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GICS sector reclassification: Implications for ETF investors

September 2018



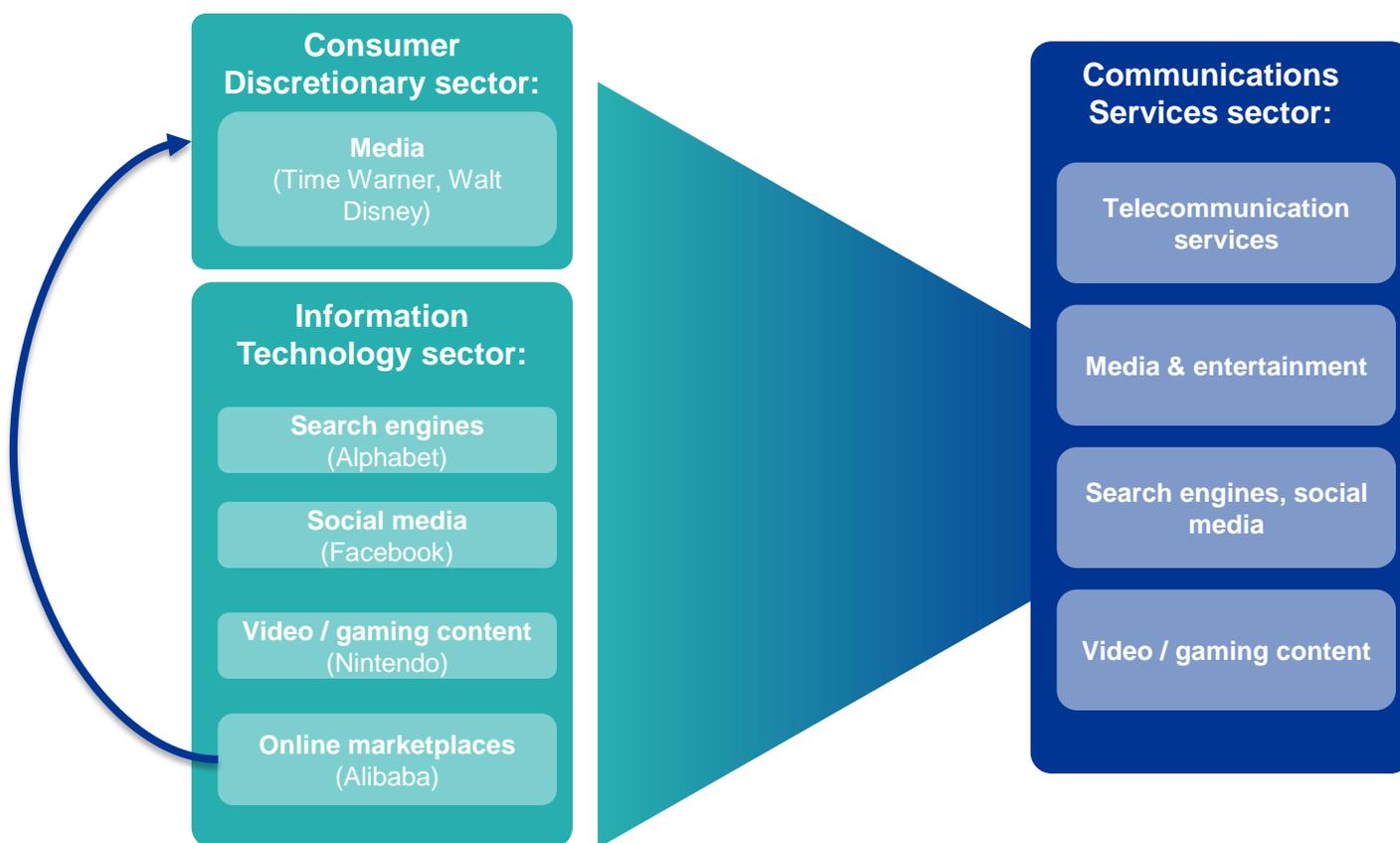
“The internet began as a technological approach to sharing information; it has become the way many businesses operate... The lines among media, communications, and content are blurred. It is time to acknowledge this convergence and the overlapping services these companies provide.”

