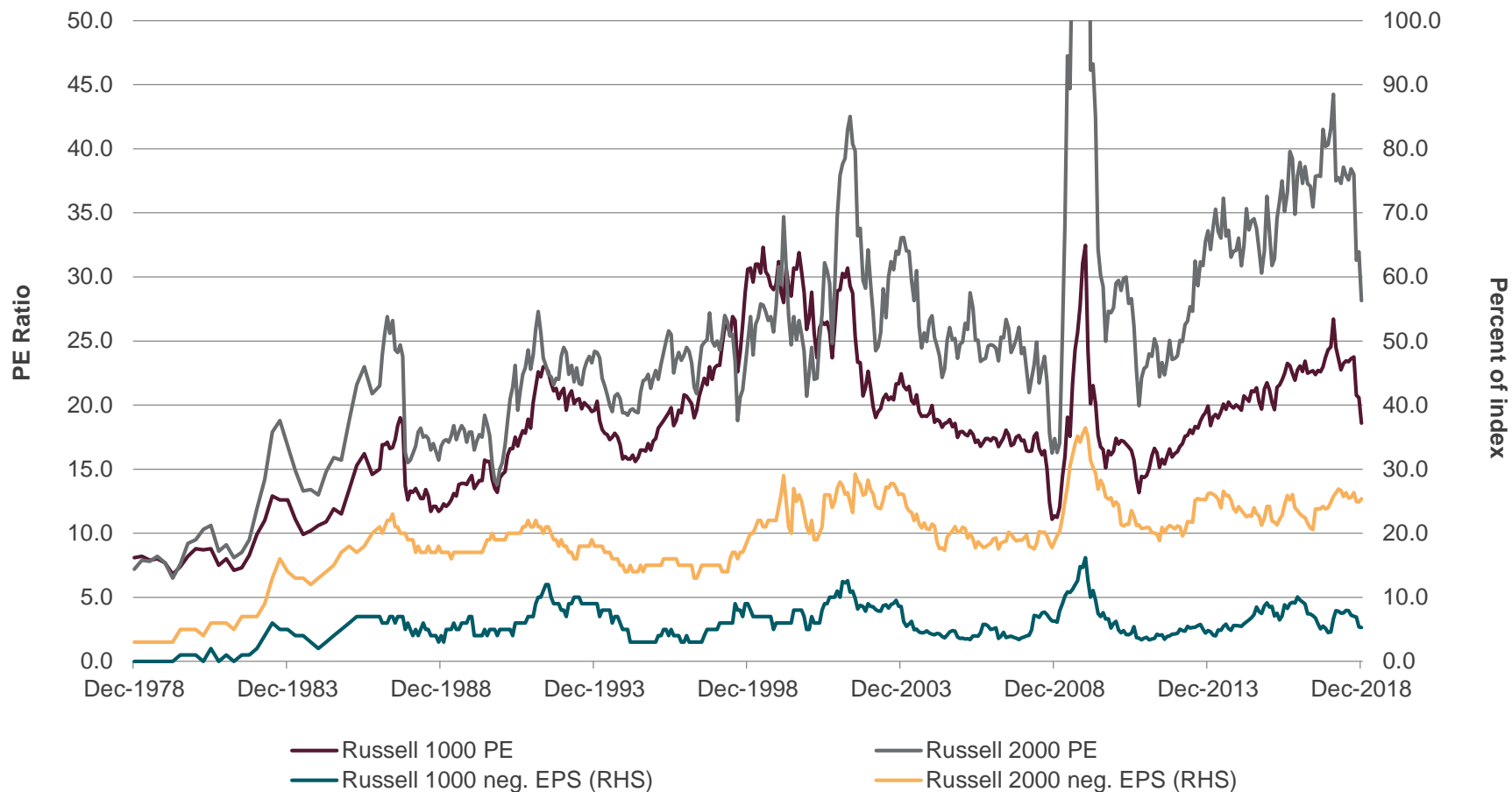
As of June 30, 2019

	Russell 2000	Russell 1000
Avg Market Capitalization (\$billion)	2.6	222.5
Dividend Yield	1.4	1.9
Price/Earnings	33.4	21.5
Price/Earnings excluding negative EPS	19.3	20.0
P/E using FY1 Est	16.2	17.1
Historical 5 Yr EPS Growth	11.1	12.5
1 Year EPS Forecast Growth	5.5	6.9
Price/Book	2.3	3.3
Price/Sales	1.6	2.3
ROE	8.4	21.9
Non-US Revenue %	18.2	36.7

Source: FTSE Russell, FactSet. Past performance is no guarantee of future results. Please see the end for important legal disclosures.

