

# The International Family Offices Journal

**Editor: Barbara R Hauser**

## **Editorial**

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## **Israeli family offices**

Alon Kaplan, *TEP, Advocate and Notary*;  
Ori Ephraim, *O Ephraim Multi Family Office Services*; Lyat Eyal, *Aronson, Ronkin-Noor, Eyal Law Firm*

## **The life cycle of a family office**

Leslie Voth, *Pitcairn*

## **Family office succession planning**

Susan R Schoenfeld  
*Wealth Legacy Advisors LLC*

## **Family office: the Eastern approach**

Roger King, *The Hong Kong University of Science and Technology*; Winnie Peng, *The Hong Kong University of Science and Technology*; Christian Stewart, *Family Legacy Asia (HK) Limited*

## **If your health is your wealth, how exactly are you protecting it?**

Feisal Alibhai, *Qineticare*

## **Should a family office have a crisis management plan?**

John Deverell CBE, *Deverell Associates*

## **The dark side of the screen**

Ian Marsh, *familydr Limited*

## **How millennials are at the forefront of reshaping philanthropy**

Meredith Milstein, *MBA candidate, Columbia Business School*

## **Hong Kong Foundations Exchange**

Kathryn Dioth, *Hinrich Foundation*;  
David Foster, *Croucher Foundation*  
Rick Tang, *Fu Tak Iam Foundation*

## **Ottomin Group: history and background**

Richard Kovacs, *Ottomin Group*

## **Meet the board**

Alison Springett, *Farrer & Co*

## **Luxury Corner**

The Reference 57260 watch by  
Vacheron Constantin

## **Book review**

Catalyzing Wealth for Change:  
Guide to Impact Investing

## **News section**

Selection from STEP  
News Digests





# Israeli family offices

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Israel is a democracy founded in 1948 with a population of approximately 600,000 Jews, many of whom were immigrants at the time of the founding of the state. During its 68 years of existence, the state has experienced three massive waves of immigration, mainly in the 1950s, 1970s and 1990s. Each such wave of immigration significantly increased the population. In 2016, the population was approximately 8.6 million; 6.4 million of which are Jewish.

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## 1. Introduction<sup>1</sup>

Historically, the two powers that ruled over the land during the pre-state period prior to 1948 were the Turks and the British; each left their mark on its legal system, based today on Anglo-American traditions. Since the founding of the State of Israel, the Knesset (the Israeli Parliament), has enacted independent legislation thereby creating the modern state's legal system as a common law jurisdiction. Seventeen members of the bench comprise the Supreme Court, the highest judicial body, responsible for, inter alia, interpreting legislation.

While Israel is generally a secular state, in areas such as marriage and divorce, secular and religious courts overlap. Religious courts and judges, such as Jewish rabbinical courts, Muslim Shar'ia courts and Druze tribal councils have jurisdiction over various matters such as marriage and divorce. In civil matters, these religious institutions generally have the legal status of voluntary arbitrators.

Legislation referenced in this article includes the Trust Law 1979, the Law of Agency 1965, the Succession Law 1965, the Tax Ordinance [New Version], Banking Law 1981, Companies Law 1999, the taxation of trusts legislation 2005 and the Law Regulating Investment Advisers, Investment Marketing and Portfolio Management 1995. There have been significant revisions to these laws over the years. A number of relevant governmental agencies include the Tax Authority, the Anti-Money Laundering Authority, the Israel Securities Authority, the Inheritance Registrar and the family courts.

### *The economic environment*

Israel is a modern state with a well-developed economy, an advanced industrial sector and high level high-tech and bio-tech industries. The GDP per capita has increased from US\$27,000 in 2008 to US\$35,000

in 2015. The Israeli banking system is stable and was unaffected by the 2008 financial crisis. Israel recorded a government debt to GDP of 62.1% in 2016 (compared with 229% in Japan, 104% in the United States and 89% in the United Kingdom).