**– David Blitzer,
Index Committee chairman
at S&P Dow Jones Indices**

Understanding the 2018 GICS reclassification

Introducing... the Communication Services sector

Leading index providers have rethought how they classify companies according to industry. As a result, after the market close on Sept. 28, 2018, the Global Industry Classification Standards (GICS) will undergo the most significant methodological revisions in their 19-year history. MSCI and S&P Dow Jones Indices have jointly agreed to broaden and rename the existing **Telecommunication Services** sector to a more encompassing **Communications Services** sector. The reclassification will impact over 2,100 companies globally with over \$4 trillion in market capitalization and will affect the complexion of not only the Telecommunication Services sector but also the Information Technology and Consumer Discretionary sectors.



For illustrative purposes only. Labels do not reflect the exact names of existing and future industries and sub-industries.

Converging business models prompts change

An evolution in corporate business models precipitated the index sector reclassification. Boundaries that separate platforms, products, and services offered by technology, media, and consumer discretionary companies have become less distinct. A trend toward convergence, where many companies provide competing and overlapping products and services, has been supported by M&A activity. Tech, media and consumer companies now jockey to combine distribution capacity with ownership of content creation. One of many examples is Google-parent company, Alphabet, which from inception has been considered a “technology” firm, but now derives a portion of its advertising revenue from video streaming on YouTube.

A global look at the GICS reclassification

Reclassification by the numbers

The reclassification will span three sectors, six industry groups, a dozen sub-industries and over 2,000 companies around the world. Market capitalization-weighted indexes, sector-constrained indexes and other indexes that use alternative weighting schemes all will be affected.



Consumer Discretionary

1,100+

global stocks will move from Consumer Discretionary to the Communication Services sector

99%

of stocks moving from Consumer Discretionary are from the Media industry group



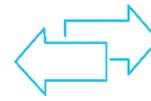
Information Technology

650+

global stocks will leave the Information Technology sector, with most moving to sub-industries within Communication Services

~90

Information Technology stocks will move to the Consumer Discretionary sector—primarily to the Internet & Direct Retail Marketing sub-industry



Intra-sector changes

340+

global stocks in the Information Technology sector will change industries and sub-industries as the Internet Software & Services industry is discontinued

The impact of reclassification on current GICS sectors

All current Telecommunication Services constituents will be absorbed by the newly created Communication Services sector. The Consumer Discretionary and Information Technology sectors also will be materially affected. For Consumer Discretionary, some constituents will move to the new Communication Services sector. Some Information Technology sector constituents will move to the new sector, while others will shift to Consumer Discretionary.

Telecommunication Services

All constituents



Reclassified under the Communication Services sector

Examples of Telecommunication Services companies in Communication Services:

- AT&T, Verizon, CenturyLink, Softbank, Vodafone, Deutsche Telekom, China Mobile, America Movil

Consumer Discretionary

Media industry and sub-industries



Reclassified to Communication Services, under Movies & Entertainment and Interactive Media & Services

Examples of Consumer Discretionary companies moving to Communication Services:

- Walt Disney, Netflix, TripAdvisor

Information Technology

Internet Software & Services and Home Entertainment Software sub-industries



Discontinued. Some companies will be reclassified as Communication Services, others as Consumer Discretionary.

To Communication Services:

- Alphabet, Tencent, Baidu

To Consumer Discretionary:

- eBay, Alibaba

Sectors reshaped as large companies are reclassified

Big movers

Two of largest U.S. companies by market capitalization, Facebook and Alphabet, will change sectors in the reclassification. Many other notable global companies, including Tencent and Alibaba, also will be affected.

Companies	Current GICS sector	Reclassified Sector	Reclassified Sub-Industry	Market Cap (b)	Country
Alphabet	Info. Tech	Comm. Services	Interactive Media & Services	\$841	U.S.
Facebook	Info. Tech	Comm. Services	Interactive Media & Services	\$502	U.S.
Alibaba Group	Info. Tech	Cons. Discretionary	Internet & Direct Marketing Retail	\$449	China
Tencent	Info. Tech	Comm. Services	Interactive Media & Services	\$409	China
Twenty First Century Fox	Cons. Disc.	Comm. Services	Movies & Entertainment	\$84	U.S.
Baidu	Info. Tech	Comm. Services	Interactive Media & Services	\$78	China
Charter Communications	Cons. Disc.	Comm. Services	Cable & Satellite	\$77	U.S.
Sirius Xm	Cons. Disc.	Comm. Services	Cable & Satellite	\$31	U.S.
Twitter	Info. Tech	Comm. Services	Interactive Media & Services	\$25	U.S.