Historical P/E

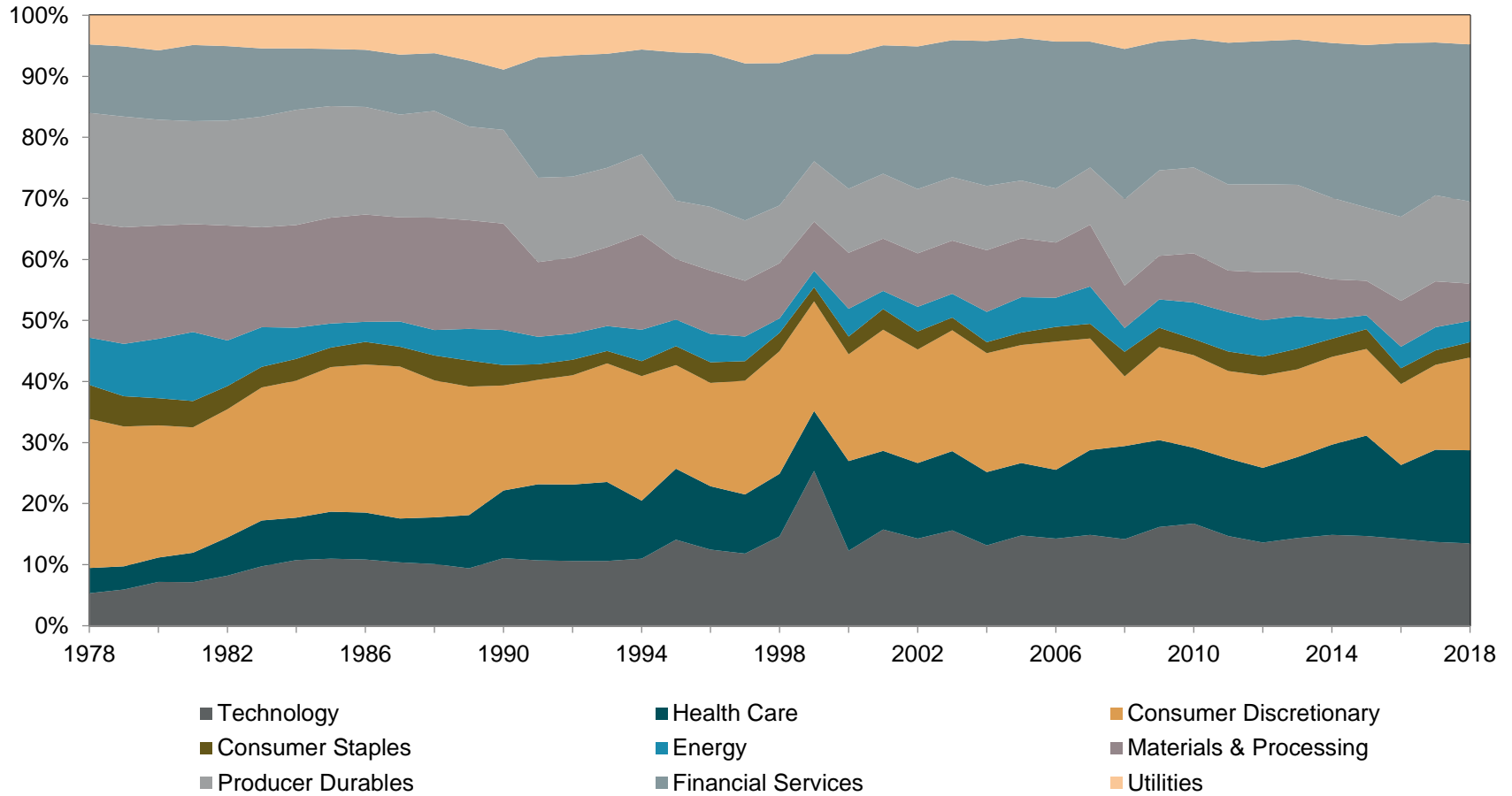
December 31, 1978 – December 31, 2018



Source: FTSE Russell. Past performance is no guarantee of future results. Please see the end for important legal disclosures.

