

ANNUAL REPORT 2022

The Citizens
of Israel Fund



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Statement by the Chairman of the Fund's Council

The Citizens of Israel Fund (the Wealth Fund) was established in order to preserve part of the profits from the natural resources that we enjoy in our generations for the benefit of the future generations. It reflects an optimistic and long-term perspective that seeks to reinforce the economic integrity of the State of Israel and its energetic independence with a long-term perspective for the benefit of our children, grandchildren and great-grandchildren.

This is the first year that we are using the Fund's profits and from that point of view, and according to the provisions of the law, we decided that such use would also be done by way of investment for the benefit of future generations. We determined that the Fund's profits would be invested in education infrastructure and youth movements and straightening of mental health. We believe that investing in these long-term social goals is important and essential for the existence of a strong society that will place future generations on solid foundations.

We will continue, with God's help, to manage the Israeli economy from a perspective that integrates the needs of the present with vision of the future, with the understanding that we are a link in the chain, which relies on what our fathers prepared for us, builds our special floor and is committed to leaving a better place for those who come after us and continue what we started.

I would like to thank the members of the Fund's Council and the Investment Committee for their important contribution to the Citizens of Israel Fund.

Wishing a kosher and happy Passover to all of Israel,

Bezalel Smotrich
Minister of Finance



**We believe that
investment in long-term
social goals... is important
and vital for the existence
of a strong society.**

Statement by the Chairman of the Fund's Investment Committee

The global economy in 2022 and the beginning of 2023 encountered what can be referred to as a "perfect storm": a number of extraordinary events that occurred simultaneously, including a rise in inflation and increase in interest rates by the central banks after about a decade of zero interest and inflation, a crisis in the high-tech industry, the continuation of the Russia-Ukraine War that led to a surge and volatility in energy prices. All of these and more introduced great uncertainty and volatility in the financial markets, with a significant price decline trend in the stock and bond markets. These declines resulted in high losses for the financial institutions and their various investors in the markets.

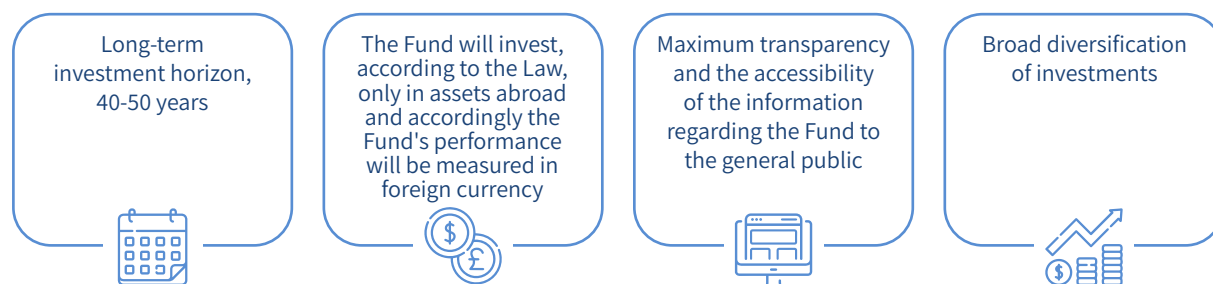
Israel's economy, which is an open market economy with free and significant capital movements, followed the trends in the world and even suffered more significantly in certain fields, such as the high-tech sector because of its substantial weight in Israel's economy.

In the first months of 2023, a considerable gap opened between the performance of the financial markets in Israel as compared to performances of the primary stock markets in the world, and the Shekel weakened after years of strengthening. There is no dispute that the main reason for the underperformance of the Israeli stock market, as well as the weakening of the shekel and the increase in the movement of capital out of Israel, is rooted in concerns of investors over the weakening of the legal system following the changes in the legislation that the coalition is seeking to enact. Reaffirmation of this trend is received by financial investors from warnings and alerts of the rating companies.

The Investment Committee of the Citizens of Israel Fund began operating in the middle of 2022, when, according to the Law, the financial assets reached the amount of one billion Shekels. We, as members of the Investment Committee, feel the weight of the responsibility on our shoulders as we decide on the optimal investment policy that will provide the highest return for the benefit of future generations. For this purpose, we studied the investment policies of entities similar to ours and heard various experts.

It is noted that the Fund receives its income from natural resources that are, by definition, perishable products. The economic benefit from these products should be reflected many decades in the future.

At the first meetings of the Fund, we formulated several principles:



Shortly after the beginning of the Investment Committee's operation, we formulated a short-term investment policy that was approved by the Fund Council. This policy will apply until the formulation of a long-term investment policy. In the short term, the Fund's investments, according to this policy, will be passive investments only, exclusively in securities in the Western world and with preference to equity (60%) over bonds. In the upcoming months, we will gradually formulate the long-term investment policy.

In order to mitigate the risk in the markets, in particular the high volatility in the markets in the last year, we spread the investment of the initial amount accumulated in the Fund over 16 weeks in fixed portions.

An additional issue that we began dealing with is taken from the worlds of ESG. At the first stage, we made a decision not to invest directly in companies that engage in fossil fuels (gas, oil and its distillates).

Mr. Yarom Ariav, Chairman of the Committee, Public Representative

The Fund and Its Institutions

The Citizens of Israel Fund (hereinafter: "the Fund") was established in order to manage the state's revenues from the levy on surplus profits from oil, natural gas and other natural resources, a levy collected according to the provisions of the Law on Taxation of Profits from Natural Resources. The purpose of the Fund, as stipulated in the Citizens of Israel Fund Law,¹ is to manage the state's revenues from the levy with a long-term economic perspective, for the purpose of maximizing them and with the goal of enabling the continued existence of the Fund for many generations. The Citizens of Israel Fund Law was legislated in 2014, and the Fund began its operations in June 2022, after the cumulative amount from the levy reached one billion ILS, an amount that was a condition for the law's entry into force.

