

Dec. 21, 2018

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 nine Global Thematic/Tech Equity indexes. Approximately US\$410 million in index-tracking assets are benchmarked to BlueStar Indexes as of end-August 2018.

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A Special BlueStar Index Rebalance Edition Israeli Equities Still Above Water as Global Sell-Off Worsens.

Highlights (YTD figures as of December 15, 2018):

- Israeli stocks as defined by the BlueStar Israel Global Index® (BIGI®) gained 2.86% in November, bringing 2018 YTD performance to 0.91%. This represents a substantial 13% above EAFE's -12.22% YTD return.
- Israeli technology stocks, as defined by The BlueStar Israel Global Technology Index™ (BIGITech®), gained 2.73% in November, 4.41% YTD.
- BIGI® is outperforming the local TA-125 Index for 2018 by more than 3% YTD, as the TA-125 has missed out on the performance of some of Israel's top foreign-listed technology companies. Israeli institutions are beginning to allocate to Israeli Tech stocks.
- The technical outlook for BIGI® quickly deteriorated between the end of November and December 21 – we see the next significant support level around 6.5% below.
- BlueStar Indexes' semi-annual rebalance changes went into effect after the close on December 21. The most notable changes include the removal of certain companies that the BlueStar Index Advisory Committee no longer considers Israeli (such as Perrigo Co. and Opko) and increased liquidity parameters to accommodate larger asset flows into products tracking BlueStar's Indexes.

FIGURE 1: BLUESTAR ISRAEL GLOBAL INDEX® TEN-YEAR RELATIVE PERFORMANCE ENDING NOVEMBER 30 2018



Equity Market Performance Review

FIGURE 2: ISRAEL AND GLOBAL EQUITY BENCHMARK COMPARISON

Benchmark	Nov. Return (%)	YTD (%)
BIGI	2.86	0.91
TA-BIGITech	2.73	4.41
MSCI Israel Uncapped	4.47	1.57
TA-125 INDEX	2.54	(2.60)
S&P 500	2.04	(0.90)
MSCI EM	4.12	(14.23)
MSCI EAFE	(0.13)	(12.22)
Israel Domestic Exposure	2.31	(8.66)
Israel Global Exposure	1.32	0.94

Sources: BlueStar Indexes, Bloomberg LP
YTD as of December 15, 2018

FIGURE 3: GLOBAL TECHNOLOGY STOCK INDEX COMPARISON

Benchmark	Nov. Return (%)	YTD (%)
TA-BIGITech	2.73	4.41
Dow Jones US Tech	(1.99)	3.28
S&P Global 1200 Info Tech	(1.89)	(1.97)
MSCI EM Tech	5.11	(19.61)

Sources: BlueStar Indexes, Bloomberg LP
YTD as of December 15, 2018

FIGURE 4: TOP AND BOTTOM BIGI PERFORMERS: NOVEMBER 2018

Positive Contributors (%)		Negative Contributors (%)	
Attunity Ltd	37.96	Liveperson Inc	(16.50)
Ceragon Networks Ltd	27.63	Audiocodes Ltd	(13.41)
Kornit Digital Ltd	24.70	Silicom Ltd	(13.12)
Urogen Pharma Ltd	22.88	888 Holdings Plc	(11.53)
Fox Wixel Ltd	21.20	Protalix Biotherapeutics Inc	(11.53)
El Al Israel Airlines	17.69	Carasso Motors Ltd	(11.50)
Intec Pharma Ltd	16.50	Telit Communications Plc	(11.27)
Cellcom Israel Ltd	13.37	Perrigo Co Plc	(11.15)
Compugen Ltd	12.34	Shapir Engineering And Indus	(11.14)
Energyx-renewable Energies	12.31	Klil Industries Ltd	(10.95)

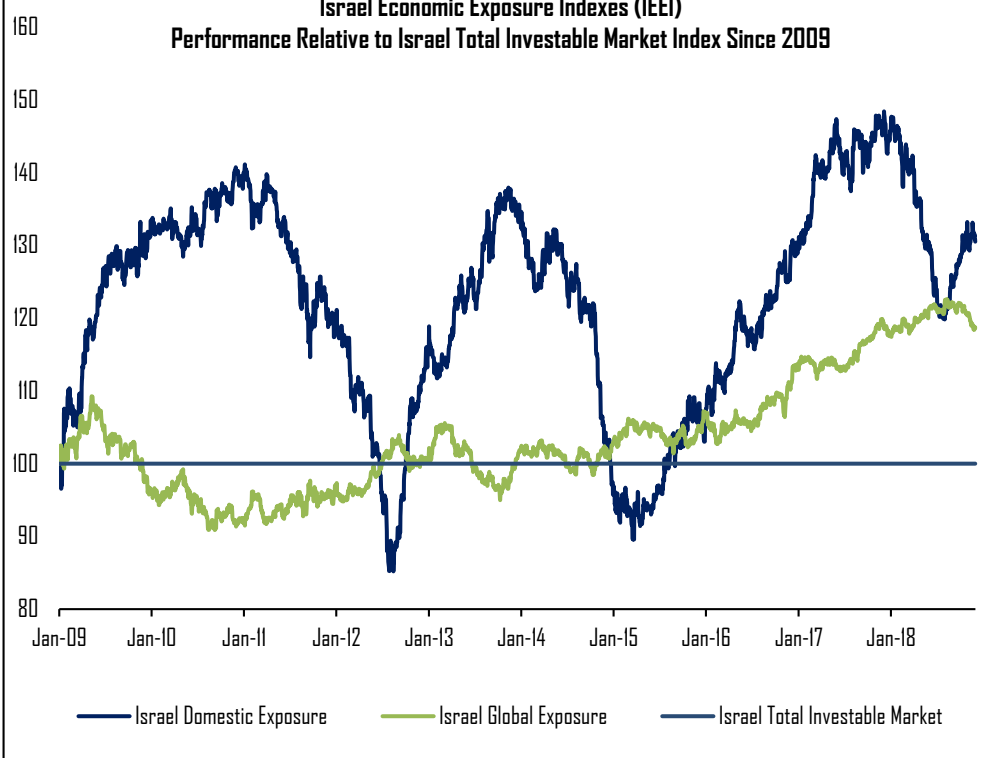
*Source: BlueStar Global Investors LLC; Currency-Adjusted returns in dollar terms

