

Consultation on the Regional Classification of the MSCI Israel Index

DECEMBER 2021

This consultation may or may not lead to the implementation of any or all of the proposed changes in the highlighted or any other MSCI indexes. Consultation feedback will remain confidential. MSCI may publicly disclose feedback if specifically requested by specific market participants. In that case, the relevant feedback would be published together with the final results of the consultation.

Summary

- The MSCI Israel Index was reclassified from Emerging Markets to Developed Markets coinciding with the [May 2010 Semi-Annual Index Review](#) after a [public consultation](#) that began in July 2008.
 - The index was included in the MSCI World Index, the MSCI EAFE Index, and the MSCI Europe & Middle East Index.
- On June 2012, a survey was launched as part of the [MSCI 2012 Annual Market Classification Review](#) requesting feedback on the regional classification of the MSCI Israel Index and whether it should be part of the European investment opportunity set.
 - Based on feedback received from international institutional investors, most of them did not consider Israel to be part of their European investment opportunity set.
 - As a result, MSCI announced as part of the [MSCI 2013 Annual Market Classification Review](#) that Israel's regional classification was to remain unchanged.
- MSCI is now seeking feedback from market participants on whether they still consider the MSCI Israel Index as part of the Middle East investment opportunity set in terms of index inclusion or if it should be regionally classified elsewhere.
- MSCI invites feedback from market participants on or before **January 31, 2022** and will announce the results of the consultation on or before **February 28, 2022**. To participate in the consultation, please provide your feedback through an online survey available on: <https://www.msci.com/consultation-Israel>

Current MSCI Regional Classification

📍 MSCI classifies Israel as Middle East as per the [Index Country Membership](#).

- Israel is the only market classified as Middle East in the MSCI World Index.
- The MSCI Israel Index is not included in the MSCI Europe nor MSCI Pacific Indexes, as it is not classified in these regions.
- However, the MSCI Israel Index is included in the MSCI EAFE and the MSCI Europe & Middle East Indexes, with the latter being launched as part of the discussions with the global investment community in 2010.

Related MSCI Regional Indexes

Index name	Markets
Europe	DM Europe
Europe & Middle East	DM Europe + Israel
Pacific	DM APAC
EAFE	DM Europe + DM APAC + Israel
GCC Countries	EM Middle East + Bahrain + Oman
Arabian Markets Combined	EM Middle East + Bahrain + Jordan + Oman + Egypt + Morocco + Tunisia

Regional Classification*

Europe	<p>DM: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom</p> <p>EM: Czech Republic, Greece, Hungary, Poland, Russia, Turkey</p>
APAC	<p>DM: Australia, Hong Kong, Japan, New Zealand, Singapore</p> <p>EM: China, India, Indonesia, Korea, Malaysia, Philippines, Taiwan, Thailand</p>
Middle East	<p>DM: Israel</p> <p>EM: Kuwait, Qatar, Saudi Arabia, United Arab Emirates</p> <p>FM: Bahrain, Jordan, Oman</p>

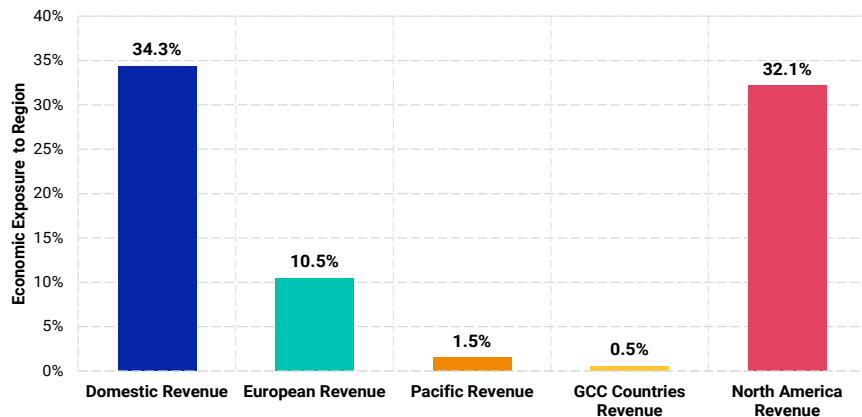
Key Findings

- The MSCI Israel Index has more **economic exposure** to Europe than to the Pacific and Middle East regions, however, the market's largest economic exposure comes from North America.
- The information technology sector index weight has relatively increased in the MSCI Israel Index in recent years, making it more aligned to the Europe and Pacific Indexes in terms of **active sector exposure**.
- When looking at the **regional and country level correlations**, both in USD and local currency levels, Israel is relatively uncorrelated to the Pacific, Europe and EM GCC clusters.
- The 3-year pairwise **rolling correlations** between weekly index returns show a higher absolute correlation and similar co-movements through time between the MSCI Israel Index and the World, Europe and Pacific Indexes, in contrast to the EM GCC Index, both in USD and local currency levels.