The background for the establishment of the Fund and the legislation

Oil and natural gas explorations began in Israel in the early 1950s, but significant reserves were discovered only from 1999. First a gas reservoir was discovered off the coast of Ashkelon ("Yam Tethys" partnership), in 2009 a reservoir was discovered off the coast of Haifa ("Tamar" partnership), and at the end of 2010 the Leviathan reservoir was discovered, the largest of the Israel's gas reservoirs, and the proven gas reserves of which are more than half a trillion cubic meters. In 2012, the Karish reservoir was discovered. Following the discovery of large natural gas reserves during the first decade of the 2000s, the Knesset legislated, in 2011, the Law on Taxation of Profits from Natural Resources² (hereinafter - **the Law on Taxation of Profits**), which imposed levies on gas and oil companies on their excess profits.³ In 2015, the Law was amended to include income from additional natural resources, including minerals from the Dead Sea.⁴ This legislation was intended to allow the state and its future generations to enjoy the revenues of the discovery of natural resources in a more significant way than with the taxation system that was used before.

Furthermore, the contribution of the expected revenues from natural resources to the State's revenues and its economy required dealing with a possible negative consequence known as the "curse of natural resources" (also known as the Dutch Disease): the export of natural resources or the sharp decrease in the volume of their imports cause a significant improvement in the balance of payments, which in turn leads to the strengthening of the local currency. This strengthening increases the cost of production and exports and harms the competitiveness of the economy in other sectors. In order to avoid the "curse of natural resources" and in light of the desire to promote "intergenerational justice", according to which it is appropriate that the economic benefit from the depleting natural resources also reach future generations and not only the current generation, the Knesset legislated the Citizens of Israel Fund Law, 5774-2014 (hereinafter - **the Law**

¹ https://www.nevo.co.il/law_html/law01/501_064.htm

² The law was enacted following the recommendations of the first Sheshinski Committee, established in 2010, with the aim of examining the appropriate fiscal policy, in light of the new revelations. After a review of the accepted policy in the industry, the committee came to the conclusion that a levy should be introduced on oil and gas profits, which are beyond a reasonable return for investors, in a progressive manner, so that the state's share of the profits will increase as the companies become more profitable.

³ Excess profits are defined as the ratio between the accumulated revenues minus current expenses, royalties and the levy paid in previous years, and the total investment in the search and initial development of the reservoir. The levy is collected only after the investment is returned in full plus a certain profit as defined by law. The levy rate will be 20% and will gradually increase up to 60% depending on the amount of the "excess profits". The revenues from levies on oil and gas profits and surplus profits from other natural resources intended for the Citizens of Israel Fund are the revenues from these resources in addition to the state's income from income tax and royalties paid by oil right holders and natural resource right holders, which enter the state budget on an ongoing basis.

⁴ Following the conclusions of the second Sheshinski Commission established in 2013.

or the Citizens of Israel Fund Law). ⁵This law established the Citizens of Israel Fund and stated that the Fund would operate to fulfill its purpose, as stated above, by depositing the state's revenues from the levy in a designated fund that will invest the monies accumulated from the levy and would also transfer to the state budget an "annual allocation" at the ratios set forth in the law.

Table 1 shows the Tax Authority's forecast for the collection of levies on excess profits from oil and gas (from a publication by the Tax Authority dated September 12, 2022).⁶ It should be emphasized that this is forward-looking information, based on the forecast of oil and gas prices and production quantities, and therefore this is an estimate that might change in the future. The forecast of revenue from the levies is based on data and forecasts published in the Tel Aviv Stock Exchange and on reports to the Tax Authority so far. Chart 1 shows the development of natural gas prices in the US, Europe and Israel.

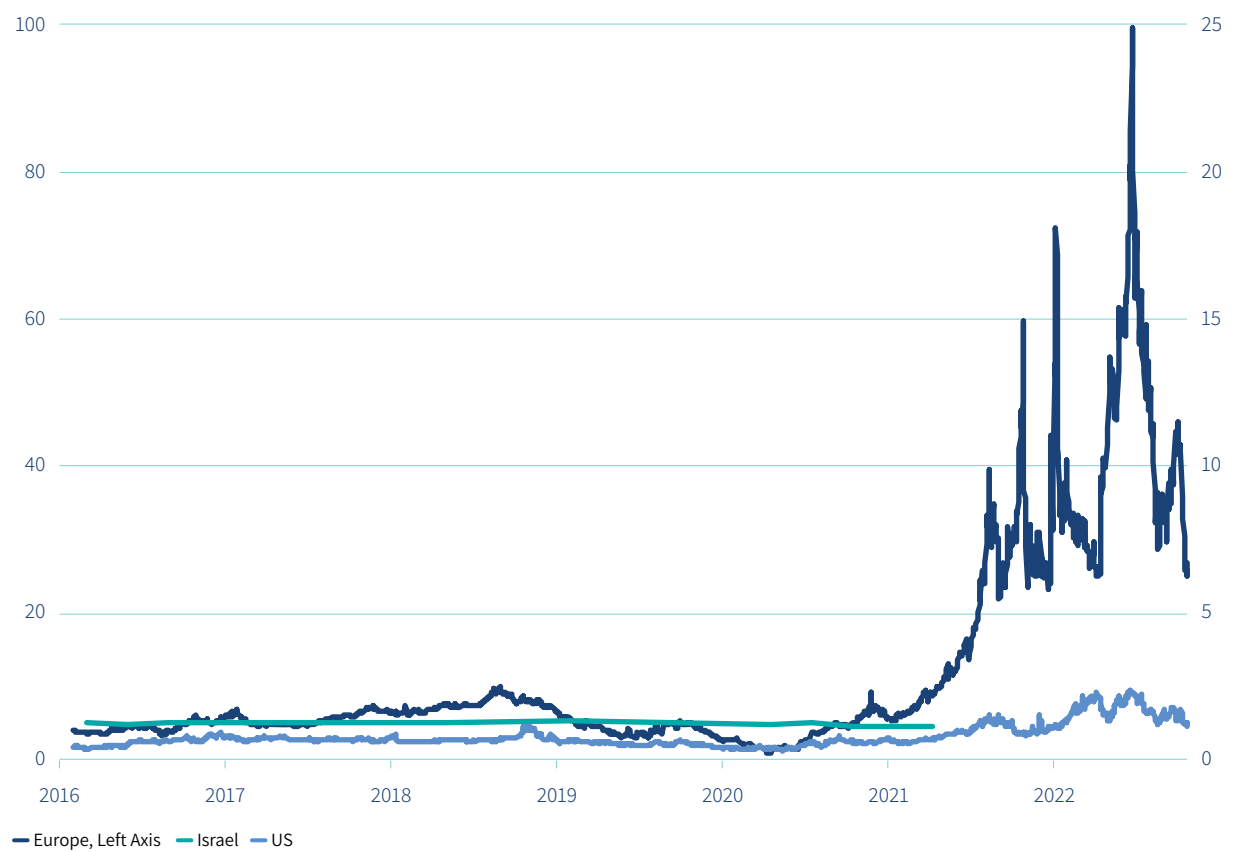
Table 1. The Tax Authority's forecast for collection of petroleum and gas profits levy
(USD, millions)

