

יועצי השקעות ישראל | Israel Investment Advisors

The Israel Investment Fund, L.P. – Five Year Review

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The Israel Investment Fund, L.P. (IIF) just completed its fifth calendar year since its inception on August 1, 2010, presenting an opportune time to review the fund's historical performance and risk data. During this period the IIF delivered a total return of 49.82% or a compound average return of 7.75% per year. While this return underperformed the 14.45% annual return on the S & P 500 Index, it outpaced the major foreign stock indexes such as the MSCI EAFE Index and the MSCI Emerging Markets Index. Based on the data outlined below, the Israel Investment Fund, L.P. added significant value to a globally diversified equity portfolio over the past 5 ½ years.

Although the U.S. stock market performed quite well over the past 5 ½ years, performance in most foreign stock markets was more muted. The major equity benchmark for developed countries is the MSCI Europe, Australasia and Far East (EAFE) Index. Since August 1, 2010 this index gained 40.11% or a compound average annual return of 6.41% (see Figure 1). The MSCI Emerging Market index fared poorly, losing 7.15% or -1.36% per year on average.

Figure 1

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	Returns (USD)					Inception (8/01/10) through 12/31/2010	Avg Annual Return	
	2015	2014	2013	2012	2011		Since Inception (8/1/2010)	Since Inception (8/1/2010)
Israel Investment Fund, L.P.	4.84%	-10.21%	39.12%	17.40%	-20.32%	22.18%	7.75%	49.82%
TA-100	2.35%	-4.77%	24.08%	9.30%	-25.62%	26.89%	4.07%	24.11%
BLS	-0.68%	2.20%	27.70%	8.08%	-23.87%	24.62%	4.17%	24.80%
S&P 500	1.38%	13.65%	32.36%	15.98%	2.08%	15.20%	14.45%	108.01%
MSCI EAFE	-0.19%	-4.27%	23.54%	18.11%	-11.57%	13.64%	6.41%	40.11%
MSCI EM	-14.80%	-1.97%	-2.26%	18.61%	-18.16%	17.17%	-1.36%	-7.15%

MSCI – a major foreign index publisher - upgraded Israel to developed market status in early 2010, but its stock market retains certain characteristics more similar to emerging markets. Like many emerging markets, Israel’s economic growth of 3.2% per year over the past five years was substantially faster than the United States or other developed countries. Also like many emerging markets, Israeli equities generally suffer from limited liquidity and a paucity of foreign portfolio investment. Given this dichotomy, the performance of our Israeli benchmark indexes fell somewhere in-between the MSCI Emerging Markets Index and the MSCI EAFE Index. From August 1, 2010 through December 31, 2015 the Tel-Aviv 100 Index averaged 4.07% per year and the Bluestar Global Index averaged 4.17% per year.

The Israel Investment Fund, L.P. outperformed its benchmark indexes over the past 5 ½ years with less volatility. Figure 2 highlights the IIF’s Beta relative to its two benchmark indexes (TA-100 and Bluestar Global) as well as the S & P 500 Index, MSCI EAFE Index and the MSCI Emerging Markets Index. Beta measures the correlation of the IIF’s returns with each index. The IIF’s Beta of 0.87 since inception relative to the TA-100 Index indicates the volatility of our fund was lower than this index. Similarly, the IIF’s Beta relative to the Bluestar Global Index was 0.89 since August 1, 2010.

As you can see from Figure 2, the IIF’s Beta was also less than 1.0 relative to the S & P 500 Index, the MSCI EAFE Index and the MSCI Emerging Markets index for all periods measured. ***This implies that the Israel Investment Fund, L.P. LOWERED the overall risk of globally diversified equity portfolios during this period of time.*** Many people might find this result counterintuitive given the geopolitical turmoil impacting Israel. Over the past 5 ½ years the IDF conducted two major operations in the Gaza Strip (Pillar of Defense and Operation Protective Edge), Israel suffered from ongoing terrorism, a massive social protest, the Syrian civil war and the rise of the Islamic State. Despite all of this, investing in the Israel Investment Fund, L.P. produced solid returns at reasonable risk.

Figure 2

	BETA					
	1 Year	2 Year	3 Year	4 Year	5 Year	Since Inception
IIF to TA-100	0.65	0.70	0.79	0.84	0.88	0.87
IIF to BLS	0.71	0.73	0.85	0.90	0.90	0.89
IIF to S&P 500	0.74	0.57	0.69	0.68	0.75	0.81
IIF to MSCI EAFE	0.68	0.61	0.65	0.57	0.65	0.70
IIF to MSCI EM	0.44	0.28	0.36	0.36	0.50	0.55

Past performance is no guarantee of future results, but we think 5 years is an adequate time period to assess myth from fact. While many people perceive investment in Israel to be excessively risky, the IIF demonstrated that Israeli equities were superior – in terms of return as well as risk - to most international equity markets during this period of time. Israel’s reality exceeded investor perceptions over the past 5 years. We believe the IIF is positioned well to benefit from the continued development of the Israeli economy and capital markets.

Disclosures

Israel Investment Fund, L.P.

Israel Investment Fund, L.P. (the "Fund") is a Delaware limited partnership under the Delaware Revised Uniform Limited Partnership Act, as amended, that operates as a private investment partnership. The general partner of the Partnership is Israel Investment Advisors, LLC, a Colorado limited liability company.

Benchmarks

Benchmarks are presented as total returns. Total return includes interest, capital gains, dividends and distributions realized over a given period of time.

The TA-100 Index is a capitalization-weighted index of 100 stocks traded on the Tel-Aviv Stock Exchange. The Index was developed with a base value of 100 as of December 31, 1991.

The BIGI is calculated and maintained by Standard & Poor's based on a methodology developed by BlueStar Indexes and the International Securities Exchange in consultation with Standard & Poor's. The Index tracks the largest and most liquid companies as well as mid-cap and small-cap companies that display sufficient liquidity for global investors in Israeli and Israeli-linked companies.

The S&P 500 is one of the most commonly used benchmarks for the overall U.S. stock market. The Index consists of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. Companies included in the Index are selected by the S&P Index Committee, a team of analysts and economists at Standard & Poor's. The S&P 500 is a market value weighted index - each stock's weight is proportionate to its market value.

The MSCI EAFE is calculated and maintained by MSCI Barra designed as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia and Southeast Asia.

The MSCI EM is calculated and maintained by MSCI Barra designed to measure equity market performance in global emerging markets. The Emerging Markets Index is a float-adjusted market capitalization index that consists of indexes in 21 emerging economies.

Performance

Performance data quoted represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than original cost.

Performance data quoted for the fund is shown net of management fees where applicable. Fees are incurred in arrears on a quarterly basis, returns shown above are net of all fees incurred through the most recent calendar quarter end; returns may be lower after the accrual of fees for the current period if not a calendar quarter end. Information on all fees is available in the Fund's Private Placement Memorandum. The performance of individual investors will vary from the data above dependent primarily upon the data of entry into the fund and fees paid.

Risks

The Fund's investment activities involve a significant degree of risk. Such factors include a wide range of economic, political, competitive, and other conditions that may affect investments in general or specific industries, companies, or countries. The Fund is not designed to be market-neutral. Specific risks relevant to investment in the fund are discussed in detail in the Fund's Private Placement Memorandum.