

## A. THE PUBLIC'S FINANCIAL ASSETS PORTFOLIO

The public's financial asset portfolio<sup>1</sup> continued to increase in 2016, mainly in the cash, current accounts, and deposits components. During the year, the downward trend in the portion of the portfolio managed directly by the public (including mutual funds)<sup>2</sup> continued, in conjunction with the increase in the portion of the portfolio managed by institutional investors. The public's direct holdings consist mainly of deposits and shares in Israel, while the public's holdings managed by institutional investors mainly include government bonds and assets invested abroad.

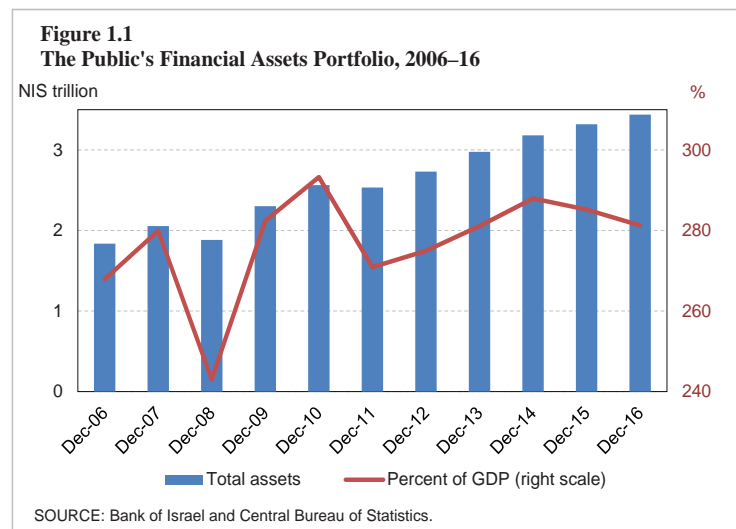
The decline in the balance of mutual funds in the asset portfolio also continued, due to continued net redemptions in the money market funds and in some of the funds specializing in bonds. This development changed the composition of assets held by the mutual funds.

The downward trend in the growth rate of total assets managed by institutional investors continued, and the highest increase was recorded in the new pension funds. Most institutional investors' rate of exposure to foreign assets declined in 2016, for the first time since 2008.

### 1. TOTAL ASSET PORTFOLIO

In 2016, the increase in the asset portfolio continued, as did the decline in its share of GDP.

The public's financial asset portfolio increased by NIS 119 billion (3.6 percent) in 2016, to about NIS 3.4 trillion. The asset portfolio as a share of GDP declined by about 3.9 percentage points, as a result of the greater increase of GDP (5 percent in current prices) than that of the public's financial asset portfolio.



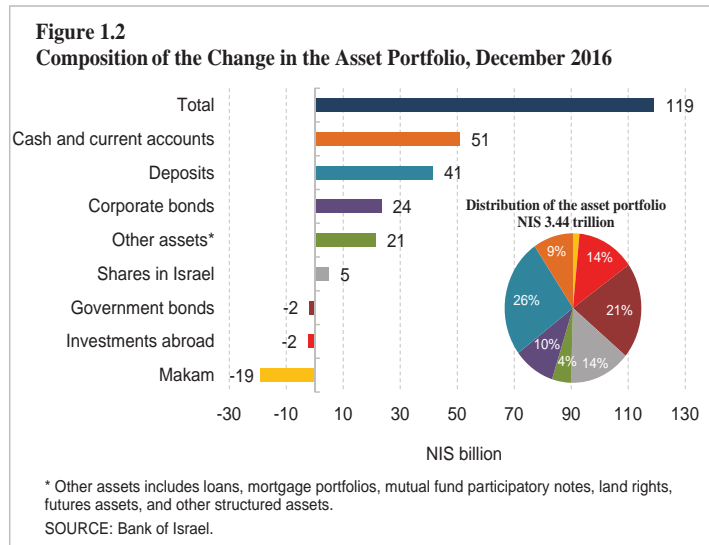
<sup>1</sup> See Main Terms at the end of the chapter.

<sup>2</sup> In this chapter, any reference to “directly by the public” includes data on mutual fund holdings of financial assets.

Most of the increase in the asset portfolio was recorded in the cash and current accounts, deposits, and corporate bond components.

