

Revisiting Core Principles

The Russell RAFI™ Index series utilizes fundamental measures of company size (adjusted sales, retained cash flow, and dividends plus buybacks) as a rebalancing anchor to trade against the constantly shifting expectations of the market.

This approach results in overweights to out-of-favor securities, which are often undervalued, and underweights to popular securities, which are often overvalued.

Over the short term, these exposures can cause relative performance to vary, but this simple, disciplined approach has historically outperformed the cap-weighted benchmark over the long-term.

As a rebalancing strategy that trades against recent winners, the Fundamental Index™ methodology will often face performance headwinds during periods of trending prices, sustained momentum, or extreme value underperformance - and benefit from performance tailwinds during periods of security mean reversion or value outperformance.

The Russell RAFI™ US Small Company Index is comprised of US companies in the bottom 12.5% by fundamental weight at the time of reconstitution.

Performance

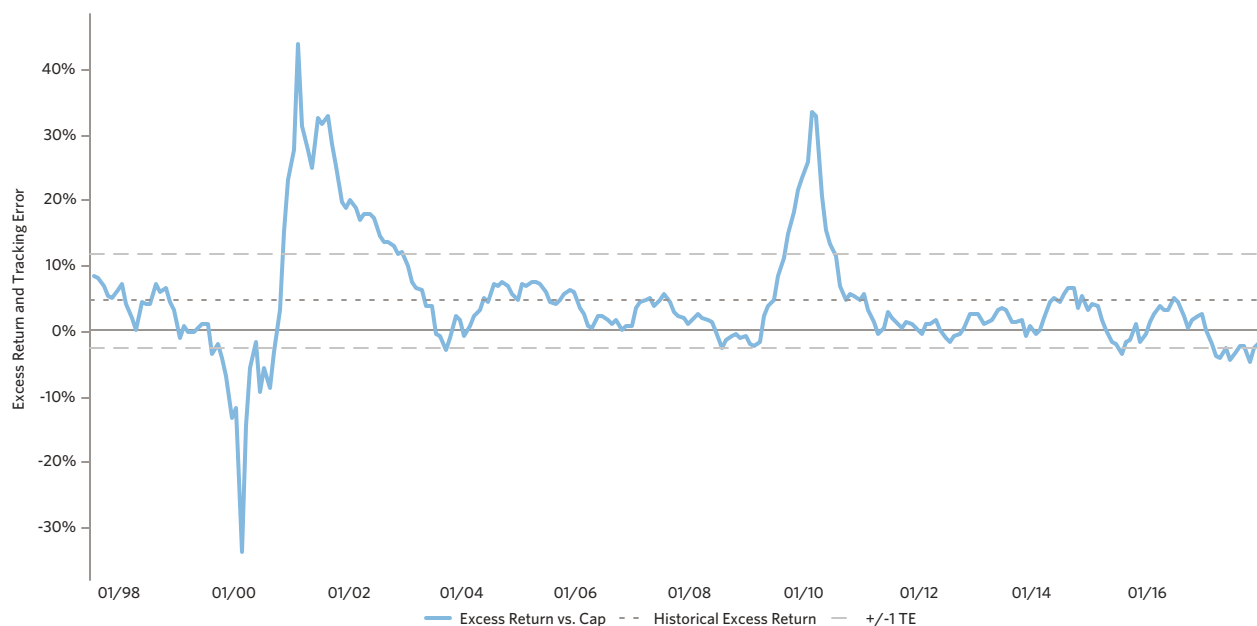
Exhibit 1:
Performance Table

Exhibit 2:
Rolling 1-Year Excess Returns

Exhibit 1: Performance Tableⁱ

	QTD	1-Yr	3-Yr	5-Yr	10-Yr	ITD*
Russell RAFI™ US Small Co Index	5.2%	13.0%	10.0%	15.0%	11.5%	11.9%
Russell 2000 Index	3.3%	14.6%	10.0%	14.1%	8.7%	11.1%
Value Added	1.8%	-1.6%	0.1%	0.8%	2.8%	0.8%
MSCI USA Small Cap - Gross Return	4.9%	17.3%	10.6%	15.0%	10.2%	12.0%
Portfolio Standard Deviation		7.4%	12.8%	12.8%	20.9%	14.9%
Benchmark Standard Deviation		7.8%	14.1%	13.9%	19.9%	15.4%
Tracking Error		2.3%	3.2%	3.3%	4.2%	3.1%

