

## Russell Reconstitution 2010 (Final Review)

### Overview

#### Russell Reconstitution 2010 – More “Normal” Returns Despite Significant Changes

- Modest returns on effective date of rebalance – several categories going the “wrong way” until late in the trading day – concentration of activity towards the close due to early reversal concerns and large cap liquidity
- Russell 2000 adds outperform Russell 2000 deletes by 2.3% on trade date – vs. *nearly 22% spread* last year
- Large cap skew due to rule changes – Russell 1000 Adds outperform Deletes and Russell 1000 index by over 2% - (vs. approximately 5% last year) BRK.B and ACN biggest contributors
- Some speculative activity and/or a healthier swap market may have helped mute effective date returns – more reminiscent of behavior exhibited during the mid-2000’s
- Textbook behavior of all categories during both the week before and the week after the effective date of the event

Strategy Relative Performance On Effective Day		
Strategy	Day Performance	Net Performance
Russell 1000 Adds	2.43%	1.99%
Russell 1000 Deletes	0.44%	
Russell 2000 Adds	1.83%	2.32%
Russell 2000 Deletes	-0.49%	
Russell 1000 To Russell 2000	2.70%	2.48%
Russell 2000 To Russell 1000	0.22%	
Russell 1000 Funding Buys	1.31%	1.14%
Russell 1000 Funding Sells	0.17%	
Russell 2000 Funding Buys	2.85%	0.86%
Russell 2000 Funding Sells	1.99%	
Russell 1000 Index	0.29%	
Russell 2000 Index	1.89%	

## Russell Reconstitution 2010 (Final Review)

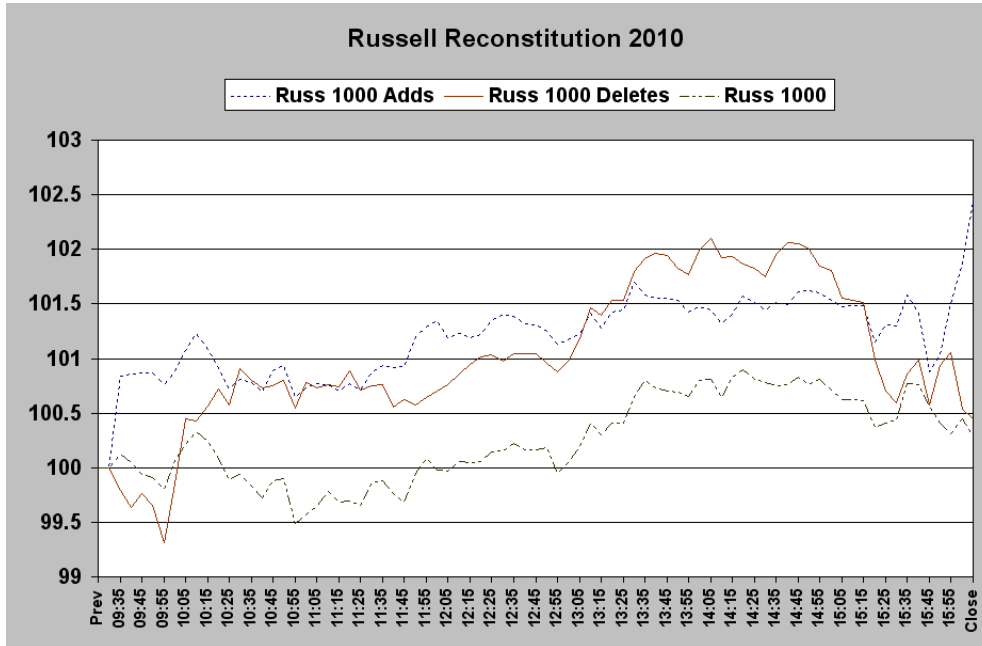
### Contents & Observations

#### Effective Date, Pre- and Post-Event Comparative Graphs:

- Russell 1000 Adds/Deletes
  - **Turnover for the Russell 1000 Adds and Deletes was especially large due to the rule changes for 2010. The lifting of the exclusion for Berkshire Hathaway and the Country Rule changes led to 21 Adds to the Russell 1000 (vs 2 in 2009). There was strong outperformance of the Adds over the Deletes in the period leading up to the rebalance and that became more modest on the effective date.**
- Russell 2000 Adds/Deletes
  - **The Russell 2000 Adds and Deletes exhibited textbook behavior prior to effective date and in the period following. There was strong performance of Adds over Deletes in the week leading up to June 25th and a decisive reversal in the following week.**
- Russell Migrations – Stocks Moving Between Russell 1000 and Russell 2000
  - **The migrations between the Russell 1000 and Russell 2000 continued to exhibit tremendous volatility in the period leading up to the effective date. We did see classic behavior however in the week leading into the effective date and a strong reversal in the week after the effective date.**
- Russell 1000 Funding – Stocks Remaining in Russell 1000
  - **The Russell 1000 Funding trades involve large, liquid stocks whose reconstitution activity is heavily concentrated around the close on the effective date of the event, causing a small out-performance spread between the purchases and the sales. The S&P Quarterly rebalance occurring the week before helps to keep this segment of the rebalance close to the effective date. This trade was significantly larger than usual due to the rule changes that were incorporated for 2010.**
- Russell 2000 Funding – Stocks Remaining in Russell 2000
  - **There is some evidence of pre-trading for the Russell 2000 Funding trades, especially after their preliminary list was released. We again see classic behavior in the week leading into the effective date and a nice reversal in the week after the effective date.**
- Effective Day Closing Print & Full Day Performance
  - **The Russell 1000 Adds, Russell 2000 Deletes, and the Russell 1000 Funding Sells' closing action made notable contributions to the full day returns. All of the trading strategies had performance numbers exhibited classic behavior by the end of the day, strong end of day efforts solidified the outperformance of the Add vs Delete and Buy vs Sell strategies.**

