

Frequently Asked Questions about GICS

Background information

The Global Industry Classification Standard (GICS®) was developed by MSCI and Standard & Poor's in 1999 to provide a universal, reliable, flexible and evolutionary investment tool. GICS Direct, a joint product of Standard & Poor's and MSCI, was introduced in 2001. GICS Direct provides the industry classification for more than 26,000 active companies and 29,000 securities, representing approximately 95% of the world's equity market capitalization.

MSCI is a leading provider of equity, fixed income and hedge fund indices and related products and services. MSCI estimates that over USD 3 trillion is benchmarked to its indices on a worldwide basis. MSCI is headquartered in New York, with research and commercial offices around the world. Morgan Stanley, a global financial services firm and a market leader in securities, asset management, and credit services, is the majority shareholder of MSCI and Capital International Inc., part of the global investment management group of The Capital Group Companies, Inc., is the minority shareholder.

Standard & Poor's, a division of The McGraw-Hill Companies (NYSE:MHP), is the world's foremost provider of independent credit ratings, indices, risk evaluation, investment research, data and valuations. With 6000 employees located in 21 countries, Standard & Poor's is an essential part of the world's financial infrastructure and has played a leading role for more than 140 years in providing investors with the independent benchmarks they need to feel more confident about their investment and financial decisions.

General Questions

1. What is the Global Industry Classification Standard (GICS®)?

The Global Industry Classification Standard (GICS®) was developed by Morgan Stanley Capital International (MSCI) and Standard and Poor's (S&P) in 1999 in response to the global financial community's need for a reliable, complete and standard industry classification system.

The GICS methodology is widely accepted as the industry analysis framework for investment research, portfolio management and asset allocation. Its universal approach to industries worldwide has contributed to increased transparency and efficiency in the investment process. The GICS has become an industry model widely recognized by market participants worldwide, including adoption of GICS Direct by eight of the top ten buy-side firms and nine of the top ten sell-side firms. It sets a foundation for the creation of replicable, custom-tailored portfolios and enables meaningful comparisons of sectors and industries globally.

The GICS structure has four levels of detail: 10 sectors, 24 industry groups, 64 industries, and 139 sub-industries. For details of changes to the GICS structure, please go to www.msci.com or www.gics.standardandpoors.com.

2. Why is this global classification system important?

The GICS was developed and is maintained by two leading global index providers. It has been specifically designed to classify companies globally – in both developed and developing economies.

The GICS is designed to meet the needs of the investment community for a classification system that reflects a company's financial performance. GICS provides global coverage and spans two leading global index providers. It provides a detailed view of indices and portfolios, with a universe of coverage beyond the index constituents. Over 26,000 active, publicly traded companies globally are currently classified according to the GICS.

3. Who uses the GICS and how pervasive is the GICS in the international investment community?

There has been significant adoption of the GICS standard across all major groups involved in the investment process, including: Asset Managers, Brokers (institutional and retail), Custodians, Consultants, Research, and Stock Exchanges (Toronto Stock Exchange, Australian Stock Exchange and the NOREX Alliance). Hundreds of clients use the GICS classifications and nearly 200 global institutions utilize GICS Direct, including eight of the top ten buy-side firms and nine of the top ten sell-side firms. Investors use the GICS across the full spectrum of equity market management – including asset management, sector research, portfolio strategy, peer analysis, and client account reporting. The use of the GICS enables market participants to identify and analyze companies using a common global standard.

4. Which particular advantages do strategists, analysts and investors draw upon in applying the GICS across their analysis and global benchmark selection?

The use of this global standard helps strategists, analysts and investors compare companies outside of their local markets and attract capital into local markets. The GICS establishes a common standard that enables asset owners, asset managers and investment research specialists to make global comparisons by industry.

The standardized classification system permits foreign investors to look into local markets and local investors to look out at the rest of the world when comparing stocks within the same industry. The GICS helps market participants determine whether stock movements are locally based or are part of a broader global trend.

The GICS defines peer groups tightly and avoids grouping unlike companies together. Four classification levels allow for more customization and targeting in portfolio, index and derivative product construction.

The GICS enables Standard & Poor's, MSCI and any index provider who adopts the system to develop competing sector indices and index products from a common global standard, enabling asset owners, asset managers, and investment research specialists to make seamless comparisons among indices by industry, by region and globally.

Classification Structure

5. What does it mean that GICS is a "market-oriented" classification system? Why does that matter?

There are two approaches to industry classification: production-oriented and market-oriented. The emergence of the service era and the availability of global communications have changed the market focus from producers to consumers. In today's economy, for example, drawing the line between goods and services is increasingly difficult and arbitrary, as almost all goods are sold with a service. Thus, the distinction between consumer goods and services has been replaced by the more market-oriented sectors of "Consumer Discretionary" and "Consumer Staples," which both contain goods and services sub-industries.

6. Describe the hierarchical categories of the GICS.

The GICS structure currently has four levels of detail: 10 sectors, 24 industry groups, 64 industries and 139 sub-industries. Since the classification is hierarchical, at each of the four levels a company can only belong to one grouping.

7. How is a company assigned a GICS code?

Standard & Poor's and MSCI jointly assign a company to a single GICS sub-industry according to the definition of its principal business activity as determined by the two companies. Revenues are a significant factor in determining principal business activity; however, earnings analysis and market perception are also important criteria for classification.

8. Is GICS assigned at the company level or security/issue level?

A GICS classification code is assigned at the company level. If a company's subsidiary files separate financials to its reporting government agency, that subsidiary will typically be considered a separate entity and classified independently under the GICS methodology. Equity securities or issues directly linked to a company will have the same classification as the company.

9. How frequently are companies reviewed for potential GICS changes and how often does a company's GICS classification generally change?

Companies are reviewed annually at a minimum. Companies are also under constant surveillance for corporate actions.

In general, a GIC will change whenever there is a major corporate action that redefines a company's primary line of business. At a minimum, annual reviews are conducted to ensure that a company has not redefined its line of business through a series of smaller events.

10. How adaptable is the GICS structure over time?

The four-level GICS structure reflects equities in today's global investment environment, yet is flexible enough to capture tomorrow's developments. The eight-digit GICS coding system is designed to adapt easily to the changing investment

world. As the global economy changes, sectors, industry group, industries and sub-industries can be added or divided.

Distinguishing Between Classification and Product

11. What's the difference between GICS and GICS DirectSM?

GICS is the classification structure and methodology. GICS Direct is a joint product of MSCI and Standard & Poor's that provides more than 26,000 active company classifications and over 29,000 securities, which represents approximately 95% of the world's equity market capitalization.

Pricing

12. How do you charge for GICS Direct?

GICS Direct is priced based on client type and size. The licensing fee for GICS Direct varies.

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