

Recap

FTSE
Russell

2017 Russell US Indexes reconstitution

Annual reconstitution captures US equity market changes

The Russell US Indexes are designed to accurately reflect the ever-changing US equity market, and the annual reconstitution process is critical to maintaining this precise representation. During this highly-anticipated market event, the indexes are rebalanced to ensure that market changes that occurred in the preceding year are captured. This process involves redefining the breakpoints between large, mid and small cap as well as determining where each company lies along the investment styles spectrum.

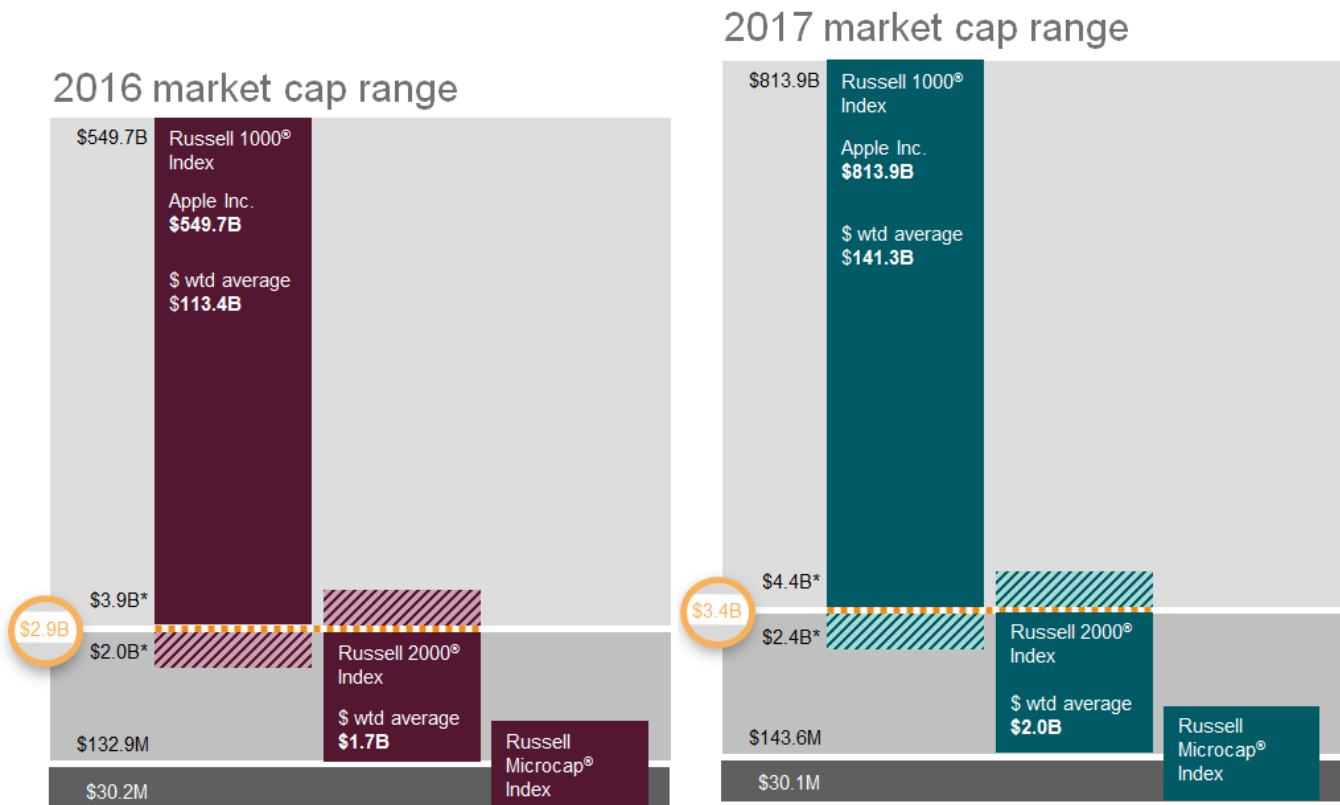
This year's reconstitution marked an expanding US market, with the total market cap of the Russell 3000[®] Index up nearly 13% since last year's rebalance to an all-time high of \$27.2 trillion.

This year also marked Apple's fifth consecutive year as the largest company in the Russell US Indexes, and the first year in the Russell US Indexes' history that four out of the five largest companies are represented by the Technology sector.

