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# Russell Equal Weight Index Series

v2.7

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## Section 1

# Introduction

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### 1.0 Introduction

1.1.1 Russell research has shown that the process of equally weighting each sector within an underlying index, and then equally weighting each of the constituents within each sector, provides greater diversification benefits than only equally weighting the constituents of an underlying index. In addition, equal-weighting at the security level offers a straightforward weighting methodology undistorted by security prices or market capitalization.

1.2 The Russell Equal Weight Index Series does not take account of ESG factors in its index design.

#### 1.3 Available indexes

The following indexes are available for the Russell Equal Weight Index Series:

Russell 1000<sup>®</sup> Equal Weight Index

Russell 2000<sup>®</sup> Equal Weight Index

Russell Midcap<sup>®</sup> Equal Weight Index

Russell Top 200<sup>®</sup> Equal Weight Index

Russell 1000<sup>®</sup> Equal Weight Technology Index

1.4 The base currency of the benchmark is US Dollars. Index values may also be published in other currencies.

#### 1.5 FTSE Russell

1.5.1 FTSE Russell is a trading name of FTSE International Limited, Frank Russell Company, FTSE Global Debt Capital Markets Limited (and its subsidiaries FTSE Global Debt Capital Markets Inc. and MTSNext Limited), Mergent, Inc., FTSE Fixed Income LLC, The Yield Book Inc and Beyond Ratings.

1.5.2 FTSE Russell hereby notifies users of the index series that it is possible that circumstances, including external events beyond the control of FTSE Russell, may necessitate changes to, or the cessation of, the index series and therefore, any financial contracts or other financial instruments that reference the index series or investment funds which use the index series to measure their performance should be able to withstand, or otherwise address the possibility of changes to, or cessation of, the index.

1.5.3 Index users who choose to follow this index series or to buy products that claim to follow this index series should assess the merits of the index's rules-based methodology and take independent investment advice before investing their own or client funds. No liability whether as a result of negligence or otherwise is accepted by FTSE Russell for any losses, damages, claims and expenses suffered by any person as a result of:

- any reliance on these Ground Rules, and/or
- any errors or inaccuracies in these Ground Rules, and/or
- any non-application or misapplication of the policies or procedures described in these Ground Rules, and/or
- any errors or inaccuracies in the compilation of the index or any constituent data.



## Section 2

# Management Responsibilities

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## 2.0 Management Responsibilities

### 2.1 FTSE International Limited

2.1.1 FTSE is the benchmark administrator of the index series.<sup>1</sup>

2.1.2 FTSE Russell is responsible for the daily calculation, production and operation of the index series and will:

- maintain records of the index weightings of all constituents;
- make changes to the constituents and their weightings in accordance with the Ground Rules;
- carry out the periodic index reviews of the index series and apply the changes resulting from the reviews as required by the Ground Rules;
- publish changes to the constituent weightings resulting from their ongoing maintenance and the periodic reviews;
- disseminate the indexes.

### 2.2 Amendments to These Ground Rules

2.2.1 These Ground Rules shall be subject to regular review by FTSE Russell to ensure that they continue to best reflect the aims of the index series. Any proposals for significant amendments to these Ground Rules will be subject to consultation with FTSE Russell advisory committees and other stakeholders if appropriate. The feedback from these consultations will be considered by the FTSE Russell Product Governance Board before approval is granted.

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<sup>1</sup> The term administrator is used in this document in the same sense as it is defined in [Regulation \(EU\) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds](#) (the European Benchmark Regulation).



## Section 3

# FTSE Russell Index Policies

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### 3.0 FTSE Russell Index Policies

These Ground Rules should be read in conjunction with the following policy documents which can be accessed using the links below:

#### 3.1 Corporate Actions and Events Guide

3.2 Full details of changes to constituent companies due to corporate actions and events can be accessed in the Corporate Actions and Events Guide for Non Market Cap Weighted Indexes using the following link:

[Corporate Actions and Events Guide for Non Market Cap Weighted Indexes.pdf](#)

#### 3.3 Queries and Complaints

3.3.1 FTSE Russell's complaints procedure can be accessed using the following link:

[Benchmark Determination Complaints Handling Policy.pdf](#)

#### 3.4 Index Policy for Trading Halts and Market Closures

3.4.1 Guidance for the treatment of index changes in the event of trading halts or market closures can be found using the following link:

[Index Policy for Trading Halts and Market Closures.pdf](#)

#### 3.5 Index Policy in the Event Clients are Unable to Trade a Market

3.5.1 Details of FTSE Russell's treatment can be accessed using the following link:

[Index Policy in the Event Clients are Unable to Trade a Market.pdf](#)

#### 3.6 Recalculation Policy and Guidelines

3.6.1 The Russell Equal Weight Index Series is recalculated whenever errors or distortions occur that are deemed to be significant. Users of the index series are notified through appropriate media.