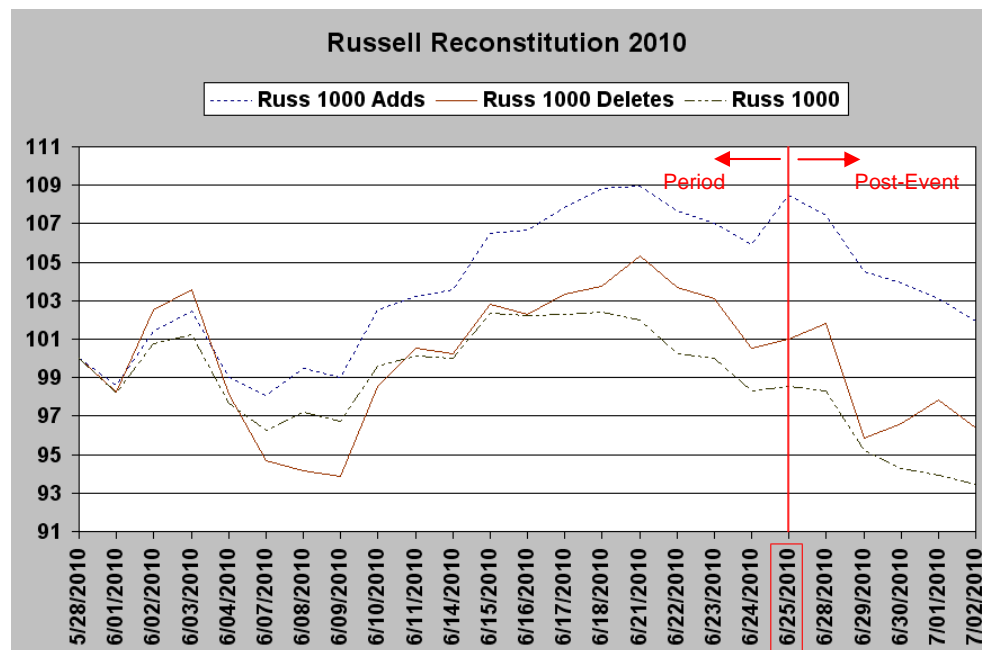
## Russell Reconstitution 2010 (Final Review)

### Russell 1000 Adds/Deletes



#### Effective Date

On the day of the rebalance, the Russell 1000 Adds outperformed the Russell 1000 Deletes by +1.99%. Russell 1000 Adds were up +2.43% on the day and the Russell 1000 Deletes were up +0.44% on the day. The Adds rose about +1.5% in the last 15 minutes of trading. In breaking down the +2.43% return for the Russell 100 Adds for the day, +1.56% came from BRK.B and +0.54% came from ACN, combining for about 86% for the day's return. BRK.B was up +3.85% and ACN was up +7.99% for the day.



#### Period

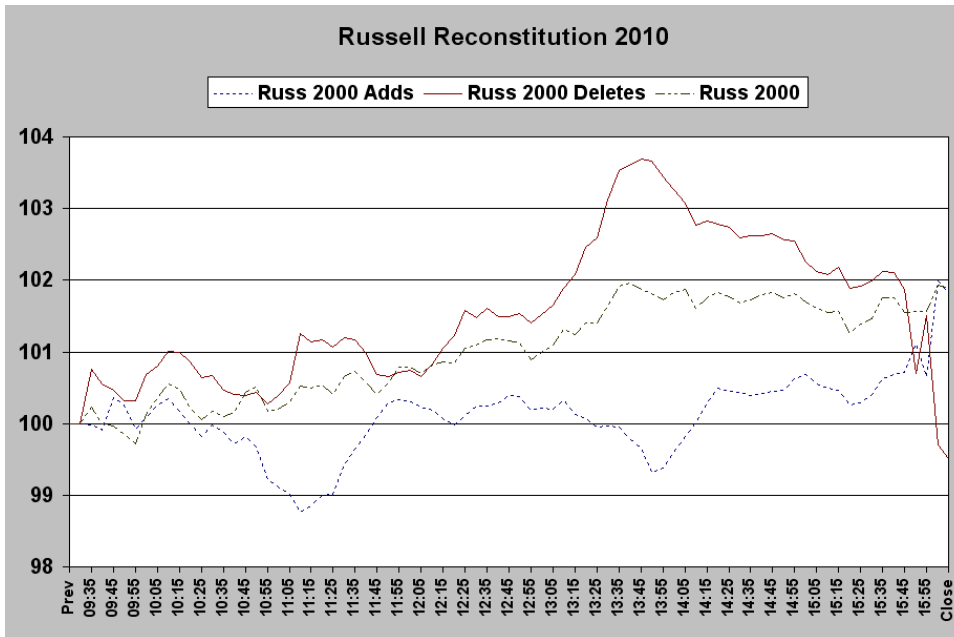
In June, leading up to the rebalance, the Russell 1000 Adds outperformed the Russell 1000 Deletes by +7.50%.

#### Post-Event

During the week following the rebalance, the spread reversed with the Russell 1000 Adds underperforming the Russell 1000 Deletes by -1.94%. On the day immediately following the rebalance, the spread reversed -1.88% which is 97% of the reversal for the week.

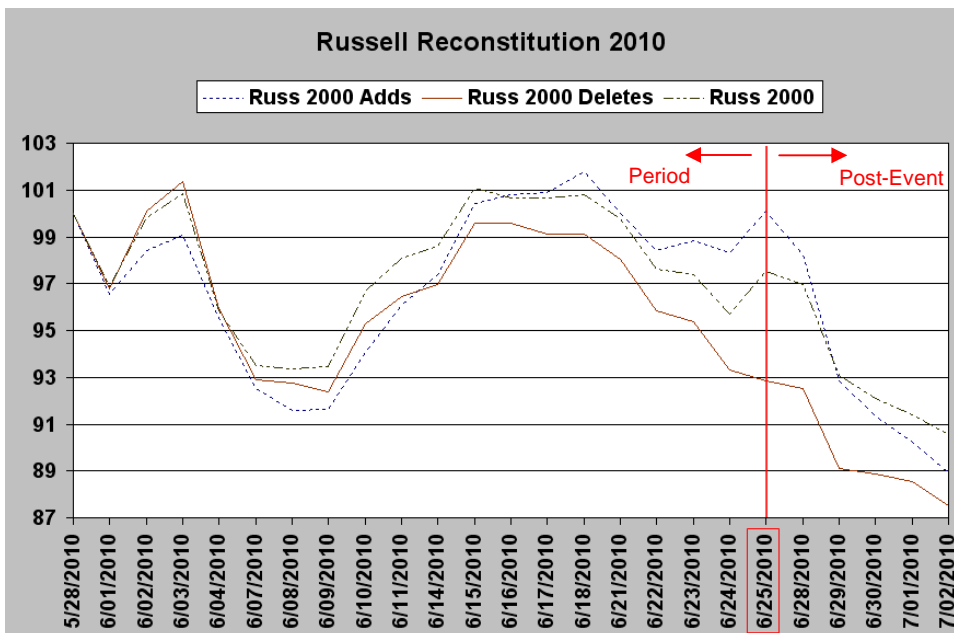
## Russell Reconstitution 2010 (Final Review)

### Russell 2000 Adds/Deletes



#### Effective Date

On the day of the rebalance, the Russell 2000 Adds outperformed the Russell 2000 Deletes by +2.32%. Russell 2000 Adds were up +1.83% on the day and the Russell 2000 Deletes were down -0.49%. The Deletes outperformed the Adds for most of the day, in the early afternoon by over 4 percent. By 3:45 PM EST that trend reversed itself and grew stronger into the close. Between 3:55 PM EST and 4:00 PM EST the Adds rose +1.33% and the Deletes fell -1.82%.