Forecast for collection of levy on petroleum and gas profits in upcoming years	Maximum 	Minimum 
2023	390	300
2024	510	400
2025	470	360
2026	560	460
2027	1,380	850
2028	1,610	1,330
2029	1,800	1,490
2030	1,560	1,240
2031	1,840	1,650
2032	1,980	1,840
Total forecast for collection of levy on petroleum and gas profits in upcoming decade	12,100	9,920
Total forecast for collection of levy on petroleum and gas profits in other years	40,940	35,470
Total forecast for collection of levy on petroleum and gas profits beginning 2023	53,040	45,390

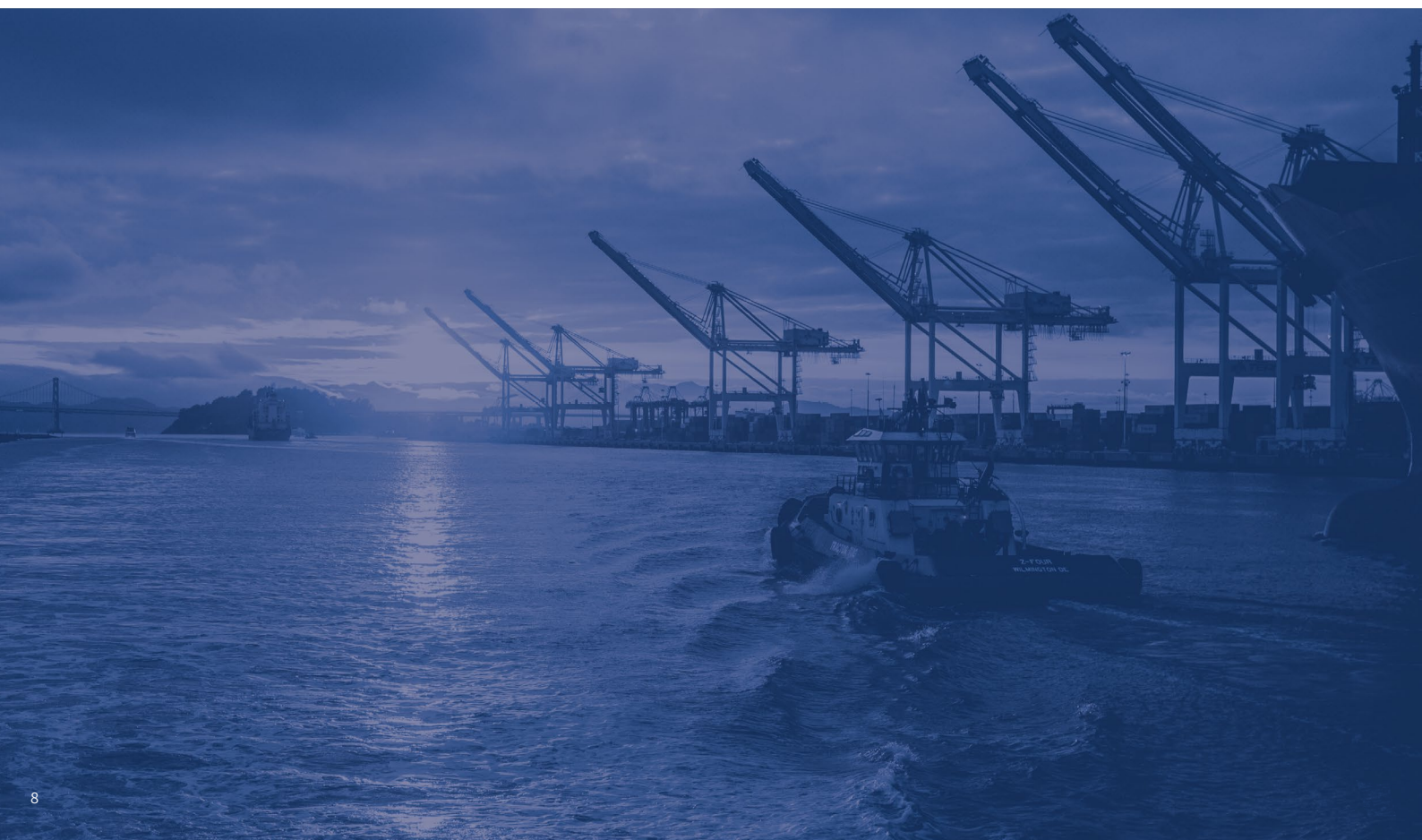
⁵ The bill and explanatory notes were published in the Government Bills - 757, dated 21 Iyar 1373 (May 1, 2013), p. 290.

⁶ The levies collected by the tax authority are transferred to the Fund only when they are final. Final levies are levies collected according to an annual report submitted by the owners of the oil and natural resources rights, as well as levies collected following a final assessment. Non-final levies are levies that were collected as advances or as withholding during the tax year and their collection is not final. At the end of the tax year, according to the amount of the levy calculated in the annual report, the levy (all or part thereof) will become final.

Chart 1. Development of natural gas prices in the US, Europe and Israel*



*Source of data: Bloomberg, Israel Gas Authority and Bank of Israel calculations. The gas prices in Israel were publicized until mid-2021.



The Fund's Institutions⁷

The Citizens of Israel Fund Law states that the Fund will have three institutions - a Council, an Investment Committee and an Audit Committee - and that the Fund's assets will be managed by a Management Department established for this purpose at the Bank of Israel. Also, according to the Law, a committee will be established at the Knesset to supervise the Fund and the implementation of the provisions of the Law.

