



INFORMATION ON THE UPCOMING S&P 500 SECTOR CHANGES

Gayle Sprute

Vice President & Senior Portfolio Manager

What Is Occurring?

In November 2017, the S&P/Dow Jones Indices announced its plan to reconstitute the telecommunication services, consumer discretionary, and information technology sectors. This is being done to combine telecommunications, media, and entertainment companies into a single sector and will result in a meaningful change to the weightings and constituent lists of the three affected sectors. The telecommunication services GICS (Global Industry Classification Standard) sector will be broadened and renamed “communication services” “to include companies that facilitate communication and offer related content and information through various media.” The changes are being made to reflect this evolution. Companies in both the information technology and consumer discretionary sectors will migrate to this new sector structure.

As the internet has grown, it has become integrated in communication and business transactions and has driven an evolution in the way we communicate and access entertainment content and other information. Although the internet began as a technological approach to sharing information, it has become the primary platform on which many businesses operate. Due to this, S&P/Dow Jones Indices believes that a number of companies, including those that offer content, should be re-classified to align with this evolution. Cable companies are also being included in this reconstitution because they are combining with telecommunications companies, creating their own media content and delivering it to consumers. Thus, S&P/Dow Jones Indices is restructuring the sector to reflect this convergence of telecommunications, media, and select internet companies and the overlapping services that they provide. Of note, S&P/Dow Jones Indices believes that all e-commerce should remain in retail as they are a notable force in the overall retail segment. As such, online marketplaces will remain in consumer discretionary; but they will move to the internet & direct marketing retail sub-industry. In S&P/Dow Jones Indices’ view, this will ensure that companies are classified according to their underlying business pursuit and/or purpose.



¹ *Washington Trust Bank Wealth Management & Advisory Services*

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How Will The Sectors Change?

The new “communications services” sector will contain two industry groups: 1) telecommunications services; and 2) media & entertainment. Sub-industries will align under these groups as follows (and is depicted in the exhibit below):

1. Telecommunication services industry group
 - This group will house the existing telecommunications services sector sub-industries
 - Internet service providers offering internet access to end users will be classified here
2. Media industry group (this will move out of consumer discretionary and into the communications services sector). This group will be renamed “media & entertainment,” and will have three industries.
 - Media industry: will contain sub-industries and companies engaged in advertising, broadcasting, cable & satellite, and publishing
 - Entertainment industry: will contain sub-industries and companies engaged in producing and selling entertainment products and services. It will include online entertainment streaming, as well as companies producing interactive home entertainment content (i.e., games and mobile gaming applications)
 - Interactive media & services industry: will include sub-industries and companies engaged in content and information creation or distribution through proprietary platforms, where revenues are derived primarily through pay-per-click advertisements. It will include search engines, social media and networking platforms, online classifieds, and online review companies.



