

## A. THE PUBLIC'S FINANCIAL ASSETS PORTFOLIO

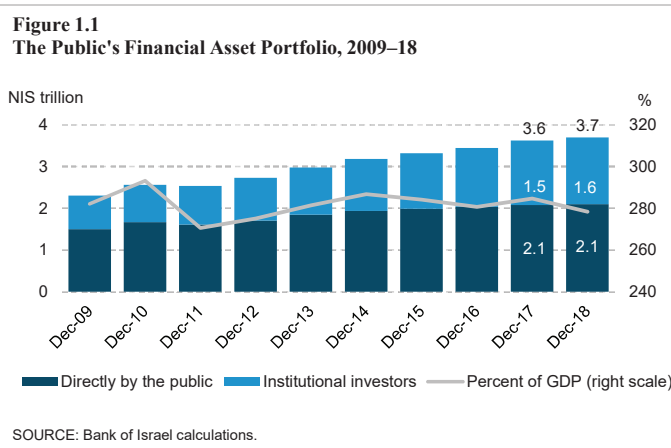
The public's financial asset portfolio<sup>1</sup> continued to increase in 2018, but at a lower rate than in 2017. During the year, the upward trend in the portion of the portfolio managed by institutional investors continued, in conjunction with a decline in the portion of the portfolio managed directly by the public.<sup>2</sup>

The increase in the portfolio was mainly due to the investments abroad, cash, and deposits components. The balance of investments abroad increased despite the decline in share prices, as a result of net investments and the depreciation of the shekel. Institutional investors' rate of exposure to foreign assets increased in all institutions. The balance of equities traded in Israel declined during the year, due to the sharp declines in equity prices that were prevalent in the last month of the year, most of which were corrected by price increases at the beginning of 2019.

### 1. TOTAL ASSET PORTFOLIO

**In 2018, the increase in the asset portfolio continued, but at a lower rate than in 2017.**

The public's financial asset portfolio increased by about 2.1 percent in 2018 (about NIS 76 billion), to about NIS 3.7 trillion, a lower rate of growth than in recent years. The moderate increase in the balance of the portfolio (relative to the increase in GDP) led to a decline in the asset portfolio as a share of GDP to about 278.4 percent.



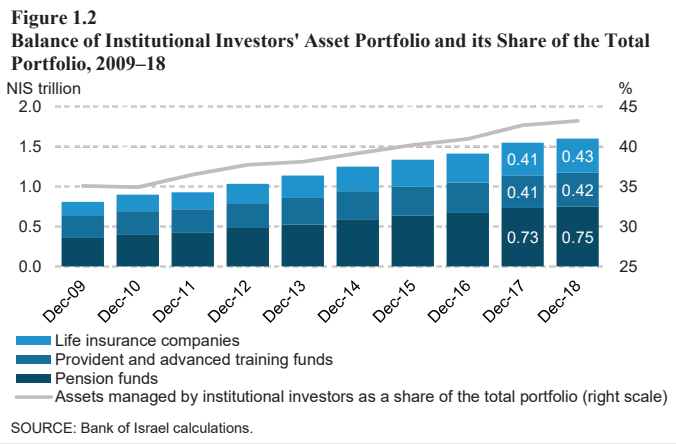
<sup>1</sup> See Data Sources and Main Terms at the end of the chapter.

<sup>2</sup> In this chapter, any reference to “directly by the public” includes data on assets held through mutual funds and portfolio managers.

**The upward trend in the portion of the portfolio managed by institutional investors continued.**

In 2018, the balance of assets managed by institutional investors increased by about NIS 53 billion (3.4 percent), while the balance of assets managed directly by the public increased by only about NIS 23 billion (1.1 percent). Therefore, the percentage of the portfolio managed by the institutional investors increased by about 0.6 percentage points, to about 43.2 percent of the total portfolio.