Exhibit 2: Rolling 1-Year Excess Returnsⁱⁱ



i. Exhibit 1.
Performance derived from FactSet. All returns are total returns in USD. All returns greater than one year are annualized. Standard deviation and tracking error require a minimum of 1 year return history.
*Inception to Date (ITD) returns are calculated starting the first full month of returns following February 24, 2011.

ii. Exhibit 2.
Performance derived from FactSet. All returns are total returns in USD. Rolling 1-year excess returns and tracking error are calculated starting August 31, 1996. If applicable, strategy returns prior to inception are simulated. Inception date is February 24, 2011.

The Value Premium

The strategy invests broadly across the entire economy; however a byproduct of the strategy's rebalancing process is a value tilt.

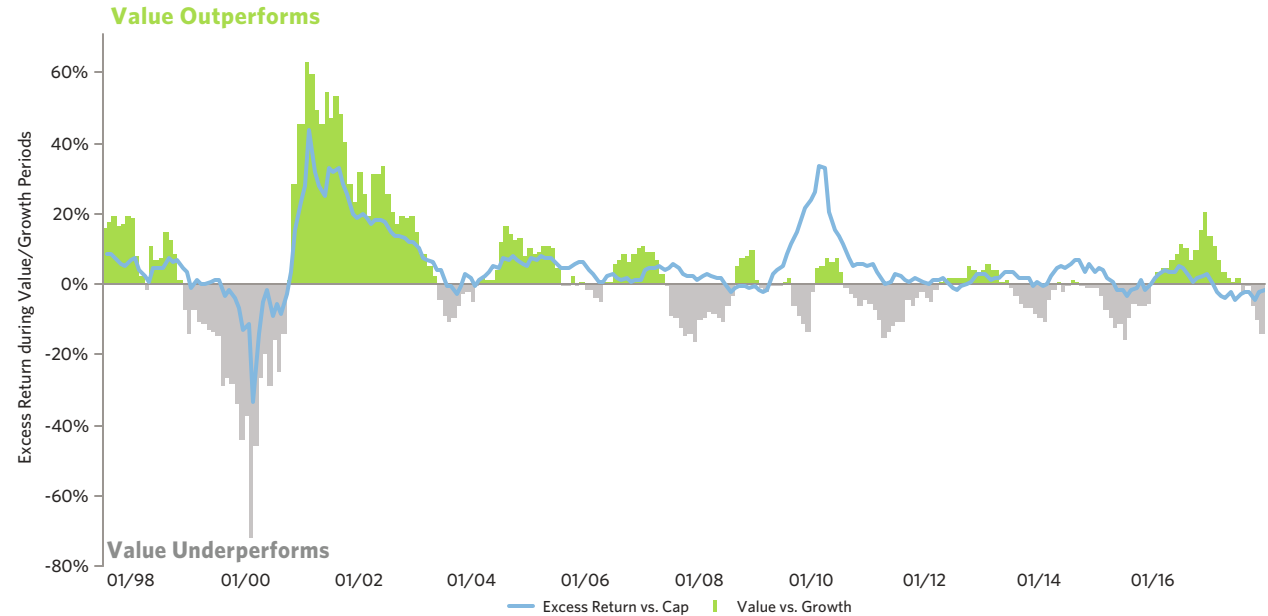
On a one-year rolling basis, the Russell RAFI™ US Small Co Index outperformed 88% of the time when value won and 63% of the time when growth won.

Generally, excess returns were achieved by taking advantage of mean reversion in stock prices which can sometimes take several years to run its course.

The Russell RAFI™ US Small Co Index delivered consistent outperformance over full market cycles, with positive excess returns in 76% of rolling 1-year periods, 93% of rolling 3-year periods, and 100% of rolling 5-year periods.

Exhibit 3: Rolling 1-Year Excess Returns

Exhibit 3: Rolling 1-Year Excess Returnsⁱ



i. Exhibit 3.
Russell RAFI™ US Small Co Index rolling 1-year excess returns are measured against Russell 2000 Index. Value / Growth periods measured by rolling 1-year excess returns of Russell 2000 Value Index vs. Russell 2000 Growth. Calculation starts on August 31, 1996. Strategy returns prior to inception are simulated. Strategy inception is February 24, 2011.

