

## A. THE PUBLIC'S FINANCIAL ASSETS PORTFOLIO<sup>1</sup>

The increase in the balance of the public's asset portfolio continued in 2014, but the pace of the increase moderated when compared to the previous two years.

The downward trend in the portion of the portfolio managed directly by the public continued, in favor of an increase in the portion managed by institutional investors.

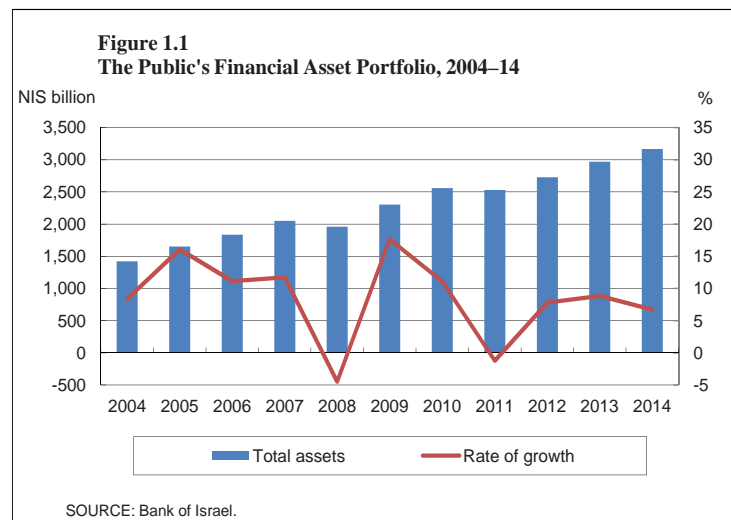
The public's direct holdings are mainly of deposits and shares traded in Israel. Institutional investors hold mainly government bonds and foreign assets traded abroad. The risk profile in the portfolio managed by institutional investors remained high compared with a decline in the risk profile of the portfolio managed directly by the public.

In 2014, against the background of the low interest rate, the public accelerated the pace of growth of the cash and current accounts component of the asset portfolio, and in contrast, made net redemptions from medium and long-term deposits and from money market funds. Institutional investors continued increasing the volume of assets abroad, in parallel with a decline in investments in shares in Israel and in corporate bonds.

### 1. TOTAL ASSET PORTFOLIO

In 2014, the increase in the balance of the public's asset portfolio continued, but the pace of increased moderated compared to the previous two years.

The value of the asset portfolio increased by about NIS 200 billion (about 6.7 percent) in 2014, to about NIS 3.17 trillion. The increase is the result of an increase in the value of the tradable portfolio abroad, an increase in cash and current account balances, and an increase in outstanding government bonds and *makam*. There were net realizations during the period in the shares portfolio and in corporate bonds traded in Israel.

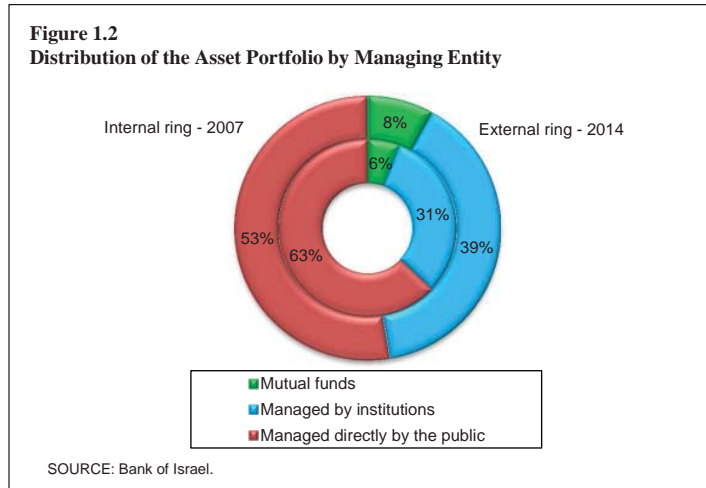


<sup>1</sup> The public's financial assets portfolio includes the financial investments of households and of the nonfinancial business sector.

