

August 15, 2022

ISRAEL EQUITY REVIEW AND OUTLOOK – Q3 2022

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About the BlueStar Indexes®

The BlueStar® Indexes were launched in 2011 by BlueStar Global Investors, LLC, a research-driven provider of indexes and financial data focused on serving the needs of innovative ETF issuers, index fund sponsors and asset managers. BlueStar® Indexes were acquired by MarketVector Indexes™ in August 2020 and are now continued as a sub-brand of MarketVector Indexes™.

BlueStar has produced monthly updates on the Israeli market since 2012. In this Israel Equity Review and Outlook we provide data and insight on 2020's performance of Israeli equity benchmarks, stocks and sectors driving performance, key economic data for the Israeli market, as well as data on our flagship Israeli equity indexes, BIGI® and BIGITech®. We also provide an outlook on key economic, geopolitical and domestic political developments which could impact the markets in 2021.

The BlueStar Israel Global Index® (BIGI® or BLS & BLSTR INDEX on Bloomberg) is the broadest and deepest benchmark for Israeli equities trading worldwide in Tel Aviv, New York, London, Singapore and Australia. BIGI® is tracked by a NYSE-listed ETF, as well as an Israel-domiciled index fund tracking BIGI®.

The BlueStar Israel Global Technology Index® (BIGITech® or BGTH & BGTHTR INDEX on Bloomberg) is the broadest and deepest benchmark tracking the performance of Israeli companies operating in innovative sectors such as information technology, defense technology, clean technology and bio-technology. BIGITech® is tracked by a NYSE-listed ETF. In addition, there are two Israel-domiciled investment vehicles tracking BIGITech® managed by KSM.

MarketVector Indexes™ also maintains five additional Israel Equity Indexes under the BlueStar brand (BIGI®-TIM, IGEL, IDEI, BIGI®-SD and BIGI®-SV), one Israel Government Bond Index (BIGUSD), approximately 30 Regional and Global Thematic/Tech Equity indexes, and the BlueStar-TzurGilboa Israel Equity Hedge Fund Index.

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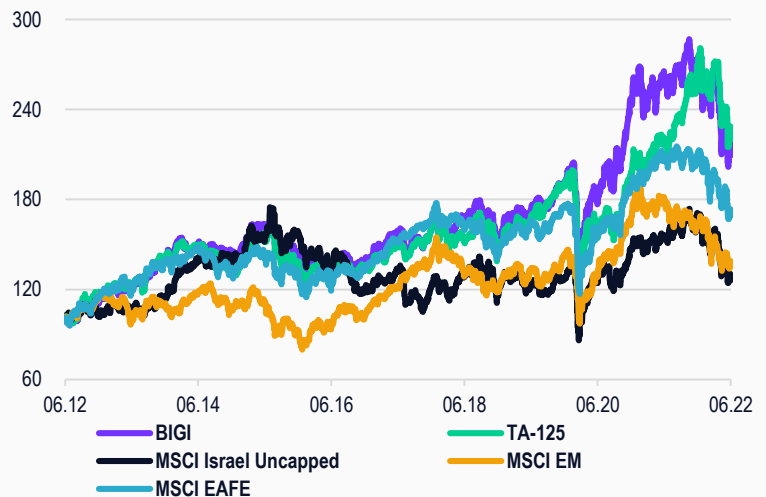
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ISRAELI EQUITIES FALL IN LINE WITH GLOBAL MARKETS; REGIONAL PEACE AND ECONOMIC COOPERATION CONTINUES TO STRENGTHEN; ISRAEL'S CURRENCY CONTINUES TO WEAKEN.