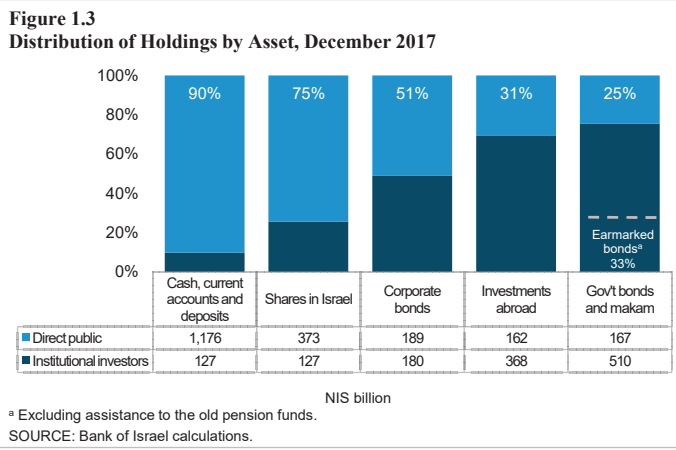
The background to the increase in the total portfolio managed by the institutional investors is long-term reforms—mainly the imposition of compulsory pensions for salaried employees, which began in 2008, the opening of provident funds for investment, and the “Savings for Every Child” program, which began in 2015.



**There is a marked difference in the mix of assets in the portfolio, between the public's direct holdings.**

The deposits and shares in Israel components are mainly held directly by the public, while holdings through institutional investors are mainly in government bonds, *makam*, and investments abroad.<sup>3</sup> About 33 percent of the government bonds and *makam* component is in earmarked bonds issued solely for the institutional investors.

The differences in the composition of holdings reflect structural differences<sup>4</sup>, such as access to international markets, the advantage of scale, and investment channel, among other things.



<sup>3</sup> See Main Terms at the end of the chapter.

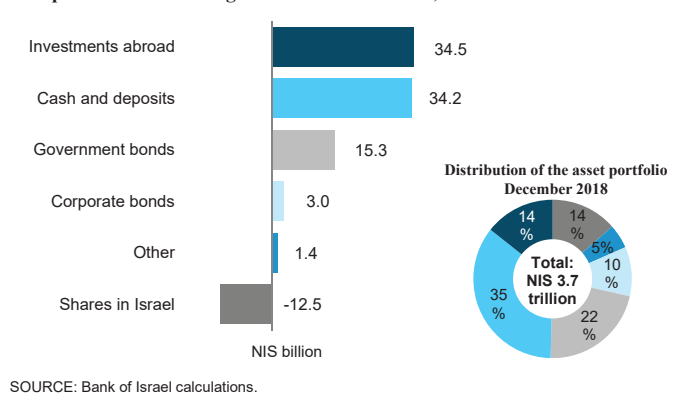
<sup>4</sup> See Main Terms at the end of the chapter.

**The main change in the asset portfolio was concentrated in the investments abroad and cash and deposits components.**

The balance of investments abroad increased by about NIS 34 billion (7 percent), to about NIS 530 billion at the end of the year (14 percent of the total portfolio). The balance of holdings in cash and deposits also increased by about NIS 34 billion (2.7 percent), to about NIS 1,303 billion (35 percent of the portfolio).

In contrast, the balance of holdings in shares traded in Israel declined by about NIS 13 billion (2.4 percent), mainly in the last month of the year, to about NIS 500 billion (14 percent of the portfolio).

**Figure 1.4**  
Composition of the Change in the Asset Portfolio, 2018

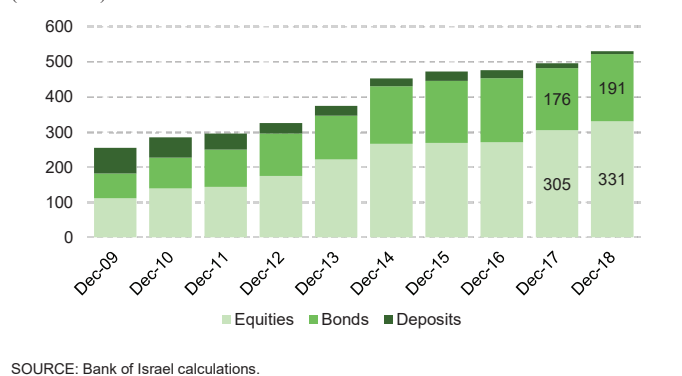


## 2. INVESTMENTS ABROAD

**The upward trend in the balance of holdings of shares and bonds abroad continued in 2018.**

The balance of the public's shares abroad increased by about NIS 26 billion (about 8.4 percent) in 2018, to about NIS 331 billion, constituting 62 percent of total investments abroad. This increase was due to the depreciation of the shekel and to net investments, which were partly offset by declines in the prices of shares abroad. The balance of bonds abroad increased by about NIS 15 billion (8.2 percent), to about NIS 191 billion at the end of the year.

