

January 18, 2022

ISRAEL EQUITY REVIEW & OUTLOOK Q1 2022

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About the BlueStar Indexes

The BlueStar Indexes were launched in 2011 with an initial focus on measuring Israeli equities listed worldwide. They were the first benchmarks to provide broad, deep, pure, and complete coverage of the dynamic Israeli capital markets. BlueStar expanded into Global Thematic Indexes in 2016, and continued to provide research, financial data, and indexes to serve the needs of ETF issuers, index fund sponsors, and asset managers. BlueStar's Indexes were acquired by MV Index Solutions (MVIS®) in August 2020 and are now continued as a sub-brand of MVIS®.

BlueStar has produced updates on the Israeli market since 2012. In the **Israel Equity Review and Outlook** we provide data and insight on the performance of Israeli equity benchmarks, stocks, and sectors driving performance and 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, geo-political, and domestic political developments.

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®.

MV Index Solutions also maintains three additional Israel Equity Indexes under the BlueStar brand (BIGI-TIM, IGEI, IDEI), one Israel Government Bond Index (BIGUSD), and more than 50 Regional and Global Thematic/Tech Equity indexes.

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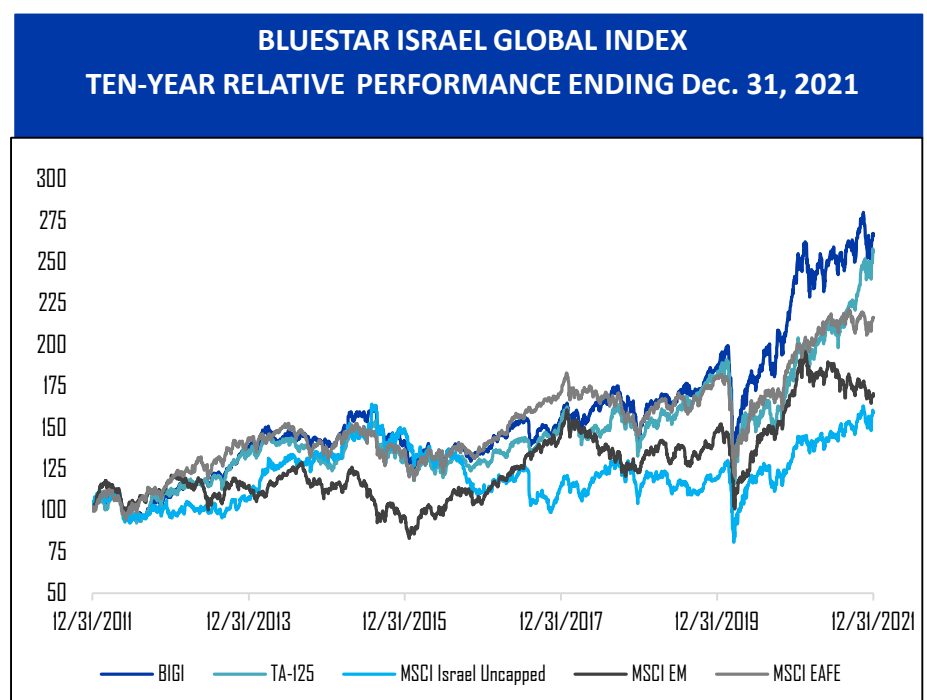
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ISRAELI EQUITIES CLIMB IN Q4, ENDING 2021 WITH MOMENTUM AS ISRAELI TECH STOCKS SLIDE; IPOs & SPAC MERGERS CONTINUE AS INVESTMENT FLOWS BOLSTER PUBLIC AND PRIVATE MARKETS

Highlights:

- Israeli stocks, as measured by the BlueStar Israel Global Index® (BIGI®), climbed 4.70% in Q4 2021, outperforming developed international equities by 1.96%, as measured by MSCI EAFE. With a return of 11.25% for Full Year 2021, BIGI trailed MSCI EAFE by 0.53% and outperformed MSCI EM by 13.79%, for Full Year 2021.
- Israeli technology stocks, as defined by the BlueStar Israel Global Technology Index™ (BIGITech®), slid 4.26% during Q4 2021, trailing the Dow Jones US Tech and S&P Global Tech indexes by 14.30% and 14.31%, respectively. BIGITech tumbled 7.94% for FY 2021, lagging the Dow Jones US Tech by 45.17% and the S&P Global Tech by 37.63% in 2021.
- BIGI® underperformed the TA-125 Index of Israeli-listed stocks in Q4 2021 by 10.07%. For full year 2021, BIGI trailed the TA-125 by 24.29%.
- On a global scale, there were 14 Israeli companies that went public during Q4 2021. The total number of IPOs for full year 2021 was a record 121, including 12 SPAC acquisitions.
- The high-tech sector continues to lead the pack in IPOs. There were 9 more IPOs in Q4, bringing the total number of Israeli high-tech IPOs during all of 2021 to 75.
- MSCI is seeking feedback from market participants on whether they will still consider the MSCI Israel Index as part of the Middle East investment opportunity set in terms of index inclusion or whether it should be regionally classified elsewhere, particularly in Europe. The implications of this change would be significant for Israeli equities listed worldwide.
- The private Israeli tech sector continues to attract massive investment flows, as early, mezzanine and growth stage companies raised over \$25.6 billion during 2021 — up more than 150% from 2020's record levels.
- Israel has approved and is encouraging a fourth Covid-19 vaccine booster shot for those older than 60 as the country has started seeing an uptick in Covid-19 numbers.