#### Period

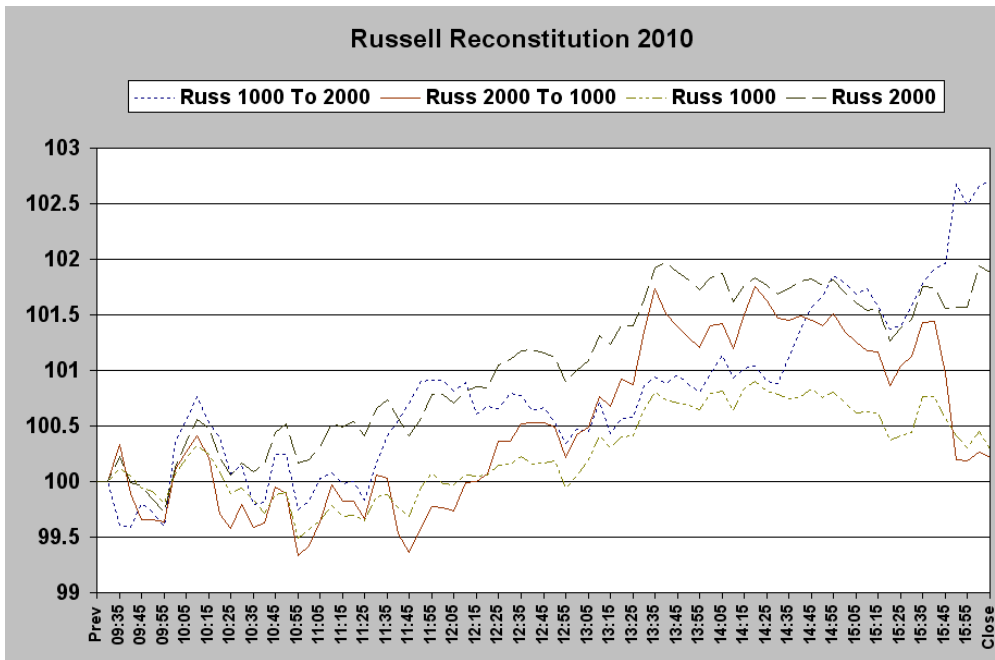
In June, leading up to the rebalance, the Russell 2000 Adds outperformed the Russell 2000 Deletes by +7.23%. This movement seemed to coincide with the release of the preliminary list.

#### Post-Event

During the week following the rebalance, the trade reversed, with the Russell 2000 Adds underperforming the Russell 2000 Deletes by -5.82%, returning more than three-fourths of the out performance garnered during the period leading up to the reconstitution. On the day immediately following the rebalance, the spread reversed -1.52% which is 25% of the reversal for the week.

## Russell Reconstitution 2010 (Final Review)

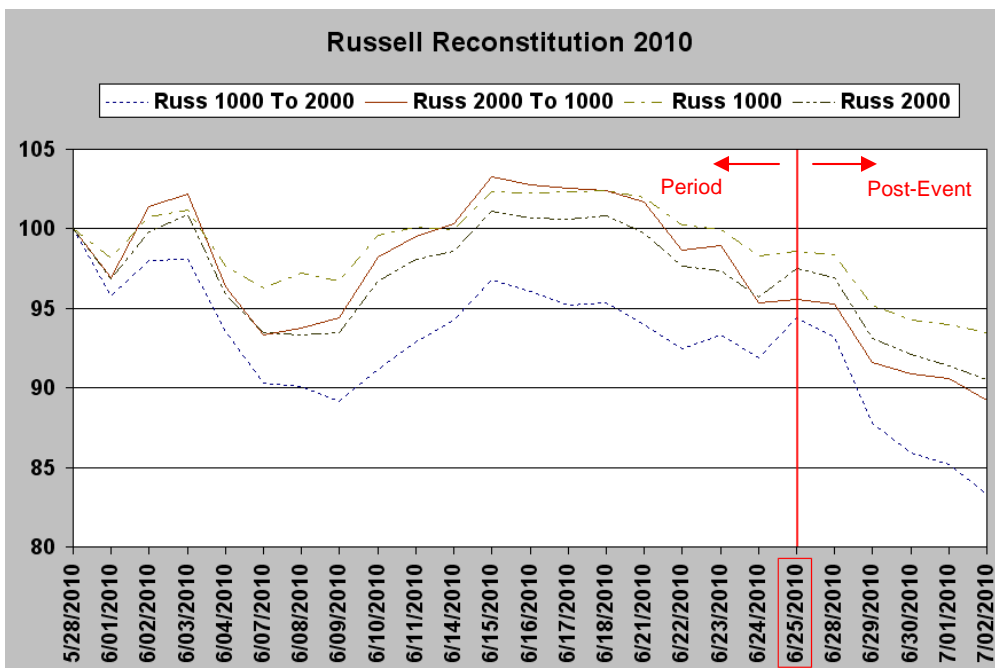
### Russell Migrations – Stocks Moving Between Russell 1000 and Russell 2000



#### Effective Date

On the day of the rebalance, the migrations from the Russell 1000 To 2000 outperformed the migrations from the Russell 2000 To 1000 by +2.48%. The migrations from the Russell 1000 to 2000 were up +2.70% on the day and the migrations from the Russell 2000 to 1000 were up 0.22% on the day.

In the last half hour of trading, the migrations from the Russell 1000 To 2000 outperformed the migrations from the Russell 2000 To 1000 by over 2 percent.



