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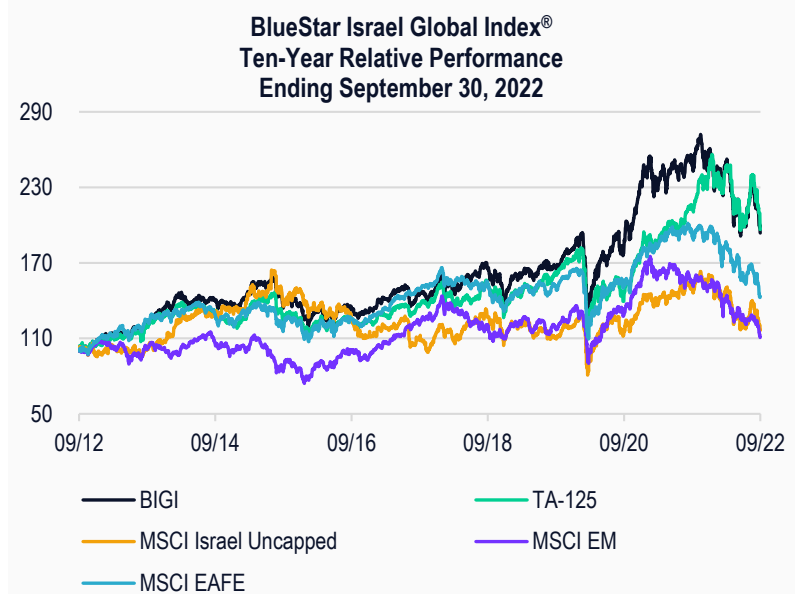
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ISRAELI EQUITIES FALL IN LINE WITH GLOBAL MARKETS; REGIONAL PEACE AND ECONOMIC COOPERATION CONTINUES TO STRENGTHEN; ISRAEL'S CURRENCY CONTINUES TO WEAKEN.

Highlights:

- Israeli stocks, as defined by the BlueStar Israel Global Index® (BIGI®), declined 2.41% in the third quarter of 2022, outperforming developed international equities by 6.88%, as measured by MSCI EAFE.
- Israeli technology stocks, as defined by the BlueStar Israel Global Technology Index™ (BIGITech®), lost 3.06% in Q3, underperforming the Dow Jones US Tech and S&P Global Tech indexes for the quarter but retaining their lead year-to-date.
- Mobileye became a publicly-traded company for the second time in early Q4 following its successful IPO at a valuation of more than \$16.5 billion USD, Wall Street's largest IPO in 2022.
- Domestically-oriented Israeli stocks continued to outperform their globally-oriented peers as they reach overbought levels on a relative basis.
- Israel's geopolitical position continued to improve in Q3 after reaching an historic agreement with Lebanon after a decade-long dispute with Lebanon over its shared maritime border.



Israel Equity Market Performance

Israeli equities, as defined by the BlueStar Israel Global Index® (BIGI®), were down 2.41% in Q3 2022, bringing year-to-date losses to 25.12%. In Q3, BIGI outperformed international developed markets represented by the MSCI EAFE index by 6.88%, and underperformed the local TA-125 by 0.41%. The Israel Domestic Exposure Index outperformed the Israel Global Exposure Index by 9.05%.

The BIGITech® declined 3.06% in Q3 2022 while emerging market technology equities, as defined by MSCI EM Tech, fell 15.45%. To-date the BlueStar Israel Global Technology Index is outperforming the Dow Jones US Technology Index and the S&P Global 1200 Information Technology Index by 4.64% and 3.27%, respectively.

Similar to Q2, the best performing sectors of the Israeli market were linked to commodities or those with reliable cash flows and reasonable valuations: Energy, Utilities, and Health Care. The worst performing sector in Q3 2022 was industrials, realizing a decline of 19.89%.

One piece of positive news in early Q4 was the IPO of Mobileye at a valuation of more than \$16.5 billion USD. This is the largest Wall Street IPO this year and more than \$1 billion USD greater than what Intel had paid to acquire the advanced driver assistance systems company some years ago. Mobileye was a component of the BlueStar Israel Indexes before Intel's acquisition and is still considered an Israeli company as it retained most of its operations in Jerusalem, Israel.