The Fund's Council

According to the law, the Fund Council has seven members, headed by the Minister of Finance. Three additional members are representatives of the Prime Minister's Office, the Ministry of Finance and the Bank of Israel and three additional members are public representatives, appointed by the Minister of Finance and the Governor, according to the recommendation of a search committee established according to the provisions of the law. The terms of office of the members of the Council, limitations on appointments and the terms of termination of their office are also defined by the law. The law also established general provisions regarding the council's meeting procedures and work procedures, and in addition, the Council approved a detailed work procedure.

The main functions of the Fund's Council, according to the law, are as follows:

- 1 Establishing the principles of the Fund's investment policy, including the level of risk, the investment horizon, the level of investment liquidity, the benchmark that will be used to examine investment performance and the types of collateral required.⁸
- 2 Monitoring the implementation of the Fund's investment policy.
- 3 Appointment of public representatives to the Investment Committee based on the recommendation of the Search Committee.
- 4 Appointment of the Manager of the Fund Management Department at the Bank of Israel, according to the proposal of the Governor.
- 5 Formulating criteria for selecting external investment managers⁹ and determining the list of external managers according to the recommendation of the Investment Committee, including the maximum amount of assets for each manager.
- 6 Approving the calculation of the annual allocation amount made by the Management Department and providing an instruction to transfer the amount to the state treasury.
- 7 Discussion on the financial reports, quarterly and annually, their approval and submission to the Government and the Fund Supervision Committee at the Knesset.
- 8 Submitting a proposal for the Fund's annual budget for approval by the Minister of Finance.
- 9 Appointment of an Internal Auditor, Account Auditor and Legal Counsel to the Fund.

⁷ The list of officials and their resumes may be found on the Fund's website:

<https://www.gov.il/he/Departments/General/israel-citizens-foundation>

⁸ The Council will include the investment policy it set for the year in the Fund's annual financial report.

⁹ The Council will publicize the criteria on the Fund's website.

At the beginning of 2021, in accordance with the provisions of the law, the first search committee was established to find candidates for office as public representatives at the Citizens of Israel Fund Council and its Investment Committee. The committee was chaired by retired District Court Judge Yeshayahu Schneller, and was attended by the Director General of the Prime Minister's Office, the Director General of the Ministry of Finance, the Deputy Governor of the Bank of Israel and Prof. Udi Nisan, a representative of the academy.

In the second half of that year, according to the committee's recommendation, public representatives were appointed to the Fund's Council: Mr. Yarom Ariav, Dr. Rony Halman, and Mr. Barry Topf. At the same time, representatives from the Ministry of Finance, the Bank of Israel, and the Prime Minister's Office were appointed to the Fund's Council: CPA Yali Rothenberg, the Accountant General at the Ministry of Finance, Mr. Andrew Abir, Deputy Governor of the Bank of Israel, and Mr. Amir Barkan, Deputy Director at the Prime Minister's Office.

The Investment Committee

The Fund's Investment Committee has five members, headed by a public representative, a council member, chosen by the Minister of Finance and the Governor. Two additional members are representatives of the Ministry of Finance and the Bank of Israel and two other members are public representatives found and recommended by the search committee and appointed by the Fund's Council.

According to the law, the functions of the Investment Committee are:

- 1 Determining a detailed investment policy for the Fund, with the aim of maximizing the Fund's profits, taking into account the policy principles established by the Fund Council.
- 2 Compiling the list of external investment managers and submission thereof to the approval of the Council, deciding to contract with investment managers from the approved list, including the extent of the assets to be managed by them.
- 3 Supervision of the activities of the Management Department.

The law also defines the terms of office of the members of the Committee, the limitations on appointments and the conditions for termination. The law also established general provisions on the meeting procedures and work procedures of the investment committee, and in addition the Committee approved a detailed work procedure.

In the second half of 2021, a representative of the Ministry of Finance, Mr. Gil Cohen, Senior Deputy Accountant General, and a representative of the Bank of Israel, Ms. Françoise Ben Zur, Head of the Financial Division at the Markets Department, were appointed to the Fund's Investment Committee.

At the first meeting of the Fund's Council chaired by the former Minister of Finance, Mr. Avigdor Lieberman, which took place in January 2022, Mr. Yarom Ariav, the public representative on the Fund's Council, was appointed chairman of the Investment Committee. In addition, public representatives Prof. Yigal Newman and Ms. Rina Shafir were appointed to the Committee, according to the recommendation of the search committee.

Audit Committee

The Fund's Audit Committee includes three members, who are members of the Fund's Council. Two of them are public representatives who do not serve as chairperson of the Investment Committee, and the third is a representative of the Ministry of Finance appointed as a Council member. The chairperson of the Audit Committee is one of the two public representatives elected by the Council.

The functions of the Audit Committee are as follows:

- 1 Supervising the orderly operation of the Fund's institutions and the Management Department, including compatibility of the activity with the Council's decisions, pointing out the deficiencies in this activity and recommending ways to rectify them.

2 Approval of the list of external investment managers determined by the Council.

3 Submission of an annual audit plan and an annual audit report to the Fund Council.

The Law established general provisions on the meeting procedures and work procedures of the Audit Committee, and in addition the Committee approved a detailed work procedure.

In January 2022, at the first Council meeting, the members of the Audit Committee were appointed - Mr. Barry Topf, who was elected chairman of the Committee, CPA Yali Rothenberg, representative of the Ministry of Finance on the Fund Council, and Dr. Rony Halman, public representative on the Fund Council.

The Management Department at the Bank of Israel

According to the Law, the Fund's assets are managed by a Management Department established at the Bank of Israel. The Department manages the Fund's assets in accordance with the detailed investment policy determined by the Investment Committee, according to the principles of the investment policy outlined by the Council. The director of the Management Department is appointed by the Council, according to the proposal of the Governor, and the employees of the Department are employees of the Bank of Israel. In addition to managing the Fund's assets, the role of the Management Department is to contract with external managers in accordance with the Investment Committee's decisions, to prepare the quarterly and annual financial statements and submit them for the approval of the Fund's Council.

At the beginning of 2023, the Fund's Council, chaired by the Minister of Finance, Bezalel Smotrich, approved the appointment of Ms. Lena Krupalnik to the position of Director of the Management Department at the Bank of Israel, according to the proposal of the Governor of the Bank of Israel, in accordance with the Law.

