



iINDEX Calculations and Corporate Events Guide

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Terminology

- **iNDEX Research Indexes Committee** - A committee appointed by iNDEX 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 indexes methodologies and guides and/or in special cases according to procedures and clear rules established in advance.
- **Record Date** - is the cut-off date established by a security issuer in order to determine which security holders are eligible to receive a distribution.
- **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 indices only and not the Price Return indices. 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 indices only and not the Price Return indices. 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.
- **Investment-Intensive Index** - An index which the iINDEX Research Indexes Committee finds the volume of all investment vehicles tracking the index is relatively intensive to the underlying assets of the index and decides to define as an investment-intensive index. Unless expressly stated otherwise, an investment-intensive index shall not be less than an amount of 100 Million USD Total Net Asset value known on cut-off date of the index.
- **Trading Volume Speed** - Median derived from the total shares of a bond series which was traded in a certain period relatively to its total amount outstanding in the same period.

Index Calculations

Index Levels Calculation

The indexes are calculated using a Laspeyres formula. This formula is used for the calculation of Total Return Indexes and Price Return Indexes. The only difference between them is the Index Divisor calculations.

Index levels are calculated according to the following formula below:

$$Index_t = \frac{\sum_{i=1}^n (Q_i^t \times IWF_i^t \times P_i^t \times FX^t)}{D^{t-1}}$$

- $Index_t$ - Index level at time "t"
- n - Number of index constituents
- Q_i^t - Number of Shares of constituent "i" at time "t"
- IWF_i^t - Investable Weight Factor of constituent "i" at time "t"
- P_i^t - Close Price of constituent "i" at time "t"
- FX^t - FX Price at time "t"
- D^{t-1} - Index Divisor at time "t-1"

Index Divisor Adjustments

Corporate events may affect the Number of Shares of index constituents and therefore could trigger index increases or decreases. To avoid distortion, Index Divisors are adjusted accordingly. Changes in index market capitalization due to changes in the composition (additions, deletions or replacements), weighting (due to changes in Number of Shares or free float/liquidity factors) or corporate actions (Cash Dividends, Special Cash Dividends, Rights Issues, Priority Issues, Demergers/Spin-offs, Mergers/Acquisitions, Coupon Payments or Sinkable Fund Payments) result in an Index Divisor change to maintain index continuity before and after the event.

Some corporate actions, such as Share Splits, Share Consolidations and Scrip Issues, does not require Index Divisor adjustments since market capitalization does not change and the constituents's both Number of Shares and Close Price are adjusted prior to the opening of trading on the event's ex-date.

The following formula is used for Index Divisor adjustments:

$$D_{new} = \frac{\sum_{i=1}^n (Q_i^F \times IWF_i^t \times P_{iAdj}^{t+1} \times FX^t)}{I_{last}}$$

- D_{new} - Updated Index Divisor
- n - Number of index constituents
- Q_i^t - Number of Shares of a constituent "i" at time
- IWF_i^t - Investable Weight Factor of a constituent "i" at time t
- P_{iAdj}^{t+1} - Adjusted Close Price of constituent "i" at time t+1.
- FX^t - FX Price at time "t"
- I_{last} - Last calculated index price

Security's Weight Calculation

The weight of an index constituent shall be calculated at the beginning of a trading day according to the following formula:

$$W_i^t = \frac{Q_i^t \times IWF_i^t \times NP_i^{t-1} \times FX^{t-1}}{\sum_{i=1}^n (Q_i^t \times IWF_i^t \times NP_i^{t-1} \times FX^{t-1})}$$

- W_i^t - Weight of constituent "i" at time "t"
- n - Number of index constituents
- Q_i^t - Number of Shares of constituent "i" at time "t"
- IWF_i^t - Investable Weight Factor of constituent "i" at time "t"
- NP_i^{t-1} - Adjusted Close Price of constituent "i" at time "t-1"
- FX^t - FX Price at time "t-1"