3.6.2 For further information refer to the FTSE Russell Recalculation Policy and Guidelines document which is available from the FTSE Russell website using the link below or by contacting [info@ftserussell.com](mailto:info@ftserussell.com).

[Recalculation Policy and Guidelines Equity Indexes.pdf](#)

### 3.7 **Policy for Benchmark Methodology Changes**

3.7.1 Details of FTSE Russell's policy for making benchmark methodology changes can be accessed using the following link:

[Policy\\_for\\_Benchmark\\_Methodology\\_Changes.pdf](#)



## Section 4

# Construction and Methodology

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### 4.0 Construction and Methodology

4.1.1 Each quarter, each sector<sup>23</sup> in the parent index, e.g. Russell 1000, is allocated an equal weight (i.e.,  $1/N$ , where  $N$  is the number of sectors in the index). Next, each constituent within each sector is assigned an equal weight within that sector (i.e.,  $1/n$ , where  $n$  is the number of constituents within the sector.)

4.1.2 A capacity screen is then applied to the securities in the Russell Equal Weight Indexes. Capacity is defined as the total amount that can theoretically be invested in a company. For a security that has 100% of its shares freely available, the maximum capacity is defined as the total market capitalization of that security. To be eligible for membership, the share position of a potential constituent cannot exceed 5% of the float-adjusted shares of a company when a notional value of \$5 billion is assumed to be invested in the portfolio (an example is provided in the appendix.)<sup>4</sup>

4.1.3 If the parent index includes multiple share classes for a given company, only the primary share class will be included in the index, i.e. each company will have only one share class represented in the Russell Equal Weight Indexes.

### 4.2 Quarterly index re-weighting and annual reconstitution

4.2.1 The Russell Equal Weight Indexes are re-weighted at the close of the third Friday of the month in March, September, and December. June's re-weighting is completed at the same time as the annual reconstitution of the parent indexes.

### 4.3 Corporate action-driven changes

4.3.1 The members of the Russell Equal Weight Indexes are proactively maintained to reflect daily changes in the US equity market as a result of corporate actions.

4.3.2 Full details of changes to constituent companies due to corporate actions and events can be accessed in the Corporate Actions and Events Guide for Non Market Cap Weighted Indexes using the following link:

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<sup>2</sup> The Russell Equal Weight Index Series will move from the Russell Global Sectors (RGS) classification system to the ICB classification system in September 2020.

<sup>3</sup> The sector scheme used in the construction of the Russell Equal Weight Indexes is the Russell Global Sectors (RGS) classification system, which has nine sectors: Consumer Discretionary, Consumer Staples, Energy, Financial Services, Health Care, Materials & Processing, Producer Durables, Technology and Utilities

From September 2020 the Russell Equal Weight Indexes will use the ICB classification system which has 11 industries, 20 supersectors, 45 sectors and 173 subsectors.

<sup>4</sup> After securities' weights are reset, they may change as often as daily as stock prices fluctuate.



- 4.3.3 If a security's sector classification changes following a corporate action event, e.g. spin-off, it will be assigned to the appropriate sector during the implementation of the corporate action. Consequently, the security will match its classification within the Russell Global Index. This also applies to regular, non-corporate action related sector re-classifications.
- 4.4 **How the capacity screen is applied**
  - 4.4.1 To understand the effects of the capacity screen, take a hypothetical nine-sector index with 30 constituent securities. The sector weight for each constituent is defined as  $1/N$ , where N is the number of sectors in the index – in other words, constituent weight is the sector weight divided by the number of constituents in the sector. In the example provided, the constituent weight of Company B is equal to 11.1% divided by 2.
  - 4.4.2 A notional value of \$5 billion is assumed to be invested in the portfolio.
  - 4.4.3 The price of each security is then taken at the quarterly re-weighting date and its notional share position is calculated by dividing the portfolio value by the price of the security.
  - 4.4.4 If the ratio of the notional share amount to the float adjusted shares of the security is greater than 5%, the security is removed from the equal weight index.
  - 4.4.5 In the example provided, the highlighted companies (Company D, Company E, Company U, Company AD) are removed from the hypothetical equal weight index.

