


INVESTING IN THE STARTUP NATION

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There was a time when investing in Israel meant peeling back the tab on an Israel Bonds pledge card during the High Holiday campaign.

That still remains a favourite investment vehicle for many Canadians, but as Israel has moved from an over-regulated socialist economy to a knowledge-based entrepreneurial one, Canadians and other investors from around the world are increasingly getting in on the action.

Israel has developed a reputation as the Startup Nation, a place rich with entrepreneurial spirit and early stage companies that have big ideas, but limited finances. And that is attracting high net worth investors with the willingness to take on some risk to back Israeli startups.

At the same time, retail investors in Canada and the United States can place more limited sums into Israeli mutual funds and exchange traded funds (ETFs) that mirror the return of Israeli indexes and provide investors with exposure to companies in the Jewish state.



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Add in purchases of Israeli real estate, corporate bonds and even currency trading, and investors who want to do a little digging can find multiple ways of putting their cash into Israeli investment vehicles.

Jay Lefton is a Toronto lawyer at the law firm Fasken, who acts as a sort of matchmaker, bringing together well-to-do Canadian investors with opportunities in Israel.

"Canadians in business say to me, I'm looking for an opportunity to invest in technology or products that they think are more likely to be found in Israel," Lefton said. "What I do then is reach out to contacts in Israel and identify the opportunities for them."

Often, it's tech-related products and companies that attract the attention of Canadian investors, include those producing medical devices, biologics and software, he said.

In some cases, his Canadian clients ask him for contacts in Israel who make a product they would like to sell in North America, or they may be looking for an investment partner or a potential company to acquire outright, he said.

"In some cases, I've represented Canadian research institutions to negotiate licensing arrangements and collaborations with Israeli educational institutions."

His clients are generally high net worth individuals, family businesses and others "looking for opportunities to complement what they're already doing."

For some, it's strictly a business investment – they'll just as gladly invest in firms in Boston or Palo Alto, Calif. For others, it's a way to help the State of Israel.

One benefit of putting their money in Israel is that the costs are substantially lower than they would be for a comparable company in the American high-tech meccas, he said.

Ten to 15 years ago, Jewish businesspeople formed the bulk of his clientele doing business in Israel, Lefton continued. "Now, I find there are many non-Jewish businesses that see the value, the opportunity and the potential returns in Israel."

Despite relentless anti-Israel propaganda that advocates boycotts, along with an obvious security risk associated with a country that seemingly is always in a conflict, investors are undeterred, he said.

"For me, it's a passion to be able to make my contribution to Israel by trying to help companies in Israel get visibility in the Canadian market," he said.

For those of more limited means, but with a yen to put their money into Israeli startups, OurCrowd offers the opportunity to play in the same field as the big boys of investing.

OurCrowd was started in 2013 by Israel-based entrepreneur Jon Medved. It describes itself as "driven by the idea that the business of building startups grows bigger and better when the global 'crowd' gains access to venture capital-level investment opportunities."

OurCrowd started by offering investors exposure to Israeli startups and then broadened its reach to include tech companies from around the world.

David Shore, director of OurCrowd Canada, said that, "Investors can choose specific companies, Israeli and global, and/or funds in which the fund managers decide in which companies to invest."

The minimum investment required is US\$10,000 (\$13,000) into a specific company, or US\$50,000 when investing in a fund.

"We are democratizing venture investing," Shore said. "However, investors still must be at a level known as accredited, which means they meet an income or asset test. In Canada, that is \$200,000 of personal income, \$300,000 of household income or \$1 million of net assets, not including their primary residence. Historically, investors in venture capital would have to invest millions of dollars per fund. We are allowing participation at a much lower level."

"We are investing millions of dollars per deal, which we have aggregated from our investors. Investors invest from tens of thousands, up to millions," Shore continued. "We have (about) 160 companies and funds in our portfolio. About 75 per cent are Israeli."

"Our headquarters is in Israel. Israel is one of the world's top centres of innovation, producing more startups per capita than anywhere else, and second in absolute terms only to Silicon Valley. Valuations in Israel tend to be lower than in the United States, which means we and our investors have the potential for higher returns based on initial valuation. Israeli companies tend to be leaders in areas of hard technology, such as cybersecurity, autonomous vehicles, drones and medical devices." Shore cautions that putting money into startups "is a riskier investment with more failures, because many are early stage companies and there isn't really liquidity. You can't trade your investment like a public company stock."

Nevertheless, he continued, "the potential is for higher long-term returns."

Henri Rothschild has seen the benefits of investing in Israeli tech first-hand. As president of the Canada-Israel Industrial R&D Foundation (CIIRDF), promoting and facilitating business partnerships between the two countries is his mission. Established in 1994, the CIIRDF has financed more than 125 collaborative research and development projects, which have contributed to the joint development and sale of more than 60 new global products.

In September, Trade Minister Jim Carr, together with CIIRDF and the Israel Innovation Authority, announced a pilot program to facilitate new cybersecurity solutions for the energy sector.

Getting Canadian exposure to the Israeli cybersecurity sector makes sense for Canadian businesses, Rothschild said, since nearly one-quarter of all global investments in the field take place in Israel.

Overall, Israeli venture capital funds raised \$5.2 billion in 2017, far more than that raised by Canadian venture capital firms, he added.



Interestingly, when it comes to Canadians investing in Israel, “I think very little of the money has any relationship to the Jewish community,” he said. Most comes from large funds run by managers who simply invest for business reasons, not because of any emotional attachment to the state.

Nevertheless, for many Canadian Jews, and even some non-Jews, investing in Israel does include an emotional component. A strong sense of Zionist commitment was behind Clifford Goldstein’s efforts nearly 19 years ago to create an investment vehicle to support Israeli companies.