Sector Analysis & Economic Exposure

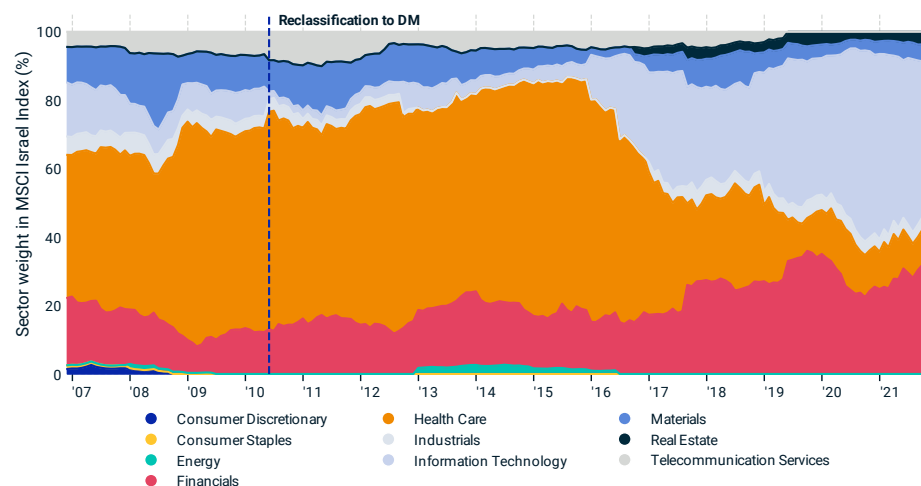
- Health Care's index weight predominance has declined since 2016.
- IT's share has been steadily rising since the same period, while financials preserve the second position by weight in the index.

Source of Revenue of the MSCI Israel Index (November 2021)



Data as of November 30, 2021, using FY2020 consolidated revenues in Israeli Shekels

Evolution of Sector Weights in the MSCI Israel Index



Data from November 30, 2006 to November 30, 2021. Based on index closing weights



Source of revenue comes from MSCI Economic Exposure data. Please see the disclosure at the end of this document regarding simulated and back tested data.

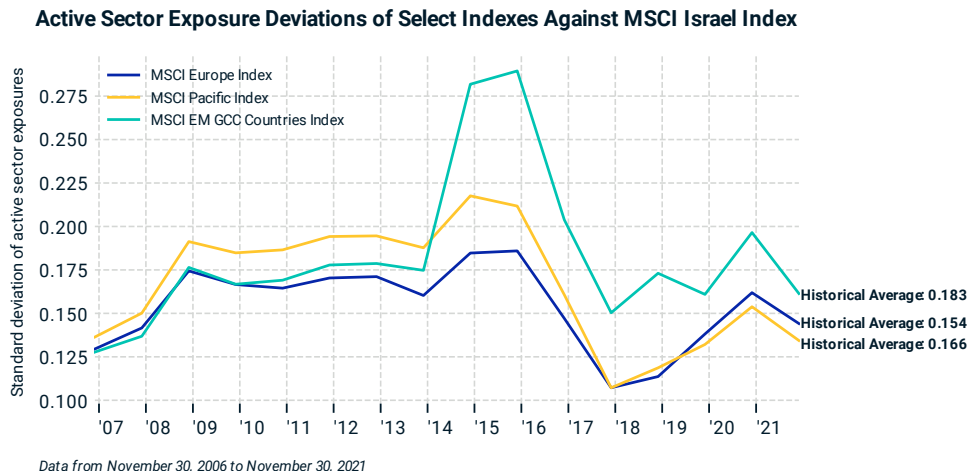
Sector Comparison Analysis

- The below exhibit shows the active sector exposure of the MSCI Israel Index against select regional indexes as of November 30, 2021.

	Sector Weight	Active Sector Exposure		
	MSCI Israel Index	MSCI Europe Index	MSCI Pacific Index	MSCI EM GCC Countries Index
Energy	0.0%	4.6%	1.1%	6.2%
Materials	5.8%	2.1%	0.8%	9.6%
Industrials	3.7%	11.1%	14.1%	-1.4%
Cons. disc.	0.0%	11.7%	15.0%	1.3%
Cons. stap.	0.0%	12.8%	6.0%	1.6%
Health care	8.6%	6.0%	0.7%	-7.5%
Financials	35.3%	-19.6%	-16.9%	21.4%
IT	43.0%	-34.2%	-31.7%	-43.0%
Comm. serv.	0.0%	3.7%	6.6%	10.1%
Utilities	0.0%	4.3%	1.9%	1.7%
Real estate	3.7%	-2.4%	2.3%	-0.1%

Snapshot as of November 30, 2021

- The exhibit on the right shows the yearly standard deviation of all active sector exposures between Israel and each regional index, plotted during the relevant history.



