

S&P Dow Jones Indices

A Division of **S&P Global**

S&P/Harel Sector Indices *Methodology*

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Table of Contents

| | |
|-------------------------------------------------------------------|-----------|
| Introduction | 3 |
| Index Objective and Highlights | 3 |
| Index Family | 3 |
| Collaboration | 3 |
| Supporting Documents | 4 |
| Eligibility Criteria | 5 |
| Index Eligibility | 5 |
| Multiple Share Classes | 5 |
| Index Construction | 6 |
| Approaches | 6 |
| Constituent Selection | 6 |
| Constituent Weightings | 6 |
| Index Calculations | 7 |
| Index Maintenance | 8 |
| Rebalancing | 8 |
| Corporate Actions | 8 |
| Other Adjustments | 8 |
| Currency of Calculation and Additional Index Return Series | 8 |
| Base Dates and History Availability | 8 |
| Index Data | 9 |
| Calculation Return Types | 9 |
| Index Governance | 10 |
| Index Committee | 10 |
| Index Policy | 11 |
| Announcements | 11 |
| Pro-forma Files | 11 |
| Holiday Schedule | 11 |
| Rebalancing | 11 |
| Unexpected Exchange Closures | 11 |
| Recalculation Policy | 11 |
| Contact Information | 12 |

| | |
|----------------------------|-----------|
| Index Dissemination | 13 |
| Tickers | 13 |
| Index Data | 13 |
| Web site | 13 |
| Appendix | 14 |
| Methodology Changes | 14 |
| Disclaimer | 15 |

Introduction

Index Objective and Highlights

The S&P/Harel Sector Indices measure the performance of large Israeli companies, segmented into clearly defined industry groups. Each index incorporates the largest eligible publicly-traded Israeli companies trading on the Tel Aviv Stock Exchange (TASE) within industry sectors and sub-industries as defined using the Global Industry Classification Standard (GICS®). Constituent weights are driven by liquidity, with no single company having a weight of more than 15% or less than 1% in an index at each semi-annual index rebalancing.

Index Family

- **S&P/Harel Consumer Goods Index.** This index comprises eligible companies classified within the GICS Food & Staples Retailing (GICS code = 3010) and Food, Beverage & Tobacco (3020) Industry Groups, and Apparel, Accessories & Luxury Goods (25203010), Specialty Stores (25504040), and Automotive Retail (25504050) Sub-Industries.
- **S&P/Harel Energy Index.** This index comprises eligible companies classified within the GICS Energy (10) Sector, and Gas Utilities (551020) and Independent Power & Renewable Electricity Producers (551050) Industries.
- **S&P/Harel Health Care Index.** This index comprises eligible companies classified within the GICS Health Care (35) Sector.
- **S&P/Harel Materials Index.** This index comprises eligible companies classified within the GICS Materials (15) Sector, and Textiles (25203030) Sub-Industry.
- **S&P/Harel Telecommunications Index.** This index comprises eligible companies classified within the GICS Telecommunication Services (5010) Industry Group, Communications Equipment (452010) Industry, and Cable & Satellite (50201030) Sub-Industry.

Collaboration

These indices are generated and published under agreements between S&P Dow Jones Indices and Harel Insurance Investments & Financial Services Ltd. Harel provides comprehensive insurance and financial solutions including life, general, and health insurance, as well as provident, pension and mutual funds and other financial services.

Supporting Documents

This methodology is meant to be read in conjunction with supporting documents providing greater detail with respect to the policies, procedures and calculations described herein. References throughout the methodology direct the reader to the relevant supporting document for further information on a specific topic. The list of the main supplemental documents for this methodology and the hyperlinks to those documents is as follows:

| Supporting Document | URL |
|-----------------------------------------------------------------------------------|---------------------------------------------------------|
| S&P Dow Jones Indices' Equity Indices Policies & Practices Methodology | Equity Indices Policies & Practices |
| S&P Dow Jones Indices' Index Mathematics Methodology | Index Mathematics Methodology |
| S&P Dow Jones Indices' Float Adjustment Methodology | Float Adjustment Methodology |
| S&P Dow Jones Indices' Global Industry Classification Standard (GICS) Methodology | GICS Methodology |

This methodology was created by S&P Dow Jones Indices to achieve the aforementioned objective of measuring the underlying interest of each index governed by this methodology document. Any changes to or deviations from this methodology are made in the sole judgment and discretion of S&P Dow Jones Indices so that the index continues to achieve its objective.

