

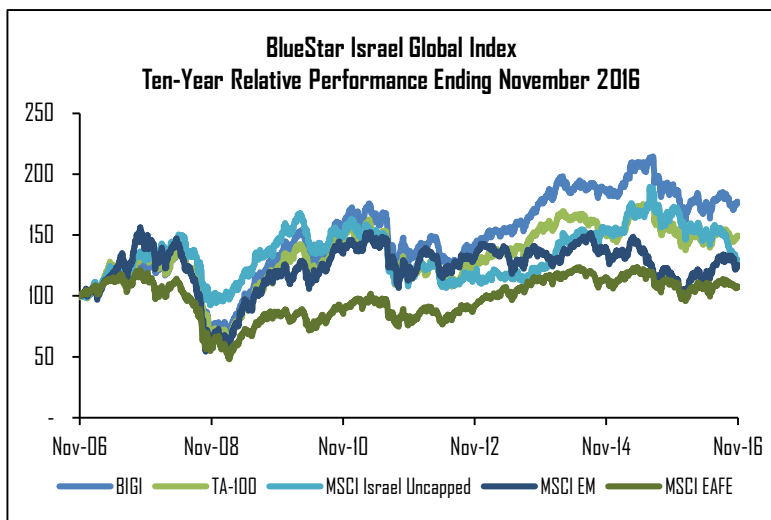
The BlueStar Indexes® Monthly Update covers Israeli equities traded worldwide. The BlueStar Israel Global Index® (BIGI® or BLS:IND on Bloomberg) is used as the benchmark for our review as it represents the complete opportunity set of Israeli equities. BIGI® is tracked by the NYSE-listed ISRA Israel ETF, by two TASE-listed ETNs, and by an Israeli-registered mutual fund. Israel has one of the world's most resilient economies, its technology sector is a global innovation leader, and its companies have a global footprint. The Update provides insight into macro forces, the geopolitical environment in which Israel's economy operates, and the individual companies that have contributed to Israeli Global Equities' impressive long-term performance.

It's All About Expectations: Trump Accelerates Trends Already Underway

December 5, 2016

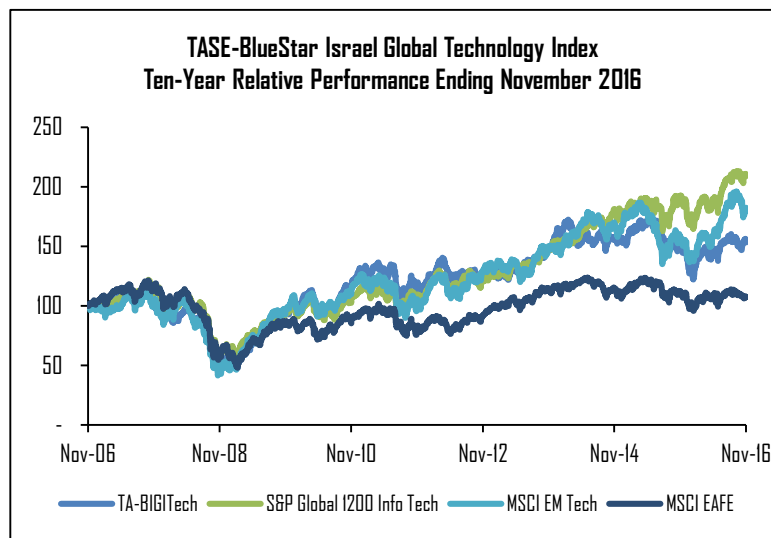
Performance Review

Israeli Global Equities, as measured by BIGI®, rose 1.87% in November, breaking a two-month losing streak. Israeli Global Technology Equities, as measured by the TA-BIGITech® benchmark resumed their outperformance of the broader Israeli market in November, rising 2.57%. BlueStar's Israel equity indexes outperformed the MSCI Israel index by more than 500 bps but underperformed the TA-100 index slightly. Also, Israeli Global Equities outperformed other international equity markets, beating the MSCI EAFE index by roughly 300bps and the MSCI EM index by more than 600bps. Many of the themes and trends we have discussed throughout this year accelerated in November due to economic data published in November and the expected impact of Donald Trump's economic policy: investors preferring domestically-oriented sectors of the Israeli market over global-oriented sectors, Healthcare continuing to underperform heading into the US elections, and investors positioning for higher growth, higher inflation and higher interest rates. [Click here](#) for BlueStar's monthly Technical Analysis update.



