

April 15, 2019

ISRAEL EQUITY REVIEW & OUTLOOK

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About BlueStar Indexes®

BlueStar Indexes is a leading provider of research and investment solutions for the Israeli capital markets. BlueStar has been producing monthly market updates on the Israeli market since 2012. In our *Israel Equity Review and Outlook* we provide data and insight on recent performance of Israeli equity benchmarks, stocks and sectors driving performance, key economic data for the Israeli market, as well as technical analysis of our equity indexes.

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. The VanEck Vectors Israel ETF (ticker ISRA) tracks BIGI® and is listed on the NYSE. In addition, Israel-domiciled investment vehicles tracking BIGI® are offered by Psagot and IBI.

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 like information technology, defense technology, clean technology and bio-technology. The BlueStar Israel Technology ETF (NYSE ticker: ITEQ®) tracks BIGITech®. In addition, there are two Israel-domiciled investment vehicles tracking BIGITech® managed by KSM/Excellence.

BlueStar also maintains five additional Israel Equity Indexes (BIGI® -TIM, IGEL, IDEI, BIGI® -SD and BIGI® -SV), one Israel Government Bond Index (BIGUSD), and 14 Regional and Global Thematic/Tech Equity indexes. Approximately US\$450 million in index-tracking assets are benchmarked to BlueStar Indexes as of mid-April 2019.

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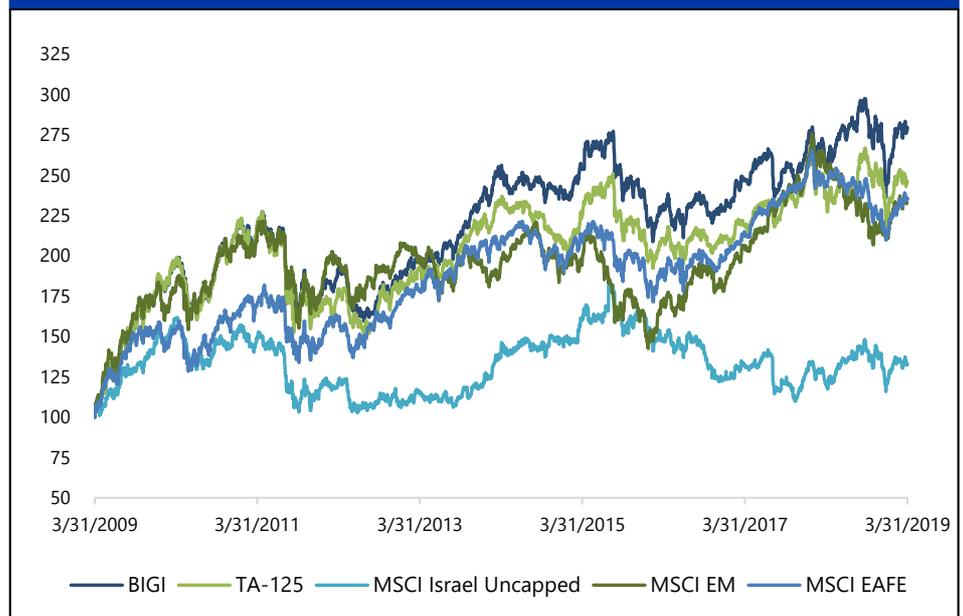
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ISRAELI STOCKS CONTINUE TO OUTPACE INTERNATIONAL MARKETS; ISRAELI TECH ADDS TO AN ALREADY IMPRESSIVE YEAR; SHEKEL ON THE RISE FOLLOWING ISRAEL'S ELECTION

Highlights:

- Israeli stocks, as defined by the BlueStar Israel Global Index® (BIGI®), were flat in March, giving back 0.82% vs. MSCI EAFE. Heading into April, BIGI® continues to outpace the MSCI EAFE Developed Market Index by a meaningful 2.72% YTD.
- Israeli technology stocks, as defined by The BlueStar Israel Global Technology Index™ (BIGITech®), gained 1.80% in March, hitting a new all-time high. BIGITech's® 18.87% YTD performance leads international technology indexes in 2019.
- BIGI® outperformed the flagship local Israeli TA-125 Index by 1.52% in March, and a significant 3.36% YTD, as the TA-125 has missed out on the performance of some of Israel's top foreign-listed technology companies.
- The Shekel corrected moderately against the US Dollar in March, resuming its upward trend in April.
- Following a sharp bounce off long-term support earlier this year, BIGI's® has consolidated, and its technical outlook is now cautiously-bullish; BIGITech® confirmed January's support and continues its bullish upward trend in 2019, achieving multiple new highs.

BLUESTAR ISRAEL GLOBAL INDEX® TEN-YEAR RELATIVE PERFORMANCE ENDING MARCH 31, 2019



Equity Market Performance Review

Israeli Equities, as defined by the BlueStar Israel Global Index®, remained flat in March, posting a slight 0.08% loss. Real Estate and Technology were additive, 3.42% & 2.71% respectively, but were outshone by a significant pull back in communication services and materials, -12.97% & -9.54%. In fact, eight of the 11 sectors were negative this past month. These seemingly broad headwinds were mitigated by BIGI's approximately 43% exposure to Technology. The Israeli Tech sector continues to surge, with the strong performance of key stocks like Check Point and Nice, and key acquisitions, including that of Mellanox by Nvidia and of Pointer Telocation by ID Systems.

In total, Israeli equities continue to outpace all other major international market categories in 2019, with relative outperformance against MSCI EAFE and MSCI EM of 2.72%, and 2.94% respectively.

After an impressive first quarter, Israeli technology stocks, as defined by BIGITech® - the BlueStar Israel Global Technology Index – added 1.80% in March, bringing 2019 YTD returns to 18.87%. The U.S. and Developed International technology sectors gained significant ground in March, bringing YTD performance in line with BIGITech®, but entering April, BIGITech remains amongst the best performing technology indexes in the world. Emerging Markets technology continues its relative underperformance in March and YTD.

The Israeli Shekel

In March the recovery in the Shekel corrected moderately against the Dollar only to resume its upward trend in April. In the first ten days of April the Shekel appreciated 1.5%. Despite the Bank of Israel's downward revision to 2019's GDP growth forecast, Israel's economy remains one of the fastest-growing developed markets in the world and growth is expected to increase to 3.5% in 2020. For this reason and the fact that most central banks are halting planned tightening, we feel the Shekel could continue to climb against the Dollar.

A stronger shekel bodes well for Israel's domestic economy, specifically the real estate and consumer sectors. In addition, we have observed that a stronger shekel does not have an adverse impact on Israeli equities as most of Israel's major exporters are not publicly-traded or those that derive revenue from overseas are not exporting directly from Israel.

As noted in previous updates, Israel's telecom sector continues to deteriorate in terms of industry structure and equity prices. In fact, the parent of Israel's largest telecom company halted its dividend policy altogether after announcing dismal results. Because this sector represents such a small percentage of Israel's overall equity market, the short-term impact for equity investors has been minimal. However, it is interesting to note that there has been some talk about the government stepping in to set price floors on monthly telecom service subscriptions. *(continued on following page...)*

ISRAEL AND GLOBAL EQUITY BENCHMARK COMPARISON		
Benchmark	Mar. Return (%)	2019 (%)
BIGI	(0.08)	12.85
BIGITech	1.80	18.87
MSCI Israel Uncapped	(0.99)	10.12
TA-125 INDEX	(1.60)	9.19
S&P 500	1.94	13.65
MSCI EM	0.84	9.91
MSCI EAFE	0.74	10.13
Israel Domestic Exposure	(2.64)	6.72
Israel Global Exposure	(1.50)	12.58

Sources: BlueStar Indexes, Bloomberg LP

ISRAEL AND GLOBAL EQUITY BENCHMARK COMPARISON		
Benchmark	Mar. Return (%)	2019 (%)
BIGITech	1.80	18.87
Dow Jones US Tech	4.15	19.67
S&P Global 1200 Info Tech	4.19	18.47
MSCI EM Tech	1.07	12.79