*As of December 31, 2021.

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Israel Equity Market Performance in Q4 2021

Israeli equities, as measured by the BlueStar Israel Global Index (BIGI®), climbed 4.70% in Q4 2021, ending the calendar year up 11.25% 2021. BIGI underperformed international developed markets, represented by the MSCI EAFE index, by 0.53%, and the local TA-125 index, by 24.29% for full year 2021, but outperformed international emerging markets — represented by the MSCI EM index — by 13.79%.

After starting off 2021 with strong momentum, Israeli technology stocks continued to slide in Q4 2021, struggling against other global technology sector indices for full year 2021. The BlueStar Israel Global Technology Index (BIGITech®) dropped 4.26% during Q4, underperforming the Dow Jones US Technology and S&P Global 1200 Information Technology indices by a substantial 45.17% and 37.63%, respectively.

We continued to see a split in how investors view the global Israeli equity market. After a powerful uptrend in 2020 and the beginning of 2021, the high growth technology equities listed on American exchanges experienced a significant correction at the beginning of the second half of 2021 that continued into Q4. However, equities listed on the domestic Israeli exchange, as well as those that generated a majority of their revenue within Israel, performed substantially above their global counterparts as these companies, and indexes, were up significantly. The TA-125 was up more than 35% for full-year 2021 and the BlueStar Israel Domestic Exposure index was up roughly 50% during that same time frame.

ISRAEL AND GLOBAL EQUITY BENCHMARK COMPARISON

Benchmark	Q4 2021 Return (%)	2021 (%)
BIGI	4.70	11.25
BIGITech	(4.26)	(7.94)
MSCI Israel Uncapped	7.22	15.60
TA-125 INDEX	14.77	35.54
S&P 500	11.03	28.71
MSCI EM	(1.31)	(2.54)
MSCI EAFE	2.74	11.78
Israel Domestic Exposure	16.28	49.96
Israel Global Exposure	(1.93)	5.60

*As of December 31, 2021

ISRAEL AND GLOBAL TECH EQUITY BENCHMARK COMPARISON

Benchmark	Q4 2021 Return (%)	2021 (%)
BIGITech	(4.26)	(7.94)
Dow Jones US Tech	14.04	37.23
S&P Global 1200 Info Tech	14.05	29.69
MSCI EM Tech	7.43	9.87

*As of December 31, 2021

TOP AND BOTTOM BIGI PERFORMERS: Q4 2021

Positive Contributors (%)		Negative Contributors (%)	
Partner Communications Co	75.40	Liveperson Inc	(39.41)
Cellcom Israel Ltd	61.16	Fiverr International Ltd	(37.76)
Israel Canada T.R Ltd	48.65	Playtika Holding Corp	(37.42)
Nova Ltd	43.22	Lemonade Inc	(37.16)
Fox Wixel Ltd	42.72	Nano-x Imaging Ltd	(35.38)
Bezeq The Israeli Telecom	39.93	Novocure Ltd	(35.37)
Azorim-investment Develop	39.87	Nano Dimension Ltd - ADR	(32.62)
Israel Corp Limited/The	38.93	888 Holdings Plc	(29.67)
Perion Network Ltd	38.78	Ironsource Ltd-a	(28.79)
Delta-galil Industries	38.52	Compugen Ltd	(27.97)

*As of December 31, 2021

BLUESTAR ISRAEL GLOBAL INDEX 2021 YTD Relative Performance



*As of December 31, 2021.

SECTOR PERFORMANCE (%): Q4 2021

Materials	34.11
Financials	16.96
Real Estate	16.67
Utilities	16.44
Industrials	12.23
Energy	9.99
Consumer Staples	4.79
Communication Services	3.14
Not Classified	0.10
Information Technology	(0.53)
Consumer Discretionary	(14.82)
Health Care	(22.59)

*As of December 31, 2021

One Record After Another For Israeli IPOs as Fourth Quarter caps a Historic 2021

With a plethora of entrepreneurs, innovations, and start-up companies coming out of Israel since it gained independence in 1948, Israel has become known as the “Start-Up Nation” — a name that highlights the entrepreneurship of the Israeli spirit, as well as, the infancy and start-up mentality of the country. But with more and more investors pouring into the country with their checkbooks open, enabling founders to grow their companies to much larger – and stay private longer - both in terms of valuations and employees, Israel has seen a new nickname emerge due to this landscape evolution — the “Scale-Up Nation.”

Israel has been called a land ‘flowing with milk and honey,’ but it has also become a land flowing with stashes of venture capital money and staggering company valuations. As the capital has flowed in, founders have cashed out — exits soared amongst Israeli companies in 2021, especially in the public markets. More than 120 Israel companies went public across the globe with a total valuation of more than \$87 Billion in 2021, a year which saw Israeli companies set all types of IPO records on Wall Street and on the Tel Aviv Stock Exchange.

