Quarterly Newsletter Bringing You Financial Insights From The Leaders | VOL 11 | ISSUE 3

SEIA

SIGNATURE ESTATE & INVESTMENT ADVISORS, LLC®

Established 1997

THE SEIA REPORT

NAVIGATING THE CHANGES TO GICS SECTORS

BY **Sam Miller**
CFA®, CAIA®, *Senior Investment Strategist*

What are GICS?

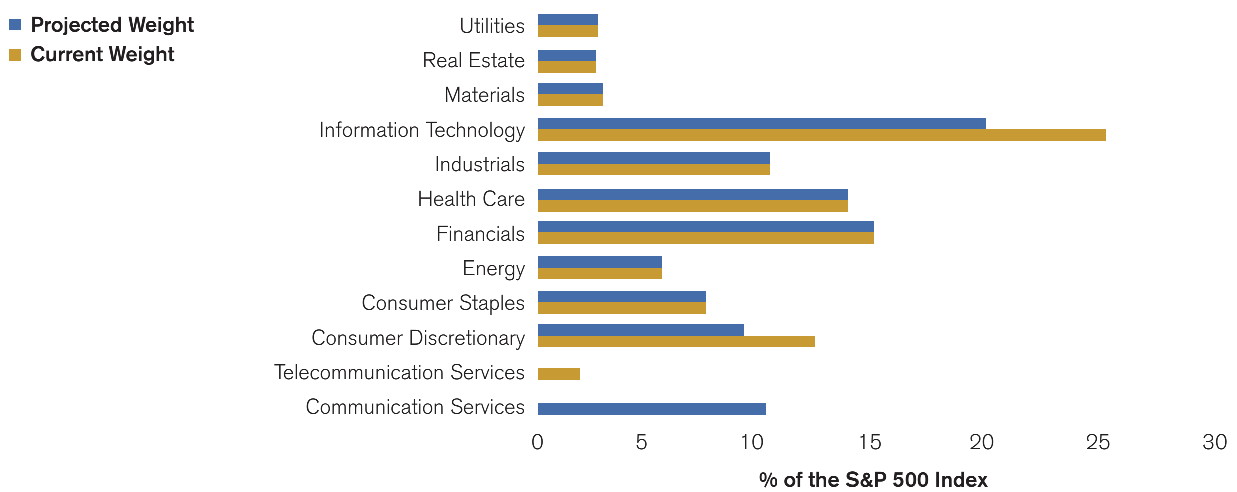
Global Industry Classification Standards (GICS), launched in 1999, is a taxonomy for publicly traded companies. It assigns each company a sector, industry group, industry, and sub-industry based on its principal business activity. Initially constructed with 10 high level sectors, there were no major changes until 2016, when Real Estate was carved out of Financials to create an 11th sector.

What is changing?

Now, two years later, the sector structure is changing again. Due to the evolution of the economy via technological advancements and mergers, restructuring, and consolidation, the Telecom Services sector has dwindled in size and currently only contains three companies (AT&T, Verizon, and CenturyLink). To more accurately reflect the scope of telecommunications companies in today's economy, GICS is renaming the sector to Communication Services and welcoming familiar internet and media names like Facebook, Netflix and Google into the fold. 19 companies (5 Tech and 14 Consumer Discretionary) will be moved into this new sector after which time it will make up about 10% of the S&P 500. Correspondingly, the Tech sector will drop from roughly 25% to 20%, while Consumer Discretionary will drop from roughly 13% to 10%. This will result in more than 8% of the S&P 500 being reclassified, the biggest change to the GICS sector structure in history. The changes officially take place after the close of business on Friday, September 28, 2018, but most index funds will slowly transition in the months prior.

In the end, the classification changes result in making each of the sectors more equal by redistributing market cap and reducing concentration (see Figure 1).

FIGURE 1: S&P 500 CURRENT AND PROJECTED INDEX SECTOR WEIGHTS



Source: Bloomberg Finance LP as of February 28, 2018. Characteristics are as of the date given and should not be relied upon as current thereafter. There can be no assurance that developments will transpire as projected and that the estimates are accurate.