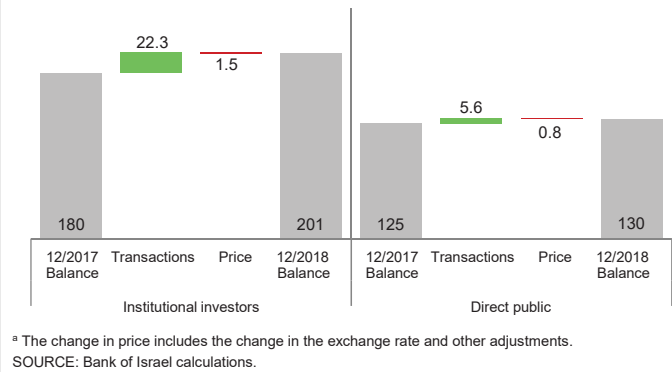
**Figure 1.5**  
Balance of Investments Abroad by Investment Instrument, 2009–18  
(NIS billion)



**The increase in the balance of holdings of tradable shares abroad was characteristic of both the public's direct holdings, and holdings of the institutional investors.**

Net investments<sup>5</sup> of about NIS 22 billion by the institutional investors, and of about NIS 6 billion directly by the public, contributed to the increase in the balance of holdings of shares abroad, to about NIS 201 billion and about NIS 130 billion, respectively.

**Figure 1.6**  
Causes of Change<sup>a</sup> in the Balance of Equities Abroad, 2017 (NIS billion)

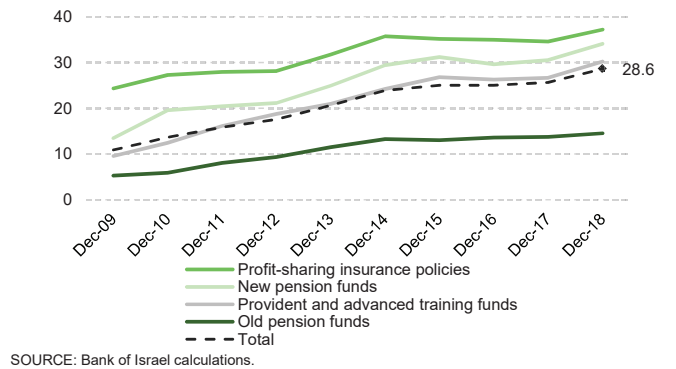


**The increase in the balance of shares held by the institutional investors contributed to an increase in their exposure<sup>6</sup> to foreign assets.**

The rate of institutional investors' exposure to foreign assets increased by about 3 percentage points in 2018, to about 28.6 percent, following stability since 2015.

The highest rate of exposure to foreign assets is among “profit-sharing” insurance companies—about 37 percent—while the lowest rate is among the old pension funds, about 15 percent.

**Figure 1.7**  
Institutional Investors' Exposure Rates to Foreign Assets, by Type of Holder, 2009–18 (percent)



<sup>5</sup> Estimated.

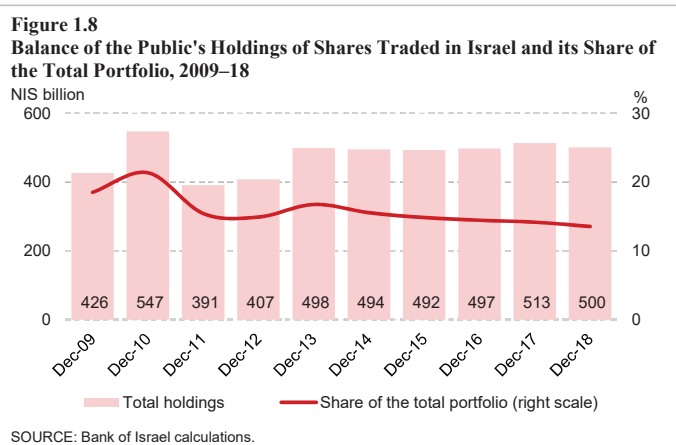
<sup>6</sup> See Main Terms at the end of the chapter.

### 3. SHARES TRADED IN ISRAEL

**The balance of shares traded in Israel declined: Net investments were offset, and even overtaken, by price declines.**

The equity indices on the Tel Aviv Stock Exchange declined in 2018. In contrast, the public made net investments<sup>5</sup> of about NIS 5.5 billion in shares. This combination led to a decline of about NIS 13 billion (2.4 percent) in the balance of shares traded in Israel, to about NIS 500 billion at the end of the year.