Company	Sector	Weight For each sector	# of constituents in sector	Constituent weight	Portfolio Value*	Price	Shares held in portfolio	Float adjusted shares	% of float adjusted shares
Company A	Consumer Discretionary	11.1%	2	5.56%	277,777,778	23	12,077,295	120,772,946,860	0.0%
Company B	Consumer Discretionary	11.1%	2	5.56%	277,777,778	15	18,518,519	1,851,851,852	1.0%
Company C	Consumer Staples	11.1%	4	2.78%	138,888,889	48	2,893,519	72,337,963	4.0%
<b>Company D</b>	<b>Consumer Staples</b>	<b>11.1%</b>	<b>4</b>	<b>2.78%</b>	<b>138,888,889</b>	<b>55</b>	<b>2,525,253</b>	<b>36,075,036</b>	<b>7.0%</b>
<b>Company E</b>	<b>Consumer Staples</b>	<b>11.1%</b>	<b>4</b>	<b>2.78%</b>	<b>138,888,889</b>	<b>19</b>	<b>7,309,942</b>	<b>73,099,415</b>	<b>10.0%</b>
Company F	Consumer Staples	11.1%	4	2.78%	138,888,889	33	4,208,754	1,402,918,070	0.3%
Company G	Energy	11.1%	3	3.70%	185,185,185	67	2,763,958	460,659,665	0.6%
Company H	Energy	11.1%	3	3.70%	185,185,185	42	4,409,171	1,469,723,692	0.3%
Company I	Energy	11.1%	3	3.70%	185,185,185	89	2,080,732	456,300,969	0.5%
Company J	Financials	11.1%	5	2.22%	111,111,111	12	9,259,259	1,381,978,994	0.7%
Company K	Financials	11.1%	5	2.22%	111,111,111	27	4,115,226	4,623,849,817	0.1%
Company L	Financials	11.1%	5	2.22%	111,111,111	1230	90,334	1,290,489,095	0.0%
Company M	Financials	11.1%	5	2.22%	111,111,111	8	13,888,889	462,962,963	3.0%
Company N	Financials	11.1%	5	2.22%	111,111,111	215	516,796	527,342,720	0.1%
Company O	Health Care	11.1%	4	2.78%	138,888,889	43	3,229,974	4,969,191,016	0.1%
Company P	Health Care	11.1%	4	2.78%	138,888,889	27	5,144,033	907,236,847	0.6%
Company Q	Health Care	11.1%	4	2.78%	138,888,889	14	9,920,635	496,031,746	2.0%
Company R	Health Care	11.1%	4	2.78%	138,888,889	73	1,902,588	350,384,442	0.5%
Company S	Industrials	11.1%	2	5.56%	277,777,778	26	10,683,761	267,094,017	4.0%
Company T	Industrials	11.1%	2	5.56%	277,777,778	45	6,172,840	68,587,105,624	0.0%
<b>Company U</b>	<b>Technology</b>	<b>11.1%</b>	<b>6</b>	<b>1.85%</b>	<b>92,592,593</b>	<b>120</b>	<b>771,605</b>	<b>13,536,929</b>	<b>5.7%</b>
Company V	Technology	11.1%	6	1.85%	92,592,593	45	2,057,613	2,611,184,224	0.1%
Company W	Technology	11.1%	6	1.85%	92,592,593	342	270,739	791,633,260	0.0%
Company X	Technology	11.1%	6	1.85%	92,592,593	38	2,436,647	5,378,912,083	0.0%
Company Y	Technology	11.1%	6	1.85%	92,592,593	67	1,381,979	6,008,604,321	0.0%
Company Z	Technology	11.1%	6	1.85%	92,592,593	15	6,172,840	791,389,680	0.8%
Company AA	Utilities	11.1%	2	5.56%	277,777,778	29	9,578,544	2,128,565,347	0.5%
Company AB	Utilities	11.1%	2	5.56%	277,777,778	8	34,722,222	6,123,848,716	0.6%
Company AC	Basic Materials	11.1%	2	5.56%	277,777,778	4	69,444,444	30,062,530,063	0.2%
<b>Company AD</b>	<b>Basic Materials</b>	<b>11.1%</b>	<b>2</b>	<b>5.56%</b>	<b>277,777,778</b>	<b>58</b>	<b>4,789,272</b>	<b>53,214,134</b>	<b>9.0%</b>

\* This hypothetical example is for illustration only and is not intended to reflect an actual value.



## Section 5

# Industry Classification Benchmark (ICB)

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### 5.0 Industry Classification Benchmark (ICB)<sup>5</sup>

#### 5.1 Classification Structure

5.1.1 The Russell Equal Weight Index Series constituents are classified into Industries, Supersectors, Sectors and Subsectors, as defined by the Industry Classification Benchmark (ICB).

5.1.2 Details of the Industry Classification Benchmark are available from FTSE Russell and published on the FTSE Russell website ([www.ftserussell.com](http://www.ftserussell.com)) and can be accessed using the following link:

[Industry Classification Benchmark](#)

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<sup>5</sup> The Russell Equal Weight Index Series will move from the Russell Global Sectors (RGS) classification system to the ICB classification system in September 2020. Russell US related indexes will migrate to the new ICB classification system in September 2020.



## Appendix A: Further Information

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A Glossary of Terms used in FTSE Russell's Ground Rule documents can be found using the following link [Glossary.pdf](#)

For further information on the Russell Equal Weight Index Series visit [www.ftserussell.com](http://www.ftserussell.com) or e-mail [info@ftserussell.com](mailto:info@ftserussell.com). Contact details can also be found on this website.

**Website:** [www.ftserussell.com](http://www.ftserussell.com)

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