

A. THE PUBLIC'S FINANCIAL ASSETS PORTFOLIO

The increase in the balance of the public's¹ asset portfolio continued in 2015, continuing the marked upward trend since 2012. Despite this, the portfolio as a share of GDP declined during the year, for the first time since 2011. About half of the contribution to the increase in the portfolio in 2015 was derived from an increase in the cash and current account components. The downward trend in the portion of the portfolio managed directly by the public (including mutual funds)² continued, in parallel an increase in the portion managed by institutional investors.

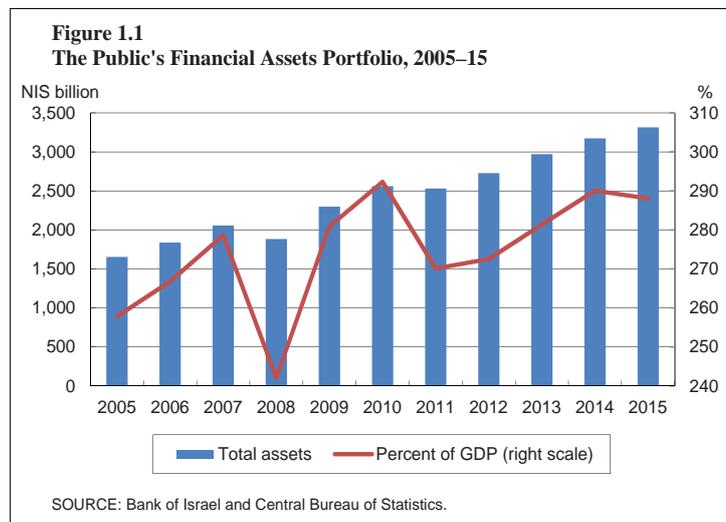
Against the background of the decline in the interest rate in the first quarter of 2015, and further to 2014, there was a high level of net redemptions from money market funds and from bond funds, which reduced the balance of assets managed by the mutual funds.

The balance of assets managed by institutional investors increased, but at a slower pace than the average in recent years. In addition, the increase in the proportion of holdings of foreign assets by some institutional investors as a share of total investment assets continued, at a more moderate pace than in recent years.

1. TOTAL ASSET PORTFOLIO

In 2015, the asset portfolio as a share of GDP declined, for the first time since 2011.

The asset portfolio as a share of GDP declined by about 2 percentage points. This decline was a result of a higher GDP growth rate (5.2 percent in current prices) than of the balance of the public's financial assets portfolio, which increased by NIS 142 billion (4.5 percent) in 2015, to about NIS 3.31 trillion.



¹ “The public” includes households and the business sector, and does not include the government, the Bank of Israel, nonresidents, commercial banks or mortgage banks.

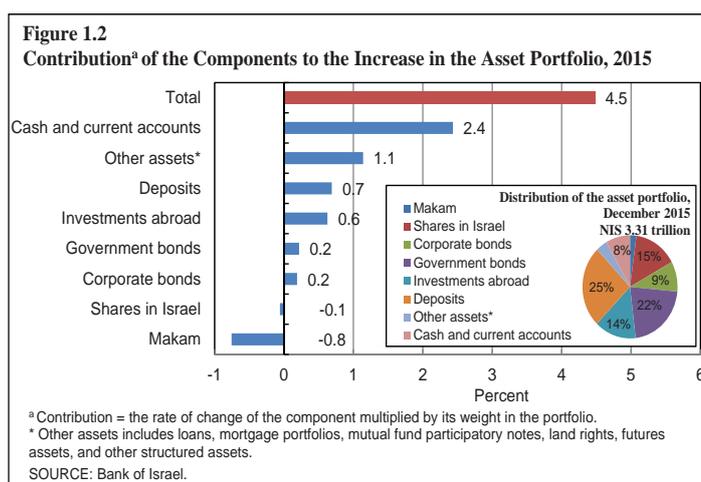
² In this chapter, any reference to “directly by the public” includes data on mutual funds’ holdings of financial assets.