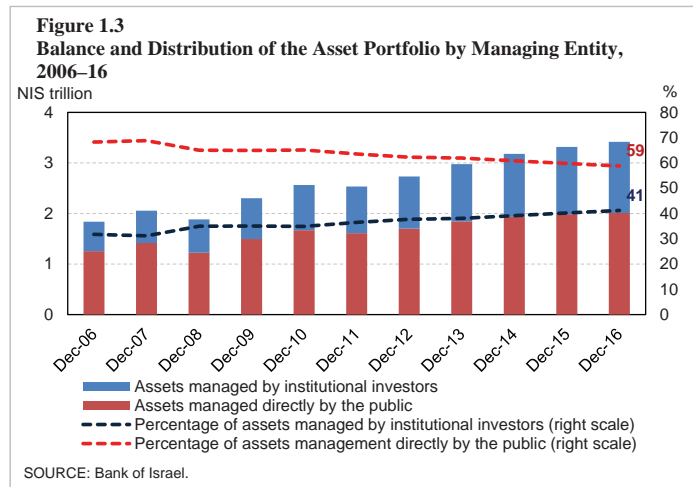
The cash and current accounts component (about 9 percent of the portfolio) increased by about NIS 51 billion (19 percent), and the deposits component (about 26 percent) increased by about NIS 41 billion (5 percent). These increases were partly offset, mainly by a decline in the *makam* component, the smallest component in the portfolio.

The increase in the corporate bond component in Israel is a result of the combination of net investments and corporate bond price increases, while the increase in the shares component in Israel is a result of net investments that were mostly offset by a decline in share prices on the Tel Aviv Stock Exchange.



**In 2016, the downward trend in the portion of the portfolio managed directly by the public continued, in conjunction with an increase in the portion managed by institutional investors.**

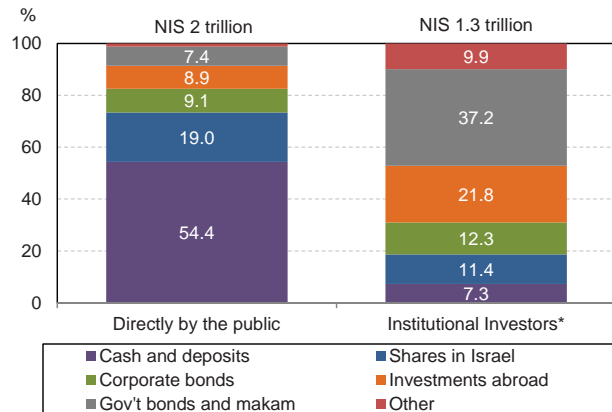
The balance of assets managed directly by the public increased by about 2.2 percent in 2016, to about NIS 2 trillion, while the balance of assets managed by institutional investors increased by about 5.6 percent to about NIS 1.4 trillion.



About half of the public's direct holdings are in cash and deposits, compared with the portfolio managed by the institutional investors, which is held mainly in government bonds, *makam*, and investments abroad<sup>3</sup>.

The differences in the composition of holdings of the managed entities reflect structural differences<sup>4</sup>: The public's direct holdings are mostly short- and medium-term assets, while the institutional investors manage holdings in long-term assets. The public invests abroad mainly through the institutional investors, which have greater expertise and easier access to the international markets.

Figure 1.4  
Distribution of Assets by Managing Entities, December 2016



\* Excluding assistance to the old pension funds.  
SOURCE: Bank of Israel.

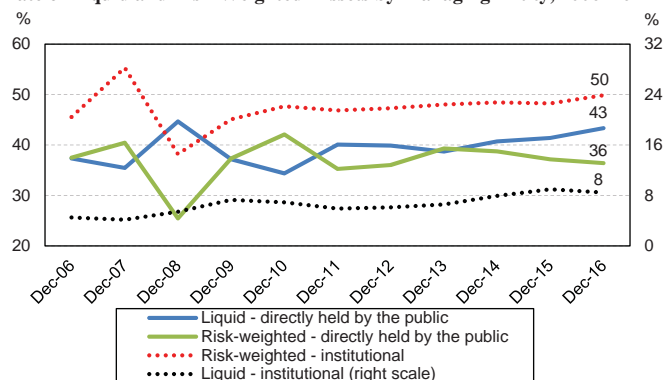
In contrast with the trend of recent years, liquid assets as a share of institutional investors' holdings declined in 2016.

