



Understanding the New GICS Changes



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On September 28, 2018, S&P Dow Jones Indices and MSCI Inc. implemented the largest structural change to the Global Industry Classification Standard (GICS) to date, significantly broadening the GICS Telecommunication Services sector to include a host of new companies and renaming it the Communication Services Sector. In this report, we discuss the new GICS changes through the lens of the Syntax Business Risk Taxonomy (BRT™).

The Syntax Business Risk Taxonomy is an industrial classification system developed by Syntax®. Built through years of economic research, the BRT is used to inform the construction of Syntax's Stratified Indices and has remained largely unchanged since its use in the first Syntax index in 2009. The BRT is also used in the development of the Syntax Related Business Risk (RBR) analysis software suite.

The GICS Structure Change Explained

The new GICS structure change concerns the expansion of their Telecommunication Services sector, which previously had consistently been the smallest top-level sector group in the GICS structure. While other GICS Sectors like Industrials and Financials included a range of industries, the Telecommunication Services group consisted of a very narrow type of business: companies that transmitted information over large networks. Companies in this group included AT&T, Verizon, and Dish Network Corp.

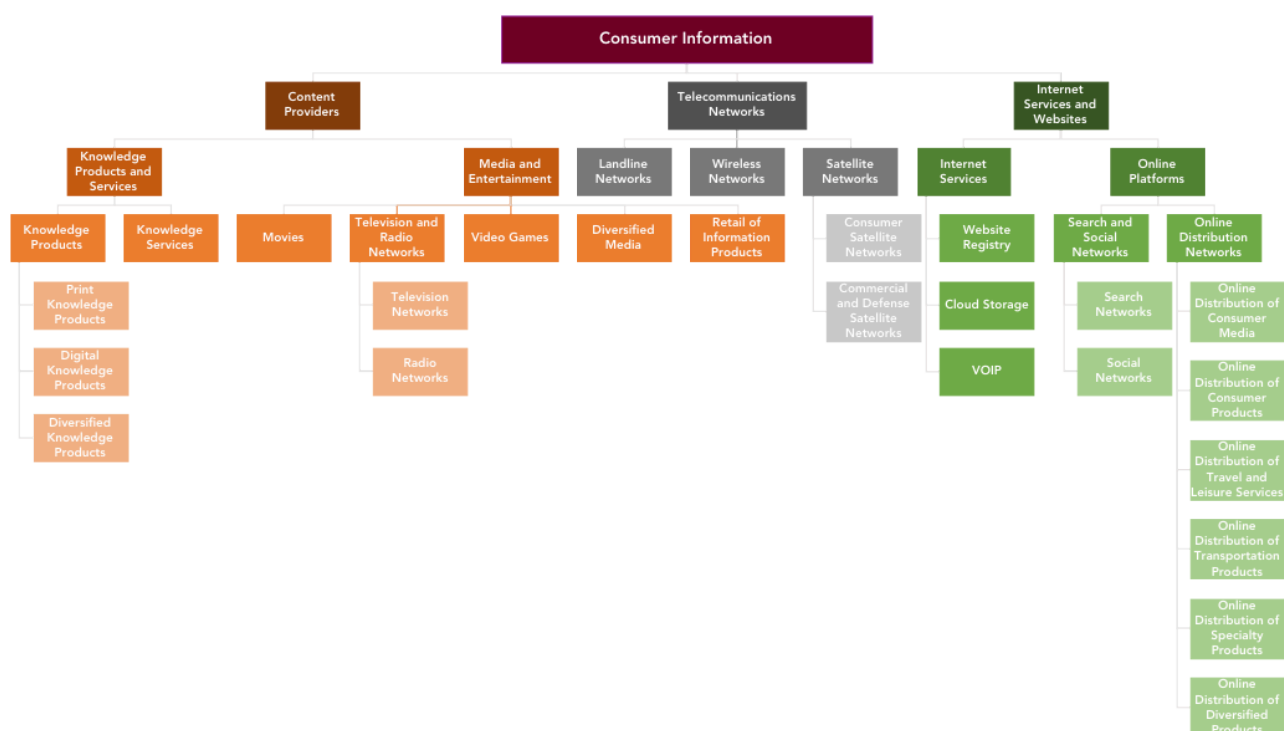
In addition to the companies currently classified in the Telecommunication Services sector, the new GICS Communication Services sector will include companies from the Information Technology sector that are in the business of facilitating communication, including Alphabet and Facebook, as well as media and cable companies moved from

the Consumer Discretionary sector, including Disney and Comcast Corp.

GICS Converging Toward the Syntax BRT

The new GICS structure changes represent a convergence toward the longstanding structure of the Syntax BRT. The Syntax BRT groups all companies engaged in the production, distribution and processing of information into a top-level sector called “Information.” Within the top-level Information group, there is a breakout between commercial information and consumer information. The Consumer Information group includes telecommunications companies such as AT&T, cable companies such as Comcast Corp., companies that produce media such as Disney, companies that operate internet communications platforms such as Facebook, and companies that utilize online distribution platforms such as Amazon. It also includes businesses that facilitate the transmission of information over the internet including cloud-storage and website registry companies like VeriSign.