The Investment Policy

As aforesaid, according to the Law, the detailed investment policy of the Fund's assets is determined by the Fund's Investment Committee, according to the policy principles determined by the Council. Accordingly, upon the establishment of the Fund's institutions, the process of formulating the principles for the investment policy and the detailed investment policy of the assets began, with the aim of maximizing the Fund's profits for the state's revenues and for their preservation for future generations.

Initial investment of the funds

In May 2022, the Tax Authority informed the Fund's institutions that the state's revenues from the levy on gas and oil profits exceeded the threshold of one billion shekels, and therefore the condition required by Law for the Law to enter into force was met. Therefore, on June 1, 2022, the Minister of Finance signed an order to start the Fund's activities and it officially began its operation.¹⁰

Following the activation of the Fund and the receipt of the initial amount for investment, the Investment Committee decided to establish an initial investment policy for these funds. This initial investment policy is a policy for the first proceeds received and it was created in a manner that was compatible with the initial size of assets on the one hand, and on the other hand was expected to be integrated with the Fund's goals and its long-term investment policy. This policy constitutes a first step both in terms of the types of assets and in terms of the Fund's investment method and is expected to expand in the future. According to the initial investment policy, as established by the Investment Committee and approved by the Fund's Council, 60% of the Fund's assets will be invested in equities,¹¹ 36.5% will be invested in corporate bonds and 3.5% will be invested in cash assets to be used for the purpose of transferring the annual allocation to the government (see below in this chapter). This composition of assets, which is biased towards equity risk, reflects the long-term investment horizon towards which the investment policy is directed and the desired level of risk derived therefrom.

The Committee decided that the initial investment would be made through ETFs - Exchange Traded Funds,¹² financial instruments that passively track financial indices. Using these instruments allows exposure to a wide variety of assets and a wide variety of markets in a fast, simple and relatively inexpensive way. As the size of the Fund grows, the Committee will examine additional investments in a wide variety of assets, including developing markets, private assets and more. The Committee will also examine additional strategies, such as active investment, and additional investment methods, such as direct investments or through external managers.

It was decided that the investment in equities would follow a global index that included only developed countries, with most investment in US equities according to the share of the US equity market in the equity market of developed countries. It was also decided that the investment in corporate bonds would follow investment grade corporate bond indices, with 75% of the investment being in the US and 25% in Europe, according to the size of the markets in which the funds were invested. The average duration of the investment in bonds was set at 4.5 years.

In addition, in order to mitigate the risk involved in the initial investment at a non-optimal point in time, the Fund's Investment Committee decided to divide the initial investment over approximately 4 months in 16 weekly pulses.

Investment of the funds with a long term view

The long-term investment policy is expected to allow for investment in a wide variety of assets, currencies and markets and to focus on achieving the best return. As part of expanding the types of activity, and with the increase in the volume of managed assets, the Fund is also expected to use the services of external managers.

It should be noted that the Law stipulates that the funds can only be invested in assets outside the State of Israel and in foreign currency only, with the aim of mitigating the negative implications that may arise from a significant strengthening of the local currency following the discovery of natural resources. In addition, the investment of the assets abroad is expected to protect the Fund's assets in cases of an internal economic crisis in Israel.

¹⁰ KT 10213, pg. 3218, https://www.nevo.co.il/law_html/law06/tak-10213.pdf.

¹¹ The investment committee approved for the management department degrees of freedom for management the investment in equity: deviation of up to 10% of the allocation is allowed

¹² Explanation of this term and additional economic terms may be found in the glossary at the end of this report.

The Investment Horizon

The members of the Fund's institutions see great importance in determining a long-term investment horizon for the Fund's assets, in such a way as to faithfully serve one of the main purposes for which it was established - the preservation of income obtained from the discovery of perishable natural resources also for the benefit of future generations. In this respect, a long investment horizon has been set, ranging from 40 to 50 years.

A long investment horizon enables investment in non-liquid and more volatile assets, in order to benefit from the risk premiums inherent therein and thereby maximize the Fund's return in the long term.

Risk management and performance measurement

The reference indices (benchmarks) for the Fund's investments will be determined in accordance with the asset allocation determined by the Fund's institutions. These indices will reflect the diversification of the investment in the various assets and the desired level of risk will be derived therefrom.

Accordingly, since the initial investment is made through ETFs that track equities and corporate bonds, the relevant reference indices are the equity indices and the corporate bond indices followed by the purchased funds (see the business results chapter).

The total risk will be managed on an ongoing basis, using accepted risk indicators, including: Standard Deviation, Conditional Value at Risk, Tracking Error, analysis of alternative scenarios and extreme scenarios. Credit risks will be managed while monitoring ratings and other exposures and various analytical tools. In determining the investment policy, the Fund will also take into account the exposure to the various non-financial risks - such as geopolitical risks, climate risks and more - as well as the operational risk.

The Measurement Currency

The measurement currency by which the Fund's performance is measured will be a basket of currencies created according to the actual investment, in accordance with the Law's determination by which the Fund will invest its assets outside of Israel and in foreign currency only.

Annual Allocation to the State Budget

According to law, the annual allocation transferred to the state budget will be calculated by the Management Department and approved by the Fund's Council. This allocation will be used for social, economic and educational purposes, in accordance with the government's proposal within the framework of the annual budget law proposal, to be submitted for discussion and preparation of the Knesset Fund Supervision Committee for its approval by the Knesset as part of the approval of the annual budget law.

In the first ten years of its operation, the Fund will transfer to the state budget an amount equal to 3.5% of the Fund's assets.¹³ Therefore, according to the Investment Committee's decision, during the first 10 years of the Fund's activity, 3.5% of its assets will be held at any given time in cash or risk-free liquid assets, in order to avoid realization of losses (in the case of a falling market) when transferring the allocation to the state budget. Accordingly, upon the start of the Fund's operations, at least 3.5% of its income will be invested in cash assets bearing overnight interest. This percentage will be set aside in favor of cash also from the future transfers to the Fund.

Starting at the end of the aforementioned period, the annual allocation amount will be equal to the amount of the average real return generated by the Fund's investments in the ten years preceding that financial year, multiplied by the value of the assets that the Fund managed at the end of the previous year, for which the annual financial report was approved.

¹³ In the first year - 3.5% of the total income on the determining date (June 1, 2022). From the second year to the ninth year - 3.5% of the value of the fund at the end of the previous year for which an annual financial statement was approved.