Global Equity Benchmark Comparison: November 2016

Benchmark	Period Return (%)
BIGI®	1.87
MSCI Israel	-4.51
TA-100	2.66
S&P 500	3.70
MSCI EAFE	-1.98
MSCI EM	-4.60



Global Technology Stock Index Comparison: November 2016

Benchmark	Period Return (%)
BIGITech®	2.57
DJ US Tech	0.01
S&P Global Tech	-0.99
TA- Tech Elite	3.57
EM Internet & E-commerce	-5.47

Market Trends and Outlook

Last month, before the US Presidential election, we asserted the following: "What BlueStar sees developing in global markets is a set up for the next leg of the current bull market cycle which began in 2009. We come to this baseline outlook predominantly because of developments in global monetary policy. We think that the tentative monetary tightening cycle is both in reaction to positive economic developments and a leading indicator of positive economic developments. The current state of monetary policy is that interest rates in virtually all Developed Markets have been, are, and will likely continue to remain below the "equilibrium" rate for several more years to come even if one takes the view that the equilibrium rate is lower now than before the Great Recession. Over the last two quarters we have seen labor markets firm, and we have seen signs of wage and price inflation. Our thesis is that a gradually rising rate cycle will accelerate these trends, not quash them as many fear: rising interest rates or the perception of rising rates will induce current over future consumption."

Markets are efficient, maybe too efficient. The market reaction to the election of Donald Trump was logical but the reaction was a shock unto itself, one that needs to be absorbed before moving forward: deficit spending (and potentially tariffs) should lead to higher inflation and higher interest rates; sectors like energy and financials should benefit massively from lower government regulation; and a strengthening labor market and a "US-first" attitude should boost discretionary incomes and consumer spending. However, the pace with which interest rates corrected upward globally, market expectations for inflation rose, and US Industrials/Financials/Retail stocks outperformed technology and international equities may be overdone in the short term.

Because we don't see Trump's proposed policies being particularly bad for the US technology sector, and because there are so many secular growth industries within the technology sector, we think the underperformance of large US technology stocks in November and early December is likely transitory in nature, as investors make room for greater allocations to other sectors. Additionally, deficit spending and a period of sustained economic growth driven by capital investment will not be possible if interest rates continue to rocket higher as they did in November: a fiscally conservative congress will simply not allow it to occur. These are the reasons we think that markets were a bit too efficient in November and we would expect a slowing or pause in the rise of medium and long-term interest rates over the coming months. At the same time the underlying strength of the US economy is constructive to our view that we are entering the next leg of the current bull-market, we expect to see sectors with high degrees of operating leverage, consumer-related sectors and growth-oriented stocks lead the way higher until the next recession. Additionally, Price-Earnings ratios tend to rise when the 10-year US treasury rate is between 3.5% and 6%, and we are likely going to enter that zone within the next year.

A strong US economy and rising inflation is unlikely to stay onshore (despite a so-called protectionist in the White House) which leads us to believe that international developed markets, including Israel, are generally lagging the US by a few quarters in terms of equity market performance, economic developments and monetary policy. The Bank of Israel maintained its record low policy interest rate for the month of December while noting that the economy is seeing more robust growth and Israel continues to enjoy extraordinary labor market conditions. Israel's unemployment rate has been hovering near record low levels for several quarters, the labor force participation rate is rising and yet the job vacancy rate remains at relatively high levels. These conditions have led to increases in real (inflation-adjusted) wages which will ultimately lead to higher inflation in Israel (especially if the US begins to export some of its inflation overseas). Thus, we believe that the Bank of Israel will begin signaling its intent to raise its policy interest rate relatively soon.