Russell 2000 Historical Sector Weights

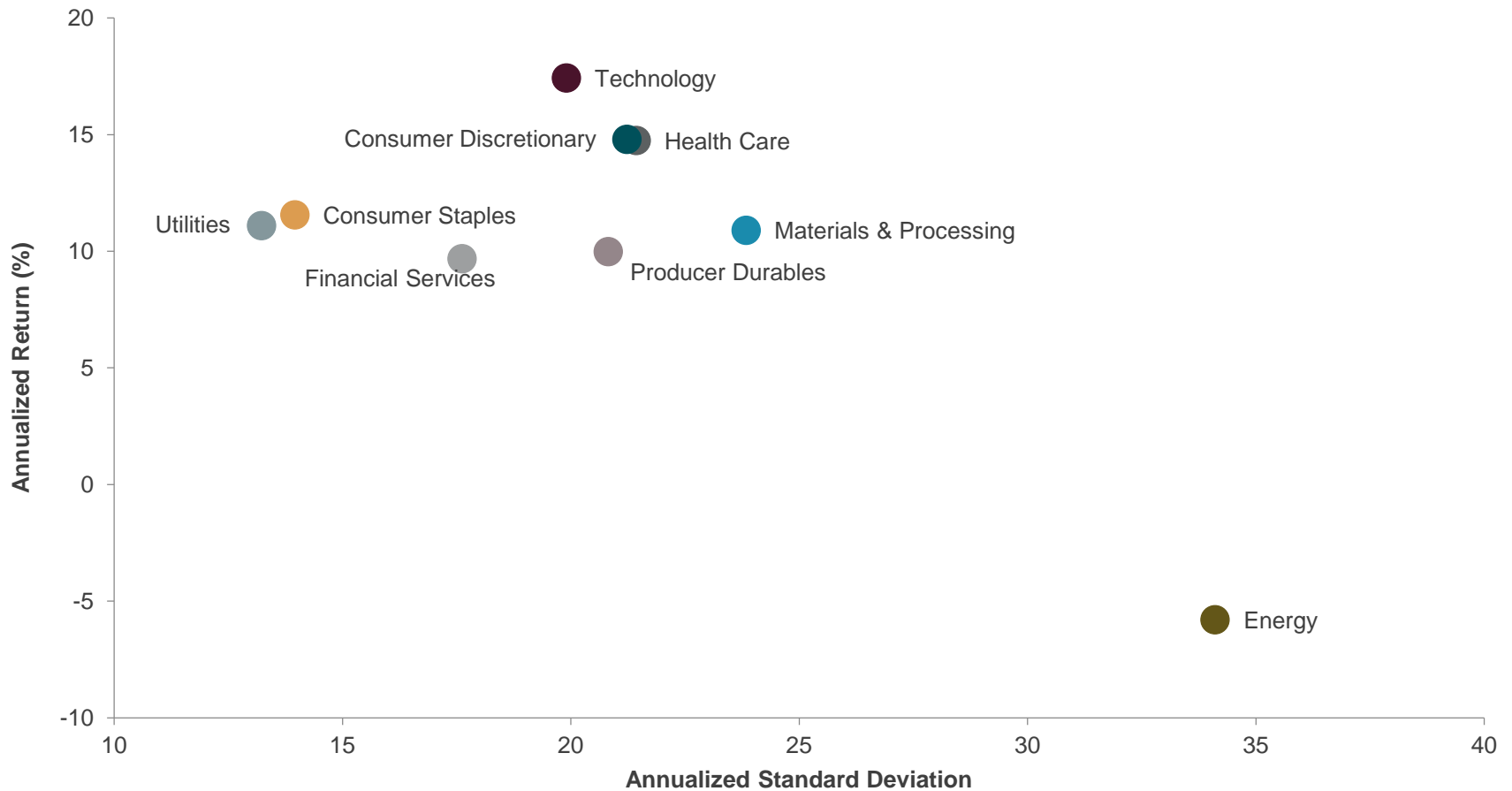
December 31, 1978 – December 31, 2018



Source: FTSE Russell. Past performance is no guarantee of future results. Please see the end for important legal disclosures.

