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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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ISRAELI EQUITIES END 2018 SIGNIFICANTLY AHEAD OF DEVELOPED INTERNATIONAL PEERS. ISRAEL TECH REMAINS POSITIVE AND LEADS US & GLOBAL TECH BENCHMARKS.

Highlights:

- Israeli stocks, as defined by the BlueStar Israel Global Index® (BIGI®), finished the year with a sharp 11.04% drop in December, bringing 2018 YTD performance to -6.01%. In spite of this turbulence and late-year swoon, Israeli stocks ended 2018 with a substantial 7.35% outperformance above MSCI EAFE's weak 2018 return of -13.36%.
- Israeli technology stocks, as defined by The BlueStar Israel Global Technology Index™ (BIGITech®), lost 6.61% in December but remained positive with a return of 0.58% for the 2018 calendar year.
- BIGI® outperformed the local TA-125 Index by 3.44% in 2018, as the TA-125 has missed out on the performance of some of Israel's top foreign-listed technology companies.
- While we correctly expected sharp downside moves in both BIGI® and BIGITech® following the technical deterioration between the end of November and December 21 – we are encouraged by the strong rebound from key support levels since end December.

BLUESTAR ISRAEL GLOBAL INDEX® TEN-YEAR RELATIVE PERFORMANCE ENDING DECEMBER 31, 2018



Equity Market Performance Review

Israeli Equities, as defined by the BlueStar Israel Global Index, finished 2018 with an annual loss of 6.01% following an 11.04% drop in December (largely attributable to Teva which declined more than 25%).

Israeli equities lost more in December than other Developed Markets, but as we will see on the following page, Israeli stocks fared significantly better than other International Developed Markets during the 2018 calendar year.

Similar to the broad Israeli equity universe, Israeli technology stocks, as defined by the BlueStar Israel Global Technology Index, outperformed other Developed - and Emerging - technology sectors in 2018, with a slight gain of 0.58% compared to the Dow Jones US Tech Sector Index and the S&P Global 1200 Information Technology Index, which lost 0.63% and 5.01%, respectively.

2018 turned out to be a stock-picker's market with several Israeli companies posting significant gains against a backdrop of a generally volatile and weak market. In addition, The BlueStar Israel Global Index benefitted from a handful of meaningful acquisitions.

Small cap technology stocks Attunity and Ceragon Networks gained 181% and 104%, respectively. Each company can be considered a pure-play on two of the most important technology trends of 2018 and 2019: big data availability and investment in 4G and 5G cellular networks.

On the other hand, the worst performers in the Israeli global equity universe were small cap biotech and communications companies, Vascular Biogenics and Australia-listed Sky and Space Global.

BlueStar's general view on Q4 2018's bear market in global equities was first expressed in our November monthly update. Our view was, and continues to be, that the bear market was caused by the absorption of new information including a higher level (as opposed to the trajectory) of interest rates, a higher level of inflation, and a deceleration in global trade. Several negative earnings reports, primarily by semiconductor stocks, were the proximate catalyst for the sell-off. Each of these developments warrant lower price to earnings multiples on stocks across the board. However, because there does not appear to be any major systemic risk to the global economy, and the prospects of a recession still seem far-fetched, we believe the recent sell off was a correction in multiples and not the beginning of a prolonged downtrend in global equities.

ISRAEL AND GLOBAL EQUITY BENCHMARK COMPARISON		
Benchmark	Dec. Return (%)	2018 (%)
BIGI	(11.04)	(6.01)
BIGITech	(6.61)	0.58
MSCI Israel Uncapped	(12.75)	(5.19)
TA-125 INDEX	(10.11)	(9.45)
S&P 500	(9.03)	(4.38)
MSCI EM	(2.66)	(14.58)
MSCI EAFE	(4.85)	(13.36)
Israel Domestic Exposure	(7.55)	(12.81)
Israel Global Exposure	(11.35)	(6.19)

Sources: BlueStar Indexes, Bloomberg LP

ISRAEL AND GLOBAL EQUITY BENCHMARK COMPARISON		
Benchmark	Dec. Return (%)	2018 (%)
BIGITech	(6.61)	0.58
Dow Jones US Tech	(8.10)	(0.63)
S&P Global 1200 Info Tech	(7.78)	(5.01)
MSCI EM Tech	(3.83)	(19.29)