Though the last three months of 2021 weren’t as frenzied as the first nine months, Q4 still was an impressive end to a record-shattering year. 14 Israeli companies went public in Q4 2021 across all exchanges around the world, with roughly \$3 Billion in total valuations, including two SPAC merger completions. In total, an astounding 121 companies went public during 2021 — 27 of which went public on exchanges outside of Israel — through a combination of traditional IPOs and SPAC mergers. Records were set on both the TASE and on Wall Street, as 94 companies IPOed on the TASE and 23 companies went public between the New York Stock Exchange and the Nasdaq. As usual, High-tech companies ran ahead of the pack, accounting for 75 IPOs, \$78.9 billion in IPO valuations, all 12 of the completed SPAC mergers, and all 21 the IPOs that had valuations greater than \$1 billion.

These numbers dwarfed the records that were set in 2020. 27 companies in total went public on the TASE in 2020 — which, at the time, was the highest number of IPOs since 2007. That number was eclipsed in 2021 already by the end of the first quarter, as 33 companies went public on the TASE during those three months. On the NYSE and Nasdaq, a record seven Israeli companies IPOed during 2020. During June 2021, over just a 20-day span, that number was matched.

With the total amount of yearly Israeli startups at their lowest numbers in more than a decade, and total yearly investments in the Israeli high-tech private sector reaching astronomically high levels, a major evolution is occurring, with more capital flowing to mezzanine and growth rounds. Of funding. This evolution has also created founders whose aspirations are not only to create unicorns, but decacorns.

Once thought of to be the holy grail in the start-up universe, unicorns have now become ubiquitous in Israel. Whereas 16 companies reached unicorn status in 2019, and another 19 more reached this milestone in 2020, 2021 achieved an entirely different level as 42 companies reached unicorn stature by the end of the year. With currently 80 companies in total in the private markets with over a \$1-billion valuation — roughly 8% of the unicorns in the world — the future of Israel’s global capital market seems to be bright with a robust pipeline of potential multi-billion dollar IPOs.

With unprecedented amounts of investment entering the Israeli start-up market, founders have found themselves with the luxury of being able to stay in the game longer and raise more rounds of funding, exiting at much later stages and leading to substantially more multi-billion dollar acquisitions and IPOs.

Sources: MVIS, Start-Up Nation Central, TASE, Israel Securities Authority, Bloomberg LP

BY THE NUMBERS: Israeli High-Tech Companies 2021: January - December

Total Number of IPOs in 2021 (Incl. SPACs)	75
IPOs on the Tel Aviv Stock Exchange	48
IPOs on Exchanges Outside of Israel	27
Total Valuation of all IPOs (incl. SPACs)	\$78.9 Billion
Largest Valuation at IPO	\$13 Billion (Playtika)
Total Number of SPACs 2021	12
Total Valuation of all SPAC IPOs	\$21.4 Billion
Largest Valuation of SPAC IPO	\$11.1 Billion (IronSource)
Number of IPOs in Q4 (Incl. SPACs)	9
IPOs on Exchanges Outside of Israeli n Q3	4

*As of December 31, 2021.

NYSE and Nasdaq Listings

Q4 2021 saw the white hot sizzle of Israeli IPOs lose a some steam, as just three Israeli companies went public on American public equity markets during the 3-month time period. This was down from the 10 IPOs that occurred respectively, in both Q2 and Q3. With that being said, it should be noted that the three IPOs during the quarter were more than half as many that occurred in all of 2019 (five).

The jewel of the quarter was **Innovid**, an Ad-tech company that offers services used by advertisers and publishers for the distribution and management of digital ads. The company was founded in 2007 and raised \$51 million on its way to a \$1.3 billion valuation on the New York Stock Exchange.

One of the more significant activities during the quarter was the removal of **Check Point Software Technologies**, the largest Israeli cybersecurity company, from the Nasdaq-100 Index. The action was taken during the annual rebalancing of the Nasdaq-100, an index of the 100 largest non-financial companies listed on the Nasdaq, and was made effective on December 20, 2021. One of six companies being removed from the index, Check Point had been a part of the Nasdaq-100 for more than two decades, and was the only Israeli company in that widely-tracked index.

For the full year, 23 Israeli companies went public on the NYSE and Nasdaq for a total combined valuation of \$73.3 billion. Additionally, during 2021, two companies went public on the Australian Securities Exchange (ASX), one went public on the Alternative Investment Market (AIM), and one went public on the London Stock Exchange (LSE).

TASE Listings

After an unprecedented start to 2021 for the TASE, one which saw a massive 33 companies IPO during Q1 — far surpassing the 27 total IPOs on the exchange for full year 2020 — the pace of IPOs slowly declined as the year progressed. In the quarters since, 30 companies went public during Q2 and 21 companies went public during Q3. The rate of IPOs on the TASE continued to slow down during Q4, as just 10 companies IPOed on the exchange for a combined \$955 million.