About half of the contribution to the increase in the asset portfolio in 2015 was derived from an increase in the cash and current account component.

The cash and current account component, which constitutes only about 8 percent of the balance of the asset portfolio, increased by about 39 percent and contributed about 2.4 percent to the increase in the balance of the entire portfolio, while deposits, which constitute about 25 percent of the portfolio, and investments abroad,

which constitute about 14 percent of the portfolio, contributed an average of about 0.7 percent. The increase in these components was partly offset by a decline in the makam component, which accounts for about 2 percent of the portfolio.

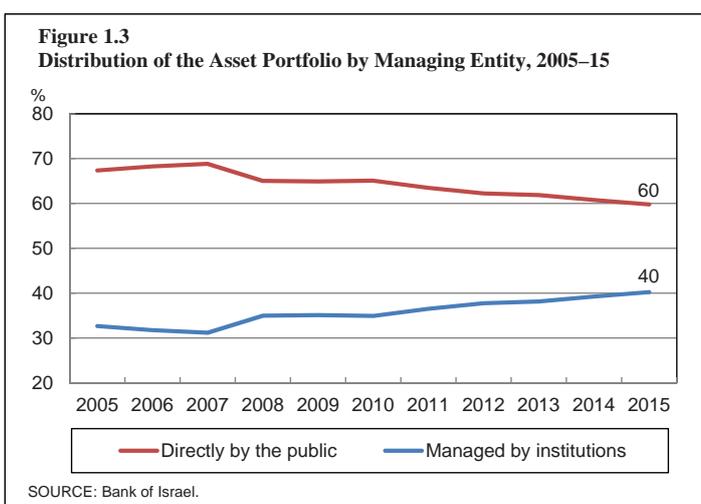
In 2015, the increase in the investment abroad component and in corporate bonds in Israel was derived mainly from net investments. Likewise, the decline in the shares in Israel component was derived mainly from net realizations.



In 2015, the downward trend in the portion of the portfolio managed directly by the public continued, in parallel an increase in the portion managed by institutional investors.

The balance of assets managed directly by the public increased by about 3 percent in 2015, while the balance of assets managed by institutional investors increased by about 7 percent. As a result, the rate of assets managed directly by the public declined to about 60 percent (about NIS 2 trillion) in 2015. The rate of assets deposited

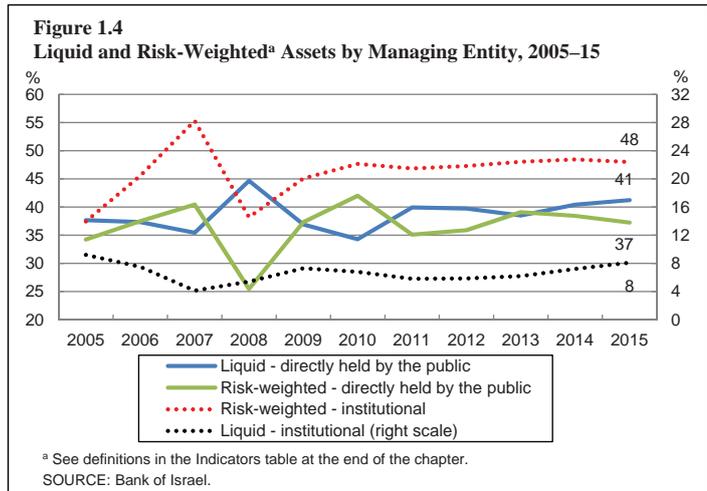
with the banks was about one-third of the total asset portfolio at the end of the year, with this rate differing greatly between the portion managed directly by the public (48 percent) and that managed by institutional investors (7 percent).



In 2015, the ratio of liquid assets increased, while the ratio of risk assets declined, both in the portion managed directly by the public and in the portion managed by mutual funds.