Portfolio Characteristics

The Russell RAFI™ US Small Co Index is attractively positioned relative to the cap-weighted benchmark.

Exhibit 4:
Portfolio Characteristics

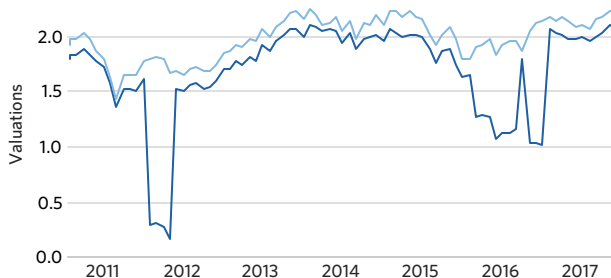
Exhibit 5:
Historical Portfolio Characteristics

Exhibit 4: Portfolio Characteristicsⁱ

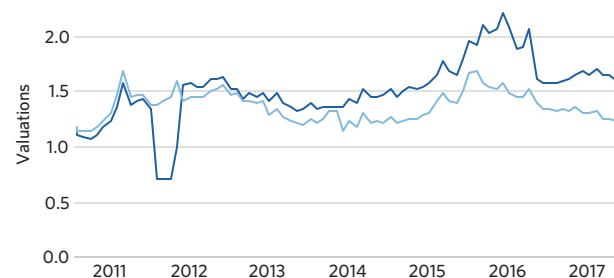
	Number of Holdings	Active Share	Price to Sales	Price to Cash Flow	Price to Book	Div. Yield	Market Cap. (Billions)	Sharpe Ratio*	Info. Ratio*	Tracking Error*
Russell RAFI™ US Small Co Index	892	59.8	1.0	9.9	2.1	1.6%	5	0.79	0.28	3.1%
Russell 2000	1983	--	1.3	10.3	2.2	1.2%	2	0.71	--	--

Exhibit 5: Historical Portfolio Characteristicsⁱⁱ

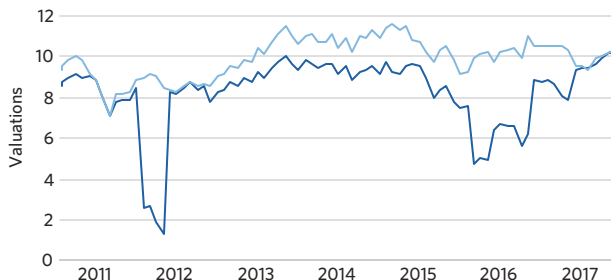
Price to Book



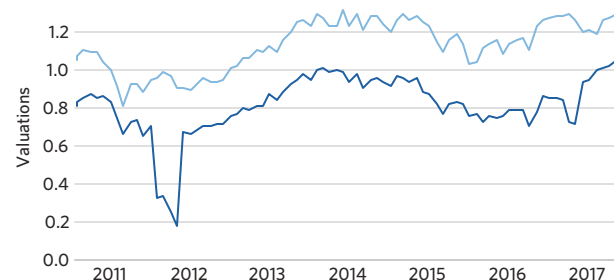
Dividend Yield (%)