Though the numbers and highlights from Q4 might seem small in comparison to the middle of the year, the Tel Aviv Stock Exchange still produced a great quarter with several major IPOs. The highlights from the quarter were the initial public offerings of **Icon Group** and **Epitomee Medical Group**, which IPO'd at \$270 million and \$238 million, respectively. Epitomee, which was founded in 2005, is a biomed company that develops paradigm-shifting ingestible devices that deploy targeted therapies along the GI tract.

A Tale of Two TASE Eras: 2015-2020 Vs. 2021

	2015-2020	2021
Number of IPO's	67	94
Total Valuations of All IPO's	\$12.17bn	\$13.67bn
Technology IPOs as a %	29.8%	57.4%

*As of December 31, 2021

In total, 94 companies went public on the TASE in 2021, more than 3 times more the aforementioned previous record of 27 from 2020. These companies raised a total of \$3.2 billion on the way to a total combined IPO valuation of \$13.7 billion during full year 2021. Of the some 540 number of companies listed on the TASE, more than 17% were listed during 2021, and clear indicator of the growth of the TASE and also the desire for Israel to retain its home-grown talent and incentivize companies to list domestically. The technology sector led the way with 54 IPOs, with 20 companies from the Internet & Software sub-sector and another 10 companies coming from the CleanTech sub-sector. The highest sector outside of technology was commerce and services, which had contained ten companies.

U.S. SPAC Merger Completions

The SPAC market cooled off for Israeli companies during Q4 2021 because, essentially, the SPAC market cooled off for everyone. As the market became over-saturated with SPACs, and with post-SPAC mergers that failed to live up to expectations, less and less companies chose to pursue that avenue to go public. Additionally, redemptions have more than doubled, creating a lot of uncertainty around the eventual completion of SPAC mergers and IPOs of companies going through that channel.

These were just some of the contributing factors to the petering out of the SPAC market for Israeli companies during the last quarter of 2021, as just 2 companies — **Innovid** and **Arbe Robotics Ltd.** — went public via SPACs, combining for less than \$2 billion in total valuation.

In total, 12 Israeli companies went public via SPACs in 2021 accounting for nearly \$31 billion in combined valuations. Some of the biggest IPO names of the year — **IronSource**, **Taboola**, **Payoneer**, **Talkspace** — went public via SPACs. The market peaked in June, when 4 Israeli companies announced completed SPAC mergers and started trading within one week of each other. With that being said, it appears as if the SPAC IPO buzz will continue into 2022, as both **Pagaya** and **eToro**, both multi-billion IPO valuations, are awaiting the completions of their mergers.

Year In Review For the Biggest IPOs of 2021

2021 was not only a banner year for the amount of Israeli companies that went public, but also for the values of these companies as well. As mentioned, **Playtika**, a pure-play video gaming company that offers free-to-play video games on social networks and customized gaming experiences, provided the first major IPO for the global Israeli equities market when they IPOed in January with a market capitalization of more than \$13 billion — which also happened to be the biggest IPO of the year.

Monday.com, which launched in 2014, went public in June with a valuation of \$6.8 billion. A cloud-based platform that allows users to create their own applications and work management software, Monday.com saw its market capitalization rise to \$7.5 billion by the end of its first day of trading, and currently has the highest market cap of any Israeli company the IPO'd in 2021, at more than \$10 billion, as of Tuesday, January 11, 2022. **IronSource**, a SaaS-based platform, and **SentinalOne**, a cybersecurity company, secured the second and third largest IPO valuations of the year for Israeli companies when they went public on consecutive days in late June with valuations of \$11.1 and \$9 billion, respectively.

Between the TASE and all the exchanges outside of Israel, June was the busiest month for IPO's for Israeli companies, by far. 23 companies went public around the globe during June, which included four SPAC mergers. Every company that went public on Wall Street in June had at least a billion-dollar IPO valuation.

BlueStar Index Composition: December 2021 Semi-Annual Rebalance

With the start of 2022 upon us, the flagship BlueStar Israel Global Index® (BIGI®) and the BlueStar Israel Global Technology Index (BIGITech®) had their semi-annual review and rebalance effective as of December 9, 2021. With a steady stream of multi-billion dollar valuation IPOs during H2 2021, both indexes saw a fair amount of turnover with the Q4 2021 review.

Six constituents were added to BIGI®, four of which were technology companies that went public right after the last semi-annual review in June 2021. However, even with the new additions, the total number of components in the index fell, as seven companies were dropped from the index.

Whereas the turnover for BIGI® had a marginal impact on its total number of constituents, BIGITech® saw a seismic shift in its composition with 14 new additions. These 14 new additions now comprise 20% of the current constituents as of December 2021. When including the new equities that were added during the rebalancing in June, more than a quarter of the index was added during 2021.

Semi-Annual Rebalance of BIGI and BIGITech		
	BIGI	BIGITech
Additions	6	14
Deletions	7	5
Number of Components	111	70

Though **Playtika** had the biggest valuation upon going public amongst that group — at more than \$13 billion — Monday.com currently holds the biggest weight percentage in BIGITech of all the newcomers within the last year.