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 or inverted 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.

The global economic macro backdrop is putting pressure on the Bank of Israel's decision to front load interest rate hikes despite noticeably lower inflation in Israel than most OECD countries. In our opinion, this would be to protect the Shekel from experiencing further devaluation as global economies move forward with hawkish monetary policy. The Bank of Israel recognizes inflation and exchange rates as important transmission mechanisms for monetary policy and thus has increased the interest rate by 0.75 percentage points to 2.75 earlier in October.

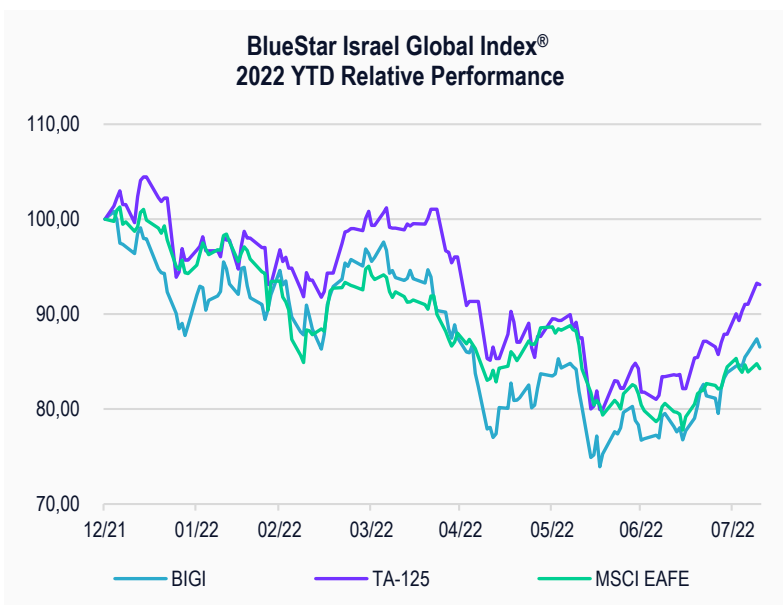
We continue to believe that the sectors and segments that have held up the best during the bear market will also be leaders in the next bull market.

ISRAEL AND GLOBAL EQUITY BENCHMARK COMPARISON		
Benchmark	Q3 2022 Return (%)	2022 YTD (%)
BIGI®	(2.41)	(25.12)
BIGITech®	(3.06)	(30.70)
MSCI Israel Uncapped	(1.72)	(26.67)
TA-125 INDEX	(2.00)	(19.85)
S&P 500	(4.88)	(23.87)
MSCI EM	(11.57)	(27.16)
MSCI EAFE	(9.29)	(26.76)
Israel Domestic Exposure	(0.59)	(19.74)
Israel Global Exposure	(9.64)	(39.38)
Israel Infrastructure	1.42	(14.08)

ISRAEL AND GLOBAL TECH EQUITY BENCHMARK COMPARISON		
Benchmark	Q3 2022 Return (%)	2022 YTD (%)
BIGITech®	(3.06)	(30.70)
Dow Jones US Tech	(7.43)	(35.34)
S&P Global 1200 Info Tech	(7.30)	(33.97)
MSCI EM Tech	(15.45)	(40.54)