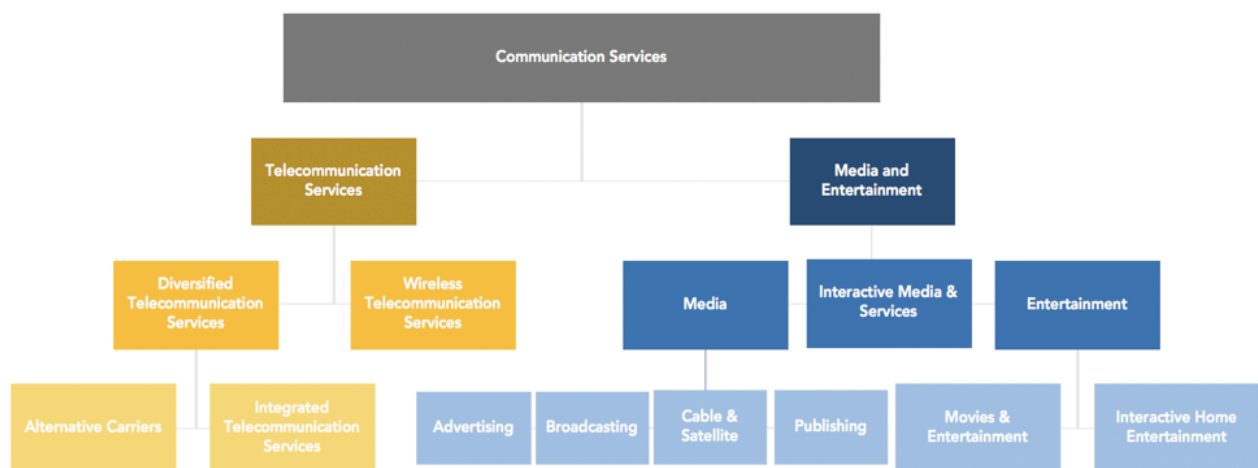
The Syntax BRT's Consumer Information Group



The new GICS Communication Services group converges toward the Syntax BRT Consumer Information group by combining telecommunications companies, cable companies and media producers. Still excluded, however, are numerous other

companies involved in communication, including online distribution companies like Amazon (still in Consumer Discretionary) and support services to communications, such as website hosting companies like VeriSign Inc. (Information Technology). While the Syntax BRT sees any involvement in consumer information as a shared business risk, GICS sees mainly the production and distribution of digital media as the most important risk to capture.

The new GICS Communication Services Group



The new GICS Communication Services group

Black-Box Decision Process

Analysts at Syntax attribute the GICS change to a number of economic factors including the rise in influence of internet communications platforms like Google and Facebook, as well as the consolidation of the telecom and media industries. The starkest example of the economic influences on the GICS change is the attempted AT&T-Time Warner merger, which involves two companies that were classified in two separate sectors under the old GICS structure and will now both be classified under the new Communication Services sector. Even before this merger, the line between types of media and communication companies were blurry; consider Comcast's purchase of NBCUniversal, or the AOL-Time Warner merger almost two decades ago.

While we can speculate as to the logic behind the new GICS change, the fact is that we don't know the metrics or reasoning that drives changes to the structure. Changes to GICS are determined by a joint S&P Dow Jones Indices and MSCI Inc. committee.

Changes are proposed and then submitted to the investment community for feedback, but neither the results of that feedback nor its incorporation into the decision process are transparent.

The Syntax Business Risk Taxonomy is algorithmically constructed using Syntax's patented Functional Information System (FIS[™]), a standardized economic model developed through years of research drawing from systems sciences. Syntax FIS assigns standardized barcodes of functional markers to individual companies. Each marker in an FIS Barcode represents an area of shared business risk. These barcodes offer a standardized and multi-dimensional system to capture the business risk attributes that drive a given company's performance. This is information that Syntax then uses to algorithmically place companies into risk groups. The result is a transparent set of risk groups that can be validated by the user.

Appendix: Select Company Classification Comparison

Company	Syntax BRT Level 7	GICS Sub-Industry
Amazon.com, Inc.	Online Distribution of Diversified Products	Internet & Direct Marketing Retail
Alphabet Inc.	Search Networks	Interactive Media & Services
Facebook, Inc. Class A	Social Networks	Interactive Media & Services
AT&T Inc.	Wireless Networks	Integrated Telecommunication Services
Walt Disney Company	Diversified Media	Movies & Entertainment
Netflix, Inc.	Online Distribution of Consumer Media	Movies & Entertainment
Comcast Corporation Class A	Landline Networks	Cable & Satellite
Booking Holdings Inc.	Online Distribution of Travel and Leisure Services	Internet & Direct Marketing Retail
Activision Blizzard, Inc.	Video Games	Interactive Home Entertainment
Twenty-First Century Fox, Inc. Class A	Diversified Media	Movies & Entertainment
Equinix, Inc.	Cloud Storage	Specialized REITs
eBay Inc.	Online Distribution of Diversified Products	Internet & Direct Marketing Retail
Twitter, Inc.	Social Networks	Interactive Media & Services
CBS Corporation	Television Networks	Broadcasting
VeriSign, Inc.	Website Registry	Internet Services & Infrastructure
Akamai Technologies, Inc.	Cloud Storage	Internet Services & Infrastructure
Viacom Inc.	Television Networks	Movies & Entertainment
Discovery, Inc.	Television Networks	Broadcasting
Copart, Inc.	Online Distribution of Transportation Products	Diversified Support Services
DISH Network Corporation Class A	Consumer Satellite Networks	Cable & Satellite
News Corporation	Diversified Knowledge Products	Publishing
Omnicom Group Inc.	Marketing Services	Advertising