Top Israeli Equity Gainers and Losers: November 2016

Top-performing Israeli Stocks (%)		Worst-performing Israeli Stocks (%)	
Sodastream International Ltd	40.73	Caesarstone Ltd	-23.06
Wix.Com Ltd	23.75	El Al Israel Airlines	-16.34
Delek Usa Holdings Inc	19.93	Chiasma Inc	-13.33
Audiocodes Ltd	19.92	Teva Pharmaceutical Ind Ltd	-11.62
Supercom Ltd	19.40	Neuroderm Ltd	-11.17
Alon Usa Energy Inc	15.88	Ceragon Networks Ltd	-10.51
Foamix Pharmaceuticals Ltd	15.60	Allot Communications Ltd	-10.40
Orbotech Ltd	15.58	Redhill Biopharma Ltd-sp Adr	-9.76
Tower Semiconductor Ltd	15.50	Property & Building Corp Ltd	-9.37
Elco Ltd	11.07	Evogene Ltd	-8.74

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

Israeli Equity Sector Performance: November 2016

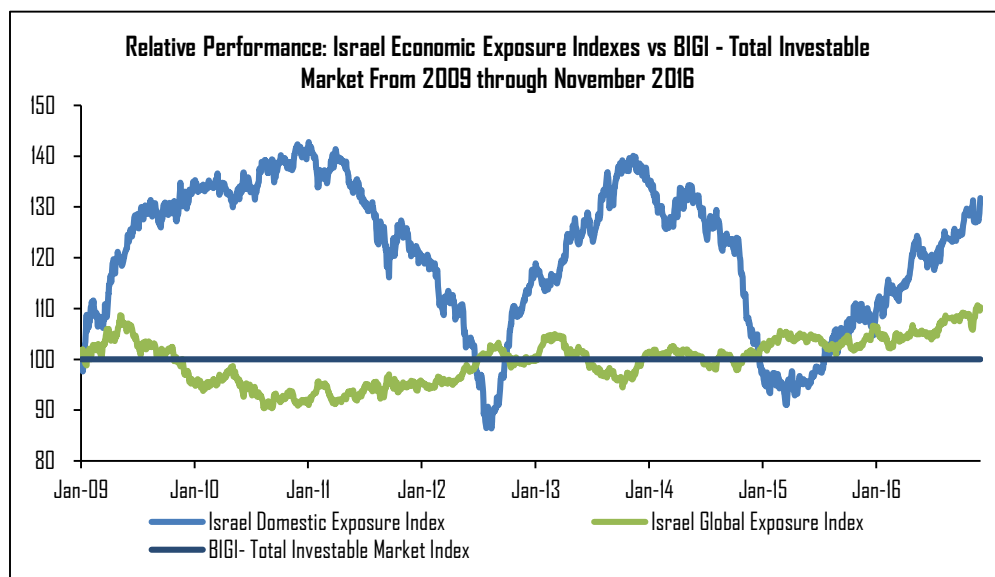
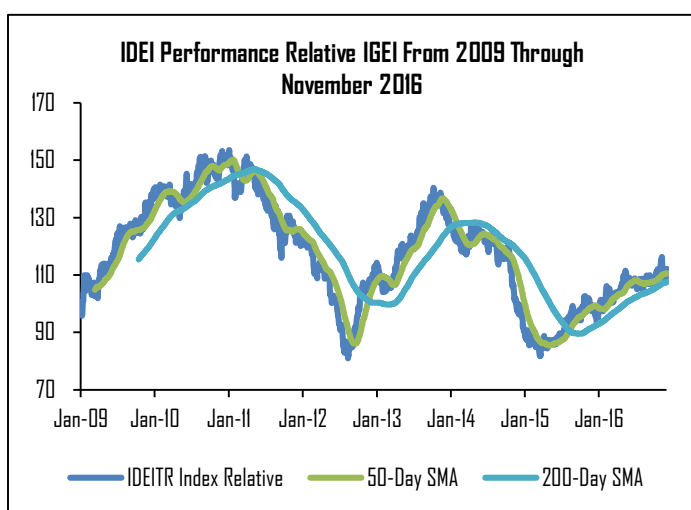
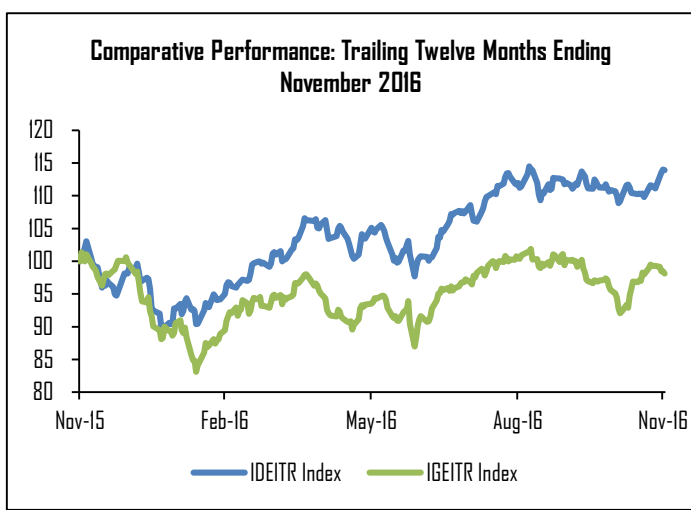
GICS	Sector Return (%)
Consumer Discretionary	10.27
Energy	9.34
Financials	7.10
Materials	4.23
Telecommunication Services	2.80
Information Technology	1.84
Real Estate	0.46
Utilities	-0.68
Industrials	-1.32
Consumer Staples	-1.55
Health Care	-2.90