Eligibility Criteria

Index Eligibility

The eligible index selection universe is defined as follows:

1. **Exchange Listing.** Companies must be listed on the TASE.
As of each rebalancing reference date, eligible stocks cannot be on either the TASE “Maintenance List” or “Illiquid Securities List”. These lists are available on the TASE Web site.
2. **Trading History.** To ensure sustained liquidity, each company must have been traded on the TASE for a period of at least three months.
3. **Tradability.** Companies must either be members of the TASE TA-AllShare Index¹ or have a minimum float-adjusted market capitalization of 75 million New Israeli Shekels (NIS), measured as the average of the daily closing float-adjusted market capitalizations over the past calendar month.
4. **Liquidity.** Each company must have an average daily trading value of no less than NIS 70,000, measured over the six months preceding each review.

Companies passing these criteria form the Selection Universe.

Multiple Share Classes

Each company is represented once by the Designated Listing. For more information regarding the treatment of multiple share classes, please refer to Approach B within the Multiple Share Classes section of the S&P Dow Jones Indices’ Equity Indices Policies & Practices Methodology.

¹ Effective February 12, 2017, the TASE replaced the TA-Composite Index with the TA-AllShare Index.

Index Construction

Approaches

There are two steps in the creation of each index. The first is the selection of the constituent companies; the second is the weighting of the index constituents.

Constituent Selection

The selection of index constituents is undertaken as follows:

1. All companies in the Selection Universe are separated into sector lists according to their GICS classification and the relevant index descriptions as defined in the *Index Family* section of the *Introduction*.
2. All companies in each list are sorted in decreasing order of their float-adjusted market capitalization.
3. The number of index constituents is, then, chosen. Where there are more than 12 companies on a sector list, but fewer than 15, the index will have 12 constituents; if 15 or more, but fewer than 25, the index will have 15 constituents; if 25 or more, but fewer than 30, the index will have 20 constituents; and if 30 or more, the index will have 25 constituents. Note: if there are fewer than 12 companies on a sector list, the number of constituents in the index will depend on the number of companies that meet the selection criteria.
4. From each list the appropriate numbers of companies are selected to become constituents, in order of float-adjusted market capitalization.

Constituent Weightings

The indices employ a liquidity-driven weighting scheme. The weight for each index constituent is set at each rebalancing, using an optimization algorithm that has the following constraints and goal:

- **Constraints.** At each rebalancing, no company has a weight of less than 1% and no company has a weight of more than 15%.
- **Goal.** Maximize basket Liquidity:

$$\text{Basket Liquidity} = \frac{L_i}{W_i}$$

where:

L_i = The liquidity of the i^{th} stock, as defined by the six-month Average Daily Trading Value (ADTV).

W_i = Optimizer-created weight.

Basket liquidity is, therefore, based on historical value traded and represents the maximum size of the basket that can be traded if 100% of the market volume is demanded for the smallest volume company in the index. Mathematically, it is defined as the minimum of (ADTV/Optimizer-created weight) for every constituent.

Index Calculations

Each index is calculated by means of the divisor methodology used in most S&P Dow Jones Indices' equity indices.

For more information on the index calculation methodology, please refer to the Non-Market Capitalization Weighted Indices section in S&P Dow Jones Indices' Index Mathematics Methodology.

Index Maintenance

Rebalancing

Index rebalancings occur semi-annually, after the close on the last business day of March and September of each year. The rebalancing reference dates are the last trading days of February and August, respectively. The universe is sampled and constituents are selected and weighted at each semi-annual rebalancing. A constituent's weight in the index is calculated using closing prices seven business days prior to the effective date as the reference price. Index share amounts are calculated and assigned to each stock to arrive at the weights determined on the reference price date.

Additions and Deletions. Except for major corporate actions, such as mergers and spin-offs, additions and deletions of companies generally only take place at the index rebalancings.