Sources: Bloomberg for market cap information; Thompson Reuters Worldscope for fundamental equity characteristics. Data as of 8/16/2018. Reclassifications are subject to revision.

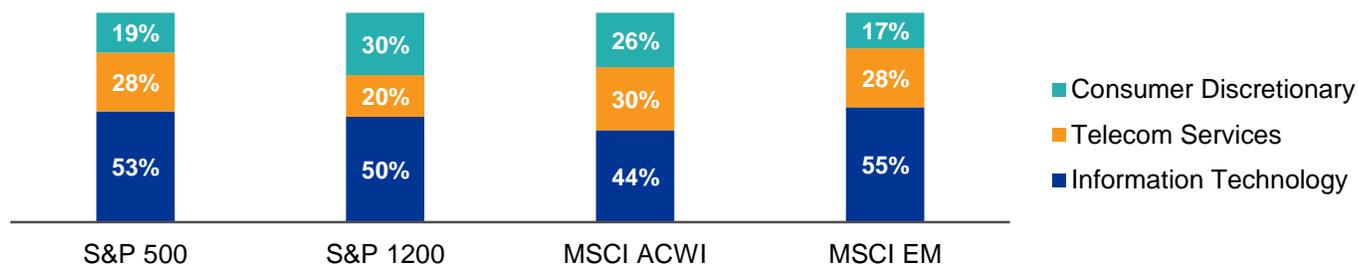
Reclassification impact on sector characteristics

Many large global companies will be affected by the reclassification and all investors should be aware of the potential impact of the reclassification on sector characteristics. Notably, the Telecommunication Services sector has long been considered “defensive” because of the sector’s historical focus on dividend payouts, relatively low earnings growth and generally lower market sensitivity relative to broad global equity indexes.

The newly created Communication Services sector will have much different characteristics that its predecessor, since it will include shares of formerly tech and media companies with generally higher earnings growth, lower dividend yields and higher market sensitivity. This may significantly alter the new sector’s relationship versus other sectors as well as investors’ risk and reward expectations. MSCI proposed earlier this year to reclassify the new sector as “cyclical” rather than “defensive.”