The breakpoint between large cap and small cap has increased by 17% from \$2.9 billion in 2016 to \$3.4 billion as shown in Figure 1.

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Figure 1. Breakpoints between US large and small cap, with and without banding

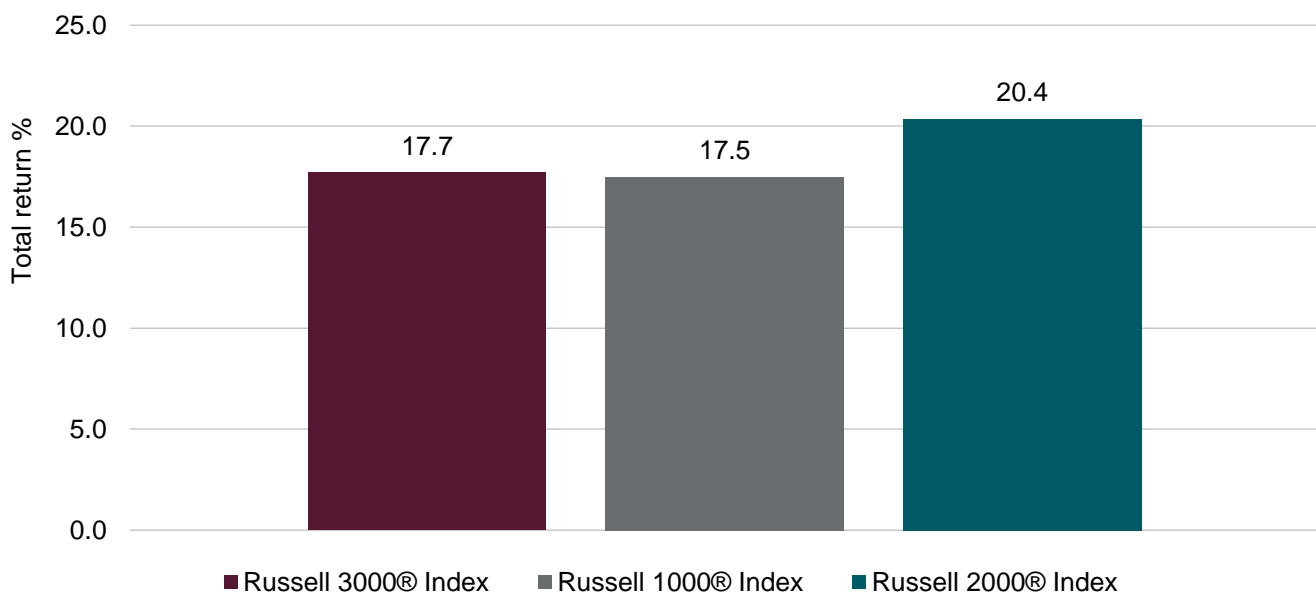


* Reflects banding. Data as of May 27, 2016 and May 12, 2017 respectively.

Core Russell US Indexes

Chart 1. Core Russell US Indexes performance

One-year period ending May 31, 2017



Source: FTSE Russell, data as of May 31, 2017. Past performance is no guarantee of future results. Please see the end for important legal disclosures.

Russell 3000® Index

- Representing the US broad market, the total market capitalization of the Russell 3000 increased nearly 13% from \$24.1 trillion in 2016 to \$27.2 trillion in 2017.
- The market capitalization breakpoint between large cap and small cap increased by 17% from \$2.9 billion in 2016 to \$3.4 billion in 2017 (shown in Figure 1).
- Increasing in size by over 48% since last year's reconstitution, Apple remains the largest company in the index for the fifth consecutive year with \$813.9 billion in total market cap (shown in Figure 1).
- Table 1 lists the largest ten companies by total market capitalization as of reconstitution 2017 along with their ranks and total market capitalizations as of last year's reconstitution. JP Morgan Chase & Co is the single name new to the list of ten largest companies.
- All companies in this year's list of ten largest companies increased in size since reconstitution 2016 with the exception of ExxonMobil which decreased in size by -6.3% (shown in Table 1).
- Facebook and Amazon, which were new to the list last year, are now ranked fourth and fifth in size, pushing ExxonMobil out of its longstanding seat among the five largest companies in the Russell US Indexes.
- Notably, the Technology sector now represents four of the five largest companies and 84% of the total market cap of the largest five.

