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Joint Investment Trust Regulations (Classification of Funds for Publications), 5768 - 2007

By virtue of my authority under Sections 72(a), 73(c1) and 131(a) of the Joint Investment Trust Law -1994 (hereinafter, "the Law"), in accordance with a proposal of the ISA and with the approval of the Knesset Finance Committee, I enact the following regulations:

- Interpretation
1. In these regulations –
“Foreign fund of funds”, “Israeli fund of funds” and “Held fund” – as their meaning in the Joint Investment Trust Regulations (Assets that Funds are Entitled to Buy and Hold and Their Maximum Proportion) -1994;

“Estimated annual rate of return” – a datum which expresses the anticipated annual rate of return of a fund, which was calculated in the manner generally accepted for its measurement that is based on the composition of the fund’s assets and liabilities on the Price Calculation Day preceding the date set for a unit offering;

“Maximum exposure to shares level” – a value which expresses a fund’s maximum relative exposure to shares, in terms of absolute value, according to the fund’s investment policy, as follows: 0- no exposure, 1- up to 10 percent, 2- up to 30 percent, 3-up to 50 percent, 4-up to 120 percent, 5-up to 200 percent, 6 – above 200 percent exposure;

“Maximum exposure to foreign currency level” – a value which expresses a fund’s maximum relative exposure to foreign currency, in terms of absolute value, according to the fund’s investment policy, as follows: 0- no exposure, A- up to 10 percent, B- up to 30 percent, C-up to 50 percent, D-up to 120 percent, E-up to 200 percent, F – above 200 percent exposure;

“Exposure level” – the value of an asset held in a fund, in addition to the value of assets and liabilities emanating from derivatives activity in that asset, set in a manner generally accepted for its measurement;

“Characteristic heading” – a heading selected from a list of characteristic headings published on the ISA, URL www.isa.gov.il, under Section 73(c1)(2) of the Law;

“Secondary heading” – a characteristic heading for a group of funds which is part of a group classified by a primary heading;

“Overall heading” – a characteristic heading in a publication for a group of funds;

“Primary heading” - a characteristic heading for a group of funds which is part of a group classified under an overall heading;

“Foreign currency” – including an asset or liability, the value of which is either denominated in a foreign currency or is linked to changes in the exchange rate of a foreign currency;

“Foreign fund manager” – as defined in Section 113A of the Law;

“Shares” – including commodities and other assets designed to replicate the results of an investment in shares or fluctuations in share price indices or results negatively correlated to these aforementioned results, including securities exercisable or convertible to shares, which according to the assessment of the fund manager, their terms or conversion or exercise ratio cause their prices to fluctuate in a manner similar to those of the aforementioned shares;

“Fund’s benchmark asset” – an index or asset, for which, according to the assessment of the fund manager, it is expected that changes to it will have the greatest impact on the returns of the funds that can be classified under the characteristic heading under which the fund is classified, as indicated by the

characteristic heading; if it is impossible to conclude from the fund's characteristic heading what the fund's benchmark asset is, its benchmark asset will be an index or asset for which, according to the assessment of the fund manager, it is expected that changes to it will have the greatest impact on the returns of the fund; for this purpose "the characteristic heading under which the fund is classified" – the secondary heading, the primary heading or the overall heading, according to the order of their appearance, from which it is possible to deduce the identity of the fund's benchmark asset;

"Commodities" – including assets designed to replicate the results of an investment in commodities or commodity price indices or results negatively correlated to these aforementioned results;

"Fund's standard deviation" – The generally accepted measure for calculating the volatility of a fund's rate of return, calculated in an identical manner for all the funds in a publication and covering the same time period;

"Fund classification" – Each item of information stipulated in Regulation 3, which is included in a publication, excluding data regarding the fund's standard deviation and rates of return;

"Derivatives activity" – the holding and writing of options and futures and the short sale of securities designed to replicate the results of an asset for which an obligation is undertaken or fluctuations of indices for which an obligation is undertaken or embedded in them or results negatively correlated to these aforementioned results;

