

## **TA-25 Turns Twenty**

Kobi Avramov, Head of Research

### **TA-25 Index Highlights**

<b>55% of total equity market turnover</b>	<b>9.6% US \$ annual return</b>	<b>250-300 thousand option contracts daily</b>
<b>70% total equity market cap</b>	<b>40% - weight of dual-listed shares in index</b>	<b>19 ETNs equaling US \$ 1.1 billion</b>

#### **1. Background**

The TA-25 index is the flagship index of the Tel Aviv Stock Exchange (TASE). TASE started calculating the index on 2 January 1992, in anticipation of the launch of options trading on this index in 1993. From its inception and until 1999 the name of the index was the MAOF index, an abbreviation of the Hebrew term for "futures and financial instruments".

The shares comprising the TA-25 index are the 25 largest TASE-listed shares. In the past few years these shares accounted for 55% of the total trading volume of TASE's equity market and for 70% of its total market capitalization.

Fluctuations of the TA-25 index constitute the primary indicator of TASE share price movements, and the index serves as the underlying asset for options and ETNs.

From its launch, the index consisted of the 25 shares with the highest market capitalization on TASE and was weighted according to the market cap of each constituent share. Over the years, the index methodology was improved: a 10% ceiling cap was placed on the weight of a single share and new criteria of liquidity and value of free float were added. Starting in January 2008 the index is float-weighted.

#### **2. Index Returns**

Since its launch in 1992, the TA-25 has yielded a cumulative real (i.e. inflation-adjusted) rate of return of 370%, which translates into a 7.7% average annual compounded real rate of return. In US \$ terms the index gained 583% over the period - annual yield of 9.6%.

Economic cycles are reflected in the annual returns realized by the index. In the boom of 1992, the index achieved a record 87% real rate of return, while in 1994 it lost 37% in real terms. In 2008, the year of the subprime crisis, the TA-25 index plunged 48% in real terms but rebounded in 2009 with a 68% increase.

At the time of inception the total market value of the index's constituent shares came to US \$ 7.8 billion. Today, the market value of these shares comes to US \$ 108 billion, an increase of 13 fold. Half of this increase can be attributed to capital raised

by the constituent companies and the listing of high cap shares on TASE, while the other half is attributed to share price increases.

### **3. Changes to the Index Composition**

The industrial composition of the TA-25 index has changed considerably over the past twenty years, reflecting changes in the mix of large companies in Israel (see Table 1).

At the time the index was launched at the beginning of the 1990s, the portion of investment and holding companies (mostly members of the IDB Group) and consumer goods manufacturers stood out. Over the past few years, these companies have almost completely disappeared from the index.

Today, in contrast, industries which were barely represented in the index twenty years ago, such as banks, technology & telecom companies, and oil & gas exploration limited partnerships, account for a large part of the index.

Only seven firms have remained in the index since its launch twenty years ago:

- **Bezeq, Teva and Israel Corporation**, which have retained the same business structure throughout the twenty years;
- The other four companies have undergone structural changes over the years and are today constituents in the TA-25 index in their new incarnation: **Dead Sea Works**, which was merged with Israel Chemicals; **Elbit** which was broken up into three companies, including "Elbit Systems"; **Tefahot Bank** (which merged into "Mizrahi Tefahot Bank") and **Delek** (which has become the Delek Group).

18 companies have been removed from the TA-25 index over the years because they failed to meet threshold criteria (market cap or free float): **IDB Holdings** (and **Clal Israel** which was merged into it), **Clal Industries** (and **Clal Electronic Industries** which was merged into it), **Discount Investments**, **Koor Industries**, **Industrial Buildings**, **Elron**, **First International Bank**, **Property and Building**, **Paper Mills**, **F.I.B.I. Holdings**, **Shufersal**, **Africa-Israel Investments**, **Azorim**, **Tempo**, **Jerusalem Economic** and **Clal Insurance**.

An examination of the current TA-25 index constituents, which were not part of the index when launched, underscores the contribution of dual listing provisions of Israel's Securities Law.

- Five of the largest of the dozens of companies which opted for dual listing over the past decade, are included in the index: technology companies **Mellanox** and **EZchip**; telecom companies **Partner** and **Cellcom**; and the American pharmaceutical company **Perrigo**, which acquired the Israeli company **Agis**.

- Two additional companies, **Nice** and **Gazit-Globe**, were small companies at the time the TA-25 was launched, which over the years grew and listed their shares on U.S. stock markets.
- The TA-25 includes, as aforementioned, **Teva** and **Elbit Systems**, dually listed companies that listed first on TASE.
- In total 9 dually listed shares, which trade both in Israel and abroad, are constituents of the TA-25 index and account for 40% of its market cap.

In addition, five companies which completed IPOs in the past two decades – **Osem**, **Azrieli Group**, **Oil Refineries**, **Paz Oil** and **Delek Drilling** – are currently constituents in TASE's flagship index.