Market Accessibility

Market Accessibility Assessments

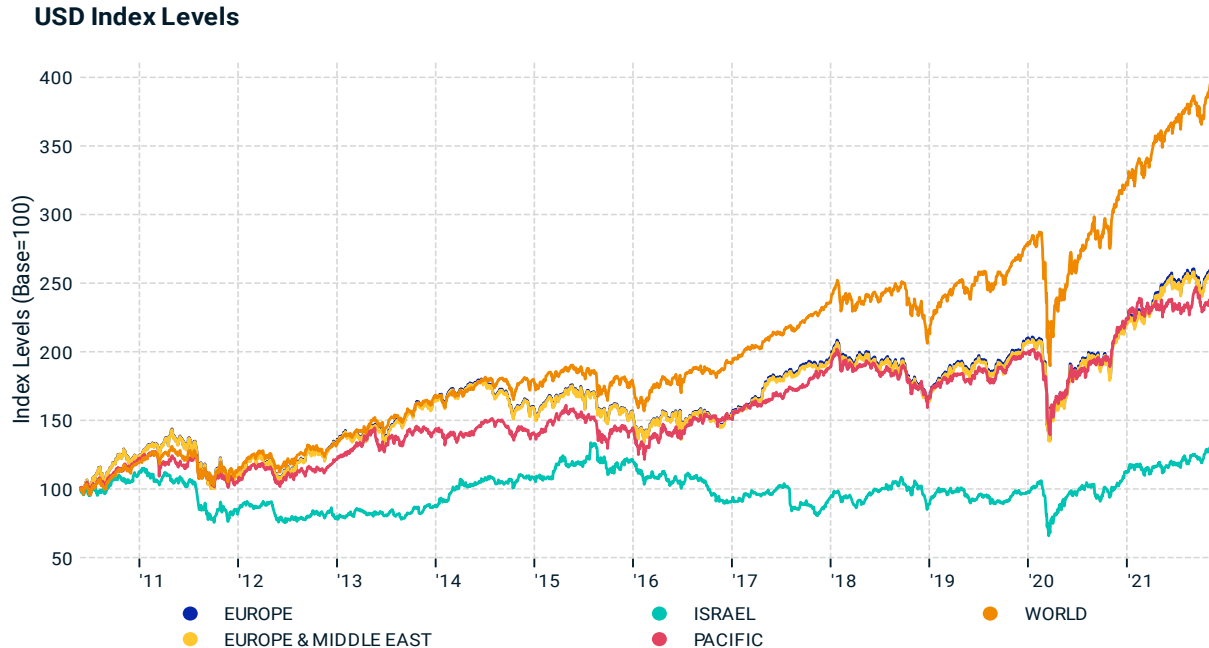
- Israel has a ++ rating for all criteria except for:
 - Information Flow: Corporate actions information is occasionally incomplete or not always disclosed in a timely manner.
 - Clearing and Settlement: The settlement cycle is set at T+1 and the DVP mechanism is different from international standards.
- Trading at the Tel Aviv Stock Exchange occurs from Sunday to Thursday.

Median* Market Accessibility Ratings (June 2021)

Criteria	Israel	EM Middle East	DM Europe	EM Europe	DM APAC (Pacific)	EM APAC
Investor qualification requirement	++	++	++	++	++	++
Foreign ownership limit (FOL) level	++	-/?	++	++	++	+
Foreign room level	++	++	++	++	++	++
Equal rights to foreign investors	++	+	++	+	++	+
Capital flow restriction level	++	++	++	++	++	++
Foreign exchange market liberalization level	++	++	++	++	++	+
Investor registration & account set up	++	+	++	++	++	++
Market regulations	++	++	++	+	++	++
Information flow	+	++	++	+	++	++
Clearing and settlement	+	+	++	+	++	+
Custody	++	+	++	++	++	++
Registry / Depository	++	++	++	++	++	++
Trading	++	++	++	++	++	++
Transferability	++	-/?	++	++	++	+
Stock lending	++	-/?	++	+	++	+
Short selling	++	-/?	++	+	++	+
Availability of investment instrument	++	++	++	++	++	++
Stability of institutional framework	++	+	++	++	++	+

Index Levels (USD Levels)

- Gross USD index levels for the MSCI Israel Index and other select regional indexes are shown below.



Data from May 27, 2010 to November 30, 2021

Local index levels are available in the appendix.
The MSCI Europe & Middle East Index was launched on May 27, 2010.
Please see the disclosure at the end of this document regarding simulated and back tested data.