"Exposure profile" – a pair of alphanumeric characters that will constitute part of the fund name which includes a character expressing the fund's maximum exposure to shares level and to its right, a character expressing the fund's maximum exposure to foreign currency level;

“KAPAM” – as defined in the Joint Investment Trust Regulations (Assets that Funds are Entitled to Buy and Hold and Their Maximum Proportion), 1994;

“Unlimited foreign securities fund” - as defined in Joint Investment Trust Regulations (Buy and Sell Prices of Fund Assets and Fund Assets Value), 1994;

“Foreign fund” – as defined in Section 113A of the Law, the units of which are offered to the public in Israel;

“Inverse fund” – a fund which, in its investment policy, sets as its mission the attainment of results negatively correlated to the relative price changes of its benchmark asset;

“Fund for foreign investments” and the “Key Currency rate” - “Mutual fund for foreign investments” and “Key Currency rate”, as defined in the Income Tax Regulations (Calculation of the Inflationary Component in the Sale of Mutual Fund Units), 2003;

“Tracking fund” – a fund which in its investment policy sets the goal of replicating as close as possible the returns of its benchmark asset;

“Leveraged fund” – as defined in the Joint Investment Trust Regulations (Options, Futures and Short Sales), 2001;

“Exposure rate” – the level of exposure as the proportion of a fund’s net asset value;

“Yield Calculation Regulations” - Joint Investment Trust Regulations (Rate of Return), 1995.

2. (a) In a publication under Section 73 (c1) of the Law (in these regulations – “publication”), the funds will be classified in groups according to characteristic headings, divided into groups classified

by an overall heading, a primary heading and a secondary heading, each fund according to the characteristic heading selected by the fund manager; the funds classified under a characteristic heading, will be sorted in ascending order according to the fund's maximum exposure to shares level, and subsequently in alphabetical order, while differentiating between groups of funds classified by different maximum exposure to shares levels.

(b) The fund manager will classify each fund under its management according to the most appropriate characteristic heading, taking into consideration the fund's investment policy¹.

(c) When a fund classification is set for the first time, the fund manager will submit a report to the ISA and the stock exchange no later than two days following the prospectus date, which includes information stipulated in Regulation 3, excluding data concerning the fund's rates of return and standard deviation.

(d) If a fund's classification is changed, the fund manager must submit a report as stipulated in sub-regulation (c), no later than two days prior to the change taking effect, stating the quality of the change.

(e) sub-regulations (b), (c) and (d) will apply to foreign fund managers and foreign funds as well, however sub-regulation (c) will be read as if, instead of "the date of the prospectus", "the date of the publication of the foreign fund prospectus and annex as defined in Regulation 4 of the Joint Investment Trust Regulations (Foreign Fund Offerings) – 2016" is written.

¹ A fund manager required to change a characteristic heading of a fund under its management under Regulation 2(b) as amended in Regulation 2(1) of these regulations, will do so no later than the date it published its main prospectus or the fund's annual report, or from the date it conducted another change in fund's classification or its investment policy, the earlier of the above.

2A In a foreign fund publication, the funds will be grouped according to characteristic headings, divided into groups categorized by an overall classification heading, primary headings and secondary headings, each fund according to the characteristic heading selected by the foreign fund manager and according to the currency in which the fund units are denominated. The funds will then be sorted according to name, in alphabetical order.

