

ISRAEL HIGH-TECH & INVESTMENT REPORT

A MONTHLY REPORT COVERING NEWS AND INVESTMENT OPPORTUNITIES

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From the Editor's Desk

Economic Incentives Accelerate Israeli-Palestinian Conciliation

The ceremony at the White House on September 13 highlighted a firm commitment by Yitzhak Rabin that, although the PLO terrorist organization represents the Palestinians, Israel is still willing to withdraw its troops and participate in a program to help rehabilitate the long-suffering residents of the West Bank and Gaza. The PLO, for its part, claims to have recognized Israel's right to live in peace and security.

"Israel's readiness to participate in a program of economic aid reflects a fundamental recognition that it is essential to improve the economic structure and infrastructure of Gaza and the West Bank. There is a genuine commitment to the process of economic uplifting. In order to secure the political process and the improvement of relations, one needs to see the economic situation in the territories improve significantly," stated Governor of the Bank of Israel Yaacov Frenkel.

It should be understood that although Israelis have exploited cheap Palestinian labor, most of the hardships suffered by those in the Palestinian "refugee camps" was inflicted on them by their Moslem brethren in neighboring countries, who repeatedly thwarted Israeli and UN attempts to improve the "refugees" standard of living in order to keep their hatred of the Jews at a fever pitch.

All this time, many of the Arab residents of Gaza and the territories have dreamed of the day when the Jewish nation would be destroyed and every Jew slaughtered. Now "peace" has broken out, amid promises that they will be given some control over part of the country which they have been led to believe is totally theirs. *Would such autonomy without a dramatic advance in the standard of living fail? Yes. Without immediate, visible progress, there is every likelihood that the Palestinians will again resort to violence, first between themselves and then against their Israeli neighbors.*

In such a situation, Israel will be blamed for the shortcomings while Yasser Arafat, with his armed "police force," will remain king.

If it were not for the money paid by Israeli employers, life in Gaza and the territories since 1967 would have been grim indeed. Even with those funds, however, (and it must be said here that, had the average Palestinian laborer been receiving even the Israeli minimum wage all this time, true peace might well have blossomed all on its own) the Palestinians' current annual Gross National Product is about \$600 per individual -- 5% of the Israeli figure.

So to make autonomy work before either side gets second thoughts, massive funding will be required. The United States, still maintaining the appearance of big-power leadership, convened a team of experts from Harvard and MIT, together with top Palestinian planners and Jordanian economists, and identified possible cross-border investments, regional projects and free trade zones. The US then pledged \$500 million and, unable to fund the project alone, initiated Operation Tin Cup. The American contribution is to be matched by the European Community. Japan and the Gulf States have yet to be heard from, while Israel -- which still carries the burden of integrating 300,000 Russian immigrants -- has pledged \$75 million. The Scandinavian countries, including

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Norway (whose senior statesmen ironed out the final details of the arrangement) pledged \$160 million.

The pledges of 40 countries, including Saudi Arabia, came to a total of \$2 billion in aid and grants over the next five years. If agreement cannot be reached to have the program implemented by the World Bank, a new body will need to be established.

How do the Palestinians react to these plans? The West Bankers and Gazans are beginning to recognize an obvious truth -- peace pays better than war. Israeli and foreign money + Palestinian labor can lead to cooperative projects. The Joint Declaration of Principals alluded to some of the most important areas, including water, roads, electric and communication grids.

Will Israel accept open borders between itself and the autonomous territories? Yes. Aharon Fogel, Director General of Israel's Ministry of Finance, confirmed that open borders are basic to Israel's policy. Israeli economic thinking requires adjustment to the fact that Palestinians produce first-rate agricultural produce at a fraction of the cost of the Israeli competition. The whole future of the peace process, if enmities are to evaporate, will require fair wages, fair prices, open borders and free trade. Moreover, the open-border policy needs gradual implementation. Even if the peace process includes totally open borders, Israel with its high-tech, export-oriented economy hardly stands to benefit from its neighbors. The prospect for the inhabitants is that at least 100,000 Palestinians can find employment in Israeli factories at Israel's minimum wage. In due course their wages will rise, and by then the benefits of the "big projects" should have become visible, proving that both sides can make more through peace than either side could hope to gain by war.

