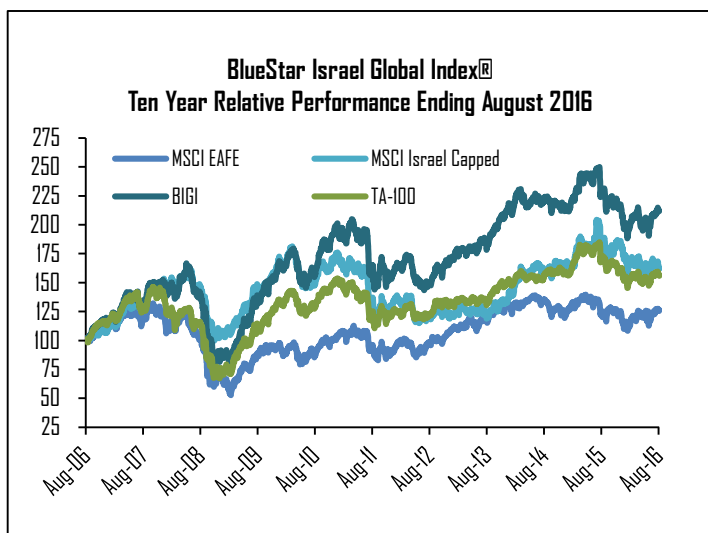


The BlueStar Indexes® Monthly Update covers Israeli equities traded worldwide. The BlueStar Israel Global Index® (BIGI® or BLS:IND on Bloomberg) is used as the benchmark for our review as it represents the complete opportunity set of Israeli equities. BIGI® is tracked by the NYSE-listed ISRA Israel ETF, 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.

Israeli Economy Firing on All Cylinders

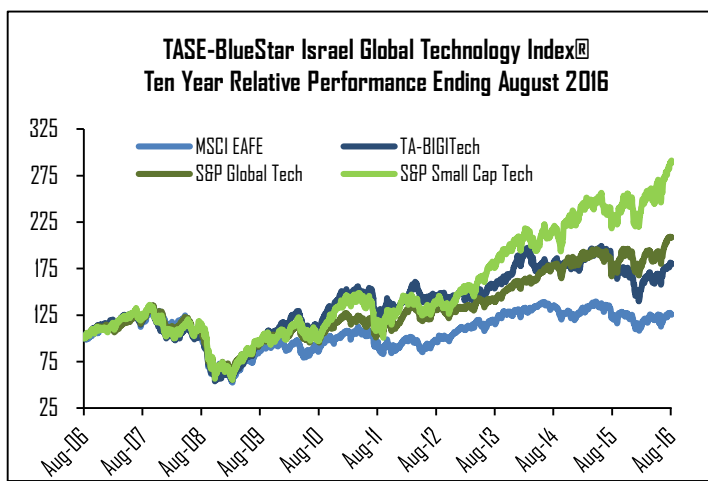
September 7, 2016

Israeli Global Equities, as measured by BIGI®, rose 1.25% in August after rising more than 5% in July. Israeli Global Technology Equities, as measured by our TA-BIGITech® benchmark, outperformed the broader Israeli equity market for the third consecutive month, rising 1.65%. BlueStar's Israel equity indexes outperformed other leading Israeli equity benchmarks and other developed markets in August. The MSCI Israeli IMI index declined by over 3% while the TA-100 index was virtually flat for the month, in line with the US and other developed markets. On the other hand, investors globally expressed preference for growth-oriented sectors over value/ defensive sectors as global technology benchmarks rose strongly in August ([more on this and other commentary on the following page](#)). [Click here](#) for BlueStar's monthly Technical Analysis update.



Global Equity Benchmark Comparison: August 2016

Benchmark	Period Return (%)
BIGI®	1.25
MSCI Israel	-3.45
TA-100	0.34
SPG 500	0.14
MSCI EAFE	0.08
MSCI EM	2.49



Global Technology Stock Index Comparison: August 2016

Benchmark	Period Return (%)
BIGITech®	1.65
Nasdaq-100	1.08
SPG Global Tech	1.99
TA- Tech Elite	1.98
EM Internet & E-commerce	9.62

One important trend emerging in global equity markets is the reversal of investors' preference for value/defensive sectors over cyclical and growth-oriented sectors. This is a manifestation of a changing of the guards of the equity market: the Federal reserve handing over the reigns to the open market. A slow-growth global economy, and the zero- to negative- interest rate policy that was prescribed to it caused investors to increase allocations to higher dividend paying and defensive areas of global equity markets. The intended consequence of such policy - higher economic growth and inflation - are now coming to fruition and the markets are adjusting accordingly.