Israel Economic Update and Economic Exposure Index Trends

This section discusses Israel's equity market in terms of sectors and our economic exposure indexes (IDEI – domestic exposure index, and IGEI – global exposure index). For more information on these indexes please download the index fact sheets from our website.

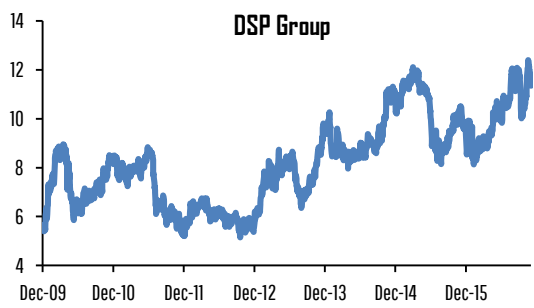
We have been watching the relative performance of our economic exposure indexes for many months and it now seems that we are now likely in the final period of outperformance of the IDEI over the IGEI. Our technical analysis comports with our fundamental economic view outlined on the previous page and our study on the Healthcare sector on the following page:

- Healthcare has underperformed by too much for too long
- Materials and chemicals exporters are likely to see greater demand and the pace of global trade picks up
- Israeli Global Technology stocks are experiencing a period of relative strength and are not yet in overbought territory
- The Bank of Israel is likely to trail the Federal Reserve, and ECB is raising its policy interest rates which should alleviate some of the upward pressure on the Shekel
- The pace of increase in Israel's real estate market is slowing
- The IDEI has not outperformed the IGEI by margins much wider than we have seen over the last twelve months before the IGEI begins to outperform