#### Period

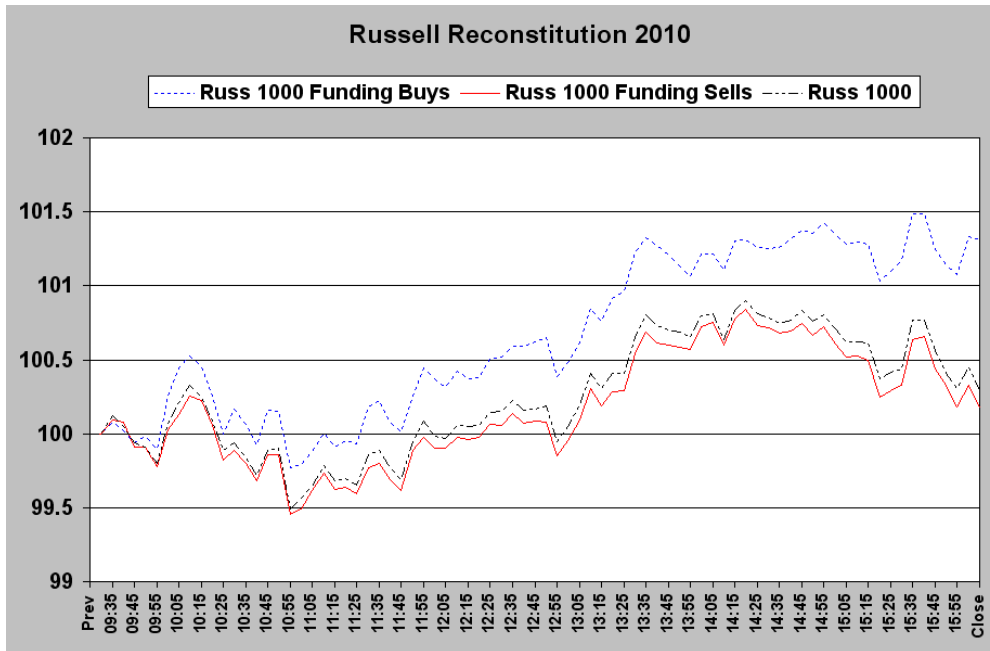
In June, leading up to the rebalance, the migrations from the Russell 1000 to 2000 underperformed the migrations from the Russell 2000 to 1000 by -1.16%. Underperforming by as much as -7.66% during the period. During the final week leading into the reconstitution, this trend strongly reversed with the migrations from the Russell 1000 to 2000 outperforming the migrations from the Russell 2000 to 1000 by +6.49%.

#### Post-Event

During the week following the rebalance the migrations from the Russell 1000 to 2000 continued to underperform the migrations from the Russell 2000 to 1000 by -4.71%, erasing almost 73% of the prior week's gains. On the day immediately following the rebalance the spread fell -0.94%.

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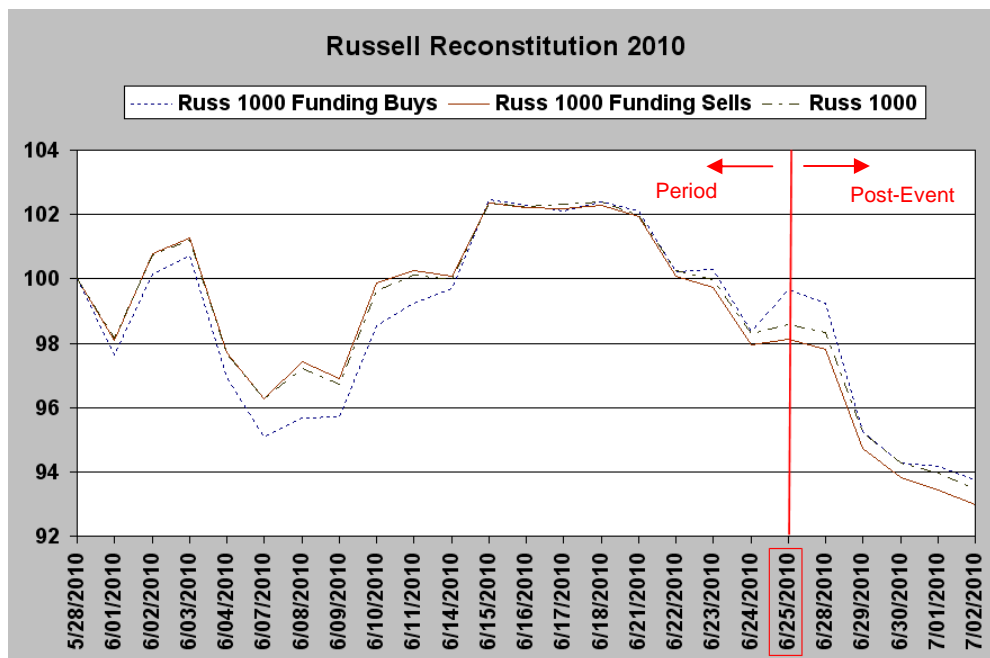
### Russell 1000 Funding - Stocks Remaining in Russell 1000



#### Effective Date

On the day of the rebalance, the Russell 1000 Funding Buys outperformed the Russell 1000 Funding Sells by +1.14%. The Russell 1000 Funding Buys were up +1.31% on the day and the Russell 1000 Funding Sells were up +.17% on the day.

There was slow and steady outperformance by the Buys over the Sells all throughout the day.



#### Period

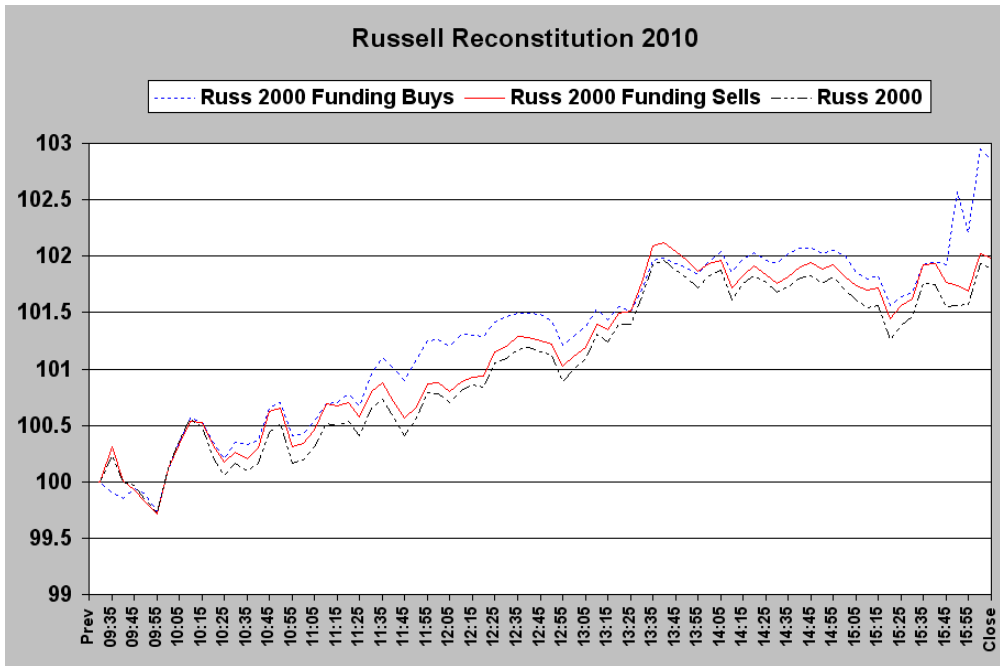
In June, leading up to the rebalance, the Russell 1000 Funding Buys outperformed the Russell 1000 Funding Sells by +1.53%. Much of that out performance occurring on the day of the reconstitution. The buys had underperformed the sells by as much as -1.74% during the period.