TOP AND BOTTOM BIGI PERFORMERS: 2018			
Positive Contributors (%)		Negative Contributors (%)	
Attunity Ltd	181.95	Vascular Biogenics Ltd	(91.55)
Sodastream International	104.26	Sky And Space Global Ltd	(72.04)
Ceragon Networks Ltd	90.91	Taptica International Ltd	(66.89)
Intec Pharma Ltd	88.50	Xlmedia Plc	(62.96)
Cyberark Software	79.13	Radcom Ltd	(62.62)
Israel Corp Limited	70.55	Biolinerx Ltd-spons Adr	(59.88)
Plus500 Ltd	66.80	Perrigo Co Plc	(57.07)
Novocure Ltd	65.74	Tower Semiconductor Ltd	(56.75)
Liveperson Inc	64.00	Protalix Biotherapeutics Inc	(52.96)
Wix.Com Ltd	56.98	Ceva Inc	(52.13)

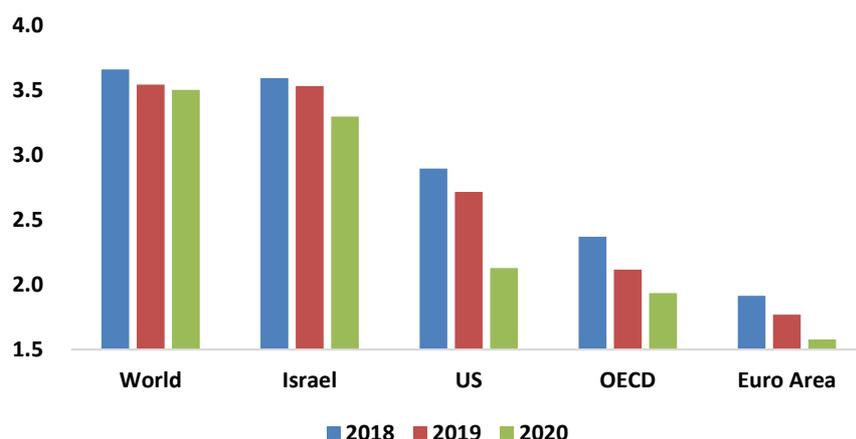
*Source: BlueStar Global Investors LLC; Currency-Adjusted returns in dollar terms

Israel vs EAFE and Key Local Indexes in 2018

EAFE COUNTRY INDEX PERFORMANCE IN 2018

Country	Index	2018
New Zealand	S&P/NZX 50 Index Gross	-0.76%
Israel	BlueStar Israel GlobalTR	-6.01%
Japan	NIKKEI 225	-10.35%
Switzerland	SWISS MARKET INDEX	-11.16%
Norway	MSCI NORWAY	-12.24%
Finland	OMX HELSINKI INDEX	-12.49%
EAFE	MSCI EAFE GTR	-13.36%
Singapore	MSCI SING IX ETS Jul18	-13.25%
Hong Kong	HANG SENG INDEX	-13.83%
Portugal	MSCI PORTUGAL	-14.09%
Netherlands	AEX-Index	-14.66%
France	CAC 40 INDEX	-15.17%
Sweden	OMX Stockholm All-Share	-15.78%
Australia	S&P/ASX 200 INDEX	-16.07%
Denmark	OMX COPENHAGEN 20	-17.41%
UK	FTSE 100 INDEX	-17.52%
Spain	IBEX 35 INDEX	-19.01%
Italy	MSCI ITALY	-20.03%
Germany	DAX INDEX	-22.21%
Ireland	MSCI IRELAND	-26.40%
Belgium	MSCI BELGIUM	-28.56%
Austria	MSCI AUSTRIA	-29.32%