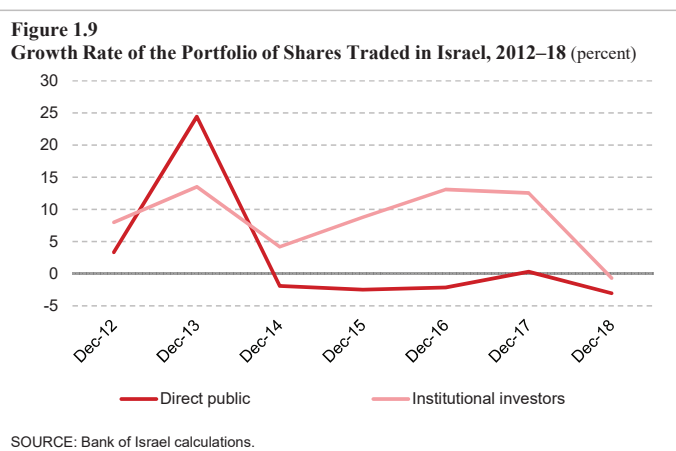
Since 2013, the balance of the public's holdings in shares in Israel has remained almost unchanged, and its proportion of the total portfolio declined from 17 percent to 14 percent as a result of the increase in the balance of the asset portfolio.



**The balance of shares traded in Israel declined in 2018, both that of shares held by institutional investors, and that of shares held directly by the public.**

The balance of shares held by the institutional investors declined by about 0.7 percent (about NIS 1 billion), to about NIS 128 billion. Likewise, the balance of shares held directly by the public continued to decline, by about 3 percent (about NIS 12 billion), to about NIS 373 billion.

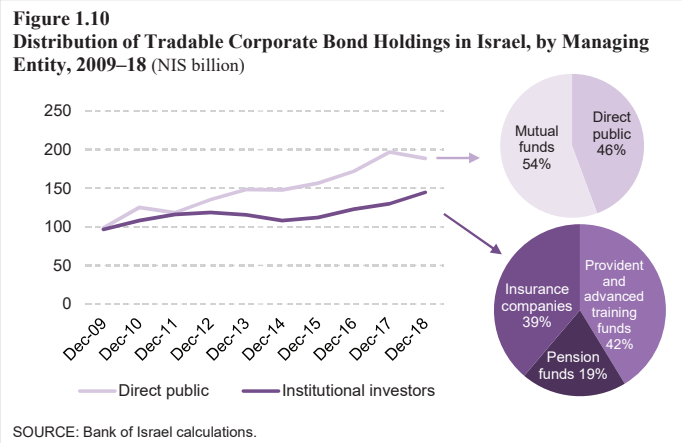
Since 2014, the growth rate of the balance of shares held in Israel directly by the public has been lower than the growth rate of the balance held by the institutional investors, and in most years it has even been negative.



#### 4. TRADABLE CORPORATE BONDS IN ISRAEL

**The increase in holdings of tradable corporate bonds in the asset portfolio continued in 2018.**

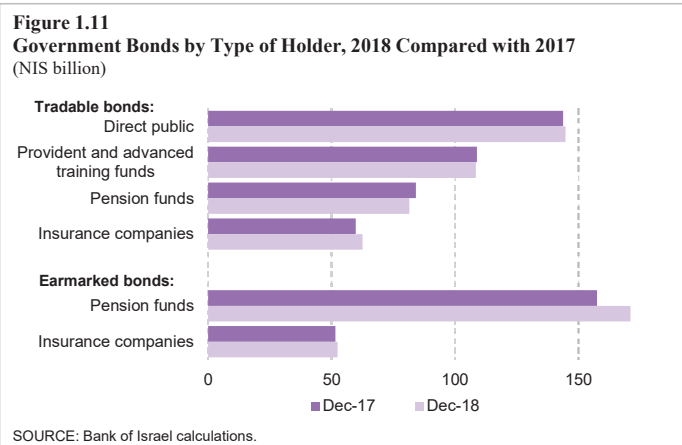
The balance of tradable bonds held by institutional investors increased during the year by about NIS 15 billion (11.5 percent), to about NIS 145 billion at the end of the year. The composition of holdings among the institutional investors did not change significantly in recent years. In contrast, the balance of tradable bonds held directly by the public declined by about NIS 8 billion (4.2 percent) to about NIS 189 billion at the end of the year.



#### 5. GOVERNMENT BONDS

**There was no significant change in the public's holdings of tradable government bonds. The increase in holdings of earmarked bonds continued.**

The balance of the public's direct holdings of government bonds increased by only about NIS 1 billion (1 percent) in 2018, to about NIS 145 billion. Among institutional investors, the main change was an increase in holdings of earmarked bonds by about NIS 14 billion (8.6 percent), in view of the increase in pension savings.