In 2015, against the background of increasing uncertainty in the markets, there was an increase in the percentage of liquid assets held directly by the public, to about 41 percent, slightly higher than the percentage of risk assets, which declined to about 37 percent. In the portfolio managed by the institutional investors, the rate of

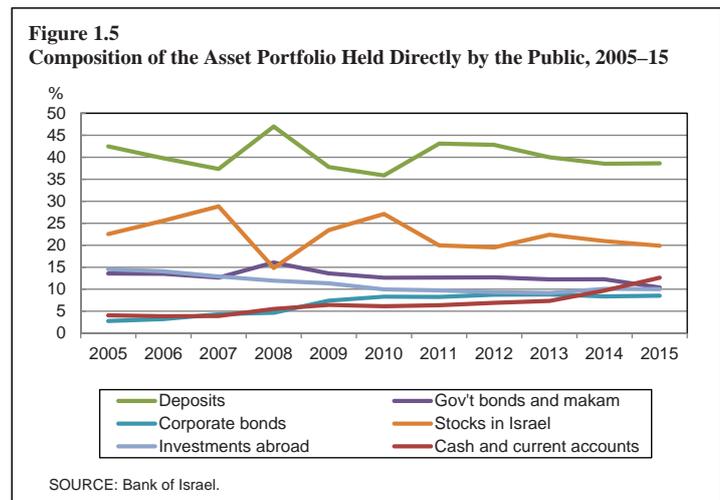
risk assets declined slightly, but remained high (48 percent) relative to the rate of liquid assets, which remained very low despite the moderate increase in the past two years (8 percent). These differences in the risk and liquidity profile between portfolio types reflect structural differences (see the main terms at the end of this chapter).



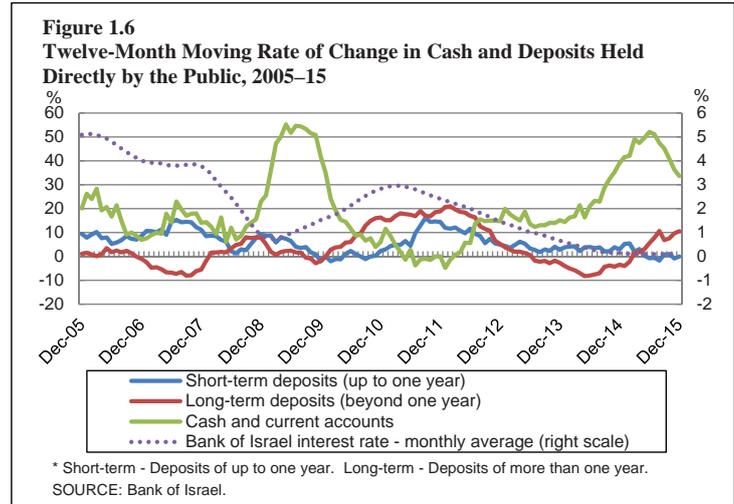
2. THE PORTFOLIO MANAGED DIRECTLY BY THE PUBLIC

In 2015, the upward trend in the proportion of cash and current accounts held directly by the public continued, in parallel with a decline in the proportion of shares in Israel, government bonds and makam.

During 2015, the proportion of the cash and current accounts component in the portfolio increased by about 2.9 percentage points, to about 12.6 percent, compared with just 7.3 percent at the end of 2013. In contrast, the proportion of government bonds and makam in the portfolio declined by about 1.9 percentage points, and the proportion of shares in Israel declined by about 1.1 percentage points. In essence, there was a decline in holdings of these components—a decline of NIS 31 billion (-13 percent) in government bonds and makam, and a decline of NIS 10 billion (-2.5 percent) in shares in Israel. The rest of the components—including deposits, which is the largest component in the portfolio (39 percent)—increased at a similar rate to the growth of the entire portfolio, and remained with a virtually unchanged proportion of the portfolio compared with the previous year.



