



Stress-testing The Bull Case For Israeli Tech In Australian Global Portfolios

Portfolio Attribution

03 February 2021

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It is indisputable that the [global central bank led Reflation upsurge](#) is stoking listed and off-market technology plays from London to Bangkok, Tokyo to Shanghai-Shenzhen and of course Silicon Valley.

Beyond the recent absurdities seen in [Bitcoin](#) and [Gamestop \[GME:US\] monkey business](#) – with a near [non-existent domestic ASX quoted tech sector here on onshore Australia](#) – savvy Australian global investors have had to increasingly consider Mainland Chinese, Taiwanese or over-concentrated US technology majors as their access point to this [global Risk-On bull run](#).

Cite:- [Quantum Supremacy: Complicated Technologies Define Realpolitik, Hegemony & Wealth](#), 22 October 2020

Cite:- [South Korean Bourses Surge During the Great Corona Crisis: An Alternative To Pax Sinica & The American Technology Rally](#), 23 August 2020

Cite:- [How Australian Investors Should Navigate Asia's Fintech Race](#), 8 May 2019

But for all the warranted concerns and malcontent flagged over the most recent thirty-six months regarding Chinese, Asia-Pacific and US overexposure, there exists increasingly robust opportunities to support the Israeli start-up ecosystem, which remain in concert with our values and respects the primary tenets of our [Responsible Investing](#) approach.

Cite:- [Picking Winners Not An Exact Science](#), 20 September 2014

Cite:- [Looking For Opportunity In Meeting The Challenges Of Cyber Security](#), 10 September 2016

When [Israel first made the cross-over from emerging to developed market status back in 2009-2010](#), following re-classifications by MSCI and FTSE, the country lost some weight

in investor portfolios, as it went from being a reasonably large weighting in emerging market indexes and the funds that track them, to a minuscule portion of the developed market indexes it was now being included in.

Cite:- [The Levant And Law of Unintended Consequences: Emerging Markets Northwest Of The Arabian Plate](#), 25 May 2020

Israeli technological innovation remains significantly underweighted by traditional market indices and to confuse matters further, is still considered a “[CEEMEA](#)” bloc constituent (Central & Eastern Europe, Middle East and Africa), which often is touted as an [emerging market \(“EM”\) sub-categorisation](#).

Cite:- [CEEMEA & US Dollar Liquidity Crisis](#), 9 October 2018

Cite:- [CEEMEA Region Offers Investment Opportunities](#), 26 September 2015

Israel ranks nineteenth in the world on the [Human Development Index](#), which measures various indicators such as life expectancy, income per capita and education, putting Israel just two spots behind the US, which has fallen in the most recent index, while Israel has climbed.

It has the third most companies [listed on the NASDAQ-100](#), behind only China and the US [on a per capita basis](#). Israel has more venture capital, more start-ups, more scientists and tech professionals than any other country in the world earning it the moniker, [The Start-Up Nation \(named after an award winning book of the same name published in 2011\)](#).

For Australian global investors seeking Israeli innovation exposures in spearhead sectors such as [Agritech, Cybersecurity, Digital Health, Fintech, IoT and Watertech](#), traditional stock indices have failed to be useful as they remain in 2021 underweight Israel relative to

its importance to technological innovation and economic output.

For instance, the [MSCI World Index](#) – which comprises twenty-three developed market countries and is the yardstick for international stock funds – only has a 0.19% weighting to Israel, despite [Worldometer data](#) evidencing that Israel represents 0.80% of those twenty three countries’ nominal GDP: without even including the higher growth levels, that makes Israel 4x underweight relative to its current GDP outputs.

Much of Israel’s high-tech industry has emerged from former members of the country’s elite military intelligence units, such as the [Unit 8200 Intelligence division](#).

Israel’s start-ups industry began emerging in the late 1980’s and early 1990’s, with the paragon acquisition by [AOL](#) of the [ICQ messaging system](#) developed by [Mirabilis](#) (this author recalls his ICQ I.D. was [428666](#)).

The [Yozma Programme](#) (Hebrew for “initiative”) from the government, in 1993, was seminal: It offered attractive tax incentives to foreign Venture Capitalists (“VC’s”) in Israel and promised to double any investment with funds from the government; this came decades ahead of most western governments.

Israel’s cogent combination of a questioning culture, tradition of national military service, higher education, the widespread use of English, appetite for risk and team spirit made for a fertile place for fast-moving companies to appear, with their high-tech cluster coming to be dubbed, [“Silicon Wadi”](#) ([Wadi Rum](#) being the iconic and religiously significant desert buttressing Israel into Jordan and Saudi Arabia; the desert is also where many Hollywood blockbusters are filmed including [Star Wars](#)), with the cluster found

across Tel Aviv, Herzliya and Jerusalem.

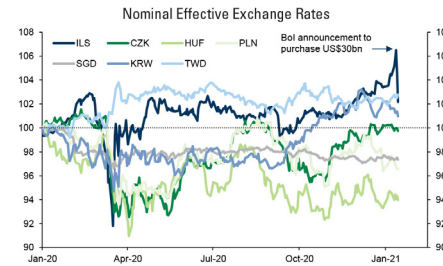
The remaining demur for Australian domiciled global investors is the fact that among the [Tech Currencies](#) – The New Taiwan Dollar, or TWD, the Singaporean Dollar, or SGD and the South Korean Won, or KRW – the Israeli Shekel, or ILS, has traded strongly over the pandemic, barring a sharp but short-lived depreciation in March 2020 but henceforth ratcheting up by fourteen percent on a nominal trade-weighted basis over the past two years, with the pace of that appreciation accelerating in fourth quarter 2020.

The paradox of this is it represents a burgeoning Israeli economy, with the Shekel’s appreciation underpinned by strongly supportive macroeconomic fundamentals – the strength of its balance of payments situation, improvements in its terms of trade and more recently, positive news on the speed of its vaccine roll-out, with [Israel leading the world in COVID vaccinations per capita](#) as of February 2021.

Because of the strength of the Shekel *vis-à-vis* US and Australian Dollars, one work-around for Australian global investors is to review the financial sector’s [Rockstar](#), [Cathie Wood’s, ARK Israel Innovative Technology ETF](#) [IZRL:US] or [BlueStar’s Israel Technology ETF](#) [ITEQ:US], both of which are quoted and priced in US Dollars – a far more efficient currency pairing already understood by savvy Australians.

[Stanley Fischer](#), former US FOMC member and also Israel Central Bank Governor, said it best in July of 2017 during his speech on, [“The Low Level of Global Real Interest Rates”](#): the one factor that has been driving interest rates globally lower, the [“global savings glut](#)”, will continue to drive investments into [Risk On](#) plays and found in the Israeli start-up ecosystem are many of those opportunities appropriate for Australians seeking an alternative to China, the US or indeed at home. ■

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The Shekel Has Outperformed Its Peers Over 2020 & Remains Relatively Strong

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