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# A Look at GICS® Sector Revisions in 2023

## Refining, Not Retooling Categories

March 2023

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# GICS® Changes Overview

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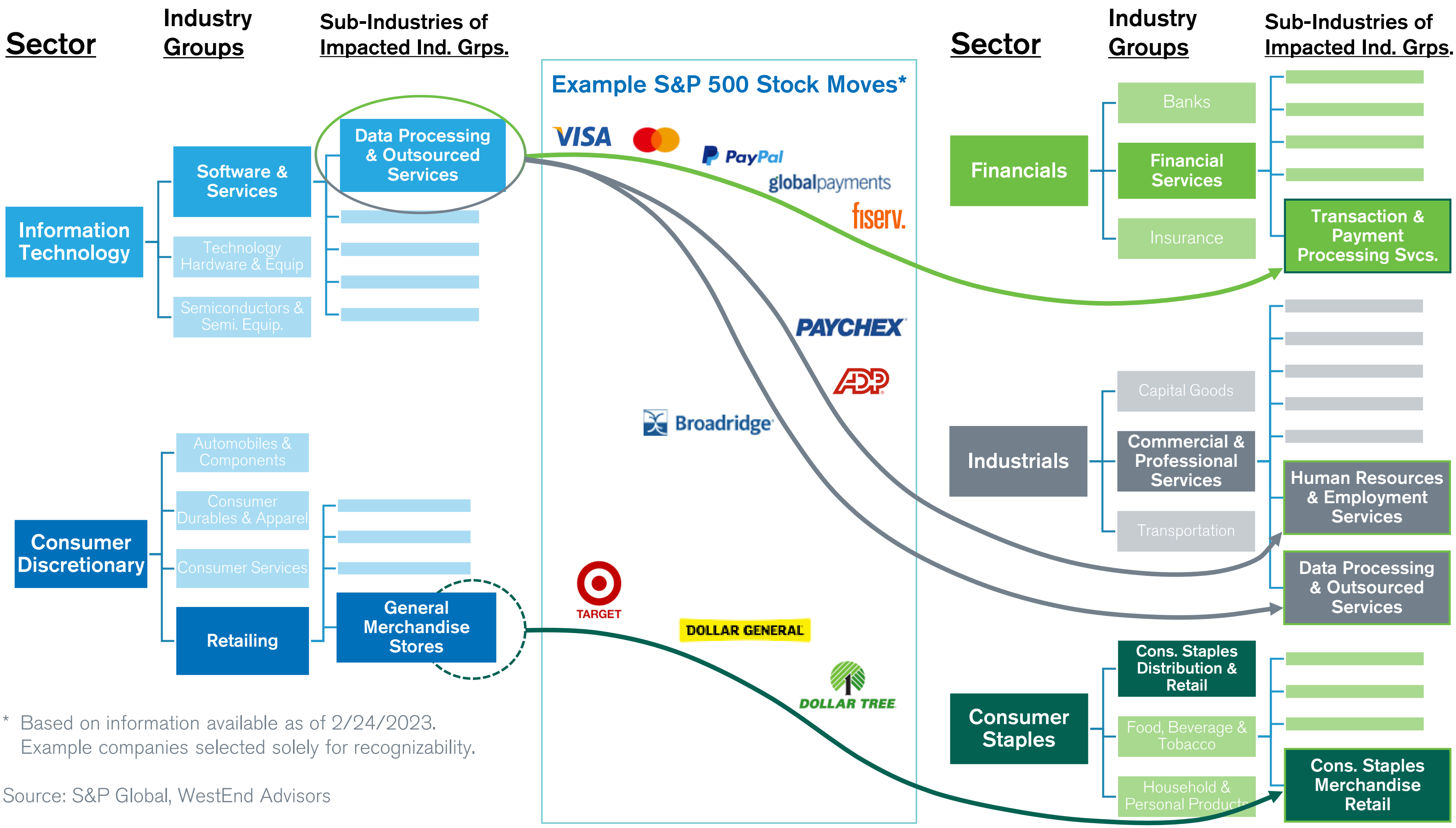
- **The Global Industry Classification System, or GICS®, was developed in 1999** as a collaboration between two leading index providers, S&P Financial Services LLC and MSCI, which still jointly maintain and administer GICS®
- **Updates to GICS® are normal:** Historically, the GICS® framework has been updated about every two years, on average
- **An update was overdue:** The gap of about 4.5 years since the last update in 2018 is the longest period without an update since GICS® inception
- **The 2023 GICS® changes:**
  - Are effective after market close March 17, 2023
  - Reflect multiple definition adjustments to Industry Groups, Industries, and Sub-Industries
  - Create no new sectors, have limited changes to broad sector definitions, and only shift about 3.9% of S&P 500 market cap between sectors*

Adjustments to GICS® are routine, and typically have been implemented every few years to keep categorizations aligned with evolving industry characteristics and business models.