Highlights:

- Israeli stocks, as defined by the BlueStar Israel Global Index® (BIGI®), declined 19.70% in the second quarter of 2022, underperforming developed international equities by 5.41%, as measured by MSCI EAFE.
- Israeli technology stocks, as defined by the BlueStar Israel Global Technology Index™ (BIGITech®), lost 19.27% in Q2, following in trend but slightly outperforming the Dow Jones US Tech and S&P Global Tech indexes at -22.43% and -20.93%, respectively.
- BIGI® underperformed the TA-125 Index of Israeli-listed stocks in the second quarter of 2022 by 2.02%, as the TA-125 does not include many of Israel's top foreign-listed technology companies.
- Geopolitical fundamentals continue to improve for Israel in spite of bearish market conditions; Saudi Arabia takes initial steps towards normalized relations.

Bluestar Israel Global Index®
Ten-Year Relative Performance Ending June 30, 2022



Israel Equity Market Performance

Israeli equities, as defined by the BlueStar Israel Global Index® (BIGI®), were down 19.70% in Q2 2022, bringing year-to-date losses to 23.27%. In Q2 BIGI® underperformed international developed markets represented by the MSCI EAFE index by 5.41% and the local TA-125 by 2.02%.

Israeli technologies stocks in Q2 2022 accelerated their downward trajectory with a loss of 19.27%. To-date the BlueStar® Israel Global Technology Index is outperforming the Dow Jones US Technology Index by 1.63% and performing in-line with the S&P Global 1200 Information Technology Index.

Q2 was the first quarter in more than a year where Israeli Global Technology Stocks did not underperform the broader BIGI® benchmark indicating that there may be some respite from the relentless selling in Israeli tech stocks in the near future, at least on a relative basis. The best performing sector of the Israeli market however were still those linked to commodities or with reliable cash flows and reasonable valuations: Energy, Utilities, and Financials. As the shekel weakens, it is not surprising to see Israeli consumer discretionary stocks as the worst-performing sector in BIGI®, by a wide margin.

As mentioned in our Q2 2022 report, we are witnessing a regime change in the global economy based on rising interest rates. In our opinion, inflation should not be the main focus for investors; the fact that yield curves are inverting indicates that the risk of recession is greater than the risk of sustained inflation because bond investors should be demanding higher long term rates to maintain the purchasing power of their assets.

Instead, we are seeing markets react primarily to two trends: 1- reversal of a multi-decade long bull market in bonds, and 2- recalibration of inventory levels after excessive pandemic-driven build-ups. The first point is a long-term trend that equity markets are already adjusting to as evidenced by the relative outperformance of stocks and sectors with higher quality fundamentals and more reasonable valuations; this trend of rising rates, by the way, does not preclude a new bull market in equities from emerging. The second point will hopefully be worked out after a few quarters of inventory drawdowns and downward earnings revisions, which may or may not lead to a global recession, but will hopefully be short-lived either way.

We continue to believe that the sectors and segments that have held up the best during the bear market will also be leaders in the next bull market.

Bluestar Israel Global Index®
2022 YTD Relative Performance



Sources: MarketVector Indexes™, Bloomberg LP

ISRAEL AND GLOBAL EQUITY BENCHMARK COMPARISON		
Benchmark	Q2 2022 Return (%)	2022 YTD (%)
BIGI®	(19.70)	(23.27)
BIGITech®	(19.27)	(28.51)
MSCI Israel Uncapped	(19.93)	(25.38)
TA-125 INDEX	(17.68)	(18.22)
S&P 500	(16.10)	(19.96)
MSCI EM	(11.45)	(17.63)
MSCI EAFE	(14.29)	(19.25)
Israel Domestic Exposure	(19.63)	(19.26)
Israel Global Exposure	(23.62)	(32.91)
Israel Infrastructure	(18.46)	(15.29)

