

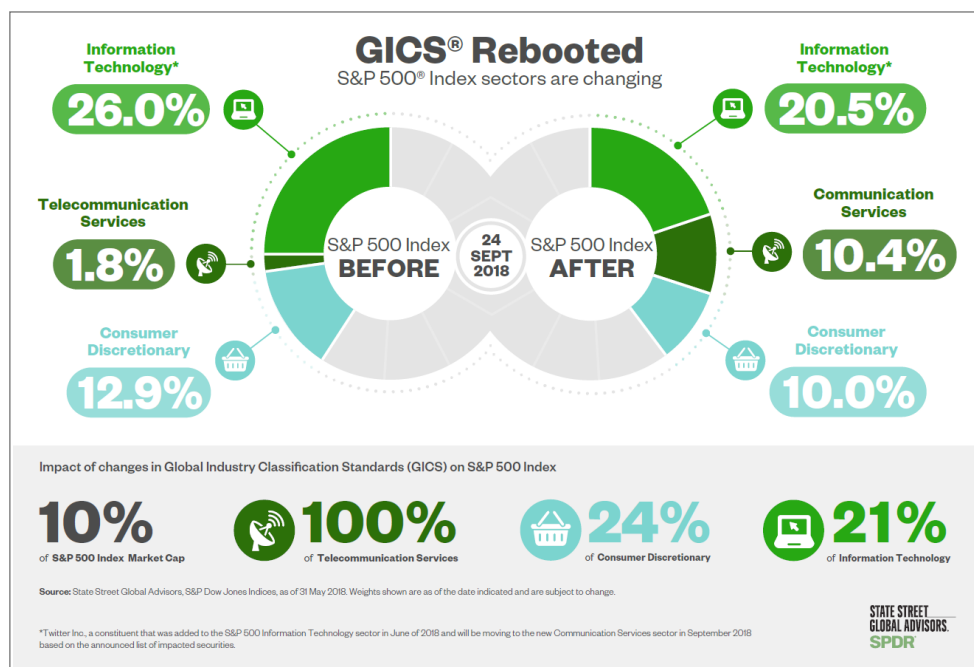
Dear clients,

I have spent the last five weeks travelling around the country visiting advisors and clients, and speaking at events. At each meeting, I ask my audience if they are aware that the S&P 500® Index is about to undergo the largest reconfiguration in its history. So far, the resounding answer has been “no” so we thought it was important proactively help educate about this significant change with another memo From the Desk of the PM!

Recently the GICS (Global Industry Classification Standards) index manufacturers, together with S&P Dow Jones Indexes, announced that they were going to re-align the sectors of the S&P 500. The major changes include:

- Renaming the Telecommunications Sector to Communications.
- Pulling out ~18 media and entertainment companies from Consumer Discretionary and adding them to Communications, including Netflix, CBS and Walt Disney.
- Pulling out ~5 entertainment and software services companies from Technology and adding them to Communications including Google and Facebook.
- Pulling ~one Technology company, EBAY, and adding it to Consumer Discretionary.

Graphically, the changes will look like:



To summarize, these changes will result in a 6% reduction in the size of the Technology Sector and a 3% reduction in the size of the Consumer Discretionary Sector. The new Communications Sector will be about 10% of the market Cap of the S&P 500. In terms of how the ETF sponsors are responding to this, we know that the SPDRs currently place Telecom companies in the echnology sector, so the reduction of this ETF’s size may be closer to 7% or 8%. The final index changes are expected to be announced on July 1st when most Americans will be on holiday. The official rebalance of the Sectors is expected to take place on September 24th. However, we learned a lot from the previous GICS change when they separated REITs from Financials.

- Not every ETF family will adopt this change.
- The tax ramifications may vary from one ETF family to another depending on what they do and how they do it.
- Sector, industry or theme based mutual funds that invest in these companies may have extremely large Capital gain distributions in 2018 if they are forced to sell. The gains in many of these companies are huge, including Facebook, Google/Alphabet and Netflix.
- It is best to be early rather than late in entering the trade.

SPDRs has launched the first (and for now the only) new Communications ETF, XLC, and we purchased this ETF today in our Sector Rotation strategies. Next week, after the announcement, would be an inopportune time to trade this as the July 4th holiday will bring very light trading and lower liquidity. We also did not want to wait for others to trade ahead of us so we may have a temporary over-weight in certain companies until then. We will also be adding this new Sector ETF to the BCM Decathlon ETF pool.

We plan to bring additional insights into the structural changes in further communications so please keep an eye out. Additionally, we will be holding our quarterly update call on **Monday, July 9th at 4:15PM** which will include more information about this change and how it is being implemented into our strategies. [Click this link to register now.](#)

As always, we thank you for your business.

David M. Haviland, Portfolio Manager

For more insights like these, visit BCM's blog at blog.investbcm.com

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