

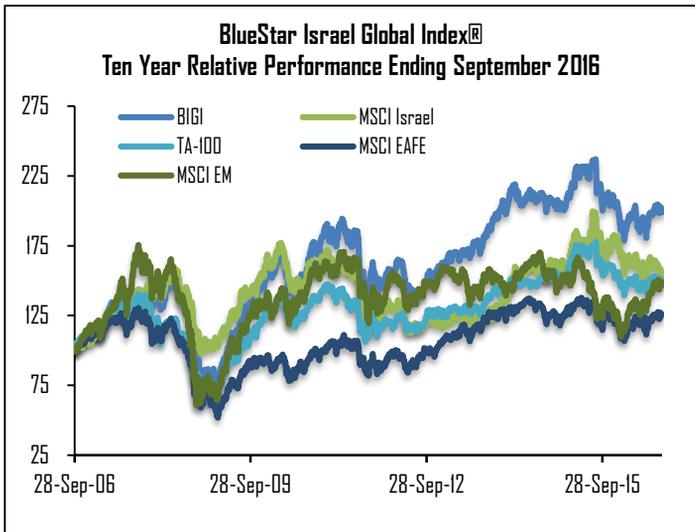
The BlueStar Indexes® Monthly Update covers Israeli equities traded worldwide. The BlueStar Israel Global Index® (BIGI® or BLS:IND on Bloomberg) is used as the benchmark for our review as it represents the complete opportunity set of Israeli equities. BIGI® is tracked by the NYSE-listed ISRA Israel ETF,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

Look to Israel For Growth

October 10, 2016

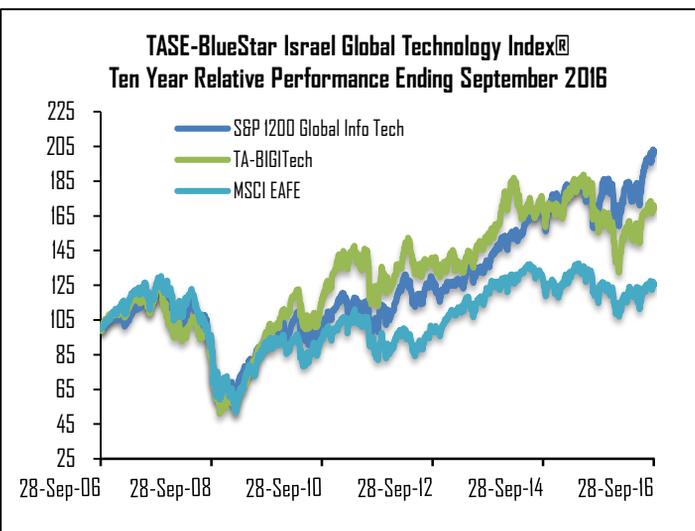
Performance Review

Israeli Global Equities, as measured by BIGI®, declined 0.64% in September after two consecutive positive months. Israeli Global Technology Equities, as measured by our TA-BIGITech® benchmark, outperformed the broader Israeli equity market for the fourth consecutive month, declining 0.04%. BlueStar's Israel equity indexes outperformed other leading Israeli equity benchmarks like the MSCI Israel and TA-100 indexes by roughly 250 and 15 bps, respectively. Additionally investors in Israeli equities continued to favor domestically-oriented sectors of the market over global-oriented sectors as measured by our Israel Economic Exposure Indexes. Developed Markets ex-US and Emerging Markets rose strongly in September and the technology sector continued to outperform the broader global equity markets as investors are likely positioning for increased exposure to growth-oriented sectors. These trends are likely to accelerate over the coming quarters, given that the IMF announced that it sees a faster pace of inflation in early October: inflation tends to lead to corporate top line growth and induces current vs future consumption (commentary continues on the following page). [Click here](#) for BlueStar's monthly Technical Analysis update.



