U.S. Equity Index Benchmark Usage

Prepared by Matthew T. Smith and Deepak George
Russell Product & Marketing Research
Issued: June 2006

Summary

Russell's market share for U.S. equity benchmarks used by institutional investors continues to grow and now accounts for 54% of the products and 52% of the assets benchmarked. S&P's market share continues to decline, dropping to 33% and 39% respectively. All other index provider's market share remains flat or in decline.

Background

In the October 1998 issue of *MarketPlace News*, Nelson Information published a study measuring the most frequently used benchmarks by U.S. equity investment products. The study listed the top 25 benchmarks used among the 3,333 primarily institutional products, including index funds, in the Nelson database. Their analysis showed that eight of the top 10 fastest growing benchmarks between 1996 and 1998 were Russell indexes. The study also noted that usage of the S&P 500 Index as a benchmark had declined significantly since 1996. While Nelson did not set out to measure market share in this study, it is easily derived by simply combining benchmark usage data for each index provider.

Since this was a one-time study done by Nelson, Russell researchers replicated Nelson's basic methodology in June of 2002 and have conducted this replication every June since. Over this period, they found the trend Nelson originally identified continues: more and more institutional investors are using Russell indexes as their benchmark. ***In fact, in 2003, the number of institutional investment products utilizing a Russell benchmark surpassed those using an S&P benchmark for the first time. And in 2005, Russell surpassed S&P in institutional assets benchmarked.*** This study is the latest installment in the series which now provides data covering 10 years.

Methodology

Like Russell's Index methodology, our market share calculation methodology is *transparent*. Using Nelson's *MarketPlace Web* database, Russell researchers found 4,338 products classified as U.S. equity as of May 31st, 2006. Of these, 3,106 (72%) reported a benchmark, a ratio consistent with previous research.

One limitation Russell observed in using Nelson's original study to calculate market share was that Nelson included products with unreported benchmarks in their calculations, causing the percentage of products reporting use of a given provider's index as a benchmark to be understated. Using this method, in effect, gives "unreported benchmark" a market share of 28%. To overcome this limitation, Russell adopted a common market share calculation method by basing their calculations only on those investment products for which a benchmark was reported.

In addition, Russell included a look at equity style products claiming a growth or value oriented benchmark in order to determine usage of Russell indexes in this sub-market.

Findings

Use of Russell indexes as a benchmark continues to increase, while use of S&P indexes is still declining. As seen in Tables 1 and 2:

- 54.5% of the institutional U.S. equity products reporting a benchmark now use Russell, up from 52% in 2005, nearly triple Russell's 18.5% market share ten years ago.
- Just over half (52.2%) the assets are now benchmarked to Russell, nearly double Russell's 28.1% share four years ago.
- S&P has declined from about three-fourths (73.6%) of the products in 1996 to about one-third (32.5%) now. Assets benchmarked to S&P, which include index funds, have declined from 62.5% in 2002 to 39.2% now.
- Wilshire, NASDAQ, Lipper, MSCI, AMEX, and Dow Jones continue to experience zero, flat, or declining market share.

Table 1: Index Provider Market Share by Percent of Products Benchmarked

	% of U.S. Institutional Equity Products						
Index Provider	**1996**	**1998**	**2002**	**2003**	**2004**	**2005**	**2006**
Russell	18.5	27.9	39.3	45.5	48.6	52.0	54.5
S&P	73.6	64.6	49.9	42.5	37.7	34.9	32.5
Wilshire	1.1	1.2	1.6	1.7	1.0	0.9	0.5
NASDAQ	2.0	1.2	0.8	0.6	0.5	0.5	0.5
Lipper	1.4	1.5	0.8	0.6	0.3	0.2	0.2
AMEX	--	--	--	--	--	--	0.2
Dow Jones	0.5	0.5	0.3	0.3	0.2	0.1	0.1
MSCI	--	--	--	--	0.0	0.0	0.1
Other	2.8	3.2	7.3	8.8	11.7	11.4	11.5
Total	100	100	100	100	100	100	100

Compiled by Russell Product & Marketing Research using data from Nelson Information's *MarketPlace Web* database and *1998 Survey of Performance Benchmarks.* See Table 4A and associated notes in the Appendix for more detail.

Table 2: Index Provider Market Share by Percent of Assets Benchmarked

Index Provider	% of U.S. Institutional Equity Product Assets				
	2002	2003	2004	2005	2006
Russell	28.1	38.9	43.1	49.5	52.2
S&P	62.5	49.8	47.1	41.4	39.2
Wilshire	0.8	1.3	2.1	1.7	1.0
NASDAQ	0.3	0.4	0.1	0.1	0.1
Lipper	0.4	0.2	0.1	0.0	0.0
Dow Jones	0.1	0.1	0.0	0.0	0.0
AMEX	--	--	--	--	0.0
MSCI	--	--	0.0	0.0	0.0
Other	7.9	9.3	7.4	7.3	7.4
Total	100	100	100	100	100

Compiled by Russell Product & Marketing Research using data from Nelson Information's *MarketPlace Web* database. See Table 4B and associated notes in the Appendix for more detail. No asset data available for 1996 and 1998.