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> "Successful wealth management is the result of an ongoing collaboration between investor and advisor, built upon trust and maintained according to the highest standards of integrity and expertise.

Brian D. Holmes,
MS, CFP®, CMFC, AIF®, *President & CEO*

ABOUT SEIA

Signature Estate & Investment Advisors, LLC® (SEIA) is a Registered Investment Advisor firm offering Investment Supervision and Financial Planning Services tailored to meet the unique needs of affluent individuals and corporations. Fundamental experience and professionalism enable the financial advisors, with SEIA's research and support staff, to design a financial plan or investment portfolio to meet the client's goals.

PROJECTED S&P 500 INDEX SECTOR WEIGHTS AFTER UPCOMING CHANGES

Communication Services	10%
Consumer Discretionary	10%
Consumer Staples	7%
Energy	6%
Financials	14%
Health Care	15%
Industrials	10%
Information Technology	20%
Materials	2%
Real Estate	3%
Utilities	3%

Source: Bloomberg Finance LP
Characteristics are as of 8/16/2018 and should not be relied upon as current thereafter.

Thank You

SEIA would like to thank you for your partnership and support over the last 21 years. Recently SEIA and its affiliates surpassed $8 billion in assets under management – a significant growth milestone for our firm. In serving our clients, our talented advisors continue to drive SEIA's success.

We remain committed to our core values and look forward to continuing this incredible journey. It is SEIA's goal to be a pillar of consistency in your financial lives.

SEIA IN THE NEWS

FINANCIAL TIMES

2018 Top 300 RIA Firms in the Nation

FT FINANCIAL TIMES | Top Financial Advisers 2018

LOS ANGELES BUSINESS JOURNAL

2018 Largest Money Management Firms & Best Places to Work

Left to right: Joseph Fusaro, Jr. & Sabina Pinsky

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What does it mean for my portfolio?

While all of these changes will take place automatically behind the scenes, there are a few items to note:

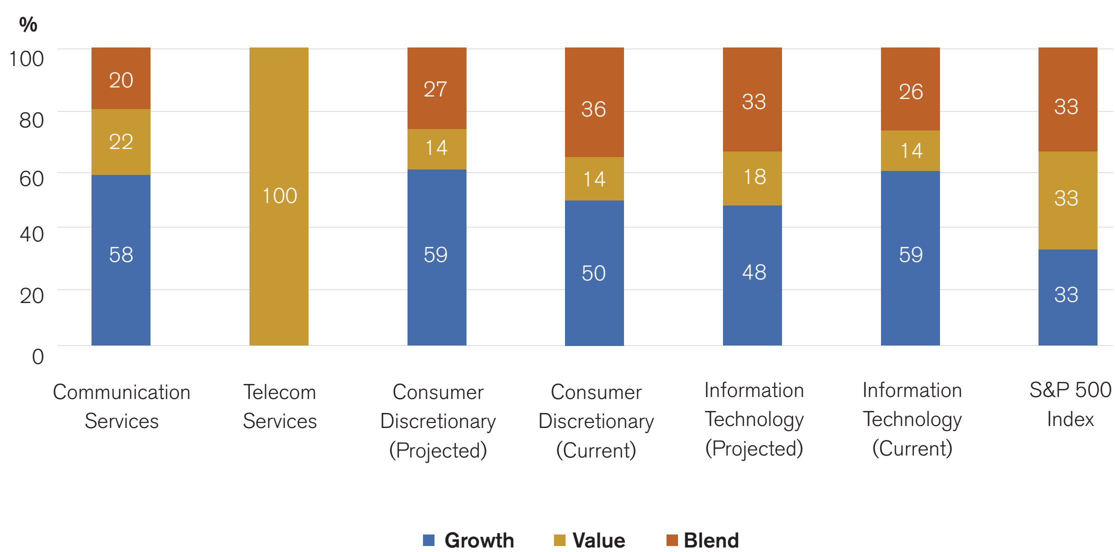
- In recent years, investors have viewed Telecom stocks as defensive equities given their high dividend payments and relative stability. Most phone companies now operate like utilities. However, the new Communication Services sector will certainly be more cyclical in nature due to the addition of growth-oriented stocks from the Tech and Consumer Discretionary sectors. Investors who buy a new Communication Services sector ETF should expect a more growth-oriented and volatile ride (See Figure 2) and should no longer view this sector as a bond proxy. The dividend yield of the new sector is expected to be less than 2%, compared to more than 5% for the current Telecom sector.