TOP AND BOTTOM BIGI PERFORMERS: MAR. 2019			
Positive Contributors (%)		Negative Contributors (%)	
Taptica International Ltd	33.39	Israel Corp Limited/The	(18.80)
Shikun & Binui Ltd	29.49	Discount Investment Corp-reg	(18.61)
Compugen Ltd	20.35	Bezeq The Israeli Telecom Co	(18.15)
Energean Oil & Gas Plc	13.85	Cellcom Israel Ltd	(17.69)
Foamix Pharmaceuticals Ltd	12.95	Intec Pharma Ltd	(17.64)
Verint Systems Inc	12.41	Stratasys Ltd	(16.30)
Sapiens International Corp	11.53	El Al Israel Airlines	(15.85)
Fox Wizel Ltd	11.28	Arotech Corp	(13.31)
Formula Systems (1985) Ltd	11.24	Plasson Industries Ltd	(12.48)
Pointer Telocation Ltd	11.07	Partner Communications Co	(12.41)

SECTOR PERFORMANCE: MAR. 2019	
Real Estate	3.42
Information Technology	2.71
Utilities	0.40
Industrials	(1.16)
Energy	(1.73)
Financials	(1.78)
Consumer Discretionary	(2.85)
Consumer Staples	(4.89)
Health Care	(6.97)
Materials	(9.54)
Communication Services	(12.97)

*Source: BlueStar Global Investors LLC; Currency-Adjusted returns in dollar terms

While the specific policy measures taken may include a price floor, we feel that stabilization of this sector ought to be an imperative in order to ensure Israel's telecom sector does not fall behind the rest of the world in the roll out of 5G networks. The reason this is important is two fold. First is the nation's technology infrastructure could be an important factor when foreign companies decide to make direct investments in Israel. Secondly, the next generation of technology platforms, like IoT, autonomous vehicles, and AR/VR will rely heavily on 5G networks; Israel must have this infrastructure in place in order to remain a global leader in R&D on next generation technologies.

Nvidia's Acquisition of Mellanox

Rumors of an acquisition of Mellanox began circling late last year with competitors like Xilinx and Intel expressing interest. Finally, Nvidia stepped in with an offer of \$6.9 billion.

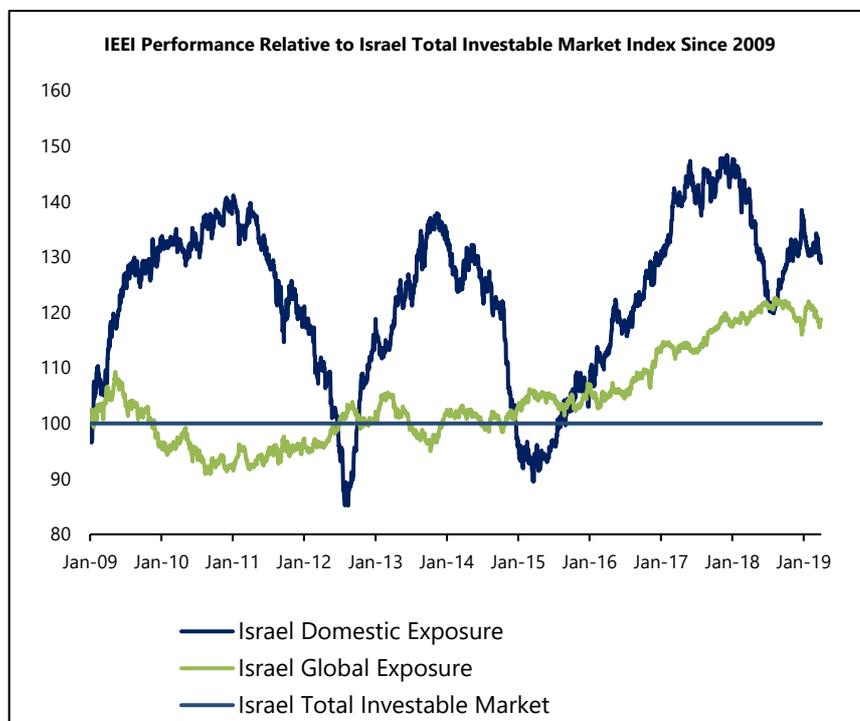
Mellanox has been a staple of Israel's tech sector for decades. The company is one of the world's leading suppliers of high powered computing hardware and datacenter software having introduced the world's first 100 gigabit per second end-to-end Ethernet solutions for data centers and helped enable the emergence of the internet then cloud computing and now machine learning and 5G communication technology.