The Israeli economy has already experienced two years of sharp, sustainable growth in its GNP, and additional growth of 5-7% per annum can be expected over the next two years. European countries in the same period have experienced zero growth. Even if the new "peace" means merely that the level of defense spending can be frozen, we should see a \$10 billion dollar saving over the next few years -- money that will be available for economically beneficial projects.

Israel for years has had a very poor Country Risk Rating. International investors consider the CRR an important factor in deciding where to operate, open new plants and carry out trade. Over the past two years Israel's CRR has been much improved ... a small harbinger of things to come.

Wars, violence and instability are the enemies of investors. With some of these negatives out of the way, massive investment will come, accelerating already bustling and expanding economy.

Look for a glow as dawn comes to the Middle East.

◆ ◆ ◆ EXCLUSIVE ◆ ◆ ◆

Russian Ministry of Health Extends Approval to Israeli Biotechnology Firm to Supply Products to its Health System

In one part of Moscow, Boris Yeltsin was energetically foiling attempts to overthrow him. At the same time in the Ministry of Health, officials were notifying Organics Ltd. -- a small, rapidly expanding Israeli biotechnology company -- of its decision to approve the marketing of Organics products through Russia's public health system, including all of its hospitals and clinics. With most of the company's sales in western Europe, Russia is expected to provide an important new market. Organics thus became the second non-Russian company to be granted such a certification. "The other company is a small Swiss concern named Hoffman LaRoche," smiles Prof. Max Hertzberg, 53, one of two founders of the 11-year-old biotechnology firm in Yavneh, 13 miles south of Tel Aviv.

When founded in 1982, its first laboratories were housed in Quonset huts a stone's throw from the Mediterranean. Hertzberg, a professor at Tel Aviv University, started the company in response to a businessman's challenge to join the "real world" of high-tech business. Several years later the small diagnostic concern drew attention to itself when it successfully marketed ImmunoComb -- an innovative and highly accurate diagnostic kit for a wide range of infectious diseases, including HIV-1 & HIV-2 and hepatitis. Venture capitalists in 1987 poured \$1.5 million into Organics to speed its progress. In 1990, second-round financing of \$5 million was provided. "It was difficult, but a good group of companies led by Advent Intentional, TVM and Alpha Ventures provided the capital. At that time we were already producing and selling products. It is always easiest to raise money when you don't have a product but a dream. I would say it's a cops and robbers game between the entrepreneurs and the venture capitalists. I won't say who is the cops and who are the robbers because it is a changing role. Sometimes venture capital turns out to be 'vulture' capital. At other times it is the entrepreneur who disappoints," philosophizes Hertzberg.

In 1993 Organics, responding to a need for expanded production and marketing facilities, had little difficulty in raising additional capital. By 1992, Organics recorded international sales of \$5.0 million, with satisfying profitability. In the current year these should advance to about \$7.0 million, and profits could reach a record \$1.0 million.

But the Russian breakthrough came only after a year of intensive effort. During that period a joint-venture office was set up in St. Petersburg and a stream of

samples were provided for the exhaustive testing program required by the Russian Ministry of Health. What is in the company's research pipeline? The Organics team is aiming to produce an "indispensable test."

"PASCA is the acronym for Paper Affinity Chromophotography Hybridization Area. We have developed a technology for rapid and accurate genetic testing. In the space of 20 to 60 minutes, the test determines the existence or absence of cystic fibrosis and AIDS genes, among other things," explains Hertzberg.

Will Organics follow the path of other excitingly successful Israeli companies and sell shares to the public?

"When we feel we can get a proper multiple we will take this step," says Hertzberg.

Hope for multi-handicapped blind people

The Jerusalem College of Technology has embarked on a joint endeavor with Keren Or, a Jerusalem Institution for multi-handicapped blind children and young adults, to develop equipment and systems to help educate and rehabilitate such individuals. The two institutions have formed the Center of Technology for the Handicapped, located on the JCT campus. Keren Or is located nearby Ramot and the Science Based Industries Park on Har Hahotzvim in Jerusalem.

An American group headed by industrialist Dr. Ed Steinberg provided the initiative and the funds. The staff is composed of native Israelis but also includes a recent Russian immigrant, who told us of continuing this work from her native Russia. "There are no comparable institutions in Russia," the immigrant pointed. "The mentally defective and disabled do not obtain remedial assistance or care in Russia. They are viewed as beyond help and were institutionalized in conditions I would rather not discuss," she said.

