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Provisional Directive for Mutual Fund Managers on Securities Traded on the Institutional (Retzef) Trading System

Directive under Section 65A of the Joint Investments in Trust Law 5754-1994

Explanatory Note

The Tel Aviv Stock Exchange's trading system for institutional investors ("Retzef Mosdi'im" or "Retzef") commenced operations in 2004, under ISA approval. On the Retzef Mosdi'im trading system, bonds that were not issued to the public are traded in a manner similar to publicly issued bonds. Trading on the Retzef Mosdi'im system is available to accredited investors, as defined by Section 15A(b)(1) and (2) of the Securities Law 5728-1968, a category that includes institutional investors and other types of investors ("Institutional Investors"), and only through TASE members.

In May 2020, the ISA expanded trading on the Retzef Mosdi'im system to include securities that are not debt instruments, and securities of corporations that are not companies, may be traded in this system. TASE By-Laws were amended accordingly.

Until today, as a rule, mutual fund managers could buy and hold securities listed for trade on the TASE, and hold untraded assets such as rights and obligations under swap transactions and forward contracts, options and futures, and bonds listed in the Institutional Trading System, provided that they meet several conditions defined in the regulations, including restrictions on the bond's credit rating and the requirement that the bonds must be non-convertible. Until today, trading in equity instruments on the Retzef Mosdi'im was not permitted. The recent increase in May 2020 in the range and diversity of the securities that may be traded on the Retzef Mosdi'im system therefore constitutes an opportunity for mutual fund managers to buy and hold a more diverse range of securities in their managed funds.

The features of the Retzef Mosdi'im system and the securities traded on it do, however, pose risks, which include, but are not limited to the following: The securities traded on this system

typically have a low daily trading volume, which affects their marketability; The information available about these securities is extremely limited, as issuers are under no requirement to publish a prospectus or file periodic reports to the ISA and the TASE, and; the issuers are subject to limited regulatory oversight.

The aim of this Provisional Directive is to define rules for mutual funds that buy and hold securities traded on the Retzef Mosdi'im system, to supplement that current rules defined in the Assets Regulations, to ensure that these rules are consistent with the expanded basket of products now available on the Retzef Mosdi'im system. This Provisional Directive defines limits on the maximum amounts of securities traded on this system that mutual funds may hold, and applies to all securities, despite anything to the contrary in the provisions of the Assets Regulations. Closed-end funds and fixed date funds that are subject to an early notice requirement of 14 days prior to the redemption date, the maximum permitted amounts of securities traded on the Retzef they may hold is twice the maximum amounts permitted to the remaining funds.

For the sake of clarification, expanding investment opportunities on the Retzef Mosdiim system to include securities is taking place concurrently with the commencement of the Directive for mutual fund managers on risk management and clarification of mutual fund managers' duty to maintain orderly procedures and proper organizational culture for identifying and managing risks.

In this Directive:

“The Law” - Joint Investments in Trust Law 5754-1994;

“Retzef Mosdi'im system” or “Retzef system” – as defined in the Assets Regulations;

“Institutional Securities” – assets traded on the Retzef system;

“Fixed Date Fund” - as defined in Section 47 of the Law;

“Assets Regulations” – Joint Investments in Trust Regulations (Assets that May be Bought and Held by Funds and their Maximum Amounts) 5755-1994.

1. Notwithstanding the provisions of Section 59 of the Law and Regulations 2(6), 2(6A), 5(c), and 8(A1) of the Assets Regulations, fund managers may purchase and hold Institutional Securities in funds under their management, in the following amounts, subject to the following conditions:
 - a. The Institutional Securities of any corporation that are held by a fund may not exceed 2.5% of the fund's net asset value;
 - b. Notwithstanding the provisions of sub-section (a) above and Section 3(b) below, in fixed date funds and closed-end funds that are not tracker funds, and that are

subject to an early notice requirement of 14 days in advance of the redemption date, fund managers may buy and hold Institutional Securities in amounts that exceed those set forth in sub-section (a), provided that the Institutional Securities of any corporation that are held by such fund does not exceed 5% of the fund's net asset value, and the total Institutional Securities plus the total securities set forth in Regulation 8(a) of the Assets Regulations that are held by the fund does not exceed 20% of the fund's net asset value.

2. For the purpose of Regulations 8(a) and (a2) of the Assets Regulations, and notwithstanding the provisions of Regulations 8(a) and (a1) of the Assets Regulations in the matter of structured bonds, Institutional Securities held by funds other than the funds set forth in Section 1(b) shall be deemed securities as defined in Regulation 2(6) of the Assets Regulations.
3. Notwithstanding the above, fund managers may not buy or hold Institutional Securities on behalf of these funds:
 - a. Tracker funds;
 - b. Funds where the securities that may be bought and held on their behalf are defined by law other than under Regulation 2 of the Assets Regulations.
4. This Directive will come into force on the date of its publication on the ISA website and will remain in effect for 18 months.

Transitional provision

Fund manager may continue to hold bonds of a specific corporation traded on the Retzef Mosdi'im, if such bonds were duly purchased and held by the fund before the Directive comes into force, even if such bonds constitute more than 2.5% of the fund's NAV, provided that the fund manager believes that it is in the interest of the fund to do so, and may do so until December 31, 2020, provided that no additional securities of that corporation are purchased on the Retzef Mosdi'im.