OECD Real GDP Growth Forecasts

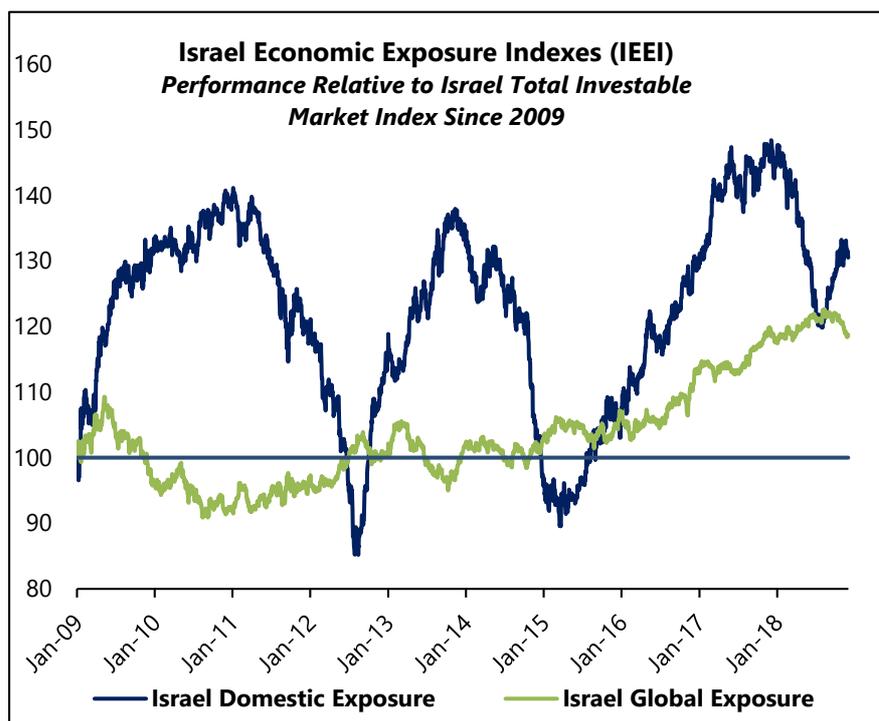


Israeli Equities, as measured by the BlueStar Israel Global Index®, posted significant outperformance compared to other international Developed Markets in 2018. This placed Israel as the second-best performing Developed Market, behind New Zealand by roughly 5.5%, and ahead of Japan by just over 4%.

2018 marks the first year since 2014 that Israeli equities outpaced the MSCI EAFE Index. From 2014 through 2017, Israeli equity benchmarks were dragged down by the underperformance of Health Care-related stocks, including Teva Pharmaceuticals and Perrigo Co. (the later of which is no longer considered an Israeli company). However, during that period Israel's economic growth outpaced that of most other Developed Markets and there was general strength in the Israeli equity market which was masked by the underperformance of just a handful of names.

Looking forward to 2019 and beyond, the OECD projects that Israel's real GDP growth will remain relatively strong with growth of roughly 3.5% and 3.3% in 2019 and 2020, respectively, compared to the OECD average of just 2.12 and 1.94%. Because of the relative strength in Israel's underlying economy (detailed on the following pages), sector-related catalysts, and recent structural changes to Israel's equity benchmark (including the removal of certain companies which have reduced their Israel-based activities over the past 12-18 months, as well as tighter diversification measures), it is plausible that Israeli equities can continue to their relative outperformance into 2019 and beyond.

Economic Update



The Solactive–BlueStar Israel Economic Indexes, shown in the top chart, are useful tools in analyzing the impact of Israel’s economic prospects on its equity market. The Israel Domestic Exposure Index is a revenue-based benchmark of Israeli companies most closely tied to domestic sources of demand, while the Israel Global Exposure Index is comprised of Israeli companies with global sources of revenue.

2018 was a particularly interesting year, as a rebound in globally-oriented companies like Pharmaceuticals and Materials companies helped the Global Exposure Index off to a very strong start. In addition, a weakening shekel and fears of a prolonged contraction in Israel’s Real Estate sector caused the Domestic Exposure Index to fall. By mid- 2018 we began to call for a reversal in this trend as the real estate market and Shekel showed signs of stabilization and the valuations of Israeli banks improved. Indeed, the Domestic Exposure Index outperformed in the second half of the year.

Looking ahead, the prospects for Israel’s economy, at least on a relative basis, continue to look strong. Real GDP is expected to remain above 3%, inflation is expected to return to become entrenched in the Bank of Israel’s target range, and the current account balance is expected to remain positive. In addition, the Bank of Israel’s policy interest rate is expected to rise by just one-quarter of a percent by the end of 2019 and then by one percent in 2020.