Key Metrics

Key metrics

	MSCI Israel Index	MSCI Europe & Middle East Index	MSCI Europe Index	MSCI Pacific Index
Total return* (%)	2.1	7.9	8.0	7.2
Total risk (%)	18.9	16.9	16.9	13.6
Return / risk	0.11	0.47	0.47	0.53
Sharpe ratio	0.08	0.44	0.44	0.49
Active return (%)	0.0	5.8	5.9	5.1
Tracking error (%)	0.0	16.4	16.6	15.6
Information Ratio		0.35	0.36	0.33
Historical beta	1.00	0.52	0.52	0.42
Number of constituents***	11	455	444	462
Turnover** (%)	6.5	2.3	2.2	2.3
Price to book***	1.6	1.7	1.7	1.4
Price to earnings***	15.5	16.3	16.3	16.3
Dividend yield*** (%)	2.2	3.4	3.4	2.7

Period: May 31, 2010 to November 30, 2021. * Gross returns annualized in USD ** Annualized one-way index turnover over index reviews *** Monthly averages

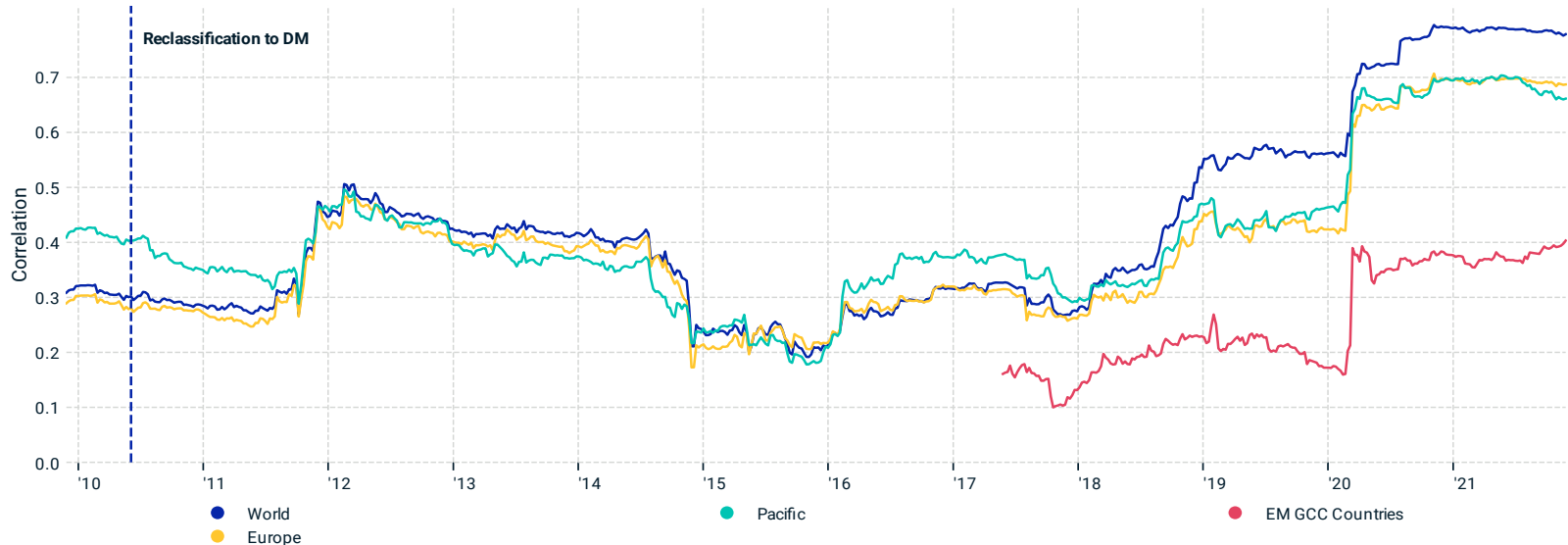


The MSCI Europe & Middle East Index was launched on May 27, 2010.
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MSCI IndexMetrics®.

Rolling Correlations (Local Returns)

- The exhibit below shows the 3-year pairwise rolling correlations between weekly gross local index returns of the MSCI Israel Index against select standard regional indexes.

