

CONSULTATION ON POTENTIAL CHANGES TO THE GLOBAL INDUSTRY CLASSIFICATION STANDARD (GICS®) STRUCTURE IN 2013

June 12, 2013

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INTRODUCTION

- MSCI and S&P Dow Jones Indices have decided to consult with members of the investment community on potential changes to the GICS structure in 2013. This consultation paper is designed to allow market participants to understand and give feedback on the potential changes to the GICS structure, which in turn will help MSCI and S&P Dow Jones Indices to make any final decisions.
- The consultation begins on June 12, 2013 and will end on August 23, 2013. Any changes to the GICS structure are expected to be announced on November 5, 2013. This consultation may or may not result in any changes to the GICS structure.

Mode of consultation:

If you would like to participate in this consultation, there are 3 options:

- Contact MSCI or S&P Dow Jones Indices by telephone
 - MSCI - Americas Client Service: 1.888.588.4567 (toll free) / +1.212.804.3901; EMEA Client Service: +44.20.7618.2222; Asia Pacific Client Service: +852.2844.9333
 - S&P Dow Jones Indices - U.S.: 1.877.325.5415 (toll free) / +1.212.438.2046; EMEA: +44.20.7176.8888; China: +86.10.6569.2905; Japan: +813.4550.8564; Australia: +61.2.9255.9802; Canada: +1.416.507.3200; Dubai: +971.4.3727131; India: +91.22.22728971
- Click on the below link to participate in the online survey
- www.surveymonkey.com/s/SPDJI-GICS-2013
- Contact one of the following email addresses with your feedback
 - MSCI: clientservice@msci.com
 - S&P Dow Jones Indices: spgics@standardandpoors.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.
- When first introduced, GICS was a four-tier structure with an eight-digit taxonomy – 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, 68 Industries, and 154 Sub-Industries. Direct input from global equity market participants has been the key driver for these changes.
- Some of the more significant changes over the past 14 years include:
 - Industrial Sector - the addition of an Industry for Professional Services and Sub-Industries for Diversified Support Services, Human Resource and Employment Services, Research and Consulting Services, and Security and Alarm Services.
 - Consumer Discretionary Sector - the addition of an Industry for Diversified Consumer Services and Sub-Industries for Automotive Retail, Cable and Satellite, Education Services, Home Furnishing Retail, and Specialized Consumer Services.
 - Financials Sector - the creation of an Industry for Real Estate Investment Trust (REIT) and seven Sub-Industries related to REITs. Sub-Industry Real Estate Management and Development was made more granular by breaking it into Sub-Industries Real Estate Operating Companies, Real Estate Development, Real Estate Services, and Diversified Real Estate Activities.
 - Health Care Sector - the addition of Sub-Industries for Life Sciences Tools and Services, Health Care Services, and Health Care Technology.
 - Information Technology Sector - the promotion of the Semiconductors and Semiconductor Equipment Industry to Industry Group status.

SUMMARY OF PROPOSALS

The main proposals set out in this consultation paper are:

- Analysis of the Renewable Energy Industry
- Review of the Metals and Mining Industry
- Review of the Machinery Industry
- Review of the REITs Industry
- Review of the Technology Hardware and Equipment Industry Group
- Review of the Photographic Products Sub-Industry
- Potential changes to the definitions of certain Sub-Industries within the Banks Industry Group, and the Consumer Electronics and Internet Software and Services Sub-Industries
- Discussion topic relating to the Health Care Sector
- Scope for further granularity in the GICS Structure

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

ANALYSIS OF THE RENEWABLE ENERGY INDUSTRY

Rationale for the analysis:

- Renewable fuels potentially present a comparative advantage over the traditional fossil fuels due to:
 - Presence in wider geographies
 - Reduced cost of related technologies
 - Related economic benefits
 - Energy security and energy efficiency
- With the conflicting interests of increased global demand for energy, and the need for a cleaner, greener environment, renewable sources of energy continue to enjoy a strong surge in demand. This has led to growth in both the market capitalization and the number of companies in the renewable energy space.

Does the current and potential future growth in the renewable energy sphere present a need to create new Industries and Sub-Industries within the GICS structure?