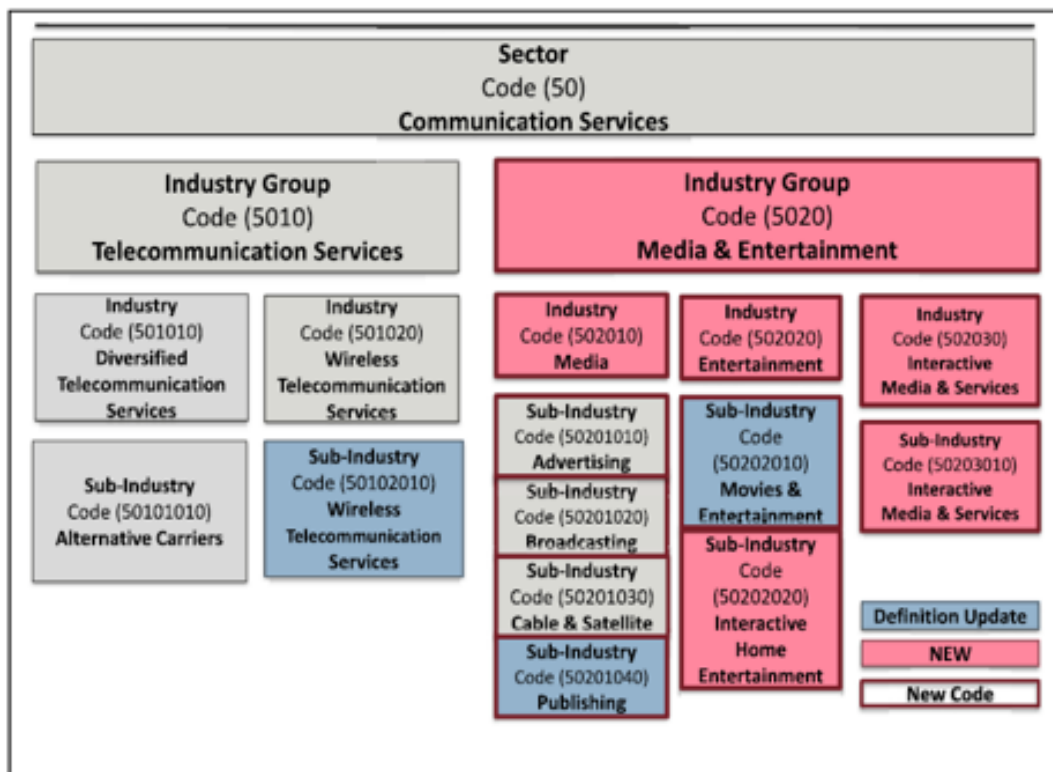
<i>Proposed S&P 500 Communication Services Sector</i>						
<i>Industry Group</i>	<i>Industry</i>	<i>Sub-Industry</i>	<i>Ticker</i>	<i>Weight in Sector</i>	<i>Weight in S&P 500</i>	<i>Existing sector classification</i>
Telecom Services	Telecom Services	Alternative Carriers	CTL	0.6%	0.1%	Telecom Services
		Integrated Telecom Services	T	9.5	1.0	
			VZ	8.2	0.8	
Media & Entertainment	Media	Advertising	OMC	0.7	0.1	Consumer Discretionary
			PG	0.3	0.0	
		Broadcasting	CBS	0.9	0.1	
			SNI	0.3	0.0	
			DISCA	0.3	0.0	
		Cable & Satellite	CMCSA	7.8	0.8	
	CHTR		3.1	0.3		
	DISH	0.5	0.1			
	Publishing	NWSA	0.4	0.0		
	Entertainment	DIS	DIS	7.2	0.7	
			TWX	3.1	0.3	
		"Entertainment Products & Services"	VIAB	2.0	0.2	
			"Online Entertainment Streaming"	NFLX	3.8	
		"Interactive Home Entertainment"	ATV	2.2	0.2	
EA	1.5		0.2			
Interactive Media & Services	Interactive Media & Service	GOOGL	28.0	2.8	Information Technology	
		FB	19.1	1.9		
Communication Services total				100.0%	10.0%	

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Additionally, the structure of the new “communication services” sector (and the related GICS codes) are as follows:



In the consumer discretionary sector, the following changes will occur:

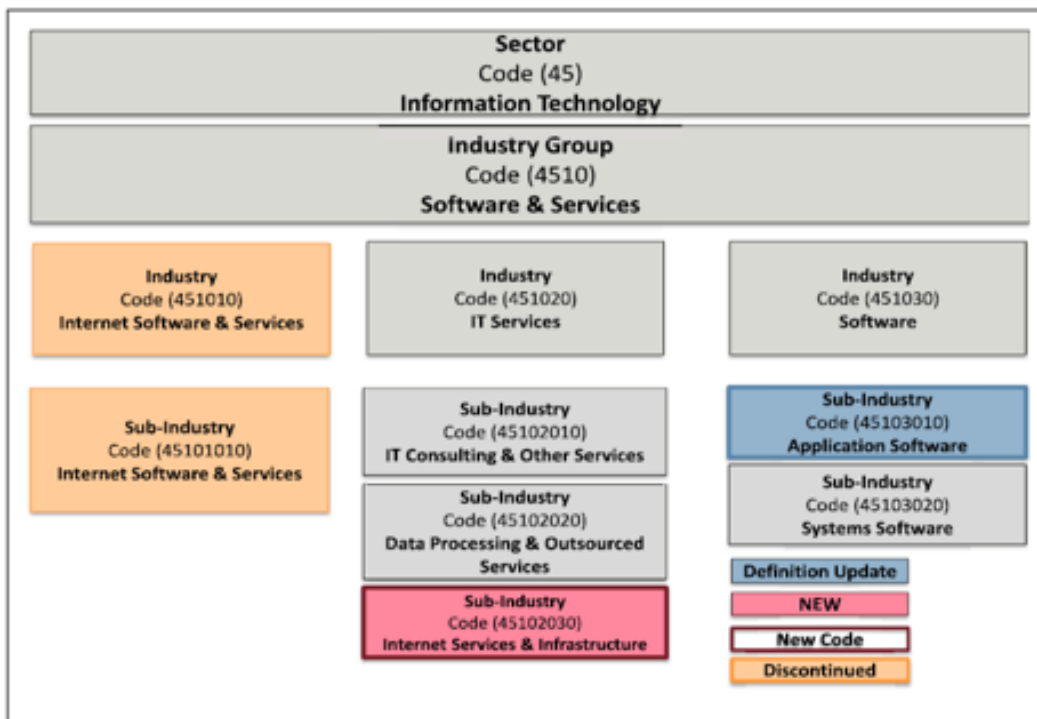
1. The media industry group will move out of consumer discretionary and into the communication services sector, and will be renamed media & entertainment.
2. The internet & direct marketing retail sub-industry will **remain** in consumer discretionary. However, it will be updated to include all online marketplaces for consumer products and services (including companies providing retail services primarily on the internet, through mail order, and TV home shopping retailers; and will also include companies providing online marketplaces for consumer products and services). The sub-industry will include e-commerce companies regardless of whether they hold inventory.