Russell 2000 Sectors: Return/Risk

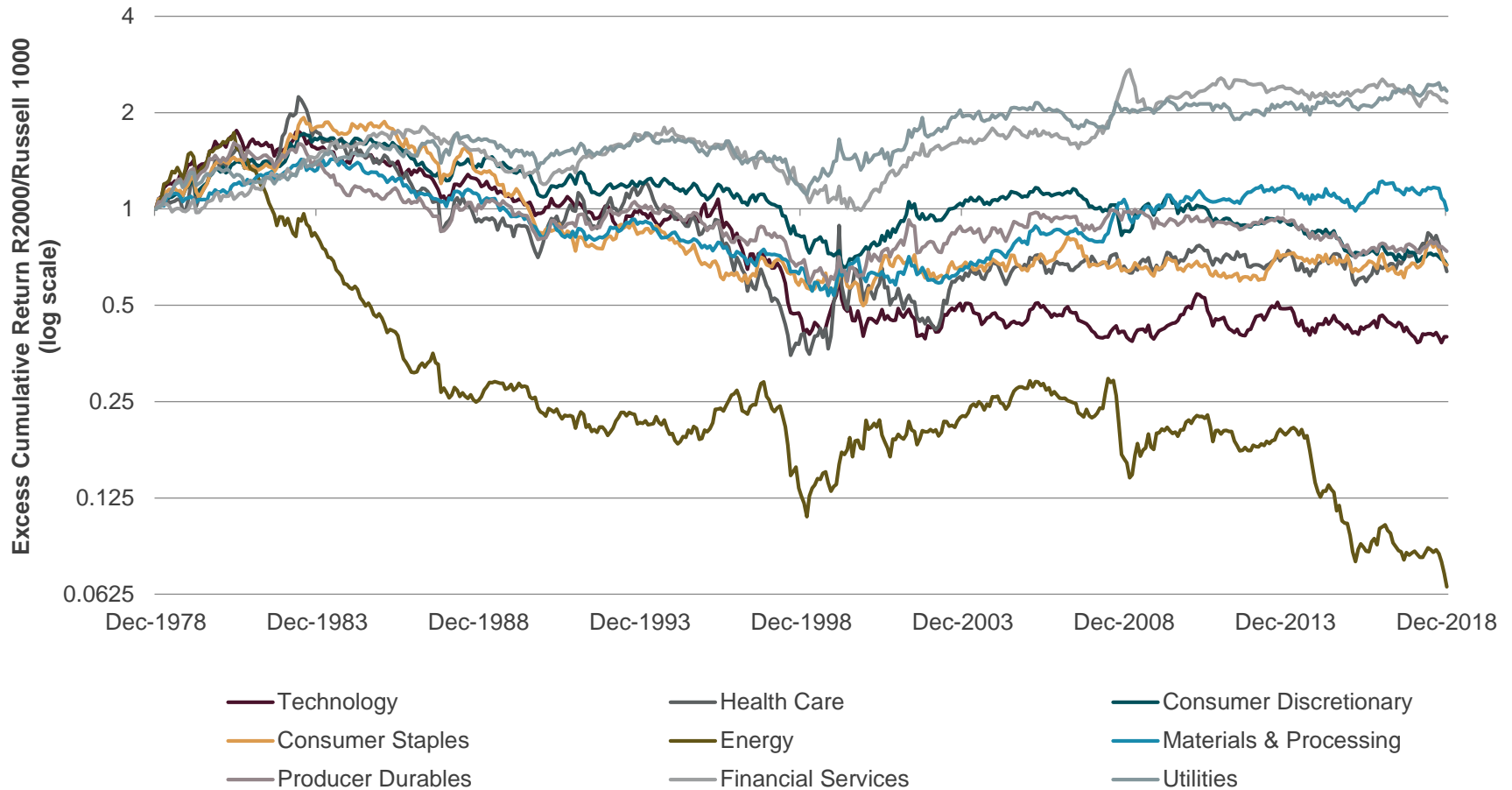
10 Years Ending December 31, 2018



Source: FTSE Russell. Past performance is no guarantee of future results. Please see the end for important legal disclosures.