Price to Cash Flow



Price to Sales



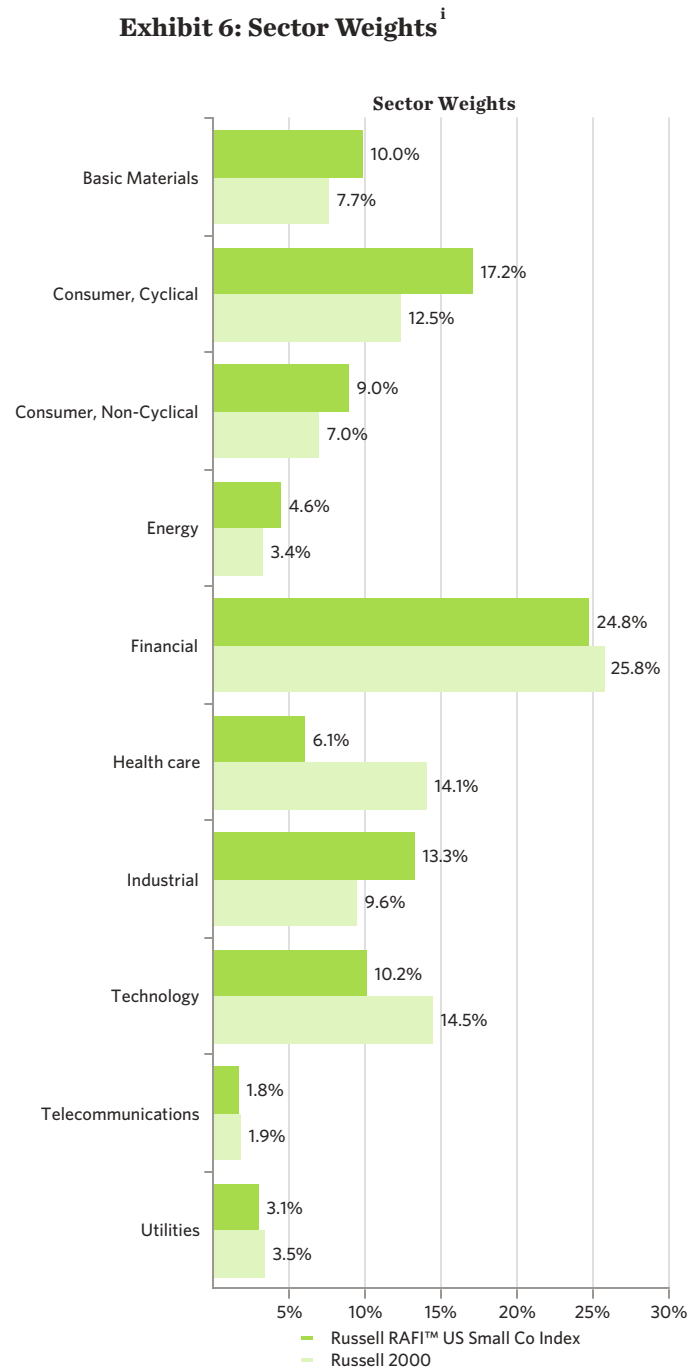
— Russell RAFI™ US Small Co Index (Left) — Russell 2000 (Left)

i. Exhibit 4.
Portfolio characteristics data derived from FactSet.
*Sharpe Ratio, Information Ratio, and Tracking Error are calculated starting the first full month of returns following February 24, 2011. Minimum 1-year return history. The 3-mo US Treasury Bill return is used as a proxy for risk-free rate. If applicable, strategy returns prior to inception are simulated. Inception date is February 24, 2011.

ii. Exhibit 5.
Portfolio characteristics derived from FactSet. Data prior to strategy inception is simulated. Strategy inception is February 24, 2011.

Current Position

Exhibit 6: Sector Weights



ⁱ. Exhibit 6.
Portfolio characteristics data derived from FactSet.



Current Position

Exhibit 7:
Top 10 Holdings

Exhibit 8:
Top Over/Underweights

Exhibit 7: Top 10 Holdingsⁱ

Russell RAFI™ US Small Co Index vs. Russell 2000 Index					
Index	Weights	1-Yr Perf.	Benchmark	Weights	1-Yr Perf.
Cannae Holdings, Inc.	0.3%	23.4%	Nektar Therapeutics	0.4%	389.5%
California Resources Corp	0.3%	-4.7%	bluebird bio, Inc.	0.4%	186.8%
Gannett Co., Inc.	0.3%	27.7%	SAGE Therapeutics, Inc.	0.3%	230.9%
Guess?, Inc.	0.3%	48.6%	Exact Sciences Corporation	0.3%	288.3%
Kennametal Inc.	0.3%	56.8%	GrubHub, Inc.	0.3%	91.0%
Copart, Inc.	0.3%	55.6%	Catalent Inc	0.3%	53.8%
Time, Inc.	0.3%	4.5%	Curtiss-Wright Corporation	0.3%	23.8%
Verisk Analytics Inc	0.3%	17.5%	Knight-Swift Transportation	0.3%	32.0%
Cimarex Energy Co.	0.3%	-10.3%	EPAM Systems, Inc.	0.3%	67.1%
Deckers Outdoor Corporation	0.3%	45.1%	MGIC Investment	0.3%	37.1%