In the information technology sector, the following changes will occur (as shown in the exhibit below):

1. A new sub-industry will be created — internet services & infrastructure. It will include companies providing services and infrastructure for the internet industry, including data centers and cloud networking and storage infrastructure. It will also include companies providing web-hosting services. It excludes companies classified in the software industry.



2. Application software's definition will be updated to include companies engaged in developing and producing software designed for specialized applications for the business or consumer market. It includes enterprise and technical software, as well as cloud-based software. It will exclude companies classified in the interactive home entertainment sub-industry (which will reside in the communication services sector). It also excludes companies producing systems or database management software, which are classified in the systems software sub-industry (which is in the information technology sector).
3. The internet software & services sub-industry will be discontinued. A new sub-industry will be created under the IT Services Industry and will be named internet services & infrastructure (as discussed above in item #1).



Of note, S&P/Dow Jones Indices has released a list of those securities which will be affected by the sector reconstitution. However, it will update this list again in early September, in preparation for the changes that will take place at the end of September.

After the affected companies migrate to their new sectors after the close of business on September 28th, Amazon (AMZN) will have the largest weighting in consumer discretionary, rising to about 32% of the sector from its current 24.6%. In the new “communication services” sector, Alphabet (GOOGL) will be the largest stock at about 28% of the sector, while Apple (AAPL) will account for about 20% of the information technology sector.

HOW WILL THE CHANGES AFFECT THE LARGE CAP EQUITY STRATEGY?



The large cap equity strategy constituents that will be affected thus far are:

- Alphabet (GOOGL)
- Facebook (FB)
- Walt Disney (DIS)

Sector weightings will also be affected by the change. Currently, the sector weightings, as a percentage of the S&P 500, are as follows:

- Consumer discretionary: 12.9%
- Information technology: 26.0%
- Telecommunication services: 1.8%

]The approximate pro-forma weightings of the reconstituted sectors at the end of September, as a percentage of the S&P 500, will be as follows:

- Consumer discretionary: 10%
- Information technology: 20.1%
- Communication services: 10%

These changes have implications for our large cap equity strategy, as well as for the overall equity marketplace. With regard to the large cap equity strategy, only a small number of stocks will migrate from consumer discretionary and information technology into “communication services.” The stocks that will change sectors are FB, GOOGL and DIS. We are also in the process of analyzing whether there will be changes to the stocks held in each sector and whether the individual weightings of each stock will change. Based upon the large cap equity strategy’s current holdings, the stocks that will make up each sector after the change are as follows:

- Consumer discretionary pro forma constituents:
 - Costco (COST)
 - Home Depot (HD)
 - Booking Holdings (BKNG)
 - Starbucks (SBUX)
 - The S&P 500’s consumer discretionary sector weighting declines to 10% from 12.9%
 - Within the large cap equity strategy, Walt Disney (DIS) moves from consumer discretionary to “communications services.” The four remaining consumer discretionary stocks’ individual target weightings decline to 2.50% from 2.54%