Communication Services sector composition

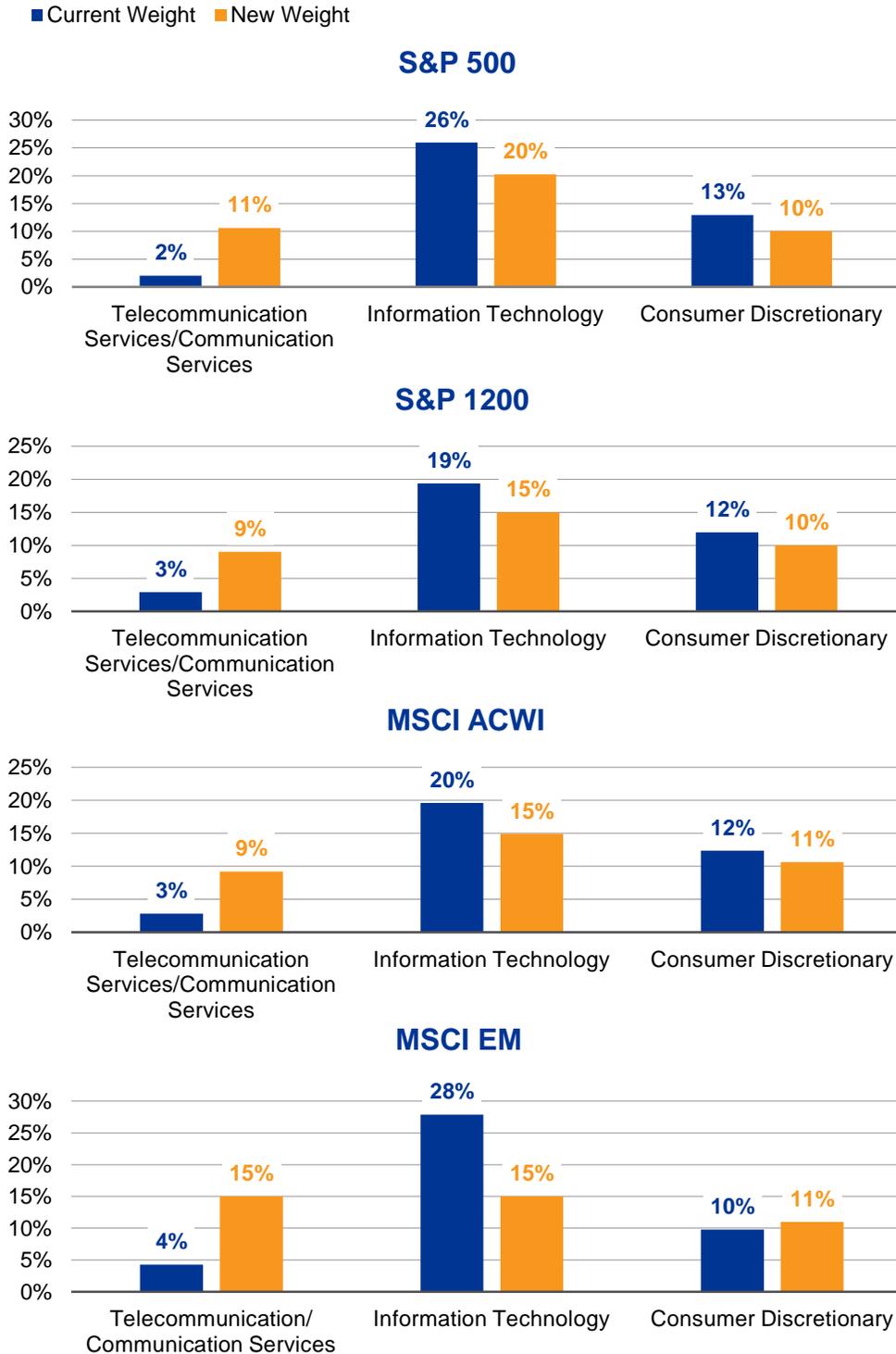
Communication Services sector representation in S&P and MSCI global equity indexes will be heavily weighted toward companies that are currently classified as Information Technology companies.



Source: MSCI as of 7/2/2018. Reclassifications are subject to revision.

The index sector weight landscape, recast

The reclassification will have a considerable impact on sector weightings for many widely used S&P and MSCI indexes.



The S&P 500 Index will see the Telecommunication Services sector weight increase from 2% to 11%. This will make Communication Services the fourth-largest sector, behind Technology, Healthcare, and Financials.

In the S&P Global 1200 Index, Information Technology will drop to 15% from 19%, while Consumer Services will come to represent 9%.

In the MSCI ACWI Index, Information Technology will no longer be the largest sector. Financials will reign supreme with an allocation of approximately 17.5% versus 15% for the reclassified Technology sector.

In the MSCI EM Index, the Technology sector will experience the largest decline in market cap. The drop in Technology will put the sector's weighting roughly on par with Communication Services. Both will trail financials, which will be the largest sector with a weighting of 22.8%.

Source: Constituent Market Cap – MSCI as of 7/2/2018. Reclassifications are subject to revision.

Timing for impacted iShares ETFs

Limited direct impact on iShares ETFs

- Some \$60 billion in assets are invested in U.S.-listed, sector-focused iShares ETFs. The majority of these ETFs follow non-GICS indexes provided by Dow Jones and NASDAQ, and so are not directly affected by the reclassification.¹
- Some \$6.6 billion in assets are invested in U.S.-listed iShares ETFs do follow the GICS methodology, and will be directly affected by the reclassification.



iShares Global Sector ETFs

The iShares Global Sector ETF suite seeks to track indexes that utilize the GICS methodology and will see changes in-line with the GICS reclassification. The iShares Global Sector ETFs (IXN, IXP, RXI) will implement the GICS reclassification during the Sept. 21 quarterly rebalance.

- **iShares Global Tech ETF (IXN)** – Constituents such as Facebook, Alphabet and Tencent (representing about 20% of the fund's market cap) are slated to leave the Global Technology sector for the Global Communication Services sector.²
- **iShares Global Telecom ETF (IXP)** – This fund will seek to track the S&P Global 1200 Communication Services sector index and the fund's name will be changed to the **iShares Global Comm Services ETF**, effective Sept. 24.³
- **iShares Global Consumer Discretionary ETF (RXI)** – Constituents such as Disney, Comcast and Naspers will be reclassified as Global Communications Services and removed from the Global Consumer Discretionary sector.² This ETF's index will include companies that are currently classified as online marketplaces.



iShares technology-focused Industry ETFs

iShares offers two U.S.-listed, technology-focused ETFs (IGM, IGV) that will undergo name and index changes on or around Dec. 24. iShares is undertaking these index changes to retain long-time fund constituents.