IWF Adjustments

Liquidity Adjustment Factor

Investable Weight Factors (IWF) of constituents in equity indices are subject to the following adjustments in order to reflect their liquidity and free-float:

$$LAF = \frac{Float_i}{Float_{30\%}} \times \frac{\left(\frac{AUM_{index} \times \left(\left(\frac{NQ_{i,exp}}{IMC_{index,exp}} \right) - \left(\frac{NQ_{i,last}}{IMC_{index,last}} \right) \right)}{TVF_i} \right)^{10} + \left(\frac{AUM_{index} \times \left(\left(\frac{NQ_{i,exp}}{IMC_{index,exp}} \right) - \left(\frac{NQ_{i,last}}{IMC_{index,last}} \right) \right)}{MCF_i} \right)^{5\%}}{2}$$

- LAF - Liquidity Adjustment Factor
- $Float_i$ - Constituent "i" Free Float on cut-off date, subject to maximum 30% Free Float
- $Float_{30\%}$ - 30% Free Float
- AUM_{index} - Total Net Asset value known on cut-off date of all open and closed-end funds tracking the index
- $NQ_{i,expected}$ - expected Constituent "i" average total market capitalization in the index on rebalancing date
- $IMC_{index,exp}$ - expected average total market capitalization of the index on rebalancing date
- $NQ_{i,last}$ - Constituent "i" average total market capitalization in the index on cut-off date
- $IMC_{index,last}$ - index's average total market capitalization on cut-off date
- TVF_i - average daily trading volume (ADTV) in the past 90 days prior to cut-off date
- MCF_i - Constituent "i" average Free Float market capitalization

Future Expected Bond Removal Adjustment Factor

The eligibility criteria of bond indices refer to the final maturity date and/or the minimum duration for which a bond series will be removed from the indices. Due to the fact that future bond removals of the above type are known in advance, there is a logic to gradually reduce the weight of the bond series from an index from which it will be removed in the period before the actual rebalancing, except for maturity target indices.

Accordingly, as part of the IWF calculations on each rebalancing, an adjustment of these factors will be carried out in order to standardize the factor of bond series if it is expected to be removed from the index during the next 12 months due to final redemption:

$$FEBRAF = F_i \times \frac{S.D. (Mat_i - Mat, min_{index} < 365) - Mat_i + Mat, min_{index}}{365}$$

- FEBRAF - Future Expected Bond Removal Adjustment Factor
- F_i - Bond series "i" last calculated IWF
- Mat_i - Number of days remaining until the final maturity of Bond series "i" on cut-off date
- Mat, min_{index} - Number of days derived from the "Maturity Date" eligibility criteria of the index

Alternatively, in indexes with an eligible criteria of minimum duration, an adjustment of the securities IWFs will be carried out in order to standardize the factor of bond series if they are expected to be removed from the index during the next 12 months due to not meeting the minimum duration eligible criteria:

$$\text{FEBRAF} = F_i \times (D_i - D, \min_{index})$$

S. D.
($D_i - D, \min_{index} < 1$)

- FEBRAF - Future Expected Bond Removal Adjustment Factor
- F_i - Bond series "i" last calculated IWF
- D_i - Bond series "i" duration on cut-off date
- D, \min_{index} - Minimal duration defined as eligible criteria of the index

The results of the above calculation will be used both for the IWF calculation process and for their final adjustments.

Extreme Credit Risk of a bond series to its index Adjustment Factor

The eligibility criteria of bond indices refer to various investment risks in bond series, such as bond duration, credit rating, market value, liquidity, etc. At the same time, an index may include bond series whose credit risk is significantly higher than other bond series in the index. Accordingly, as part of the IWF calculations on each rebalancing, an adjustment of these factors will be carried out in order to standardize the factor of a bond series if its average government spread is higher than 3 standard deviations compared to the average government spread of the index based on all bond series meeting eligibility criteria of the index on cut-off date:

$$\text{ECRAF} = F_i \times 3 \times \frac{S_{index}}{S_i}$$

S. D.
($S_i > (S_{index} \times 3)$)

- ECRAF - Extreme Credit Risk Adjustment Factor
- F_i - Bond series "i" last calculated IWF
- S_i - Average Government Spread of Bond series "i" on cut-off date
- S_{index} - Average Government Spread of the index based on all bond series meeting eligibility criteria of the index on cut-off date

The results of the above calculation will be used both for the IWF calculation process and for their final adjustments.