3-Year Pairwise Rolling Correlations of Israel Against Select Regional Indexes



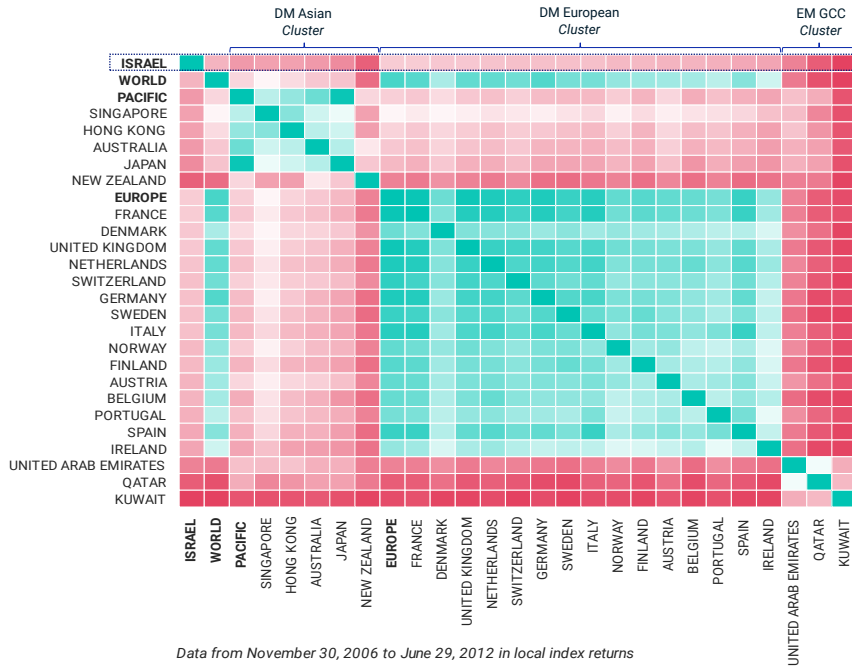
Data from November 30, 2006 to November 30, 2021 in local index returns

The GCC Countries International Indexes were launched on June 4, 2015, with index levels history since June 2014. Rolling correlations in USD index returns are available in the appendix. Please see the disclosure at the end of this document regarding simulated and back tested data.

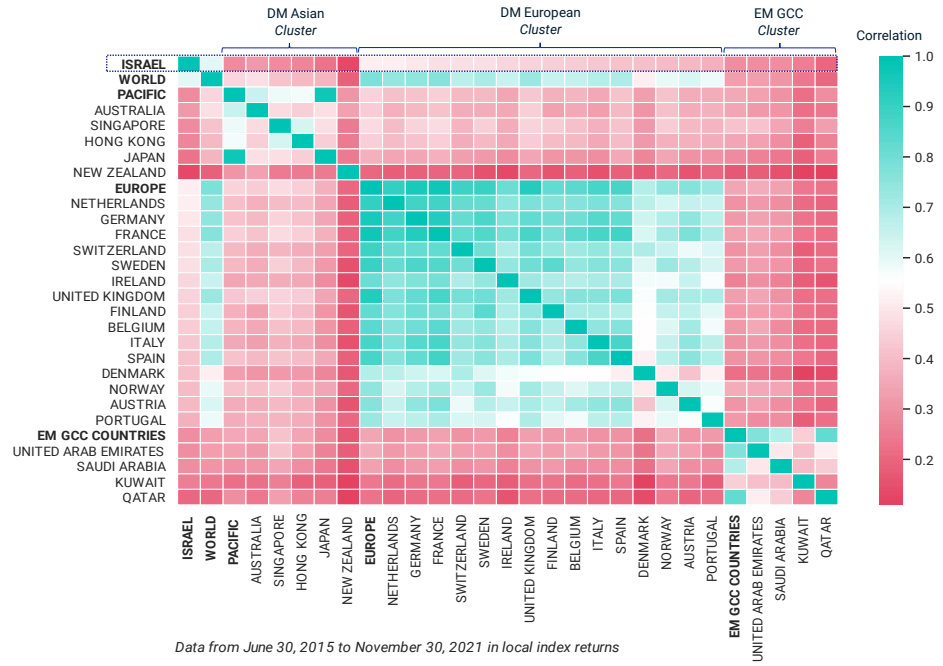


Regional and Country Level Correlations (Local Returns)

- The correlation matrices below depict the correlations in local gross monthly returns for each period between every country and regional standard index.



Data from November 30, 2006 to June 29, 2012 in local index returns



Data from June 30, 2015 to November 30, 2021 in local index returns

The Saudi Arabia and GCC Countries International Indexes were launched in June 2015. Indexes are ordered from highest to lowest within their region depending on their correlation level with the MSCI Israel Index. For simplicity, market classifications as of December 2021 were historically applied for the analysis. Regional and country correlations in USD index returns are available in the appendix. Please see the disclosure at the end of this document regarding simulated and back tested data.

Discussion Points

- From an investment opportunity set perspective, how do you view Israel's regional classification in terms of index inclusion? As part of the Middle East, European, Asian or other investment opportunity sets?
- In general, how do you consider regional classifications? In terms of geographical proximity, shared macroeconomic characteristics, or other?
- Should MSCI change the index regional classification for the MSCI Israel Index?