Sustainable Investment Policy

In recent years, many Wealth Funds in the world have incorporated sustainable investment considerations into their investment policies.¹⁴ This policy deals with ethical considerations relating to social, environmental and business issues and its importance is increasing in recent years, especially in light of the climate crisis. The Fund Supervision Committee in the Knesset also referred to this in its discussions and noted the importance of sustainable investment principles, as part of the Fund's future investment policy.

Already at this stage, in light of the high importance of the issue for the Fund's institutions as well, the Investment Committee made a decision not to make a direct investment in gas and oil companies. This issue of responsible, social and environmental investment will continue to be examined in-depth within the framework of the formulation of the Fund's long-term investment policy.

The Business Results

Summary of Business Results

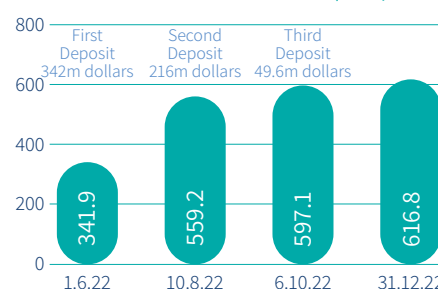
The Fund began its operations in June 2022, and since then an amount of approximately 608 million dollars has been deposited in the Fund. The Fund's total assets, as of December 31, are approximately \$617 million, with approximately 90% of the Fund's assets denominated in US dollars. In the first six months of its operation, the Fund recorded a positive return of 1.2% (in currency basket terms). About half of the Fund's return derived from profits on the investment in equity, and about half from the return on cash assets.

The Fund's decision to invest its assets in Exchange Traded Funds (ETFs) led to the fact that the performance of each asset, equities and corporate bonds, is similar to the performance of the indices followed by the ETFs.

The Fund Assets

The Fund's assets amounted, as of December 31, 2022, to approximately 617 million dollars (**Chart 1**). The first funds were transferred to the Fund at the beginning of June. The investment of the funds in ETF's began during August by the Bank of Israel, in accordance with the initial investment policy formulated by the Fund's Investment Committee. In order to reduce the impact of occasional market events on the performance, the Committee decided to purchase the ETFs gradually, in 16 portions spread between August and December.

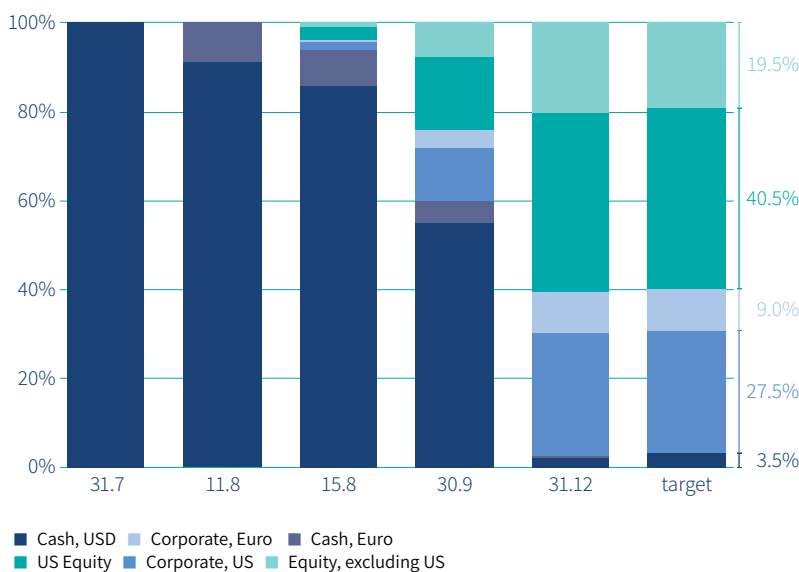
Chart 1. Balance of Fund Assets (USD, dollars)



¹⁴ Also called "responsible investment policy". In this context, the term ESG is also widely used, which expresses the standards that are developing in the context of Environmental, Social and business conduct of corporations (Governances).

Chart 2.
Distribution of the Fund holdings, by assets

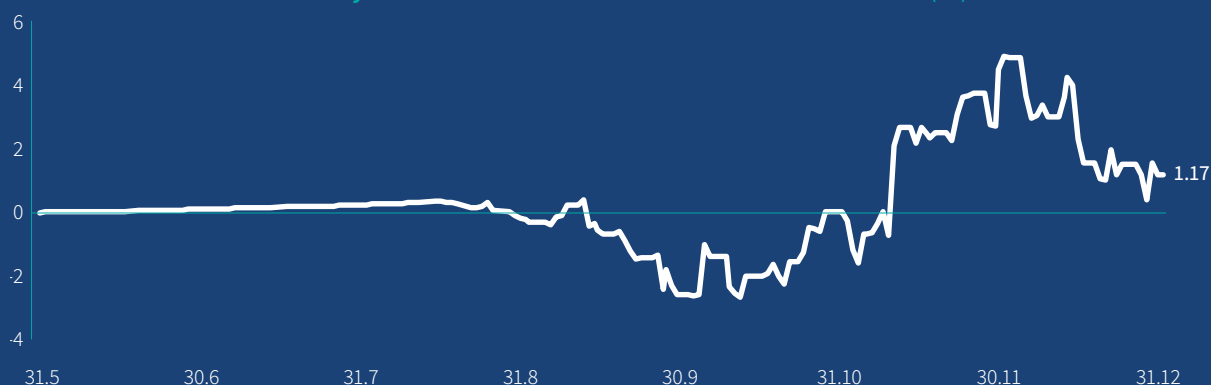
Chart 2 shows the distribution of the Fund's assets in several milestones, alongside the target set for the initial investment composition. On 11/8, the conversion of Dollars to Euros for the purchase of the European corporate bond is shown, and on 15/8, the first pulse of the purchase of risk assets is shown. The data of 30/9 and 31/12 show the end of the quarters. The distribution of the Fund's assets on 31/12 is similar to the one set as the target for the initial investment of the Fund's assets.



