Intelligent Indices – What makes a good benchmark?
Russell 3000® Index measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market. The Russell 3000 Index is constructed to provide a comprehensive, unbiased, and stable barometer of the broad market and is completely reconstituted annually to ensure new and growing equities are reflected.

Russell 1000® Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000® Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 Index is constructed to provide a comprehensive and unbiased barometer for the large-cap segment and is completely reconstituted annually to ensure new and growing equities are reflected.

Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000 is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

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When should you review your benchmark?

• As part of your periodic strategic review process
• When there is a substantial change in circumstances
  – Internal
  – External

...recent market events have caused many investors to review their attitudes towards risk, and even active management.
Global Volatility is Still High

Global Markets: 3-year rolling volatility

Source: Russell Investments. All correlations and volatilities are measured on the basis of rolling 36-month performance, unless otherwise noted.
Sectors are driving performance more than countries

Source: Russell Investments. From a multi-beta model based on Russell Global country-sector indexes.
Market indexes are intended to represent a defined stock market and thus track the market's changes over time.
Performance
Benchmark

Asset Class Proxy

Trading Vehicles

To measure an active portfolio’s exposure and performance to market opportunity set.

To represent characteristics of asset classes without the influence of active management.

To provide generic stock baskets for passive management and/or derivatives.
Why is choosing the right benchmark important?
Active Management creates overlaps...

Source: Russell Manager Large Cap Universe & Russell Manager Small Cap Universe
... or adds alpha by taking off-benchmark bets

Average allocation to Emerging Markets by Developed Market managers

Source: Russell Developed Manager Universe 1990-2006
Characteristics of desirable benchmarks

1. Completeness
2. Investability
3. Objectivity
4. Transparency
5. Availability of passive vehicles with low costs
Potential trade-offs

1. Completeness vs. Investability
2. Objectivity vs. Subjectivity
3. Rebalancing frequency vs. Turnover
Summary

– Choice of benchmark is a critical decision in the investment process
– Recent market turmoil has prompted many investors to review their risk tolerance
– Globalization has created a new investing environment
– Investors should understand the characteristics of a desirable benchmark and the potential trade-offs in their construction.