ANALYSIS OF THE RENEWABLE ENERGY INDUSTRY

Proposed structure:

Sector	Industry Group	Industry	Sub-Industry
10 - Energy	1010 - Energy	101010 - Energy Equipment & Services	10101010 - Oil & Gas Drilling
			10101020 - Oil & Gas Equipment & Services
		101020 - Oil, Gas & Consumable Fuels	10102010 - Integrated Oil & Gas
			10102020 - Oil & Gas Exploration & Production
			10102030 - Oil & Gas Refining & Marketing
			10102040 - Oil & Gas Storage & Transportation
		10102050 - Coal & Consumable Fuels	
101030 - Renewable Energy (New)	10103010 - Renewable Energy (New)		
55 - Utilities	5510 - Utilities	551010 - Electric Utilities	55101010 - Electric Utilities
		551020 - Gas Utilities	55102010 - Gas Utilities
		551030 - Multi Utilities	55103010 - Multi Utilities
		551040 - Water Utilities	55104010 - Water Utilities
		551050 - Independent Power Producers & Energy Traders (Discontinued)	55105010 - Independent Power Producers & Energy Traders
		551050 - Power Producers & Energy Traders (Name change)	55105020 - Renewable Electricity (New)

ANALYSIS OF THE RENEWABLE ENERGY INDUSTRY

Proposed new definitions:

Renewable Energy:

Companies that engage in the generation and distribution of energy, other than electricity, using renewable sources, including, but not limited to, companies that generate energy other than electricity using ethanol, biomass and biofuel, geothermal energy, hydrogen, and solar energy. Includes companies manufacturing capital equipment which are used to generate energy other than electricity, using renewable sources. Also includes companies that develop technology mainly for this market.

Renewable Electricity:

Companies that engage in generation and distribution of electricity using renewable sources, including, but not limited to, companies that produce electricity using biomass, geothermal energy, solar energy, hydropower, and wind power. Includes companies manufacturing capital equipment used to generate electricity using renewable sources, such as manufacturers of solar power systems and installers of photovoltaic cells. Also includes companies involved in the provision of technology, components, and services mainly to this market.

ANALYSIS OF THE RENEWABLE ENERGY INDUSTRY

Discussion topics:

- Are companies that produce renewable energy other than electricity and those that produce renewable electricity considered separate? Are these companies subject to different or similar valuation metrics?
- With the evolution of markets, do diversified energy companies tend to gradually move towards being pure-play companies specializing in renewable energy or vice versa?
- Should companies involved solely in renewable energy equipment and services be classified based on their nature ('Industrials') or based on their end-use ('Energy' / 'Utilities')?
- Should renewable energy in 'Sector 10: Energy' also include companies manufacturing capital equipment, which in turn is used to generate renewable energy other than electricity, or does this warrant a separate Sub-Industry altogether?
- Should renewable electricity in 'Sector 55: Utilities' also include companies manufacturing capital equipment, which in turn is used to generate electricity using renewable sources, such as solar power systems and installers, and photovoltaic cells, or does this warrant a separate Sub-Industry altogether?
- Does the level of regulation play a role in governing the operations of renewable energy companies?

REVIEW OF THE METALS AND MINING INDUSTRY

Rationale for the review:

- Silver's industrial demand has greatly expanded the role of the global silver market in recent years. Silver's unique technical proficiency makes it suitable for a wide range of applications while also limiting the ability of industrial users to shift in favor of less-costly alternatives. Whether it is health and medicine, electronics, communications, solar power, batteries, super conductors, computers, jewelry or silverware, silver has numerous applications. Most of the other precious metals do not have as many uses from an industrial standpoint as silver. Further, uncertainty over whether the gold price surge in recent times is a bubble or backed by strong fundamentals and recent volatility in gold prices due to various global factors has led investors to take shelter in potential safe havens like silver.

Does the current and potential future growth of the industrial demand for Silver warrant the creation of a new Sub-Industry within the GICS structure?

- Companies engaged in mining of metallurgical (coking) coal used for steel production are better classified based on end use, namely, steel.

REVIEW OF THE METALS AND MINING INDUSTRY

Proposed structure:

Sector	Industry Group	Industry	Sub-Industry
15 - Materials	1510 - Materials	151040 - Metals & Mining	15104010 - Aluminum
			15104020 - Diversified Metals & Mining
			15104030 - Gold
			15104040 - Precious Metals & Minerals
			15104045 - Silver (New)
			15104050 - Steel

Proposed definitions:

Diversified Metals & Mining:

Companies engaged in the diversified production or extraction of metals and minerals not classified elsewhere, including, but not limited to, nonferrous metal mining, salt and borate mining, phosphate rock mining, and diversified mining operations. Excludes iron ore mining, classified in the Steel Sub-Industry and bauxite mining classified in the Aluminum Sub-Industry. Excludes coal mining companies classified either in the Coal & Consumable Fuels Sub-Industry or the Steel Sub-Industry.

Silver:

Companies primarily mining silver. Does not include companies classified in the Gold or Precious Metals and Minerals Sub-Industry.

Steel:

Producers of iron and steel and related products, including, but not limited to, metallurgical (coking) coal mining used for steel production.

REVIEW OF THE METALS AND MINING INDUSTRY

Discussion topics:

- What is the source of the demand for Silver?
- How does the market perceive the growth of companies mining Silver in the future?
- How does the market for Silver compare to that for Gold and how is this trend likely to change in the future? Are Silver producers, Gold producers and Precious Metal producers subject to same or different valuation metrics?
- In terms of quantity, what proportion of the total precious metals and minerals should silver be, in order to be significant enough to warrant an independent Sub-Industry for Silver?