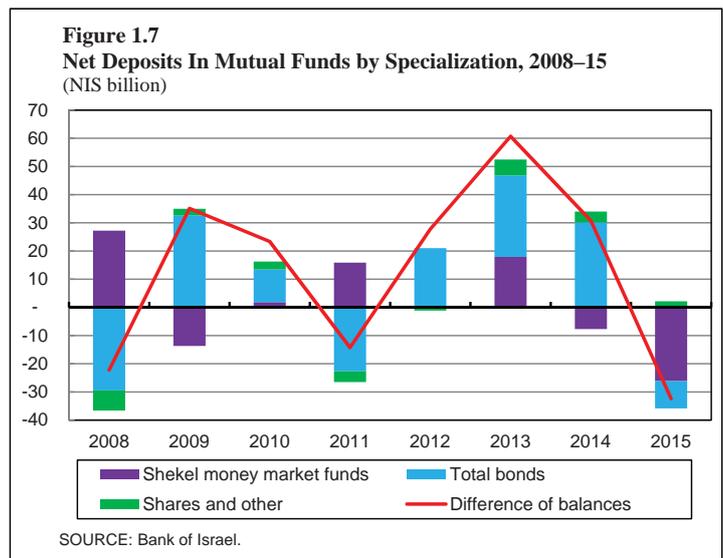
The increase in the growth rate of cash and current accounts directly held by the public continued in 2015, against the background of the low interest rate. The balance of cash and deposits increased by about 34 percent (about NIS 63 billion) during 2015, as the annual growth rate reached a peak of about 52 percent in the middle of the year. This was further to the accelerated upward trend since the end of 2011. There was also an increase of about NIS 22 billion (11 percent) in the balance of long-term deposits, in contrast to the decline in balances in the previous two years. In contrast, the balance of short-term deposits remained virtually unchanged in 2015.



Due to net withdrawals from funds in most areas of specialization, there was a decline in the balance of mutual funds, for the first time since 2011.

Against the background of the decline in the interest rate in the first quarter of 2015, there was a high level of net withdrawals from mutual funds (about NIS 26 billion), further to redemptions from them in 2014.

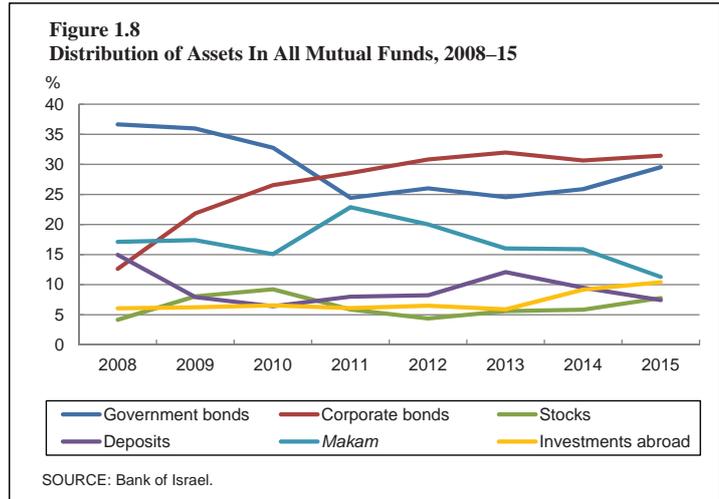
For the first time since 2011, there were net withdrawals (about NIS 9.7 billion) from bond funds, mainly government bonds, against the background of changes in the global bond market, which affected the domestic bond market.



Due to the withdrawals from the mutual funds, there was a change in the composition of assets held by the funds.

As a result of the high level of withdrawals from mutual funds, there was a decline in the balance of assets held by them, which focused mainly on makam (a decline of NIS 15.7 billion, 4.6 percentage points), deposits (a decline of NIS 7.8 billion, 2.1 percentage points), and corporate bonds (NIS 8.1 billion). The latter is the largest component among the funds' holdings. Therefore, despite the decline in its balance, its proportion of total mutual fund holdings increased by 2.9 percentage points.