It appears that global markets are now accepting, perhaps even cheering, the prospect of higher interest rates. Higher interest rates allow investors to achieve the yield they sought in defensive sectors of the equity markets in the lower-risk fixed income markets: in other words, there is likely to be less demand for high-dividend paying equity stocks as a substitute for fixed-income securities as interest rates begin to rise. At the same time investors tend to favor growth and cyclical sectors when global economic growth and inflation are rising. For several months now we have seen growth sectors like technology outperform the broader equity markets, and we have seen high-yielding defensive sectors like utilities sell off. We believe this is a multi-year trend just getting underway. Israeli Global Technology stocks can play an important role in enabling investors to directly take advantage of this trend. Additionally since Israel is one of the fastest growing Developed Markets in the world, the broader Israeli equity markets can play an important role as a supplement to portfolios tracking international indexes like the MSCI EAFE index.

Top Israeli Equity Gainers and Losers: August 2016

Top-performing Israeli Stocks (%)		Worst-performing Israeli Stocks (%)	
Radcom Ltd	62.19	Endochoice Holdings	-21.66
Silicom Ltd	41.07	Chiasma	-17.67
Ceragon Networks	40.83	Attunity	-15.15
Elco Ltd	37.61	Syneron Medical	-14.81
Redhill Biopharma	36.52	Enzymotec	-13.60
Wix.Com Ltd	36.18	Taro Pharmaceutical	-13.29
Sodastream	33.44	Solaredge Technologies	-12.76
El Al Israel Airlines	31.25	Supercom	-12.06
Kamada	31.23	Mellanox Technologies	-7.67
Safecharge	31.20	Opko Health	-6.38

Israeli Equity Sector Performance: August 2016

GICS	Sector Return (%)
Consumer Discretionary	14.15
Real Estate	12.76
Industrials	12.75
Materials	12.44
Energy	12.27
Utilities	10.77
Consumer Staples	6.92
Info. Technology	6.77
Financials	5.86
Telecom. Services	2.39
Health Care	0.46

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

In August The Bank of Israel left its benchmark interest rate unchanged at 0.10%. Many of the trends in Israeli economic growth provide a sound fundamental backdrop to our view that a shift from value to growth over the next several years is getting under way. In fact, the views we expressed last month were confirmed by some of the growth data that emerged during August. Here is what we wrote last month:

"Some of the themes that will likely emerge in Israel over the next few quarters concern the balance of growth in the domestic-oriented sectors of the economy compared to the global- and export- oriented sectors of the economy. While the outlook for inflation remains subdued it seems to us that it is only a matter of time before the strength of the Israeli labor market, combined with the relative strength of the domestic-oriented sectors of the Israeli economy, will lead to inflationary pressures in Israel. Some inflation is generally positive for businesses, business confidence, and stocks. In our opinion that is why forecasters are predicting a resurgence in the fixed capital formation component of GDP next year: a normal level of inflation provides the confidence businesses need to plan and expand. Fixed capital formation is one of the most important component of GDP in determining a countries longer-term growth prospects."

In August, we learned that Israel's trailing twelve month CPI (excluding energy prices) rose 0.8% compared to the declines of the past few quarters. Additionally, Israel's GDP grew by nearly 4% in the second quarter led by consumer spending, investment in fixed capital formation and a revival in exports which rose by nearly 6% in the second quarter after a prolonged period of contraction. Also the unemployment rate remains lows and real wages are rising in nearly every sector of the economy. As noted on the following page, there seems to be more room for consumer and domestic related areas of the economy to lead Israel's growth over the next few quarters but this leadership will likely shift to globally-oriented sectors of the economy thereafter.

