

## Annual Russell US index reconstitution period begins with posting of projected additions & deletions

- Breakpoint between US small & large caps down, first time since 2012
- In reversal of fortune, Healthcare sector goes from top to near bottom
- Apple market cap down 27% yet still in top spot by size in Russell 3000<sup>®</sup>
- Russell 3000<sup>®</sup> Index top 10 dominated by technology stocks

Today leading global index provider FTSE Russell posted its official preliminary lists of companies set to enter or leave the U.S. broad-market Russell 3000<sup>®</sup> Index and the Russell Microcap<sup>®</sup> Index when the Russell indexes undergo their annual rebalance after US markets close on June 24. The lists of projected additions and deletions for the Russell indexes, including the Russell Global Index, are now available on the [FTSE Russell website](#).

Each June, the entire family of Russell US and Russell Global Indexes are realigned and recalibrated to reflect market changes in the past year. Approximately \$6 trillion in assets benchmarked to and invested in products based on the indexes, which demonstrates the importance of reconstitution to the market. Approximately \$10 trillion in assets are currently benchmarked to indexes offered by global index provider FTSE Russell, created through the combination of FTSE and Russell indexes last year.

### **Ron Bundy, CEO North America Benchmarks, FTSE Russell, said:**

“We are excited to enter another annual reconstitution process for the Russell indexes. It is a significant event for the US equity market, closely watched by market participants and an extremely important part of maintaining the integrity and relevance of our leading set of US benchmarks.”

### **US equity markets shrink for the first time since 2012**

The Russell 3000<sup>®</sup> Index, representing about 98% of the investable US equity market, is comprised of the US large cap Russell 1000<sup>®</sup> Index (the largest 1,000 US listed stocks by market capitalization) and the US small cap Russell 2000<sup>®</sup> Index (the next 2,000 largest US listed stocks by market capitalization). This year, there will be 184 additions to and 133 deletions from the broad Russell 3000 Index.

This year, changes to the Russell indexes reflect smaller US equity markets and more cautious outlook among US equity market participants. The total market capitalization of the constituents of the Russell 3000 Index slipped from \$25.3 trillion at last year's reconstitution to \$24.1 trillion this year.

Median market cap, or the mid point, for Russell 3000 Index constituents is expected to decrease from \$1.6 billion to \$1.4 billion this year. In addition, the breakpoint between the Russell 1000 Index and the Russell 2000 Index is expected to decline for the first time since 2012, from \$3.4 billion last year to an expected \$2.9 billion, nearly 15% lower than last year.

The smallest stock by market cap in the Russell 2000 at this year's Russell reconstitution has a market cap of \$132.9 million, down 25% versus the smallest small cap last year. The largest small cap by market cap this year will have a \$3.9 billion market capitalization (retained in the Russell 2000 Index due to banding methodology), about 9% smaller than last year's largest company in the Russell 2000.



## Apple still top stock in the US, while Alphabet moves to second in tech heavy top ten

Technology leader Apple (NASDAQ: AAPL), which increased its market cap by 37.6% in last year's Russell reconstitution, is expected to be 27% smaller this year (from \$750.5 billion in 2015 to \$549.7 billion). Despite the decrease in market cap, Apple remains the largest company in the Russell 3000 Index by total market capitalization.

Alphabet (NASDAQ: GOOGL), the third largest company last year by market cap, will become the second largest company in the Russell US Indexes, having increased its market cap by nearly 28% since reconstitution 2015 to \$503 billion. Alphabet overtakes Microsoft (NASDAQ: MSFT), now the third largest Russell US Index constituent by market cap.

In addition, US technology players Facebook, Inc. (NASDAQ: FB) and Amazon.com, Inc. (NASDAQ: AMZN) as well as telecommunications leader AT&T (NYSE: T) will enter the top ten in terms of total market capitalization. As financial stocks face a continued low interest rate environment, financial player J.P. Morgan Chase & Co (NYSE: JPM) will drop out of the top ten, as will as pharmaceutical provider Pfizer Inc. (NYSE: PFE).

## Large cap, value-oriented stocks and defensive sectors led in US

Russell US Index changes in the last year reflect a market primarily led by large-cap, value-oriented stocks and defensive sectors. US large-caps have outpaced small caps as measured by the Russell US indexes since the last Russell reconstitution, with the US large-cap Russell 1000<sup>®</sup> Index level rising just 1% while the US small-cap Russell 2000<sup>®</sup> Index level declined by 5.7%.