REVIEW OF THE MACHINERY INDUSTRY

Rationale for the review:

- There is a higher correlation of prices of agriculture and farm machinery to agricultural products than with those of capital goods. This is primarily on account of the fact that the business cycles of agriculture and farm machinery follow the troughs and crests of agriculture products rather than capital goods. Also, the key drivers affecting the demand for and supply of agriculture and farm machinery are different as compared to heavy-duty and commercial trucks and other construction equipments.

Proposed structure:

Sector	Industry Group	Industry	Sub-Industry
20 - Industrials	2010 - Capital Goods	201060 - Machinery	20106010 - Construction & Heavy Trucks (Name Change)
			20106015 - Agriculture & Farm Machinery (New)
			20106020 - Industrial Machinery

REVIEW OF THE MACHINERY INDUSTRY

Proposed new definition:

Agriculture and Farm Machinery:

Companies manufacturing agricultural machinery, farm machinery and their related parts.

Including, but not limited to, manufacturers of:

- Farm field and farmstead machinery used for the production of crops and agricultural livestock
- Agricultural tractors
- Planting and fertilizing machinery, fertilizer and chemical application equipment
- Sprayers and irrigation equipment
- Tillage equipment
- Harvesting machinery, haying and mowing machinery
- Milking machines and other farm dairy equipment
- Poultry equipment
- Grain dryers and blowers

Discussion topics:

- Should manufacturers of 'Agriculture and Farm Machinery' be classified based on their nature ('Industrials') or based on their end-use ('Consumer Staples')?
- Are the valuation metrics that manufacturers of 'Agriculture and Farm Machinery' are subjected to similar to those of Machinery or Food Products?

REVIEW OF THE REITS INDUSTRY

Rationale for the review:

- The global specialization of companies that are defined as some form of property trust (REIT) and the need for real estate asset owners to conduct performance attribution and analysis has created the opportunity to create a more granular REITs GICS structure that groups companies with more focused business activities in new Sub-Industries.

Have the hotel and resort REIT industry and the health care REIT industry, in particular, gained enough critical mass to warrant their own Sub-Industries?

Proposed structure:

Sector	Industry Group	Industry	Sub-Industry
40 - Financials	4040 - Real Estate	404020 - Real Estate Investment Trusts (REITs)	40402010 - Diversified REITs
			40402020 - Industrial REITs
			40402030 - Mortgage REITs
			40402035 - Hotel & Resort REITs (New)
			40402040 - Office REITs
			40402045 - Health Care REITs (New)
			40402050 - Residential REITs
			40402060 - Retail REITs
			40402070 - Specialized REITs

REVIEW OF THE REITS INDUSTRY

Proposed new definitions:

Hotel and Resort REITs:

Companies or Trusts engaged in the acquisition, development, ownership, leasing, management and operation of hotel and resort properties.

Health Care REITs:

Companies or Trusts engaged in the acquisition, development, ownership, leasing, management and operation of properties serving the health care industry, including hospitals, nursing homes, and assisted living properties.

Discussion Topics:

- Given the similarity of the Office and Industrial REITs, does it make sense to combine them into one Sub-Industry? Where do data centers belong?
- Are there any other types of REITs that should be broken out into its own Sub-Industry?

REVIEW OF THE TECHNOLOGY HARDWARE AND EQUIPMENT INDUSTRY GROUP

Rationale for the review:

- In recent years, technology companies have been more difficult to classify according to our existing Sub-Industry definitions in the Information Technology Sector. Tablets, computers, and smartphones have similar drivers, and are viewed as very similar products. Rather than being viewed strictly as communications tools, smartphones and tablets are viewed as mini computers. We believe that the similar nature of these products makes it possible to combine two Sub-Industries into one.
- With only 16 companies, the Office Electronics Sub-Industry has been shrinking and is outdated. There are very few manufacturers of copiers and fax machines anymore, and most have diversified into other operations. Companies manufacturing copiers and fax machines would move into the Electronic Equipment and Instruments Sub-Industry.

Proposed structure:

Sector	Industry Group	Industry	Sub-Industry
45 - Information Technology	4520 - Technology Hardware & Equipment	452010 - Communications Equipment	45201020 - Communications Equipment
		452020 - Technology Hardware, Storage & Peripherals (Name Change)	45202010 - Computer Hardware (Discontinued)
			45202020 - Computer Storage & Peripherals (Discontinued)
			45202030 - Technology Hardware, Storage & Peripherals (New)
452040 - Office Electronics (Discontinued)	45204010 - Office Electronics (Discontinued)		

REVIEW OF THE TECHNOLOGY HARDWARE AND EQUIPMENT INDUSTRY GROUP

Proposed definitions:

Technology Hardware, Storage and Peripherals:

Manufacturers of smartphones, personal computers, servers, electronic computer components and peripherals. Includes data storage components, motherboards, audio and video cards, monitors, keyboards, printers, and other peripherals. Excludes semiconductors classified in the Semiconductors Sub-Industry.