In 2014, the downward trend in the portion of the portfolio managed directly by the public and the upward trend in the portion of the portfolio managed by institutional investors continued.

In recent years, there has been a decline in the portion of assets managed directly by the public, in favor of an increase in the portion of long-term savings managed by institutional investors. The volume of net new investment in pension entities also increased due to the implementation of compulsory pension arrangements, which came into effect at the beginning of 2008.

At the end of 2014, about 53 percent of assets (about NIS 1.7 trillion) were managed directly by the public, a decline of about 10 percentage points since 2007. The portion managed by institutional investors increased during the same period by about 8 percentage points, to about 39 percent (about NIS 1.2 trillion).

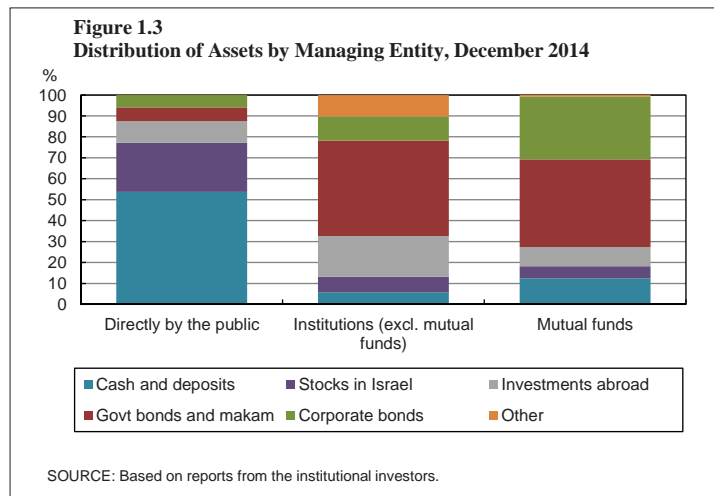


At the end of 2014, the public's direct holdings were mainly of deposits and shares traded in Israel, while institutional investors held mainly government bonds and foreign assets traded abroad.

Government bond and *makam* holdings account for an average of about 44 percent of the portfolio managed for the public by the institutional investors and mutual funds, compared with about 7 percent in the portfolio managed directly by the public.

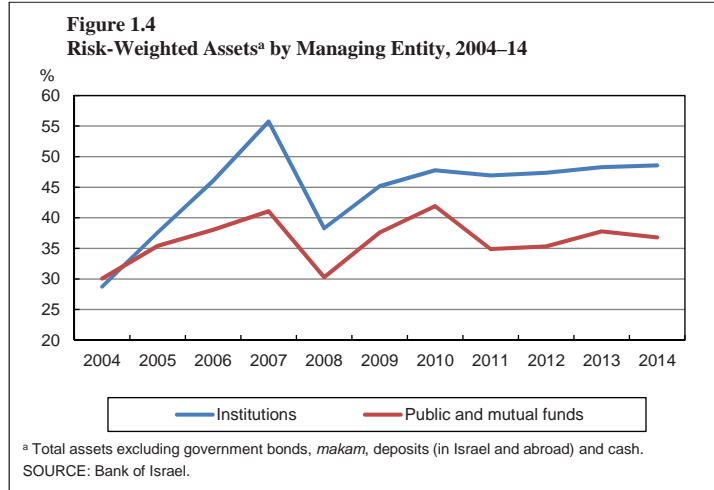
The public holds private bonds in Israel mainly through mutual funds (about 30 percent of the funds' total assets).

The portfolio abroad is managed mainly by institutional investors, but there is also a marked increase in the volume of investments abroad directly by the public and through mutual funds.



In 2014, the ratio of risk assets held directly by the public and by mutual funds declined, while it remained virtually unchanged in the portfolio managed by the institutional investors, compared to previous years.

