PREQIN SPECIAL REPORT: PRIVATE CAPITAL INVESTORS IN ISRAEL

AUGUST 2018

FOREWORD

Private capital funds are not a new phenomenon in Israel. Preqin records Israel's first venture capital fund as a vintage 1985 vehicle, and its first buyout fund as vintage 1996. In 2005, Preqin began monitoring the Israel-based institutional investors (LPs) that actively invest in these closed-end private capital funds.

Fast-forward to 2018, and Preqin is now monitoring 65 active LPs in Israel, including many of the country's largest pension funds, insurance companies and family offices. We have tracked over 500 known investments from these LPs in private capital funds. Investments in US- and UK-based funds make up 39% of all known investments, with the most common fund type being buyout at 31%. With approximately 30 local Israeli funds in market – the majority being venture capital funds – 73% of LPs are currently looking to commit capital to fund managers based outside Israel.

We are still learning much about the ever-growing Israeli private capital market. The Mandatory Pension Law in 2008 – and more recent government reforms enacted in 2016 and 2017 to spur investment and retirement savings for every child, the self-employed and more – has set the stage for institutional assets to grow in Israel for the foreseeable future. Based on the growth of Israel-based LPs over recent years, and their willingness to commit to GPs outside of their home country, it is likely a growing percentage of these pension and retirement assets will be flowing into private capital funds as greater diversification and long-term investment horizons will be required.

Now benefitting from a Hebrew-speaking Research Analyst, our Israeli data has gone from strength to strength and we are pleased to present our first special report dedicated to the country. This report provides a valuable snapshot of the growing landscape of active LPs in Israel along with their known investments. We set the Israeli data against a global backdrop, using net performance data for over 9,400 funds and public pension surveys to evidence private capital's strong performance over the past decade. This strong performance has led to positive sentiment from LPs and increasing allocations.

We hope you find this report useful and welcome any feedback you have. For more information, please visit www.preqin.com or contact info@preqin.com.

Closed-End Private Capital:

Private Equity	Private Debt	Real Estate	Infrastructure	Natural Resources
Buyout	Direct Lending	Private Equity Real Estate	Infrastructure	Agriculture
Growth	Distressed Debt			Energy
Other Private Equity	Mezzanine	Private Equity Real Estate Fund of Funds	Infrastructure Fund of Funds	Metals & Mining
Private Equity Fund of Funds	Private Debt Fund of Funds			Natural Resources Fund of Funds
Private Equity Secondaries	Special Situations	Private Equity Real Estate Secondaries	Infrastructure Secondaries	Timberland
Turnaround	Venture Debt			Water
Venture Capital				

THE GROWING MOMENTUM IN ISRAELI EXPOSURE TO PRIVATE CAPITAL

- Isaac M. Sutton & Itay Elnatan, HA Global

In the past decade, we have seen tremendous growth in the total assets under management (AUM) of institutional investors in Israel. As of April 2018, data from the Bank of Israel indicates that pension funds, provident funds and insurance companies manage AUM of ILS 1.62tn (equivalent to $454bn), an increase of more than 250% over the past 10 years.

Leopold Peavy: What has driven the substantial growth in AUM?
Isaac Sutton: More than a decade ago, the pension market in Israel was not as advanced, which created concern that the government would have to bear the enormous burden of those who left the labour force without a static income. The Israeli authorities understood that it would be in the national interest to promote reforms and regulations that would change this situation.

LP: What were the regulations the government put into place?
IS: The most significant legislation that initiated this change was the Mandatory Pension Law that took effect in 2008. It states that both the employee and the employer are required to set aside a certain percentage (a minimum of 18.5%) of the employee's salary in order to save for retirement and insurance.

Following this, the 190 Amendment to the Income Tax Ordinance came about to enable those who had retired to benefit from a tax incentive that encourages savings in provident funds. This trend continued, and in recent years we have seen additional reforms such as provident funds for investment (2016), government saving plans for every child (2017) and mandatory pension law for the self-employed (2017).

Due to the intensive work of the authorities in Israel, the percentage of the provision for long-term savings in Israel is now among the highest in the world; accordingly, we expect that the growth of institutional assets will continue exponentially.

