



iINDEX Factors Methodology

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Introduction

About iINDEX Research

iINDEX Research and Development is a fast-growing, cutting-edge index provider, headquartered in Tel-Aviv center (Midtown Tower). Since 2015, we develop innovative indexes for ETFs and investment products for leading financial institutions in Israel and worldwide. Our indexes are used in more than 200 different regulated passive investment vehicles: ETF, Tracking Index Funds and passive managed Pension funds.

About This Document

This document is published to serve as a guidebook of the factor methodology adopted in the construction, calculation, and management of the indexes. Any methodological changes or alterations to this document are performed by the iINDEX Research Indexes Committee. The index is owned, calculated, administered, and disseminated by iINDEX Research and Development Indices LTD.

Type of Factors

The following factors are used for factor indexes:

- **Value** - refers to the notion that cheaply priced shares outperform pricier shares in the long term.
- **Growth** - refers to companies with growth prospects, using historical earnings, sales and predicted earnings.
- **Momentum** - refers to the tendency of high performing shares to continue performing well in the short term.
- **Quality** - refers to companies that combine a low leverage, stable earnings and high profitability.

Index Factors Implementation

Value Factor implementation

Value Rating Calculations:

The **Weighted Value Rating** is determined based on the next fundamental financial ratios:

1. **P/B** - Price to Book
2. **P/E** - Price to Earnings
3. **EV/EBITDA** - Enterprise Value to EBITDA
4. **P/S** - Price to Sales
5. **P/FCF*** - Price to Free Cash Flow

For each ratio, companies within the eligible universe will receive a normalized score between 0 and 1, based on their relative share prices. For example, the company with the lowest **P/B** ratio will be assigned a score of 0 for this ratio. The final **Weighted Value Rating** is obtained by equally weighting the scores of the ratios used.

Additional Considerations:

- If data is unavailable for a particular company, the company will be assigned a score of 1 for the respective ratio.
- If a company's ratio exceeds the median value, the score for that ratio will be set to 1.
- For Financials institutions, a default score of 0.5 will be applied to the **EV/EBITDA** ratio.

Special value Factor Treatment:

- World Value iNDEX - the following ratios are used: P/B, P/E, EV/EBITDA
- US Value iNDEX - the following ratios are used: P/B, P/E, EV/EBITDA
- Israeli Value iNDEX - the following ratios are used: P/B, P/E, EV/EBITDA
- US Value Balanced Sectors iNDEX - the following ratios are used: P/B, P/S, P/FCF
- Israeli Value Balanced Sectors iNDEX - the following ratios are used: P/B, P/S, P/FCF

*cash from operation is used for Israeli companies

Growth Factor implementation

Growth Rating Calculations:

The **Weighted Growth Rating** is determined based on one of the following growth calculations:

1. **5-Years Average Revenue Growth Rate**
2. **2-Years Quarterly Average Growth Rate**
3. **LTGmean** - Long-Term Growth Expectations
4. **12 Months Revenue Growth Rate**
5. **12 Months Net Income Growth Rate**
6. **12 Months Cash Flow from Operations Growth Rate**

For each ratio, companies within the eligible universe will receive a normalized score between 0 and 1, based on their relative financial performance. For example, the company with the highest **12 Months Revenue Growth Rate** ratio will be assigned a score of 0 for this ratio. The final **Weighted Growth Rating** is obtained by equally weighting the scores of the ratios used.

Additional Considerations:

- If data is unavailable for a particular company, the company will be assigned a score of 0 for the respective ratio.
- If a company's ratio exceeds the median value, the score for that ratio will be set to 0.

Special Factor Treatment in indexes

- World Growth iNDEX - the following ratios are used: 5-Years Average Growth Rate, 12 Months Net Income Growth Rate, 12 Months Cash Flow from Operations Growth Rate.
- Israeli Growth iNDEX - the following ratios are used: 5-Years Average Growth Rate
- Israeli Growth-Momentum iNDEX - the following growth ratios are used: 2-Years Quarterly Average Growth Rate, 12 Months Revenue Growth Rate, 12 Months Net Income Growth Rate.

Momentum Factor implementation

Momentum Rating Calculations:

The **Weighted Momentum Rating** is determined based on one of the following ratios:

1. **MA50/MA200** - The ratio of a security's 50-day moving average to its 200-day moving average.
2. **Price/Avg Price (180 days)** - security's share price on cut-off date divided by its average price over the last 180 trading days.

For each ratio, companies within the eligible universe will receive a normalized score between 0 and 1, based on their relative share price performance. For example, the company with the highest MA50/MA200 ratio will be assigned a score of 0 for this ratio. The final **Weighted Momentum Rating** is obtained by equally weighting the scores of the ratios used.

