



Index Methodology Guide

BlueStar ISRAEL GLOBAL TECHNOLOGY™ INDEX

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Chapter 1. Introduction

This document summarizes the methodology and rules used to construct, calculate, and maintain the **BlueStar Israel Global Technology Index**.

The **BlueStar Israel Global Technology Index ('BIGTech')** provides a benchmark for investors interested in tracking the broadest and deepest universe of publicly-traded Israeli technology companies irrespective of listing venue. The index is constructed using BlueStar Indexes' proprietary methodology and database of Israeli and Israel-linked companies, and utilizes BlueStar's broad-based definition of technology, which includes information technology, bio-tech, agri-tech and defense technology. **BIGTech** includes the largest and most liquid companies as well mid-cap and small-cap companies that display sufficient liquidity for global investors.

Chapter 2. Index Description

The **BlueStar Israel Global Technology Index (BIGTech)** has been created to provide investors with a product allowing them to quickly take advantage of event-driven news, technology industry news and cycles, and long term economic trends as the technology sector of the Israel economy evolves. **BIGTech** provides a benchmark for investors interested in tracking the broadest and deepest universe of publicly-traded Israeli technology companies irrespective of their listing venue. The index is constructed using BlueStar Indexes' proprietary methodology and database of Israeli and Israel-linked companies, and utilizes BlueStar's broad-based definition of technology, which includes not just information technology, but also bio-tech, agri-tech and defense technology. **BIGTech** includes the largest and most liquid companies as well mid-cap and small-cap companies that display sufficient liquidity for global investors.

The Index uses a modified capitalization-weighted allocation methodology. Index components are reviewed semi-annually for eligibility, and the weights are re-set according to that distribution.

Companies may not apply, and may not be nominated, for inclusion in the Index. Companies are added or removed by BlueStar and the International Securities Exchange (ISE) based on the methodology described herein. Whenever possible, BlueStar and ISE will publicly announce changes to the index on its website at least five trading days in advance of the actual change.

The Index is calculated and maintained by Standard & Poor's based on a methodology developed by BlueStar Indexes and ISE.

The **BlueStar Israel Global Technology Index** is calculated on a price and total return basis. The price return and total return indexes are calculated in real-time and disseminated via CME Group, Inc (CME) and market data vendors every day the Israeli and U.S. equity markets are open, respectively. Both sets of values are freely available on ISE's website, www.ise.com and/or market data vendors.

Chapter 3. Index Construction

This chapter outlines and defines the key steps in constructing and calculating the index, including: eligibility requirements, formulas, initial component selection, and special adjustments.

3.1. Base Date and Value

The **BlueStar Global Index** has the following base dates and values:

Index	Base date	Base value
BlueStar Israel Global Technology Index	December 31, 2003	100

3.2. Component Eligibility Requirements

All of the following requirements must be met in order for a company to be eligible for inclusion:

1. The component security issuers are those generally considered to be “Israeli technology companies.” This definition, supported by BlueStar Indexes’ proprietary research, is based on a range of factors including domicile, country of company formation/founding, primary management operational and/or R&D facility, tax status, revenue and location of employees. The BlueStar Index Advisory Committee meets semi-annually to review company eligibility.
2. The component security must not be listed on an exchange in a country which employs restrictions on foreign capital investment such that those restrictions render the component effectively non-investible, as determined by the ISE and BlueStar Indexes.
3. Component securities must be exchange listed. Securities that trade over-the-counter (OTC) area not eligible.
4. Must be an operating company and not a closed-end fund, exchange-traded fund (ETF), Exchange Traded Note/“Teudat Sal” (ETN), or investment vehicle (such as CEF or REIT).

The following market capitalization, liquidity and weighting concentration requirements must also be satisfied:

1. Each component security has a float-adjusted market capitalization of at least \$60 million USD equivalent.
2. Each component must have a minimum 6-month average daily value traded of \$200,000 USD equivalent.
3. No single component stock represents more than 10.0% of the weight of the index. Should a component represent greater than 10.0% of the weight of the index, the weight shall be modified such that it represents no more than 10.0% of the index. The cumulative weight of all components with an individual weight of 5% or greater do not in the aggregate account for more than 50% of the weight of the index. This particular requirement will be satisfied at the conclusion of each of the indexes semi-annual rebalance periods.