The Funds Yield

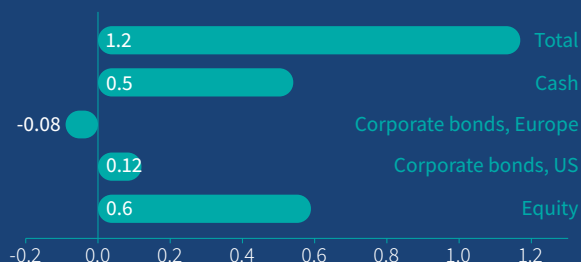
The declines in equity prices in September and October led to the Fund recording a negative return in these months. On the other hand, in the last months of the year there were positive performances in the equity market and in the summation of the year the Fund recorded a positive return of approximately 1.2% (Chart 3).

Chart 3. Total accumulated yield of the Fund in terms of currencies basket (%)



About half of the positive return was due to profits from the investment in equity, and about half due to the return on cash assets. The investment in corporate bonds had almost no effect on the Fund's return, because the positive return on investment in US corporate bonds was largely offset by the negative return on European corporate bonds (Chart 4).

Chart 4. Contribution of the assets to the Fund's yield (%) →



Risk Indices of the Fund's Assets

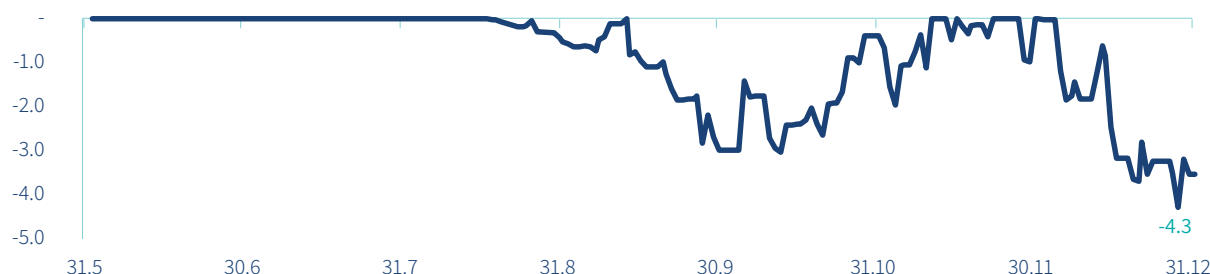
Table 2 shows selected risk indicators. The maximum drawdown in the portfolio from the beginning of the investment amounted to about 4.3% (Chart 5).

*The maximal loss of a financial asset from the peak point in a given period to the low point that follows.

Table 2. Selected risk indicators (annual terms)

Risk Index	Percentage
Standard Deviation	8.1
VaR5%	-12.7
*MAX DRAWDOWN (during the investment period)	-4.3

Chart 5. MAX DRAWDOWN in the Fund's investments (%)



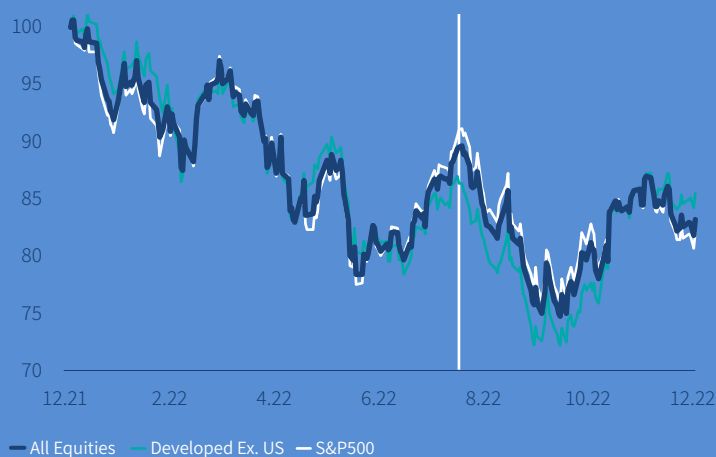
Investment of Fund's Assets

Investment in Equities

→ The development of equity prices

Chart 6 shows the performance of the equity indices, followed by the ETFs held by the Fund. During the year, there were significant declines in equity prices, due to economic factors, including the high inflation environment and the monetary tightening that the central banks are taking to deal therewith, the Russia-Ukraine war and its damage to the European economy and weakness in the Chinese economy. From the second half of October, a certain correction was recorded in the markets, and at the end of the year, the equity indices in the developed markets fell by about 17%.

Chart 6. Equity indices performance in 2022



→ Performance of the Fund's holdings in equities versus the indices¹⁵

Investments made in practice are close to the performance of the indices followed by the ETFs (Charts 7 and 8). The Tracking Error since the beginning of the year, of the daily returns of the US ETF amounted to approximately 5 basis points, lower compared to the ETF of equities outside the US (22 basis points). This is due to the fact that the US ETF follows the S&P500 index, which is characterized by a stable composition and high liquidity, making it easier to follow the index.

Chart 7. Performance of US ETF (IVV) vs S&P 500 index (%)

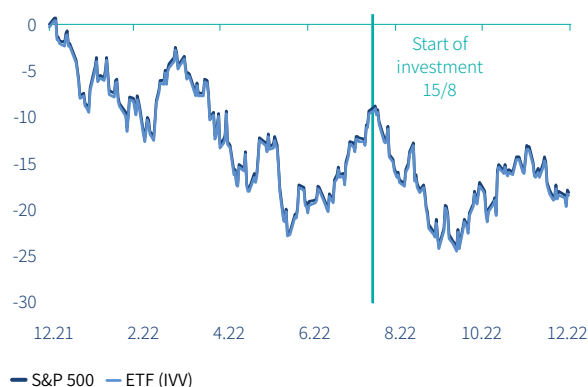


Chart 8. Performance of ETF outside of the US (VEA) vs Dev Ex US FTSE index (%)



Investment in Bonds

→ The development of yields to maturity and spreads

Since the beginning of the year, there has been an increase in the yield to maturity in the corporate bond indices (Chart 9). This increase is mainly due to the increase in the yields of the government bonds (against the background of the tightening of monetary policy due to the high inflation), and is also supported by the widening of the spread between the corporate bond yields and the government bond yields (Chart 10).

Chart 9. Development of yields to maturity of corporate bond indices (%)



Chart 10. Development of spreads between corporate bond indices and government bonds (%)



¹⁵ As of today, the fund does not have a single benchmark for comparison of its entire performance, and the benchmarks were set for each of the assets separately.

→ Performance of the Fund's holdings in corporate bonds versus the indices

The ETFs of corporate bonds closely follow the indices (Charts 11-13) as shown below:

Chart 11.