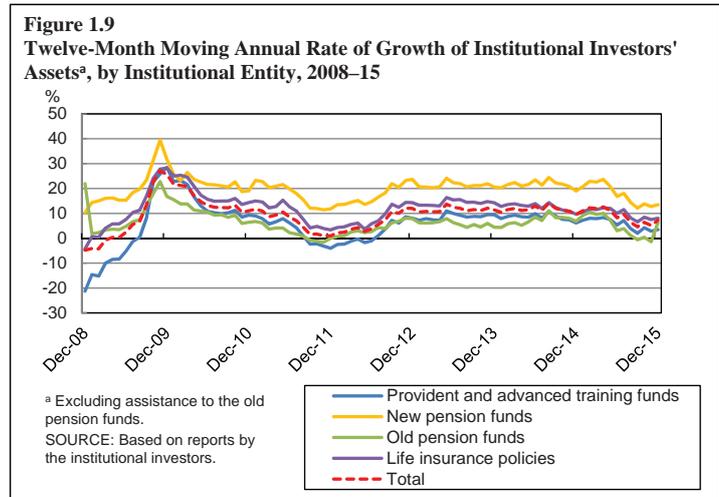
Since 2011, there has been a sharp decline in the proportion of makam in mutual fund holdings, and an increase in the proportion of government bonds and investments abroad.



3. THE PORTFOLIO MANAGED BY INSTITUTIONAL INVESTORS

In 2015, there was positive growth in assets managed by institutional investors, although lower than the average of previous years.

The total assets of all institutional investors increased by about NIS 82 billion (7 percent) in 2015, a slower pace than the average of the three previous years (about 11 percent). The most significant decline in the growth rate was in the new pension funds—13.5 percent compared with 21 percent on average over the three previous years.

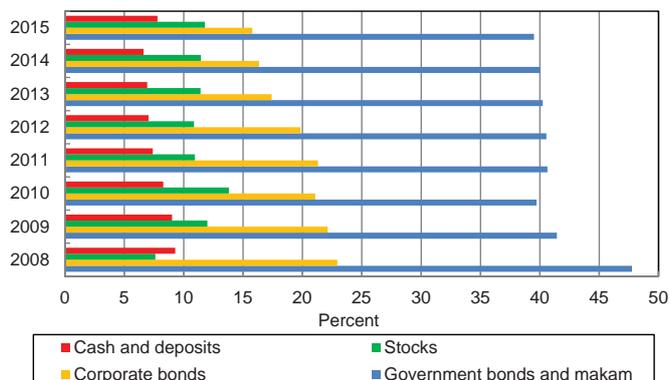


In 2015, the downward trend in the proportion of institutional investors' holdings in corporate and government bonds, in Israel and abroad, continued.

In 2015, institutional investors' holdings in bonds (corporate, government and makam) as a share of total assets declined slightly, further to the downward trend that began in 2012, despite the increase in balances during the year.

In contrast, there was an increase in the proportion of cash and deposits, as a result of an increase of about 26 percent in balances, and of shares due to an increase of about 10 percent in balances.

Figure 1.10
Selected Instruments in Israel and Abroad As A Share of The Total Portfolio Managed by Institutional Investors^a, 2008–15



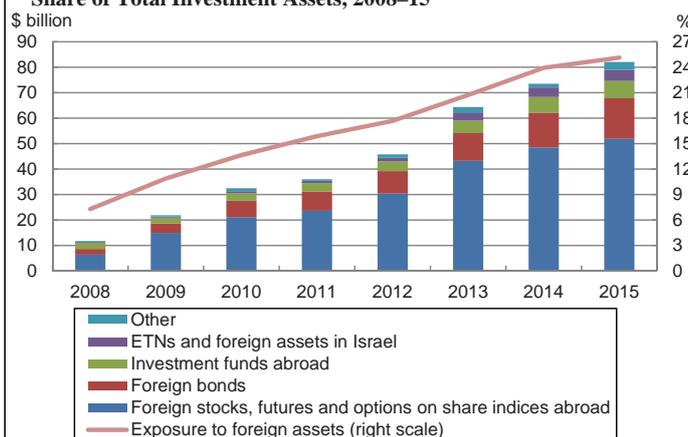
^a Excluding assistance to the old pension funds.