#### Post-Event

During the week following the rebalance, the trade reversed with the Russell 1000 Funding Buys underperforming the Russell 1000 Funding Sells by -0.77%. On the day immediately following the rebalance, the spread reversed -0.07%.

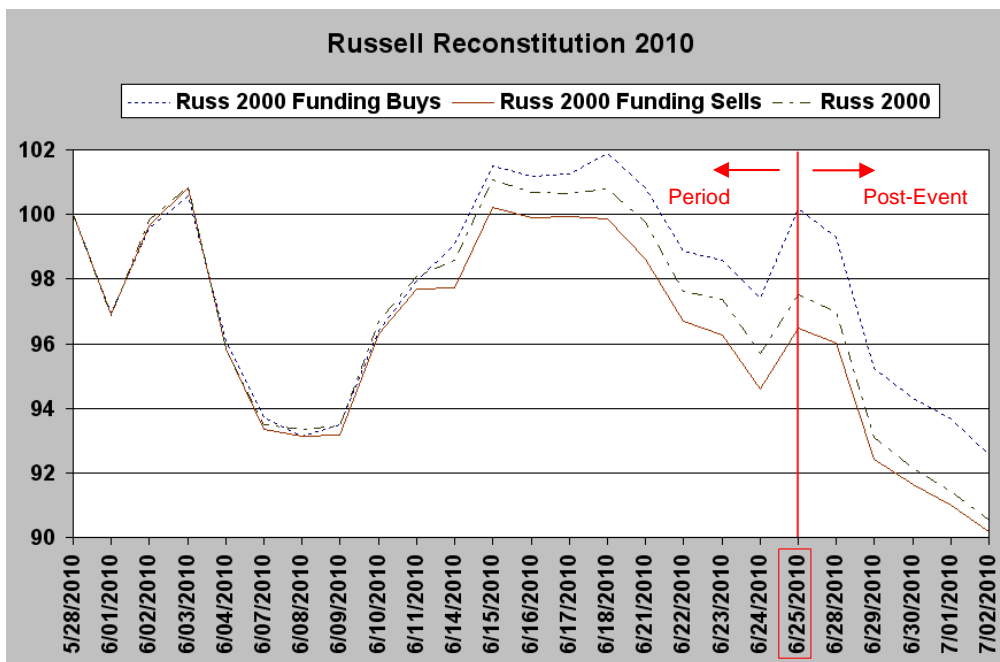
## Russell Reconstitution 2010 (Final Review)

### Russell 2000 Funding - Stocks Remaining in Russell 2000



#### Effective Date

On the day of the rebalance, the Russell 2000 Funding Buys outperformed the Russell 2000 Funding Sells by +0.86%. The Russell 2000 Funding Buys were up +2.85% on the day and the Russell 2000 Funding Sells were up +1.99% on the day. In the last half hour of trading the Russell 2000 Funding Buys rose +1.18% and Russell 2000 Funding Sells rose by +.36%.



#### Period

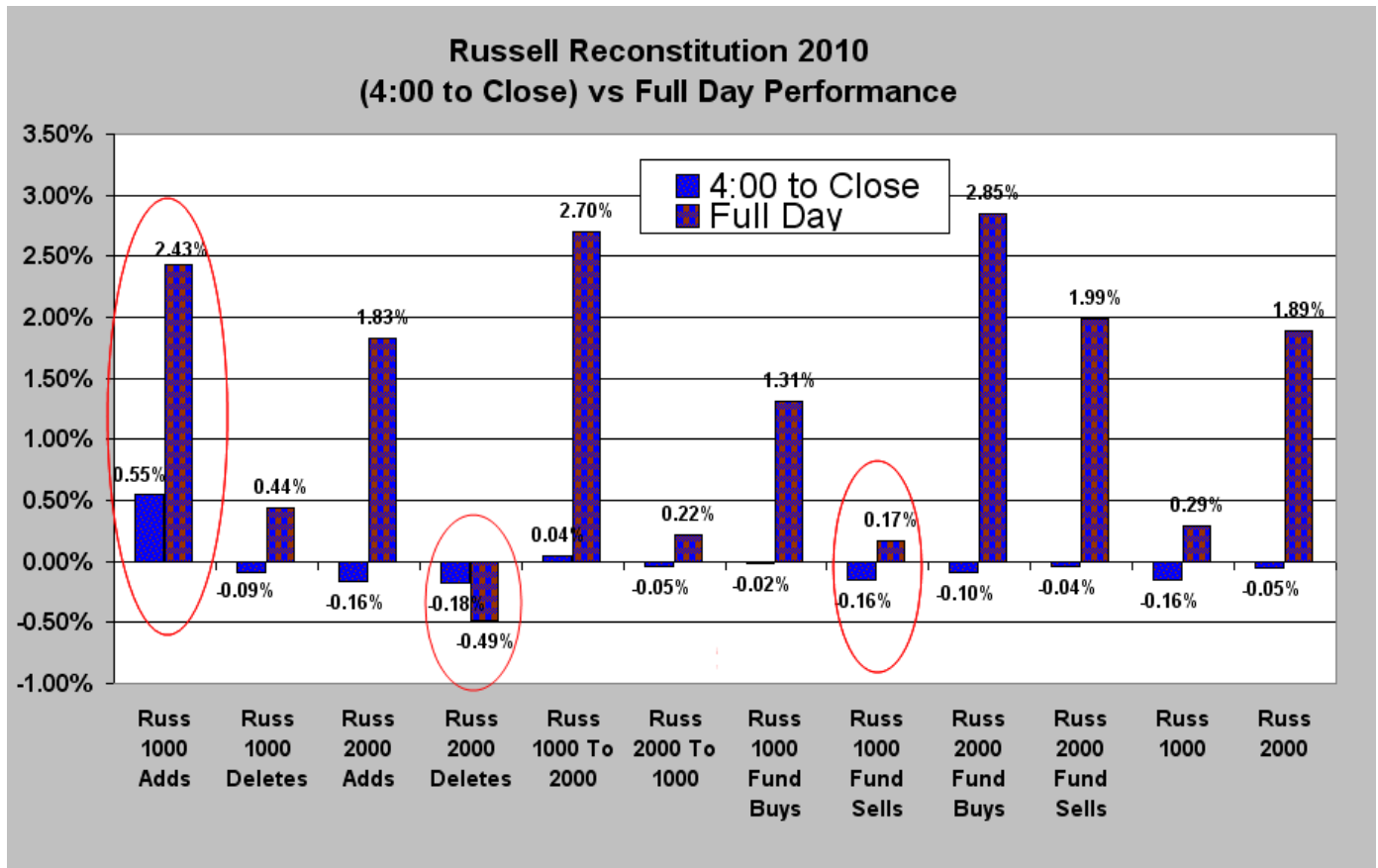
In June, leading up to the rebalance, the Russell 2000 Funding Buys outperformed the Russell 2000 Funding Sells by +3.71%. Almost all of that out performance (+3.45%) occurred between the announcement of the preliminary list on June 11th and the rebalance, June 25th.