LP: How has this affected allocation to private capital and alternative investments?
Itay Elnatan: The low interest rate environment and the lack of investment alternatives coupled with the massive infusion of capital due to the reforms have driven Israel's investors to increase their average allocation to private equity funds from 1% in 2007 to 3.6% in 2017.

However, this average allocation is still significantly lower than in other countries. A study by Preqin shows that the exposure to private capital funds among institutional investors in Israel was only 5.3% of total AUM in 2017, while in North America and Europe it is nearly 30% of total assets managed.

LP: What are the key reasons for this gap?
IE: Recent supportive regulations of investments abroad. In the past, the market was biased toward local investments. In addition, the rapid growth in AUM, the complex due diligence process and the dedicated teams that are short of manpower make it difficult to close the gap.

LP: What areas do you think are currently in the focus of institutional investors?
IE: I think that the whole area of private capital has a positive momentum today, spearheaded by private equity. If I have to predict, I would say that the private debt sector will be the most significant in the long term.

LP: How and why should managers come to Israel?
IE: Israel has a strong and stable economy, with a strong tendency towards long-term savings. Allocating to this region can provide GPs great diversification of their investor base. The long-term asset market in Israel is driven primarily by reforms and constant deposits and therefore may be less sensitive to the performance of the global market. Private capital allocation in Israel is still in its initial stages and early penetration into this market would provide a worthy return in the future.

LP: Why use local partners?
IE: The Israel business arena is uniquely characterized. Proper penetration of the market requires resources and time that not every manager is willing to allocate. Cooperating with suitable local partners can make the process more effective, focused and potentially less "risky" for fund managers that seek to optimize their time.

LP: What do you see in the future for Israel?
IS: In recent years we have witnessed a fundamental change in the asset allocation strategy of the Israeli institutional investment industry. This change finds expression in a growing diversification towards investing overseas, and in the search for investment alternatives. We believe that these trends will continue and that allocations will increase significantly in the coming years.

HA GLOBAL
An Israeli advisory and capital raising firm, subsidiary of Halman-Aldubi Investment House (est. 1995), specializing in private capital. Its legacy started back in 2007, where Isaac Sutton established Hadas Arazim with $900mn in AUM as a result of reforms made during those years, which sought to separate asset management from the large banks. As a "start-up" it specialized in alternatives as a way to distinguish itself from the competition. Over the years it has acquired a deep understanding of alternatives as well as a vast and varied network of connections. In 2013, Hadas-Arazim merged with Halman-Aldubi, and today the investment house is one of the fastest growing financial firms in Israel with $15bn of AUM.

halmanaldubi.com

ISRAEL IN FOCUS: INSTITUTIONAL INVESTORS

KEY FACTS

There are 65 Israel-based LPs tracked by Preqin that are active in private capital, up from just 15 seven years ago.

Comparing the growth in the number of Israel-based LPs with that of the global LP universe, the Israeli market has grown at more than double the global rate, with 110% growth since 2013, compared with 51% globally (Fig. 2).

With a record level of capital being sought globally, Israel-based LPs are not only looking to commit to traditional private equity, but also to a diverse array of asset classes such as private debt and infrastructure.

With 31 Israeli funds currently in market (Fig. 3), and the growing prevalence of private capital in global markets, Israel-based LPs seem primed to increase allocations to these asset classes (and to funds outside the jurisdiction of Israel) both now and in the coming years.

65 institutional investors actively invest in closed-end private capital funds, representing over ILS 4.1tn ($1.1tn) in aggregate AUM.

34 actively invest in private equity funds.

22 actively invest in private real estate funds.

22 actively invest in infrastructure funds.

24 actively invest in natural resources funds.

17 actively invest in private debt funds.

73% of investors are open to making commitments to international private capital funds.