Extreme Duration Risk of a bond series Adjustment Factor

The eligibility criteria of bond indices refer to various investment risks in bond series, such as bond duration, credit rating, market value, liquidity, etc. At the same time, an index may include bond series whose duration is significantly higher than other bond series in the index. Accordingly, as part of the IWF calculations on each rebalancing, an adjustment of these factors will be carried out in order to standardize the factor of a bond series if its duration is higher than 10 years:

$$\text{EDRAF} = F_i \times \frac{10}{D_i}$$

S. D.
($D_i > 10$)

- EDRAF - Extreme Duration Risk Adjustment Factor
- F_i - Bond series "i" last calculated IWF
- D_i - Bond series "i" duration on cut-off date

The results of the above calculation will be used both for the IWF calculation process and for their final adjustments.

Adjusting IWFs for preventing unusual trading distortions

In cases of additions of bond series to indices during index rebalancings that may create abnormal trading distortions or that the expected weight of the bond series, as calculated above, may be abnormal in relation to the size of the bond series and/or the volume of its trading, according to the iNDEX Research Indexes Committee, an IWF adjustment for the aforementioned bond series will be carried out for the upcoming rebalancing date.

Special IWF Update

If at the beginning of any trading day the combined weight of all index constituents issued by a certain corporation exceeds 24.75% - a special IWF update will be implemented in the IWF values of the "exceeding" corporation for the following trading day (T+1).

If at the beginning of any trading day the combined weight of all index constituents issued by a certain corporation exceeds 24.5% - a special IWF update will be implemented after 2 trading days (T+2) in the IWF values of the "exceeding" corporation.

In both cases, IWF values will be calculated according to an issuer weight cap of 24% and be based on the current security index shares. The parameters of other securities in the index will be unchanged, unless the special IWF update shall lead to another "exceeding" corporation in the index. In this case, a special IWF update will be implemented also in the IWF values of the second (or more in edge case) "exceeding" corporation. This process will insure the index won't have an issuer exceeding weight of 24% in these cases.

However, in the period between cut-off dates to the upcoming rebalancing, a special IWF update will be implemented only when a certain corporation exceeds 24.75% and IWF values will be calculated according to an issuer weight cap of 24.5% for the "exceeding" corporation.

Upon a pending Merger event that effects a constituent in an Investment-Intensive Index, a special IWF update will be implemented on the rebalances prior to the Merger event, in order to reduce the effect of the expected delisting on the overall index once the Merger event is finally completed.

Corporate Actions Adjustment Treatments

The following adjustments and treatments shall be implied for constituent's close prices and number of shares:

Action Type	Adjusted Close Price	New Number of Shares
Cash Dividend	$\text{Close Price} - \text{Div} \times (1 - \text{Tax}) \times \text{FX}$ Where: Div = Dividend Amount Tax = Withholding Tax Rate FX = WMR Fixing Price <u>Note:</u> applied for Total Return Index only	Number of Shares remain constant
Cash Dividend with Stock Alternative	As a default option, these events are to be treated as Cash Dividends	As a default option, these events are to be treated as Cash Dividends
Special Cash Dividend	As a default option, these events are to be treated as Cash Dividends	As a default option, these events are to be treated as Cash Dividends
Stock Dividend	$\text{Close Price} \times \frac{\text{Old Shares} + \text{New Shares}}{\text{Old Shares}}$	$\text{Old Number of Shares} \times \frac{\text{Old Shares}}{\text{Old Shares} + \text{New Shares}}$
Share Split	$\text{Close Price} \times \frac{\text{Old Shares}}{\text{New Shares}}$	$\text{Old Number of Shares} \times \frac{\text{New Shares}}{\text{Old Shares}}$
Share Consolidation ("Reverse Split")	same method as a Share Split	same method as a Share Split
Rights Issue	$\frac{\text{Close Price} \times \text{Old Shares} + \text{Sub_Price} \times \text{New Shares}}{\text{Old Shares} + \text{New Shares}}$ Where: Sub_Price = Subscription Price <u>Note:</u> if Subscription Price > Close Price Then Adjusted Close Price = Close Price	$\text{Old Number of Shares} \times \frac{\text{New Shares} + \text{Old Shares}}{\text{Old Shares}}$
Scrip / Bonus Issue	$\text{Close Price} \times \frac{1}{\text{Shares Adjustment Factor}}$	$\frac{\text{New Shares} + \text{Old Shares}}{\text{Old Shares}}$
Priority Issue	$\text{Close Price} - \frac{\text{New Number of Shares} \times \text{New Price}}{\text{Old Number Shares}}$ <u>Note:</u> if New Price > (0.95 X Close Price) Then Adjusted Close Price = Close Price	Number of Shares remain constant
Demerger / Spin-off	$\frac{\text{Close Price} \times \text{Old Shares} - \text{Spun off Price} \times \text{New Shares}}{\text{Old Shares}}$	Spin-off company Shares remain constant Spun-off company is added to indexes that include the Spin-off company
Merger/Acquisition	If Target Company included in the index, its Close Price will be adjusted according to merger terms: Cash Payment per Share, Shares Ratio or other payment formula Shares Ratio = Number of Shares of Parent Company given to Target Company holders for each Target Company share held	$\text{Old Number of Shares of Parent Company} + (\text{Number of Shares of Target Company} \times \text{Shares Ratio})$ Shares Ratio = Number of Shares of Parent Company given to Target Company holders for each Target Company share held
Buyback / Share Repurchase	Unless Buyback / Share Repurchase amount relative to overall Shares Outstanding prior to the event is significant, Close Price will not be adjusted	Unless Buyback / Share Repurchase amount relative to overall Shares Outstanding prior to the event is significant, Number of Shares Outstanding remain constant
Capital Repayment	$\frac{\text{Close Price} + \text{Cash per Share} \times \text{FX}}{\text{Close Price}}$ Where: Cash per Share = Capital Repayment amount per share FX = WMR Fixing Price <u>Note:</u> applied for Total Return Index only	Number of Shares Outstanding remain constant

Action Type	Adjusted Close Price	New Number of Shares
Coupon Payment	Close Price – $Coupon \times FX$ Where: Coupon = Cash Coupon FX = WMR Fixing Price <u>Note:</u> applied for Total Return Index only	Number of Shares Outstanding remain constant

Index Divisors may decrease, increase or remain constant when implmeneting the above corporate actions.

Special Security Additions & Deletions Events

Trading Suspension / Halt

iNDEX Research monitors halted securities on a continuous basis. Securities that remain suspended or halted for 30 or more days are removed. In some exceptional situations, securities may be removed earlier.

A security that has been suspended from trading, either by the trading venue or as a result of regulatory action, will be held in the index at its last traded price. Should the suspension persist during the period of an index rebalancing, no changes will be made to the constituent's shares outstanding or free float as part of the rebalancing.

The status of the suspended security will be reviewed after 15 trading-days and again after 15 trading-days. If after a status review, the iNDEX Research Indexes Committee determines that the security is unlikely to recommence trading within the next month, iNDEX Research will provide a minimum of 10 trading-days' notice to the effect that the security will be deleted from iNDEX Research indexes at the upcoming index rebalancing immediately following the expiry of the minimum 10 trading-day notice period.

Should the security recommence trading following the publication of the deletion notice but at least 3 trading days ahead of the announced deletion date, the deletion notice will be rescinded.

If the security has not recommenced trading on the effective date of the index rebalancing, the security will be removed at a price of zero ("0.000001") unless the iNDEX Research Indexes Committee determines that an acceptable alternative tradable price exists, for example on OTC market, or if a price can be deduced from a comparable security that has not been suspended, for example in the case of dual listed shares.

A security that has been deleted as a result of these rules that subsequently recommences trading will be treated as a new security at the index reviews.

Security Delisting

Deletion of a security from indexes in between index rebalances normally result from delisting of securities by the exchange or because of an issuer's call for a pre maturity bond redemption. The indexes will generally remove a security from all indexes on the expected delisting day, according to the notification from the exchange or the date set by the bond issuer. Where the security delisting is due to a Merger event, the target company might be removed once an offer to acquire the security has been deemed unconditional. There will be an Index Divisor adjustment required.

