

Industry Classification Benchmark and Russell Global Sectors

Product Update

05 September 2017

FTSE Russell would like to inform clients of the following updates to the Industry Classification Benchmark (ICB®) and Russell Global Sectors (RGS) schemes, effective January 1, 2019.

Following the completion of the “FTSE Russell Client Consultation for Integrating Industry Classification Structures” and based on additional research and client feedback, the ICB structure will be enhanced and expanded to include 11 Industries (+1), 20 Supersectors (+1), 45 Sectors (+4) and 171 Subsectors (+57). ICB will continue to assign a company to the Subsector whose definition most closely coincides with the source of the company’s revenue or the source of the majority of its revenue (see Section 4 of the ICB Ground Rules). The new ICB scheme takes effect after the close of December 31, 2018, and the RGS classification scheme and RGS Complete product will be discontinued. FTSE Russell index series may transition to the new ICB scheme starting June 2018 and over the course of 2019.

The new ICB structure combines the best features of the ICB and RGS classification systems, reflects the evolution across industries and accommodates future ICB expansion beyond the current coverage:

- Both ICB and RGS users will benefit from the enhanced ICB structure, which provides additional granularity from the Industry through Subsector levels.
- The new ICB numeric code system is robust and will accommodate future structural additions or changes.
- RGS users will shift to ICB’s four-tiered system, gaining an additional interim classification level.

Comparison of ICB and RGS schemes at the headline level

ICB (11 Industries) - effective January 1, 2019	ICB (10 Industries) - current	RGS (9 Sectors) - to be discontinued December 31, 2018
Technology	Technology	Technology
Telecommunications	Telecommunications	
Health Care	Health Care	Health Care
Financials	Financials	Financial Services
Real Estate		
Consumer Discretionary	Consumer Services	Consumer Discretionary
Consumer Staples	Consumer Goods	Consumer Staples
Industrials	Industrials	Producer Durables
Basic Materials	Basic Materials	Materials and Processing
Energy	Oil and Gas	Energy
Utilities	Utilities	Utilities

Key changes at the broadest headline level are the addition of Real Estate as an Industry, the expansion of the Telecommunications Industry and the adoption of Consumer Discretionary and Consumer Staples Industries to better align with global markets and industry practices:

- **Addition of the Real Estate Industry:** With approximately US\$2 trillion in investable market capitalization or 4% of the FTSE Global All Cap Index, the real estate segment has reached critical mass, resulting in its addition as the 11th ICB Industry. Listed real estate including real estate investment trusts (REITs) provides access to the global commercial real estate market with the added liquidity, transparency and regulation associated with investing in publicly traded stocks. Given the growth of REITs globally, ICB will maintain REITs as a Sector and will include additional REITs Subsectors. Mortgage REITs will remain within the ICB Financials Industry,

because they derive revenue from financing. As separate Industries, based on market cap weights of the FTSE Global All Cap Index as of June 30, 2017, the ICB Financials Industry is expected to remain the largest Industry, and the ICB Real Estate Industry is expected to be the tenth largest ICB Industry, with a higher weight than that of the ICB Utilities Industry. Funds tracking the ICB Financials Industry may choose to combine Real Estate and Financials Industries to maintain the current allocation or to track the new ICB Real Estate Industry separately.

- **Expansion of the Telecommunications Industry:** To reflect the continuing significance of the Telecommunications Industry globally and the evolution of the Telecommunications-Media-Technology (TMT) segment, the ICB structure will expand the Industry by adding Telecommunications Equipment (technology) and Cable Television Services (media) Subsectors. RGS users will gain a 10th Industry, with the segmentation of Telecommunications from Utilities.
- **Adoption of Consumer Staples and Consumer Discretionary Industries:** Currently, ICB groups companies by Consumer Goods and Consumer Services at the Industry level. However, investment professionals globally use Consumer Staples and Consumer Discretionary segments as the basis of economic timing and risk allocation given they exhibit distinct characteristics during different phases of economic cycles. The new ICB Consumer Discretionary and Consumer Staples Industries are a blend of the existing ICB Consumer Goods and Consumer Services Industries. ICB will be further enhanced with Subsector granularity, e.g. Specialized Consumer Services will be split into seven new Consumer Discretionary Services Subsectors.