This rate declined by 0.5 percentage points, to about 8.5 percent, while liquid assets as a share of the public's direct holdings continued to increase in the past three years, by about 4.6 percentage points, to about 43 percent.

The upward trend in risk assets as a share of institutional investors' holdings of risk assets continued, reaching about 50 percent, while the rate of the public's holdings of such assets continued to decline, to about 36 percent.

These differences in the liquidity and risk profiles of the portfolio types reflect structural differences, among other things.

Figure 1.5  
Rate of Liquid and Risk-Weighted<sup>a</sup> Assets by Managing Entity, 2006–16



<sup>a</sup> See definitions in the Indicators table at the end of the chapter.  
SOURCE: Bank of Israel.

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

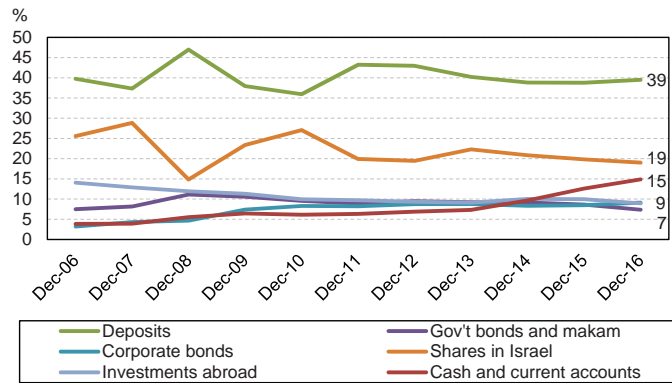
<sup>4</sup> See Main Terms at the end of the chapter.

## 2. THE PORTFOLIO MANAGED DIRECTLY BY THE PUBLIC

The upward trend in the proportion of cash and current accounts in the portfolio managed directly by the public, which began in 2011, continued.

In parallel, the proportion of holdings in deposits, the largest component in the portfolio, increased by about 0.7 percent, as a result of the increase in the balance of this component by about NIS 32 billion (4.1 percent). In contrast, the proportion of holdings in government bonds and makam, shares in Israel and investments abroad, declined by an average of about one percentage point.

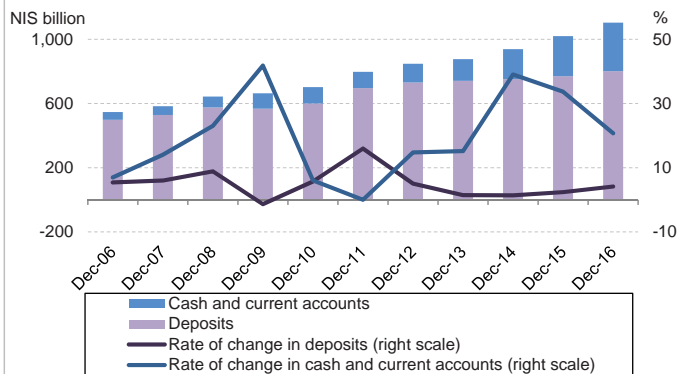
**Figure 1.6**  
Composition of the Asset Portfolio Held Directly by the Public, 2006–16



SOURCE: Bank of Israel.

While the increase in the proportion of cash and current accounts held directly by the public continued in 2016, the growth rate of this component slowed. The balance of cash and current accounts increased by about NIS 52 billion, against the background of the low shekel interest rate. This represents an increase of about 20.7 percent, compared with a record increase of about 39 percent in 2014. In the past two years, there has been a marked increase in the growth rate of the deposits component.