The Israeli economy firing on all cylinders:

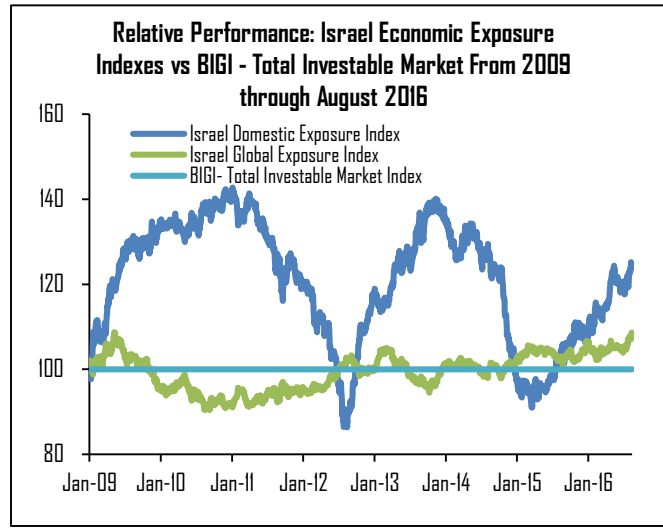
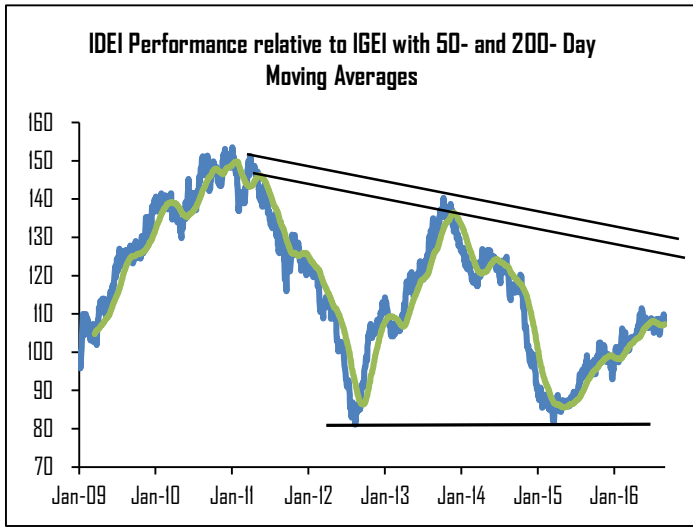
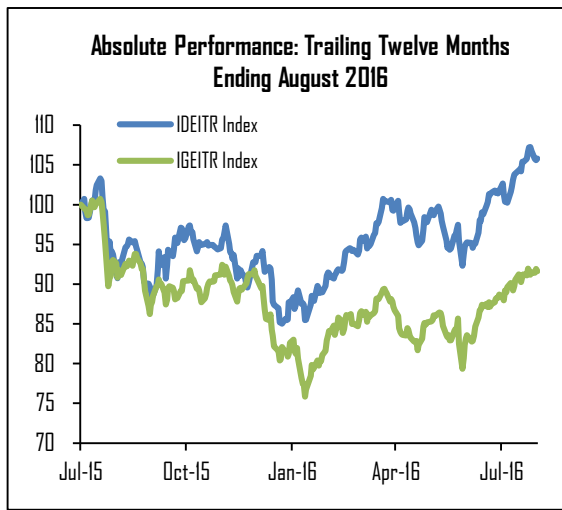
“Private consumption continues to drive growth, increasing by 9.5 percent...”
 “Exports increased by 5.7 percent, following several quarters of near-zero growth...”
 “Wage increases continue in all industries, and particularly in the construction industry...”

-Excerpts from the Bank of Israel’s August 29 press release on the Monetary Committees interest rate decision

The charts below compare the performance of Israeli companies that derive more than 70% of revenue from within Israel (Israel Domestic Exposure Index/IDEI) and the performance of Israeli companies that derive more than 70% of revenue from outside of Israel (Israel Global Exposure Index/IGEI). These indexes, collectively called the Israel Economic Exposure Indexes (IEEI) are important tools for investors interested in tracking the performance of the industries closely tied to sources of domestic consumption versus the industries that are closely tied to trends in global trade. We refer to the BlueStar Israel Global Total Investable Market Index (BIGI®-TIM), as opposed to BIGI®, as the benchmark for the full Israeli equity universe here.

It appears that the IDEI experiences periods of extreme out- and under- performance both relative to BIGI®-TIM and compared to the relative performance of the IGEI. One of the reasons this is possible is that because of the large weight of globally-oriented companies such as Pharmaceuticals, Information Technology, and Materials companies in BIGI®-TIM the correlation between the IDEI and BIGI®-TIM is much lower than the correlation between the IGEI and BIGI®-TIM.

Given the backdrop of strong economic growth and the technical behavior of the IEEIs, the IDEI still has the momentum and the room to continue outperforming the IGEI over the next few quarters. However, as global trade picks up, Israeli exports begin to rise, investors favor growth over value, and the relative outperformance of IDEI over IGEI approaches its limits, we expect IGEI will begin to outperform.



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Disclaimer

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