Information to be included

3. (a) The following information will be included in a publication:
- (1) the name of the fund and the fund's Exchange number;
 - (2) the name of the fund manager;
 - (3) the fund's characteristic heading;
 - (4) the fund's exposure profile, with an explanation of it, including a legend to the various maximal levels of the fund's exposure to shares and foreign currency; for this purpose the designation of an exposure profile of an Israeli fund of funds – the maximum exposure to shares level and the exposure to foreign currency level will be determined according to the maximum exposure level, which is the weighted average of the maximum exposure levels of each one of the funds held in the fund of funds; for the purpose of determining the exposure profile of a foreign fund of funds – holdings in a held fund will be considered a foreign currency holding; should the investment policy of the held fund indicate that its maximum exposure to shares may exceed fifty percent, the holdings in it will be considered share holdings;
 - (5) the NIS rate of return for all funds; for this purpose "NIS rate of return" – as calculated under the provisions of Regulation 4 of the Rate of Return Calculation Regulations; should the fund units be denominated in a foreign currency – foreign currency-based returns will also be displayed as per the formula for calculating dollar-based returns stipulated in Regulation 5 of the Rate of Return Calculation Regulations, *mutatis mutandis* for the currency in which the fund units are denominated (hereafter: "dollar-based return formula").
 - (6) the fund's standard deviation;
 - (7) the annual compensation rate of the foreign fund

manager;

(8) In a publication pertaining to KAPAM, the estimated annual rate of return known at the date of publication will also be stated, with a statement in bold font, that the estimated annual return is calculated and updated on a weekly basis or a monthly basis, as applicable, depending on the composition of fund's assets on the Price Calculation Day preceding the date set for a unit offering, and that this figure is only an estimate of the anticipated annual return of the fund.

(b) The fact that the fund is one or more of the following will be stated in a publication:

- (1) an Unlimited foreign securities Fund ;
- (2) a tracking fund;
- (3) a leveraged fund;
- (4) an inverse fund;
- (5) a fixed date fund, as defined in Section 47(a) of the Law;
- (6) a dollar-denominated fund;
- (7) a fund for foreign investments; for this fund – its Key Currency rate will also be stated;
- (8) a KAPAM;
- (8) the fund load, if a load is charged¹.

(b1) In a publication regarding foreign funds the following details shall be included:

- (1) the name of the foreign fund in English and its Exchange number, if so assigned and if not assigned – the fund number on an international information distribution system which includes information about mutual funds;
- (2) the name of the foreign fund manager;
- (3) the characteristic heading of the foreign fund;
- (4) the currency in which the foreign fund units are denominated;

¹ The duplication in numbering stems from the original Hebrew version.

- (5) the foreign currency-based rate of return in the currency in which fund units are denominated, calculated according to the dollar-based Rate of Return formula, for uniform periods for all funds;
- (6) the NIS Rate of Return of the foreign fund, as defined in Regulation 4 of the Rate of Return Calculation Regulations for uniform periods for all funds;
- (7) the foreign fund's standard deviation;
- (8) the annual compensation rate of the foreign fund manager;
- (9) the foreign fund load, if a load is charged.

(b2) The following footnote will be added to all publications under sub-regulation (b1): "neither foreign funds nor foreign fund managers are subject to the laws and regulations applied to mutual funds in Israel."

(c) Neither the fund's rate of return nor its standard deviation will be presented in a publication for periods in which a material change in the fund's investment policy has been made or during which or part of which the fund did not operate; the reason for lack of presentation will be stated in a footnote; should the investment policy be changed in a manner which necessitates the substitution of at least thirty percent of the fund's assets, the period of forty five days following the day the change takes effect will be considered the date on which the change in investment policy occurred; and, if the fund manager undertook an obligation in the report to adjust the fund's assets to the new investment policy during a period shorter than forty five days – this period; for this purpose, "fund" and "fund manager" – including "foreign fund" and "foreign fund manager" respectively.

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| Change in the list of characteristic headings | 4. | For each change in the list of characteristic headings, the ISA will issue an announcement to the fund managers and the foreign fund managers fourteen days prior to the date of the said change. |
| Effective date | 5. | These regulations will come into effect starting on 31 December, 2007. |

Interim provisions 6. A fund manager will submit a report classifying all funds under its management no later than 17 December 2007, as mandated in Regulation 2(b) and including information as stipulated in Regulation 3, excluding data on the fund's rate of return and standard deviation.

30 October 2007

Roni Bar-On
Minister of Finance