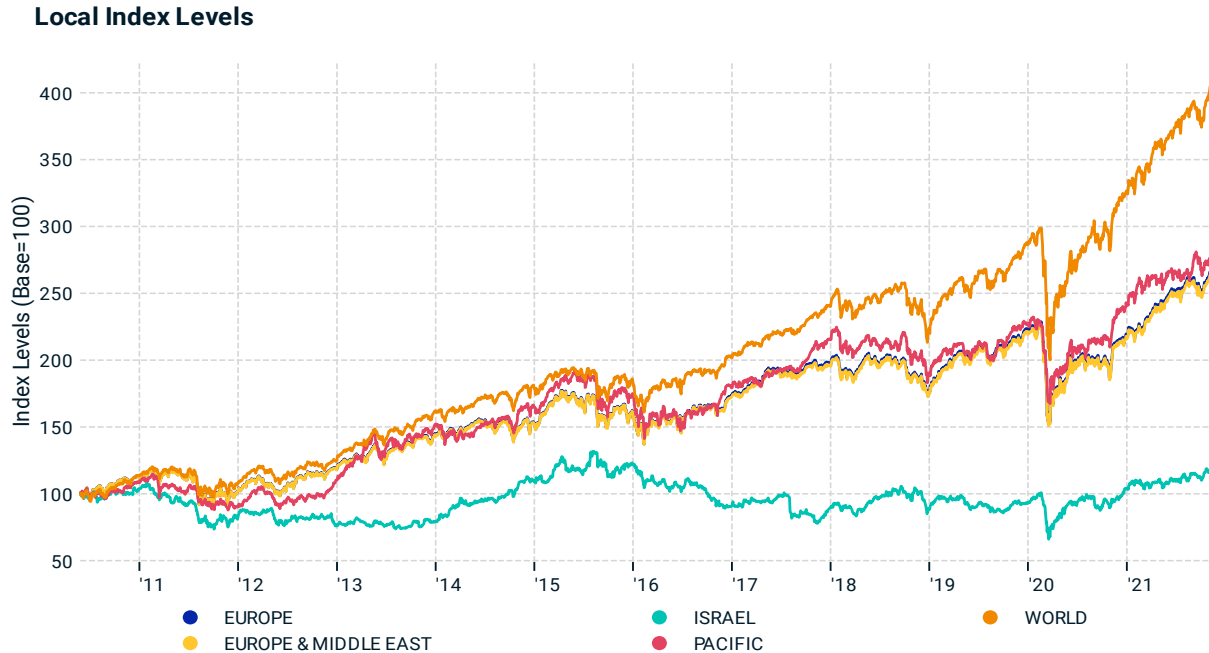
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Appendix



Index Levels (Local Levels)

- Gross local index levels for the MSCI Israel Index and other select regional indexes are shown below.