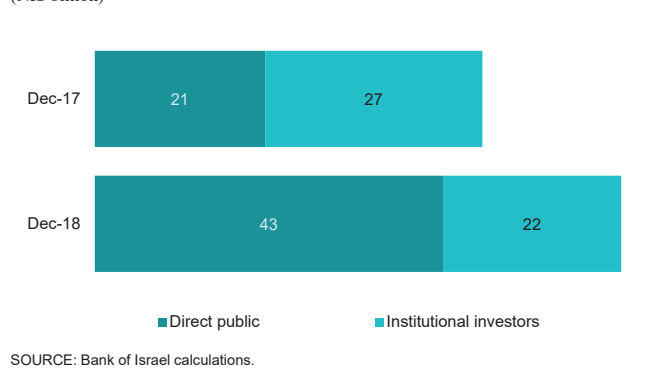
## 6. MAKAM

### The balance of the public's holdings of *makam* increased in 2018.

The balance of *makam* held by the public (directly and through the institutional investors) increased by about NIS 17 billion in 2018, following a downward trend in recent years.

The source for the change was an increase in the volume of *makam* issuances by the Bank of Israel, and of the volume of *makam* certificates purchased directly by the public—particularly through mutual funds, in view of the regulatory change<sup>7</sup> regarding ETNs in the last quarter of the year.

**Figure 1.12**  
*Makam* by Type of Holder, 2018 Compared with 2017  
(NIS billion)



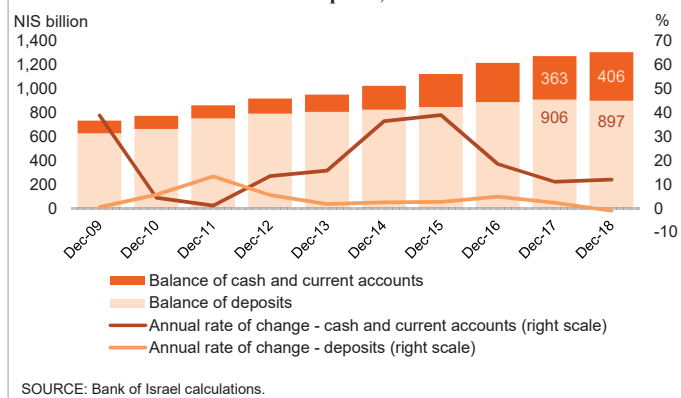
## 7. CASH AND DEPOSITS

### The rate of increase of cash and current accounts stabilized in 2018, following a downward trend in recent years.

The balance of cash and current accounts increased by only about 12 percent (NIS 43 billion), similar to the rate of increase in the previous year. In contrast, the balance of deposits declined by about 1 percent.

The balance of cash and deposits held by the public increased by about NIS 34 billion (2.7 percent), to NIS 1,303 billion at the end of the year. About 90 percent of the balance is held directly by the public.

**Figure 1.13**  
Balance of the Public's Cash and Deposits, 2009–18



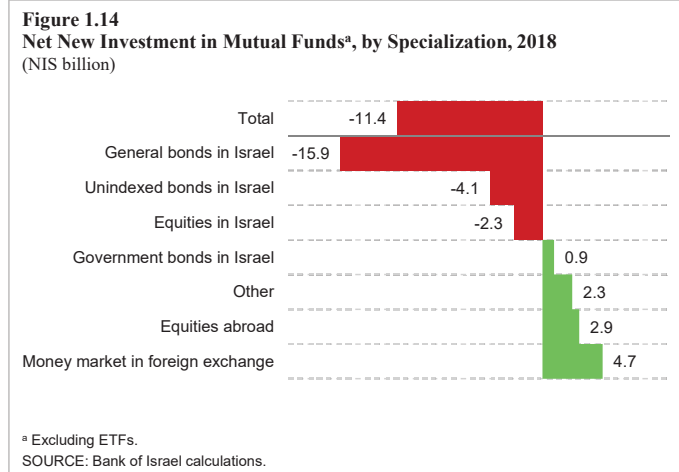
<sup>7</sup> For more information, see “Zoom In” on mutual funds following the reform to make ETNs into ETFs at the end of the chapter.

8. MUTUAL FUNDS – EXCLUDING ETFs

**There were net deposits in mutual funds in 2018, mainly in funds specializing in “general bonds in Israel”.**

There were deposits of about NIS 15.9 billion in funds specializing in “General bonds in Israel”, and of about NIS 4.1 billion in “Unindexed bonds in Israel”.