Historical Sector Returns (relative to R1000)

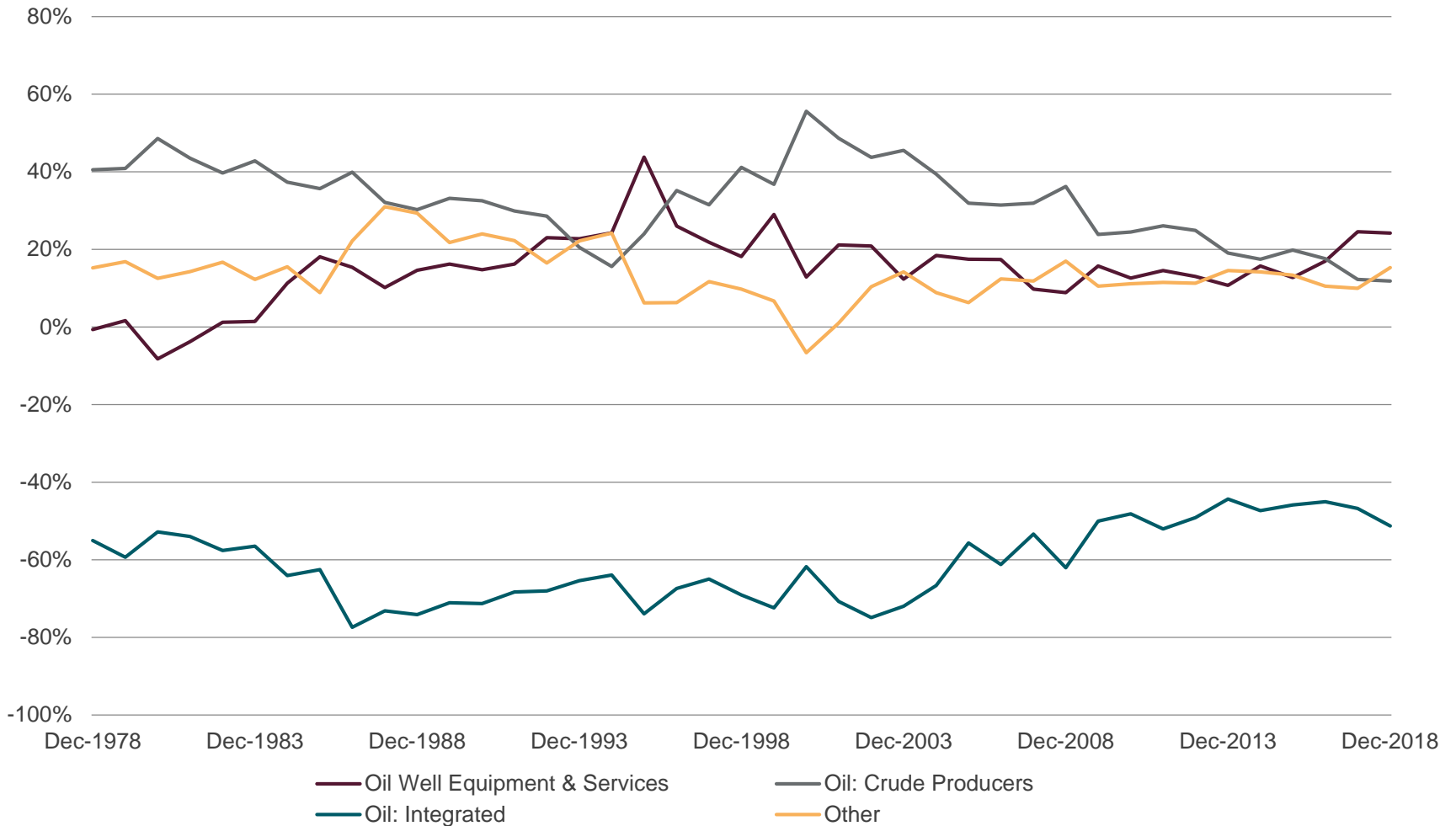
December 31, 1978 – December 31, 2018



Source: FTSE Russell. Past performance is no guarantee of future results. Please see the end for important legal disclosures.

Historical Energy Sector Industry Weights

Russell 2000 – Russell 1000



Source: FTSE Russell as of December 31, 2018. Past performance is no guarantee of future results. Please see the end for important legal disclosures.

Summary

1

The Russell 2000 index was designed to represent the small cap segment of the US equity market

Over 40 years of history

Substantial AUM passively tracking and benchmarked

2

Small cap risk premium not as evident in recent years, requires more dynamic strategies. Volatility higher than large cap US equity

3

Small cap valuations are consistent with (or even lower) than the broader market – if you ignore companies with negative earnings

4

Energy sector has been a major drag on small cap performance

Energy sector structure very different in small cap

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