SOURCE: Based on reports by the institutional investors.

In 2015, the growth in institutional investors' holdings of foreign assets³ as a share of total investment assets.

The rate of institutional investors' holdings of foreign assets increased by about 1.2 percentage points during the year, to about 25 percent. The increase was derived from a higher growth rate in the balance of foreign assets than in total investment assets. Most of the increase in the balance of foreign assets resulted from an increase in the balance of futures and options contracts on foreign share indices (an increase of \$3.7 billion, 33 percent), and in the balance of foreign bonds (\$2.5 billion, 18 percent)—mainly as a result of net investments.

Figure 1.11
Balance of Foreign Assets Held by Institutional Investors^a, and its Share of Total Investment Assets, 2008–15



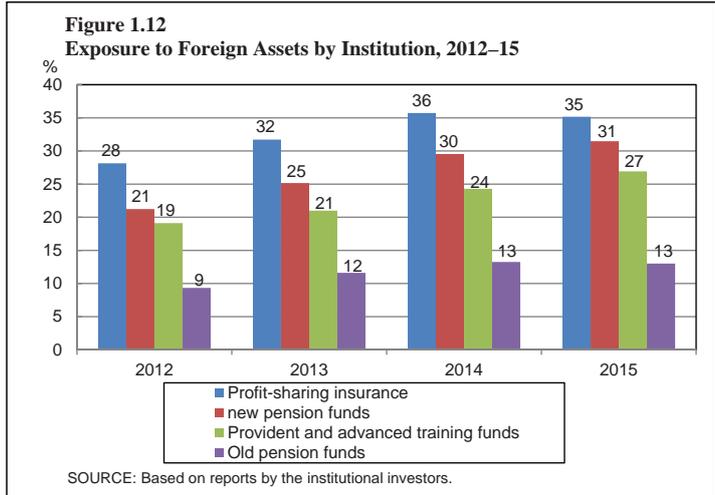
^a Excluding guaranteed yield.

SOURCE: Based on reports by the institutional investors.

³ Exposure to foreign assets—holdings of foreign assets traded abroad and of foreign assets issued in Israel, including ETNs that mimic foreign indices.

The upward trend in institutional investors' exposure to foreign assets continued in 2015 among the new pension funds and the provident and advanced training funds.

In contrast, the rate of exposure to foreign assets among insurance companies with profit sharing plans declined by 0.6 percentage points, and the rate of exposure among the old pension funds declined by 0.2 percentage points. Despite these declines, the rate of exposure to foreign assets among insurance companies with profit-sharing plans remains the highest of all institutional entities, at about 35 percent.



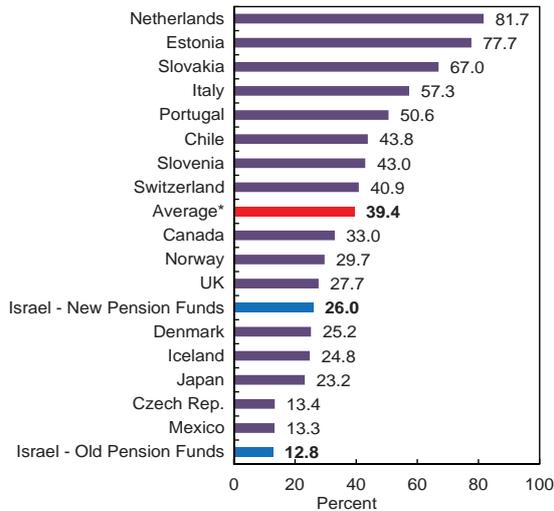
ZOOM IN



THE PENSION FUNDS—AN INTERNATIONAL COMPARISON¹

The rate of investments abroad by the new pension funds in Israel is lower than the average among surveyed countries.