- Similarly, many investors who use a quantitative approach to invest in sectors will need to revisit their methodology as the sectors included in their historical backtests are no longer representative going forward.

- Finally, after enjoying an incredibly strong run of performance, many tech companies are becoming more and more concerned about the potential for regulation on the horizon. The inclusion of certain tech companies into the new Communication Services sector seemingly only makes it tougher to argue that they should not be regulated by the Federal Communications Commission. Tech companies that are added to the Communication Services sector may find this to be an additional headwind.

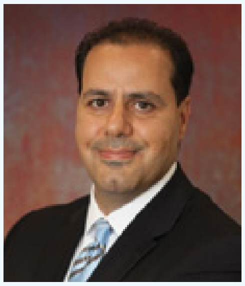
At SEIA, we have adjusted our due diligence approach and portfolio construction processes to accommodate these major changes and will continue to look for opportunities that result for the benefit of our clients.

FIGURE 2: GICS SECTOR STYLE EXPOSURE



Source: Morningstar, FactSet as of February 28, 2018. Characteristics are as of the date given and should not be relied upon as current thereafter. There can be no assurance that developments will transpire as projected and that the estimates are accurate.

HOW CAN I APPLY MY PHILOSOPHY OF LEADING AN ECO-FRIENDLY LIFE TO MY INVESTMENT PORTFOLIO?



BY **Theodore E. Saade**
CFP®, CMFC, AIF®, *Senior Partner*

Socially responsible investing (SRI) is hardly a new phenomenon. From the earliest days of the stock market, individuals and groups have sought ways to more closely align their investment portfolios with their values. But while traditional approaches have focused on excluding so-called "sin stocks," recent years have seen a dramatic shift in tactics.

Rather than attempting to punish companies deemed socially undesirable based on moral or ethical concerns, investors today are more often looking to incentivize and reward companies that exhibit positive environment social and governance (ESG) behaviors.

Today, more than $8.72 trillion U.S. dollars are invested using SRI strategies.[1]

Trading in sticks for carrots

While every individual investor applies different criteria to what qualifies as a socially responsible investment, ESG factors help gauge a particular investment's long-term economic sustainability relative to other opportunities. ESG quantifies a company's greenhouse gas emissions, resource depletion, working conditions, workforce diversity, philanthropy and ethics. These screens then allow socially responsible investors to make more well-informed decisions.

It's important to note, however, that companies rarely fit neatly into "responsible" or "irresponsible" ESG boxes. For instance, you may have an extremely eco-conscious, environmentally friendly organization with a poor history of workforce diversity. Conversely, a company with an excessive carbon footprint might be leading the way in giving back to the community.

Today, more than $8.72 trillion U.S. dollars are invested using SRI strategies

Each individual must therefore decide which ESG factors are most important to his or her personal definition of social responsibility.

What is impact investing?

"Impact investing" refers to investments which seek to generate measurable social and environmental impact alongside a financial return. By investing in firms committed to socially worthy endeavors (e.g., affordable housing, healthcare and education, renewable energy, access to safe water, gender pay equality and microfinance) impact investors strive to create both social and portfolio value.

Small sacrifice: Big upside

There's a common misconception that in order to pursue a socially responsible strategy, investors must be willing to accept significantly reduced returns. Much of this belief derives from days past when screening out undesirable stocks had a far greater impact on the universe of potential investments.

Certainly, using your wealth to generate a positive social impact may require a small sacrifice in return-potential, but by no means do those two objectives need to be mutually exclusive. In fact, recent studies suggest there may be a positive correlation between a company's performance on ESG metrics and its overall financial performance.

