

SOLUTION OVERVIEW

Russell US ESG Indexes

Integrating ESG into institutional-grade US equity indexes

Overview

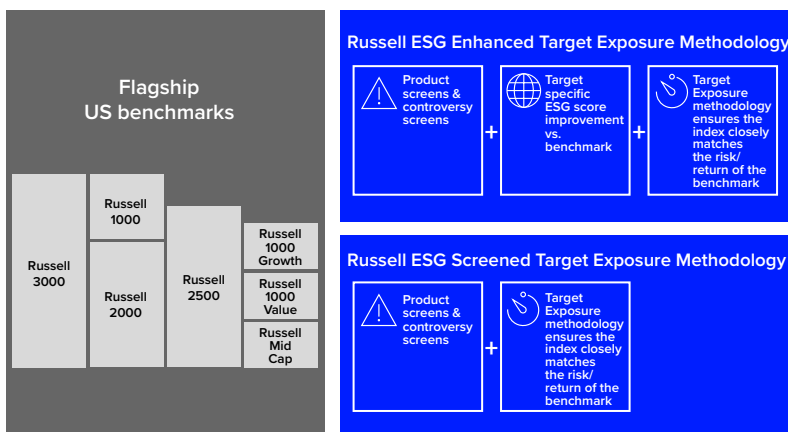
Increasingly, investors are seeking the ability to incorporate sustainable investment considerations within a broad market portfolio without significantly impacting the risk and return characteristics of that industry standard benchmark.

Russell US ESG Indexes are a US equity index family, constructed using robust screening criteria and the 'Enhanced sub-family' also use the innovative LSEG Data & Analytics ESG Scores framework to provide an ESG lens on the US equity universe. Two sub-index families are available, with different levels of exposure to ESG; Russell ESG Enhanced Target Exposure Indexes and the Russell ESG Screened Target Exposure Indexes.

Benefits

The indexes can be used by market participants to benchmark the performance of active ESG funds, as a replacement for core market cap weighted passive portfolios, and in the creation of ETFs, structured products and index-based derivatives.

The Russell US ESG Indexes consists of the following index methodologies:



Features

- Based on the flagship Russell US benchmarks: Russell 1000®, 2000® and 3000®, 1000 Value, 1000 Growth, Midcap and 2500, which captures 98% of the US investable market capitalization. More than \$12 trillion in passive and active funds' track the Russell US indexes
- Russell US Indexes has 40 years of performance, characteristics and sector data available for the major indexes within the Russell US Index family. With separate benchmarks tracking growth and value stocks as industry standards
- The 'ESG Enhanced' indexes are constructed using LSEG Data & Analytics ESG Scores, an innovative framework that is designed to transparently and objectively measure a company's ESG performance, commitment and effectiveness relative to its industry group peers
- Companies with highest ESG controversies are excluded
- Applies FTSE Russell's innovative and transparent target exposure methodology
- Delivers risk/return characteristics similar to the underlying benchmark index universe

1 December 31, 2020 as reported on April 1, 2021 by eVestment for active institutional funds, Morningstar for active retail mutual funds, insurance products, and ETFs, and passive assets directly collected by FTSE Russell.



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Index construction process



Step 1

Starting universe

Start with the market capitalization weighted index: Russell 1000®, Russell 2000®, Russell 2500®, Russell 3000®, Russell 1000® Value, Russell 1000® Growth or Russell Mid Cap.

Step 1 > Step 2

ESG screens

Companies involved in the following business operations are removed: Controversial Weapons, Firearms, Tobacco, Fossil Fuels (Thermal Coal, Oil Sands, and Shale Energy). Companies that potentially breach the United Nations Global Compact principles are also excluded.

Step 1 > Step 2 > Step 3

ESG scores

The **Russell ESG Enhanced Target Exposure indexes** incorporate sustainability issues by targeting specific ESG score improvement versus the benchmark. LSEG Data & Analytics ESG scores measure a company's ESG performance, commitment and effectiveness relative to its industry group peers. Step 3 does not apply to the Russell ESG Screened Target Exposure indexes.

Step 1 > Step 2 > Step 3 > Step 4

Target exposure corrective tilts

The Target Exposure methodology ensures that the index closely matches the risk/return of the benchmark. Factor exposures are neutralized by applying corrective tilts on common factors such as value, size, quality, low volatility, and momentum. Additionally, the Target Exposure approach allows for targeting of specific levels of ESG score improvement while controlling for active industry weights and keeping market beta close to 1. The methodology provides control over tracking error, diversification, capacity, and concentration to ensure the index remains investable.

Step 1 > Step 2 > Step 3 > Step 4 > Step 5

Publish and Review Index

The index is reviewed semi-annually in June and December.

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