Three other current TA-25 constituents are companies which developed and grew over the years and are now among the largest TASE-listed companies: **Strauss Group** (formerly Elite) and the oil and gas exploration limited partnerships, **Isramco** and **Avner Oil**.

As mentioned above, **Bank Leumi**, **Bank Hapoalim** and **Discount Bank**, whose shares did not trade on TASE at the time the index was launched, are now included in the index. These banks were privatized in the 1990s after being temporarily nationalized in wake of the 1983 bank share crisis.

#### **4. Options and ETNs on the TA-25 Index**

The TA-25 index was launched in 1992 in anticipation of the introduction of index options in 1993. Trading in derivatives provides an alternative to direct investment in the 25 underlying shares and enables investors to hedge their investments against fluctuations in the TA-25 index.

Derivatives' trading occupies a central place in Israel's capital market, particularly since the automation of options trading in 1999. The volume of TA-25 index options trading has ranged between 250-300 thousand contracts daily, and renders the volume of activity on TASE in seventh place worldwide in index options trading.

The first ETN on the TA-25, "Tali 25", was issued by Psagot Investment House in May 2000. The market began to take off, however, in 2005 and since then dozens of ETNs on the TA-25 have been issued. Today trading volume for all ETNs accounts for 20% of the trading volume of the entire equities market and ETNs are a key component in investment portfolios.

Currently some 19 ETNs (long, short and leveraged) on the TA-25 are traded and the Assets Under Management comes to US \$ 1.1 billion. In addition 11 ETNs of the TA-100 index (which includes the TA-25 shares and the TA-75 shares) are traded and the free float comes to US \$ 2.3 billion.

The interest exhibited by investors in TA-25 ETNs has driven the entire industry and the issue of scores of ETNs on local share and bond price indices, as well as international share price indices, has followed.

**Table 1: TA-25 Constituents at Launch and Today**  
**Market Cap- US \$ Millions**

<b><u>AT LAUNCH - JANUARY 1992</u></b>			<b><u>TODAY - NOVEMBER 2012</u></b>		
	<b>SHARE</b>	<b>31/12/1991</b>		<b>SHARE</b>	<b>15/11/2012</b>
1	<b>BEZEQ*</b>	1,189	1	<b>TEVA*</b>	36,636
2	<b>IDB HOLDINGS</b>	691	2	<b>ISRAEL CHEMICALS*</b>	14,552
3	<b>CLAL INDUSTRIES</b>	510	3	<b>PERRIGO</b>	9,490
4	<b>DISCOUNT INVESTMENTS</b>	501	4	<b>BANK HAPOALIM</b>	4,975
5	<b>CLAL ISRAEL</b>	497	5	<b>ISRAEL CORPORATION*</b>	4,650
6	<b>DEAD SEA WORKS*</b>	486	6	<b>BANK LEUMI</b>	4,579
7	<b>TEVA*</b>	411	7	<b>MELLANOX</b>	3,337
8	<b>ELBIT*</b>	409	8	<b>BEZEQ*</b>	3,102
9	<b>CLAL ELECTRONIC INDUSTRIES</b>	390	9	<b>AZRIELI GROUP</b>	2,641
10	<b>KOOR INDUSTRIES</b>	330	10	<b>DELEK GROUP*</b>	2,074
11	<b>INDUSTRIAL BUILDINGS</b>	266	11	<b>MIZRAHI TEFAHOT BANK*</b>	2,005
12	<b>ELRON</b>	245	12	<b>NICE</b>	1,958
13	<b>ISRAEL CORPORATION*</b>	228	13	<b>AVNER OIL</b>	1,823
14	<b>FIRST INTERNATIONAL BANK</b>	204	14	<b>GAZIT-GLOBE</b>	1,806
15	<b>PROPERTY AND BUILDING</b>	173	15	<b>DELEK DRILLING</b>	1,686
16	<b>PAPER MILLS</b>	155	16	<b>ISRAMCO</b>	1,684
17	<b>F.I.B.I. HOLDINGS</b>	151	17	<b>OSEM</b>	1,594
18	<b>TEFAHOT BANK*</b>	139	18	<b>ELBIT SYSTEMS*</b>	1,459
19	<b>SHUFERSAL</b>	139	19	<b>DISCOUNT BANK</b>	1,419
20	<b>DELEK*</b>	133	20	<b>PAZ OIL</b>	1,331
21	<b>AFRICA-ISRAEL INVESTMENTS</b>	132	21	<b>STRAUSS GROUP</b>	1,149
22	<b>AZORIM</b>	105	22	<b>OIL REFINERIES</b>	1,039
23	<b>TEMPO</b>	100	23	<b>EZCHIP</b>	987
24	<b>JERUSALEM ECONOMIC</b>	98	24	<b>CELLCOM</b>	881
25	<b>CLAL INSURANCE</b>	97	25	<b>PARTNER</b>	879
	<b>TOTAL</b>	<b>7,779</b>		<b>TOTAL</b>	<b>107,733</b>
* A company included in TA-25 Index today and also at the launch (January 1992)					