Exhibit 8: Top Over/Underweightsⁱ

Russell RAFI™ US Small Co Index vs. Russell 2000 Index					
Top Overweights	Active Weights	1-Yr Total Effect	Top Underweights	Active Weights	1-Yr Total Effect
Copart, Inc.	0.3%	0.1%	Nektar Therapeutics	-0.4%	-0.3%
Verisk Analytics Inc	0.3%	0.0%	bluebird bio, Inc.	-0.4%	-0.2%
Cimarex Energy Co.	0.3%	0.1%	SAGE Therapeutics, Inc.	-0.3%	-0.2%
Hilton Worldwide Holdings Inc	0.3%	0.0%	Exact Sciences Corporation	-0.3%	-0.2%
Red Hat, Inc.	0.3%	0.1%	GrubHub, Inc.	-0.3%	-0.1%
Aptargroup, Inc.	0.3%	0.0%	MGIC Investment	-0.3%	-0.1%
Cabot Corporation	0.3%	0.0%	Sterling Bancorp	-0.3%	0.0%
E*TRADE Financial Corporation	0.3%	0.1%	EMCOR Group, Inc.	-0.2%	0.0%
Landstar System, Inc.	0.3%	0.0%	Dana Incorporated	-0.2%	-0.1%
Southern Copper Corporation	0.3%	0.1%	Blackbaud, Inc.	-0.2%	-0.1%

i. Exhibit 7, Exhibit 8.
Portfolio characteristics and securities data derived from FactSet. 1-Yr Total Effect is calculated using a holdings based attribution, and measures the impact that a security had on relative performance. It is a function of the active weight of a company as well as that company's performance versus the overall benchmark.



Attribution

Exhibit 9: Sector Attribution

Exhibit 9: Sector Attributionⁱ

1-Quarter Ending 12/31/2017

1-Year Ending 12/31/2017

Sector	Portfolio Weight	Bench. Weight	Sector Excess Return	Allocation Effect	Selection + Interaction Effect	Total Effect	Sector	Portfolio Weight	Bench. Weight	Sector Excess Return	Allocation Effect	Selection + Interaction Effect	Total Effect	
Basic Materials	9.96%	7.68%	2.59%	0.05%	0.04%	0.09%	Basic Materials	9.96%	7.68%	4.70%	0.05%	0.12%	0.17%	
Consumer, Cyclical	17.20%	12.48%	4.63%	0.18%	0.10%	0.28%	Consumer, Cyclical	17.20%	12.48%	-0.49%	0.04%	-0.08%	-0.04%	
Consumer, Non-Cyclical	9.01%	7.03%	2.60%	0.04%	0.06%	0.09%	Consumer, Non-Cyclical	9.01%	7.03%	-9.16%	-0.09%	-0.12%	-0.21%	
Energy	4.55%	3.36%	9.55%	0.06%	0.22%	0.27%	Energy	4.55%	3.36%	-56.76%	-0.75%	-0.21%	-0.97%	
Financial	24.82%	25.81%	0.43%	0.03%	0.64%	0.68%	Financial	24.82%	25.81%	-5.01%	0.14%	0.32%	0.46%	
Health care	6.10%	14.11%	-2.87%	0.00%	-0.19%	-0.19%	Health care	6.10%	14.11%	8.16%	-1.49%	0.28%	-1.21%	
Industrial	13.30%	9.60%	2.18%	0.06%	0.07%	0.13%	Industrial	13.30%	9.60%	0.84%	0.03%	0.01%	0.05%	
Technology	10.20%	14.49%	-0.92%	0.10%	0.18%	0.28%	Technology	10.20%	14.49%	6.27%	-0.18%	0.23%	0.05%	
Telecommunications	1.76%	1.90%	-0.37%	0.01%	0.09%	0.10%	Telecommunications	1.76%	1.90%	-11.64%	0.03%	0.00%	0.02%	
Utilities	3.10%	3.54%	0.25%	0.01%	0.08%	0.09%	Utilities	3.10%	3.54%	2.21%	0.00%	0.04%	0.03%	
						Excess Return							Excess Return	-1.64%

i. Exhibit 9
Portfolio characteristics and securities data derived from FactSet. The attributions have been normalized to match the return of the strategy, as presented in the performance table on page 2. Data prior to strategy inception is simulated. Strategy inception is February 24, 2011.

Disclosures

Source: FactSet based on data from FTSE Russell.

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Prior to 11/1/2016, the 1-yr performance values reported in the Top 10 Holdings exhibit and the Top Over/Underweights exhibit were incorrect. The calculation has been modified to report the appropriate values moving forward.

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