Global Equity Benchmark Comparison: September 2016

Benchmark	Period Return (%)
BIGI®	-0.64
MSCI Israel	-3.88
TA-100	-0.77
S&P 500	0.02
MSCI EAFE	1.27
MSCI EM	1.29



Global Technology Stock Index Comparison: September 2016

Benchmark	Period Return (%)
BIGITech®	-0.04
Nasdaq-100	2.24
S&P Global Tech	2.46
TA- Tech Elite	0.95
EM Internet & E-commerce	5.41

Market Trends and Outlook

Last month we wrote about how global investors were beginning to express a preference for growth-oriented stocks/sectors over “value”/dividend-oriented stocks/sectors. From 2014 through June 2016 the S&P 500 Equal Weight Utilities and S&P High Dividend indexes were up 42% and 31%, respectively, while the S&P 500 and Russell 1000 Growth indexes were up just 19% and 16% respectively. In the same time period both Developed Market ex-US and Emerging Market stock indexes were down significantly. But the middle of 2016 marked a turning point: the S&P 500 Equal Weight Utilities and High Dividend Indexes are down roughly 11% and 1%, respectively, since June 30 2016 while the S&P 500 and Russell 1000 Growth indexes are up roughly 3% and 4%. The MSCI EAFE and EM indexes are up 6% and 10% in the same period.

We believe this behavior is more than just mean reversion and is rooted in expectations for cyclical changes in the global economy: the relative performance of the indexes mentioned above is likely to evolve into a multi-year trend precipitated by changing expectations for one of the following: rising interest rates, a greater pace of inflation, or stronger growth in global economic output. All three of these factors are likely to occur simultaneously and (in moderation) are generally quite good for global equities. At the same time, because interest rates, inflation and global growth have been so low over the past few years, the high-yielding and “value” sectors of the market have seen massive inflows while growth oriented and cyclical sectors of the market have been set aside for “better times”.

Those developments are relevant for investors considering an allocation to Israeli equities because Israel is one of the fastest growing Developed Markets in the world. Aside from already being one of the fastest growing economies, Israel's economic growth is also levered to the pace of global trade. In other words an increase in the pace of global trade could have a multiple effect on Israel. As investors position their portfolios for exposure to growth, Israeli equities could play an increasingly important role in a diversified international equity portfolio.

Economic Update

Israel's GDP grew an estimated 4% in Q2 2016 and is expected to grow by 2.8% in 2016 and over 3% in 2017 once again placing it among the fastest-growing developed market economies in the world. In September The Bank of Israel left its benchmark interest rate unchanged at 0.10%. While August headline inflation figures came in a bit lower than expected, when excluding energy prices consumer prices in Israel rose 0.60% for the twelve month period ending August 2016. The Bank of Israel expects 1.0% growth in consumer prices over the next twelve months and greater than 1.0% growth in prices beginning in late 2017. Also, producer prices, which tend to be a leading indicator for consumer prices, rose faster than expected. As noted in last month's update the Israeli economy seems to be firing on all cylinders lately with growth in fixed capital investment and exports rounding out an economy that has been buoyed by growth in domestic consumption over the past year or so. The unemployment rate has remained at around 4% over the past few months while real wages have been increasing (0.30% in Q2 2016).

The main risk that positive trends in economic growth and inflation will not manifest into strong stock market performance is related to the growth of the global Pharmaceuticals industry and the price action of the two Israeli Pharmaceutical giants, Teva and Perrigo. (More on this on the following page).

Top Israeli Equity Gainers and Losers: September 2016

Top-performing Israeli Stocks (%)		Worst-performing Israeli Stocks (%)	
Endochoice Holdings Inc	105.14	Alcobra Ltd	-47.89
Chiasma Inc	19.51	Attunity Ltd	-19.42
Imperva Inc	18.12	Safecharge International Gro	-17.74
Opko Health Inc	13.99	Kornit Digital Ltd	-16.25
Neuroderm Ltd	13.71	Mobileye Nv	-13.46
Stratasys Ltd	12.94	Taro Pharmaceutical Indus	-12.77
Ceva Inc	10.32	Israel Corp Limited/The	-11.31
Mazor Robotics Ltd	10.10	Compugen Ltd	-10.64
Phoenix Holdings Ltd/The	8.60	Elco Ltd	-10.64
Syneron Medical Ltd	8.48	Plus500 Ltd	-8.53