Upon a pending Merger event that effects a constituent in an Investment-Intensive Index, a special treatment will be implemented on the rebalancings prior to the Merger event, in order to reduce the effect of the expected delisting on the overall index once the Merger event is finally completed.

Bankruptcy

The deletion of a bankrupt constituent is done at the same time and with the same Close Price in all indexes. If the security is trading on its usual or primary exchange at the Close Price of the day it is removed, that price is used. If the security is suspended from trading, the removal of the security from the index will be done using last available price or using zero price ("0.000001). There will be an Index Divisor adjustment required.

Securities under Sanctions

In the event that sanctions by the following entities are imposed on a company included in the indexes, all company's securities shall be removed from the indexes on a date determined by the iNDEX Research Indexes Committee:

- US Government
- European Union
- UK Government
- Israeli Government

Eligibility Criteria Radical Changes

On each index rebalancing, index constituents meet several eligibility criteria. Normally, these criteria are not examined on a daily basis. In the event of a security does not meet these eligibility criteria in between index rebalances, they should be removed on the next index rebalancing.

However, a special security deletion may be implemented in event of a 50% or more decline in the following criteria:

- Company's free-float.
- Company's free-float market capitalization.
- Security's market capitalization.

In these events, the constituent shall be removed from the index on a date determined by the iNDEX Research Indexes Committee or on the next index rebalancing.

Credit Rating Downgrades

In the event of a downgrade of a bond security's credit rating, the following treatment will be implemented:

- If the updated credit rating remains in the "Investment Grade" space, the event will be addressed on the next index rebalancing.
- If the updated credit rating falls under the "Non-Investment Grade" space, the downgraded bond security will be removed within 5 trading days after the event from all indexes that have an "Investment Grade" eligible criteria. In some situations, the security may be removed earlier.
- If the downgraded bond security is due to be redeemed in the next 90 days, and its credit rating has been reduced by more than 3 credit notches, the downgraded bond security will be removed within 5 trading days after the event from all indexes. In some situations, the security may be removed earlier.

Liquidity Issues

Upon a decision by an exchange to remove a security from its primary listings to a Pink Sheet list or to OTC market, the security shall be removed from the index before the removal by the exchange using last available price. There will be an Index Divisor adjustment required.

The default scenario for most Bond securities is to be removed from indexes on the last index rebalancing before their final redemption. However, if the iNDEX Research Indexes Committee determines that a bond security does not meet liquidity criteria, it may decide to remove the security from the index on its last trading date.

Securities with Conversion Mechanism

Some bond securities have a conversion mechanism which allows their issuers to convert them to equity shares under special circumstances. CoCo bonds can be converted to equities if they meet several criteria set by a central bank.

Upon an announcement by an issuer regarding the activation of a conversion mechanism, under which the bond security will be converted to equity shares, the bond security shall be removed from all indexes which do not have an eligible criteria for equity shares.

Securities Added of Demerger

The result of a Demerger is the creation of new company through the sale or distribution of new shares of an existing business/division of a parent company. Shares of the new company ("Spun-off Company") are distributed to the shareholders of the parent company at a ratio established by the parent company. In these events the Spun-off Company is added to indexes that include the parent company. On most cases, there will not be an Index Divisor adjustment.

Security Replacings

Sometimes a company may change its listed shares, as a result of a new share class listing, a merger which the acquired company's share is the one that will be listed instead of the current acquiring company share or as of a new bond issue which is exactly the same as the one listed. In these events, if the iINDEX Research Indexes Committee determines the replacing security meets all criteria, the current security will be replaced in the index with the new security.

Liquidity Rules for Inclusions of Corporate Bonds

The liquidity of corporate bonds and the ability to trade them defers from market to market. Therefore, the iINDEX Research Indexes Committee will define liquidity rules which will be applied on inclusions of corporate bonds that meet all eligibility criteria on rebalancing dates. An Israeli corporate bond will be eligible for inclusion if it meets the following rules: A minimum of 50 thousand ILS trading volume (ADTV) on each of the last 10 days prior to cut-off date is required. A minimum of 0.00001 "Trading Volume Speed" on past 6 months prior to cut-off date is required.

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