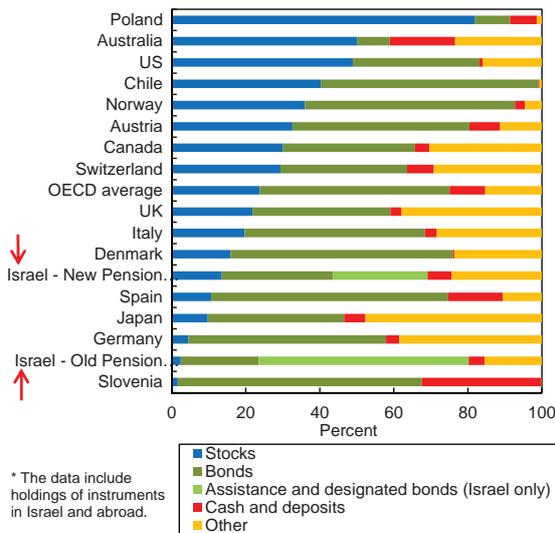
Figure 1.13
Investment abroad as a Share of Total Pension Fund Assets, Selected OECD Countries, 2014



* Average of the countries appearing in the figure.

The Rate of Investment in Shares by the New Pension Funds in Israel is Significantly Lower than Most Other OECD Countries.

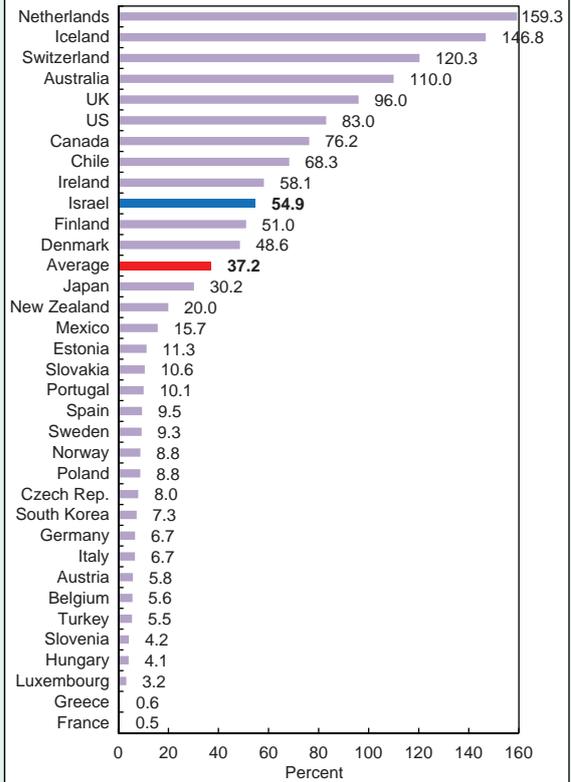
Figure 1.14
Composition of Pension Fund Assets, Selected OECD Countries, 2014



* The data include holdings of instruments in Israel and abroad.

The ratio of assets to GDP for the pension funds (old and new combined) in Israel* is higher than the simple average for the OECD countries.

Figure 1.15
The Ratio of Pension Fund Assets to GDP in the OECD Countries, 2014



* The data for Israel include pension fund (old and new) holdings of designated bonds and assistance to the old funds. See Figure 1.14.

¹ Differences in the data between the various countries reflect differences concerning the various pension arrangements in the various countries. In Israel, the data do not include defined-benefit pensions.
SOURCE: Based on OECD Global Pension Statistics.