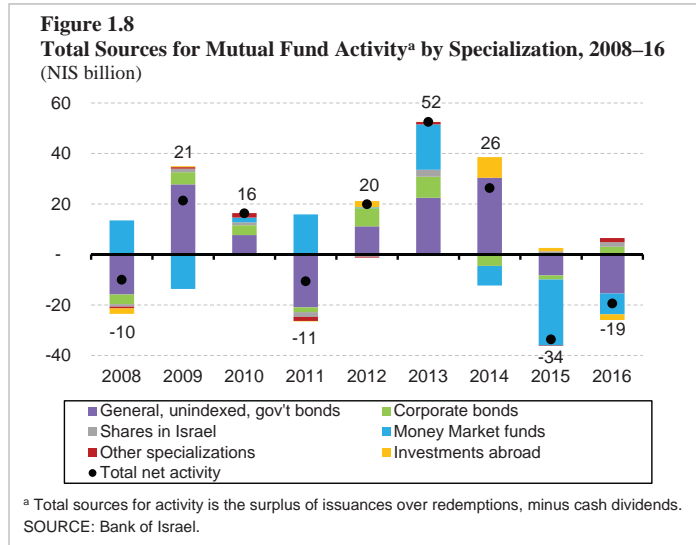
**Figure 1.7**  
Balance and Annual Growth of Cash and Deposits Managed Directly by the Public, 2006–16



SOURCE: Bank of Israel.

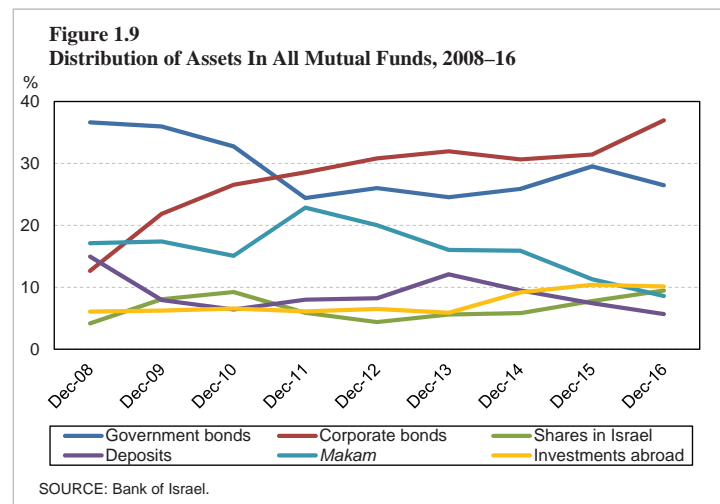
**The continuation of net redemptions in the money market funds and in most bond specializations was reflected in a continued decline in mutual fund balances.**

The volume of net redemptions in the money market funds totaled about NIS 8 billion in 2016, further to net redemptions of about NIS 34 billion over the two previous years, against the backgrounds of the low interest rate level. In the funds specializing in general bonds, unindexed bonds, and government bonds, net redemptions increased this year, to about NIS 15 billion. In contrast, there were net deposits this year, for the first time since 2013, in funds specializing in corporate bonds, totaling about NIS 3 billion



**The net redemptions in the mutual funds changed the composition of assets held by the funds.**

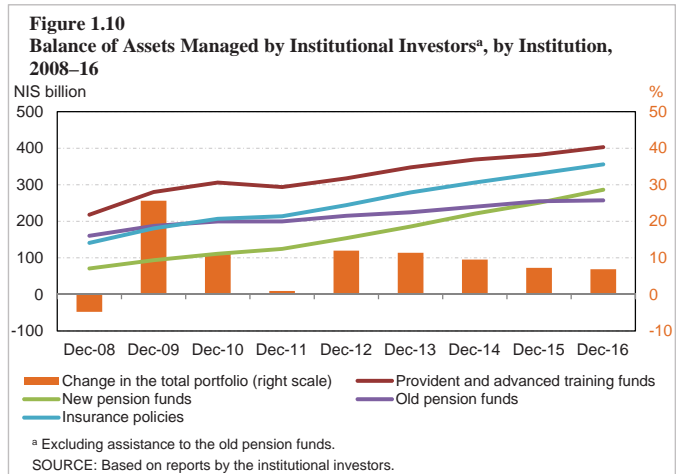
The proportion of mutual fund holdings of government bonds declined by about 3 percentage points as a result of a decline of about NIS 11 billion (16.2 percent) in the balance of this component. The proportion of holdings in *makam* and deposits also declined. In contrast, the proportion of holdings in corporate bonds increased by about 5.5 percentage points, as a result of an increase of about NIS 7.1 billion (9.8 percent) in the balance of this component.