Value-oriented US stocks have been strong in the past year, as measured by the Russell 1000<sup>®</sup> Value and Russell 2000<sup>®</sup> Value Indexes which rose by 5.4% and 5.8%, respectively, year-to-date as of May 31<sup>st</sup>.

Russell 1000 Index leader by market cap, Apple, has taken on more value characteristics, moving from 100% growth at last year's Russell reconstitution to an expected 92% growth / 8% value ratio this year and a decreased weight in the Russell 1000<sup>®</sup> Growth Index. Conversely, top 10 Russell 1000 index constituent by market cap, General Electric, (NYSE: GE) will become more of a growth stock this year, moving from 100% value to an expected 81% value / 19% growth ratio and a smaller weight in the Russell 1000<sup>®</sup> Value Index.

Sector shifts across US large- and small-cap stocks show the market favoring defensive sectors for the one year period ending May 31. For the Russell 1000 Index, Utilities (+13.5%) and Consumer Staples (+10.9%) rose the most in the last year, while Healthcare (-4.5%) and Energy (-12.8%) fell the most. A similar story held true for US small caps, with Utilities (+11.4%) and Consumer Staples (+7.6%) rising the most in the Russell 2000 Index, while the Healthcare (-17%) and Energy (-42.4%) sectors negatively affected index performance in the last year.

## Rolf Agather, Head of North America Research, FTSE Russell, said:

"Our annual Russell rebalance this year paints an interesting picture of US market behavior. More volatile and uncertain equity market environments like we have seen since last year and increased caution on the part of market participants help to underscore the importance of maintaining accurate, transparent and comprehensive market measures."

## Index methodology updates

FTSE Russell will make certain methodology adjustments at this year's Russell reconstitution, fine tuning the indexes to provide the most accurate reflection of the investable market. Notable adjustments this year include:

- **Primary Vehicle.** As of 2016 reconstitution, share classes not qualifying for eligibility independently will no longer be aggregated with the shares of the primary vehicle and will be removed from available shares. The only exception to this rule is Berkshire Hathaway class A, which will continue to be rolled up into its primary share class.



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- **Market Capitalization (Free Float) Adjustments.** All officer and director holdings, corporate holdings of listed shares and ESOP / LSOP shares will be considered unavailable and removed from the indexes. Private holdings representing more than 10% and institutional or government pension holdings representing greater than 30% of a company's shares will also be removed for greater precision.

The treatment of corporate actions, including spin-offs and dividend distributions between index company constituents, will also be enhanced for more accurate representation.

FTSE Russell index expertise and products are used by institutional and retail investors globally. Other examples of leading edge index reconstitutions for FTSE Russell include the FTSE Global Equity Index Series and FTSE UK Index Series quarterly reviews and the FTSE Annual Country Classification Review for global markets, which concludes each year in September.

The preliminary lists of additions and deletions are the first public step in Russell's annual reconstitution process. Any updates to the lists will be posted to the [reconstitution website](#) on June 17 and 24. The closely watched final membership lists, with breakouts for the Russell 1000<sup>®</sup> Index, the Russell 2000<sup>®</sup> Index and the Russell Midcap<sup>®</sup> Index, will be posted on Monday June 27.

To complete this year's US reconstitution, Russell uses primary exchange closing prices from NYSE and NASDAQ. About half of the stocks in the Russell 3000 broad market index are listed on either exchange. NYSE-listed stocks utilize NYSE's auction mechanism while NASDAQ-listed stocks utilize NASDAQ's "closing cross" mechanism to execute shares for each stock at a single price on June 24. This year, FTSE Russell will join NASDAQ and other special guests for a special closing bell ceremony at the Nasdaq Market Site in New York's Times Square on Friday, June 24 to mark the completion of this year's Russell reconstitution.

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For further information:

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## Notes to editors:

### **About FTSE Russell:**

FTSE Russell is a global index leader that provides innovative benchmarking, analytics and data solutions for investors worldwide. FTSE Russell calculates thousands of indexes that measure and benchmark markets and asset classes in more than 80 countries, covering 98% of the investable market globally.

FTSE Russell index expertise and products are used extensively by institutional and retail investors globally. Approximately \$10 trillion is currently benchmarked to FTSE Russell indexes. 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.

A core set of universal principles guides FTSE Russell index design and management: a transparent rules-based methodology is informed by independent committees of leading market participants. FTSE Russell is focused on applying the highest industry standards in index design and governance and embraces the IOSCO Principles. FTSE Russell is also focused on index innovation and customer partnerships as it seeks to enhance the breadth, depth and reach of its offering.

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For more information, visit [www.ftserussell.com](http://www.ftserussell.com)

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