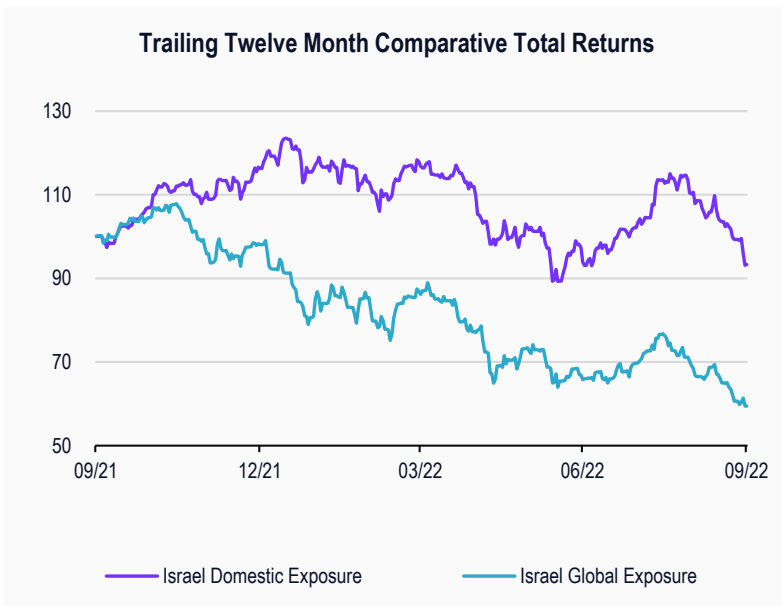
TOP AND BOTTOM BIGI® PERFORMERS: Q3 2022		
Positive Contributors (%)	Negative Contributors (%)	
Plus500 Ltd	9.31	Cognyte Software Ltd (62.42)
Ituran Location And Control	6.99	Kornit Digital Ltd (61.66)
Opko Health Inc	4.55	Fiverr International Ltd (54.79)
Elbit Systems Ltd	4.27	Property & Building Corp 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 (%): Q3 2022	
Utilities	10.31
Energy	9.30
Health Care	6.88
Financials	0.52
Consumer Discretionary	(0.12)
Communication Services	(1.58)
Consumer Staples	(2.10)
Information Technology	(3.50)
Real Estate	(4.30)
Materials	(8.16)
Industrials	(19.89)



Israel Economic Update and Israel Economic Exposure Indexes

In late 2020 we provided evidence to suggest that domestically-oriented Israeli stocks could begin to recover against their globally-oriented peers following a period of deep underperformance during the Corona virus-driven bear market. 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%, and has continued to outperform in 2022 by nearly 20%.



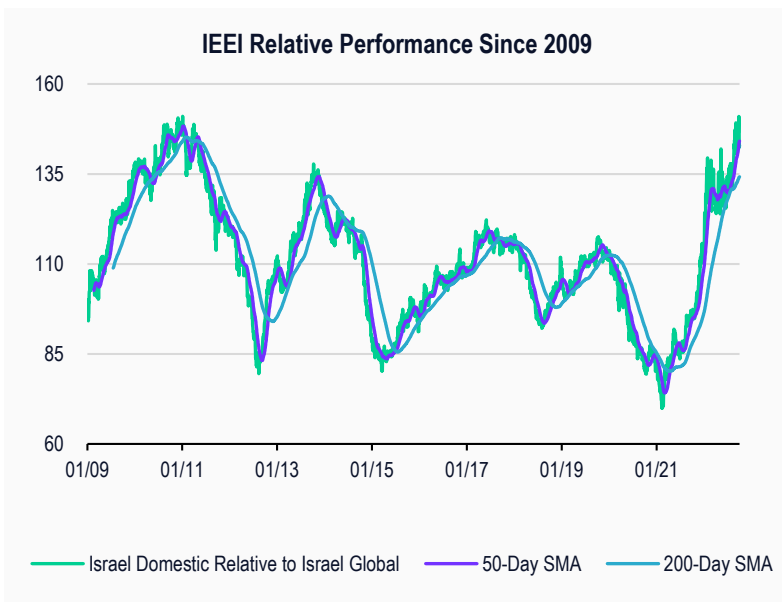
In the last two quarters we noted that even as the Israel Domestic Exposure Index approaches over-bought levels compared to the Israel Global Exposure Index, there are major global (identified on the previous page) and local trends underway that could cause the relative outperformance to continue,

While the macro backdrop for continued outperformance by Israeli domestic companies continues to remain intact the “IEEI Relative Performance Since 2009” chart suggests a high probability of a relief rally for the Israel Global Exposure index.

The Israel Global Exposure Index is primarily composed of growth stocks in the information technology, biotechnology, and clean energy spaces. These are all considered “long duration” stocks, meaning their valuations are more sensitive to changes in interest rates because their potential for earnings occurs further in the future than “short duration” stocks.