In the style investing arena, Table 3 shows how dominant Russell is as a provider, accounting for more than 95% of growth and value oriented products and assets benchmarked.

Table 3: Russell's Style Investing Market Share: 2006

	Total Benchmarked To Any Style Index		Total Benchmarked To Russell Style Indexes		Percent Benchmarked To Russell Style Indexes	
	Products	Assets ($bil)	Products	Assets ($bil)	Products%	Assets %
Growth	610	733.3	594	712.1	97.4%	97.1%
Value	545	944.3	519	932.5	95.2%	98.8%
Total	1,155	1,677.6	1,113	1,644.7	96.4%	98.0%

Compiled by Russell Product & Marketing Research using data from Nelson Information's *MarketPlace Web* database. The following growth and value indexes were included, and each was listed as a benchmark by at least one product during the reporting period. Growth Indexes: Lipper Growth Funds, Lipper Small Company Growth Funds, Russell 1000® Growth, Russell 2000® Growth, Russell Midcap® Growth, Russell Top 200® Growth, S&P/BARRA Growth, S&P/BARRA MidCap 400 Growth. Value Indexes: BARRA/IBES Big Value, Russell 1000® Value, Russell 2000® Value, Russell Midcap® Value, Russell Top 200® Value, S&P/BARRA Value, S&P/BARRA MidCap 400 Value, Wilshire Large Company Value.

As for specific indexes most frequently benchmarked, Table 5A and 5B in the Appendix show:

- The S&P 500 Index is still firmly in first place, despite a decline of nearly 36% since 1996 in number of products and a decline in assets to below $1.6 trillion.
- The Russell 1000 Growth Index moved up another slot this year to 3rd place in number of products and is on track to pass the 2nd place Russell 2000 Index.
- The Russell 1000 Value and Russell 1000 Growth Indexes have grown dramatically since 1996 in assets and now account for over $1 trillion combined. The Russell 2000 Index is actually 3rd among Russell indexes in assets benchmarked at $221.1 billion.

- The Russell 1000 Index moved from 10th on the asset list in 2005 to 6th this year, accounting for $146.1 billion benchmarked.
- Since 1996, every Russell index in Table 5A and 5B has experienced increases in the number of products and assets benchmarked, a claim no other provider can make.

Conclusion

Russell indexes are being selected by institutional investors and their managers in increasingly larger numbers and now account for more than half of all products and assets benchmarked, far ahead of 2nd place provider S&P. We suspect there are multiple reasons driving this dramatic shift. One may be an increase in the overall popularity of equity style investing, for which Russell is a well established provider. However, declining use of S&P style indexes since 2002 (see Appendix, Table 5A) suggests there may also be an increased preference for Russell's transparency and focus on letting the market determine the indexes. Whatever the reason, it is clear that Russell continues to be the index provider of choice for much of the investment management community.

Appendix

Table 4A: Data Used to Derive Product Market Share for Table 1

	U.S. Institutional Equity Products Benchmarked						
Index Provider	**1996**	**1998**	**2002**	**2003**	**2004**	**2005**	**2006**
Russell	372	623	922	1,148	1,355	1,536	1,693
S&P	1,481	1,444	1,170	1,072	1,051	1,030	1,010
Wilshire	23	26	37	43	29	28	15*
NASDAQ	40	26	19	16	15	14	14
Lipper	28	33	18	16	8	6	5
Dow Jones	11	11	8	7	6	3	3
AMEX	--	--	--	--	--	--	7
MSCI	--	--	--	--	1	1	2
Other	57	71	172	222	326	336	357*
Total Reporting A Benchmark	2,012	2,234	2,346	2,524	2,790	2,954	3,106
Not Reported	914	1,099	1,266	1,151	1,234	1,135	1,232
Total Database	2,926	3,333	3,612	3,675	4,024	4,089	4,338

Table 4B: Data Used to Derive Asset Market Share for Table 2

	U.S. Institutional Equity Product Assets Benchmarked ($bil)						
Index Provider	**1996**	**1998**	**2002**	**2003**	**2004**	**2005**	**2006**
Russell	--	--	842.0	924.2	1,394.5	1,895.5	2,244.2
S&P	--	--	1,873.8	1,185.1	1,522.3	1,584.9	1,683.9
Wilshire	--	--	24.1	31.0	66.5	63.4	43.5*
NASDAQ	--	--	10.4	9.9	4.7	4.5	4.1
Lipper	--	--	12.4	4.2	2.9	1.8	1.3
Dow Jones	--	--	1.7	2.0	0.8	0.5	0.3
AMEX	--	--	--	--	--	--	1.4
MSCI	--	--	--	--	0.0	0.0	0.6
Other	--	--	235.6	222.2	240.5	279.2	317.2*
Total Reporting A Benchmark	--	--	3,000.0	2,378.6	3,232.2	3,829.8	4,296.3
Not Reported	--	--	419.8	255.0	369.7	345.7	414.5
Total Database	--	--	3,419.8	2,633.6	3,601.9	4,175.5	4,710.7