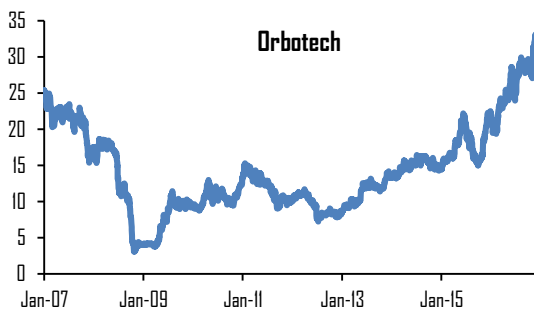


Under-the-Radar Tech Stocks in Break-Out Mode

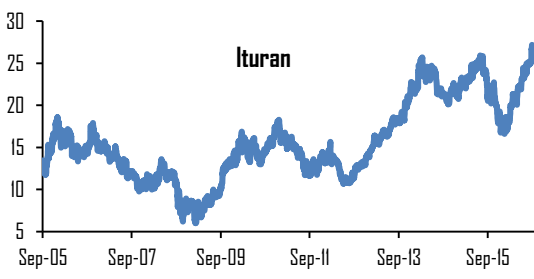
DSP Group: DSP Group reached a new 7-year high in mid-November. The Internet-of-Things chip supplier's investment in new growth areas over the last few years is bearing fruit. DSP Group is a leading supplier of chipsets that are incorporated into consumer electronics such as home gateways, connected devices, voice over internet protocol, and voice recognition technologies.



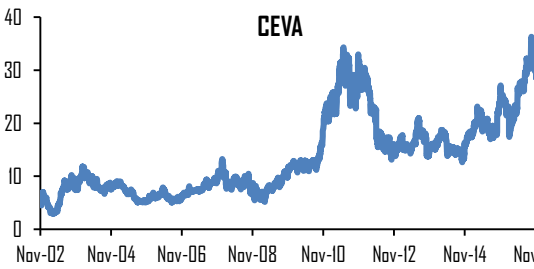
Orbotech: Orbotech reached a new 10-year high in mid-November. Orbotech is a supplier of quality control and manufacturing solutions, operating in the sweet spot of technology today. The company supplies manufacturers of consumer electronic devices and screens such as TVs, tablets and smart phones, printed circuit boards, and semiconductors. Orbotech's products are used by virtually every major technology company around the world and investors seem to be waking up to the story.



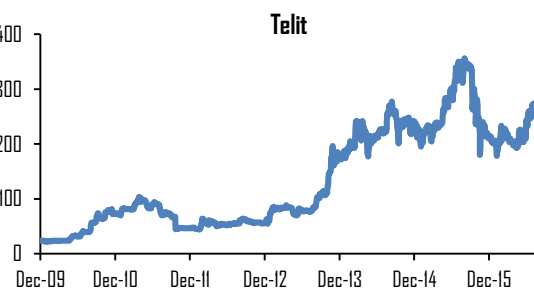
Ituran: Ituran, another Israeli Internet-of-Things company marked a new all-time high in September. Ituran is a supply of location-based systems for positioning and locating objects, particularly vehicles.



Ceva: Ceva is also in the Internet-of-Things industry and also reached a new all-time high in September. Ceva is a leading licensor of signal processing technologies for the emerging Internet-of-Things space. Ceva works with leading global technology companies which need low-power semiconductors to be used in a wide range of end products such as smart phones, connected devices and home gateways.



Telit Communications: Telit reached an all time high in late 2015 and is still nearly 100% higher than its peak price from between 2005 and 2013. Telit is also in the Internet-of-Things arena but focuses on machine-to-machine communications and the "industrial internet-of-things".