Table 1. Largest companies in the Russell 3000 Index / Russell 1000 Index by size (total market cap)

2017 data as of May 12, 2017 and 2016 as of May 27, 2016

Company	2017 Rank by size	2017 Total Market Cap	2016 Rank by size	2016 Total Market Cap	Change from 2016
Apple	1	\$813.9B	1	\$549.7B	+48.1%
Alphabet	2	\$644.9B	2	\$503.0B	+28.2%
Microsoft	3	\$527.9B	3	\$411.3B	+28.3%
Amazon	4	\$459.5B	7	\$336.1B	+36.7%
Facebook	5	\$435.7B	6	\$341.5B	+27.6%
Berkshire Hathaway	6	\$402.9B	5	\$353.4B	+14.0%
ExxonMobil	7	\$349.8B	4	\$373.2B	-06.3%
Johnson & Johnson	8	\$333.1B	8	\$311.0B	+07.1%
JP Morgan Chase & Co	9	\$308.8B	12	\$239.3B	+29.0%
Wells Fargo & Co	10	\$265.0B	10	\$258.2B	+02.6%

Russell 1000® Index

- Total market cap of the index has increased 13% from \$22.1 trillion in 2016 to \$24.9 trillion as of 2017.
- With banding applied, the smallest company by market capitalization in the index is Domtar Corp, with a total market capitalization of \$2.4 billion (refer to Figure 1).
- Out of the 41 additions to the index, 31 are companies moving up from the Russell 2000 Index, including Bright Horizon Family, Wayfair, and Webster Financial Corp. There are three IPOs joining the index; Ardagh Group SA, Floor & Décor Holdings, and Gardner Denver Holdings. Five companies are moving from the Russell Global ex-US Index based on changes to their country assignment, and two companies newly eligible for the Russell US Indexes are joining, including NXP Semiconductors, which is the largest addition to the index both by size and weight with a total market cap of \$36.0 billion as of May 12, 2017.
- The second and third largest companies joining the Russell 1000 Index both by weight and size are Willis Towers Watson and IHS Market, both migrating from the Russell Global ex-US Index based on changes to their country assignments.
- There are 44 companies departing the index, 42 of which are migrating to the Russell 2000 Index, including Fitbit, JC Penney, Yelp and Groupon. One company, Aquabounty Technologies, is migrating to the Russell Microcap Index, and one company, Thomson Reuters, is leaving the Russell US Indexes entirely due to a change of country assignment from US to Canada. Thomson Reuters represents the largest company leaving the Russell 1000 Index followed by Cree, Inc., and Care Capital Properties, both migrating to the Russell 2000 Index.