We believe that with the prospects of fewer interest rate hikes in the US, and only one rate hike in Israel, that the Shekel will either continue to gradually strengthen or stabilize. This, combined with positive GDP growth, and potentially sideways action in globally-oriented sector like technology, will allow domestically-oriented sectors to continue to outperform into the first half of 2018.

ISRAEL ECONOMIC DATA

	2016	2017	2018*	2019*	2020*
Real GDP (%y/y)	3.9	3.5	3.2	3.3	3.0
CPI (%y/y)	-0.5	0.2	0.9	1.3	1.6
Current Account (% of GDP)	3.8	2.8	2.0	1.9	2.0
Budget Balance (% of GDP)	-1.9	-1.8	n/a	-2.9	-2.5
Headline Short-Term Interest Rate	0.10	0.10	0.25	0.69	1.50

Israel Central Bureau of Statistics, FactSet

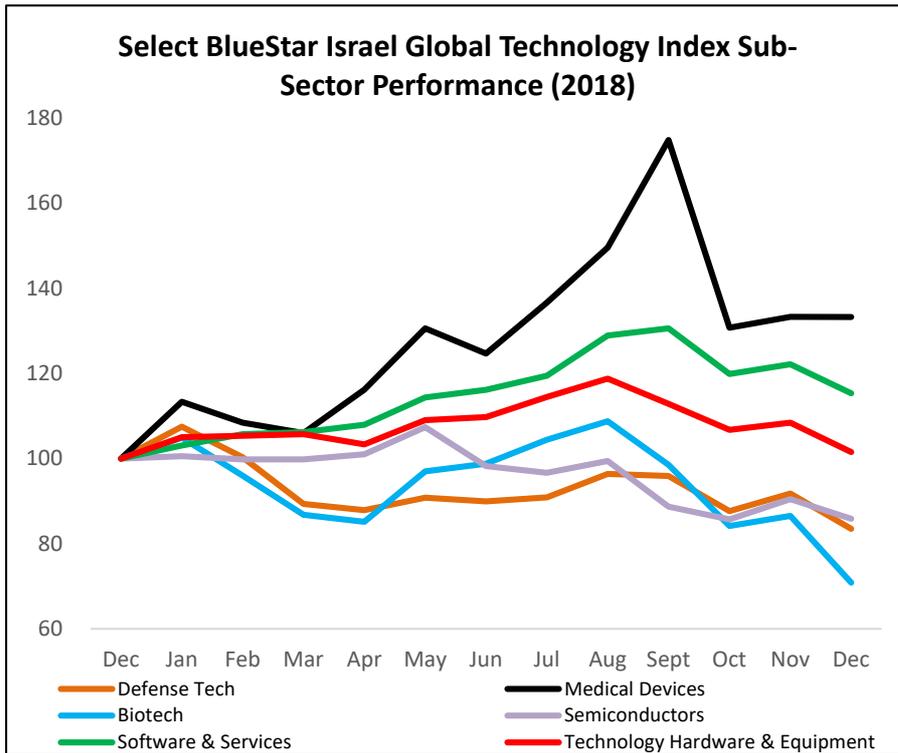
FIGURE 5: ISRAELI EQUITY SECTOR PERFORMANCE THROUGHOUT 2018

Sector	Q1 2018	Q2 2018	Q3 2018	Q4 2018	FY 2018
Materials	1.24	9.64	20.94	(9.60)	21.37
Consumer Discretionary	8.61	(6.70)	27.65	(6.88)	20.45
Information Technology	3.54	4.54	7.60	(10.28)	4.51
Consumer Staples	(2.62)	(3.47)	5.63	3.72	3.00
Financials	0.18	(0.26)	8.06	(9.02)	(1.77)
Energy	5.57	1.42	6.11	(14.01)	(2.31)
Utilities	(5.40)	(4.87)	3.56	(2.48)	(9.12)
Real Estate	(11.21)	0.05	7.17	(8.84)	(13.21)
Industrials	(11.40)	(3.50)	10.49	(11.79)	(16.67)
Health Care	(7.23)	18.02	(1.92)	(32.36)	(27.37)
Communication Services	(20.04)	(13.69)	9.38	(16.83)	(37.21)

*Sources: BlueStar Indexes, Bloomberg LP

*Sources: BlueStar Indexes, Bloomberg LP

Tech Sector Highlights



Israel technology stocks, as measured by the BlueStar Israel Global Technology Index, fared well compared to other global technology sector indexes in 2018, including the Dow Jones US Technology Sector Index, the S&P Global 1200 Information Technology Index, and the MSCI Emerging Market Index.