Economic data out of the US in early Q4 shows that the impact of higher interest rates and inflation are beginning to cool the economy, giving the Federal reserve reason to pause or decelerate interest rate hikes. If this scenario plays out, it could allow long duration stocks to rally.

Looking past the next couple of months, we expect the global economy to continue to decelerate as stagnating or falling real wages and higher interest rates eat into consumers ability to spend and companies propensity to invest in capex projects. In this scenario domestically-oriented Israeli stocks should do well as they are relatively isolated from global macro and market trends.



Sources: MarketVector Indexes™, Bloomberg LP

Israel's Stable Economic and Geopolitical Fundamentals stand in Contrast with a Volatile Domestic Political outlook and Bearish Equity Markets.

Overview

Despite the grinding downward trend of Israeli equities since the start of 2022, the strong economic fundamentals and favorable geopolitical shifts experienced by Israel this year stand in sharp contrast to its bearish stock market. Furthermore, key elements of Israel innovation and the Israeli Tech ecosystem continue to evolve positively, with steady funding and acquisition activity in 2022, albeit at lower levels than 2020's and 2021's record years. Additional Economic and Tech Developments include two well-telegraphed Bank of Israel Interest rate increases in August and the start of October. Overall, Israel is generating Impressive GDP growth amidst global headwinds, has achieved a rare Budget surplus, and has made significant progress in reducing its Debt:GDP ratio back toward its historic pre-pandemic lows

A more negative development could be the upcoming Israeli parliamentary elections – the country's fifth election in four years – which as of this writing major polls indicate could result in a another near-tie between major factions, resulting a potentially deadlocked coalition situation. The ongoing and very positive diplomatic and regional economic developments tell a very different story and offer investors an alternative to the 'doom and gloom' of global markets.

Shifting Geopolitics and its Economic Impact

- Historic agreement with Lebanon on maritime border and Natural Gas production with hopes for Palestinian gas exploration on horizon
In mid-October, Israel and Lebanon indicated their mutual agreement to US mediators of terms on a de facto maritime border that mostly resolves a dispute of more than a decade's duration which restricted energy exploration by both countries.

While there remains much uncertainty over the long-term viability of the agreement, given Hezbollah's strong influence within the Lebanese government, strong support by the US and France, combined with Lebanon's desperate economic need for hard currency, provide medium-term durability. France's Total is likely to begin exploration in the now delineated waters above the 'Qana' field. Furthermore, this agreements seems to have stimulated momentum in developing long-stalled natural gas exploration in the "Marine" field off the waters of Gaza, via cooperation between Israel, the Palestinian Authority, Egypt and the US.

- Continued slow but steady improvement in Saudi Arabian-Israeli relations
Once a glaring tension point in Arab/Israeli regional politics, the two countries took de facto steps toward normalization this July, including Saudi granting of aviation overflight rights for Israeli aircraft and all other airlines flying to/from Israel. Furthermore, major and investment deals are currently underway between two countries – especially medicine, agriculture, cybersecurity and energy - signaling a new era of regional trade and prosperity

- United Arab Emirates (UAE) relations
The benefits of 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 – are now accelerating, most notably with the United Arab Emirates. Following the historic UAE-Israel Free Trade Agreement, 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 DefenseTech, clean energy, AgriTech, and cybersecurity.

- Steady growth of economic ties with other Abraham Accord countries, as well as with Egypt and Jordan
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. Since then, a number of academic and research agreements have been signed and Israel's Check Point Software has opened an office in

With Egypt, Israel has agreed to increase R&D cooperation and announced plans to develop a commercial crossing point at Nitzana in the Negev, 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.

- 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.

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. Since then, the Israeli Knesset and South Korea's National Assembly both ratified the treaty, which will take effect on December 1st. The FTA will have an immediate benefit to Israeli auto buyers, with tariffs on very popular Korean vehicles to be eliminated, as well as reductions of tariffs on semiconductors and other electronic equipment. Furthermore, the agreement opens up major avenues of collaboration and investment between two of world's most innovative nations.