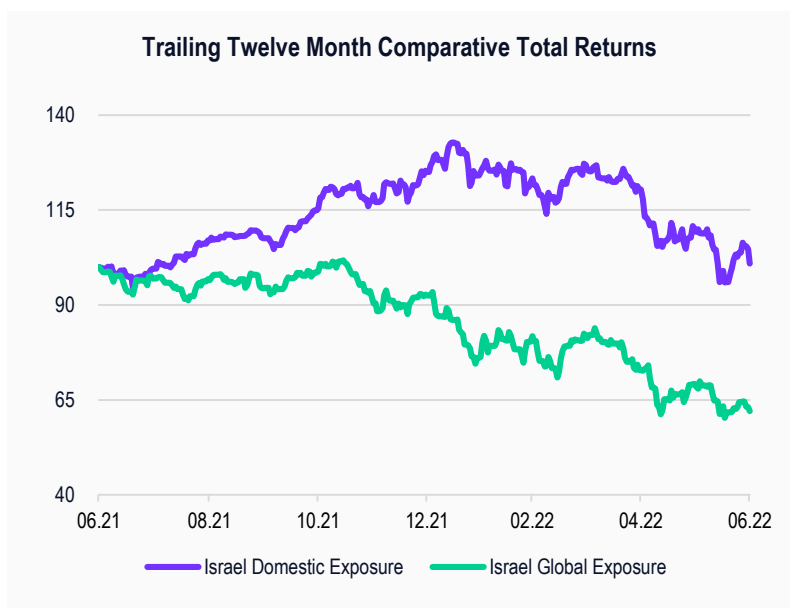
ISRAEL AND GLOBAL TECH EQUITY BENCHMARK COMPARISON		
Benchmark	Q2 2022 Return (%)	2022 YTD (%)
BIGITech®	(19.27)	(28.51)
Dow Jones US Tech	(22.43)	(30.14)
S&P Global 1200 Info Tech	(20.93)	(28.77)
MSCI EM Tech	(20.77)	(29.67)

TOP AND BOTTOM BIGI® PERFORMERS: Q2 2022			
Positive Contributors (%)		Negative Contributors (%)	
Plus500 Ltd	9.31	Cognyte Software Ltd	(62.42)
Ituran Location And Control	6.99	Kornit Digital Ltd	(61.66)
Opko Health Inc	4.55	Fiverr International Ltd	(54.79)
Elbit Systems Ltd	4.27	Property & Building Corp Ltd	(52.83)
Nano-x Imaging Ltd	4.24	Taboola.Com Ltd	(50.97)
Magic Software Enterprises	3.13	Ironsource Ltd-a	(50.42)
Amdocs Ltd	1.82	Compugen Ltd	(46.27)
Sentinelone Inc -Class A	0.26	Tremor International Ltd	(43.54)
Tremor International	(0.23)	Liveperson Inc	(42.10)
Altshuler Shaham	(0.60)	Batm Advanced	(40.40)

SECTOR PERFORMANCE (%): Q2 2022	
Energy	(13.04)
Utilities	(13.05)
Financials	(16.94)
Information Technology	(17.48)
Consumer Staples	(18.98)
Health Care	(21.44)
Communication Services	(22.35)
Materials	(23.28)
Real Estate	(23.44)
Industrials	(26.18)
Consumer Discretionary	(36.38)

Israel Economic Update and Israel Economic Exposure Indexes

Throughout most of 2020 Israeli domestically-oriented sectors suffered as the corona virus pandemic closed down the country's tourism sector and brought on a severe downturn in consumer spending. In late 2020, however, we provided evidence to suggest that domestically-oriented Israeli stocks could begin to recover against their globally-oriented peers. The most salient points we made were that the P:E ratio on globally-oriented stocks relative to domestically-oriented stocks had reached extreme levels, and that domestically-oriented stocks were in an extremely oversold technical position. In 2021 the Israel Domestic Exposure Index outperformed the Israel Global Exposure Index by an astounding 44%.

