Construction and methodology

Russell Europe SMID 300 Index and Russell Eurozone SMID 150 Index
Russell indexes overview

Russell is a provider of global and U.S. equity indexes to which US$5.7 trillion\(^1\) in assets are benchmarked. Russell has been providing float-adjusted, market capitalization-weighted indexes for more than thirty years. Today, more institutional funds track the Russell U.S. indexes than all other U.S. equity indexes combined.\(^2\)

In 2007, Russell seamlessly applied its innovative and pioneering U.S. indexes methodology to the world’s equity markets and launched its family of global indexes. Covering 46 global markets, the Russell Global Indexes provide comprehensive global-relative benchmarks and represent 98% of the investable global equity markets.

This document describes the construction and methodology of the Russell Europe SMID 300 and Russell Eurozone SMID 150 Indexes.

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\(^1\) Source: Russell data as of December 31, 2014

Russell indexes benefits

**Transparent and rules-based.** Russell indexes are constructed using a rules-based, transparent methodology for creating ideal indexes. Construction and methodology documents are publicly available to maintain full transparency.

**Full annual reconstitution.** To ensure that market segments are accurately represented, Russell indexes are reconstituted annually. Over time, securities change in their size and style characteristics. Annual reconstitution ensures securities are accurately classified and included in the appropriate market cap and style indexes.

**Leading methodology.** Russell pioneered the concept of free float adjustment in 1983, and its indexes have been fully float-adjusted since their introduction the following year. Multi-factor and multi-style methodology was incorporated in 1994 allowing for 15 years of comprehensive style and factor history. Much of Russell’s index innovative methodology is now considered industry standard. As managers seek new alpha generating strategies and alternative weighting methods, Russell designs benchmarks to accurately capture these investment strategies and alternative weighting methods including GDP weighting, equal weighting, fundamental weighting, high dividend, high efficiency defensive, factor and geographic exposure indexes.
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Section 1

Product definitions

The Russell Europe SMID 300 Index
The Russell Europe SMID 300 Index is a rapidly tradable index that encapsulates the behaviour of the small- and mid-cap (SMID) European equity markets. By design, the index has a limited number of highly liquid constituents, allowing easy market access, while maintaining Russell's tradition of rules-based, transparent index construction. Its innovative approach to constituent selection ensures easy and rapid trading of each underlying constituent and of the investable products based on the index as a whole, and a broad representation of stocks from across the capitalisation range. Tradable products based on the Russell Europe SMID 300 Index are likely to represent a lower implementation cost alternative to existing indexes used as proxies for small- and mid-cap markets.

The Russell Eurozone SMID 150 Index
The Russell Eurozone SMID 150 Index is a subset of the Russell Europe SMID 300 Index, comprising only constituents both domiciled in the developed eurozone countries and traded in Euros. It shares the same primary characteristics as its parent index.
Section 2

Index construction

The starting universe for the Russell Europe SMID 300 Index is the Developed European securities within the Russell Global Index (RGI), a float-adjusted, market capitalisation–weighted index of approximately 10,000 liquid and investable stocks.

All companies in the Russell Global Index are ranked by market-capitalisation in descending order and the cumulative total market capitalisation percentile for each company is calculated. The Russell Developed Europe SMID Index constituents are those Developed European companies falling between the 75th and 95th percentile of global market capitalisation.

At reconstitution each year five percent bands are implemented at both the bottom and the top of the index, which means that an existing member remains within the index if it ranks between the 72.5th percentile and 97.5th percentile. For a security that is new to the Russell Global Index, the 75th percentile and 95th percentile breakpoints are used to determine membership.

Full details of country assignment, country classification, liquidity, float-adjusted market capitalisation and the construction of the Russell Global al SMID Index, are included within the Russell Global Index construction and methodology document, available at ftserussell.com.

The Russell Global Index and its sub-indexes are comprehensive, rules-based, objectively maintained, consistent and reliable indicators of global equity markets performance. More information on the construction and methodology of the RussellGlobal Index is available at ftserussell.com.

Liquidity screening

Russell Developed Europe SMID Index constituent securities are then screened to remove those without a listing on a European securities exchange.

Constituents must also have a minimum average daily trading volume (ADTV) of €2,000,000.
ADTV is defined as annual accumulated trading value divided by the number of available trading days (open for trading). This figure is initially calculated in dollars and then converted into Euros at each reconstitution. For additional information on ADTV, go to the Russell Global Index construction and methodology document available on ftserussell.com.

From the selection universe, a day to trade (DTT\(^3\)) figure is calculated for each potential constituent:

Rank stocks in ascending order of Stock DTT = \(\text{Stock Float adjusted market cap} / \text{Stock ADTV}\)

**Membership**

Candidates are then ranked in as ascending order of DTT and the first 300 stocks with the lowest DTT (i.e. the highest speed to trade) are selected for the Russell Europe SMID 300 Index. The Russell Eurozone SMID 150 Index comprises the 150 constituents from the Russell Europe SMID 300 Index with the lowest DTT that are both listed on a developed eurozone stock exchange and traded in Euros. In all other respects the Russell Eurozone SMID 150 Index assumes the same design and functionality of its parent index.

**Float adjustments**

As with all of Russell’s indexes, members of the Russell Developed Europe SMID Index, Russell Europe SMID 300 Index and Russell Eurozone SMID 150 Index are float-adjusted, and weighted by float-adjusted market capitalisation.