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

Israeli Equity Sector Performance: September 2016

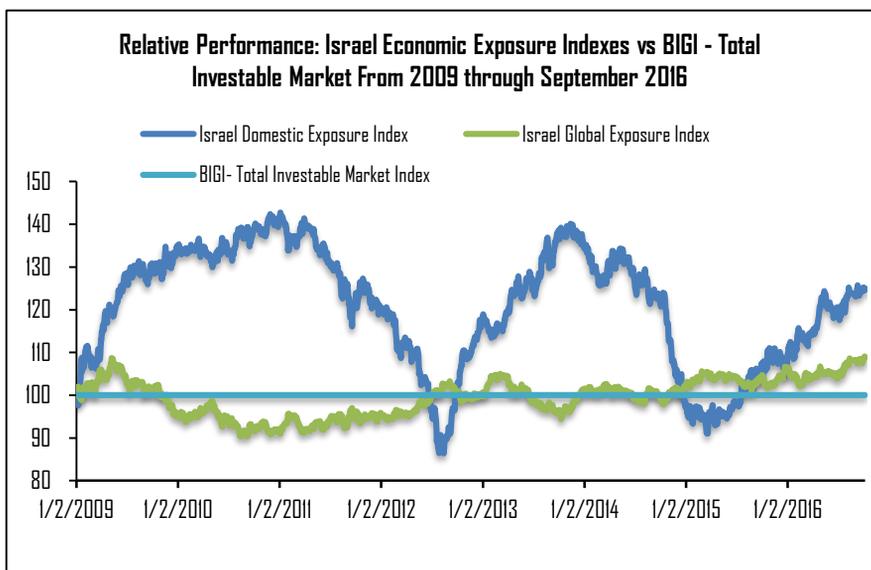
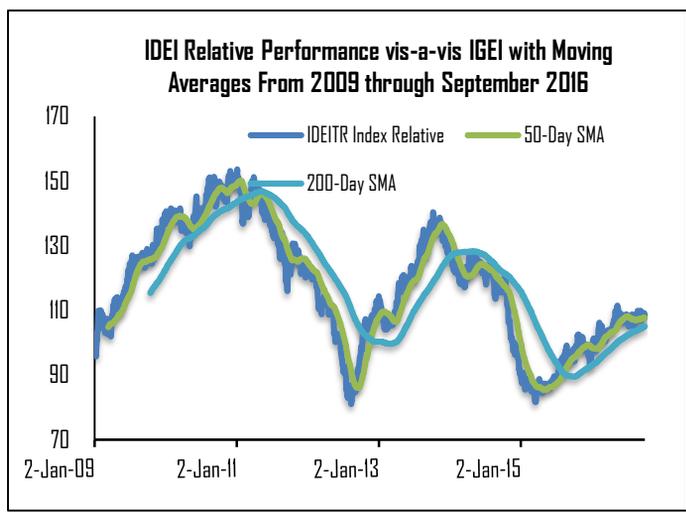
GICS	Sector Return (%)
Financials	2.52
Consumer Staples	0.85
Real Estate	0.84
Consumer Discretionary	0.24
Utilities	-0.23
Energy	-0.39
Health Care	-0.54
Information Technology	-1.84
Industrials	-2.01
Telecommunication Services	-3.26
Materials	-4.58

Israel Economic Exposure Index Trends

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.

BlueStar's 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.

In September the performance of IDEI and IGEI were just about equal following several months of strong outperformance by IDEI. 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 in the short term. However we expect to see more indications of global trade and economic growth picking up; rising Israeli exports would, at that point, lead us to expect IGEI outperformance. Additionally, as demonstrated on the following page, one could expect the Israeli Health Care sector to bounce back in the near future after a prolonged period of under-performance, which would also lead us to favor IGEI over IDEI when that time arrives.

