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Scope

*Elston ETF Research focuses on ETFs listed on the London Stock Exchange. All tickers relate to London listed securities. Our target audience is UK asset managers and intermediaries.*

About Elston

*Elston aims to be the UK's leading independent ETF specialist. We provide ETF Research, ETF Portfolios and Indices to asset owners and asset managers.*  
[www.elstonconsulting.co.uk](http://www.elstonconsulting.co.uk)

## SUMMARY

- New Communication Services sector expands Telecommunication Services to include some media and technology names
- Whilst no change to the constituents of the S&P500, it's a material change to the sector classification system
- State Street's SPDR is launching a London-listed ETF to access the new sector with a single trade

### New ETF for a new US Equity Sector

The creation of a new "Communication Services" sector to broaden and replace the Telecommunication Services sector was announced by S&P Dow Jones Indices and MSCI in November 2017 and is now being implemented.

In anticipation of these changes, SPDR, the ETF range offered by State Street Global Advisers, is launching the London-listed SPDR S&P U.S. Communication Services Select Sector UCITS ETF [LSE: **SXLC LN** (\$) & **GXLC LN** (£)] on Friday 17th August 2018 with a TER of 0.15%.

### Sector classification changes: something old, something new

For many years, equities have been classified by sector. The most prevalent methodology is the Global Industry Classification Standard (GICS®). However the sector classifications for the S&P500 were overhauled in November 2017 with the creation of a new "Communication Services" sector to broaden and replace the Telecommunication Services sector to reflect changing trends in communication services beyond telephony.

With an estimated 8%<sup>1</sup> of the S&P 500 Index by market capitalisation being re-classified, the changes will have a material impact on the GICS sector structure.

The value-oriented Telecommunication Services sector will be replaced by a broader more growth-oriented Communication Services sector that will include not only telecom companies but also related content and information

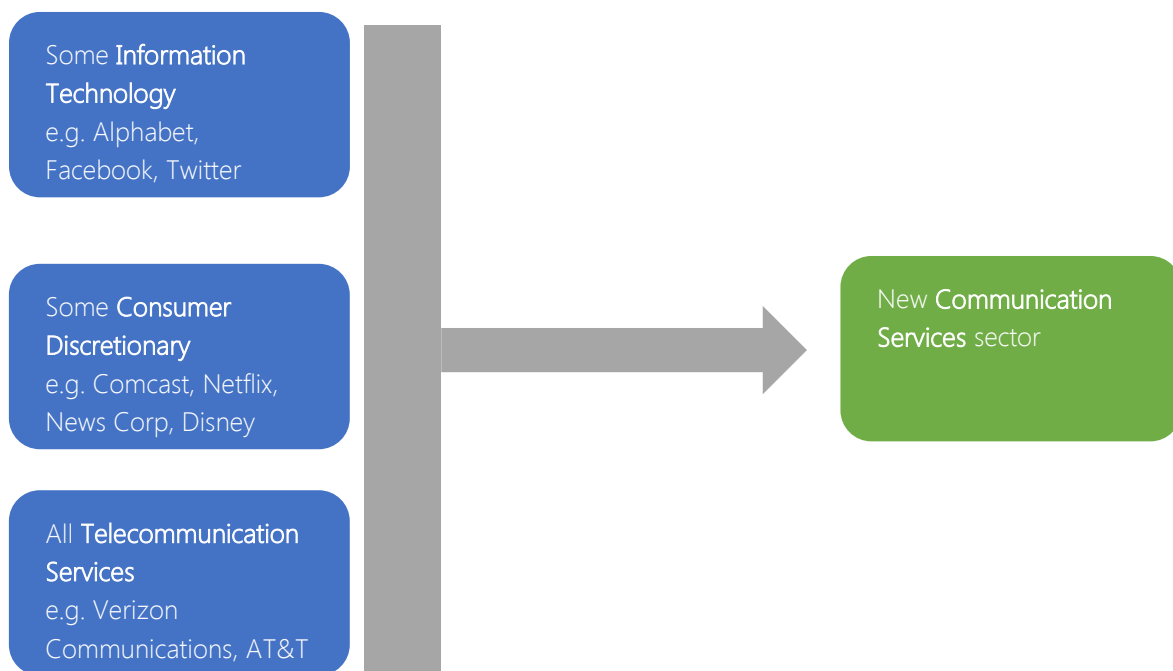
Incorporating some of the FAANG names into this new sector means it is more growth-oriented and less value-oriented.

companies such as Comcast, Netflix, News Corp and Disney (currently classified as Consumer Discretionary), as well as Facebook, Twitter and Google's parent Alphabet (currently classified as Information Technology).

Looking at the new Communication Sector in isolation, it will be comprised of approximately 31% Consumer Discretionary, 50% Technology and 18% Telecommunication stocks based on their current GICS sector classification, according to estimates.

Looking at the new Communication Services sector relative to the broader index, it will represent approximately 10% of the S&P 500 Index in terms of market capitalisation, according to estimates.

Components of new sector (illustration)



Source: Elston

<sup>1</sup> For further analysis see <https://www.ssga.com/blog/2018/05/gics-changes-to-telecom-will-add-more-growth-names.html>

#### Less skew to IT

Currently the S&P500 is skewed to Information Technology (at 25% of weight by market cap), with only 3% in Telecommunication Services. Following the restructuring, Information Technology will represent “only” 20%, and the new Communication Services sector will represent 10% of market cap.<sup>2</sup>

#### What now?

For investors holding an ETF tracking the S&P500, there’s no change and nothing to do. The individual stocks that make up the index are unaffected by a change in sector reporting tags.

For investors wishing to gain access to all the holdings within this new sector via a single fund, the new ETF from SPDR available in both USD and GBP (SXLC and GXLC respectively) will track the new sector.

However, for investors who have historically used a sector-based approach to the US market based on the economic cycle, then a fresh look at relationships is required.

#### Fresh analysis required

The Telecoms sector has been a synonym for value-oriented, dividend-paying “bond proxies” with high ROEs, mature business models and defensive in nature. With the inclusion of tree of the largest names from the FAANG club as well as content providers, the new Communication Sector will not share those characteristics.

For asset-owners and asset managers looking at long-run relationships between sector performance and the economic cycle, a fresh look is required to understand the inherent characteristics of the old and new companies within this new sector.

For analysts and decision-makers who started looking at “TMT” (Telecoms, Media & Technology) back in 2000, the formalisation of this sector represents a coming of age.

Old relationships  
between the Telecom  
sector performance and  
the economic cycle will  
no longer be  
measurable.

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<sup>2</sup> ibid

SXLC Top 10 Holdings (%)

Alphabet Inc	23.6
Facebook Inc	16.5
Charter Communications Inc	5.2
AT&T Inc	5.0
Comcast Corp	4.9
Verizon Communications Inc	4.9
Walt Disney Co	4.8
Netflix Inc	4.5
Electronic Arts	4.2
Activision Blizzard	4.2
<b>Total</b>	<b>77.7</b>

Source: SPDR as at 10 August 2018, and subject to change

Elston Exposure	Index	ETF	Ticker	ISIN
US Sector Equities	S&P Communication Services Select Sector Daily Capped 25/20 Index	SPDR S&P U.S. Communication Services Select Sector UCITS ETF	SXLC	IE00BFWFPX50

## ADDITIONAL INFORMATION

For further information, visit:

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