Perspective on the Regional Classification of Israel Within MSCI's Index Family — and other Global Indexes

Background

Israel, a member of OECD since 2010, was 'graduated' from Emerging Market to Developed Market status by the world's major global benchmark providers more than a decade ago. Close observers of the Israeli capital markets will recall that Israel was promoted from Emerging Markets to Developed Markets status in 2009 by FTSE, in 2010 by MSCI, and subsequently by S&P Dow Jones Indexes.

While Israel's graduation by the three primary global index providers was widely considered appropriate and well-justified, its impact on the local stock exchange was initially negative. Israel went from being a medium-sized market within the Emerging Markets indexes to a tiny weight in global Developed Market indexes. Furthermore, Israel was somewhat 'orphaned' — being classified as the only "Developed Middle East" market — and was excluded from key regional indexes. Specifically, regarding MSCI, the world's second largest index provider to ETFs and index funds but also the dominant benchmark guiding global equity investment allocation, the history has been somewhat convoluted with major changes in the MSCI Israel index itself in 2015, and a high-profile consideration of Israel's regional category.

The MSCI Israel Index was reclassified from Emerging Markets to Developed Markets in the May 2010 Index Review, following a lengthy public consultation that began in July 2008. Israel was included in the MSCI World Index, the MSCI EAFE Index, and the MSCI Europe & Middle East Index. Since then, Israel is the only equity market classified as "Middle East" in the MSCI World Index (MSCI's primary Developed Market benchmark) and stands alone in the 'Developed Middle East' category. In June 2012, MSCI's annual market classification review sought feedback on the regional classification of the MSCI Israel Index and whether it should be part of the European investment opportunity set. Based on feedback received from international institutional investors at that time, most of them did not consider Israel to be part of their European investment opportunity set. Israel's regional classification therefore remained unchanged.

Recently, in late-2021, MSCI began to seek feedback again from market participants on whether they still consider the MSCI Israel Index as part of the Middle East investment opportunity set in terms of index inclusion or whether it should be regionally classified elsewhere. MSCI will be soliciting feedback from market participants through the end of **January 2022**, and will announce the results of the consultation on or before **February 28, 2022**. (Investors and stakeholders can participate via <https://www.msci.com/consultation-Israel>).

The motivation for this 're-review' has been actively encouraged by the Tel Aviv Stock Exchange and the Israel Securities Authority, both emphasizing that Israel is not classified in these any practical geographic region, namely the MSCI European indexes. It is important to note that the MSCI Israel Index **is** included in the MSCI EAFE index, MSCI World and World ex-US, MSCI Kokusai, and the MSCI Europe & Middle East Indexes, with the latter being launched in 2010 concurrent with Israel's graduation.

The Case for Inclusion of Israel in the Europe regional classification

A wide range of financial service executives and regulators in Israel believe that the inclusion will also benefit the investors because it will lead, among others, to the diversification of the European portfolio with exposure to the Israeli robust tech sector and strong local currency. In fact, the Israel Securities Authority has been actively promoting the inclusion of Israel in MSCI Europe.

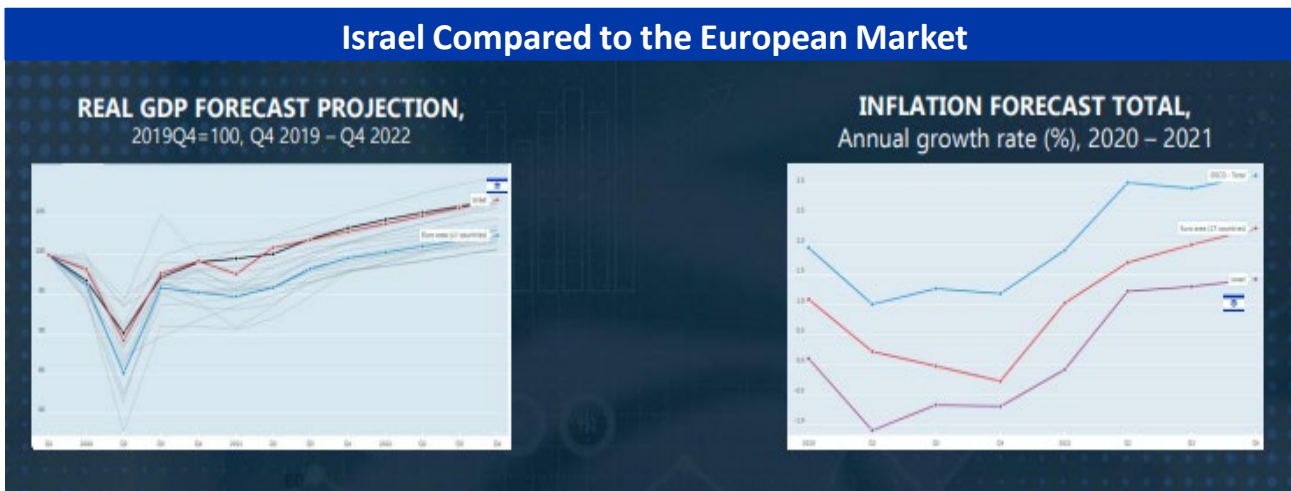
Over the past few weeks, market participants have made several **key points** to consider which they believe support the inclusion of Israel within MSCI Europe, such that Israel is *de facto* not allocated to any major geographical region in MSCI, as it is the only developed country in the Middle East and there is no multi-country index for this classification. Additionally, they have made the case that many global Developed Market Investors miss out today on the diversification that comes with exposure to Israeli equities.