The ISE and BlueStar will, in most cases, use the quantitative ranking and screening system described herein. However, subjective screening based on fundamental analysis or other factors may be used, if in the opinion of the ISE and BlueStar certain components should be included or excluded from the index.

3.3. Dividend Treatment

The price indexes do not take normal dividend payments into account. Dividends are accounted for by reinvesting them on a daily basis. **BlueStar Israel Global Technology Index** uses the ex-dividend date to determine the total daily dividends for each day. Special dividends require an index divisor adjustment (as described in Chapter 4) to prevent such distributions from distorting the price index.

3.4. Index Equations

The price indexes are calculated using the following basic equations:

$$\text{Index Value} = \frac{\text{Combined Market Value of Assigned Shares of All Components}}{\text{Divisor}}$$

$$\text{or } I_{(t)} = \frac{\sum_{i=1}^n P_{i(t)} \times S_{i(t)}}{D_{(t)}}$$

where:

$I_{(t)}$ = Index value at time (t)

$D_{(t)}$ = Divisor at time (t)

n = Number of stocks in the index

t = The time the index is calculated

$P_{i(t)}$ = Price of stock (i) at time (t)

$S_{i(t)}$ = Number of assigned shares of stock (i) at time (t)

The initial index divisor is determined using the following equation:

$$D_{(0)} = \frac{\sum_{i=1}^n P_{i(0)} \times S_{i(0)}}{I_{(0)}}$$

where:

$I_{(0)}$ = Base index value at base date

$D_{(0)}$ = Initial divisor at base date

n = Number of stocks in the index

$P_{i(0)}$ = Closing price of stock (i) at base date

$S_{i(0)}$ = Number of assigned shares of stock (i) at base date

Assigned shares are the number of shares needed for each component such that the component conforms to the weighting distribution outlined in Chapter 3.5.

Changes to the index composition require divisor adjustments in order to retain index continuity before and after specific events (as outlined in Chapter 4 – Index Maintenance). Divisor changes are made according to the following formula:

$$D_{(t+1)} = D_{(t)} \times \frac{\sum_{i=1}^n P_{i(t+1)} \times S_{i(t+1)}}{\sum_{i=1}^n P_{i(t)} \times S_{i(t)}}$$

where:

$D_{(t+1)}$ = Divisor after changes are made to the index

$P_{i(t+1)}$ = Price of each stock after index changes

$S_{i(t+1)}$ = Number of assigned shares of each stock after index changes

$D_{(t)}$ = Divisor before changes are made to the index

$P_{i(t)}$ = Price of each stock prior to index changes

$S_{i(t)}$ = Number of assigned shares of each stock prior to index changes

3.5. Initial Component Selection

The following steps are taken to select the initial components for the **BlueStar Israel Global Technology Index**:

1. Establish total population of exchange listed common shares and depository receipts for companies defined as Israeli per section 3.2.
2. Remove companies that do not meet the Component Eligibility Requirements of Chapter 3.2.
3. If a component has multiple share classes, include the most liquid issue for that company (using average daily value traded during the prior six-month period) and remove the remaining classes.
4. Rank each component in descending order by market capitalization
5. Adjust each component's weighting to a float adjusted market capitalization weight using the following equation:

$$W_i = \frac{MCap_i}{\sum_{i=1} (MCap_i)}$$

where:

W_i = Weight of each component

$Mcap_i$ = Market Capitalization of component (i)

6. Set liquidity thresholds:
 - a. Calculate three month average daily value traded for each component based on daily closing price and number of shares traded
 - b. Set percentage of three month average daily value traded threshold to 1000%
 - c. Set investment threshold to \$100 million
7. Determine component percentage of average daily value traded given the investment threshold and the calculated weight of the component using the following equation:

$$ADV_{\%i} = \frac{W_i \times \$100,000,000}{ADV_{\$i}}$$

where:

W_i = Weight of each component

$ADV_{\%i}$ = Percentage of three month average daily value traded for component i

$ADV_{\$i}$ = Three month average daily dollar value traded for component i

8. If component percentage of average daily value traded is less than the percentage average daily value traded threshold then that weight does not need to be adjusted.
9. If component percentage of average daily value traded is greater than the percentage average daily value traded threshold then assign new component weight such that percentage of average daily value traded is equal to the percentage average daily value traded threshold using the following steps:
 - a. Calculate component weight based on the investment threshold and three month average daily value traded threshold using the following equation:

$$W'_i = \frac{1,000\% \times ADV_{\$i}}{\$100,000,000}$$

where:

W'_i = Modified weight of each component

$ADV_{\$i}$ = Three month average daily dollar value traded for component i

- b. Take the aggregate difference between the initial and adjusted weights of those components where percentage of average daily value traded is greater than percentage average daily value traded threshold and distribute evenly among stocks where percentage of average daily value traded is less than percentage average daily value traded threshold using the following equations:

$$W_{adj} = \frac{\sum_{i=1} (W_i - W'_i)}{n'}$$

where:

W_i = Initial weight of each component with percentage of average daily value traded is greater than percentage average daily value traded threshold

W'_i = Modified weight of each component percentage of average daily value traded is greater than percentage average daily value traded threshold

W_{adj} = Adjustment for index weight of component i where the percentage of three month average daily value traded is less than the three month average daily value traded threshold

n' = Number of components with percentage of three month average daily value traded less than the three month average daily value traded threshold

- c. Adjust weight of components with percentage of three month average daily value traded less than the three month average daily value traded threshold using the following equation:

$$W''_i = W_i + W_{adj}$$

where:

W_i = Weight of each component with percentage of three month average daily value traded less than the three month average daily value traded threshold

W''_i = Modified weight of each component with percentage of three month average daily value traded less than the three month average daily value traded threshold

W_{adj} = Adjustment for index weight of component i where the percentage of three month average daily value traded is less than the three month average daily value traded threshold

10. Repeat steps 8 through 10 until all component percentage of average daily value traded is less than or equal to the percentage average daily value traded threshold

Note that the index portfolio does not have a fixed number of stocks and the index attempts to include every stock in the industry that meets the eligibility requirements contained herein.

The index component list is provided in Appendix A.

Chapter 4. Index Maintenance

This chapter describes the circumstances that require index changes, as well as the details on performing those changes.

4.1. Divisor Changes

Changes to the Index composition due to corporate actions or component eligibility changes will require Index Divisor adjustments, as follows:

Component change	Adjustment
Spinoff*	<p>Subtract the following from the price of the parent company:</p> $\left(\frac{\text{Spinoff stock price}}{\text{Share exchange ratio}} \right)$ <p>Adjust the assigned shares such that component's weighting is not changed as a result of the spinoff.</p>
Special Cash Dividend	Subtract special dividend from share price
Rights Offering	<p>Subtract the following from the price of the parent company:</p> $\left(\frac{\text{Price of rights}}{\text{Rights ratio}} \right)$ <p>Adjust the assigned shares such that component's weighting is not changed as a result of the rights offering.</p>

Divisor changes are usually made on the date the corporate action becomes effective. For example, **BlueStar Israel Global Technology Index** uses the ex-dividend date rather than the payment date to determine when making divisor adjustments.

*Special note on Spin-offs: If a company being spun off is only trading on a "when-issued" basis, the "when-issued" price will be used to adjust the parent company's closing price.

4.2. Details of Share Changes

Stock splits and reverse splits do not require Index Divisor adjustments because the corresponding change to the stock price equally offsets the number of assigned shares, therefore not affecting the component's influence in the index.

4.3. Scheduled component changes and review

The **BlueStar Israel Global Technology Index** has a semi-annual review in June and December of each year. Component changes are made after the close on the third Friday of June and December, and become effective at the opening on the next trading day. Changes are announced on ISE's publicly available website at least five trading days prior to the effective date.