In contrast, there were net accumulations of about NIS 2.9 billion in funds specializing in shares abroad, and about NIS 4.7 billion in funds specializing in foreign currency money market funds.







## MUTUAL FUNDS FOLLOWING THE REFORM TURNING ETNs INTO ETFs<sup>1</sup>

During the fourth quarter of 2018, the Israel Securities Authority implemented a reform in the area of ETNs, the main part of which was turning them into “ETF” type mutual funds (Amendment 28).

The objectives of the reform are:

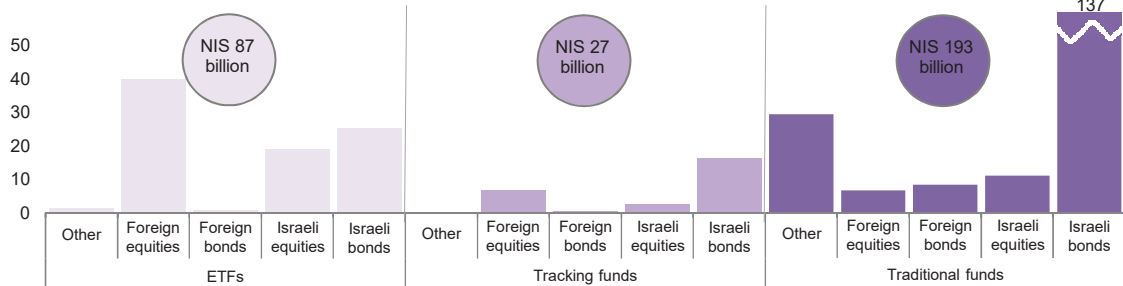
- **Closing the regulatory gap between instruments and regulating the area of ETNs in a supervised manner.** Before the reform, if there was a default, ETN investors would become part of the company’s creditors, similar to investors in bonds.
- **Reducing the systemic risks in the activity of ETN companies.** Before the reform, in a situation where obligations (yield or right to convert) were not met, there was a built-in credit risk, according to the conversion formula detailed in the prospectus.

The reform created three main instruments in the world of mutual funds: a traditional fund, an index fund, and an exchange-traded fund. In a traditional fund, the fund manager works actively to select assets in accordance with the fund’s investment policy. In an index fund and in an exchange-traded fund, the fund manager works to achieve returns that are as close as possible to the base asset, by purchasing assets in accordance with the base asset—**passive** investment. In a traditional fund and in an index fund, the buying and selling of units is done only with the fund manager, while in exchange-traded funds, they are done in open trading on the stock exchange.

<sup>1</sup> For more information on the reform planned to increase the stability of ETNs, see Box 4 of the Financial Stability Report for the first half of 2014 <https://www.boi.org.il/en/NewsAndPublications/RegularPublications/Research%20Department%20Publications/Financial%20Stability%20Report/financial%20stability%20report2014.pdf>; and Box 4 of the Financial Stability Report for the second half of 2018, “The Risks Implicit in the Growth of Passive Investment”. <https://www.boi.org.il/en/NewsAndPublications/RegularPublications/Research%20Department%20Publications/Financial%20Stability%20Report/FSR201802e.pdf>

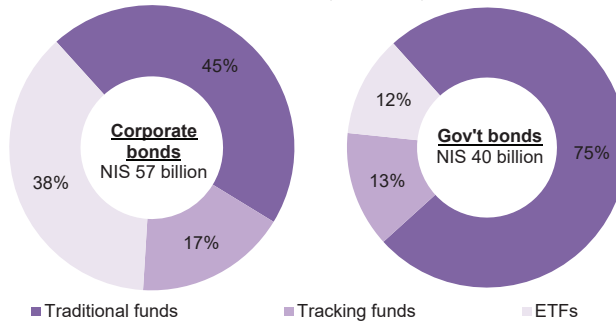
The groups specializing in Israeli bonds are prominent among traditional funds, while the groups specializing in foreign

**Figure 1.15**  
Distribution of Investment in Types of Funds by Specialization Group, December 2018 (NIS billion)



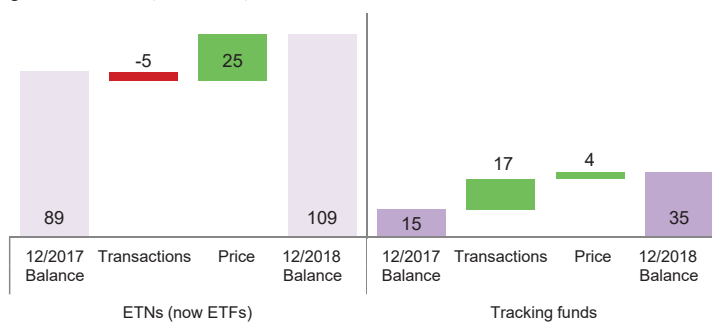
Traditional funds are prominent among those investing in government bonds, while their share of investment in corporate bonds is similar to the total of other funds.