#### Post-Event

During the week following the rebalance, the trade reversed with the Russell 2000 Funding Buys underperforming the Russell 2000 Funding Sells by -1.31%. On the day immediately following the rebalance, the spread reversed -0.46% which is 35% of the reversal for the week.

## Russell Reconstitution 2010 (Final Review)

### Effective Day Closing Print & Full Day Performance



### Observation

The Russell 1000 Adds, Russell 2000 Deletes and the Russell 1000 Funding Sells' closing action made notable contributions to the full day returns.



## Russell Reconstitution 2010 (Final Review)

May 28	June 11	June 18	June 23	June 25	June 28
Ranking Date (Market Caps Determined)	Preliminary List Released	~Update to Preliminary List ~S&P Quarterly Rebalance ~Quad Expiration	FOMC Rate Decision	Reconstitution Day New Indices Effective at Close	First Day of Reconstituted Indexes

## Movement and Turnover

Movement of Stocks								
	Current Index	Add to Russell 1000	Add to Russell 2000	Russell 1000 to Russell 2000	Russell 2000 to Russell 1000	Leaving Russell 1000	Leaving Russell 2000	Expected
Russell 1000	958	24		(18)	26	(4)		986
Russell 2000	1,982		237	18	(26)		(201)	2,010

Market Capitalization Breakpoints	
Breakpoint	2010 Cutoff
201	\$12,426,067,840
501	\$4,366,825,870
1001	\$1,714,702,220
3000	\$111,666,240

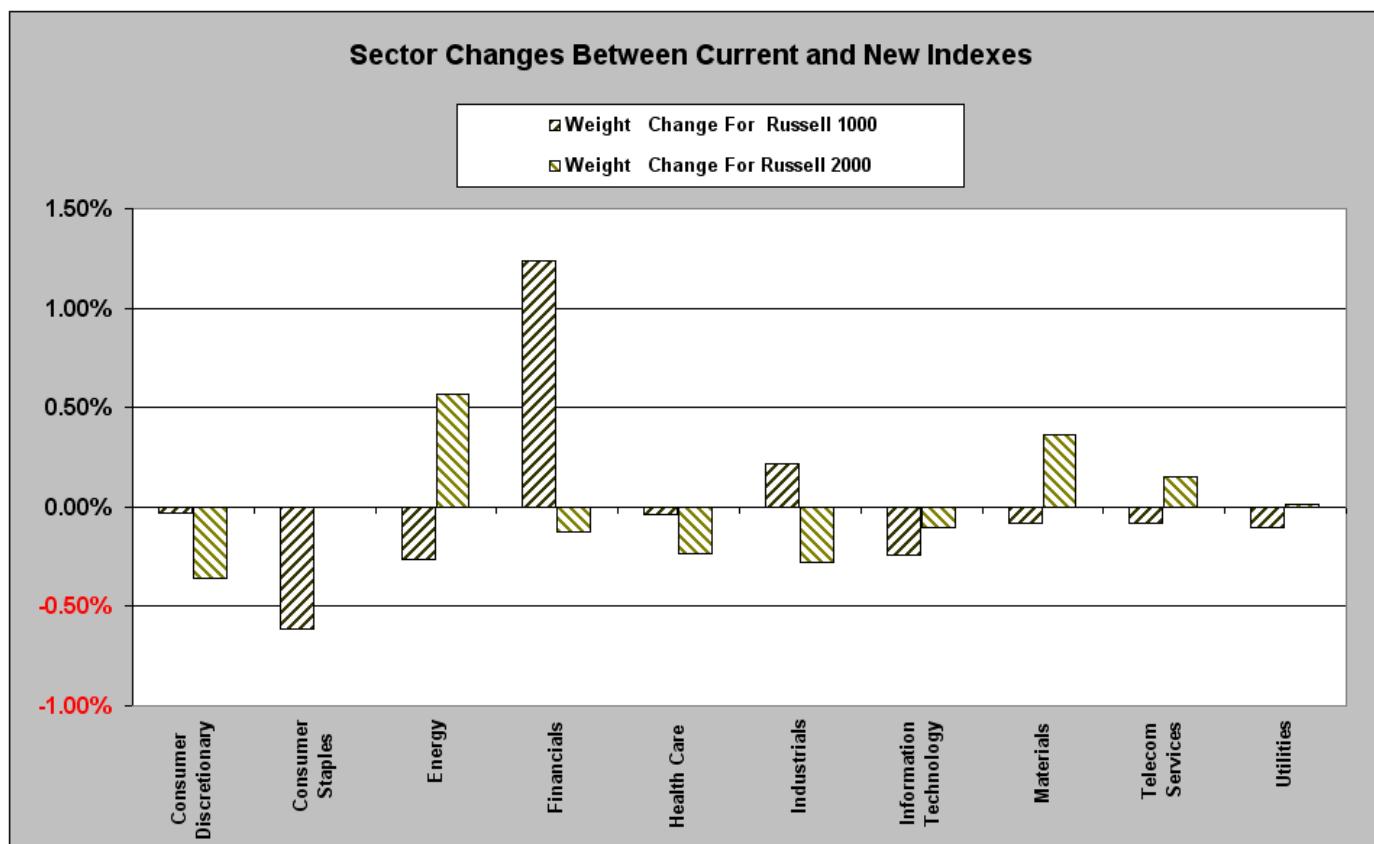
Passive Turnover by Index*		
Index	Percent Turnover	One Sided Turnover
Russell 3000	3.80%	\$6,072,022,414
Russell 1000	3.98%	\$6,719,926,545
Russell 1000 Growth	23.12%	\$10,422,522,389
Russell 1000 Value	23.19%	\$13,808,458,650
Russell 2000	9.43%	\$4,577,846,914
Russell 2000 Growth	27.56%	\$2,423,456,525
Russell 2000 Value	23.62%	\$2,135,531,664
Russell 2500	8.25%	\$310,629,697
Russell Midcap	7.15%	\$676,994,710
Russell Midcap Growth	25.26%	\$1,219,829,198
Russell Midcap Value	21.45%	\$1,042,589,500
Russell Top 200	4.41%	\$535,766,937
Russell Top 200 Growth	24.43%	\$1,319,284
Russell Top 200 Value	25.01%	\$125,495,534
Russell Small Cap Completeness	10.62%	\$666,095,443
<b>Total Net Turnover</b>	<b>4.39%</b>	<b>\$23,756,797,709</b>