- Information technology **pro forma constituents:**
 - Apple (AAPL)
 - Applied Materials (AMAT)
 - Cisco Systems (CSCO)
 - DXC Technologies (DXC)
 - Microsoft (MSFT)
 - QUALCOMM (QCOM)
 - The S&P 500's information technology sector weighting declines to 20.1% from 26.0%
 - Within the large cap equity strategy, Facebook (FB) and Alphabet (GOOGL) move from information technology to “communications services.” The six remaining information technology stocks' individual target weightings increase to 3.35% from 3.19%
- Communication services **pro forma constituents:**
 - American Tower (AMT)
 - Verizon Communications (VZ)
 - Walt Disney (DIS)
 - Facebook (FB)
 - Alphabet (GOOGL)
 - The S&P 500's telecommunications services sector changes to become “communications services.” The weighting of this sector increases from 1.8% to 10%
 - Within the large cap equity strategy, American Tower (AMT) and Verizon Communications (VZ) remain in the new sector. The five stocks making up the new sector have individual target weightings of 2.00%, which is an increase from the target weightings of 0.95% in the old sector structure

We have also illustrated these changes by showing two hypothetical \$1 million portfolios allocated to the large cap equity strategy. The first portfolio on the left, titled “Pre-Sector Change,” displays the strategy’s 42 positions, grouped by sector, with respective target weightings and respective dollar values for each position. The three large cap equity strategy positions to be affected by the sector change (Alphabet (GOOGL), Facebook (FB), and Walt Disney (DIS)), are highlighted in red, indicating each one’s planned removal from current sector membership. The second portfolio on the right, titled “Post-Sector Change,” displays the strategy’s 42 positions, grouped by sector, with respective target weightings and dollar values for each position following the sector change. (This illustration assumes no changes are made to the strategy’s holdings between now and September 28th.) The three strategy names affected by the sector transformation, GOOGL, FB, and DIS, are highlighted in green in the “Post-Sector Change” portfolio, indicating each one’s planned addition to the newly formed “communication services” sector. Of note, target weights and dollar values change for some positions in these three affected sectors (i.e., the new “communication services” sector, as well as consumer discretionary, and information technology). Target weightings and dollar values will not change for positions within the eight remaining sectors. This illustration is based on market values as of 08/01/2018 and thus may change pending price fluctuations prior to the September 28th reconstitution.



Pre-Sector Change

Ticker	Name	Target Weight	Dollar Value
1.90%	Telecommunication Services		
AMT	AMERICAN TOWER CORP	0.95%	\$9,500.00
VZ	VERIZON COMMUNICATIONS INC	0.95%	\$9,500.00
12.70%	Consumer Discretionary		
BKNG	BOOKING HOLDINGS INC	2.54%	\$25,400.00
COST	COSTCO WHOLESALE CORP	2.54%	\$25,400.00
DIS	WALT DISNEY CO/THE	2.54%	\$25,400.00
HD	HOME DEPOT INC	2.54%	\$25,400.00
SBUX	STARBUCKS CORP	2.54%	\$25,400.00
25.50%	Information Technology		
AAPL	APPLE INC	3.19%	\$31,875.00
AMAT	APPLIED MATERIALS INC	3.19%	\$31,875.00
CSCO	CISCO SYSTEMS INC	3.19%	\$31,875.00
DXC	DXC TECHNOLOGY CO	3.19%	\$31,875.00
FB	FACEBOOK INC-A	3.19%	\$31,875.00
GOOGL	ALPHABET INC-CL A	3.19%	\$31,875.00
MSFT	MICROSOFT CORP	3.19%	\$31,875.00
QCOM	QUALCOMM INC	3.19%	\$31,875.00
6.90%	Consumer Staples		
MO	ALTRIA GROUP INC	2.30%	\$23,000.00
PG	PROCTER & GAMBLE CO/THE	2.30%	\$23,000.00
STZ	CONSTELLATION BRANDS INC-A	2.30%	\$23,000.00
6.20%	Energy		
HAL	HALLIBURTON CO	1.55%	\$15,500.00
KMI	KINDER MORGAN INC	1.55%	\$15,500.00
PXD	PIONEER NATURAL RESOURCES CO	1.55%	\$15,500.00
VLO	VALERO ENERGY CORP	1.55%	\$15,500.00
14.10%	Financials		
GS	GOLDMAN SACHS GROUP INC	2.82%	\$28,200.00
IVZ	INVESCO LTD	2.82%	\$28,200.00
JPM	JPMORGAN CHASE & CO	2.82%	\$28,200.00
PNC	PNC FINANCIAL SERVICES GROUP	2.82%	\$28,200.00
PRU	PRUDENTIAL FINANCIAL INC	2.82%	\$28,200.00
14.50%	Health Care		
ABBV	ABBVIE INC	2.90%	\$29,000.00
ANTM	ANTHEM INC	2.90%	\$29,000.00
MDT	MEDTRONIC PLC	2.90%	\$29,000.00
TMO	THERMO FISHER SCIENTIFIC INC	2.90%	\$29,000.00
UNH	UNITEDHEALTH GROUP INC	2.90%	\$29,000.00
9.90%	Industrial		
DE	DEERE & CO	2.48%	\$24,750.00
FDX	FEDEX CORP	2.48%	\$24,750.00
RSG	REPUBLIC SERVICES INC	2.48%	\$24,750.00
RTN	RAYTHEON COMPANY	2.48%	\$24,750.00
2.60%	Materials		
EMN	EASTMAN CHEMICAL CO	1.30%	\$13,000.00
PX	PRAXAIR INC	1.30%	\$13,000.00
2.80%	Real Estate		
DLR	DIGITAL REALTY TRUST INC	1.40%	\$14,000.00
PLD	PROLOGIS INC	1.40%	\$14,000.00
2.90%	Utilities		
NEE	NEXTERA ENERGY INC	1.45%	\$14,500.00
NRG	NRG ENERGY INC	1.45%	\$14,500.00
	PORTFOLIO TOTAL	100.00%	\$1,000,000.00