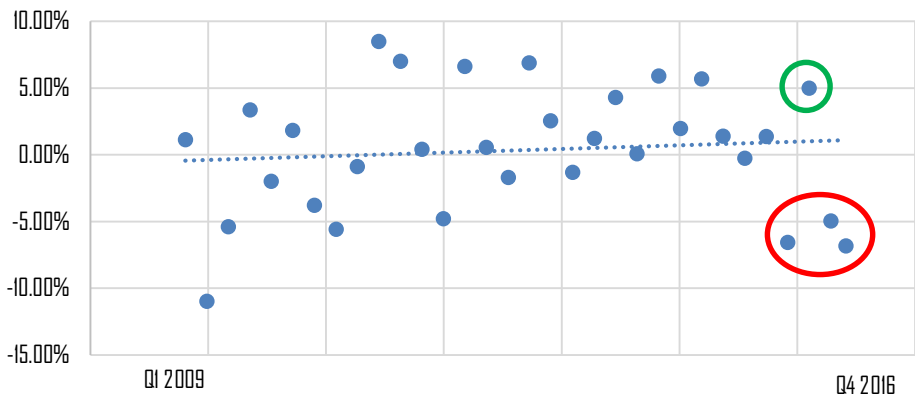


Sector/Company Spotlight

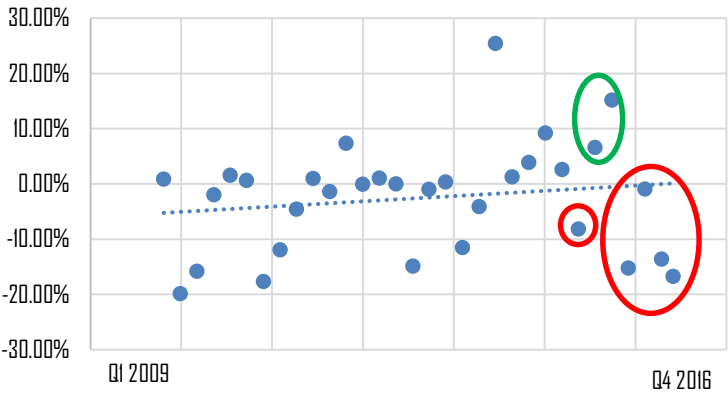
We continue to monitor the performance of the global health care sector and the two largest Israeli Health Care companies relative to their respective broader market indexes. The relative underperformance has been very unusual from statistical and technical perspectives even though the industry may be facing longer-term structural changes (think regulatory and greater bargaining power of customers).

We observe the following from the scatterplots below. The global Healthcare sector has underperformed the global equities for three of the last four quarters by 5% or more in each of those quarters, something that has not occurred once in the six years prior. Even more interesting is the behavior of the Israeli pharmaceuticals giants, Teva and Perrigo. Teva has now underperformed the broader Israeli Global Equity universe in five of the last seven quarters and by roughly 10% or more in four of those five quarters. Perrigo has underperformed for seven of the last eight quarters. What this means is that the global Health Care sector, Teva, and Perrigo are in extremely oversold levels on a long-term basis. Therefore the chances of one or more quarters of strong outperformance are increasing. This aligns with our technical analysis on the Israel Economic Exposure Indexes which indicates that Israeli Domestic stocks (which does not include most Healthcare stocks) is likely in a final phase of the strong outperformance compared to Israeli Global stocks (which includes Healthcare).

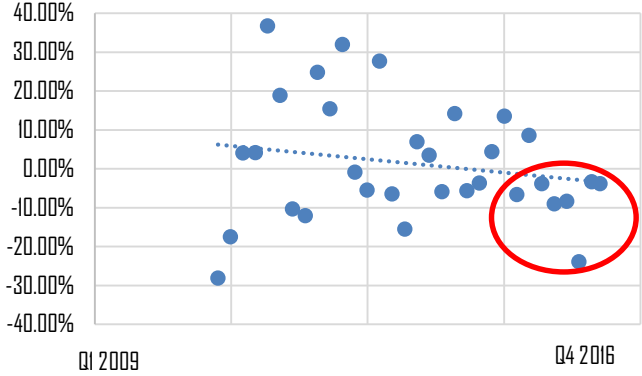
Global Healthcare Sector Quarterly Performance Relative to Global Equities Since 2009



TEVA Quarterly Performance Relative to BIGI



PRGO Quarterly Performance Relative to BIGI



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