Furthermore, Israel has a long history of association to the EU Framework Program for Research and Innovation. Since 1996, it has been a successful cooperation with over 5,000 joint research projects. In late 2021, an agreement associating Israel to Horizon Europe entered into force, enabling Israeli researchers, innovators, and research entities to now participate in the EU's €95.5 billion programme for research and innovation on equal terms with entities from the EU Members States. Israel's association is an opportunity to continue and further deepen research cooperation with the focus on mutual priorities such as the twin green and digital transition, public health, as well as, ground-breaking innovation.

In addition, there has been steady integration efforts between the Tel Aviv Stock Exchange (TASE) and European and global exchanges. Notably that there are Dual-listing arrangements for companies between the TASE and six global exchanges, including the London Stock Exchange, as well as, significant new dual-listing arrangements for ETFs, between the TASE and six European exchanges, including the LSE, Euronext, Deutsche Borse/Xetra, Borsa Italiana, and SIX Switzerland.

Furthermore, Israeli equities, whether listed in Tel Aviv, London, NYSE or Nasdaq, display Developed Market standards of trading and operational integrity. Using MSCI's own criteria, Israel has a “++” rating for all criteria except Information Flow and Clearing and Settlement (the latter criteria is because Israel's settlement cycle is T+1 and a DVP mechanism different than international standards).

Finally, some arguments for inclusion of Israel in the European benchmark are centered more on active long-only and long-short investors, including how the inclusion of Israel will improve the composition of MSCI Europe's fundamentals, providing a boost to EPS, cash flow per-share and a decline in net debt per share. Market participants and intermediaries also claim that Israel being part of MSCI Europe will enable active fund managers that have mandates tied to European benchmarks to invest in more Israeli stocks, and make dedicated allocations to Israeli equities. Similarly, investors whose mandates are tightly constrained by their European benchmark missed out on more than 40 Israel unicorns that went public on global markets (mostly on the TASE, NYSE and Nasdaq) in the past few years, and could miss out on some of the major Israeli private companies currently in the IPO pipeline, as Israel is home to approximately 8% of the world's tech Unicorns.



Source: OECD; November 10, 2021

Implications For Israel Equities of the Forthcoming MSCI Decision

Inclusion of Israel in MSCI Europe would be a significant development, and could have a material market impact. The *pro-forma* weight in MSCI Europe (standard) would be approximately 1.3-1.4%, and just over 1.5% in Europe IMI (which includes Large, Mid and Small cap stocks). Notably, Israel would likely achieve a weight of more than 2.5% in the MSCI Europe Small Cap Index.

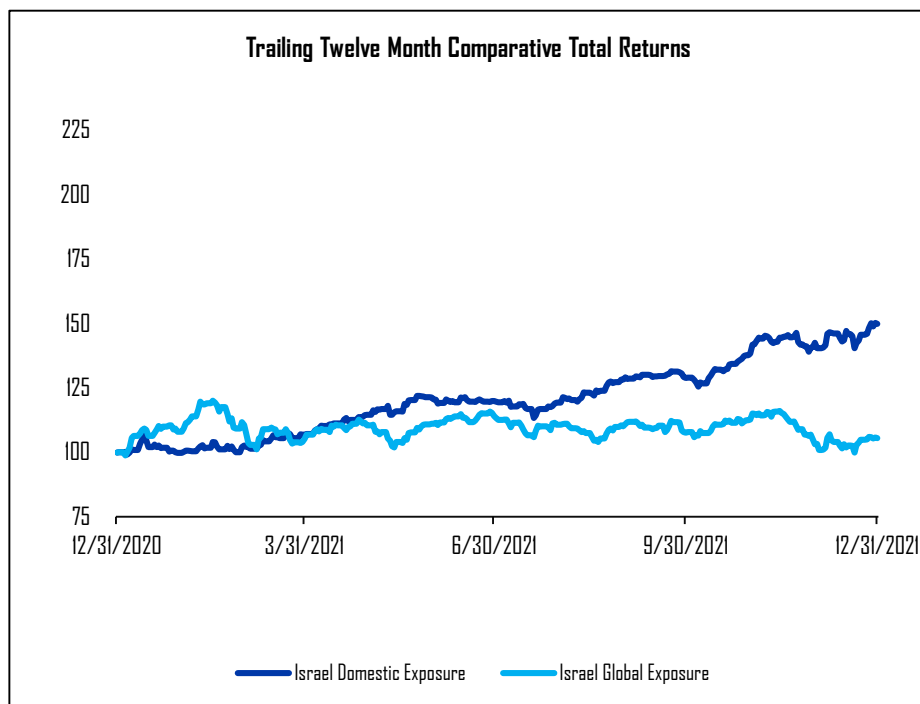
If Israel was added to 'MSCI Europe' and its variants, it would also become a constituent of more than fifty ETFs listed worldwide that have a benchmark derived from MSCI Europe, including the aforementioned Europe IMI, Europe Small-Cap, Europe Value/Growth, Europe Dividend, Europe ESG, and more.