Main indicators in the public's asset portfolio (percent)						
		2008	2010	2012	2014	2015
The public's asset portfolio						
Volume of the portfolio	Value of the public's asset portfolio (NIS billion)	1,882	2,561	2,728	3,173	3,315
	The asset portfolio as a percentage of GDP	259.6	292.3	272.5	290.1	288.0
Risks and liquidity	Tradable assets	42.3	54.2	50.9	52.8	50.5
	Risk assets ^a	30.4	44.3	40.2	41.7	41.6
	Assets abroad ^b	10.3	11.1	11.9	14.2	14.2
	Foreign exchange assets ^c	17.7	16.4	17.6	20.8	20.7
	Unindexed assets ^d	64.8	69.5	67.6	70.2	70.7
	Liquid assets ^e	29.0	22.3	24.7	24.6	24.6
The portfolio managed directly by the public and through mutual funds						
As a share of the total asset portfolio		65.0	65.1	62.2	60.8	59.8
Risks and liquidity	Tradable assets	35.6	48.0	40.9	41.6	38.8
	Risk assets ^a	25.5	42.0	35.9	38.4	37.3
	Assets abroad ^b	11.9	10.0	9.3	10.1	10.0
	Foreign exchange assets ^c	22.9	17.7	17.7	18.9	19.1
	Unindexed assets ^d	84.8	85.2	83.9	85.7	86.9
	Liquid assets ^e	44.7	34.3	39.7	40.4	41.2
The portfolio managed by institutional investors						
As a share of the total asset portfolio		35.0	34.9	37.8	39.2	40.2
Risks and liquidity	Tradable assets	42.5	53.1	53.4	54.3	52.6
	Risk assets ^a	38.2	47.7	47.3	48.5	48.0
	Assets abroad ^f	6.9	13.0	15.9	20.0	20.0
	Foreign exchange assets ^g	7.9	13.8	17.3	22.5	22.8
	Unindexed assets ^d	33.6	46.0	47.6	53.0	54.7
	Liquid assets ^e	5.4	6.8	5.9	7.2	8.1

^a Total assets excluding government bonds, makam, deposits in Israel and abroad, and cash.

^b Israelis' investments abroad, including investments by institutional investors abroad.

^c Assets indexed to foreign currency + shares abroad.

^d All assets excluding CPI-indexed assets.

^e Cash, deposits of up to one year in Israel, and *makam*.

^f Investment in deposits and Israeli securities abroad, excluding investment in ETNs traded in Israel on foreign indices. This definition differs from the exposure to foreign exchange and the exposure to foreign securities definitions

^g Holdings of assets denominated in foreign currency and assets indexed to foreign currency, excluding shekel/forex assets.

SOURCE: Bank of Israel.

MAIN TERMS

The asset portfolio directly managed by the public—The stock of financial assets, including cash and deposits, tradable and nontradable securities, and index products, held directly by the public and by portfolio managers or mutual funds.

The asset portfolio managed by institutional investors on behalf of the public—The stock of financial assets held by the institutional investors who manage the public's long-term savings. These institutions include the provident and compensation funds, advanced training funds, old and new pension funds, and life insurance policies managed by the insurance companies (excluding the insurance companies' nostro portfolio, which they manage on their own behalf). The public's savings in these channels are invested in tradable and nontradable securities and in other instruments, according to the investment guidelines of each entity.

The composition of the public's financial assets portfolio reflects the decisions of the public and of the institutional investors, mainly according to considerations of yield, risk and liquidity, based on their expectations of future developments in the capital and money markets. The division of the asset portfolio into two—assets managed directly by the public and assets managed by the institutional investors on behalf of the public—reflects a number of structural differences, including: (1) Control—The public has full and ongoing control over the size of investment and the composition of assets held directly by it, compared with only a partial and infrequent influence on the composition of assets held by the institutional investors, exercised by selection of the investment track; (2) Range—In general, the public directly holds assets for a short-to-medium term, while the institutional investors hold assets for a longer term, which affects the liquidity and risk profiles of the assets; (3) Expertise—The institutional investors specialize in the management of financial assets and in regularly monitoring and analyzing a broad range of information on the assets, the issuing entities, and the relevant environment in Israel and abroad. In contrast, only some of the portfolio held directly by the public is managed by experts.