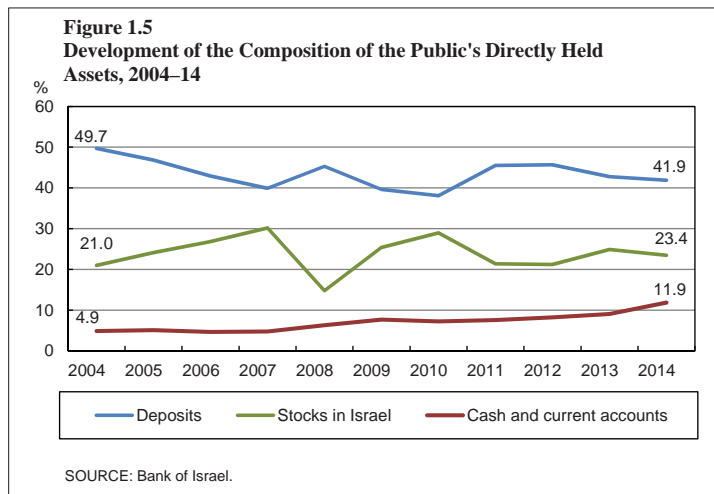
Since the cancellation of tax discrimination on investments abroad in 2004, the rate of risk assets held by institutional investors increased significantly and has remained high compared to the rate of risk assets held directly by the public and by mutual funds (49 percent compared to 37 percent). As noted, institutional investors hold a different mix of assets and for longer periods, than the public's direct holdings.



## 2. THE PORTFOLIO MANAGED DIRECTLY BY THE PUBLIC AND THROUGH MUTUAL FUNDS

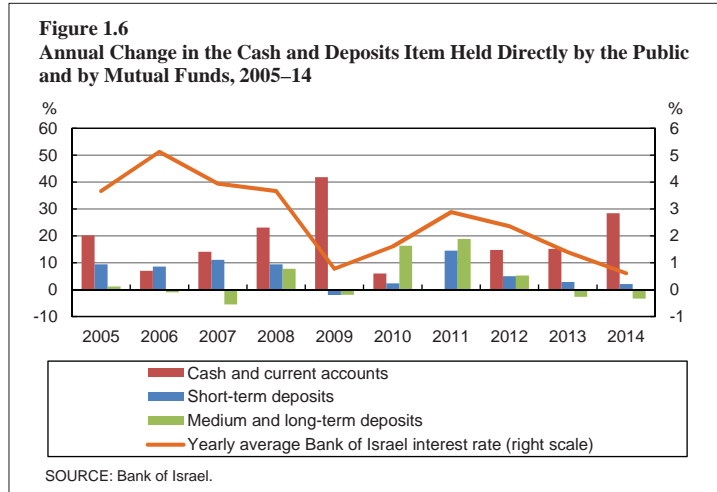
In 2014, there was an increase in cash and current accounts held directly by the public, in parallel with a decline in deposits and shares in Israel.

In the portfolio managed directly by the public, there has been a substitution over the years between the deposits component and the shares in Israel component. Both of these components declined in 2014, in parallel with a significant increase in the cash and current accounts component.



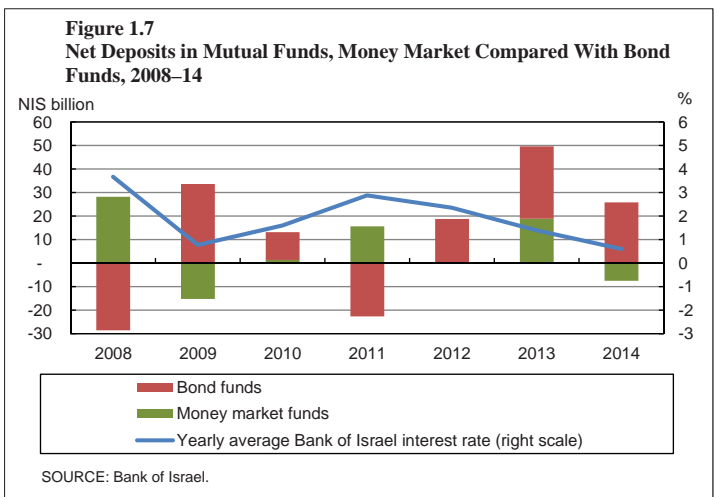
The increase in the cash and current accounts component of the public's assets portfolio accelerated in 2014. In contrast, the public made net redemptions from medium and long-term deposits.