The center, under the leadership of JCT Rector Prof. Joseph Bodenheimer, will initially seek to construct communication devices to help children who are blind, motor impaired, and non-speaking. Prof. Natan Avivi and Dr. Yehuda Sonnenblich of the Electronics Department, and Prof. Uziel Sandler of the Applied mathematics Department are supervising student research projects that explore ways of assisting multi-handicapped blind persons. These include:

Improving the ability to perform basic functions through the use of new tools that substitute for or strengthen defective abilities.

Facilitating talking through the use of new technological devices for augmentative communication;

Enhancing speech coherence by using

microprocessor-based systems; Helping handicapped persons master their environment through a network of detectors, transmitters and receivers.

State-of-the-art technology helps identify chick gender
Kibbutz Yavneh on Israel's coastal plain raises 20 million chickens a year -- 20% of Israel's total. To differentiate more easily between males and females, a new breed was developed with easily distinguishable characteristics on the wing feathers. JCT's Electronics Department is now working on making the job even easier! A new project under the supervision of Prof. Natan Avivi helps identify a chick's sex when they are only three hours old. State-of-the-art technology makes it possible to produce digitized video images of the chicks. Algorithms are then applied which differentiate between males and females.

After seven months, the project has achieved an accuracy rate of 85%. The project's goal is to cut the cost of sorting in half.

◆ R&D opens the door to world markets ◆

Study Links World Class Position to High Level of R&D Spending

If Israeli companies produced only for the small Israeli market, they would probably not do any research and development at all. But to earn a piece of the international pie, superior R&D is essential. To stand a chance against tough competitors in the US, Japan, Germany and western Europe, Israeli companies need to offer innovative products at an affordable price. The goal is to secure a high-tech business niche.

Successfully exporting Israeli high-tech industries allocate a high percentage of their annual sales to research and development. We asked some of the country's leading innovators to supply us with data on annual sales and R&D. The figures are expressed as Gross or Net R&D spending. The Gross figure includes grants and funding from the office of the Chief Scientist of the Ministry of Trade and Industry, or from the BIRD Foundation. The Net figure refers to the company's own cash outlay.

For the purposes of our survey, we looked only at those Israeli companies whose products have earned them the status of world leaders.

We focused on four firms: ECI Telecom, in telecommunications; Scitex Corporation, in the graphic arts industry; Tadiran, in electronics; and Teva Pharmaceuticals, making its mark in the generic drug field.

Each of these companies will have annual sales of more than \$300 million in 1993. Each has reported rising profitability, with annual profits of at least \$30

million.

ECI Telecom, for example, in the five-year period ending in 1992, had sales of nearly \$450 million. Net research and development costs for that period were more than \$43 million, or nearly 10% of total sales. Similarly, Scitex in 1992 increased its gross research and development expense by 32% to \$45.5 million -- 8.3% of revenues. In 1990 and 1991, its gross R&D expenses were 8.0% of annual sales. Tadiran, in the five years ending in 1991, allocated a net of more than \$175 million to R&D. In that period, sales rose from \$545 million to \$726 million, and are poised to reach \$1 billion by 1994. Teva Pharmaceuticals reports that its research and development expenses averaged 12% between 1990 and 1992. Strong growth over recent years will allow Teva to reach \$500 million in sales for 1993. The accomplishments of these Israeli leaders prove that human resources are as valuable to this country's growth and development as are mineral resources to the health of other countries.

What do Israeli companies do if they are not in a position to spend such sums or percentage of sales on R&D?

One option is to turn to schools and institutes of higher learning. While universities are traditionally powerful exponents of basic research, the tendency in recent years has been to accept applied research projects and thereby encourage academic staff to interact with industry.

Alternatively, patents are sold or licensed by the universities.

As well, applied research has become an increasingly meaningful activity in the country's hospitals. It is one of the least-publicized areas of cooperation with industry, and often involves highly sophisticated products.

"One criterion in appointing a doctor to a permanent position on the staff is his interest and record in research," states Dr. Hylton Miller, Director of the Catheterization Department in the Cardiology Section of Tel Aviv's Ichilov-Sourasky Medical Center. In recent years, the amount of validation tests and clinical studies performed at the hospital have increased dramatically. This is in response to the growing demand for the testing of pharmaceuticals, instrumentation prototypes and techniques.

"We are currently involved in a number of projects. One of these is ultrasound thrombolysis, which is fairly unique. The clinicals will be coming out of here in a month or two.