### 3. THE PORTFOLIO MANAGED BY INSTITUTIONAL INVESTORS

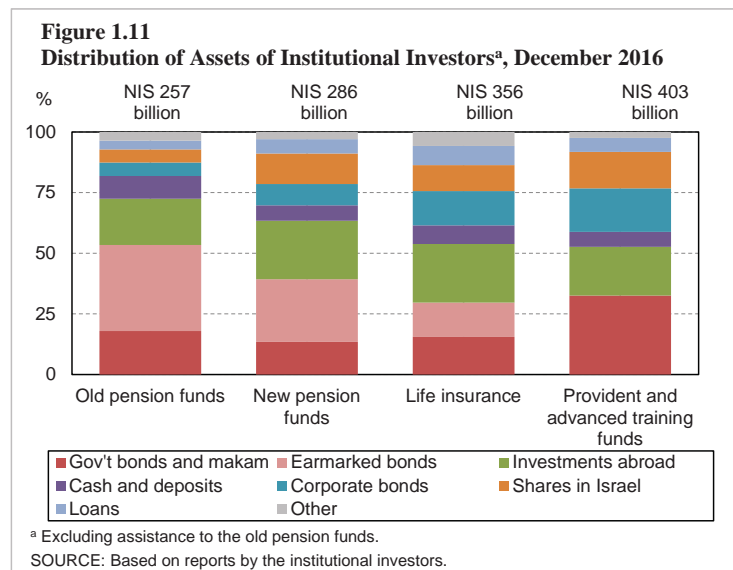
**The moderate downward trend in the growth rate of assets managed by institutional investors, which began in 2013, continued.**

The most significant increase in 2016 was in the new pension funds (about NIS 36 billion, 14.3 percent), a trend that has continued since 2008, due to the beginning of compulsory pension arrangements for all employees. The balance of assets in the old pension funds increased by only about NIS 2 billion (0.9 percent).



**The mix of assets managed by the various institutional investors is quite heterogeneous.**

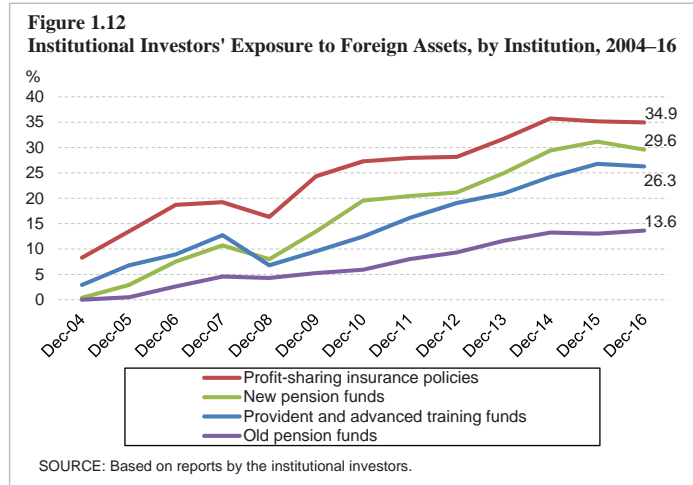
The most significant component in all entities is government bonds (tradable and nontradable), which is followed by investments in assets abroad. The mix of assets differs from one entity to another, in accordance with the structural differences between them. For instance, the rate of holdings of earmarked bonds is prominent among the old pension funds.



For the first time since 2008, the rate of exposure of the new pension funds and of the provident and advanced training funds to foreign assets declined<sup>5</sup>.

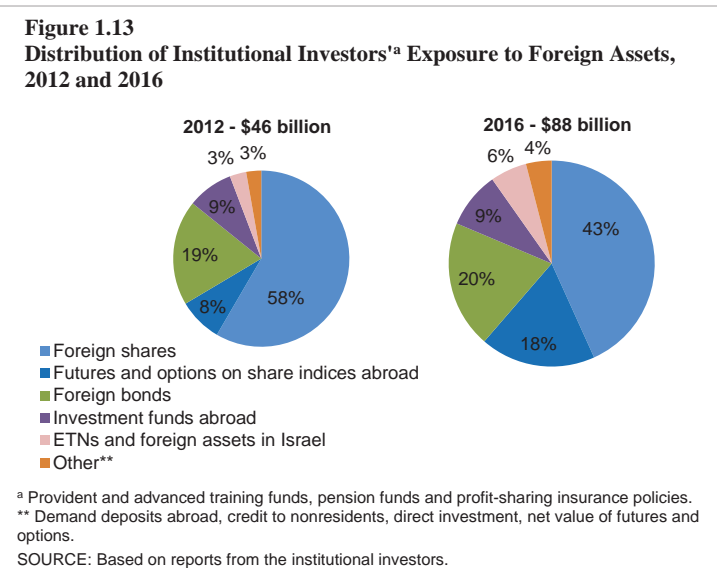
In addition, the rate of exposure to foreign assets continued to decline among the insurance companies for the second consecutive year, but its level remains the highest among the institutional investors (34.9 percent).