Data from May 27, 2010 to November 30, 2021

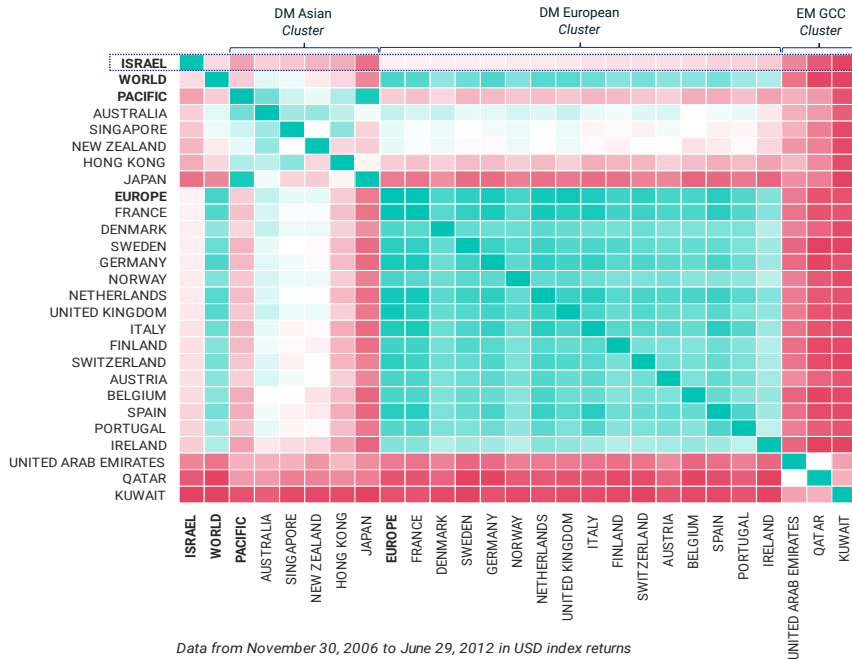


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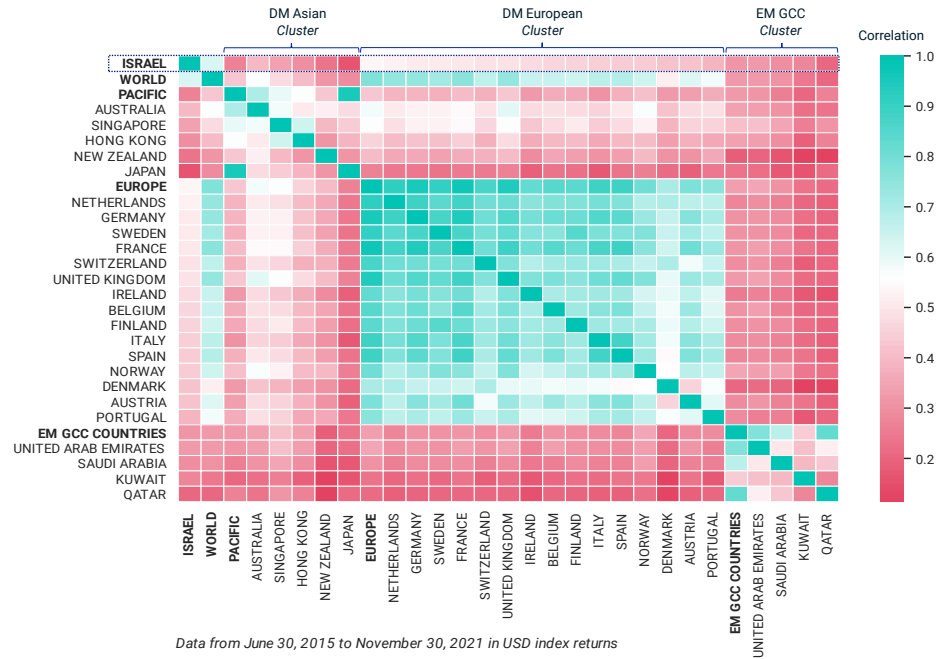
Information Classification: GENERAL

Regional and Country Level Correlations (USD Returns)

- The correlation matrices below depict the correlations in USD gross monthly returns for each period between every country and regional standard index.



Data from November 30, 2006 to June 29, 2012 in USD index returns



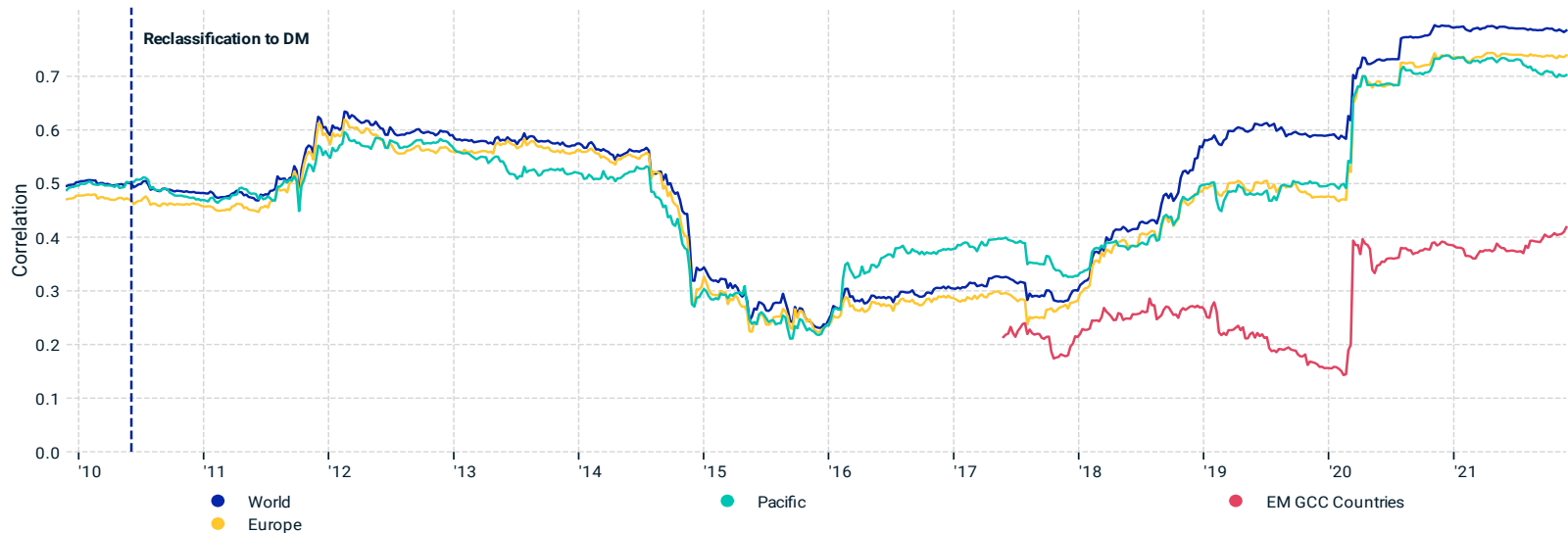
Data from June 30, 2015 to November 30, 2021 in USD index returns

The Saudi Arabia and GCC Countries International Indexes were launched in June 2015. Indexes are ordered from highest to lowest within their region depending on their correlation level with the MSCI Israel Index. For simplicity, market classifications as of December 2021 were historically applied for the analysis. Please see the disclosure at the end of this document regarding simulated and back tested data.