\* The total turnover is reduced by the crossing of trades between indexes.

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## Sector Changes



Sector Changes Between Current and New Indexes		
GICS Sector	Weight Change For Russell 1000	Weight Change For Russell 2000
Consumer Discretionary	-0.03%	-0.36%
Consumer Staples	-0.61%	0.00%
Energy	-0.27%	0.57%
Financials	1.24%	-0.12%
Health Care	-0.04%	-0.24%
Industrials	0.22%	-0.28%
Information Technology	-0.24%	-0.10%
Materials	-0.08%	0.37%
Telecom Services	-0.08%	0.15%
Utilities	-0.10%	0.01%



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### Passive Index Flow

Index	Passive Index Trading Flow							
	Add to Russell 1000	Add to Russell 2000	Russell 1000 to Russell 2000	Russell 2000 to Russell 1000	Remaining in Russell 1000	Remaining in Russell 2000	Leaving Russell 1000	Leaving Russell 2000
Russell 3000	\$4,386,084,815	\$627,859,539	\$1,426,162	\$5,082,050	(\$4,637,478,173)	\$24,480,873	(\$149,999,013)	(\$257,456,253)
Russell 1000	\$5,047,142,609	\$0	(\$181,019,474)	\$946,366,410	(\$5,639,572,194)	\$0	(\$172,917,352)	\$0
Russell 1000 Growth	\$939,238,384	\$0	(\$21,610,352)	\$362,406,450	(\$1,193,530,727)	\$0	(\$86,503,755)	\$0
Russell 1000 Value	\$2,308,725,192	\$0	(\$99,016,979)	\$190,738,479	(\$2,392,743,606)	\$0	(\$7,703,086)	\$0
Russell 2000	\$0	\$2,331,919,975	\$588,508,639	(\$2,975,530,824)	\$0	\$992,381,775	\$0	(\$937,279,565)
Russell 2000 Growth	\$0	\$519,295,032	\$50,672,200	(\$779,729,825)	\$0	\$418,443,115	\$0	(\$208,680,523)
Russell 2000 Value	\$0	\$331,424,045	\$169,139,384	(\$327,503,893)	\$0	(\$35,092,545)	\$0	(\$137,966,991)
Russell 2500	\$32,136,697	\$80,636,266	\$1,166,056	\$4,672,618	(\$147,094,378)	\$63,433,594	(\$3,151,899)	(\$31,798,955)
Russell Midcap	\$239,251,685	\$0	(\$34,651,855)	\$178,904,692	(\$350,403,625)	\$0	(\$33,100,897)	\$0
Russell Midcap Growth	\$152,479,437	\$0	(\$8,209,481)	\$139,180,217	(\$250,588,562)	\$0	(\$32,861,610)	\$0
Russell Midcap Value	\$95,914,922	\$0	(\$26,601,502)	\$49,583,553	(\$116,827,493)	\$0	(\$2,069,480)	\$0
Russell Top 200	\$386,616,752	\$0	\$0	\$0	(\$386,616,752)	\$0	\$0	\$0
Russell Top 200 Growth	\$90,052	\$0	\$0	\$0	(\$90,052)	\$0	\$0	\$0
Russell Top 200 Value	\$23,833,142	\$0	\$0	\$0	(\$23,833,142)	\$0	\$0	\$0
Russell Small Cap Completeness	\$462,850,658	\$122,357,807	(\$2,271,430)	(\$12,666,039)	(\$317,292,742)	(\$193,237,657)	(\$5,387,460)	(\$54,353,138)
	\$14,074,364,346	\$4,013,492,665	\$437,531,367	(\$2,218,496,112)	(\$15,456,071,446)	\$1,270,409,155	(\$493,694,552)	(\$1,627,535,424)

GICS Sector	Passive Index Trading Flow By Sector								
	Add to Russell 1000	Add to Russell 2000	Russell 1000 to Russell 2000	Russell 2000 to Russell 1000	Remaining in Russell 1000	Remaining in Russell 2000	Leaving Russell 1000	Leaving Russell 2000	Sector Total
Consumer Discretionary	\$1,414,171,296	\$551,029,323	\$96,320,075	(\$494,053,239)	(\$2,080,447,413)	\$192,103,376	(\$428,564,331)	(\$258,652,070)	(\$1,008,092,983)
Consumer Staples		\$115,759,742	\$17,649,232		(\$1,880,854,106)	(\$64,514,197)		(\$115,862,518)	(\$1,927,821,847)
Energy	\$981,418,212	\$474,733,576	\$81,152,323	(\$63,025,982)	(\$2,918,535,211)	\$123,143,437		(\$167,744,114)	(\$1,488,857,761)
Financials	\$7,032,599,590	\$479,941,639	\$113,318,951	(\$350,367,267)	(\$1,962,035,972)	\$397,071,724		(\$233,848,574)	\$5,476,680,091
Health Care	\$1,485,766,183	\$608,586,103	\$3,522,152	(\$389,755,157)	(\$1,236,676,317)	\$71,021,142		(\$181,946,060)	\$360,518,046
Industrials	\$1,873,130,117	\$288,604,758	\$80,181,503	(\$287,833,118)	(\$1,354,482,914)	\$57,436,749		(\$157,740,747)	\$499,296,348
Information Technology	\$1,212,092,022	\$898,702,433	\$28,516,706	(\$554,585,943)	(\$2,532,376,597)	\$400,539,752	(\$61,430,674)	(\$404,234,985)	(\$1,012,777,286)
Materials	\$75,186,927	\$485,009,838		(\$78,875,406)	(\$689,473,575)	\$68,802,576	(\$3,699,546)	(\$71,127,882)	(\$214,177,068)
Telecommunication Services		\$105,119,198			(\$431,377,379)	\$32,380,362		(\$22,464,920)	(\$316,342,738)
Utilities		\$6,006,055	\$16,870,426		(\$369,811,962)	(\$7,575,766)		(\$13,913,554)	(\$368,424,802)
	\$14,074,364,346	\$4,013,492,665	\$437,531,367	(\$2,218,496,112)	(\$15,456,071,446)	\$1,270,409,155	(\$493,694,552)	(\$1,627,535,424)	