For more information, please refer to the Corporate Actions section below.

Corporate Actions

For information on corporate actions, please refer to the Non-Market Capitalization Weighted Indices section of S&P Dow Jones Indices' Equity Indices Policies & Practices Methodology.

Other Adjustments

When a constituent is suspended for more than five trading days, it will be removed at the close of the sixth trading day at a price determined by the Index Committee. If a "special trading session" is announced for the constituent that is in effect on that day, it will be removed at the close of the special trading session, using the closing price.

Currency of Calculation and Additional Index Return Series

The indices are calculated in Israeli shekels.

In addition to the indices detailed in this methodology, additional return series versions of the indices may be available, including, but not limited to: currency, currency hedged, decrement, fair value, inverse, leveraged, and risk control versions. For a list of available indices, please refer to [S&P DJI's All Indices by Methodology Report](#).

For information on various index calculations, please refer to S&P Dow Jones Indices' Index Mathematics Methodology.

Base Dates and History Availability

Index history availability, base dates, and base values are shown in the table below.

| Index | Launch Date | First Value Date | Base Date | Base Value |
|------------------------------------|-------------|------------------|------------|------------|
| S&P/Harel Consumer Goods Index | 13/02/2011 | 31/12/2007 | 30/09/2009 | 1000 |
| S&P/Harel Energy Index | 13/02/2011 | 31/12/2007 | 30/09/2009 | 1000 |
| S&P/Harel Health Care Index | 02/05/2011 | 31/12/2007 | 31/12/2007 | 1000 |
| S&P/Harel Materials Index | 13/02/2011 | 31/12/2007 | 30/09/2009 | 1000 |
| S&P/Harel Telecommunications Index | 13/02/2011 | 31/12/2007 | 30/09/2009 | 1000 |

Index Data

Calculation Return Types

S&P Dow Jones Indices calculates multiple return types which vary based on the treatment of regular cash dividends. The classification of regular cash dividends is determined by S&P Dow Jones Indices.

- Price Return (PR) versions are calculated without adjustments for regular cash dividends.
- Gross Total Return (TR) versions reinvest regular cash dividends at the close on the ex-date without consideration for withholding taxes.
- Net Total Return (NTR) versions, if available, reinvest regular cash dividends at the close on the ex-date after the deduction of applicable withholding taxes.

In the event there are no regular cash dividends on the ex-date, the daily performance of all three indices will be identical.

For a complete list of indices available, please refer to the daily index levels file (“.SDL”).

For more information on the classification of regular versus special cash dividends as well as the tax rates used in the calculation of net return, please refer to S&P Dow Jones Indices’ Equity Indices Policies & Practices Methodology.

For more information on the calculation of return types, please refer to S&P Dow Jones Indices’ Index Mathematics Methodology.

Index Governance

Index Committee

S&P Dow Jones Indices' Europe (EMEA) Indices Index Committee maintains the indices. The Index Committee meets regularly. All committee members are full-time professional members of S&P Dow Jones Indices' staff. At each meeting, the Index Committee may review pending corporate actions that may affect index constituents, statistics comparing the composition of an index to the market, companies that are being considered as candidates for addition to an index, and any significant market events. In addition, the Index Committee may revise index policy covering rules for selecting companies, treatment of dividends, share counts or other matters.

S&P Dow Jones Indices considers information about changes to its indices and related matters to be potentially market moving and material. Therefore, all Index Committee discussions are confidential.

S&P Dow Jones Indices' Index Committees reserve the right to make exceptions when applying the methodology if the need arises. In any scenario where the treatment differs from the general rules stated in this document or supplemental documents, clients will receive sufficient notice, whenever possible.

In addition to the daily governance of indices and maintenance of index methodologies, at least once within any 12-month period, the Index Committee reviews the methodology to ensure the indices continue to achieve the stated objectives, and that the data and methodology remain effective. In certain instances, S&P Dow Jones Indices may publish a consultation inviting comments from external parties.

For information on Quality Assurance and Internal Reviews of Methodology, please refer to S&P Dow Jones Indices' Equity Indices Policies & Practices Methodology.