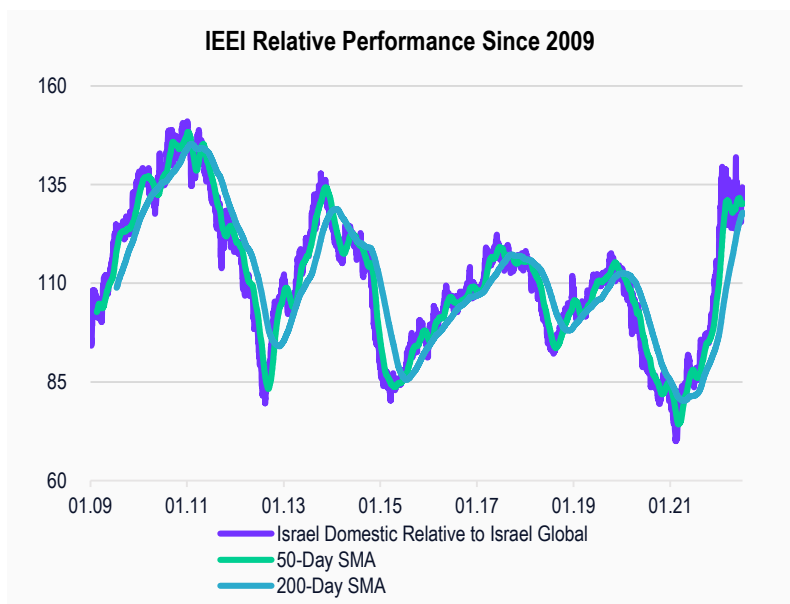


Last quarter we noted that even as the Israel Domestic Exposure Index approaches over-bought levels compared to the Israel Global Exposure Index, there are major global (identified on the previous page) and local trends underway that could cause the relative outperformance to continue; the Israel Domestic Index has in fact outperformed the Israel Global Index by another 13.65% in the first half of 2022.

While the macro backdrop for continued outperformance by Israeli domestic companies remains intact the "IEEI Relative Performance Since 2009" chart suggests we are at an inflection point which could resolve in another period of domestic-stock index outperformance, but it would not be surprising to see a period of correction in the coming months. A couple of factors that support a potential correction include the following.

In the last 18 months there has been a dramatic decrease in the P:E ratio of Israeli Global equities vs that of Israeli Domestic equities. Such corrections tend to overshoot in the short term, which is when we can see relief rallies/corrections.

Furthermore, Shekel weakness typically does not bode well for domestically-oriented sectors. We have already seen relative such sectors such as real estate and consumer discretionary. Financials and utilities, on the other hand, have so far been able to hold up the relative performance of the Israel Domestic Exposure Index, a position that may be hard to defend if the Shekel continues to weaken and discretionary budgets of the Israeli consumer continue to diminish.



Sources: MarketVector Indexes™, Bloomberg LP

Introducing the BlueStar® Israel Infrastructure Index

At the end of March, MarketVector Indexes™ announced the launch of the BlueStar® Israel Infrastructure Index (BILIN) to track the performance of Israeli companies benefitting from the boom in the development of Israel’s national infrastructure. This new index represented the best-performing sector of the Israeli economy in the first half of 2022 given the composition is relatively isolated from macro trends that brought on the severe downturn in global equity markets this year.

The Rules

Eligibility Criteria:

- Companies must be Israeli by meeting one of several criteria including being incorporated or headquartered in Israel, or having a majority of revenue or assets in Israel.
- Companies must derive at least 33% of their revenue domestically in Israel.
- Companies must derive at least 50% of their revenue from various industries including:
 - Clean energy technology, or clean energy-focused power producers/utilities
 - Oil and gas distribution and refining
 - Infrastructure and commercial construction and engineering
 - Building materials
 - Telecommunications services
 - Infrastructure services including waste management and port operators
 - Infrastructure REITs and investment companies

Investability Criteria:

- Market cap of at least \$150 million USD
- 3M ADV of at least \$200,000 in each of the three most recent quarters