In 2014, and in 2009, against the background of low interest rates, there were significant increases in the growth of the cash and current accounts component, in parallel with a decline in the deposits component across all durations.



There were net redemptions from money market funds as well in 2014, for the first time since 2009.

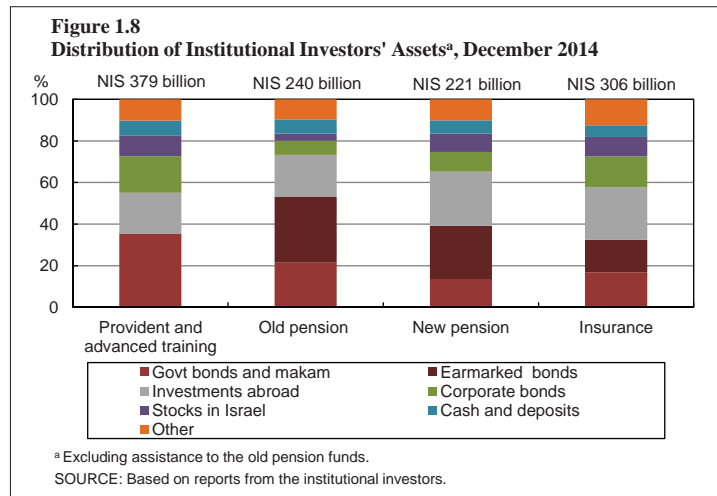
The distribution of deposits in mutual funds by specialization indicates a negative correlation between the money market funds and the bond funds. During periods when the interest rate was high, there was an increase in deposits in money market funds in parallel with withdrawals from bond funds. During periods in which the interest rate is low, there is an increase in deposits in bond funds in parallel with withdrawals from money market funds.



### 3. THE PORTFOLIO MANAGED BY INSTITUTIONAL INVESTORS

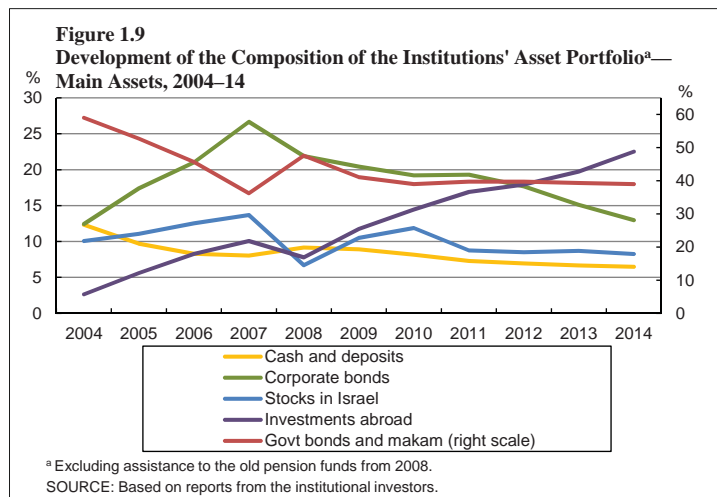
At the end of 2014, the mix of assets managed by the various institutional investors is similar.

The distribution of assets managed by the institutional investors shows that the various institutional investors hold a mix of assets that is relatively similar, except for investments in earmarked bonds, which is higher in the pension funds.

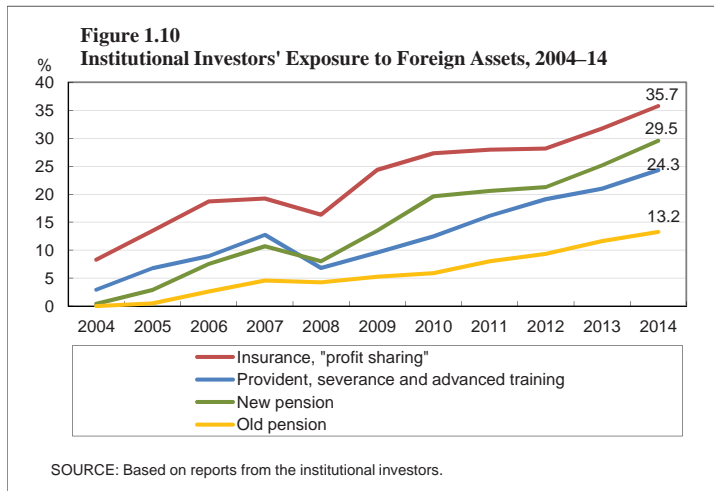


In 2014, the growth in the share of institutional investors' holdings abroad continued, further to the trend since the tax reform of 2004.