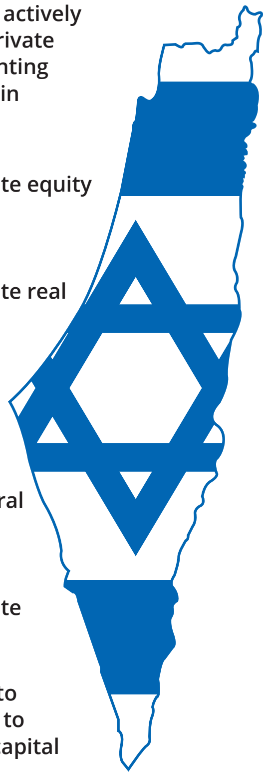
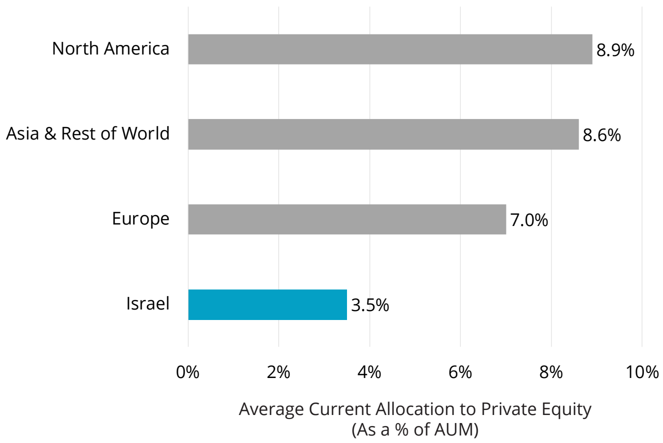
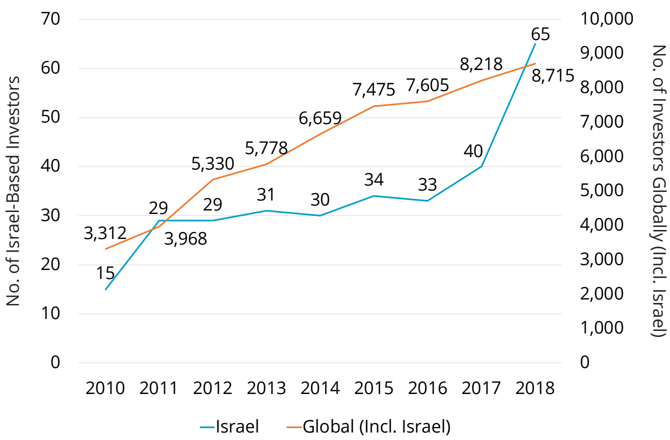


Fig. 1: Institutional Investors' Average Current Allocation to Private Equity (As a % of AUM) by Location (As at June 2018)



Source: Preqin

Fig. 2: Institutional Investors in Private Capital: Israel-Based Investors vs. Global Total, 2010 vs. 2018 (As at June 2018)



Source: Preqin

Fig. 3: Private Capital Funds in Market: Israel-Based Funds vs. Global Total (As at June 2018)

Fund Location	No. of Funds in Market	Aggregate Capital Targeted ($bn)
Israel	31	3.9
Global (Excl. Israel)	4,181	1,471.6

Source: Preqin

ISRAEL IN FOCUS: KNOWN INVESTMENTS

Preqin has tracked over 500 commitments by Israel-based institutional investors to closed-end private capital funds:

76%

of fund commitments have targeted private equity funds.

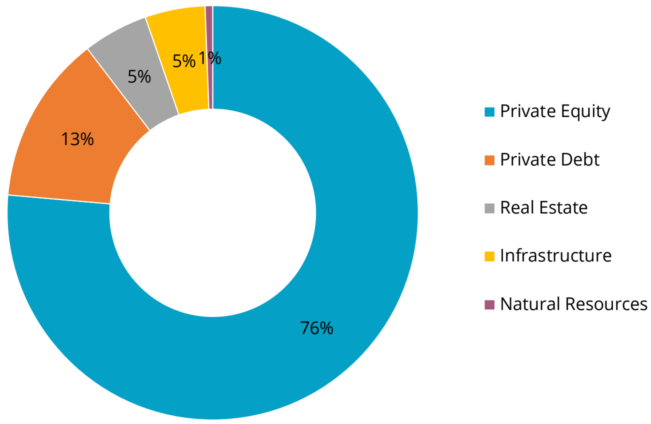
31%

of fund commitments have been to buyout funds, the largest proportion of all private capital fund types.