Post-Sector Change

Ticker	Name	Target Weight	Dollar Value
10.00%	Communication Services		
AMT	AMERICAN TOWER CORP	2.00%	\$20,000.00
DIS	WALT DISNEY CO/THE	2.00%	\$20,000.00
FB	FACEBOOK INC-A	2.00%	\$20,000.00
GOOGL	ALPHABET INC-CL A	2.00%	\$20,000.00
VZ	VERIZON COMMUNICATIONS INC	2.00%	\$20,000.00
10.00%	Consumer Discretionary		
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COST	COSTCO WHOLESALE CORP	2.50%	\$25,000.00
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20.10%	Information Technology		
AAPL	APPLE INC	3.35%	\$33,500.00
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STZ	CONSTELLATION BRANDS INC-A	2.30%	\$23,000.00
6.20%	Energy		
HAL	HALLIBURTON CO	1.55%	\$15,500.00
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2.90%	Utilities		
NEE	NEXTERA ENERGY INC	1.45%	\$14,500.00
NRG	NRG ENERGY INC	1.45%	\$14,500.00
	PORTFOLIO TOTAL	100.00%	\$1,000,000.00



As the illustration above shows, the “Post-Sector Change” company target weights will not be dramatically different than the “Pre-Sector Change” weights. However, we are in the process of analyzing whether to make changes to the companies held in each sector. We may modify the holdings in any of the three sectors due to the changes that will occur at the sub-industry level and given the sub-industries to which we want exposure. We are in the process of completing our analysis and will provide an update when the final decisions have been made (and prior to the September 28th reconstitution). Upon completion of this analysis (and any changes that will take place), the large cap equity strategy will remain sector neutral, based on the newly restructured sectors.

HOW WILL THE CHANGES AFFECT THE OVERALL MARKET?

From the perspective of the overall equity market, this will be a meaningful change. Telecommunication services companies, who have had choppy and sometimes challenging fundamentals, will now exist in their sector alongside some growth “powerhouse” companies. In addition, investors oftentimes looked to telecommunication services for safety and yield. The new sector will be much less of an overall defensive strategy, and portions of the sector will be less sensitive to interest rates. In addition, some very large companies will come into this new sector, thus reducing the significance of the telecom companies’ weightings in the new sector. Meaningful changes in composition and structure will also take place within the consumer discretionary and information technology sectors. For all three sectors, characteristics such as valuation ratios, overall revenue and earnings growth rates, and dividend yield will change. For sector-based funds, indices and ETFs, these changes will affect portfolio construction strategies. Sector-specific investors will also need to consider the new profiles of these changed sectors.

The mechanics of how different market participants adjust portfolios to reflect the changes will also be something to watch. Various fund companies may proceed differently in how they address the transition, particularly for their sector specific funds and ETFs. These types of funds will be forced to sell stocks that are migrating to the new sector. The treatment of capital gains will be an important consideration, given that several of the migrating names have posted significant gains during the current bull market.

TIMING OF THESE CHANGES

This multi-sector reconstitution will occur at the close of business on Friday, September 28th, 2018 (the last trading day of the 3rd quarter). After these changes are completed, the new S&P 500 GICS structure will consist of 11 sectors, 24 industry groups, 69 industries and 158 sub-industries.