While it is extremely difficult to accurately measure prospective portfolio flows, we would expect approximately \$450 million in flows from US and European ETFs alone, and potentially an additional \$1.5 - \$2 billion linked to global institutional index mandates. Potentially more significant, active managers benchmarked to MSCI Europe would not only likely shift some of their core allocation to Israeli equities (at 1.3% - 1.5% or more of the benchmark, a weight that is too big to ignore), but they would be able to substantially increase technology exposure across their overall Europe portfolio, perhaps overweighting major Israeli tech stocks in the process.

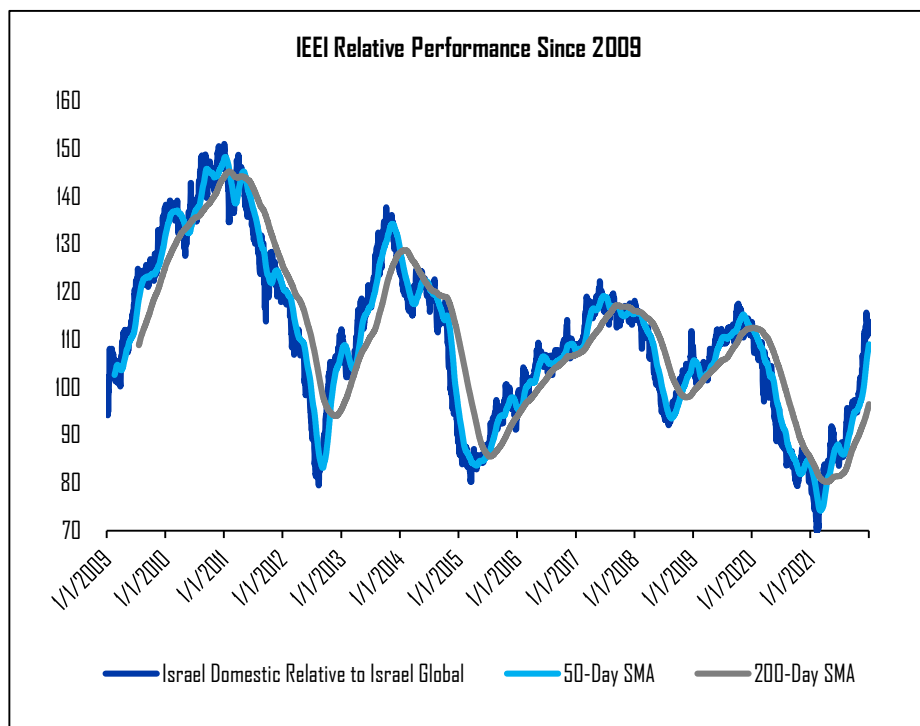
Regardless of the outcome of MSCI's consultation on Israel's regional status, the dialogue amongst investors, index providers, exchanges and regulators is valuable, as it highlights the vital importance of both the country classification process, as well as the impact of country inclusion in regional indexes. Furthermore, MSCI's consultation process is reminding asset managers and pension funds of the fact that Israel – while currently still 'under the radar' as the sole Developed Market in the Mideast region - is a full-fledged member of the Developed Markets as defined by all major index providers, and that the country's equity market had dramatically expanded since its 2009/10 graduation to DM status.

Finally, if MSCI's consultation process the results in Israel's inclusion in MSCI Europe, investors - and competitive pressure - could spur other key Europe benchmark providers, particularly FTSE Russell, S&P Dow Jones, and STOXX, to consider including Israel in their European regional indexes.

Israel Economic Exposure Indexes



*As of December 31, 2021



The coronavirus pandemic had a remarkable impact on the performance of the Israeli equity market as seen through the lens of our **Israel Economic Exposure Indexes**. On one hand, globally-oriented sectors, represented by the **Israel Global Exposure Index**, performed well, but were overshadowed by their domestic counterparts. Israeli stocks with predominantly domestic sources of revenue, represented by the **Israel Domestic Exposure Index**, turned around and performed fantastically, way outperforming its global counterparts.

In late 2020 and early 2021 we suggested 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. Our hypothesis was accurate, as IDEI outperformed IGEI by over 44% for full year 2021.

