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# Israel Investment Advisors

## 2016: A Very Good Year for the Israel Investment Fund, L.P. (IIF)

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Last year was a very good year for the Israel Investment Fund! **Table 1** highlights fund returns gross of performance fees for the past year, 3 years, 5 years and since inception in August 2010. The IIF posted strong performance relative to our Israeli stock index benchmarks, but we also performed better than the major international stock indexes such as the MSCI Europe, Australasia and Far East Index (EAFE), and the MSCI Emerging Markets Index.

**Table 1**

	1-Year	3-Year	5-Year	Average Annual Compounded Return Since Inception (08/01/2010)	Return Since Inception (08/01/2010)
Israel Investment Fund, L.P.	18.50%	11.59%	82.38%	9.33%	77.26%
<i>Benchmarks</i>					
Tel-Aviv 100 (USD)	-1.25%	-4.25%	29.86%	3.23%	22.64%
Tel-Aviv 100 (ILS)	-2.49%	6.18%	31.06%	3.48%	24.60%
Bluestar Israel Global (USD)	-4.73%	-2.98%	34.72%	2.48%	17.02%
Bluestar Israel Global (ILS)	-5.79%	7.75%	35.76%	2.78%	19.29%
MSCI EAFE (USD)	1.56%	3.09%	41.13%	5.56%	41.57%
MSCI EM (USD)	11.23%	-6.86%	7.98%	0.54%	3.54%

See page 3 for information related to the data presented in Table 1

## **The Shekel Retained its Value**

In the five-year period following the 2011 European debt crisis, a strong Israeli shekel supported our returns in the IIF relative to other foreign markets. In January 2012 one dollar bought 3.8 shekels, and that is approximately the same exchange rate now. Most other countries were not so lucky. During the same period the euro fell 19%, the British pound declined 21%, and the Canadian dollar dropped 25%. Commodity exporting emerging countries suffered dramatic currency collapse. For example, the Mexican peso fell 36% over the past five years, the Brazilian real declined 41%, and the Russian ruble tumbled 46%.

The strong shekel was reflective of Israel's economic strength and disciplined fiscal policies. Over the past five years, the Israeli economy grew by 3.3% per year vs. 1.0% for the European Union and 2.1% for the United States. Israel was the only developed country that reduced debt as a percentage of Gross Domestic Product (GDP) during the financial crisis. Since the crisis ended, Israel's debt declined further to 65%, compared with 75% for the United States, 71% in Germany and 132% in Italy. Avoiding currency pressures allowed the IIF to dodge what was a major headwind for most other foreign funds.

## **Two Big Companies Held the Israeli Indexes Back**

The IIF substantially outperformed the Israeli indexes as well. Despite the headline index numbers, many Israeli stocks performed quite well last year, as well as over the past five years. The indexes were held back by their largest stocks: Teva Pharmaceuticals and Israel Chemicals. Teva comprises about 7% of the Tel-Aviv 100 Index, 12% of the Bluestar Global Index and 20% of the MSCI Israel Index, even after losing more than half of its market value over the past 18 months.

Teva's problems are unique to its business and unrelated to the strength of the underlying Israeli economy or financial markets. It lost patent protection for its largest drug (Copaxone, a leading treatment for MS), which comprised nearly half of its annual net income at one point. Similarly, Israel Chemicals was the second largest stock within the Israeli indexes for many years. Due to global weakness for potash and other fertilizer products, it lost 66% of its value since August 2010. Our very modest allocations to these two companies allowed us to sidestep this significant problem for the Israeli benchmark indexes.

## **The IIF was a Solid Choice for a Globally Diversified Portfolio**

As illustrated in Table 1, the Israel Investment Fund, L.P. outperformed most foreign stock markets over all time periods covered. For investors with an international equity allocation, the Israel Investment Fund was a solid addition to their diversified portfolio. Of course, past performance is no guarantee of future results, but we believe Israel and the IIF will continue to be good long-term bets for investors.

### 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.

The Fund's investment objective is long-term capital growth. The Fund seeks to achieve its investment objective by investing the majority of its assets in securities of publicly-traded Israeli companies with the potential for long-term growth of capital.

### Benchmarks

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

The Tel-Aviv-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 Bluestar Israel Global Index 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 BIGI is presented on a total return basis. Total return includes interest, capital gains, dividends and distributions realized over a given period of time.

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 23 emerging economies.

These Indices are benchmarking Indices only and are not available to direct investment.

### 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, and gross of performance fees, where applicable. Management fees are incurred in arrears on a quarterly basis, returns shown above are net of management fees incurred through the most recent 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 date 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.