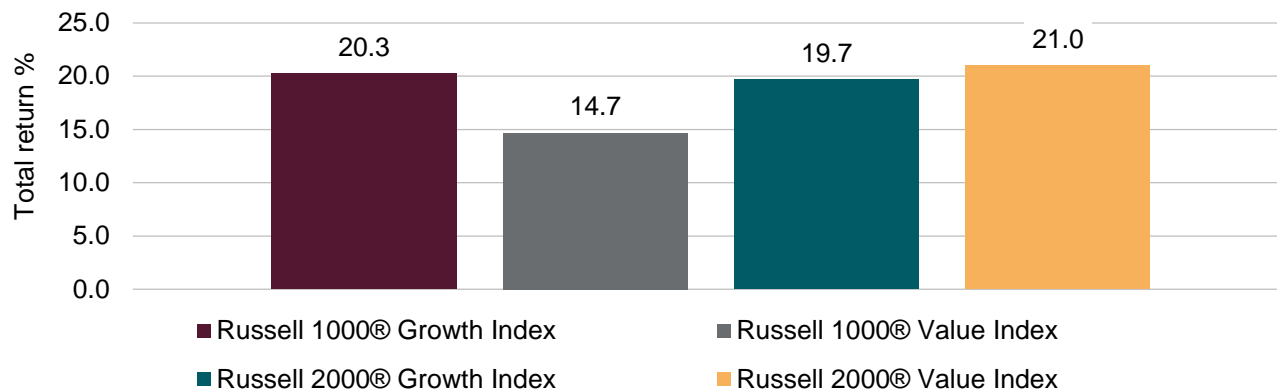
Russell 2000® Index

- Total market cap of the index has increased 21% from \$1.9 trillion in 2016 to \$2.3 trillion as of 2017.
- With banding applied, the largest company by market capitalization in the Russell 2000, Masimo Corp., is \$4.4 billion in size, about 13% larger than last year's largest company. The smallest stock by market cap is BG Staffing with a total market cap of \$143.6 million, up 8% compared to the smallest company in 2016 (see Figure 1).
- There are 228 companies being added to the Russell 2000, including 42 companies moving from the Russell 1000 Index. In addition to the large cap companies listed above, household names moving from large to small cap include Hertz, Dillard's, Avis Budget Group, and Frontier Communications. There are 115 companies migrating from the bottom half of the Russell Microcap Index, including 42 companies from the Financial Services sector (mostly banks) and 23 from the Health Care sector (mostly biotechnology firms). There are 47 joining from outside the Russell US Indexes universe, and 24 IPOs being added.
- There are 137 companies leaving the Russell 2000 Index, 31 of which are moving to the Russell 1000 Index. Companies moving from small to large cap are represented by a diverse mix of sectors, including several Financial Services / Banks (Webster Financial Corp, Bank of the Ozarks, Inc. and PrivateBancorp, Inc.). More than half of the 71 companies moving to the bottom half of the Russell Microcap Index are Health Care companies—26 are leaving the Russell US Indexes universe altogether, also heavily represented by the Health Care sector.

Russell US Style Indexes

Chart 2. Russell US Style Indexes performance

One-year period ending May 31, 2017



Source: FTSE Russell, data as of May 31, 2017. Past performance is no guarantee of future results. Please see the end for important legal disclosures.

Russell 1000® Growth and Value Indexes

- The Russell 1000 Growth Index recorded a higher return than the Russell 1000 Value Index in the one-year period ending May 31, 2017, recording 20.3% and 14.7%, respectively.
- Apple has shifted back to a 100% growth allocation from its 2016 partial growth (92%) partial value (8%) split.
- The five largest companies in the Russell 1000 Growth Index by weight are Apple, Alphabet, Microsoft, Amazon, and Facebook.
- The largest three additions to the Russell 1000 Growth Index by weight are large cap companies shifting from a 100% value allocation in 2016 to a partial growth, partial value allocation as of this reconstitution. Caterpillar is now 91% growth, CSX Corp is now 90% growth, and Halliburton is now 68% growth.
- CVS (formerly 94% growth), Time Warner (formerly 66% growth) and Allergan PLC (formerly 59% growth) are the three largest companies by weight leaving the Russell 1000 Growth Index, all shifting to 100% value allocations.
- The five largest companies in the Russell 1000 Value Index by weight are ExxonMobil, Berkshire Hathaway, Johnson & Johnson, JP Morgan Chase, and AT&T.
- The three largest additions to the Russell 1000 Value Index by weight are large cap companies shifting from 100% growth allocations as of 2016 to partial growth, partial value allocations as of this reconstitution. Amgen, Inc. is now 51% value, Disney Walt Co., is now 32% value, and Bristol Myers is now 51% value.
- The largest companies by weight leaving the Russell 1000 Value Index are represented by large cap companies shifting to 100% growth allocations, including Apple (formerly 8% value), Deere & Co., (formerly 75% value), and Analog Devices (formerly 100% value).
- With the help of Apple's new 100% growth allocation, the Technology sector continues to increase its weight in the Russell 1000 Growth index, increasing from a 23.9% weight as of 2016 reconstitution to 31.2% as of this year. Other notable Technology shifts to growth include Symantec (14% in 2016 to

100% in 2017) and ANSYS, Inc. (26% in 2016 to 100% in 2017) and Micron Technology (0% in 2016 to 76% in 2017).

- The Consumer Discretionary sector is increasing its weight in the Russell 1000 Value Index, with larger companies like eBay (0% value in 2016 to 100% value in 2017), Twenty-First Century Fox (23% value in 2016 to 95% value in 2017), and Time Warner (34% value in 2016 to 100% value in 2017) becoming more value-oriented.