45%

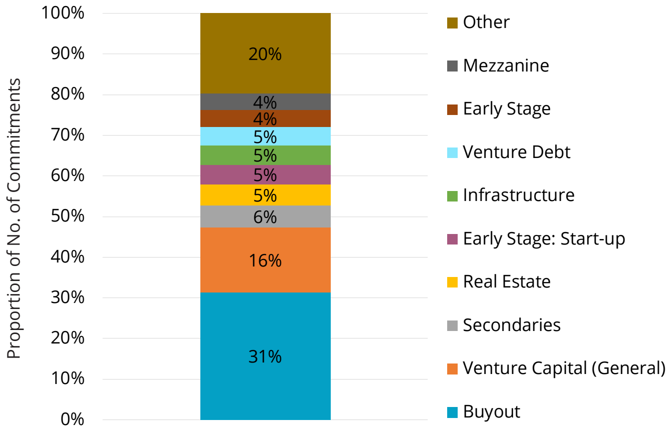
of all known commitments have been to fund managers located outside Israel, with US-based funds making up 28%.

Fig. 4: Israel-Based Investors' Private Capital Fund Commitments by Asset Class



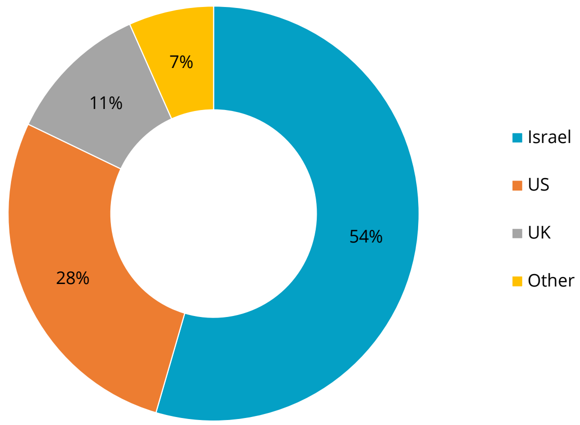
Source: Preqin

Fig. 5: Israel-Based Investors' Private Capital Fund Commitments by Strategy



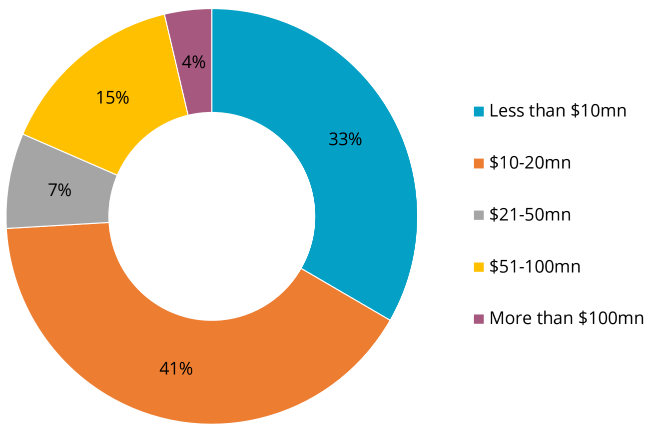
Source: Preqin

Fig. 6: Israel-Based Investors' Private Capital Fund Commitments by Fund Manager Location



Source: Preqin

Fig. 7: Israel-Based Investors' Private Capital Fund Commitments by Commitment Size



Source: Preqin

Fig. 8: Top 10 Fund Managers Used by Israel-Based Investors by Number of Known Commitments

Firm	Headquarters	No. of Known Commitments from Israel-Based Investors
FIMI	Israel	46
Viola Credit	Israel	30
Apax Partners	UK	27
Hamilton Lane	US	17
Vintage Investment Partners	Israel	13
Medica Venture Partners	Israel	12
Tene Capital	Israel	11
Fortissimo Capital	Israel	10
Vertex Ventures Israel	Israel	10
Ares Real Estate Group	US	9