"We are also researching other aspects of angiography, and doing dog studies at Tel Hashomer Hospital. We have passed on other studies to Bar Ilan University, which employs scanning electron microscopy. At Meir Hospital we have asked Uri's father [staff member cardiologist Uri Rosenschein] to

carry out clotting studies.

"When we undertake a major study, we look for partners in Israel and other countries," explains Dr. Miller.

Universities Join the Action

"One half of all of the applied research in this country is done at the seven major universities, which also carry out nearly 100% of the basic research," says Professor Yoram Dinstein, President of Tel Aviv University.

Currently, TAU and Weizmann Institute researchers are serving as one of the stations in the Geneva-based, multi-billion-dollar CERN project. According to President Dinstein, the university would not be experiencing a "brain drain" except that academic salaries are the same for all staff members. The only differentiation is seniority.

"Salaries do prove to be a problem when overseas universities, hospitals or industries tempt Israelis with high salaries and perks," he says.

Department heads at his hospital receive NIS 8,000 (approximately \$ 2,800) monthly, says Sourasky's Dr. Miller.

American counterparts receive the same amount, but in US dollars.

Yet there is a long list of candidates in the United States waiting for top positions at Israeli institutions. It is therefore not surprising that Israeli researchers publish more papers per individual than in any other country. A joke being told locally is about a group of prominent academicians at a cemetery. One of these points to the gravestone of a once well-known researcher. "It's not true," he cries. "See? He published *and* perished!"

Drugs and vaccines

Cytokines: Natural miracle drugs for the 21st century
Weizmann Institute researchers have pioneered the study of cytokines, special proteins that beef up the body's immune system. Their efforts have concentrated on three species of interferon, on interleukin-6, and on tumor necrosis factor.

Interferons

Interferon, the body's own agent in the fight against viral infection, is an extremely useful agent for the treatment of herpes and papillomavirus infections, particularly in the genital region, as well as hepatitis, the Aids-related cancer called Kaposi's Sarcoma, and leukemia.

A team of institute scientists headed by Prof. Michel Revel designed two tissue-culture methods for producing Interferon-a and natural Interferon; one is based on human fibroblast (skin tissue cells), and the other uses genetically engineered hamster cells. This "designed mammalian cell technology" was licensed

to InterPharm Laboratories, located in the science industries park in Kiryat Weitzmann, a subsidiary of the Ares-Serono Group, which is a Swiss pharmaceutical company.

Fibroblast Inteferon-a is now available by prescription in Italy and Spain, and is registered in Israel and other countries. Genetically engineered recombinant Inteferon-a is now undergoing clinical trials in Europe and the United States. In drop form, it has been used successfully to halt viral infections of the eye, and administered by intramuscular injection it shrinks genital papilloma warts.

Other clinical applications of the drug are under investigation in more than ten countries. In 1992, approval was granted in Italy and Spain for the use of fibroblast Inteferon-a in the treatment of hepatitis B, and another viral infection of the liver.

Aside from Inteferon-a, institute investigators have also developed methods for the commercial production of Inteferon. These involve genetically engineered bacteria and DNA-altered hamster cells.

Interleukin-6

Used for strengthening blood platelets, fighting cancer, and being investigated as a potential vaccine, the regulatory molecule Interleukin-6 was first discovered at the Weitzmann Institute in 1979, and was cloned in 1984. Groups involved in its development in the Department of Molecular Genetics and Virology are headed by Prof. Michel Revel and Prof. Menachem Rubinstein.

In animals, it was found to stimulate production of blood platelets, increase antibody production in response to vaccination, and prevent the development of certain highly metastatic tumors.

The factor is being produced locally by InterPharm, while clinical trials are being undertaken worldwide by the Ares-Serono Group.

IL-6 has therapeutic potential, particularly because it can help to overcome thrombocytopenia, the loss of blood platelets experienced by 20% of cancer patients treated with radiation or chemotherapy, and by individuals suffering from various blood disorders.

The factor can also speed the acceptance of bone marrow transplants -- the last-ditch cure for many leukemia sufferers -- as it stimulates the development of platelets and white blood cells. Because IL-6 reduces the proliferation of certain types of tumor cells and boosts the immune system, the factor could also be used to enhance the effect of vaccinations.