**Reconstitution**

The parent index for the Russell Europe SMID 300 Index is the Russell Global SMID Index, which is a component of the Russell Global Index. The parent index for the Russell Eurozone SMID 150 Index is the Russell Europe SMID 300 Index.

More information on the reconstitution of the Russell Global SMID Index is included within the Russell Global Index ‘s construction and methodology document, available at ftserussell.com.

Reconstitution of the Russell Europe SMID 300 and Russell Eurozone SMID 150 Indexes is effective the last Friday in June, with the following exceptions: if the last Friday in June is the 28th, 29th or 30th, reconstitution will occur on the Friday prior. A full calendar for reconstitution is made available each spring on ftserussell.com.

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\(^3\) DTT is a Russell developed measure of how long it would take to trade each stock in a given index as a component of an index trade. Selecting the stocks with the lowest DTT allows a basket of stocks to be traded more rapidly than would a comparable basket of stocks selected by any other liquidity screening methodology, such as pure ADTV.
Graphical representation

Russell Europe SMID 300

**RUSSELL GLOBAL INDEX**

**RUSSELL EUROPE SMID 300 INDEX**

For each index, stocks are ranked in ascending order of days to trade (DTT)

\[
\text{STOCK DTT} = \frac{\text{stock float-adjusted market capitalisation}}{\text{stock ADTV}}
\]

RUSSELL EUROZONE SMID 150 INDEX

For each index, stocks are ranked in ascending order of days to trade (DTT)

ELIGIBILITY SCREENING RANKING

**POTENTIAL CONSTITUENTS:**

- Must trade on a European securities exchange
- Must have a minimum average daily trading value (ADTV) of €2,000,000

**RUSSELL EUROPE SMID 300 INDEX**

First 300 with the lowest DTT are selected

Rank stocks in ascending order of days to trade (DTT)

**STOCK DTT =**

\[
\text{stock float-adjusted market capitalisation}\, \text{stock ADTV}
\]
Section 3

Maintaining the indexes

Index maintenance / corporate action-driven changes

The members of the Russell Europe SMID 300 and Russell Eurozone SMID 150 Indexes are proactively maintained to reflect daily changes in the European and developed eurozone equity markets as a result of corporate actions. The index follows the same rules for corporate actions as the Russell Global Index, with the exceptions noted below. Complete details of the corporate action treatment for the Russell Global Index can be found within its supporting construction and methodology document, available on ftserussell.com. Constituents removed from the index between annual reconstitutions are not replaced.

The constituents of the indexes follow the rules of the Russell Global Index for corporate actions.

Key elements of the Russell Global Index's treatment of corporate actions are reproduced below.

Corporate actions

- **Splits and dividends** are maintained on a daily basis.
- **Month-end share changes** are adjusted monthly for share amounts greater than 5% on a cumulative basis. This adjustment is always done within a two day notice period. Changes not made before the notice period expires are held to the next month.
- **Rights issues** are price-adjusted daily, with shares being increased on ex-date. Share buy-backs, options converted to shares, or secondary offerings greater than 5% will result in a share adjustment at month end. Mandatory corporate actions are always applied, even if a two day notice has not been provided.
- **Rights offerings** are treated as mandatory corporate actions. If a rights offer goes 'ex' on the same day it was announced, and if the rights offer...
is 'in the money ' (i.e. if the subscription on price is below the cumulative price), we assume that the right has value, and it is exercised automatically. If the rights offer is not fully subscribed, the share increase will remain in place.

- **Special dividends**, those dividends that are not scheduled, will be price-adjusted on the shares for any amount. This adjustment is applied before the markets open, adjusted same day, on the ex-date.

- **IPOs** are included at the an annual index reconstitution, rather than quarterly to limit turnover and allow for longer ‘seasoning’ of each such candidate for constituency. The intent is to ensure that the potential constituent is stable and liquid, and that it meets the above-mentioned criteria, before it is deemed eligible to enter the index screening process. However, if an IPO has been in effect for at least ten business days prior to reconstitution, it will be included in the above-mentioned screening. If it meets all prior tests, it will be considered for inclusion in any of the indexes.

- **Corporate actions** that have been delayed receive synthetic pricing. A synthetic price mimics the price of the acquired entity based on the pricing of its acquirer, and pushes the implementation of the corporate action to the following day. If a target company is acquired for cash on a delayed basis, the target will be removed using the cash terms of the acquisition.
About FTSE Russell

FTSE Russell is a leading global provider of benchmarking, analytics and data solutions for investors, giving them a precise view of the market relevant to their investment process. A comprehensive range of reliable and accurate indexes provides investors worldwide with the tools they require to measure and benchmark markets across asset classes, styles or strategies.

FTSE Russell index expertise and products are used extensively by institutional and retail investors globally. For over 30 years, leading asset owners, asset managers, ETF providers and investment banks have chosen FTSE Russell indexes to benchmark their investment performance and create ETFs, structured products and index-based derivatives.

FTSE Russell is focused on applying the highest industry standards in index design and governance, employing transparent rules-based methodology informed by independent committees of leading market participants. FTSE Russell fully embraces the IOSCO Principles and its Statement of Compliance has received independent assurance. Index innovation is driven by client needs and customer partnerships, allowing FTSE Russell to continually enhance the breadth, depth and reach of its offering.

FTSE Russell is wholly owned by London Stock Exchange Group.

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