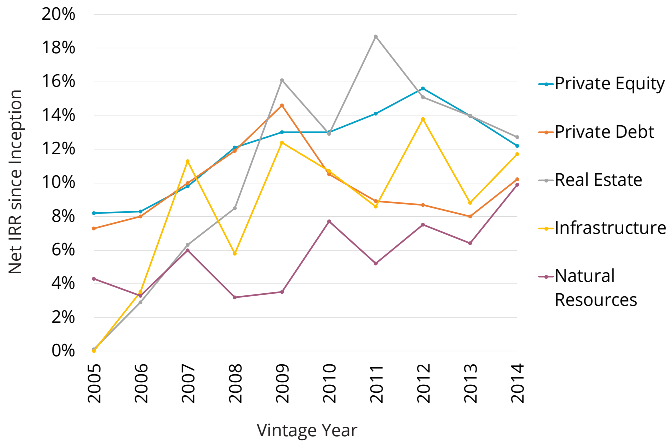
Source: Preqin

GLOBAL PERSPECTIVE: PERFORMANCE

Private capital funds have provided strong risk-adjusted returns to investors globally over the past decade, leading to positive perceptions and increased allocations:

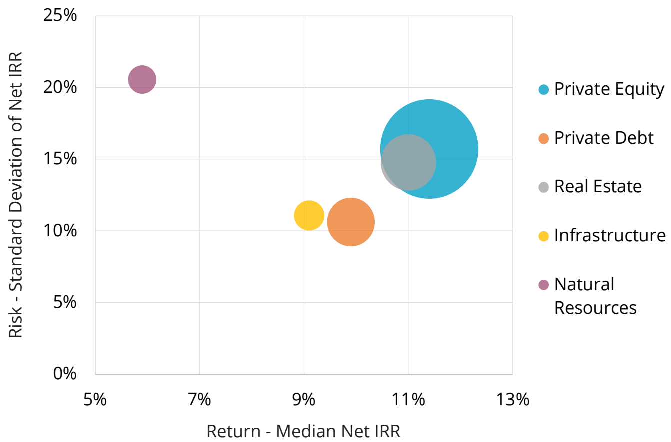
- While private equity can generally produce higher returns, private debt and real estate are also able to offer strong returns along with less risk.
- Public pension funds in the US and the UK have seen their private equity investments outperform all other asset classes over a 10-year period.
- Over half of investors surveyed globally have a positive perception of private equity, private debt and infrastructure.
- On average, investors outside Israel allocate the largest percentage of their assets under management to real estate (8.7%) and private equity (8.2%).

Fig. 9: Private Capital - Median Net IRRs by Strategy and Vintage Year (As at September 2017)



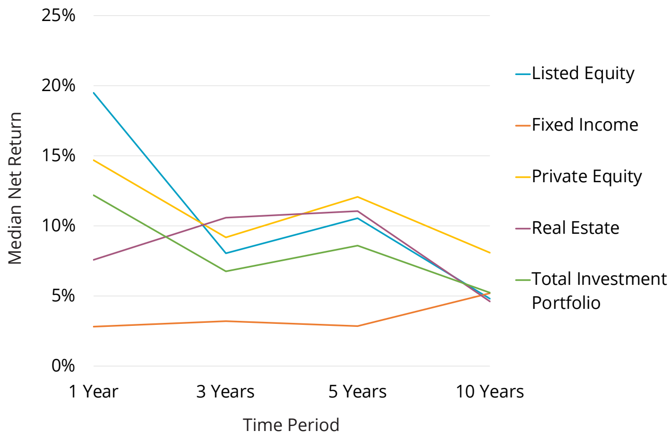
Source: Preqin

Fig. 10: Private Capital - Risk/Return by Strategy (Vintage 2005-2015 Funds)



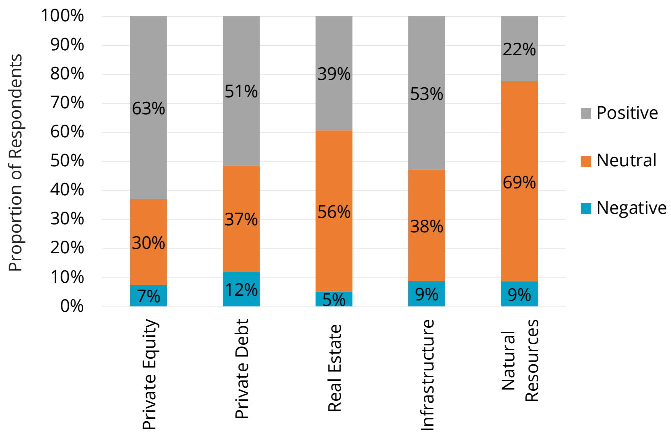
Source: Preqin

Fig. 11: Median Public Pension Fund Net Returns by Asset Class (As at September 2017)