Performance of corporate bond ETF 1-5 years in the US (VCSH) vs the relevant index (%)

→

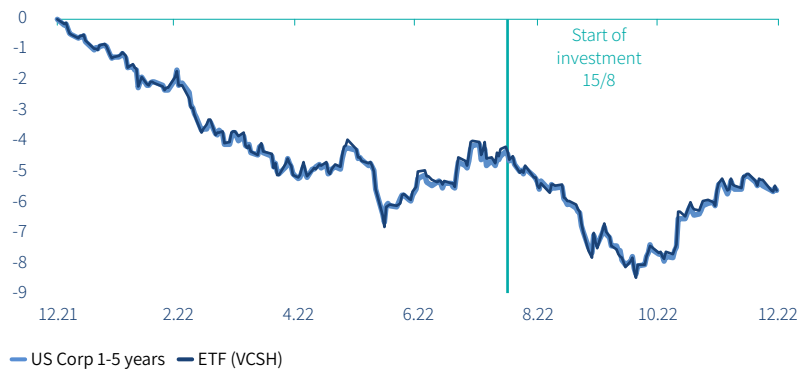


Chart 12.

Performance of corporate bond ETF 5-10 years in the US (VCIT) vs the relevant index (%)

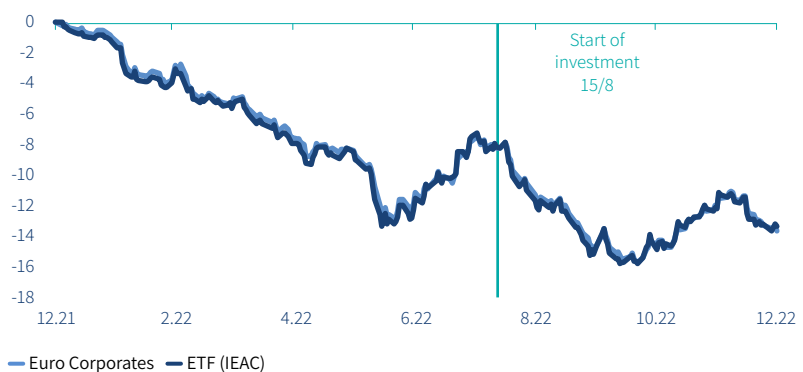
→



Chart 13.

Performance of European corporate bond ETF (IEAC) vs the relevant index (%)

→



The Tracking Error, since the beginning of the year, in daily terms, ranges from 0.5 to 28 basis points in the various ETFs.

Glossary of Terms

Duration

Sensitivity between a change in the value of a debt instrument, as a percentage of its previous value, and a change in the yield-to-maturity (with the opposite sign) of the instrument. Length is measured in units of time.

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Investment Grade Rating

rating within the range of AAA and BBB or between Aaa and Baa3. Known as Investment Grade (IG), any rating below BBB or Baa3 is called a Speculative Grade or High Yield rating.

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Yield Spread

The difference between the yields and maturity on two debt instruments.

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Risk Assets

Assets that are characterized by a higher risk than that of government bonds. The reference in this review is to equities and corporate bonds.

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Basis Point

One out of ten thousand or one hundred of a percent. For example, 0.1% is 10 basis points.

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Standard Deviation

A measure of how spread out a distribution is around its expected value, often used as a measure of the extent of exposure to uncertainty. See: Volatility.

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Credit Risk

The exposure to the possibility of loss due to failure to pay debts on time - of an issuer, of a financial institution or of a country, or a loss as a result of changes in market's 'assessment of the probability of such an event.



Market Risk

The exposure to the possibility of loss due to changes in asset prices is also known as "market risk". The price risk of bonds includes the interest rate risk and the credit risk.

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Currency Risk

The exposure to the possibility of loss as a result of changes in exchange rates.

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Liquidity Risk

The exposure to the possibility of loss due to the forced realization of assets in a short time and in a larger volume than the market is able to absorb, without a negative effect on the market price and/or the buy/sell spread.

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Interest-rate Risk

The exposure to the possibility of capital losses due to the increase in yields to maturity.

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Benchmark

A conceptual, investable portfolio, which is built according to pre-agreed rules and serves as a yardstick for evaluating the performance of an investment portfolio manager and an anchor for the portfolio's risk management.

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Yield Curve

A curve that describes the relationship between the yield to maturity and the time to maturity remaining for bonds with common characteristics (such as bonds of a certain country's government in a local currency).

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Risk Premium

The excess return of a risk asset, over the risk-free interest rate.

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Overnight Interest-Rate

The interest rate at which institutional investors (depository institutions), usually banks, lend or borrow money from other institutional investors, for overnight.

.....

Revaluation

The change in balances in dollar terms attributed to profits realized from interest income and capital gains, as well as to the change in value from asset price differences and exchange rate differences of the currencies in which the balances are invested against the dollar.

Volatility

Usually measured using the standard deviation (SD) of the distribution of the holding returns of a financial asset, at a specified frequency and over a specified period of time.

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ETF

Exchange Traded Fund - A financial instrument that tracks the composition of equity, bond or commodity indices.

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Yield to Maturity

The holding rate of return, in annual terms, that would be obtained from holding a debt instrument until its final maturity date, if it were possible to invest all its cash flow at the same rate of return until the final maturity date. Synonym: "internal rate of return".

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Holding Return

The rate of change in the value of a financial asset, over a specified period, including interest payments or dividends received.

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Maximum Drawdown

The maximum loss of a financial asset from the high point in each period to the low point that follows.

.....

Shortfall Probability

A measure of the level of risk that expresses the probability of being below a certain threshold value (e.g. below 0% return), in a certain time frame.

.....

Tracking Error (TE)

A measure of the level of risk defined as the standard deviation of the yield differences between a financial asset and its benchmark. A high TE can result from an asset mix far from the benchmark, which reflects over- or under-risk taking by the portfolio manager.

.....

Value at Risk (VaR), Conditional VaR (CVaR)

A measure of the level of risk expressed in terms of the (minimum) loss on a financial asset, given a certain probability (p%) and a certain time frame.

The Conditional Value at Risk index (CVaR) adds information about the expected loss beyond the value defined by the VaR, expressing the average expected loss in % of the most negative observations.



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