Other highlights:

- **Energy Industry:** The ICB Oil & Gas Industry will be renamed Energy and add the ICB Coal Subsector (from the Basic Materials Industry). In addition, Energy Subsectors will be grouped at the Sector level as Renewable Energy or Non-Renewable Energy.
- **Airlines Subsector:** Given the consumer-sensitive nature of Airlines, ICB will maintain the distinction between passenger airlines (classified as the Airlines Subsector within the new ICB Consumer Discretionary Industry) and freight air transport (classified as the Delivery Services Subsector within the ICB Industrials Industry). Airlines demonstrated similar levels of correlation to companies currently classified as Industrials and with companies classified as Consumer Discretionary, despite slightly higher near-term correlation with Industrials companies.
- **Consumer Digital Services Subsector:** The ICB Internet Subsector will be renamed and redefined as the Consumer Digital Services Subsector within the Technology Industry, to classify companies involved in digital platforms that generate revenues from advertising, content delivery and other virtual products related to consumers. Although companies within this Subsector may serve consumers, revenues are derived primarily from providing technology services.

In order to minimize impact to index funds tracking ICB Supersectors, few structural changes will be made to the ICB Supersectors:

- The largest weight shift at the ICB Supersector level is due to the transition to ICB Consumer Staples/Discretionary Industries (from Consumer Goods/Services), with approximately half of the weight of Personal & Household Goods (6% of FTSE Global All Cap Index) allocated to the new Personal Care, Drug & Grocery Stores Supersector (within the new ICB Consumer Staples Industry) and the remaining half allocated to the new Consumer Products & Services Supersector (within the new ICB Consumer Discretionary Industry).
- Because the Real Estate Supersector exists in the current ICB structure, the addition of the Real Estate Industry does not cause a structural change for clients who track the ICB Real Estate Supersector.

Key target dates are listed in the table below:

Target Dates	Details
September 5, 2017	<ul style="list-style-type: none"> • Technical notice and supporting materials are available at http://www.ftserussell.com/industry-classification-benchmark-icb. • Preliminary security map based on June 2017 month-end index constituents for FTSE Global All Cap Index, FTSE UK Index Series and Russell US Indexes is available to index, ICB Universe and RGS Complete clients. • Client query period to provide feedback on security-level classifications opens.
December 1, 2017	<ul style="list-style-type: none"> • Sample daily open/close holdings and index values files and technical specifications will be made available to FTSE Global All Cap Index, FTSE UK Index Series, Russell US Indexes. • Sample New ICB Universe file and technical specification will be made available to ICB Universe and RGS Complete clients. • Update to the preliminary security map based on September 2017 month-end index constituents will be available on DDS to FTSE Global All Cap Index, FTSE UK

	Index Series and Russell US Indexes clients.
January 1, 2018 - December 31, 2018	<ul style="list-style-type: none"> Parallel ICB Universe and index files in the new ICB scheme, including indicative open/close holdings and index value files, will be available to clients, beginning with FTSE Global All Cap Index, FTSE UK Index Series and Russell US Indexes. Parallel or sample files for additional index series will be made available to clients in subsequent phases throughout 2018. 10 years of preliminary historical security-level mapping and performance data will be available in the new ICB scheme for FTSE Global All Cap Index, FTSE UK Index Series and Russell US Indexes. The final historical security-level mapping and performance data will be available post client query period.
February 28, 2018	<ul style="list-style-type: none"> Client query period to provide feedback on security-level classifications closes. Following this date, client queries will be addressed in accordance with the regular quarterly ICB review schedule.
April 2, 2018	<ul style="list-style-type: none"> Final historical security-level mapping and performance data will be available in the new ICB scheme for FTSE Global All Cap Index, FTSE UK Index Series and Russell US Indexes.
June 2018, 2019	<ul style="list-style-type: none"> FTSE Russell index transition dates will be announced in a forthcoming communication.
January 1, 2019	<ul style="list-style-type: none"> The new ICB structure takes effect. 10 years of historical security-level mapping in new ICB scheme will be available in the new ICB scheme for ICB Universe and RGS Complete clients. Clients using the RGS Complete product will be transitioned to the ICB Universe product.

Client support materials:

- The ICB Ground Rules effective January 2019 is available at: <http://www.ftserussell.com/industry-classification-benchmark-icb>
- A map of the existing ICB and RGS structures to the new ICB structure is available at: <http://www.ftserussell.com/industry-classification-benchmark-icb>
- The Insights paper "Industry Classification Benchmark: Structural enhancements to the industry categorization framework" is available at www.ftserussell.com/research

For further information please contact FTSE Russell Client Services at info@ftserussell.com or call:

Australia	+1800 653 680
Hong Kong	+852 2164 3333
Japan	+81 3 3581 2764
London	+44 (0) 20 7866 1810
New York	+1866 551 0617

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