Although IL-6 was first genetically cloned by Revel's group, it was later realized that other groups had been working on the same factor. At the institute, for example, Prof. Leo Sachs and his co-workers had since the early 1970's been studying an active protein extract of mouse cells which they called MGI-2 (macrophage-granulocyte inducing factor-2).

Sachs showed that this protein induces maturation of myeloid blood cells, including macrophages, granulocytes, and the precursors of platelets. He also demonstrated that in mice, MGI-2 stimulates the maturation of myelogenic leukemia cells, blocking their wild proliferation and metamorphosing them into nonmalignant entities, thereby inhibiting the development of myeloid leukemia.

When Sach's MGI-2 was finally purified and sequenced in collaboration with Dr. Joseph Lotem and Prof. Menachem Rubinstein in 1988, it turned out to be the protein known from other sources as murine IL-6a, with functions analogous to those of human IL-6.

In animal experiments, human recombinant IL-6 has been shown to have a beneficial effect on platelet levels in animals suffering from bone marrow damage, and retards tumor growth.

Research at the Weitzmann Institute carried out by Revel with Prof. Nechama Haran-Ghera and co-workers at the Department of Chemical Immunology has shown that InterPharm's IL-6 prevents the appearance of myelogenic leukemia in mice. Moreover, experiments with Prof. Michael Feldman, Dr. Lea Eisenbach, and collaborators at the Institute's Department of Cell Biology have shown that IL-6 reduces the formation of metastases in mice bearing several types of highly metastatic tumors. Rights relating to IL-6 and its production have been licensed to InterPharm.

Tumor Necrosis Factor-binding Proteins (TRPs)

Two other proteins discovered by institute investigators are expected to provide a new drug to combat the vascular failure that occurs in septic shock or in cerebral malaria -- the most dangerous form of this parasitic disease. These proteins bind to and neutralize the biological activity of tumor necrosis factor, a cytokine that has been implicated in vascular failure, cachexia (the bodily wasting associated with cancer and other severe diseases), and tissue damage accompanying autoimmune disorders, graft rejection, and graft-vs-host disease. The TRPs were discovered by Prof. David Wallach and co-workers in the Department of Membrane Research and Bio-physics -- longtime tumor necrosis factor investigators who, in collaboration with the group of Prof. Menachem Rubinstein, purified the TBP's from human urine and determined their amino acid sequences. This has made it possible to clone their corresponding genes and design genetically engineered bacteria to produce the proteins.

Preclinical studies of the natural (urine-derived) and recombinant TBP -- produced respectively by the two Ares-Serono subsidiaries, IRCS in Italy and by InterPharm -- are already well advanced in Israel, Europe, and the United States. In microgram

amounts, the protein was found to protect against septic shock in mice. Clinical trials in man are expected to begin soon.

Wallach has also explained how TBP's act. He found that they are identical to a segment of a receptor protein to which tumor necrosis factor binds -- an interaction that brings about cell destruction. The tumor necrosis factor in blood is neutralized by the TBP's, preventing it from activating the natural cell receptor.

Commercial rights to these materials have been licensed to InterPharm Laboratories.

Provided by the Weizmann Institute of Science

An AI program that Analyzes Everything

Artificial intelligence (AI) systems that can analyze and support decision-making processes in areas ranging from eye ailments and contagious diseases to Red Sea fish and air force missions have been created by Israeli high school students taking part in an experimental curriculum designed at the institute and supported by the Ministry of Education.

Developed by Prof. Ehud Shapiro of the Department of Applied Mathematics and Computer Science in collaboration with Dr. Zahava Scherz, Bruria Haberman and Noa Ragunis of the Department of Science Teaching, the curriculum has already been adopted by vocational schools in Ashdod, Rishon LeZion, Ramle and Naharia.

Student participation begins with tenth-grade courses in logic programming and the computer language Prolog. In an eleventh-grade course in artificial intelligence, students develop techniques for programming in Prolog, problem solving and knowledge representation. By the twelfth grade, each youngster designs an "expert system" capable of drawing and justifying conclusions on the basis of knowledge and rules of behavior gleaned from interviews with experts in a given field, and from a survey of professional literature.

One such system is designed to aid in the selection of weaponry, aircraft, fuels, pilots, deployment and strategy for various air force missions, while calculating the cost of each option. A second is able to diagnose diseases such as measles and chicken pox, as well as analyze the likely means of contagion. Yet other expert systems deal with the tracing of human skeletal remains to different historical ages, the requirements for and rights accruing from Israeli citizenship, and optimal planning for trips. About 75 different systems have been designed and implemented so far.

