

CONSULTATION ON POTENTIAL CHANGES TO THE GLOBAL INDUSTRY CLASSIFICATION STANDARD (GICS®) STRUCTURE IN 2016

June 1, 2015

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INTRODUCTION

- MSCI and S&P Dow Jones Indices have decided to consult with members of the investment community on additional topics for potential changes to the GICS structure in 2016.
- As a result of last year's consultation, Real Estate is being promoted to a Sector, and a Sub-industry is being created for Copper. These changes are being implemented after the close of business on August 31, 2016.
- This consultation allows market participants to understand and provide feedback on additional topics for potential changes in the structure in 2016.
- The consultation begins on June 1, 2015 and ends on August 31, 2015. This consultation may or may not result in any changes to the GICS structure.
- The changes in the structure, if any, will be announced by November, 2015 and effective after the market close (ET) on August 31, 2016.

MODE OF CONSULTATION

Please use one of the following options to participate in the consultation.

- Contact MSCI or S&P Dow Jones Indices by telephone:

MSCI

Americas Client Service: 1.888.588.4567 (toll free)/ +1.212.804.3901

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- Click on the following link to participate in the online survey: <https://www.surveymonkey.com/s/SPDJI-GICS-2016>
- Contact one of the following email addresses with your feedback
 - MSCI: clientservice@msci.com
 - S&P Dow Jones Indices: spgics@standardandpoors.com or index_services@spdji.com
 - Contact your MSCI or S&P Dow Jones Account Manager or Representative

THE EVOLUTION OF THE GICS STRUCTURE

In August 1999, MSCI and S&P Dow Jones Indices announced their agreement to co-develop GICS. The four tier structure was first introduced with 10 Sectors, 23 Industry Groups, 59 Industries, and 123 Sub-Industries. Through the practice of periodic client consultations, the structure has evolved to 10 Sectors, 24 Industry Groups, 67 Industries, and 156 Sub-Industries. This evolution of the GICS structure demonstrates that GICS is reflective of today's markets and continues to be an accurate and complete industry framework for investment research, portfolio management, and asset allocation.

Some of the more significant changes to GICS methodology include:

- Real Estate – Effective August 31, 2016, Real Estate is being promoted to a Sector, the first additional Sector to be added to the GICS structure. This change highlights the fact that real estate is viewed as a distinct asset class and a growing part of global economies.
- Industrials Sector - The addition of an Industry for Professional Services and Sub-Industries for Diversified Support Services, Human Resource & Employment Services, Research & Consulting Services, and Security & Alarm Services.
- Information Technology Sector - The deletion of the Office Electronics Industry and the creation of the Technology Hardware, Storage & Peripherals Sub-Industry by merging the Computer Hardware and Computer Storage & Peripherals Sub-Industries.
- Utilities Sector - The creation of a Sub-Industry for Renewable Electricity.

SUMMARY OF PROPOSALS

The main proposals set out in this consultation paper pertain to:

- **Review of the Specialized Finance Sub-Industry**
 - Carve out a Sub-Industry for Financial Exchanges & Data from the Specialized Finance Sub-Industry
- **Review of the Internet & Catalog Retail Industry**
 - Combine the Sub-Industries for Internet Retail and Catalog Retail
- **Other discussion topics**
 - Create a standalone Industry Group for Textiles, Apparel & Luxury Goods to differentiate it from the Consumer Durables Industry Group
 - What should the focus be for the next three to five years?

For a detailed description of GICS, please refer to MSCI's Web site at www.msci.com or S&P Dow Jones Indices' Web site at www.spdji.com.

REVIEW OF THE SPECIALIZED FINANCE SUB-INDUSTRY

Rationale for the review:

- The Specialized Finance Sub-Industry is a group of companies offering a variety of niche financial services. A segment of these companies is similar in nature:
 - They do not own underlying financial assets
 - They have grown enough over the years to be grouped together as a distinct Sub-Industry
 - Exchanges and companies offering financial data and decision support tools, such as MSCI and McGraw Hill Financial, fit better under the Capital Markets Industry when compared to the Diversified Financial Services Industry

REVIEW OF THE SPECIALIZED FINANCE SUB-INDUSTRY

Proposed structure:

- A new Sub-Industry is carved out from Specialized Finance Sub-industry for Financial Exchanges & Data, which is classified under the Capital Markets Industry
- As a result of the proposed change, the GICS of MSCI and McGraw Hill Financial (among other companies) is changed from Specialized Finance to Financial Exchanges & Data

Sector	Industry Group	Industry	Sub-Industry
40 - Financials	4020 - Diversified Financials	402010 - Diversified Financial Services	40201020 - Other Diversified Financial Services
			40201030 - Multi-Sector Holdings
			40201040 - Specialized Finance (definition change)
		402020 - Consumer Finance	40202010 - Consumer Finance
		402030 - Capital Markets	40203010 - Asset Management & Custody Banks
			40203020 - Investment Banking & Brokerage
			40203030 - Diversified Capital Markets
			40203040 - Financial Exchanges & Data (New Sub-Industry)
		402040 - Mortgage REITs*	40204010 - Mortgage REITs*

*A new Sector for Real Estate is being created after the market close (ET) on August 31, 2016. Mortgage REITs, earlier classified under the Real Estate Industry Group, is being retained under the Financials Sector.

REVIEW OF THE SPECIALIZED FINANCE SUB-INDUSTRY

Proposed definitions:

- **40203040 - Financial Exchanges & Data:** Financial exchanges for securities, commodities, derivatives, and other financials instruments, and providers of financial decision support tools & products.
- **40201040 - Specialized Finance:** Providers of specialized financial services not classified elsewhere. Companies in this Sub-Industry derive a majority of revenue from one specialized line of business. Includes, but not limited to, commercial financing companies, central banks, leasing Institutions, factoring services, credit agencies, and specialty boutiques. Excludes companies classified in Financial Exchanges & Data Sub-Industry.

Discussion topics:

- Do market participants view the ownership of underlying financial assets as a material factor in portfolio performance attribution?

REVIEW OF THE INTERNET & CATALOG RETAIL INDUSTRY

Rationale for the review:

- The distinction between online retailers and catalog retailers has become increasingly blurred. Today, catalogs are an important marketing tool; however, actual product sales are increasingly generated online and through mobile devices.
- In today's age of multimedia retailing, companies are using various channels to drive sales, which includes television, internet, mobile, mail, and catalog.
- With the increasing overlap between Internet Retail and Catalog Retail, these Sub-Industries can be merged into one Sub-Industry.

REVIEW OF THE INTERNET & CATALOG RETAIL INDUSTRY

Proposed structure:

- Catalog Retail is merged into Internet Retail, and renamed as Internet & Direct Marketing Retail.

Sector	Industry Group	Industry	Sub-Industry
25 – Consumer Discretionary	2550 - Retailing	255010 - Distributors	25501010 - Distributors
		255020 - Internet & Catalog Retail	25502010 - Catalog Retail (Discontinued)
			25502020 – Internet & Direct Marketing Retail (Rename and definition modification)
		255030 - Multiline Retail	25503010 - Department Stores
			25503020 - General Merchandise Stores
		255040 - Specialty Retail	25504010 - Apparel Retail
			25504020 - Computer & Electronics Retail
			25504030 - Home Improvement Retail
			25504040 - Specialty Stores
			25504050 - Automotive Retail

Proposed definition:

Internet & Direct Marketing Retail: Companies providing retail services primarily on the Internet, through mail order, and TV home shopping retailers.

REVIEW OF THE INTERNET & CATALOG RETAIL INDUSTRY

Discussion topics:

- Is there enough overlap between the Catalog Retail and Internet Retail Sub-Industries so that they can now be combined?
- Does the trend of increasing online revenues suggest that catalog retailers will eventually be reassigned to the Internet Retail Sub-Industry?

OTHER DISCUSSION TOPICS

The following topics are not proposals, but we are seeking preliminary feedback for possible future consultations.

- **Create a standalone Industry Group for Textiles, Apparel & Luxury Goods to differentiate it from the Consumer Durables Industry Group**
 - Durable goods such as homes, home furnishings, consumer electronics, and leisure products are by nature different from non-durable goods such as textiles, apparel & luxury goods. Nevertheless, today they are classified under the same Industry Group within GICS, due to cyclicalities. Does durability of products have a more significant bearing on investment decision making as compared to cyclicalities?

- **What should we focus on for the next three to five years?**

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