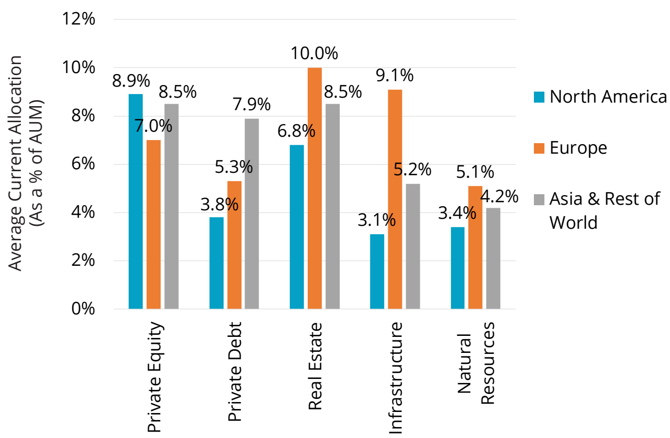
Source: Preqin

Fig. 12: Global Institutional Investors' General Perception of Alternative Asset Classes



Source: Preqin Investor Interviews, December 2017

Fig. 13: Average Current Allocation to Alternative Asset Classes by Investor Location (As a % of AUM)



Source: Preqin

GLOBAL PERSPECTIVE: SPOTLIGHT ON FEES

With fees a particular concern for Israel-based investors, we look at global averages and investor sentiment:

1.60%

Average management fee during the investment period across all private capital fund types, with a high of 2.13% for turnaround funds and a low of 0.97% for funds of funds.

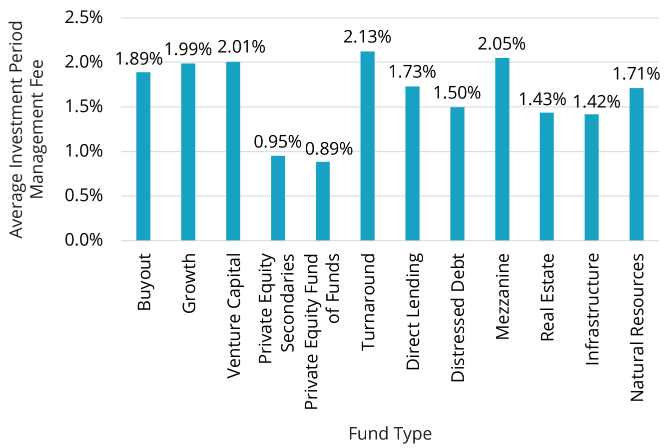
8.6%

Average hurdle rate for secondaries funds, the highest average across private capital strategies.

74%

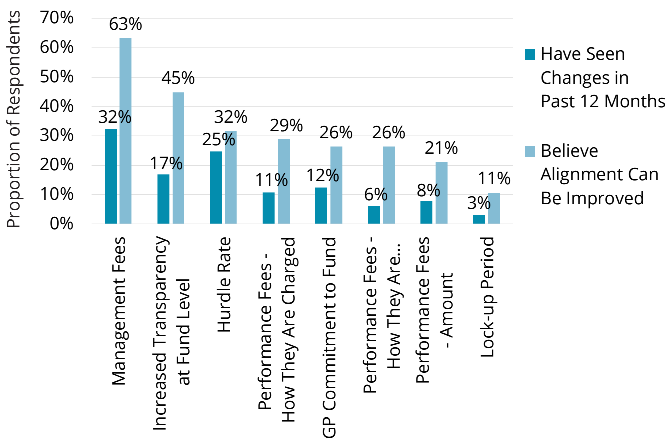
of investors surveyed globally believe that GP and LP interests are properly aligned.

