

PENGANA ALPHA ISRAEL FUND

DESCRIPTION

The Pengana Alpha Israel Fund invests in listed Israeli companies that produce cutting edge – both high and low tech – technologies. These Israeli listed companies have developed solid intellectual property coupled with strong global distribution.

The Fund offers Australian investors diversification within global equity exposure to a unique and promising market that is very much skewed to industries and technologies that are either limited, or do not exist, in the Australian market place, such as: the semiconductor industry, solar and water treatment technology, aerospace and electronic defence industries, and cyber security technologies.

STATISTICAL DATA

VOLATILITY³ 11%

NUMBER OF STOCKS 39

BETA⁴ 0.54

MAXIMUM DRAW DOWN -13.6%

PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 30 Jun 2021¹

Alpha Israel Fund Class A (AUD)

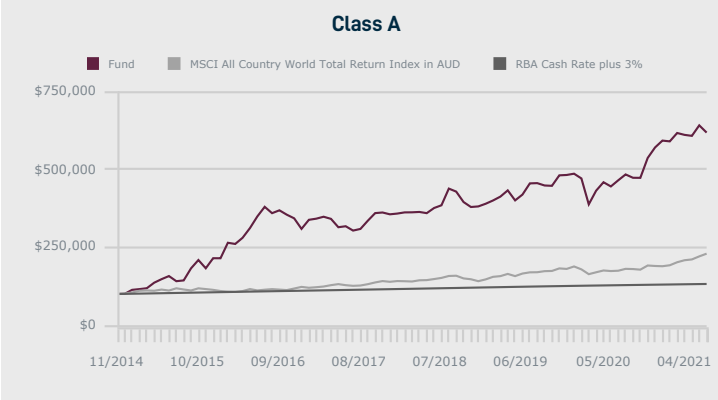
	1 MTH	1 YEAR	2 YEARS P.A.	3 YEARS P.A.	SINCE INCEPTION P.A.
Alpha Israel Fund Class A	-3%	24.8%	13.4%	12.9%	10.9%
Tel Aviv Stock Exchange 125 Index	-0.4%	33.2%	9%	9%	7.6%
Tel Aviv Stock Exchange Small And Medium Cap 60 Index	-1.5%	58.7%	18.7%	7.9%	4%

Alpha Israel Fund Class B (USD)

	1 MTH	1 YEAR	2 YEARS P.A.	3 YEARS P.A.	SINCE INCEPTION P.A.
Alpha Israel Fund Class B	-2.9%	29.2%	15.7%	14.1%	12%
Tel Aviv Stock Exchange 125 Index	-0.4%	33.2%	9%	9%	7.6%
Tel Aviv Stock Exchange Small And Medium Cap 60 Index	-1.5%	58.7%	18.7%	7.9%	4%

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION²



Class B

TOP HOLDINGS (ALPHABETICALLY)

FMS Enterprises Migun	Aerospace & Defense
Fox Wizel Ltd	Apparel Retail
Nice Ltd	Application Software
Peninsula Group	Specialized Finance
Priortech Ltd	Electronic Components

SECTOR BREAKDOWN

Consumer Discretionary	7.8%
Financials	18.8%
Health Care	11.5%
Industrials	12%
Information Technology	26.6%
Real Estate	9%
Utilities	3.5%
Energy	5%
Other	4.2%
Options	0.3%
Cash	1.4%

CAPITALISATION BREAKDOWN

Under 100m USD	14.8%
In between 100 - 1bn USD	47.9%
In between 1bn - 5bn USD	18.8%
Above 5bn USD	14%
Derivatives	0.3%
Not Classified	2.8%
Cash	1.4%

THE VALUE/GROWTH DYNAMIC

COMMENTARY

Unfortunately, our comment last month that Israel was "Covid free" was premature. The Delta Variant, brought across the Israeli border by unvaccinated children returning home, has led to a surge in cases and a new "soft suppression" strategy to hopefully avoid a further lockdown. Israel has one of the highest vaccination rates in the world at around 70% of the mature population, and now intends to vaccinate children between the ages of 12 and 16 using the Pfizer vaccine, which was recently approved by the US FDA and Israeli authorities.

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The last year has been characterised by volatile markets, driven initially by the onset of Covid in developed economies. A period of stabilisation followed and then a rapid recovery and appreciation in stock markets, which has continued into 2021. A more in-depth examination of the market, however, shows that there has been significant internal variation between stocks of different types and sectors. This provides a potential opportunity for the Fund, as ultimately it is the lasting economic value of companies that determines their longer-term performance.

The difficulty lies in ascertaining the likely impact of the latest Covid outbreak. We are hopeful that the recent trends of rapid economic recovery and a return to economic growth, in parallel with a decline in morbidity and increased effectiveness of vaccines, will continue. At the same time, though, we are concerned about the potential economic effects on some sectors, and we are monitoring these carefully. At the time of writing, it seems that our fears have been unfounded and the high vaccination rate is protecting the Israeli economy from some of the difficult events faced by other countries. We have therefore made no changes to date to the Fund in response to the recent Covid outbreaks.

