

SUMMARY

- A new Communication Services sector will replace the current Telecommunications Services sector in 3Q18.
- The new sector will combine the Telecommunications sector and portions of IT and Consumer Discretionary.
- US Large Cap and Emerging Market indices will see the largest changes in sector weighting from this reclassification.

HISTORY & BACKGROUND

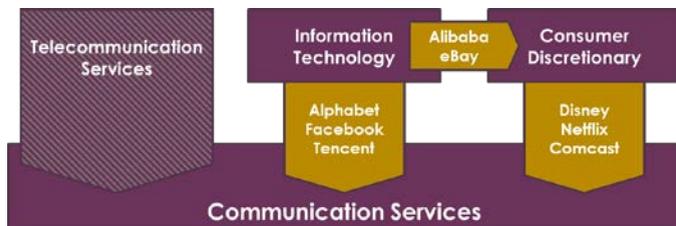
The Global Industry Classification Standard (GICS®) was developed by MSCI and S&P Global in 1999. GICS is a four-tiered hierarchical industry classification system consisting of 11 sectors, 24 industry groups, 68 industries, and 157 sub-industries.

From time-to-time the structure of GICS is updated to better reflect the economic reality of the businesses in the economy. The latest change will be the Telecommunications Services sector being broadened and renamed the Communication Services sector. A change like this has not occurred since the Real Estate sector carve out from the Financials sector in 2016.

INSIGHTS & PORTFOLIO IMPLICATIONS

Expected Changes

The newly created Communication Services sector will be formed by combining the Telecommunication Services sector and select names from the Information Technology (IT) and Consumer Discretionary sectors. These changes are intended to better reflect the evolution of consumers communicating and accessing entertainment, content, and other information through more diverse avenues. The names from the IT sector will mainly be transferring from the Internet Software & Services industry. This includes names like Alphabet, Facebook, Tencent, and Baidu. Notable exceptions that will not be moving from the Internet Software & Services industry to the new Communication Services sector include Alibaba and eBay, both which will be reclassified under the Consumer Discretionary sector. Within the Consumer Discretionary sector, the entire Media Industry will be reclassified under the new Communications Services sector.

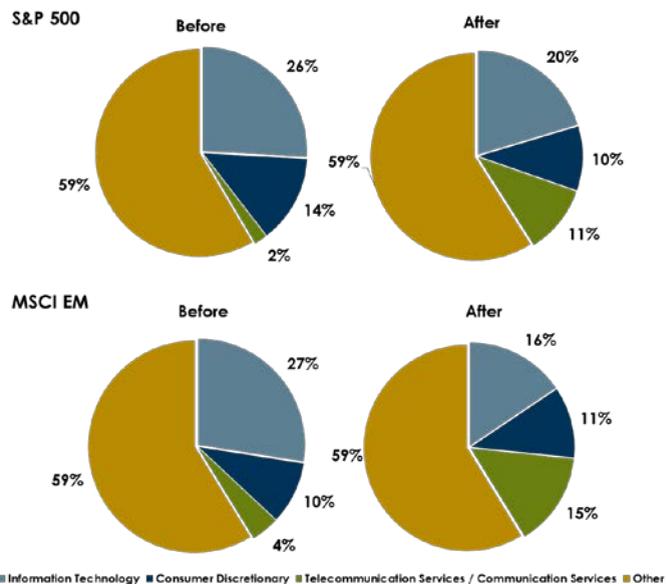


Source: MSCI, ACG Research

Major Indices Implications

Indices that cover US small cap, US large cap value, and International developed markets will be impacted by the changes, but the changes will be minimal. The indices that will be affected the most will include those with exposure to large cap social media as well as search engine giants like Alphabet, Facebook, Tencent, and Baidu (i.e., Domestic Large Cap and Emerging Markets).

Indices with the most exposure to these names include Russell 1000 Growth, Russell 1000, S&P 500, MSCI EM, and MSCI EM Growth. As can be seen in the graphs below, the S&P 500 will see its weight in the IT and Consumer Discretionary sectors decline in favor of the newly created Communication Services sector. Similarly, the MSCI EM index will see the IT sector reduce its weighting to the benefit of both the Consumer Discretionary and Communication Services sectors. The Consumer Discretionary sector will increase in weight for this index because Alibaba (a large weight currently in the IT sector) will be reclassified as a Consumer Discretionary name.



Source: S&P Global, MSCI, ACG Research

ACG'S POSITION

The GICS system was created to help investors better categorize companies into groups based on industry and business models. The main industries of the economy will change and the goal of GICS is to categorize the various business models based on the evolving economic environment. With this sector change, GICS is reflecting the changes we have seen in the way consumers access, produce, and deliver information and content. No new names will be added to or deleted from the indices, as these changes are simply reclassifications. Even as key fundamental measures by sector may change, and while there could be a temporary pricing impact due to passive flows and/or active managers that change weightings due to sector guidelines, the overall effect should not have a material influence longer-term.

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