Source: S&P Global, WestEnd Advisors
* Pre-change and pro forma weights based on S&P 500 constituent weights as of February 24, 2023.

# Key Sector-to-Sector Moves*




* Based on information available as of 2/24/2023.
Example companies selected solely for recognizability.

Source: S&P Global, WestEnd Advisors

# A Modest Flattening of Sector Size Distribution

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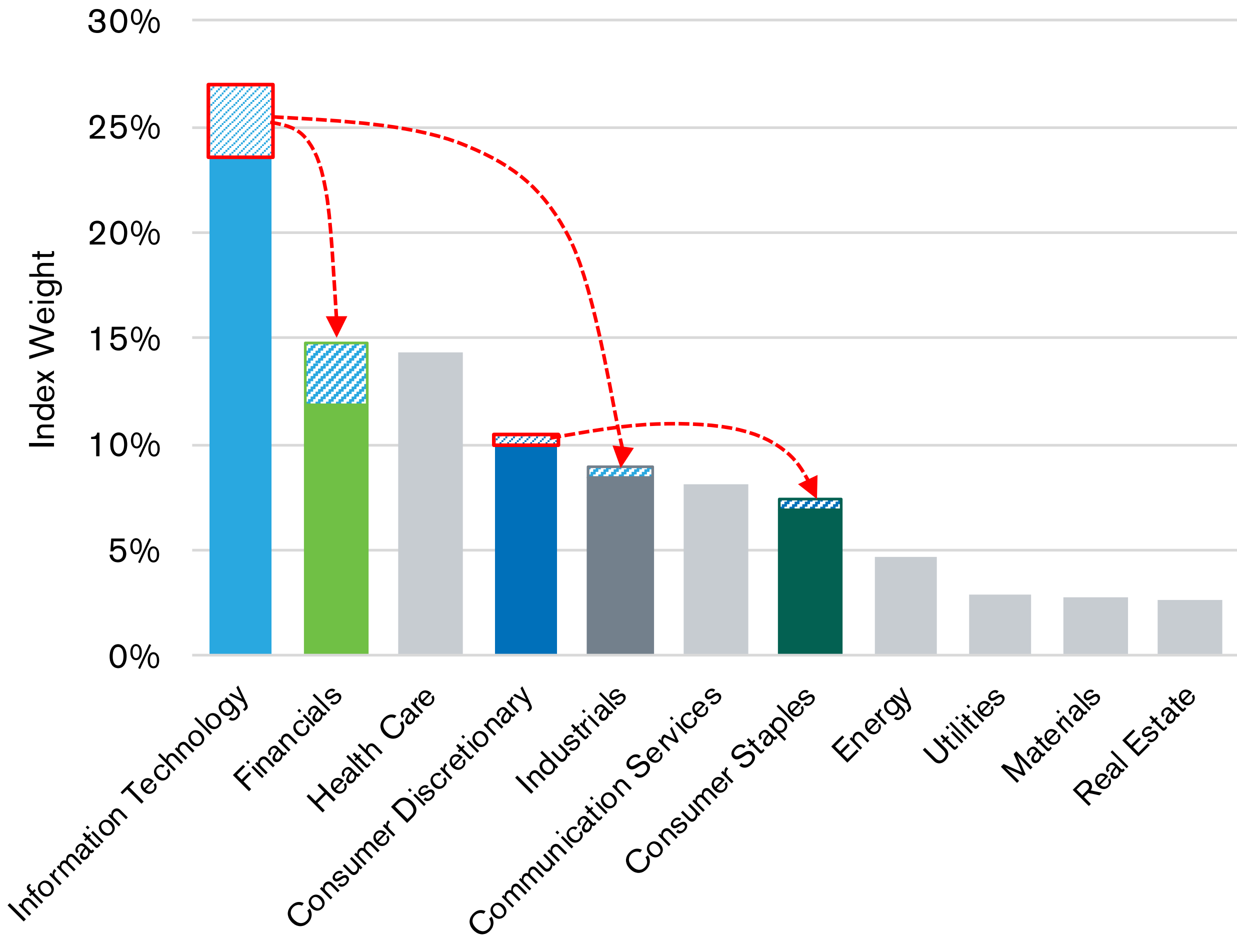
## S&P 500 SECTOR WEIGHTS PRE-CHANGE AND PRO FORMA*




Reducing the size of the Information Technology, the largest sector, can allow more room to over-weight the sector within a strategy's investment guidelines, when deemed appropriate.

Sources: Bloomberg, S&P Global, WestEnd Advisors
* Pre-change and pro forma weights based on S&P 500 constituent weights as of February 24, 2023.