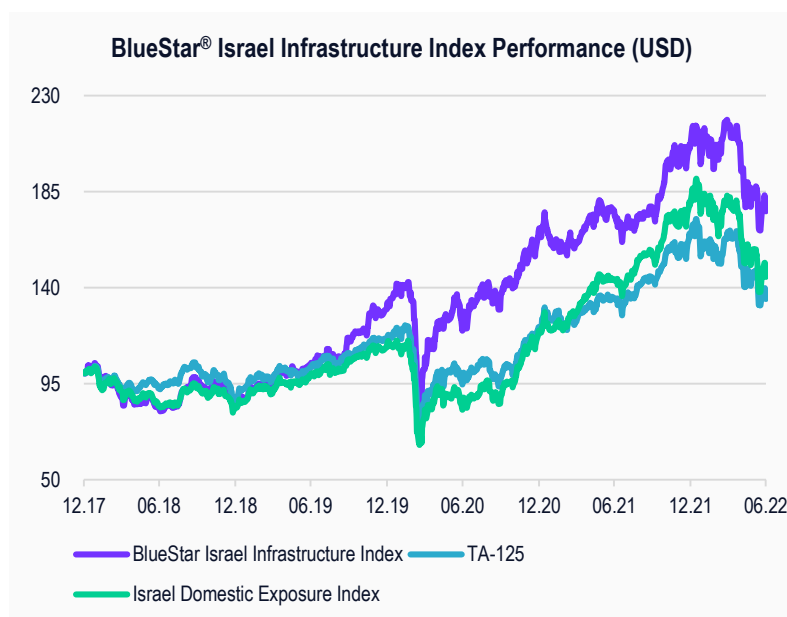
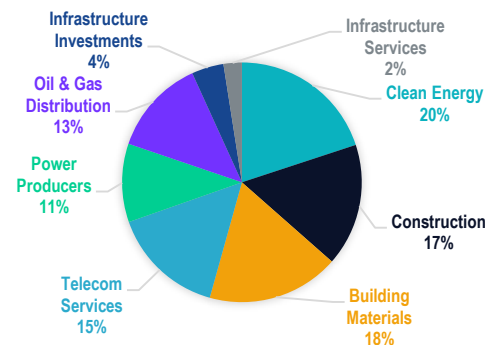
Weighting:

- Companies are weighted by float-adjusted market capitalization with an 8% weight limit

Top-10 Components as of June 2022 Review

Company Name	Weight
Bezeq Israel Telcm IIs1	8.00%
Enlight Renewable IIs1	7.27%
Oil Refineries Ltd Com Stk IIs1	7.13%
Kenon Hldgs Ltd Npv	6.83%
Paz Oil Co Ltd IIs5	5.86%
Shikun & Binui Ltd IIs1	5.85%
Energix-renewable Npv	5.22%
Shapir Engineering Npv	5.15%
Ashtrom Group Ltd IIs0.01	4.74%
Electra Ltd IIs1	4.50%

SUB-THEME WEIGHTS



Sources: MarketVector Indexes™, Bloomberg LP

Israeli Market Performance vs. Economic and Geopolitical Fundamentals

Despite the bearish trend of since the start of 2022, when you look under the hood, the foundational elements of Israel and thus Israeli Tech ecosystem continue to improve. These tectonic shifts tell a very different story and offer investors an alternative to the ‘doom and gloom’ of the US. How significant are the shifting geopolitical and economic horizons for Israel? Groundbreaking.

1. Slow but steady improvement in Saudi Arabian-Israeli relations

Once a glaring tension point in Arab/Israeli regional politics, now has a high probability of de facto steps toward normalization next month, including a likely aviation accord, R&D cooperation agreement and investment plans for medicine, agriculture and energy.

Further, major business and investment deals are currently underway between two countries, signaling a new era of regional trade and prosperity – one that will grow significantly almost overnight once relations are formally established.

2. United Arab Emirates (UAE) relations

Israel is beginning to experience the benefits and the Abraham Accords, a series of treaties normalizing diplomatic relations between Israel, the UAE, Bahrain, Sudan, and Morocco, facilitated by the U.S. Administration in late 2020.