- **iShares North American Tech ETF (IGM)** – This fund will seek to track the S&P North American Expanded Technology Sector index and the fund's name will be changed to the **iShares Expanded Tech Sector ETF**. The new index will continue to provide exposure to equities in the technology sector and select equities from the Communication Services (Alphabet, Facebook and Netflix) and Consumer Discretionary sectors (Amazon.com)
- **iShares North American Tech-Software ETF (IGV)** – This fund will seek to track the S&P North American Expanded Technology-Software index and the fund's name will be changed to the **iShares Expanded Tech-Software Sector ETF**. The new index will continue to provide exposure to equities in the Software industry and select equities from the Interactive Home Entertainment and Interactive Media and Services industries in the Communication Services sector.

¹ Source: BlackRock as of 7/2/2018. A complete list of fund holdings can be found at www.iShares.com.

² Source: MSCI as of 7/2/2018.

³ Source: S&P as of 7/2/2018.

⁴ Source: S&P as of 7/2/2018.

GICS reclassification timeline

S&P and MSCI will implement changes on different schedules

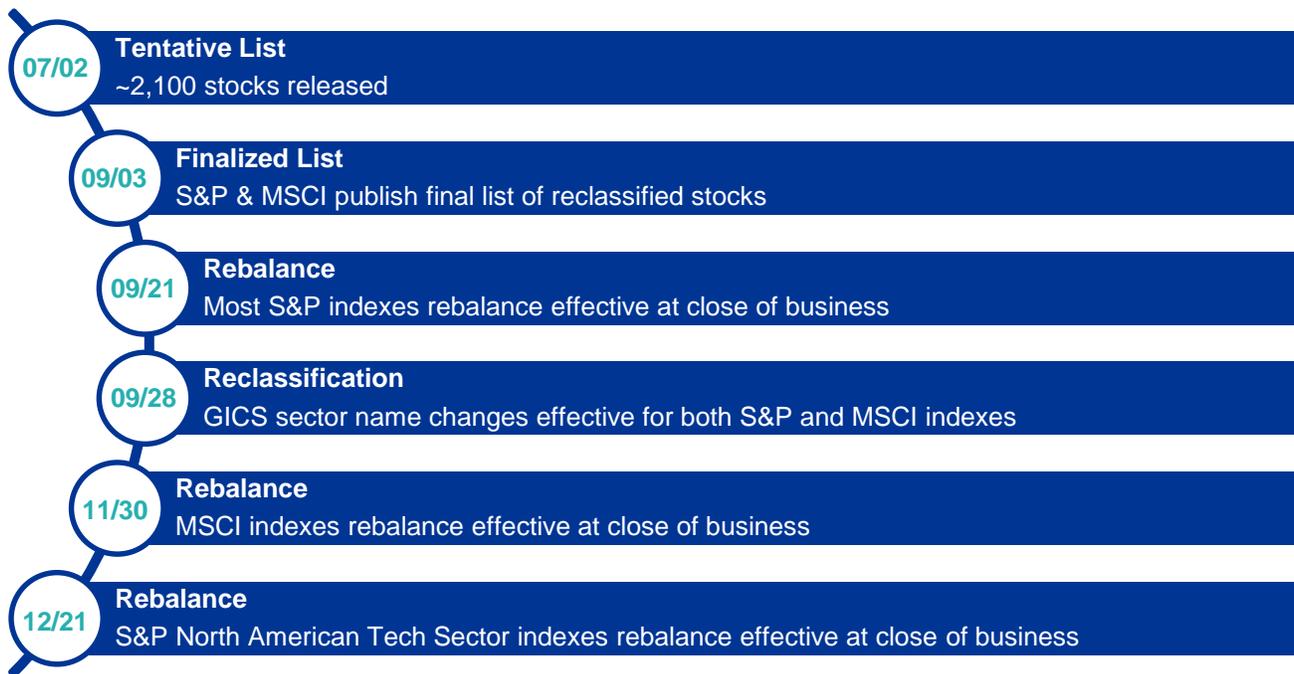
S&P Dow Jones Indices – Most indexes will rebalance after the market close on Sept. 21

Nearly all S&P indexes that use GICS classification will rebalance as of the open, Sept. 24, to coincide with the quarterly rebalance.