**Figure 1.16**  
Distribution of Mutual Funds' Holdings of Selected Groups of Bonds in Israel by Type of Funds, December 2018 (NIS billion)



There were net redemptions from ETNs (now called ETFs) in the past five years, while there were net deposits in tracking funds.

**Figure 1.17**  
Total Factors of Change in the Tracking Funds and ETNs<sup>a</sup>, December 2013–September 2018 (NIS billion)



<sup>a</sup> Excluding Certificates of Deposit (CODs).

SOURCE: Bank of Israel.

<b>Main indicators in the public's asset portfolio (percent)</b>		<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>The public's asset portfolio</b>							
Volume of the portfolio	Value of the public's asset portfolio (NIS billion)	<b>2.98</b>	<b>3.18</b>	<b>3.32</b>	<b>3.44</b>	<b>3.62</b>	<b>3.70</b>
	The asset portfolio as a percentage of GDP	281.4	286.7	284.2	280.6	284.7	278.4
Risks and liquidity	Tradable assets	52.9	52.8	50.4	49.0	48.9	49.0
	Risk assets <sup>a</sup>	42.2	41.8	41.7	41.7	42.5	42.5
	Assets abroad <sup>b</sup>	12.6	14.2	14.2	13.8	13.7	14.3
	Foreign exchange assets <sup>c</sup>	18.2	20.8	20.7	20.5	20.2	21.3
	Unindexed assets <sup>d</sup>	68.5	70.0	70.6	71.0	71.3	71.9
	Liquid assets <sup>e</sup>	26.5	28.0	28.4	29.1	29.0	29.5
<b>The portfolio managed directly by the public and through mutual funds</b>							
As a share of the total asset portfolio		<b>61.0</b>	<b>59.9</b>	<b>59.1</b>	<b>58.1</b>	<b>56.1</b>	<b>55.7</b>
Risks and liquidity	Tradable assets	51.8	51.8	48.9	46.4	46.2	46.5
	Risk assets <sup>a</sup>	38.9	37.9	37.6	36.4	37.0	34.9
	Assets abroad <sup>b</sup>	9.3	10.3	10.2	9.5	9.1	8.1
	Foreign exchange assets <sup>c</sup>	17.3	19.6	19.3	18.9	18.2	18.0
	Unindexed assets <sup>d</sup>	84.3	86.1	86.9	88.1	88.7	89.5
	Liquid assets <sup>e</sup>	39.4	41.8	42.3	44.5	45.3	47.1
<b>The portfolio managed by institutional investors<sup>h</sup></b>							
As a share of the total asset portfolio		<b>39.0</b>	<b>40.1</b>	<b>40.9</b>	<b>41.9</b>	<b>43.9</b>	<b>44.3</b>
Risks and liquidity	Tradable assets	54.6	54.3	52.6	52.6	52.3	52.3
	Risk assets <sup>a</sup>	47.5	47.7	47.6	49.2	49.5	52.1
	Assets abroad <sup>f</sup>	17.7	20.1	20.0	19.8	19.6	22.2
	Foreign exchange assets <sup>g</sup>	19.6	22.5	22.7	22.8	22.8	25.5
	Unindexed assets <sup>d</sup>	43.8	46.0	47.0	47.4	49.0	49.9
	Liquid assets <sup>e</sup>	6.4	7.3	8.4	7.6	8.2	7.5

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

<sup>b</sup> Israelis' investments 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*.

<sup>f</sup> 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

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

<sup>h</sup> Investments by institutional investors as a share of the total asset portfolio. Excludes investments in ETNs, structured bonds, certificates of deposit, and mutual funds.

SOURCE: Bank of Israel.