# GICS® Change Summary by Sector*

| Sector | Key Takeaways |
|---|---|
| **Consumer Discretionary** | **Sector shrinks** as some General Merchandise Stores moved to Consumer Staples sector |
| **Consumer Staples** | **Sector grows modestly with increased diversification** through addition of some General Merchandise Stores from Consumer Discretionary sector |
| **Information Technology** | **Sector shrinks, left with more pure hardware/software focus** after removal of outsourced data and payment processors |
| **Financials** | **Grows to be second-largest sector,** with about 1/5 of reconstituted sector from the addition of credit card processors, which typically have had higher EPS growth and valuations than many traditional Financials sector constituents |
| **Industrials** | **Sector grows modestly, but may have increased diversification** with addition of outsourced data/payroll processors |
| **Real Estate** | **No change at sector level,** but internal reorganization provides additional granularity at Industry Group, Industry, and Sub-Industry levels |

Source: S&P Global, WestEnd Advisors

* Pre-change and pro forma weights based on S&P 500 constituent weights as of February 24, 2023. See Appendix for additional details.

# Impact on Our Investment Process

**We view these changes as a modest net positive for WestEnd's macroeconomically-driven sector investment approach.**

**Likely positives for sector-based investing:**

- Reduction of the size of Information Technology, the largest sector, leaves greater room within strategy guidelines for overweighting the sector when deemed appropriate
- Information Technology and Consumer Discretionary sectors become less diverse, which may make them more responsive to specific economic drivers

**Other changes likely have limited net impact on our view of sectors, e.g.:**

- Moving some General Merchandise Stores from Consumer Discretionary may reduce that sector's diversification, but increases diversification in their new sector, Consumer Staples
- Modest shifts in expected earnings growth rates and valuations for the affected sectors are unlikely to have a significant impact on primary sector drivers or our current ETF portfolios' characteristics

The incremental nature of these GICS® changes limits their impact on our sector-focused investment process, though factors like the reduced size of the Information Technology sector and its narrower concentration on tech hardware and software are likely positives.

# Appendix

Additional detail on GICS® changes by sector



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# GICS® Change Details – Multiple Refinements*

| Sector | Summary of Notable Changes (excludes simple name changes) | Key Takeaways |
|---|---|---|
| **Consumer Discretionary** | Reorganization of Retail industry group, renamed Consumer Discretionary Distribution & Retail:<br>• Portion of former General Merchandise sub-industry moved to Consumer Staples sector<br>• Consolidation of former Internet & Direct Marketing Retail industry, Department Stores sub-industry, and remainder of General Merchandise Stores sub-industry under new Broadline Retail sub-industry | **Sector shrinks** as some General Merchandise Stores moved to Consumer Staples sector |
| **Consumer Staples** | Reorg. of Food & Staples Retailing industry group, renamed Consumer Staples Distribution & Retail:<br>• Former Hypermarkets & Super Centers sub-industry renamed Consumer Staples Merchandise Retail and redefined<br>• Adds new constituents from former Cons. Discretionary General Merchandise Stores sub-industry | **Sector grows modestly with increased diversification** from addition of some General Merchandise Stores from Cons. Discretionary sector |
| **Information Technology** | Elimination of Data Processing & Outsourced Services sub-industry:<br>• Credit card processors moved to Financials sector<br>• Commercial data/payroll processors moved to Industrials sector | **Sector shrinks, left with more pure hardware/software focus** after removal of outsourced data and payment processors |
| **Financials** | Multiple sub-industries reorganized, including:<br>• New Transaction & Payment Processing Services sub-industry receiving credit card processors from Information Technology Sector<br>• Elimination of Thrifts & Mortgage Finance industry; mortgage companies moved to new sub-industry within Financial Services industry | **Grows to be second-largest sector,** with about 1/5 of reconstituted sector from the addition of credit card processors, which typically have had higher EPS growth and valuations than many traditional Financials sector constituents |
| **Industrials** | • Sub-industry adjustments to accommodate business data/payroll processing companies:<br>  • New Data Processing & Outsourced Services sub-industry for outsourced data and business process companies<br>  • Redefined Human Resources & Employment Services sub-industry adds payroll processors<br>• Adjustments to sub-industries within renamed Ground Transportation industry | **Sector grows modestly, but may have increased diversification** with addition of outsourced data/payroll processors |
| **Real Estate** | • REITs and Real Estate Management & Development breakout moved to industry group from industry level<br>• REITs reorganized with greater industry and sub-industry granularity by real estate asset type | **No change at sector level,** but internal reorganization provides additional granularity at Industry Group, Industry, and Sub-Industry levels |

Source: S&P Global, WestEnd Advisors

* Pre-change and pro forma weights based on S&P 500 constituent weights as of February 24, 2023.



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# Footnotes & Disclosures

On December 31, 2021, Victory Capital Holdings, Inc. ("Victory Capital") acquired WestEnd Advisors, LLC ("WestEnd"). WestEnd, an SEC-registered investment adviser, operates as an autonomous Victory Capital Investment Franchise. WestEnd's active principals continue to be responsible for managing the firm and its day-to-day operations. Registration of an investment adviser does not imply any level of skill or training. WestEnd manages equity securities for individuals and institutional clients.

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