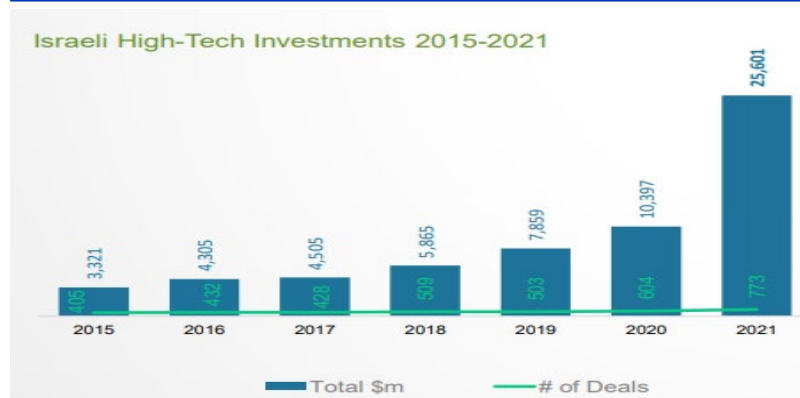
The Bank of Israel ("BoI"), in its report supporting its latest interest rate decision, suggests this trend could continue into 2022. In particular, the Israeli economy is now almost completely open which supports a fast pace of economic growth over the next twelve months. The BoI predicts that Israel's GDP will grow by 5.5% in 2022 and 6% in 2023. Further, the softness in Israeli housing prices over the last few years is giving way to rapid growth. For example, home prices increased by 5.6% over the last 12 months with an increase in the number of new home purchases and slowing new housing starts. Combined, these trends serve to embolden the Israeli consumer by increasing purchasing power and discretionary budgets, which should favor the Israel Domestic Exposure Index over the Israel Global Exposure Index in the months to come.

Scale-Up Nation: Private Israeli High-Tech Sector Continues to Produce Staggering Numbers

The private Israeli technology sector has continued to skyrocket in parallel with the global Israel capital markets — a symbiotic relationship that is propelling Israel to produce multi-billion dollar startups. As investors see how well Israeli equities are performing in the global capital markets, private investors — especially large VC and private equity firms — have accelerated their allocation to early and late-stage Israeli startups, and especially to mezzanine and growth capital rounds. And as more investors put money into Israeli startups, companies are valued at a much higher premium if, and when, they go public. And the cycle has been repeating itself, stimulating those investors who want to capitalize on the success of the Israeli technology sector.

As seen in the chart on the right, investments in the private Israeli tech sector have grown by more than 7x over the last six years. The amount of money invested in private Israeli tech companies for all of 2020 was roughly \$10.3 billion. During the first six months of 2021 alone, that number was eclipsed soundly, as an estimated number of \$11.9 billion was invested in tech companies. By the end of 2021, private Israeli tech companies had raised over \$25.6 billion — a more than 150% increase from the amount of money that had been raised in 2020. The total number of deals also increased by more than 25% year-over-year, jumping to 773 from 604 the year before.

Investments in Private Israeli Tech Companies, By Round: 2013 - 2020



Source: Israel Innovation Authority (adapted from IVC data)

With all this investment entering Israel and boosting the value of private tech companies, founders benefitted greatly by exiting and cashing out with major exits in 2021. For the full year of 2021, there were 238 Israeli High-tech exits (M&As, Buyouts, or IPOs), which amounted for more than \$22.1 billion in deals. These numbers were up significantly from 2020, which saw 145 deals worth \$9.83 billion. With roughly 80 unicorns currently in the private tech sector, and several companies within 20% of reaching that milestone, it appears as if the tech sector will keep on growing and affording its founders multi-billion dollar exits.

Israel Opens Border to Tourists After Brief Closure; Government Approves Fourth Vaccine as Covid Numbers Rise; Political Tensions threaten the Governing Coalition

Israel's International Covid-19 policy in regards to tourists has sparked much controversy over the last few months. After more than a year and a half of shutting down the country to tourists, Israel opened its borders to citizens and non-citizens without quarantine mandates on November 1, 2021. However, the opening of the country to tourists was short-lived — the government voted to close the borders less than a month later in anticipation of the Omicron variant, even with a extremely small percentage of the population testing positive for the new strand.

Following the prevention of tourist arrivals into Israel, the government voted to prohibit citizens from traveling back-and-forth from a list of "red" countries, which included the United States — a list that was as high as 70 countries at one point in late-December. This policy only took action for a brief amount of time, as the country opened its borders to tourists from all countries as of January 9, 2022.

In the meantime, Israel has struggled to contain the Omicron variant within its own borders, as numbers have continued to rise at an alarming rate. The government predicts that positive cases will peak in mid-to-late January with an estimate of nearly 33% of the population that will contract the virus. The government also decided to approve and encourage a fourth booster vaccine shot, which has been made available to citizens over the age of 60. Although there has been no medical evidence on the efficacy of the new booster shot, the government has approved in an effort to try to reduce hospitalizations.

The planting of trees by the Jewish National Fund (JNF) in areas of the Negev near informal Bedouin towns has created a passionate debate in the government. Mansour Abbas, a Knesset member who is part of Ra'am (United Arab List) has threatened to stop voting with the coalition after what he perceived to be unlawful actions by the JNF. Following the initial tree planting, there were violent riots in the South, in which multiple people were arrested. This led Ra'am — for the first time — to withhold its vote from the governing coalition in the Knesset. Until this crisis is resolved, the tension amongst other government members and Ra'am will threaten the Bennett-Lapid coalition, creating political instability for the first time since June of last year.

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