As it’s evolved, we’ve seen a historic UAE-Israel Free Trade Agreement signed, with UAE-Israel trade expected to exceed \$2 billion in 2022. Furthermore, the economic ties between the UAE and Israel have had a profound impact on both countries’ technology and innovation ecosystems, with joint-ventures flourishing, as well as strategic investment in a wide range of industries, including clean energy, AgriTech, and cybersecurity.

3. Steady growth of economic ties with other Abraham Accord countries, as well as with Egypt and Jordan

Less headline-grabbing, but equally significant, has been the slow but steady growth of economic cooperation between Israel and Morocco, and even more significantly, with Egypt and Jordan. Israel and Morocco signed a trade and investment cooperation agreement in February, with both countries aiming to expand annual trade volume to \$500 million/year from the current \$140 million. With Egypt, Israel has agreed to increase R&D cooperation and to develop a commercial crossing point at Nitzana in the Negev desert, and to increase annual trade (excluding tourism and energy) to more than \$700 million/year. In early 2020, Israeli and Egyptian companies signed ten-year Natural Gas contract worth \$15 billion. Furthermore the major new Natural Gas partnership between Israel, Egypt and the European Union has potential for trade flows with a value of more than one billion dollars/year.

Finally, with Jordan, Israel has expanded a major water provision deal, and agreed to increase exports from Jordan to the Palestinian territories more than four-fold, from \$160 million to \$700 million in 2023 and beyond. There is also substantial tourism cooperation between Jordan and Israel.

4. Israel’s economic horizons continue to expand beyond the Middle East

India: As regional peace amplifies, we see the impact on the growth of trade, investments, and strategic ties around the work, most notably in India, Israel’s third-largest Asian trade partner, where the countries enjoy an extensive and comprehensive economic, military, and political relationship.

The US initiated “I2U2” Summit in October 2021 further solidified a new era of economic cooperation linking Israel, India, the UAE and US, an initiative that adds to a more stable region and increases Israel’s security and prosperity over the long term.

South Korea: Israel signed its first Free Trade Agreement (FTA) in Asia with South Korea in May of this year – South Korea is the world’s 12th largest economy and Israel’s third largest trade partner. The FTA will not only have an immediate benefit to Israeli auto buyers, with tariffs on very popular Korean vehicles to be eliminated, as well as tariffs on semiconductors and other electronic equipment, but the possibilities of further collaborations between two of world’s most innovative nations is endless.

Vietnam/China: Also, ‘over the horizon,’ there is strong likelihood’ of FTA with Vietnam by H1 2023, and progress is anticipated for a FTA with China, although geopolitics and concerns from the US might slow it down.

5. The local Israeli economy and resilience of key Israeli sectors:

Israel’s macroeconomic fundamentals are dichotomous, after posting surging GDP figures for 2021, the Israeli economy contracted 1.9% during Q1 2022. Yet at the same time, the Israeli government’s budget is now in an unprecedented fiscal surplus. And while tech investment and funding has slowed, it has retracted much less than anticipated in 2022 YTD. Further, the Israeli Real Estate market remains robust, despite tech’s slowdown.

Aligned with this trend, OECD still projects strong full-year Israeli GDP growth of 4.8% in 2022 and 3.4% in 2023, but at the same time it cut its global forecast for 2022, to 3% for 2022 and 2.8% for 2023.

Israeli energy exports and investment have blossomed, providing a new source for the much in-demand Eastern Mediterranean Natural Gas, culminating with an EU-Egypt-Israel agreement to develop production and supply from the Eastern Mediterranean to Europe (to replace Russian Gas).

And finally, Israel’s long-awaited Sovereign Wealth Fund (SWF) – which invests government tax revenue from Israel’s major offshore energy resources – was finally launched this month. Admittedly, it is starting small, but the fund – and its influence – is expected to grow substantially.

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