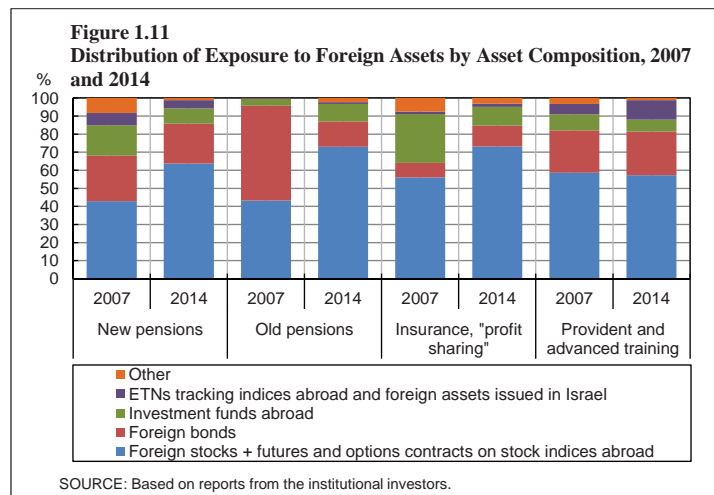
Since 2007, the share of institutional investors' holdings held abroad has increased by about 12 percentage points, in parallel with a decline of about 14 percentage points in their holdings of corporate bonds. Government bonds and *makam* remained relatively stable since 2010, comprising about 40 percent of total holdings.



The rate of institutional investors' exposure to foreign assets continued to increase in 2014 among all institutions. The largest change in 2014 was concentrated in the new pension funds, which increased their exposure to foreign assets by about 4.4 percentage points, to about 30 percent. The insurance companies have the highest rate of foreign assets among the institutional investors—about 36 percent—while the old pension funds have the lowest rate, only about 13 percent.

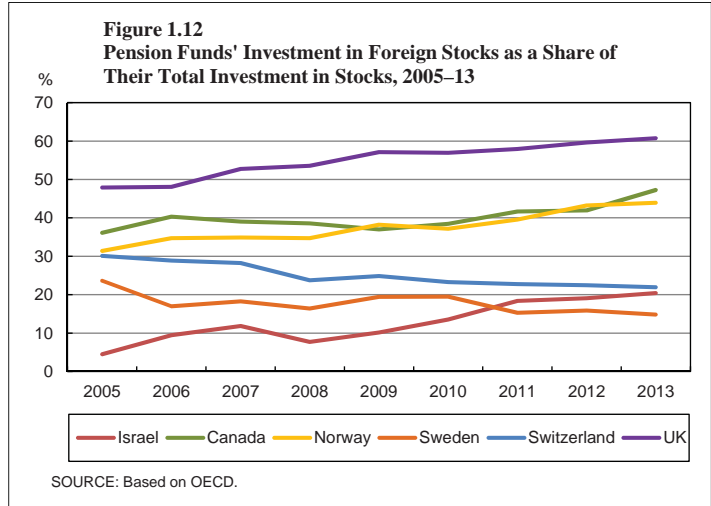


The increase in institutional investments in foreign assets in recent years was concentrated mainly in stocks. Between 2007 and 2014, there was a change in the composition of institutional investors' holdings of foreign assets. There was a marked increase in the foreign shares traded abroad component in parallel with a decline in holdings of foreign bonds and investment funds. This substitution is particularly significant among the old pension funds.



Investment in foreign shares as a percentage of total investment in shares by the pension funds in Israel remains low by international comparison.