FIGURE 5: ISRAELI EQUITY SECTOR PERFORMANCE November 2018

GICS Sector	Period Return (%)
Utilities	8.81
Energy	6.44
Financials	5.13
Consumer Staples	3.69
Information Technology	2.44
Health Care	2.31
Communication Services	2.16
Industrials	1.51
Real Estate	1.30
Materials	0.60
Consumer Discretionary	(1.98)

*Sources: BlueStar Indexes, Bloomberg LP

Israel Economic Exposure Indexes (IEEI)
Performance Relative to Israel Total Investable Market Index Since 2009



In November, shares of domestically-oriented Israeli companies outperformed globally-oriented companies, a reversal of trend that lasted from December 2017 through July 2018.

The reversal in relative performance unsurprisingly coincided with stabilization in Israel's real estate market, a slower pace of Shekel depreciation, and worsening global trade data.

We expect, based on both economic and technical indicators, that domestically-oriented shares will to continue to outperform heading into 2019.

December 2018 Index Rebalance Highlights

BlueStar Israel Global Index

Top-Ten Constituents & Weight Post-Rebalance	
TEVA PHARMACEUTICAL IND LTD	10.00%
CHECK POINT SOFTWARE TECH	9.05%
AMDOCS LTD	5.98%
BANK LEUMI LE-ISRAEL	5.97%
BANK HAPOALIM BM	4.60%
NICE LTD	4.54%
MELLANOX TECHNOLOGIES LTD	3.04%
WIX.COM LTD	2.67%
ISRAEL CHEMICALS LTD	2.54%
ISRAEL DISCOUNT BANK-A	2.53%

Notable Additions/Deletions	
DELEK US HOLDINGS INC	Removed due to diminished connection to Israel as parent company, Delek Group, is no longer an interested party
ENERGEAN OIL & GAS PLC	Added due to listing on TASE and importance of Israel operations to the future of the company
IMPERVA INC	Removed due to pending acquisition
MAZOR ROBOTICS LTD	Removed due to pending acquisition
OPKO HEALTH INC	Removed due to diminished operating activity in Israel
PERRIGO CO PLC	Removed due to diminished operating activity resulting from recent divestments

Summary & Rules Changes	
Total Number of Constituents	125
Rule Change:	Portfolio size liquidity optimization increased from \$10 million to \$20 million

BlueStar Israel Global Technology Index

Top-Ten Constituents & Weight Post-Rebalance	
AMDOCS LTD	7.50%
CHECK POINT SOFTWARE TECH	7.50%
NICE LTD	7.50%
MELLANOX TECHNOLOGIES LTD	6.45%
WIX.COM LTD	5.68%
ELBIT SYSTEMS LTD	4.08%
VERINT SYSTEMS INC	4.06%
ORMAT TECHNOLOGIES INC	3.84%
ORBOTECH LTD	3.79%
CYBERARK SOFTWARE LTD/ISRAEL	3.77%

Notable Additions/Deletions	
BATM ADVANCED COMMUNICATIONS	Added due to increase liquidity
COMPUGEN LTD	Added due to increase market cap
IMPERVA INC	Removed due to pending acquisition
MAGIC SOFTWARE ENTERPRISES	Added due to increase liquidity
MAZOR ROBOTICS LTD	Removed due to pending acquisition
OPKO HEALTH INC	Removed due to diminished operating activity in Israel

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Total Number of Constituents	125
Rule change:	Portfolio size liquidity optimization increased from \$10 million to \$20 million
Rule change:	Increased minimum 6-month ADV criteria for inclusion increased from \$200K to \$250K

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Technical Analysis (as of December 21)

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



Our technical analysis outlook for the overall Israeli equity market using the broad-based BIGI® benchmark has confirmed a significant corrective period. With a strong showing in Spring and early Summer, followed by a brief consolidation, BIGI had a decisive breakout and surge to new highs through late September. However, BIGI failed to clear the parallel red resistance lines in the upper chart, which have contained rallies since early 2017, and fell back into the channel, which was being heavily tested in early December. This level was pierced very solid long-term support will come into play at the two lower green parallel support lines at the 240-250 level (6%-8% below December 21's closing price), which can be used as an accumulation zone for long-term investors.

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



Israeli Tech Stocks, as defined by BlueStar's BIGITech® Index, shifted to a less constructive pattern since the start of Q4 2018. With global technology stock weakness, and a rollover of BIGITech® in early October, we anticipate an ongoing corrective pattern, despite sharp BIGITech® rebounds in late October/early November and again in early December. The index remains well-above long-term support lines originating back to before the 2008/2009 financial crisis. BIGITech® soared to record highs this Summer and Autumn, but was also signaling overbought indicators amidst volatile global markets. We anticipate that opportunities to accumulate Israeli Tech stocks will present themselves at lower levels in the coming months, as the selling wave in global markets abates.

Disclosures

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