The rate of exposure to foreign assets among the new pension funds declined by about 1.6 percentage points, and the rate of exposure among the provident and advanced training funds declined by about 0.5 percentage points.



There was no significant change in recent years in the composition of foreign assets held by institutional investors.

Total investment in shares as a share of foreign assets declined slightly over the past four years, but it remained the component with the highest proportion of the portfolio (61 percent). Out of total investment in shares, investment in futures and options on foreign share indices increased at the expense of direct holdings of foreign shares. The total balance of foreign assets held by institutional investors doubled in the last four years, to about \$88 billion.



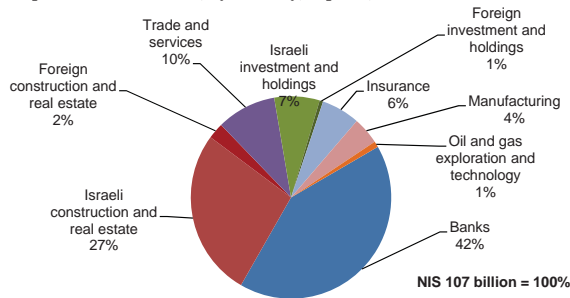
<sup>5</sup> For further details of the definitions, terms and explanations, see “Measuring Institutional Investors’ Exposure to Foreign Exchange and to Foreign Assets” in Chapter 2 of this publication.



## THE INSTITUTIONAL INVESTORS—HOLDINGS OF TRADABLE BONDS IN ISRAEL<sup>1</sup>

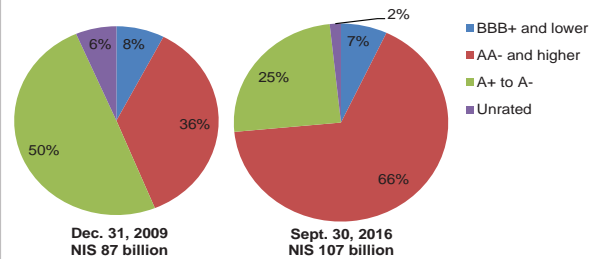
Most institutional holdings of tradable bonds in Israel are of companies in the banking industry and the real estate and construction industry.

**Figure 1.14**  
Estimated Distribution of Institutional Investors' Holdings of Tradable Corporate Bonds in Israel, by Industry, Sept. 30, 2016



There has been a marked increase in the share of institutional holdings of tradable bonds in Israel rated AA- or higher, following the implementation of the Hodak Committee's recommendations.

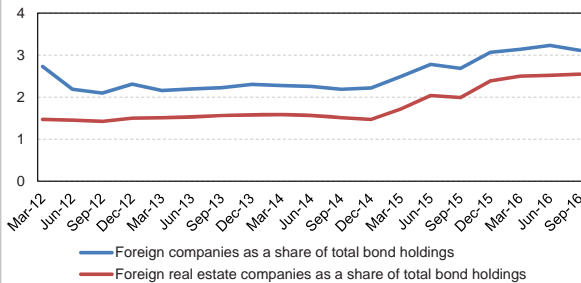
**Figure 1.15**  
Estimated Distribution of Institutional Investors' Holdings of Tradable Bonds in Israel, by Rating, 2009 and 2016



<sup>a</sup> The Hodak Committee set out parameters for institutional investors investing in corporate bonds. Its recommendations took effect in 2010.