1. Develop pool of all eligible stocks using the requirements of Chapter 3.2.
2. Rank and Select final components using the procedure outlined in Chapter 3.5.
3. Adjust the assigned shares of the component stocks to achieve the weighting distribution outlined in Chapter 3.5.

4.4. Interim component changes

Component changes may occur between review periods if a specific corporate event makes an existing component ineligible. The following events may require a component's replacement:

Event	Action
Merger or acquisition	If a merger or acquisition results in one component absorbing another, the resulting company will remain a component and the absorbed company will be replaced. If a non-component company absorbs a component company, the original component will be removed and replaced.
Spin-off	If a component company splits or spins off a portion of its business to form one or more new companies, the resulting company with the highest market value will remain a component as long as it meets the eligibility requirements. The remaining companies will be evaluated for eligibility and possible addition to the index.
Bankruptcy	A component company will be removed and replaced immediately after bankruptcy filing. Exceptions are made on a case-by-case basis. For example, a security might not be removed immediately when a bankruptcy filing is not a result of operating or financial difficulties.
Delisting	A component company will be removed and replaced immediately after being delisted from its primary market.

Whenever possible, interim component changes are announced on ISE's publicly available website five trading days prior to component changes becoming effective.

4.5. Unscheduled component weight adjustments

Unscheduled component weight adjustments may occur between review periods if any component accounts for more than 24% of the index weight. The market capitalization of any component representing more than 24% of the index weight will be adjusted such that its new weight is no more than 20%. Even though the weighting limit is 30% for a single component, all components accounting for over 24% of the index market value are adjusted to 20% to avoid future unscheduled rebalancing events.

Whenever possible, unscheduled component weight adjustments are announced on ISE's publicly available website five trading days prior to the adjustments becoming effective.

Chapter 5. Index Calculation and Dissemination

This chapter summarizes calculation and dissemination practices, quality assurance practices, and the circumstances requiring calculation corrections.

5.1. Price Calculation

Price and total return indexes for the **BlueStar Israel Global Technology Index** are calculated by Standard & Poor's. The price index is calculated on a real-time basis, and the total-return Index is calculated and disseminated on an end-of-day basis. The **BlueStar Israel Global Technology Index** is calculated using the last traded price for each company in the Index from the relevant exchanges and markets.

Index values are rounded to two decimal places and divisors are rounded to 14 decimal places.

5.2. Calculation Frequency and Dissemination

The **BlueStar Israel Global Technology Index** is calculated on a real-time basis beginning when the first traded price of any of the Index components is received by Standard & Poor's. Prices are delivered to CME every 15 seconds and subsequently published at that frequency. Total-return Index values are posted on ISE's publicly available website, www.ise.com.

If trading in a stock is suspended prior to the market opening, the stock's adjusted closing price from the previous day will be used in the Index calculation until trading commences. If trading in a stock is suspended while the relevant market is open, the last traded price for that stock will be used for all subsequent Index calculations until trading resumes.

5.3. Input Data

Standard & Poor's uses various quality assurance tools to audit, monitor, and maintain the accuracy of its input data. While every reasonable effort is taken to ensure high standards of data integrity, there is no guarantee against errors. Please refer to the Data Correction section for more detail.

The index closing price is calculated using the closing prices issued by the primary exchange for each component stock in the index. If the primary exchange changes the closing price of a component stock, the new price will be used to calculate the index closing price. A final check of closing prices is done between one hour and one and one half hours after the close of markets. This timeframe may be expanded at S&P's discretion on days where trading volume is unusually large at the close. For example, futures and options expiration dates, and large index rebalancing dates often result in unusually large volume. Only changes received prior to this final check are used in the closing price calculation.

5.4. Data Correction

Incorrect index component data, corporate action data, or Index Divisors will be corrected upon detection. If such errors are discovered within five days of occurrence, they will be corrected that same day. If discovered after five days, adjustments will be handled on a case-by-case basis depending on the significance of the error and the

feasibility of a correction. Announcements will be made on ISE's publicly available website prior to the change becoming effective.