In 2015, expenditure on education was approximately 8% of GDP, on civilian research and development (R&D) approximately 4.3% of GDP (the highest within OECD countries), and on defence approximately 5.6% of GDP. Compulsory conscription is in force and the majority of 18-year-old individuals are conscripted some of which, in certain positions, are exposed to technological systems and given responsibilities that are otherwise reserved for more experienced professionals in the professional arena. The outcome is that, in certain areas, young individuals gain formal training and experience and complete their military service with an advantage for the workforce.

The defence expenditure is comprised mainly of military R&D and a portion of the military's investment in R&D constitutes the foundation for civilian R&D. This investment is both direct through military industries, and indirect in the form of the technological experience, training and knowledge gained by the young individuals who complete their service later transferring these to the civilian industries, mainly in the high-tech fields.

These factors result in over 100 Israeli companies listed in US markets (NASDAQ/NYSE/AMEX), mostly operating in the fields of IT systems, algorithmic trading, firewall systems, cyber and cyber security systems, optical systems, space and medicine. Israel holds the second place, after Canada, in the number of companies publicly traded on NASDAQ. In addition, the Israeli biomedical industry has expanded tremendously, more so than the chemical and drug industries, which receive governmental support.

its infancy. Potential client awareness is low in comparison with the more mature western markets but the awareness grew over the past few years. In our opinion, a significant number of high net worth individuals operate and manage their assets alone while using portfolio management services for some of their capital.

There is potential in the family office marketplace, and the number of service providers and users is expected to grow significantly. It is reasonable to expect that within a few years, as the growth continues, the scope of the market will be similar to that seen in North America and Europe. There are those who claim it could be even larger due to the typical approach of Israeli clients, who tend to invest

a major portion of their capital in foreign markets, requiring higher levels of professionalism.

Nonetheless, since this is a relatively young industry, professional levels and standards are still being created. These require an understanding of international markets, a familiarity with the various types of investments and a personal relationship based on honesty, confidentiality and discretion. We estimate that, given Israel's wide-ranging exposure to global markets, close relationships between the banks, the various product suppliers and family offices, awareness in this area both on the part of clients and of service providers will rise to those accepted as standard internationally.

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- 1 This article does not aim to provide legal advice and may not be relied upon without independent professional advice.
- 2 Bloomberg Rankings, "50 Most Innovative Countries, Innovation Index Revealed", January 19 2016, [www.bloomberg.com/news/articles/2016-01-19/these-are-the-world-s-most-innovative-economies](http://www.bloomberg.com/news/articles/2016-01-19/these-are-the-world-s-most-innovative-economies).
- 3 Knight Frank, "The Wealth Report", [www.knightfrank.com/wealthreport](http://www.knightfrank.com/wealthreport), pp35-41; Eitan Avriel, "Standing for the Purpose of Rising", *The Marker Magazine*, June 6 2016, [www.themarket.com/magazine/1.2967575](http://www.themarket.com/magazine/1.2967575); "World Ultra Wealth Report 2014", Sponsored by UBS.
- 4 Subject to exceptions defined in the law.
- 5 Parts of this chapter are written in coordination with Professor Oren Kaplan, clinical psychologist and economist, Dean of

- Business School, College of Management Academic Studies, published in February 2017.
- 6 Definition of "Eligible Customer" amended in March 2016.
- 7 This provision does not apply to capital gains from the sale of a share in a real estate investment fund, and short-term (under 13 months) State of Israel bonds or treasury bonds.
- 8 This exemption does not apply to the capital gain if most of the assets held were real estate rights or real estate association rights.
- 9 Dr Alon Kaplan, *Trusts and Estate Planning in Israel* (Juris Publishing, February 2017).
- 10 Yoel Zussman, Introduction to 1st edition, in *Arbitration Law and Procedure* (1973); Smadar Ottolenghi, *Arbitration Law and Procedure* (3rd edn, 1991).