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## DATA SOURCES AND MAIN TERMS

The Bank of Israel Information and Statistics Department manages a database of balances in the public's financial asset portfolio. This system records and processes data and information from various sources, through which the balance of the public's financial assets portfolio is calculated according to various breakdowns. The sources of data in the system are: the Tel Aviv Stock Exchange; banking system reports to the Banking Supervision Department; institutional investors' reports to the Ministry of Finance and to the Bank of Israel; direct reports from large Israeli corporations to the Bank of Israel on their activity vis-à-vis nonresidents; reports by banks and other financial intermediaries to the Bank of Israel regarding nonresidents' holdings of Israeli financial assets; and the Ministry of Finance.

The public's financial asset portfolio includes the assets of households and of the business sector (financial and nonfinancial firms). The portfolio does not include the government's assets or those of the Bank of Israel, nonresidents, or the banks. Management of the asset portfolio can be divided into two types, which differ in how they are managed.

- **The asset portfolio directly managed directly 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 public's long-term savings managed by the institutional investors. These institutions include the provident funds and severance 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 partial and infrequent influence on the composition of assets held by the institutional investors; (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; (4) The institutional investors have the advantage of scale.

- **Exposure to foreign assets**<sup>1</sup>—The monetary amount at risk in the case of a decline in the value of assets issued by nonresidents (mostly assets held abroad). Investment in foreign assets and in foreign economies creates exposure to crises that may erupt in those economies and to other changes that have a negative impact on the value of the securities.
- **Investments abroad**—The balance of assets invested outside of Israel. This definition includes holdings of securities issued abroad by Israeli companies, and does not include holdings of foreign assets in Israel.
- **Cash and current accounts**—Cash is calculated as the total money (banknotes and coins) issued by the Bank of Israel and in circulation, minus cash in the hands of the banks. This item may also include cash in the hands of nonresidents, but the assumption is that this latter amount is low. Current accounts are demand deposits in shekels (excluding nonresidents' current accounts in shekels).
- **Deposits**—Funds of Israeli customers at banks, which generate yields and can be withdrawn at points in time depending on the type of plan. The deposits are categorized as follows: (1) Savings plans—plans that are structured for the customer's needs, by various ranges and indexations; (2) Self-renewing Overnight Deposit (SRO)—a deposit that enables deposits and withdrawals every business day subject to the restriction that the principal amount shall not be less than the amount set by the bank; (3) Fixed-term deposit—allows for the withdrawal of the deposit after a preset period. Such a deposit generally has a yield of fixed-rate interest; (4) CPI-indexed deposit; (5) Foreign exchange-indexed deposit; (6) Foreign currency deposit—a foreign exchange deposit by Israelis in Israeli banks. This can be managed as a current account or as a deposit.
- **Mutual funds**—A financial instrument, the objective of which is to jointly invest in securities and generate joint profits from such holdings and transactions. Each fund is comprised of units, each of which grants an equal right to the fund's assets and profits. Units can be bought and sold through the fund manager, and for certain types of fund, through continuous trading on the stock exchange. The Israeli Securities Authority has set out a list of relevant classifications, from which a fund manager selects the most appropriate classification for each fund under his management, considering the fund's investment policy. The classification titles<sup>2</sup> characterize the type of fund and the nature of investment in it, and help the investor understand its investment channels. The classification titles are divided into three levels—overall, main, and secondary titles. The overall title reflects the investment channels or methods of managing the investments in the fund, for instance equities, bonds, or money market. The main title reflects the specialization of the fund, such as an equity fund in Israel or a government bond fund. The secondary title reflects the specific investment channel upon which the fund focuses, for instance, Tel Aviv 35 Index.

<sup>1</sup> For further details of the definitions, terms and explanations, see "Measuring Institutional Investors' Exposure to Foreign Exchange and to Foreign Assets" in Chapter 2 of the Statistical Bulletin for 2016.

<sup>2</sup> For more information on definitions, see the Israel Securities Authority (in Hebrew): [http://www.isa.gov.il/%D7%92%D7%95%D7%A4%D7%99%D7%9D%20%D7%9E%D7%A4%D7%95%D7%A7%D7%97%D7%99%D7%9D/Mutual\\_Funds/Principles%20and%20rules%20for%20determining%20the%20classification%20where%20the%20Fund/2414/Pages/default.aspx](http://www.isa.gov.il/%D7%92%D7%95%D7%A4%D7%99%D7%9D%20%D7%9E%D7%A4%D7%95%D7%A7%D7%97%D7%99%D7%9D/Mutual_Funds/Principles%20and%20rules%20for%20determining%20the%20classification%20where%20the%20Fund/2414/Pages/default.aspx)