Incorrect intraday index tick data will not be corrected. However, incorrect opening and closing values will be corrected as soon as possible after detection.

Appendices

This section provides additional information related to the **BlueStar Israel Global Technology Index** as well as changes to this document.

Appendix A. *BlueStar Israel Global Technology Index* Constituents

As of June 21, 2013

<u>Company Name</u>	<u>Listing Exchange</u>	<u>Weight</u>
AMDOCS LTD	New York	10.00%
CHECK POINT SOFTWARE TECH	NASDAQ GS	10.00%
STRATASYS LTD	NASDAQ GS	7.04%
NICE SYSTEMS LTD	Tel Aviv	6.66%
VERIFONE SYSTEMS INC	New York	5.37%
MELLANOX TECHNOLOGIES LTD	NASDAQ GS	5.06%
VERINT SYSTEMS INC	NASDAQ GS	4.50%
PLAYTECH PLC	London	3.76%
ELBIT SYSTEMS LTD	Tel Aviv	3.24%
EZCHIP SEMICONDUCTOR LTD	Tel Aviv	2.54%
IMPERVA INC	New York	2.48%
RADWARE LTD	NASDAQ GS	1.98%
LIVEPERSON INC	NASDAQ GS	1.70%
ORBOTECH LTD	NASDAQ GS	1.64%
ORMAT TECHNOLOGIES INC	New York	1.50%
CEVA INC	NASDAQ GS	1.49%
PROTALIX BIOTHERAPEUTICS INC	NYSE MKT LLC	1.43%
HIGHER ONE HOLDINGS INC	New York	1.33%
ORMAT INDUSTRIES LTD	Tel Aviv	1.30%
888 HOLDINGS PLC	London	1.27%
ALLOT COMMUNICATIONS LTD	NASDAQ GS	1.24%
PROLOR BIOTECH INC	NYSE MKT LLC	1.21%
GIVEN IMAGING LTD	NASDAQ GS	1.20%
KAMADA LTD	Tel Aviv	1.19%
SYNERON MEDICAL LTD	NASDAQ GS	1.18%
SPACE COMMUNICATION LTD	Tel Aviv	1.16%
ITURAN LOCATION AND CONTROL	Tel Aviv	1.06%
NOVA MEASURING INSTRUMENTS	Tel Aviv	1.03%
CLICKSOFTWARE TECHNOLOGIES	NASDAQ GS	1.01%
VRINGO INC	NASDAQ CM	1.01%
COMPUGEN LTD	NASDAQ CM	1.00%
PHOTOMEDEX INC	NASDAQ GS	0.97%
EVOGENE LTD	Tel Aviv	0.95%
GILAT SATELLITE NETWORKS LTD	Tel Aviv	0.92%
MAZOR ROBOTICS LTD	Tel Aviv	0.92%
DSP GROUP INC	NASDAQ GS	0.91%

SILICOM LTD	NASDAQ GM	0.88%
BABYLON LTD	Tel Aviv	0.88%
PLURISTEM THERAPEUTICS INC	NASDAQ CM	0.82%
FORMULA SYSTEMS (1985) LTD	Tel Aviv	0.81%
MATRIX IT LTD	Tel Aviv	0.81%
AUDICODES LTD	NASDAQ GS	0.77%
TOWER SEMICONDUCTOR LTD	Tel Aviv	0.73%
PERION NETWORK LTD	NASDAQ GM	0.73%
BRAINSWAY LTD	Tel Aviv	0.67%
CERAGON NETWORKS LTD	NASDAQ GS	0.66%
CLAL BIOTECHNOLOGY INDUSTRIE	Tel Aviv	0.59%
SCAILEX CORP LTD--ORD	Tel Aviv	0.41%

Appendix B. Document Change History

A history of significant changes to this document is shown in the table below.

Issue	Date	Change
0.1	September 19, 2013	First Draft
1.0	October 16, 2013	First Published
1.1	October 31, 2013	Chapter 2 Updates, Minor Edits
1.2	July 18, 2014	Section 3.2 changes to selection criteria



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