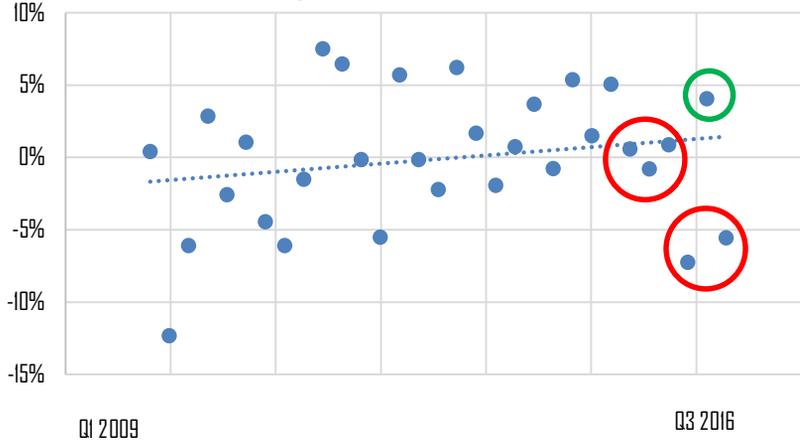


Sector/Company Spotlight

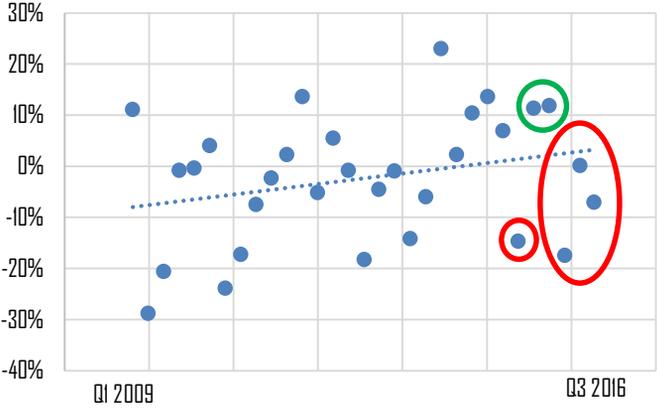
While Teva seeks to position itself as the leader in generic pharmaceuticals with the acquisition of Allergan's generics business, there is still uncertainty over whether the deal will close and what the regulatory environment will look like after the US presidential elections. As for Perrigo, after several quarters of poor financial results, investors are now hoping that activist investors will create some urgency for management to turn things around. Over the past year the level of underperformance by Teva and Perrigo as it relates to the broader Israeli market has been notable. Stabilization or perhaps recovery in this industry along with visibility into the regulatory environment after the US Presidential elections could provide a major tailwind for the broader Israeli equity markets.

The charts below show the performance of the Global Health Care Sector, TEVA, and PRGO relative to their respective benchmarks on a quarterly basis for the last 8 years. Without testing for significance we observe that the Global Health Care Sector, TEVA and PRGO have experienced below expected relative performance for a majority of the three month periods over the last year and a half. These charts likely show there is an increasing chance that the Global Health Care Sector and the two largest Israeli Pharmaceutical companies will have greater than average relative performance in several of the coming three month periods. If this materializes it would bode well for the overall performance of the Israeli equity market especially given recent strong economic growth data.

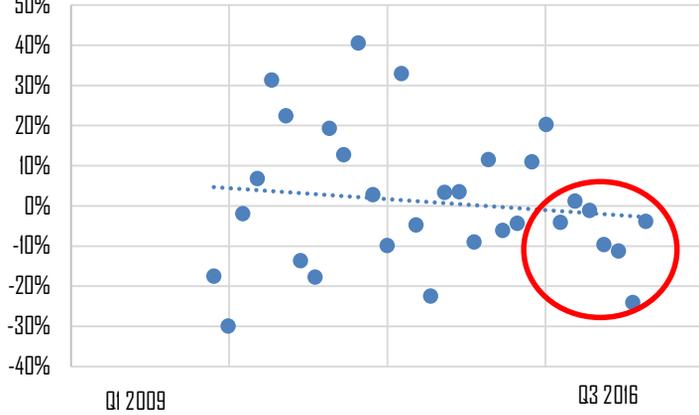
Global Health Care Sector Quarterly Relative Performance vs Global Equities Since 2009



TEVA Quarterly Relative Performance vs BIGI



PRGO Quarterly Relative Performance vs BIGI



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