Goldstein, a lawyer now based in Valley Forge, Pa., created the AMIDEX35 Israel Mutual Fund in 1999. The fund tracks the performance of the 35 largest Israeli companies that are traded on the Tel Aviv and American stock exchanges.

He said that, “At the time, I personally wanted to invest in Israeli companies because of my upbringing,” which he described as Zionist.

When he asked various brokerage firms to direct him to Israeli mutual funds, he was told there weren’t any.

At the time, he explained, everyone thought of “Israel as a socialist country, a poor country, with an image of people in funny hats dancing the hora and draining swamps. With that image, there was no interest.”

Goldstein saw an opportunity there and seized upon it.

Like Israel, the fund contains high-tech companies in the areas of medical imaging, digital printing and website creation, but the bulk of the fund is in the fields of banking, chemicals and insurance. Teva Pharmaceutical Industries is the single highest weighted company in the fund.

In the early days of the fund, most investors were high worth individuals “who recognized the genius coming out of Israel in the high-tech sector,” he said.

There were also “affinity investors like me,” who were interested in countering the BDS movement and trying to compensate for the absence of Israeli companies in other mutual funds.

Investments now range from as low as \$500 to \$100,000. “We wanted to bring Israeli investments to the retail market,” he said.

Since its inception, the fund has earned a little over two per cent per year.

Goldstein acknowledges that it’s been a wild ride. The last 18 years, he said, “have been remarkably volatile.”

AMIDEX35 is not the only way to get exposure to Israeli stocks. The Northern Trust TA-25 fund can also be purchased in New York, while the iShares MSCI Israel Capped Investable Market Index Fund, which is traded on the New York Stock Exchange, tracks a broader assortment of stocks traded primarily on the Tel Aviv Stock Exchange.

VanEck Vectors Israel ETF (ISRA) and the BlueStar Israel Technology ETF are also traded in New York. ISRA tracks the BlueStar Israel Global Index (BIGI), which is comprised of Israeli equity securities.

If you want to acquire Israeli stocks directly, the TSX Venture Exchange in Toronto lists, among others, Adira Energy Ltd., Eco (Atlantic) Oil & Gas Ltd., Siyata Mobile Inc. and Vaxil Bio Ltd. Baylin Technologies Inc., along with Gazit-Globe Ltd., are traded on the Toronto Stock Exchange (TSX).

Fund manager David Fingold cautions that index funds won’t necessarily give people broad exposure to Israeli tech companies. The Tel Aviv Stock Exchange (TASE) lists banks, which have limited growth opportunities, chemical companies, telecommunications companies, whose growth potential is subject to government regulation, along with oil and gas companies. With that sector makeup, the TASE resembles the TSX, he said.

Fingold, who’s the vice president and senior portfolio manager of the Dynamic Global Discovery Fund, said there has not been a lot of interest in Israeli companies in Canada over the years. In the late 1990s, the Dynamic Israel Growth Fund was launched, but it raised only \$5 million. It ended up being merged into the Global Discovery Fund and, under his management, it has included several Israeli companies.

Fingold said he sees value in select Israeli companies and because he is an active manager, the fund’s position in Israel exceeds that of other managers who are constrained by rules limiting their exposure based on a country’s percentage of the MSCI

World index. Since Israel is less than one-half of one per cent of the index, other managers avoid it, but his fund now has positions in Elbit Systems and Strauss Group. It also held Frutarom, a chemicals and flavourings maker, until a few months ago.

As of Sept. 30, the fund's geographic allocation was 8.1 per cent in Israel, behind only the United States and Switzerland, but ahead of Japan, France and Denmark.

Fingold likes what he sees in Israel. "To be blunt, Israel is a safe place to invest. There are a lot of good companies and the competition (meaning other fund managers), for all intents and purposes, isn't likely able to invest in as many companies from the country, as we are not concerned about having similar country weightings to the benchmark."

Fingold cautions that the fund's holdings in Israeli companies could change over time.

As of the end of September, the fund's year-to-date return was 16 per cent, which followed on a 16.2 per cent return in 2017. But what if one wants to purchase Israeli assets, but doesn't understand the stock market, let alone venture capital, and wants to minimize risk?

Well, there's always those Israel Bonds. For many Jews, sending a few thousand dollars to Israel remains a popular option. Every year, Israel Bonds raises between \$6 million and \$10 million in its High Holiday campaign, depending on the situation in Israel, said Raquel Benzacar Savatti, CEO of Canada-Israel Securities Ltd., which sells Israel Bonds in Canada.

Altogether, Israel Bonds raises about \$105 million per year in Canada, making the country one of the strongest supporters of Israel on a per capita basis, she said.

It's no secret what their attraction is, she continued. Since being introduced in 1951, Israel has never defaulted on a payment of principal or interest and "the rates are competitive with like products."

They can be used in registered products like RRSPs, and, while they can't be traded in the secondary market, "they're a good investment for the fixed incomes segment of a portfolio," Benzacar Savatti said.

Most of the purchasers of Israel Bonds hail from the Jewish community, "but there are a lot of friends of Israel investing in Israel Bonds," too, she added.

Bonds are particularly popular because they are affordable. One can invest a small amount – as a bar or bat mitzvah gift, for example – or tens of thousands of dollars.

Investing in Israel Bonds has a psychological benefit, both for those investing and the people of Israel, Benzacar Savatti said. For Canadians, it's a way of creating another attachment to Israel. For Israelis, "they know the Diaspora is there for them. Israel does it to keep the Diaspora connected. It's coming from a lot of people. That's very important."

So peel back the tab. It may not be glamorous and no one will mistake you for a high-tech venture capitalist, but it is a way to invest in Israel. ✨