GICS Sector	Name Movement By Sector							
	Add to Russell 1000	Add to Russell 2000	Russell 1000 to Russell 2000	Russell 2000 to Russell 1000	Remaining in Russell 1000	Remaining in Russell 2000	Leaving Russell 1000	Leaving Russell 2000
Consumer Discretionary	4	39	5	6	145	250	2	21
Consumer Staples		7	1		56	62		11
Energy	3	21	3	1	72	89		16
Financials	4	33	4	5	175	389		54
Health Care	4	45	1	4	95	265		35
Industrials	5	24	2	3	123	276		22
Information Technology	3	48	1	6	133	306	1	28
Materials	1	13		1	62	67	1	9
Telecommunication Services		6			18	16		3
Utilities		1	1		57	35		2
	24	237	18	26	936	1,755	4	201



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### Largest Names by Share Quantity

Largest Names to Buy By Share Quantity							
Ticker	Sector	Shares To Trade	Market Value		Move	63 Day Median Volume	Days To Trade
			To trade	To trade			
SIRI	Consumer Discretionary	182,007,351	\$198,388,012		New to Russ 1000	98,254,660	1.85
BRK.B	Financials	70,385,952	\$5,764,609,482		New to Russ 1000	4,843,996	14.53
C	Financials	61,158,758	\$240,965,507		Russ 1000 to Russ 1000	761,640,560	0.08
WFT	Energy	34,336,644	\$500,628,264		New to Russ 1000	16,085,320	2.13
ACN	Information Technology	24,873,728	\$1,008,629,671		New to Russ 1000	4,418,544	5.63
TYC	Industrials	21,901,874	\$812,778,553		New to Russ 1000	5,692,148	3.85
GSS	Materials	21,649,699	\$100,238,106		New to Russ 2000	3,436,418	6.30
COV	Health Care	20,396,450	\$855,631,063		New to Russ 1000	3,426,290	5.95
CPST	Industrials	20,191,210	\$22,412,243		New to Russ 2000	1,704,907	11.84
RTK	Energy	18,106,503	\$19,373,959		New to Russ 2000	1,912,744	9.47
RAD	Consumer Staples	17,474,487	\$17,649,232		Russ 1000 to Russ 2000	6,406,018	2.73
TRI	Consumer Discretionary	15,870,505	\$594,826,537		New to Russ 1000	443,819	35.76
IR	Industrials	15,200,062	\$577,602,342		New to Russ 1000	3,914,252	3.88
ACE	Financials	14,520,996	\$772,516,964		New to Russ 1000	2,165,495	6.71
TAT	Energy	12,363,148	\$44,012,806		New to Russ 2000	530,469	23.31
LTXC	Information Technology	12,330,401	\$38,100,939		New to Russ 2000	1,378,819	8.94
DISCA	Consumer Discretionary	12,262,309	\$461,430,693		New to Russ 1000	2,286,781	5.36
TC	Materials	11,876,692	\$122,923,758		New to Russ 2000	1,804,238	6.58
GGP	Financials	11,253,132	\$160,244,594		New to Russ 1000	2,013,034	5.59
KOG	Energy	10,021,213	\$36,577,426		New to Russ 2000	1,697,520	5.90

Largest Names to Sell By Share Quantity							
Ticker	Sector	Shares To Trade	Market Value		Move	63 Day Median Volume	Days To Trade
			To trade	To trade			
YRCW	Industrials	(90,488,251)	(\$16,287,885)		Russ 2000 to Delete	40,682,770	2.22
CTIC	Health Care	(57,264,681)	(\$21,187,932)		Russ 2000 to Delete	7,746,803	7.39
XOM	Energy	(24,408,767)	(\$1,442,558,116)		Russ 1000 to Russ 1000	28,391,760	0.86
BQI	Energy	(20,060,445)	(\$12,036,267)		Russ 2000 to Delete	1,700,706	11.80
GE	Industrials	(19,839,169)	(\$295,802,005)		Russ 1000 to Russ 1000	78,156,200	0.25
WFC	Financials	(18,777,107)	(\$507,920,752)		Russ 1000 to Russ 1000	40,886,460	0.46
TSFG	Financials	(18,489,096)	(\$4,716,569)		Russ 2000 to Delete	5,037,003	3.67
GTE	Energy	(17,488,632)	(\$89,891,571)		Russ 2000 to Delete	1,299,704	13.46
DSCO	Health Care	(13,741,169)	(\$2,881,523)		Russ 2000 to Delete	1,462,801	9.39
F	Consumer Discretionary	(12,971,398)	(\$139,442,533)		Russ 1000 to Russ 1000	100,160,000	0.13
PFE	Health Care	(12,744,757)	(\$186,073,447)		Russ 1000 to Russ 1000	68,570,210	0.19
DISCK	Consumer Discretionary	(12,450,362)	(\$402,769,210)		Russ 1000 to Delete	757,288	16.44
BAC	Financials	(12,389,624)	(\$191,048,001)		Russ 1000 to Russ 1000	167,648,800	0.07
EEE	Energy	(11,336,497)	(\$1,144,986)		Russ 2000 to Delete	2,126,808	5.33
KO	Consumer Staples	(11,125,629)	(\$559,174,090)		Russ 1000 to Russ 1000	10,175,440	1.09
INSM	Health Care	(10,864,274)	(\$6,706,517)		Russ 2000 to Delete	645,431	16.83
HEB	Health Care	(10,737,524)	(\$4,670,823)		Russ 2000 to Delete	863,003	12.44
CSCO	Information Technology	(10,021,997)	(\$221,586,347)		Russ 1000 to Russ 1000	52,356,970	0.19
INTC	Information Technology	(9,909,946)	(\$198,397,118)		Russ 1000 to Russ 1000	64,872,580	0.15
T	Telecommunication Services	(9,098,249)	(\$225,545,602)		Russ 1000 to Russ 1000	31,364,020	0.29



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Data sources: Bloomberg, Russell. The S&P GICS sector classifications are used throughout the study.

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