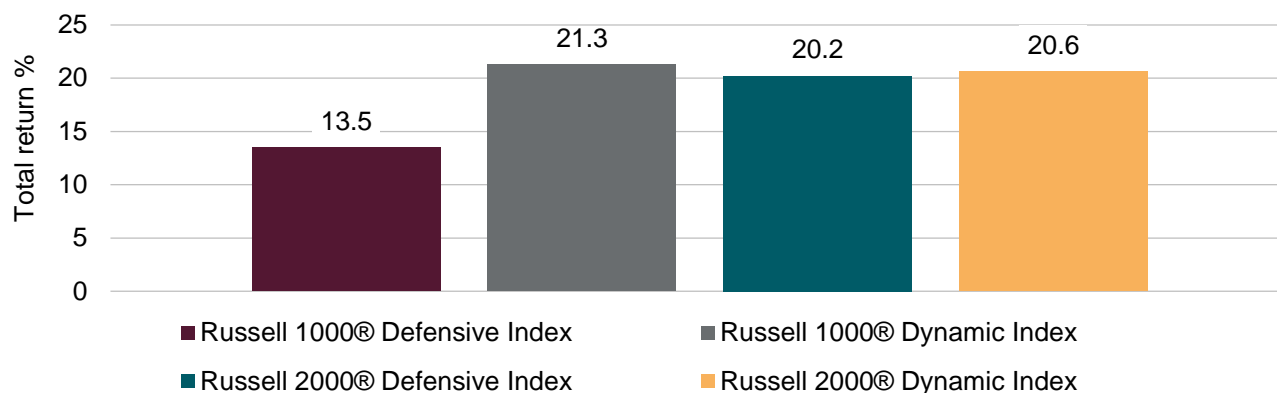
Russell 2000[®] Growth and Value Indexes

- The Russell 2000 Value Index posted a higher return than the Russell 2000 Growth Index in the one-year period ending May 31, 2017, returning 21.0% and 19.7%, respectively.
- The three largest additions to the Russell 2000 Growth Index are Kennametal, Inc., Wright Medical Group and Yelp. Kennametal, Inc., and Wright Medical are shifting from 100% value to 100% growth allocations, and both are migrating from the Russell 2000 Value Index. Yelp, which is shifting from a 77% growth last year to a 100% growth, is migrating from the Russell 1000 Index.
- The three largest companies by weight leaving the Russell 2000 Growth Index are Take-Two Interactive Software, The Chemours Company, and Coherent, Inc. Take-Two and Coherent are maintaining their 100% growth allocations and migrating up from the Russell 1000 Index. The Chemours Company is also joining from the Russell 1000 Index, and is shifting from a partial growth (83%) partial value (17%) allocation to 100% growth.
- Belden, Inc., LivaNova PLC, and STAG Industrial represent the three largest additions to the Russell 2000 Value Index by weight. Belden, Inc., and STAG Industrial are moving from the Russell 2000 Growth Index as they shift from 100% growth to 100% value. LivaNova PLC, also 100% value, is joining due to a change in country assignment to US.
- The three largest companies by weight leaving the Russell 2000 Value Index are XPO Logistics, Olin Corp., and New Residential Investment Corp. XPO Logistics, which was formerly 100% value, is shifting to a partial value (26%) partial growth (74%) allocation and migrating up to the Russell 1000 Index. Olin Corp and New Residential Investment Corp., also migrating up to the Russell 1000 Index, are maintaining their 100% value allocations.
- The most significant small cap styles sector weight shift is occurring in Producer Durables, the weight of which is increasing from 13.8% of the Russell 2000 Growth Index as of reconstitution 2016 to 16.2% as of this year, while decreasing in the Russell 2000 Value index from 12.8% in 2016 to 10.9%.

Russell Stability Indexes®

Chart 3. Russell Stability Indexes performance

One-year period ending May 31, 2017



Source: FTSE Russell, data as of May 31, 2017. Past performance is no guarantee of future results. Please see the end for important legal disclosures.