Comparing the cumulative performance of impact investment funds (6.9 percent average annual return) to their peers without a social objective (8.1 percent average annual return) clearly shows that the sacrifice in return potential associated with socially responsible investing is relatively small when weighed against the opportunity to significantly improve the well-being of countless individuals and communities.[2]

The wide array of values-based funds available to invest in continues to expand exponentially, with each new approach offering a slightly different focus and emphasis. What used to be a black and white choice—either invest to make money or be philanthropic—has today become a broad spectrum of grays.

One thing, however, is certain: Today's investors now have a unique opportunity to harness the power of their investments to serve as a force for positive change.

1 The Forum for Sustainable and Responsible Investment, 2017. See www.ussif.org.
2 Global Impact Investing Network, 2017. See www.ubs.com.

FINANCIAL ADVISOR MAGAZINE

2018 Annual RIA Ranking – 50 Fastest Growing RIAs

LOS ANGELES BUSINESS JOURNAL

Largest Money Management Firms 2018 (Ranked by assets managed)

EVENTS

FRITZ MILLER HOSTS

SEIA believes in long lasting relationships. Our Pasadena office recently hosted a client event at the Rose Bowl for their clients and other professional associates. The focus of the event was on the "Business of College Football" from a player's perspective.

Fritz Miller, one of SEIA's Partners, served as host while Dedan Brozino, Director of the Rose Bowl Legacy Foundation and former UCLA football stars entertained the guests with thoughts and stories of their playing experience and the special place that the Rose Bowl stadium holds in their hearts.

HOUSTON…WE HAVE AN OFFICE!

Jesse Brown, CFP®

Our steady growth and ever-widening reputation for service excellence has afforded SEIA the opportunity to further expand our reach with the recent opening of our Houston office. The office will be headed up by Jesse Brown, CFP® – the latest addition to our team of advisors.

Jesse has distinguished himself as a skilled financial planner, working closely with a wide range of individuals, families and businesses to develop, implement and monitor their financial plans. Jesse helped define clearer, quantifiable goals to prioritizing needs and implementing investment strategies. Joe Fusaro, SEIA's Director of Operations, said this about him "Jesse was everything we were looking for in an advisor and we were everything he was searching for in a firm, so it made sense to launch this Houston location."

Jesse received his Bachelor's degree from Hofstra University and has earned the Certified Financial Planner® designation. Prior to joining the SEIA family, he worked as an advisor for Fidelity Investments and John Hancock Financial Services. A recent transplant from Boston to Houston, Jesse's an avid runner (having completed the Boston Marathon) and an a supporter of The Boys & Girls Clubs of America. He also recently got married this past month.

We're thrilled to welcome him to the SEIA family, and look forward to his tremendous success for our clients in Houston.

SIGNATURE FUND *for* GIVING

Left to Right: Christine Cheung, Chad Bates, Hayley Wood & Richard Parra

"The more that you read, the more things you will know, the more that you learn, the more places you'll go." – Dr. Seuss

The Signature Fund for Giving was humbled to sponsor A Place Called Home's (APCH) Back to School event held on Saturday, August 4th. Employees of SEIA joined 80 local volunteers and APCH staff to give over 1,100 backpacks supplied with highlighters, glue sticks, paper, crayons, colored pencils, and pencils to inner-city Los Angeles youth to promote a successful academic year. Serving local youth is a pinnacle to our SFFG initiative and we are reminded of why we do what we do after giving basic supplies to thousands of youth and learning of families having secured their place in line beginning at 5:00 pm the evening before the event. SFFG is so proud of APCH and our opportunity to give.

For more information on APCH, please visit **apch.org**. If you'd like to learn more about how you can be involved with SFFG, please reach out to Hayley Wood at **hwood@seia.com** – we welcome our clients engagement as part of our commitment to our communities youth.

Please visit seia.com for information on our Giving Back campaign.

Wishing your respective families a productive and fun school year!

SEIA

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