Rolling Correlations (USD Returns)

- The exhibit below shows the 3-year pairwise rolling correlations between weekly gross USD index returns of the MSCI Israel Index against select standard regional indexes.

3-Year Pairwise Rolling Correlations of Israel Against Select Regional Indexes



Data from November 30, 2006 to November 30, 2021 in USD index returns

The GCC Countries International Indexes were launched on June 4, 2015, with index levels history since June 2014. Rolling correlations in local index returns are available in the appendix. Please see the disclosure at the end of this document regarding simulated and back tested data.



Evolution of the MSCI Israel Index

- In 2021, the predominant sector is IT, with a weight of 37.3%, followed by Financials with 31.4%.
- The index now has 7 US foreign listings, as the market met the foreign listing materiality requirement in the May 2015 Semi-Annual Index Review.

Security Name	Index Segment	Index Sec FIF Mcap*	Index Weight	Sector
TEVA PHARMACEUTICAL IND	Large	37,838	60.73%	Health care
ISRAEL CHEMICALS	Large	4,715	7.57%	Materials
BANK HAPOALIM	Large	3,591	5.76%	Financials
BANK LEUMI LE-ISRAEL	Large	3,480	5.59%	Financials
BEZEQ ISRAEL TELECOM.	Large	3,321	5.33%	Comm. serv.
NICE SYSTEMS	Mid	2,026	3.25%	IT
ISRAEL CORP	Large	1,536	2.47%	Materials
ISRAEL DISCOUNT BANK	Mid	1,176	1.89%	Financials
ELBIT SYSTEMS	Mid	1,001	1.61%	Industrials
MIZRAHI TEFAHOT BANK	Mid	996	1.60%	Financials
CELLCOM ISRAEL (IL)	Mid	937	1.50%	Comm. serv.
DELEK GROUP	Mid	861	1.38%	Industrials
PARTNER COMMUNICATIONS	Mid	825	1.32%	Comm. serv.

Data as of December 1, 2011

Security Name	Index Segment	Index Sec FIF Mcap*	Index Weight	Sector
NICE	Mid	18,713	15.43%	IT
BANK LEUMI LE-ISRAEL	Mid	14,239	11.74%	Financials
CHECK POINT SOFTW (USD)	Large	11,702	9.65%	IT
BANK HAPOALIM	Mid	11,270	9.29%	Financials
TEVA PHARMA IND ADR	Mid	9,018	7.43%	Health care
WIX.COM	Large	8,206	6.77%	IT
KORNIT DIGITAL	Mid	7,390	6.09%	Industrials
ISRAEL DISCOUNT BANK	Mid	7,258	5.98%	Financials
CYBERARK SOFTWARE (USD)	Mid	6,681	5.51%	IT
ICL GROUP	Mid	6,308	5.20%	Materials
MIZRAHI TEFAHOT BANK	Mid	5,261	4.34%	Financials
AZRIELI GROUP	Mid	3,951	3.26%	Real estate
ELBIT SYSTEMS	Mid	3,933	3.24%	Industrials
FIVERR INTERNATIONAL	Mid	3,856	3.18%	Cons. disc.
INMODE	Mid	3,505	2.89%	Health care

Data as of December 1, 2021

Risk and Return Metrics Definitions

Risk and return metrics

	Definition
Total return (%)	Annualized index return
Total risk (%)	Annualized index risk (based on monthly returns)
Return / risk	Ratio of annualized return and annualized risk
Sharpe ratio	The Sharpe ratio is computed as the ratio of index excess returns and annualized total risk where excess return is defined as the difference between the annualized total index return and the risk free rate corresponding to the currency of analysis
Active return (%)	Difference of the annualized index return and the annualized benchmark return
Tracking error (%)	Annualized standard deviation of active returns (based on monthly data)
Information Ratio	Ratio of index active return and tracking error (based on monthly data)
Historical beta	Beta is a measure of the level of co-movement between an index and its benchmark. It is calculated as the correlation between index and benchmark returns multiplied by the ratio of total risk of the index and its benchmark (based on monthly data)
Average number of constituents	Average number of constituents (based on monthly data)
Turnover (%)	Annualized Average one-way index turnover over rebalancing dates
Price to book	Price to book harmonic average (based on monthly data)
Price to earnings	Price to earnings harmonic average (based on monthly data)
Dividend yield (%)	Dividend yield (%) average (based on monthly data)

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