Russell 1000® Defensive and Dynamic Indexes

- As shown in Chart 3 above, the Russell 1000® Dynamic Index® posted a higher return than the Russell 1000® Defensive Index® during the one-year period ending May 31, 2017, with returns of 21.3% and 13.5%, respectively.
- Schlumberger, which is shifting from a 100% dynamic allocation to a partial dynamic (35%) and defensive (65%) allocation, is the largest addition to the Russell 1000 Defensive Index by weight. Monsanto (now 85% defensive) and Kraft Heinz Company (now 49% defensive), are also shifting from 100% dynamic allocations. They represent the second and third largest additions to the index by weight, respectively.
- Mondelez International, which is shifting from a partial defensive (91%), partial dynamic (9%) allocation to 100% dynamic, is the largest company by weight leaving the Russell 1000 Defensive Index. Bristol Myers (formerly 69% defensive) and Aetna (formerly 78% defensive) are the second and third largest companies leaving the index by weight. All three are joining the Russell 1000 Dynamic Index.
- The three largest additions to the Russell 1000 Dynamic Index by weight are joining from the Russell 1000 Defensive Index with new partial allocations to dynamic; Wells Fargo & Co., (now 88% dynamic), Merck & Co., Inc. (now 41% dynamic), and Pfizer (now 32% dynamic).
- The three largest companies by weight leaving the Russell 1000 Dynamic Index are shifting to the Russell 1000 Defensive Index due to new 100% defensive allocations; Alphabet (formerly 32% dynamic), Chevron (formerly 39% dynamic) and Cisco (formerly 56% dynamic).
- The Technology sector, which we saw shifting toward dynamic last year, is reversing course as of reconstitution 2017. The weight of Technology in the Russell 1000 Defensive Index is increasing from 12.6% as of last year's reconstitution to 21.4% this year, replacing Financial Services as the sector largest sector in the large cap defensive index.
- Conversely, Financial Services is becoming more dynamic. Last year, Financial Services and Technology were nearly identically represented in the Russell 1000 Dynamic Index, (20.9% and 20.4%, respectively), while as of 2017, Financial Services (now 25.2% of the dynamic index) is much more heavily weighted than Technology (17.4%).

Russell 2000[®] Defensive and Dynamic Indexes

- As reported in Chart 3, the Russell 2000[®] Dynamic Index[®] posted a return higher (+20.6%) than the Russell 2000[®] Defensive Index (+20.2%) during the one-year period ending May 31, 2017.
- Sanmina Corporation, joining the Russell 2000 Defensive Index from the Russell 2000 Dynamic Index, is shifting from 100% dynamic to 100% defensive, representing the largest addition to the index by weight. Everbank Financial (formerly 100% dynamic) and Compass Minerals (formerly 37% defensive) are also shifting to 100% defensive allocations, representing the second and third largest additions to the Russell 2000 Defensive Index.
- Coherent, Teledyne Technologies and Webster Financial Corp represent the three largest companies by weight leaving the Russell 2000 Defensive Index. Formerly 100% defensive, Coherent is migrating to the Russell 1000 Index with a new 5% defensive / 95% dynamic allocation. Teledyne Technologies, also moving to the Russell 1000 Index, is newly part defensive (74%) and part dynamic (26%) as well. Webster Financial is shifting from 100% defensive to 100% dynamic and joining the Russell 1000 Dynamic Index.
- The largest addition to the Russell 2000 Dynamic Index by weight is Geo Group, which is joining from the Russell 2000 Defensive index as it shifts from a 100% defensive to 100% dynamic allocation. Peabody Energy Corp, also 100% dynamic, is the second largest addition to the index, joining from outside of the Russell Stability Indexes universe. The third largest addition, Cree Inc., is maintaining its 100% dynamic allocation from 2016, and is migrating from the Russell 1000 Dynamic Index.
- Advanced Micro Devices, The Chemours Company and Take-Two Interactive Software are the three largest companies by weight leaving the Russell 2000 Dynamic Index. All three are maintaining their 100% dynamic allocations but migrating to the Russell 1000 Dynamic Index.
- Sector shifts in the Russell 2000 Defensive and Dynamic Indexes are not as pronounced as they are in their large cap counterparts. Compared to last reconstitution, the largest sector weight change in the Russell 2000 Defensive Index is Technology's increase in weight from 10.6% to 12.2%. In the Russell 2000 Dynamic Index, the largest weight shift is represented Energy's increase in weight from 5.4% as of last year to 7.7%, followed by Technology's decrease from 18.3% to 16.8%.

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