In 2013, Israeli pension funds' investment in foreign shares averaged about 20 percent of their total investment in stocks, similar to countries like Sweden and Switzerland. Pension funds in the UK invested more than 50 percent in foreign shares. Those in Norway and Canada invested an average of 45 percent in foreign shares out of their total investment in shares.



In 2014, with the change in the trend of the exchange rate, institutional investors reduced hedging transactions and increased exposure to exchange rate risk.

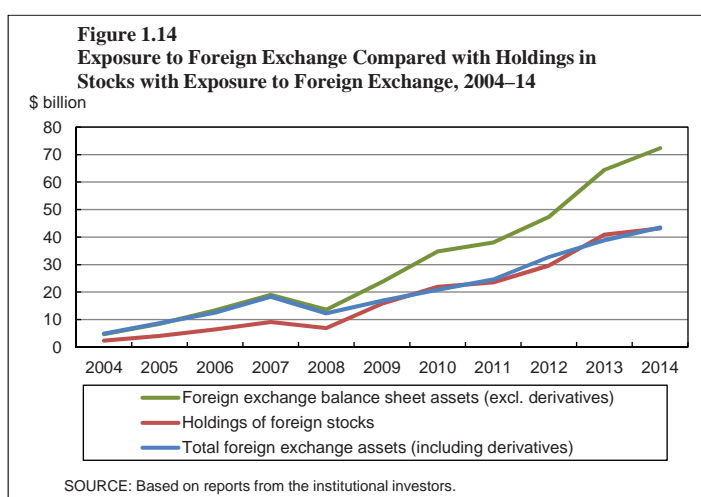
Starting in 2009, the institutional investors partially hedged their foreign exchange assets against exchange rate risk, due to the prolonged appreciation trend of the shekel. In August 2014, this trend was halted.

In 2014, the institutional investors increased their rate of exposure to foreign securities to about 24 percent. The overall rate of exposure to foreign exchange assets was only about 14 percent at the end of the year.



Some of the institutional investors do not tend to hedge the foreign shares component against exchange rate risk.

Starting in 2009, the increase in the balance of foreign exchange assets (including derivatives) of all institutional investors has been correlated with the increase in their holdings of foreign shares. Some institutional investors do not hedge the investment in shares against exchange rate risks, hedging only other foreign exchange assets.



Main indicators in the public's asset portfolio (percent)		2007	2008	2009	2010	2011	2012	2013	2014
Risks and liquidity	Tradable assets	52.2	40.6	50.7	54.2	49.8	50.9	53.0	52.9
	Risk assets <sup>a</sup>	45.1	33.2	40.5	44.3	39.6	40.2	42.2	41.9
	Foreign assets <sup>b</sup>	11.6	9.8	11.0	11.1	11.7	11.9	12.6	14.2
	Foreign exchange assets <sup>c</sup>	18.7	17.0	17.2	16.5	17.6	17.6	18.2	20.7
	Unindexed assets <sup>d</sup>	70.3	62.3	67.6	69.5	68.0	67.6	68.6	70.1
Portfolio management	Liquid assets <sup>e</sup>	24.4	29.0	23.9	22.3	25.4	24.7	23.8	24.6
	Investment through institutional investors	31.2	33.6	35.0	34.9	36.5	37.8	38.2	39.3
	Investment through mutual funds	5.8	5.0	5.7	6.0	5.6	6.2	7.7	8.0
	Investment directly by the public	62.9	61.4	59.3	59.0	57.9	56.0	54.1	52.7
Portfolio total	Asset portfolio as a share of GDP	282.6	245.3	283.9	294.1	273.6	275.0	283.0	291.2
	Value of the public's asset portfolio (NIS billion)	2,051	1,959	2,305	2,561	2,530	2,728	2,969	3,168

<sup>a</sup> Total assets excluding government bonds, *makam*, deposits in Israel and abroad, and cash.

<sup>b</sup> Israelis' investments abroad, including investments by institutional investors abroad.

<sup>c</sup> Assets indexed to foreign currency + shares abroad.

<sup>d</sup> All assets excluding CPI-indexed assets.

<sup>e</sup> Cash, deposits of up to one year in Israel, and *makam*.

SOURCE: Bank of Israel.