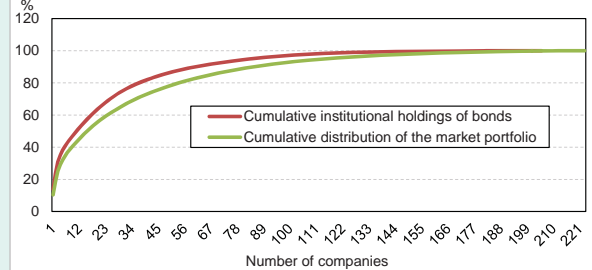
Since the end of 2014, there has been an accelerated increase in the rate of institutional holdings of foreign bonds, particularly those of foreign real estate companies. Yet, these holdings still account for a small percentage of their total bond holdings.

**Figure 1.16**  
Estimated Institutional Investors' Holdings of Foreign Bonds and Foreign Real Estate Bonds As A Share of Their Tradable Bond Holdings (percent)



About 70 percent of institutional holdings in tradable bonds in Israel are concentrated in 25 companies, similar to the extent of concentration in the market.

**Figure 1.17**  
Institutional Investors' Cumulative Holdings of Tradable Bonds in Israel Compared with the Cumulative Distribution of the Market Portfolio, Sept. 30, 2016



<sup>1</sup> The institutional investors are the pension funds, the provident funds and severance funds, the advanced training funds, and the insurance companies with profit-sharing insurance policies. The data related to institutional investors' holdings of tradable bonds in Israel only, including their holdings of foreign bonds traded in Israel.

SOURCE: Based on reports from the institutional investors.



<b>Main indicators in the public's asset portfolio (percent)</b>		<b>2008</b>	<b>2010</b>	<b>2012</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>The public's asset portfolio</b>							
Volume of the portfolio	Value of the public's asset portfolio (NIS billion)	<b>1.9</b>	<b>2.6</b>	<b>2.7</b>	<b>3.2</b>	<b>3.3</b>	<b>3.4</b>
	The asset portfolio as a percentage of GDP	243.0	293.3	275.0	288.0	285.2	281.2
Risks and liquidity	Tradable assets	42.3	54.2	50.8	52.7	50.4	48.9
	Risk assets <sup>a</sup>	30.4	44.3	40.2	41.8	41.7	41.8
	Assets abroad <sup>b</sup>	10.3	11.1	11.9	14.2	14.2	13.6
	Foreign exchange assets <sup>c</sup>	17.7	16.4	17.6	20.7	20.6	20.4
	Unindexed assets <sup>d</sup>	64.8	69.4	67.5	70.0	70.5	70.9
	Liquid assets <sup>e</sup>	31.0	24.8	27.2	28.0	28.4	29.1
<b>The portfolio managed directly by the public and through mutual funds</b>							
As a share of the total asset portfolio		<b>65.0</b>	<b>65.1</b>	<b>62.3</b>	<b>60.9</b>	<b>59.8</b>	<b>59.0</b>
Risks and liquidity	Tradable assets	42.3	55.2	49.6	52.0	49.4	47.0
	Risk assets <sup>a</sup>	25.5	42.1	36.0	38.7	37.2	36.4
	Assets abroad <sup>b</sup>	11.9	9.9	9.3	10.0	10.0	8.9
	Foreign exchange assets <sup>c</sup>	22.9	17.8	17.9	19.3	19.2	18.5
	Unindexed assets <sup>d</sup>	84.8	85.2	83.9	85.8	87.0	87.8
	Liquid assets <sup>e</sup>	44.7	34.4	39.9	40.7	41.4	43.3
<b>The portfolio managed by institutional investors</b>							
As a share of the total asset portfolio		<b>35.0</b>	<b>34.9</b>	<b>37.7</b>	<b>39.1</b>	<b>40.2</b>	<b>41.0</b>
Risks and liquidity	Tradable assets	42.5	53.1	53.4	54.3	52.6	51.9
	Risk assets <sup>a</sup>	38.2	47.7	47.3	48.5	48.2	49.9
	Assets abroad <sup>f</sup>	6.9	13.0	15.9	20.0	20.0	19.7
	Foreign exchange assets <sup>g</sup>	7.9	13.8	17.3	22.5	22.7	22.8
	Unindexed assets <sup>d</sup>	27.9	40.0	40.1	43.8	44.9	44.3
	Liquid assets <sup>e</sup>	5.4	6.9	6.1	7.9	9.0	8.5

<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*.

<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.

SOURCE: Bank of Israel.

## MAIN TERMS

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, 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.

- **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.

<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 this publication.

---