Communications Equipment:

Manufacturers of communication equipment and products, including LANs, WANs, routers, telephones, switchboards and exchanges.

REVIEW OF THE PHOTOGRAPHIC PRODUCTS SUB-INDUSTRY

Rationale for the review:

- The Photographic Products Sub-Industry is outdated and shrinking. Most companies in this category manufacture optical lenses, not necessarily for consumer-focused cameras. Companies can be split between 2 Sub-Industries: digital cameras and related equipment will be classified into Consumer Electronics, and other types of photographic products will be classified in Leisure Products.

Proposed Structure:

Sector	Industry Group	Industry	Sub-Industry
25 - Consumer Discretionary	2520 - Consumer Durables & Apparel	252020 - Leisure Equipment & Products	25202010- Leisure Products
			25202020 - Photographic Products (Discontinued)

CHANGES TO SUB-INDUSTRY DEFINITIONS

Commercial Banks Industry (401010)

- The 401010 Industry level name will change from Commercial Banks to Banks. We are also changing the definitions of Diversified Banks (40101010), Regional Banks (40101015), and Other Diversified Financial Services (40201020) in order to more accurately classify large, diversified and regional retail banks.

New definition for 40101010 - Diversified Banks will be:

Large, geographically diverse banks with a national footprint whose revenues are derived from conventional banking services and have significant business activity in retail banking and small and medium corporate lending. Excludes banks classified in the Regional Banks and Thrifts and Mortgage Finance Sub-Industries. Also excludes investment banks classified in the Investment Banking and Brokerage Sub-Industry.

New definition for 40101015 – Regional Banks will be:

Commercial banks whose businesses are derived primarily from conventional banking services and have significant business activity in retail banking and small and medium corporate lending. Regional banks tend to operate in limited geographic regions. Excludes companies classified in the Diversified Banks and Thrifts & Mortgage Banks sub-industries. Also excludes investment banks classified in the Investment Banking & Brokerage Sub-Industry.

New definition for 40201020 - Other Diversified Financial Services will be:

Providers of a diverse range of financial services and/or with some interest in a wide range of financial services including banking, insurance and capital markets, but with no dominant business line. Excludes companies classified in the Banks Industry.

CHANGES TO SUB-INDUSTRY DEFINITIONS

Internet Software and Services Sub-Industry (45101010)

- We will update the definition for the Internet Software and Services Sub-Industry to highlight the fact that companies who generate a majority of revenues from online advertising are classified here.

New definition for 45101010- Internet Software and Services will be:

Companies developing and marketing internet software and/or providing internet services including online databases and interactive services, as well as companies deriving a majority of their revenues from online advertising.

Thrifts and Mortgage Finance (40102010)

- The definition will be updated to remove reference to mortgage GSEs (government sponsored enterprises).

New definition for Thrifts and Mortgage Finance will be:

Financial institutions providing mortgage and mortgage related services. These include financial institutions whose assets are primarily mortgage related, savings and loans, mortgage lending institutions, building societies and companies providing insurance to mortgage banks.

Consumer Electronics (25201010)

- The definition of Consumer Electronics is outdated.

New definition for Consumer Electronics will be:

Manufacturers of consumer electronics products including TVs, home audio equipment, game consoles and related products. Excludes electric household appliances classified in the Household Appliances Sub-Industry.

OTHER DISCUSSION TOPICS

- There is a lot of overlap between the Biotechnology and Pharmaceuticals Sub-Industries, which sometimes makes it difficult to determine the correct classification. How should we distinguish between pharmaceuticals and biotechnology companies? Should companies classified as Biotechnology ideally not engage in manufacturing pharmaceuticals? Should we create another Sub-Industry or combine pharmaceuticals and biotechnology?
- How does the market view companies manufacturing products using biotechnology but without a health care application? For example, industrial enzymes have been designed to catalyze reactions for products in many industries, including brewing, food, biofuel, rubber, photographic, and molecular biology. How are these types of companies best classified?

SCOPE OF FURTHER GRANULARITY IN THE STRUCTURE – DISCUSSION TOPIC

- What should we focus on over the next three-to-five years?
 - Large Sub-Industries that can be broken down, such as “Diversified Metals and Mining”, “Packaged Foods and Meats”, and “Commodity Chemicals”.
 - Split Sub-Industries with dissimilar business models grouped together such as “Aerospace and Defense”.
 - Are there any other areas where you would like to see more granularity or consolidation?

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