MSCI Index – Indexes rebalance after the market close Nov. 30

MSCI will implement the GICS reclassification as part of the Nov. 2018 Semi-Annual Index Review.

- Regardless of the rebalance date, all GICS sector reclassifications will be effective after the close of business on Friday, Sept. 28. After this, MSCI and S&P GICS-based indexes, will be re-categorized under “new” sector, industry and sub-industry classifications.



Source: MSCI & S&P as of 6/30/2018.

Reclassification implications for investors

Key investor implications

Investors who use any type of sector analysis into their process should consider how the reclassification might affect their strategy.

- | | | |
|-------------------------|---|---|
| Direct Impact | ▶ | Investors who own funds that follow, or are benchmarked to, indexes that follow GICS. |
| Secondary Impact | ▶ | Sector rotation, diversification and hedging models that adopt sector constraints. |
| Tertiary Impact | ▶ | Active managers whose investment process monitors sector fundamentals, factors, and trends. |

Sources

November Announcement

“Revisions to the Global Industry Classification Stand Structure in 2018”, S&P and MSCI. 11/15/2017

GICS Select List of Companies- January Announcement. S&P and MSCI. January 2018

S&P Technology Select Sector Index Consultation Results- April 23, 2018

Morgan Stanley Quantitative Equity Research: “Breaking Communication Barriers”- 02/27/2018

Authors: Brian Hayes, PhD., Michelle Weaver, Elizabeth Harrow

Standardized performance as of 6/30/2018

Fund Name: <i>Fees as of Current Prospectus. All Other Data as of 06/30/18</i>	Fund Inception Date	Gross Expense Ratio	30-Day SEC Yield (With / Without Waiver)	1-Year	5-Year	10-Year	Since Inception
iShares Global Tech ETF (IXN)	11/12/2001	0.48%	0.75%				
Fund NAV Total Return				26.67%	19.89%	12.22%	7.80%
Fund Market Price Total Return				26.65%	19.94%	12.24%	7.81%
Index Total Return				26.90%	20.03%	12.43%	8.17%
iShares Global Telecom ETF (IXP)	11/12/2001	0.48%	4.28%				
Fund NAV Total Return				-3.64%	3.45%	3.33%	4.27%
Fund Market Price Total Return				-3.96%	3.41%	3.39%	4.26%
Index Total Return				-3.90%	3.24%	3.09%	4.16%
iShares Global Consumer Discretionary ETF (RXI)	9/12/2006	0.48%	1.20%				
Fund NAV Total Return				17.85%	11.81%	11.40%	8.81%
Fund Market Price Total Return				17.69%	11.80%	11.52%	8.81%
Index Total Return				17.99%	11.77%	11.35%	8.81%
iShares North American Tech-Software ETF (IGV)	7/10/2001	0.48%	0.02%				
Fund NAV Total Return				33.47%	22.28%	14.72%	8.22%
Fund Market Price Total Return				33.61%	22.31%	14.74%	8.23%
Index Total Return				34.09%	22.79%	15.19%	8.71%
iShares North American Tech ETF (IGM)	3/13/2001	0.48%	0.45%				
Fund NAV Total Return				34.15%	22.05%	14.78%	7.86%
Fund Market Price Total Return				34.16%	22.05%	14.78%	7.86%
Index Total Return				34.81%	22.63%	15.31%	8.37%
iShares North American Tech-Multimedia Networking ETF (IGN)	7/10/2001	0.48%	0.55%				
Fund NAV Total Return				15.04%	13.45%	6.99%	2.59%
Fund Market Price Total Return				15.04%	13.46%	6.99%	2.59%
Index Total Return				15.25%	13.86%	7.36%	3.03%

Source: BlackRock, Morningstar.

The performance quoted represents past performance and does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than the original cost. Current performance may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by visiting www.iShares.com, www.blackrock.com, or obtained by calling toll-free 1-800-iShares (1-800-474-2737).

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