Over the last few years Nvidia has been one of the world's top performing semiconductor stocks. The company specializes in graphic processing chips which are currently sold predominantly into the video gaming market but increasingly used for embedded machine learning applications as well as cloud-based machine learning in the data center.

The two entities combined form a formidable competitor to the likes of Intel. And like Intel, Nvidia's CEO has committed to growing its presence in Israel and is seeking another acquisition of an Israeli company in the embedded AI-chip space.

This is the eight acquisition of an Israeli tech company in a two-year period which began with Intel acquisition of Mobileye.

Economic Update and Market View



The Bank of Israel in February left its policy interest rate unchanged at 0.25%. Inflation in Israel has become entrenched slightly above the lower band of the target range of 1%-3% and is expected to remain stable over the near term. Looking out further, rising real and nominal wages in Israel are expected to push the inflation rate higher toward the mid-point of the target range.

The Bank of Israel has reduced its 2019 GDP growth forecast to 3.2% while 2020 growth is expected to increase to 3.5%.

We continue to believe that the Israel Domestic Exposure Index (IDEX) will outperform the Israel Global Exposure Index (IGEX) over the coming quarters despite recent underperformance. Our view is based on the continued strength of the Shekel which will have a positive impact on the Israeli consumer and real estate sector. At the same time there are risks to this outlook including very strong positive momentum in Israel's technology sector (the largest component of the global exposure index) and negative momentum in Israel's telecom sector (which represents a relatively large percentage of the domestic exposure index).

Technical Analysis (Chart data as of March 31, 2019)

**Israel Global Equities (BIGI®)
Performance Since 2007**



BlueStar Israel Global Index

The technical outlook for Israeli Global Equities is now cautiously bullish. BIGI broke down in December once the lower set of trend lines were breached, but has now re-established itself back above the 2009 – 2018 up-trend line.

With BIGI's sharp bounce off the long-term support lines, from late-December into late February, the technical position for BIGI® has stabilized and is constructive. The consolidation between long-term support lines and the lower set of upward sloping resistance lines has been constructive. There remain several layers of significant resistance that could contain the index below its Autumn 2018 high, with the 305-310 level being most significant.

Thus our technical outlook for BIGI® has shifted from neutral to cautiously bullish. Our outlook would shift to bearish if key support at the double green line (approximately at the 245 level) is broken or if the index reaches the resistance lines between 310-315 on the chart. The longer that BIGI® remains above 265/270, the more energy it will have to mount a sustained rally toward – and perhaps above – the key resistance levels noted above.

**BlueStar Israel Global Technology Index
(BIGITech™) Performance Since 2006**



BlueStar Israel Global Technology Index

Israeli technology stocks as measured by BlueStar's BIGITech index achieved all time highs in March 2019, and continued higher into April.

This performance confirms that BIGITech successfully tested its major support area just above the 2017 breakout level in Q4 2018 and is now resuming a strong structural uptrend in 2019.

After such a sharp rebound, it should be expected that Israeli Tech Stocks would consolidate their gain somewhat (which they did during March). We believe that multiple levels of support, from 210-230 will hold in any sharper correction, and that long-term investors could continue to accumulate Israeli Technology Stocks, while maintaining awareness of the steepness of this surge and long-term resistance at the 310 level.

Disclosures

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