Special Factor Treatment in indexes

Quality Factor implementation

Quality Rating Calculations:

The **Weighted Quality Rating** is determined based on the following ratios:

1. **ROE** - Return on Equity
2. **D/E** - Debt to Equity
3. **D/A** - Debt to Assets
4. **Consistency Earnings** - Measured by the standard deviation of annual earnings growth rates.
5. **Cash-Flow**
6. **ROIC** - Return on Invested Capital

For each ratio, each company in the eligible universe will receive a normalized score between 0 and 1 based on its relative quality (for example, the company with the highest ROE will receive the score "0" for that ratio). The final Weighted Quality Rating is obtained by equally weighting the scores of the ratios.

Additional Considerations:

- If data is unavailable for a the following ratios: ROE, ROIC, D/E the company will be assigned a default value of "-1".

Special Factor Treatment in indexes

- World Quality iNDEX - the following Quality ratios are used: For quality rating calculation: Consistency Earnings Growth, ROE, D/E. For additional filtering: ROIC, cash-flow growth, Consistency Earnings Growth, Consistency Earnings.
- TA-125 Quality iNDEX - the following Quality ratios are used: For quality rating calculation: ROE, D/A and Consistency Earnings. For additional filtering: cash-flow, Consistency Earnings.

Terminology

- **iINDEX Research Indexes Committee** - A committee appointed by iINDEX Research that consists of at least 3 professionals with expertise in the field of indexes and its role is to make decisions in accordance with the indices methodologies and guides and/or in special cases according to procedures and clear rules established in advance.
- **Cut-off Date** - is the date determines which securities meet the index's eligibility criteria.
- **Ex-Date** - is the first date on which a security is considered without entitlement to participate in the capital change event, such as a dividend, coupon or other distribution. Once the security issuer sets the Record Date, Ex-Date is set based on exchange rules.
- **Close Price** - refers to the closing price of a security as of a specific trading day. Close Price comes directly from the market data feeds, such as exchanges or major financial data vendors.
- **Adjusted Close Price** - is the theoretical closing price of security. The adjusted close indicates how the security price has theoretically changed for the next opening session based on Close Price and information of corporate events effective the next index calculation day. Adjusted Close Price is a derived price and not raw input data.
- **Total Return Index** - is an index that measures the performance of the securities that make up the index by assuming that all cash distributions are reinvested, in addition to tracking the constituents' price movements. Total return indexes are available as gross-return versions (GTR), calculated with a full-dividend reinvestment, and as net-return investment (NTR), where dividends minus the withholding taxes are invested.
- **Price Return Index** - is an index that only considers price movements of the securities that make up the index
- **Dividend Amount** - Dividend Amount is the value of dividend scheduled to be paid (before tax) for holding one unit of the security on the dividend's Ex-Date.
- **Withholding Tax Rate** - is the associated tax rate applied on dividends received in order to calculate the deducted tax amount. The tax rates are usually determined by the domicile country of the security issuer.
- **Cash Dividend** - is a cash distribution to the shareholders of a company. For index calculation purposes, regular dividends will affect Total Return indexes only and not the Price Return indexes. The level of the Total Return Index is adjusted according to the amount of dividends paid in by index constituent companies and subject to Withholding Tax Rate (relevant for NTR version).
- **Cash Dividend with Stock Alternative** - shareholders may be granted Cash Dividends with Stock Alternative options. In these cases, the shareholder can select to receive the company distribution either in cash or in stock.
- **Special Dividend** - is a non-recurring distribution of profit to shareholders, usually in the form of cash. A Special Dividend is usually larger when compared to normal dividends paid out by the company.
- **Stock Dividend** - is an event in which a company distributes a payment to shareholders in the form of shares of stock, as opposed to cash payment, while increasing the number of shares.
- **Cash Coupon** - is a cash distribution to the bond holders based on the security terms. For index calculation purposes, cash coupons will affect Total Return indexes only and not the Price Return indexes. The level of the Total Return Index is adjusted according to the amount of cash coupons paid in by index constituent issuers.
- **WMR Fixing Price** - is the closing spot rate of an official traded currency, as published on 16:00 London time by Refinitiv, a fully owned subsidiary of LSEG (London Stock Exchange Group). WMR Fixing Prices coverage 150+ currencies against the EUR, GBP, and USD, their pricing calculation methodology is fully aligned with the IOSCO

Principles for Financial Benchmarks and Refinitiv Benchmark Services Limited authorized as a Benchmark Administrator under EU BMR.

- **FX Price** - is the value of the denominated constituent "i" WMR Fixing Price against the index calculation currency. If constituent "i" is denominated in the same currency as the index's calculation currency, FX Price is 1. If a cash payment, such as dividends or coupons, is executed in a different currency as the index's calculation currency, the payment's WMR Fixing Price will be used in order to calculate the FX Price of the cash payment.
- **Number of Shares (NOS)** - is the amount outstanding of an index constituent.
- **Investable Weight Factor** - is the multiple which used to adjust the total market capitalization of an index constituent based on index weight limitations.
- **Index Divisor** - is a number by which the total value of an index is divided to arrive at the initial market index.
- **Domicile Country** - The sovereign country that is considered as the place where the company is managed and controlled at.

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