The relative performance difference is attributable mostly to the difference in sub-sector exposures. One of the most notable trends in the technology sector in 2018 was the contrast between semiconductor stocks and software stocks. While the semiconductor sector sharply corrected in 2018, software stocks posted significant gains. Israeli software stocks gained 19.20% while US software stocks gained 18.14%. In addition, Software stocks have a 3% higher weight in BIGITech than in the Dow Jones US Tech Sector Index. Taken together, the relative exposure to the software sector contributed roughly 1% to BIGITech’s outperformance in 2018. In addition, exposure to medical device companies helped boost BIGITech’s relative performance while exposure to defense technology companies detracted.

In addition to sector-based attribution, there were a few notable acquisitions of Israeli companies in 2018: Orbotech by KLA-Tencor, Mazor Robotics by Medtronic, and Imperva by Thoma Bravo.

2019 and Beyond

In 2019, we expect continued volatility in semiconductor stocks - at least through Q1 2019 earnings season, while software stocks, particularly those focused on bringing artificial intelligence and big data applications to the enterprise will continue to outperform. Semiconductor stocks were bid higher in 2017 and the first half of 2018 as demand for machine learning chips, and other use cases like crypto currency mining, caused investors to raise growth expectations – and PE ratios - to unsustainable levels. When Q3 earnings for this group came in weak and management teams began tempering expectations for 2019, the group sold off. We believe that analysts need another quarter or two of information on the semiconductor stocks before they stabilize for any rally to be trusted. While semiconductor stocks are playing and will continue to play an instrumental role in emerging technology themes, it is a highly competitive and cyclical industry prone to overbuying and overselling. We think that there are more opportunities in the software and technology services space, or in highly-specialized communications equipment stocks, in the first half of 2019.

There are two secular trends in technology that we will be paying attention to in 2019: Applied Artificial Intelligence (Ai) and 5G Communications. These are two areas where Israeli companies can play a “lead from behind role”. Companies like NICE (+19% in 2018), Verint (+1%), LivePerson (+62%), Wix.com (+57%), and Attunity (+181%) are all software companies playing different roles in enabling enterprise access to artificial intelligence or offering artificial intelligence-based applications to enterprises directly. Israeli companies that stand to benefit from the roll out of 5G networks include Ceragon Networks (+91%), Allot Communications (+21%), Radcom (-62%), and Amdocs (-9%).

Technical Analysis (as of January 15)

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



The technical outlook for Israeli Global Equities broke down sharply once the lowest set of red trend lines were breached in December. Traders who were able to quickly stop out after that break would have been well-advised to re-enter at the green support lines which have been included in our charts since late 2015.

While these key long-term support lines held firm in December 2018, the technical position for BIGI® is still precarious. We believe the most likely case will be a consolidation between those long term support lines and the lower set of upward sloping resistance lines. Even if we have a further rally in January/February, there are several layers of significant resistance that will likely contain the index well below its Autumn 2018 high.

For now our technical outlook is neutral. Our outlook would turn bearish if key support at the double green line is broken or the index reaches the resistance lines around 275/280 drawn on the chart. On the other hand, if the support lines are tested and hold again, and we begin to see a change in momentum indicators, we would shift to a bullish outlook and believe that the layers of resistance would become less significant.

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



As was the case throughout most of 2018, the technical outlook for Israeli technology stocks remains more bullish - even after the sharp Q4 2018 correction.

Israeli technology stocks broke out to new all-time highs in late 2017 and still remain above that breakout level. The first check on this rally came in December 2018, when the steep red trend lines were broken. However, we can see that the index fell to a natural support area just above the 2017 breakout level.

This indicates that Israeli technology stocks have consolidated their gains, tested support and are poised to resume an uptrend at some point in 2019. In the meantime, investors can use the second and third support lines as 'back-up' for a bullish long-term view.

Disclosures

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