Israel's Economic Resilience will Endure even after upcoming Election and Potential Narrow Coalition

Business, Capital Markets and Technology Ecosystem

Israel Technology and Start-Up/Scale-Up ecosystem continued to experience retrenchment during the third quarter of 2022, deepening the correction from the exuberance of 2021. Israeli start-ups raised \$.57 billion in Q3 2022 according to IVC-LeumiTech. This was 58% lower than Q2 2022 and 55% lower than the same quarter last year. 191 foreign investors were active in the Israeli funding market during Q3, and 112 Israeli investors – both figures were the lowest since late 2019. Therefore, as we enter the last quarter of the year, it seems likely that technology funding and transactions have essentially returned to 2018/2019 levels

However, there are a few 'green shoots' visible on the horizon. While volatility of public Israeli technology stocks continued into Q4, the lows from early-Summer seem to have held. Furthermore, US activist investor Starboard Value Partners has taken a large position in Israel's Wix.com, and its pressure for value creation has seen the stock rally more than 25% from its June lows.

Finally, the long-awaited 'Re-IPO' of Mobileye, the Jerusalem-based autonomous driving and automotive safety subsidiary of Intel, will likely have a significant impact for Israeli technology companies, and capital markets in general. The partial spin-out by Intel of Mobileye via a Nasdaq IPO, is expected at end-October. The proceeds will be much lower than initially planned – likely around \$16 billion as opposed to initial hopes for \$30 billion or more - but the transaction still underscores Intel's commitment to allow Mobileye to grow on its own, while still maintaining a major stake in the company. Even at its reduced size, Mobileye could still be the largest IPO on Nasdaq this year, will certainly be the largest Israeli IPO even, and potentially a positive harbinger for future liquidity events for Israeli technology companies.

Strength of the Israeli economy and Resilience of Key Sectors

Israel's macroeconomic fundamentals are mixed, but remain significantly stronger than almost all other developed economies. After posting surging GDP figures for 2021, the Israeli economy contracted a revised 2.7% during Q1 2022, but surged 6.8% in the second quarter. Israel's inflation rate now stands at 5.5%, higher than at the start of the year, but still well-below the US and most European countries. In response to both growth and inflation figures – and rate increased by the US Fed and ECB, the Bank of Israel raised interest rate by 75 BP in August and again on October 3rd, bringing its key lending rate to 2.75%

Yet at the same time, the Israeli government's budget is now in an unprecedented fiscal surplus, and the Bank of Israel forecasts continued improvement in the country's Debt:GDP ratio, toward 65% this year and 63% in 2023. This represents a substantial improvement from the surge in Debt:GDP to as high as 70% during the worst of the COVID-19 crisis, further demonstrating Israel's fiscal prudence in both absolute terms and especially when compared to other OECD Developed economies.

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. More optimistically, the Bank of Israel now forecasts 6% GDP growth for 2022, and 3% growth in 2023.

While tech investment and funding has slowed (as mentioned above) it has retracted much less than anticipated in 2022 YTD. Further, the Israeli Real Estate market remains robust, despite tech's slowdown. 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 now-banned Russian Gas).

Upcoming Knesset elections on November 1st could be very close, but economic policies are expected to remain largely unchanged regardless of ultimate coalition

On November 1st, Israel will conduct its fifth parliamentary election since April 2019. Polling conducted two weeks before the election indicates a slight edge toward former Prime Minister Benjamin Netanyahu and his Likud party, but a governing majority would only be possible if he included far-right parties in the coalition. Likud is expected to get the most seats, with Yesh Atid led by current acting Prime Minister Yair Lapid polling second with approximately 25 seats. Likud's Netanyahu and his right-leaning allies plus the religious parties collectively polling 59-60 seats. Lapid's outgoing coalition is polling at 57 seats or less, and thus would only be able to form a government with the support of some or all of the Arab parties. The 'worst case' outcome would be if no coalition can be formed, and Israel would face significant uncertainty and possible new elections.

If former PM Netanyahu – with the support of the religious parties – was able to form a government, there could be a slight negative budget impact, as the religious parties will demand increased spending for their communities as the price of entering a government. However, as with every election since the mid-2000s, every Israeli government has supported the broad market-based economic reforms that have supported Israel strong economic growth for the past dozen years.

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