Osteoporosis

Osteoporosis, a bone-weakening disease that affects 15 to 20 million people in the United States alone, is responsible for an estimated 1.3 million fractures

annually in that country. The disease strikes mostly women in middle age, and is a major indirect cause of death. At the Weizmann Institute, Prof. Alvin Kaye of the Hormone Research Department and his co-investigators at the Bone Disease Unit of Ichilov Hospital in Tel Aviv have shown that bone cells in female rats respond to stimulation by the female sex hormone estrogen, while male bone cells react directly to testosterone. Moreover, when young rats are deprived of vitamin D, bone cells in the females are unable to respond fully to estrogen and those of the males to testosterone. Kaye and his colleagues are now studying the reciprocal interactions of these steroid hormones with other crucial hormones that affect bones, such as parathyroid hormone and prostaglandin E2.

The healing of fractures is being investigated by Prof. Samuel Edelstein of the Department of Biochemistry, who has found, also in animal experiments, that two vitamin D derivatives that he has studied for many years with Prof. Yehuda Mazur (Dept. of Organic Chemistry) speed the repair of bones. Their work has led to the development of synthetic vitamin D analogs capable of preventing the crippling decalcification of bones that commonly accompanies disease.

An approved, commercially available drug (Alpha D3), one of the first to result from the work carried out in an Israeli institute of basic research, is now manufactured by Teva Pharmaceutical Industries Ltd.

A second commercially produced vitamin D derivative (Osteo-D), also a product of Edelstein's studies, has also been approved for treatment of bone disease in kidney patients.

These studies, along with those of Prof. Alvin Kaye, indicate that combined steroid hormone-vitamin D derivative therapy might be particularly useful for stemming the progress of osteoporosis.

The Clal advantage

Clal Issuing was established in 1987 to broaden the field of financial services offered by the Clal Group, and to provide services not only to companies operating within the group framework but to the marketplace in general.

Specializing in capital raising, underwriting and security issuing, Clal Issuing has, since its inception strengthened its position as a leading underwriter of shares, convertible securities and debentures on the Tel Aviv Stock Exchange. Ranked among the four leading underwriters in all criteria, Clal Issuing has participated in the management of underwriters' associations, representing the majority of issues which in recent years totaled billions of dollars. In the private sector, these issues included leading Israeli corporations, in addition to privatized government firms and Clal Group affiliates.

◆ ◆ ◆ The capital market into the fourth quarter ◆ ◆ ◆

On the capital market, index-linked bonds, shares and mutual funds all advanced sharply in September. Barring any major negative developments such as a total breakdown of the peace process, few expect a serious downturn which would erase the gains. The three-week Jewish holiday season curtailed trading days and volumes were relatively moderate until the second week of October. The demand for shares continued and new highs were established on October 10.

Part of the enthusiasm for shares occurred at the end of the holiday period, which saw the return of the "small" investor to the Maof-oriented mutual funds.

The peace process, in spite of the many problems related to details between the two sides, appears to be well on its way, and the business sector is

gearing up for increased activity in the territories, and with Israel's neighbors. The atmosphere is bullish. Export-sensitive companies such as Israel Chemicals, Frutarom and Dead Sea Works have attracted interest. Part of the enthusiasm for these shares was connected to Prime Minister Yitzhak Rabin's historic visit to China. Trade between the two countries was on the agenda.

Yields on the Tel-Aviv Stock Exchange

	September	January-September
General Share Index	+11.8	+24.2
General Bond Index linked to C-O-L	+2.3	+4.3
Devaluation of NIS against the US \$	+0.1	+4.0
Bank of Israel notes	+0.6	+8.6
Variable Share Index	+10.2	+17.2
Index of low-capitalization shares	+13.7	+40.2

Mutual Funds Compete but Activities are Supervised to Protect Investor

When buying fund units, you are subject to a graduated incremental fee of between 1.5% - 0.25%. The larger the investment, the lower the incremental fee. The manager of the fund charges a yearly fee of 1% - 1.5%, depending on the fund's investment policies.

Generally the purchase price is higher than the redemption price even if there is no incremental fee because of the method of calculating the value of the unit.

No incremental fee is charged if the investor moves from one bank's mutual fund to another.

Share Funds

Category: Diversified and Flexible Share Funds

Investment Objective: Growth

Management Policy: Manager invests in equities with mix of investments adjusted to market conditions.