Compiled by Russell Product & Marketing Research using Nelson Information's *MarketPlace Web* database and *1998 Survey of Performance Benchmarks*. Products analyzed are primarily institutional oriented mutual funds, separate accounts, and commingled funds. REIT oriented benchmarks from all providers are included in "Other". *The Wilshire Real Estate Securities Index was added to "Other" in 2006. Nelson's 1998 study did not provide a complete data table for 1996 and 1998, but rather reported the 25 most frequently used product benchmarks, including "Other", along with the total number of products in the database. Therefore, the number of products in the "Not Reported" category was estimated for those two years and is likely overstated relative to later years, while the number reported as "Other" is slightly understated for the same years. Nelson did not provide product assets for 1996 and 1998. Some column data may not add up to total due to rounding.

Table 5A: Most Frequently Used U.S. Equity Benchmarks: Number of Products

Index	U.S. Institutional Equity Products Benchmarked						
	1996	1998	2002	2003	2004	2005	2006
S&P 500	1,379	1,306	1,009	924	919	901	888
Russell 2000	216	299	289	255	264	275	273
Russell 1000 Growth	23	47	78	128	168	219	264
Russell 1000 Value	25	41	130	177	219	243	252
Russell 2000 Growth	31	81	116	174	194	210	224
Russell 2000 Value	6	17	65	103	136	159	170
Russell 2500™	23	42	53	55	69	81	108
Russell Midcap Growth	5	25	41	75	90	96	103
Russell Midcap Value	--	--	33	41	67	79	94
Russell 3000	12	23	39	39	52	69	92
S&P MidCap 400	73	89	84	73	63	59	62
Russell Midcap®	12	28	41	50	45	49	53
Russell 1000®	19	20	29	43	43	48	52
S&P/BARRA Value	10	21	37	35	30	30	23
S&P Small Cap 600	5	10	11	12	11	14	13
Wilshire 5000	16	18	16	15	12	12	13
S&P/BARRA Growth	14	18	18	16	16	15	11

Table 5B: Most Frequently Used U.S. Equity Benchmarks: Assets

Index	U.S. Institutional Equity Product Assets Benchmarked ($bil)						
	1996	1998	2002	2003	2004	2005	2006
S&P 500	--	--	1,679.8	1,096.9	1,431.8	1,482.9	1,576.7
Russell 1000 Value	--	--	172.1	227.5	417.5	547.6	621.4
Russell 1000 Growth	--	--	145.9	165.2	262.6	358.4	454.2
Russell 2000	--	--	198.2	140.7	162.5	201.4	221.1
Russell 2000 Value	--	--	38.5	54.0	106.9	155.5	193.6
Russell 1000®	--	--	47.6	37.3	66.9	90.0	146.1
Russell 2000 Growth	--	--	81.0	69.7	115.9	124.1	141.4
Russell Midcap Value	--	--	21.2	20.7	51.5	100.7	116.2
Russell Midcap Growth	--	--	33.8	32.1	58.0	96.1	112.8
Russell 3000	--	--	30.2	16.7	59.8	96.7	106.1
Russell 2500™	--	--	38.7	128.5	54.3	72.9	73.8
S&P MidCap 400	--	--	72.3	43.9	51.4	43.0	60.1
Russell Midcap®	--	--	31.2	28.5	34.3	48.1	51.9
Wilshire 5000	--	--	16.8	12.7	43.4	43.1	41.1
S&P/BARRA Growth	--	--	16.5	9.0	15.4	19.6	20.3
S&P/BARRA Value	--	--	84.4	21.1	15.3	26.5	11.6
S&P Small Cap 600	--	--	4.9	2.2	4.8	7.1	7.5

Compiled by Russell Product & Marketing Research using Nelson Information's *MarketPlace Web* database and *1998 Survey of Performance Benchmarks*. Products analyzed are primarily institutional oriented mutual funds, separate accounts, and commingled funds. REIT oriented benchmarks are included in "Other." Nelson's 1998 study did not provide a complete data table for 1996 and 1998, but rather reported the 25 most frequently used product benchmarks, including "Other", along with the total number of products in the database. Therefore, the number reported as "Other" is slightly understated for the same years. Nelson did not provide product assets for 1996 and 1998. Only indexes with at least 10 products or $5 billion in assets benchmarked to them are included in Tables 5A and 5B, respectively.

Russell Investment Group is a Washington, USA corporation, which operates through subsidiaries worldwide and is a subsidiary of The Northwestern Mutual Life Insurance Company.

The indexes are unmanaged and cannot be invested in directly.