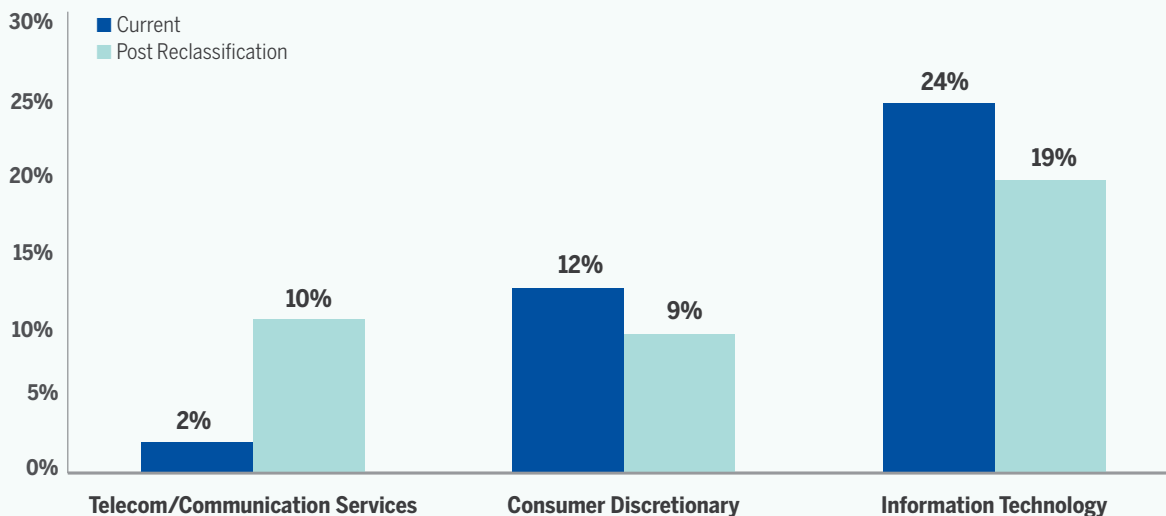


# Weight Loss Guaranteed

Later this year two major index providers will change their widely used sector and industry classification system. There will be substantial implications, given the trillions of dollars that invest according to this framework, and a potential opportunity for investors.

## S&P 500 Sectors Due for Significant Changes

S&P 500 Sector Weighting



Source: S&P Dow Jones, FactSet and Alger estimates as of February 1, 2018.

- At the end of 3Q18, the Global Industry Classification Standard (GICS), which is used in S&P Dow Jones and MSCI indices as well as by many fund managers, will undergo meaningful changes.
- The biggest revision will be the restructuring of the Telecommunication Services sector. To be known as Communication Services, it will include not only Telecommunication Services stocks but also Media & Entertainment stocks, which will come from the Consumer Discretionary (e.g., cable and broadcasting) and Information Technology (e.g., search engine and social media) sectors.
- Behemoths such as Facebook and Alphabet will likely move from Information Technology to the new Communication Services sector.<sup>1</sup>
- The Telecommunication/Communication Services sector weighting will increase considerably in broad indices, such as the S&P 500, and rise even more dramatically in growth indices. Conversely, the Information Technology and Consumer Discretionary sectors will shrink.
- These adjustments have important ramifications in terms of evaluating fund performance. Additionally, aggregate portfolio holdings for certain sector-related funds may be affected. Lastly, certain fund managers (e.g., growth managers) may find themselves less constricted as lower index weightings in the Information Technology sector allow for more differentiated views relative to their benchmarks—potentially welcome news for some investors.

<sup>1</sup> The final list of changes has not yet been released.

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