Funds in Category: 42

Top Five Performers

Fund	Manager	% gain
Ramco Flexible	Ramco	33.4
Panther	Central Trade	31.9
Psagot 50	Psagot	28.5
Yesodot	Moritz-Tuchler	28.1
Clali	Clali	24.5

Category: General, Maof and Specialized

Investment Objective: Aggressive Growth

Management Policy: Manager invests in the 70 leading shares making up the TASE Share index or in the 25 leading shares which make up the Maof Index

Funds in Category: 55

Top Five Performers

Fund	Manager	% gain
Ahrayut Oil	Ahrayut	57.0
Zik	Unitrust	35.5
Ilanot Karam	Ilanot	29.1
Mivneh	FIBI	29.5
Magic	Moritz-Tuchler	29.5

(percentages represent gain in value in U.S. dollar terms for 9 months ending Sept. 30, 1993)

Database: Meytav Mutual Funds

Additional benefits are available depending on the size of the investment.

It is worth noting that in Israel, mutual funds operate according to the 1961 Law for Joint Investments. That law specifies the framework for establishing funds, their management techniques, the main trusteeship regulations and the mutual funds' special tax status.

Mutual funds come under the supervision of the Securities Authority, and each has a trustee to supervise investment policies and monitor adherence to the trustee agreement. The trustee agreement, signed by the fund manager and trustee, stipulates their relationship, the nature of the fund, its mode of activities and the rights of unit owners. All the fund's assets are registered in the name of the trustee. The fund's manager has exclusive power of attorney to implement investments. In principle, mutual funds are supervised by the Securities Authority, the trustee, and the Tel Aviv Stock Exchange.

Investors are represented on the boards of directors and investment committees by public representatives. This level of supervision ensures that investors can be confident of the sound, professional management of mutual funds in Israel.

ECI Telecom and Telematics Merge

ECI Telecom Ltd. (NASDAQ/NMS Symbol ECILF) and Telematics International (NASDAQ/NMS Symbol: TMAX) have announced that the Boards of Directors of the two companies recently approved a definitive agreement to merge the firms, whereby ECI Telecom will be uniquely positioned to provide comprehensive solutions to the global telecommunications market based on leading-edge technology.

Under the terms of the agreement, Telematics will be merged with ECI Telecom by means of a tax-free exchange, with each outstanding share of Telematics' common stock being exchanged for 0.33 ordinary shares of ECI Telecom. This will take place after the 2:1 stock split to be effected by ECI Telecom on October 25, 1993. The transaction will be accounted for as a pooling of interests.

Based on the October 8, 1993 closing price of \$49.25 for ECI Telecom stock on NASDAQ, the combined company will have a total market value of approximately \$1.8 billion. ECI Telecom's ordinary shares will continue to be traded on the NASDAQ National Market System.

The merger will create a new entity with worldwide marketing and service, and with a broad product line capable of addressing the convergence of applications and technologies in voice, data and video communications networks. In addition, the combined companies will capitalize on the move of users towards public and virtual private networks.

The complementary nature of ECI Telecom's and Telematics' geographic presence provides coverage in 85 countries, and the customer base comprises some of the world's leading service providers, including the Deutsche Bundespost Telekom, British Telecom, AT&T, MCI, France Telecom, GTE and KDD - Japan.

Both companies make significant investments in research and development, and have a strong technology base. ECI Telecom's Synchronous Digital Hierarchy (SDH) products, combined with Telematics Asynchronous Transfer Mode (ATM) Frame Relay and x.25 products, when managed under a common network management system, will provide a more comprehensive solution to network service operators than is available in the marketplace today. The combined sales of the two companies for the 12-month period ended June 30, 1993 were \$258 million.

The merger agreement will be subject to approval by the shareholders of Telematics, and the closing is expected to occur by January 1994. Telematics International will retain its name, separate corporate identity and management, and will continue to market products under its name and trademarks. Telematics International designs, manufactures, sells and supports a complete line of wide-area networking products designed for worldwide voice and data communications applications and networks. Telematics, headquartered in Ft. Lauderdale, Florida, has approximately 380 employees worldwide, with facilities in five US locations; Basingstoke, England; Frankfurt and Paris.

ISRAEL HIGH-TECH & INVESTMENT REPORT

NEWS AND INVESTMENT OPPORTUNITIES

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