Index Policy

Announcements

All index constituents are evaluated daily for data needed to calculate index levels and returns. All events affecting the daily index calculation are typically announced in advance via the Index Corporate Events report (.SDE), delivered daily to all clients. Any unusual treatment of a corporate action or short notice of an event may be communicated via email to clients.

For more information, please refer to the Announcements section of S&P Dow Jones Indices' Equity Indices Policies & Practices Methodology.

Pro-forma Files

In addition to the corporate events file (.SDE), S&P Dow Jones Indices provides constituent pro-forma files each time the indices rebalance. The pro-forma file is typically provided daily in advance of the rebalancing date and contains all constituents and their corresponding weights and index shares effective for the upcoming rebalancing. Since index shares are assigned based on prices prior to the rebalancing, the actual weight of each stock at the rebalancing differs from these weights due to market movements.

Please visit www.spdji.com for a complete schedule of rebalancing timelines and pro-forma delivery times.

Holiday Schedule

The indices are calculated daily, throughout the calendar year. The only days the indices are not calculated are on days when the Tel Aviv Stock Exchange is officially closed.

A complete holiday schedule for the year is available on S&P Dow Jones Indices' Web site at www.spdji.com.

Rebalancing

The Index Committee may change the date of a given rebalancing for reasons including market holidays occurring on or around the scheduled rebalancing date. Any such change will be announced with proper advance notice where possible.

Unexpected Exchange Closures

For information on Unexpected Exchange Closures, please refer to S&P Dow Jones Indices' Equity Indices Policies & Practices Methodology.

Recalculation Policy

For information on the recalculation policy, please refer to S&P Dow Jones Indices' Equity Indices Policies & Practices Methodology.

For information on Calculations and Pricing Disruptions, Expert Judgment and Data Hierarchy, please refer to S&P Dow Jones Indices' Equity Indices Policies & Practices Methodology.

Contact Information

For questions regarding an index, please contact: index_services@spglobal.com.

Index Dissemination

Index levels are available through S&P Dow Jones Indices' Web site at www.spdji.com, major quote vendors (see codes below), numerous investment-oriented Web sites, and various print and electronic media.

Tickers

The table below lists headline indices covered by this document. All versions of the below indices that may exist are also covered by this document. Please refer to [S&P DJI's All Indices by Methodology Report](#) for a complete list of indices covered by this document

| Index | Bloomberg | Reuters |
|---------------------------------------|-----------|-----------|
| S&P/Harel Consumer Goods Index PR | SPHLCGIP | .SPHLCGIP |
| S&P/Harel Consumer Goods Index TR | SPHLCGIT | .SPHLCGIT |
| S&P/Harel Energy Index PR | SPHLENIP | .SPHLENIP |
| S&P/Harel Energy Index TR | SPHLENIT | .SPHLENIT |
| S&P/Harel Health Care Index PR | SPHLHCIP | .SPHLHCIP |
| S&P/Harel Health Care Index TR | SPHLHCIT | .SPHLHCIT |
| S&P/Harel Materials Index PR | SPHLMAIP | .SPHLMAIP |
| S&P/Harel Materials Index TR | SPHLMAIT | .SPHLMAIT |
| S&P/Harel Telecommunications Index TR | SPHLTCIT | .SPHLTCIT |
| S&P/Harel Telecommunications Index PR | SPHLTCIP | .SPHLTCIP |

Index Data

Daily constituent and index level data are available via subscription.

For product information, please contact S&P Dow Jones Indices, www.spdji.com/contact-us.

Web site

For further information, please refer to S&P Dow Jones Indices' Web site at www.spdji.com.

Appendix

Methodology Changes

Methodology changes since July 8, 2015 are as follows:

| Change | Effective Date (After Close) | Previous | Methodology Updated |
|----------------------------------------------------------------|---------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Index Eligibility: S&P/Harel Telecommunications Index | 09/28/2018 | The index comprises eligible companies classified within the GICS Telecommunication Services (50) Sector, Communications Equipment (452010) Industry, and Cable & Satellite (25401025) Sub-Industry. | The index comprises eligible companies classified within the GICS Telecommunication Services (5010) Industry Group, Communications Equipment (452010) Industry, and Cable & Satellite (50201030) Sub-Industry. |

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