Fig. 14: Average Management Fee during Investment Period by Fund Type (Funds Raising & Vintage 2016/2017 Funds Closed)



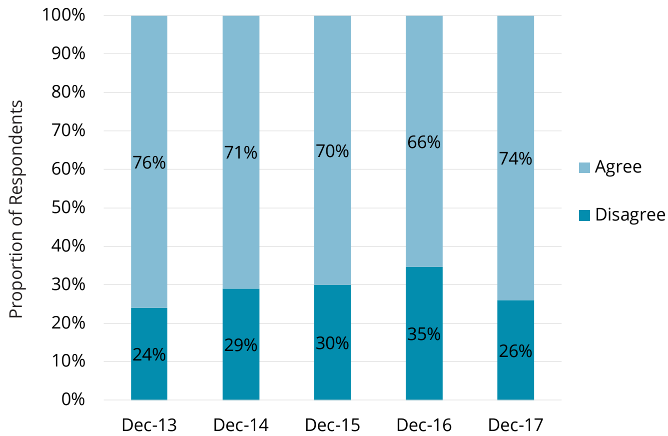
Source: Preqin

Fig. 15: Areas in Which Investors Have Seen a Change in Prevailing Fund Terms and Conditions over the Past 12 Months and Where They Believe Alignment Can Be Improved



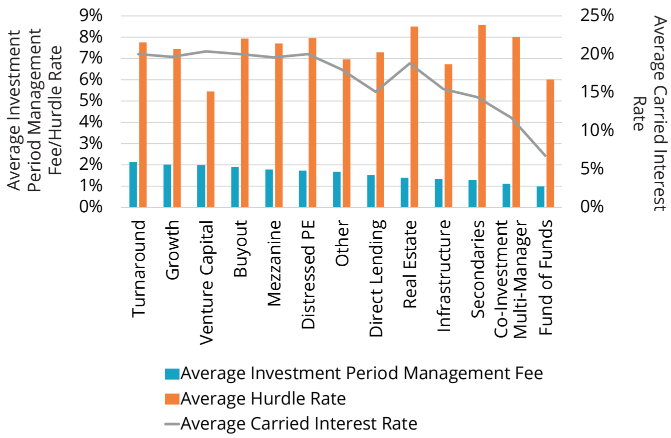
Source: Preqin Investor Interviews, December 2017

Fig. 16: Extent to Which Investors Believe that Fund Manager and Investor Interests Are Properly Aligned, 2013 - 2017



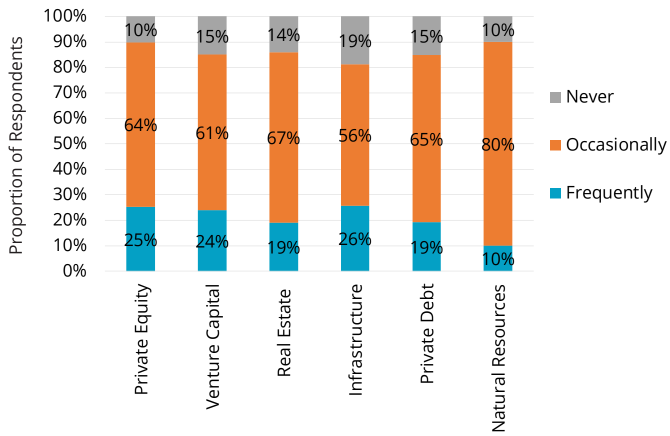
Source: Preqin Investor Interviews, December 2013 - 2017

Fig. 17: Private Capital Fund Terms by Fund Type (Vintage 2015-2018 Funds, Excluding Separate Accounts)



Source: Preqin

Fig. 18: Frequency with Which Institutional Investors Have Decided Not to Invest in a Fund Due to the Proposed Terms and Conditions



Source: Preqin Investor Interviews, December 2017

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More than 60,000 alternative assets professionals rely on our global data, tools, insights and intelligence to achieve their objectives:

- **Investors:** asset allocation, manager selection and portfolio management
- **Fund managers:** fundraising, portfolio monitoring and investor relations
- **Service providers and advisors:** business development and in-depth market knowledge
- **The wider alternative assets industry:** insight, understanding and information

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