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Want to Act as an External Portfolio Manager for Israeli Mutual Funds? This Is What You Need to Know

Uncategorized

On 17 September 2026, the Israel Securities Authority ("ISA") published the final text of its **Directive to Fund Managers and Trustees on the Outsourcing of Investment Management in Mutual Funds**, issued under Section 97(b) of the Joint Investment Trust Law, 5754-1994.

For the first time, there is a single, published rulebook for the model under which an Israeli mutual fund is managed day-to-day by an external, licensed portfolio manager – known locally as **"hosting"** – and for the use of external investment advisers to a fund. The directive takes effect 90 days after notice of its adoption is published in the Official Gazette (Reshumot); existing arrangements have one year from publication to conform.

Why this matters to you. Hosting is the established route by which an asset manager can run a publicly offered Israeli fund without first obtaining a fund-manager license of its own. According to the regulatory impact assessment (RIA) published with the Directive, some 266 funds – roughly 23% of all active Israeli mutual funds, with about NIS 50 billion in assets (around 12% of the industry) – are currently managed this way, through four hosting fund managers. The RIA is candid that the ISA tightened the regime because parts of the market had drifted from its original purpose; the final framework introduces clearer entry conditions and graduated requirements that increase with the scale of the hosted activity.

For a manager with a distinctive strategy that wants distribution to Israeli retail and advisory channels, the new rules make the terms of entry knowable in advance.

Who can be a hosted portfolio manager: the entry conditions

A fund manager may outsource investment management to either (i) a **portfolio management company licensed under the Israeli Investment Advice Law** or (ii) a non-Israeli resident, subject to the conditions set out in the Joint Investment Trust Law. A **non-Israeli** resident may participate in investment decisions concerning **foreign securities** only, excluding foreign securities issued by companies registered in Israel, and must be authorized under the laws of their country of residence to manage investments for others. For such a manager the Israeli licensing requirement (Section 2(b) of the Investment Advice Law) does not apply.

Three ways in: the models used in practice

In practice, several models are used to bring an external manager into an Israeli mutual fund. Which model fits depends on where the securities are traded and where the manager is based.

- **Hosting of a local portfolio.** The fund manager engages an external portfolio manager to manage the fund's investment portfolio. Where the portfolio consists of Israeli securities, or the portfolio manager is Israeli, the portfolio manager must hold an Israeli portfolio-manager license.
- **Hosting of a global portfolio.** Where the mandate is for a global-securities portfolio – securities not traded on the Tel Aviv Stock Exchange – the portfolio manager does not need an Israeli license, but must hold a license or authorization in the jurisdiction in which it operates. This is the route most relevant to international managers, and the tiered requirements described below apply to it in the same way as they do to a portfolio manager operating under the Hosting framework.
- **Advice to the fund.** The external party provides investment recommendations only; the discretion whether to act on them rests entirely with the fund manager. The Directive permits the engagement of an external adviser whether or not the adviser holds an Israeli Investment Advice Law license; The Directive still requires the fund manager to conduct due diligence on the adviser, map conflicts, approve the engagement at the board level, and document how each recommendation was used; absent such documentation, investment actions are presumed to have followed the advice.

For an international manager, these models also describe a natural progression: begin as an adviser to an existing Israeli fund, move to a hosting mandate once the the statutory conditions are satisfied, and – as assets grow through the tiers – consider establishing funds of one's own under a fund-manager license.

The new requirements at a glance

Topic	What the Directive requires	What it means for a prospective host
Host's own client base	At least one year of portfolio management for non-fund, non-institutional clients before the engagement, maintained throughout.	<i>The external portfolio manager must be a genuine third-party portfolio management business - in Israel or abroad - rather than a vehicle set up solely to manage mutual funds.</i>
Licensing of the host	Israeli securities or an Israeli manager: an Israeli portfolio-manager license. Global securities managed by a non-resident: authorization in the manager's home jurisdiction suffices; Section 2(b) of the Investment Advice Law does not apply. An adviser to the fund may be engaged <u>whether or not</u> it holds an Israeli Investment Advice Law license, subject to any other applicable licensing requirements.	<i>A global-securities mandate can be run from abroad under home-country authorization; adding Israeli securities triggers the Israeli license requirement.</i>
Ongoing supervision	Supervision "identical to and no less than" that of directly managed funds: annual fitness and reliability review; real-time trade monitoring; investment-limit checks; exception handling; continuity planning; risk monitoring; records kept for seven years; annual board review; ISA reporting.	<i>Operational transparency toward the host fund manager - including data feeds, pre-trade controls, and timely reporting - is a condition of doing business.</i>
External advisers	Where a manager only advises a fund (with no decision-making or execution authority): due diligence, conflicts mapping, board approval, a written agreement, and full documentation are required. Absent documentation, investment actions are presumed to have followed the advice.	<i>An advisory mandate may offer a lower-commitment entry point into the market - but it must remain advisory in substance.</i>

The opportunity for global managers

For a global portfolio manager or fund manager, the combination of the Funds Law and the new Directive opens a clearer path into the Israeli retail fund market than has existed to date. A manager running a global-securities strategy may, where the applicable statutory conditions are satisfied, participate in the management of an Israeli mutual fund on the basis of its home-country authorization, without an Israeli portfolio-management license; the Israeli fund manager provides the license, trustee, distribution, and local infrastructure, while the international manager provides the strategy.

We suggest approaching the market in stages. **Start as an adviser** to an existing Israeli fund: the adviser may be engaged whether or not it holds an Israeli Investment Advice Law license, subject to any other

applicable licensing requirements; the fund manager retains full discretion, and the arrangement can allow both sides to test the strategy and working relationship under the Directive's documentation rules. **Move to a hosting mandate** for a global-securities portfolio, where the applicable statutory conditions are satisfied and the manager is authorized in the jurisdiction in which it operates. Then, as assets grow through the tiers and approach the applicable limits, consider whether to continue within the Hosting framework, restructure the business, or establish funds of your own, while meeting the equity, insurance, and governance requirements that apply to a fund manager.

The Directive (Hebrew): [click here](#) | The RIA report (Hebrew): [click here](#)

Our Investment Regulation, Trading, and Financial Instruments practice advises international asset managers on accessing the Israeli market - including advisory and hosting arrangements with Israeli fund managers, the licensing issues each model raises, the negotiation of host agreements, and the path to obtaining a fund manager license. We would be glad to discuss which route best fits your plans for the Israeli market.

This client update is designed to provide general information only, is not a full or complete analysis of the matters presented, and may not be relied upon as legal advice.

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