The aim of the Pengana Alpha Israel Fund is to capture and benefit from Israel's unique economic characteristics and its position as a global leader in the Technology sector. As a result, the Fund is heavily exposed to this sector, which has underperformed during the first half of 2021. During this period, sector performance has diverged significantly: Oil & Gas +32%, Real Estate +28%, Banking +26%, Cleantech -12% and Technology +6% (compared to +38% in 2020).

This is to some extent a reflection of the differentiation between the performance of value and growth, that we have highlighted before. At the beginning of the year, we saw a return of investors to the battered "value" shares and to more traditional investment channels but, as we noted, this distinction can be somewhat misleading, and recently we have witnessed a significant return to "growth" companies. In the past six months, the Fund's performance was mainly influenced by this rapid change in fortunes, the cost of the protection strategy in a rising market, and a sharp decline in companies with higher risk characteristics, which constitute about 20% of the Fund.

This higher risk allocation includes some of the Fund's IPO investments. IPOs have continued to surge in 2021 and at the time of writing, over 60 companies had listed on the Israeli stock exchange so far. We are very selective and have invested in only a few of these opportunities, however, we seek to listen to every story so that we can assess future results.

There are two types of IPO. The first are good companies, many of them well established with years of revenue and profitability. These companies should be examined according to parameters of quality, growth forecasts, and profitability. The second are companies that are newer, many of a more technological nature, and are in the early stages of revenue generation, with only a future-profitability model. As investors and non-speculators, we limit our exposure to these early-stage companies and only maintain small positions. However, their decline in the last quarter weighed on the Fund's return, despite the conservative allocations.

We strongly believe that the value/growth dynamic will balance out in the second half of the year. We witnessed this in the second half of June in the US market, with a flow to growth for the first time in 11 weeks and the most significant in six months. We will continue to carefully monitor developments with the Covid virus and the companies we hold in the Fund, and note that much of the recent share price volatility does not reflect the nature of the companies' underlying business models, which in most cases have not changed.

Stock in focus

Massivit 3D Printing Technologies is a breakthrough technology company with a disruptive agenda and a good example of the short-term volatility we have described above. The Massivit 1800 Flagship 3D Printer is the first of its kind to produce super-size, crowd-stopping signage, displays, and props for visual communication. Offering unprecedented printing speed, it is designed to enable business growth through the scalability of printing heads and versatile printing materials. The Company has 2 globally renowned strategic investors – Yaskawa (Symbol: YEC, a Japanese company and the world's largest manufacturer of AC drives and motion control products) and Stratasys (Symbol: SSYS, an American/Israeli company and global leader in 3D printing and additive solutions, materials and services).

Massivit is a 2.5% position in the Fund and fell 27% in June. There were no material reasons for this significant drop and, on the contrary, the Company released its initial forecast for Q2 at the end of June, which showed a significant improvement in revenues of 62%. As a result of this announcement, the stock price bounced back by 25% (as at the time of writing). This example illustrates the importance of a long-term view and not giving too much attention to short-term stock market fluctuations (both positive and negative). We maintain a significant degree of confidence in this position going forward.

Macro Developments

The recent composite state-of-the-economy index indicates that the recovery in economic activity is continuing, with a slight slowdown in the pace. Data from the Bank of Israel shows the composite state-of-the-economy index increased 0.24% in May, following sharper increases of 0.45% and 0.34% in April and March respectively. Since the start of the year, the composite index has declined by 0.2%.

The Bank of Israel is forecasting growth of 5.5% for the Israeli economy in 2021 and has increased its forecast to 6% in 2022. The forecast government deficit for 2021 was revised downward, against the backdrop of the recovery in the economy, such that the financing requirements of the government are expected to be lower than previous estimates. However, as discussed above, it is unclear as to the impact of the Delta Variant on economic activity for the remainder of the year. While the impact thus far has been muted, it has the potential to materially impact the above forecasts and we are monitoring this carefully.

FEATURES

APIR CODE	PCL6469AU (USD Class) CTS0045AU (AUD Class)
REDEMPTION PRICE	A\$ 1.3582
FEES *	Management Fee: 1.50% p.a. paid monthly in arrears Performance Fee: 20% above the Hurdle with a high water mark, paid semi-annually in arrears
MINIMUM INITIAL INVESTMENT	\$250,000
STRATEGY INCEPTION DATE	1 January 2018
BENCHMARK	The goal of the Fund is to achieve long term capital growth by investing in Israeli and Israeli related companies, generating returns that consistently outperform the relevant benchmarks. Returns are not guaranteed.

FUND MANAGERS



Gabi Dishi
Founder & CEO



Michael Weiss
Founder & Managing Partner



Aviran Revivo
Managing Partner



Sagi Ben Yosef
Managing Partner

1. Net performance figures are shown after all fees and expenses, and assume reinvestment of distributions. Performance figures are calculated using net asset values after all fees and expenses, and assume reinvestment of distributions. Index returns shown are in ILS (Israeli Shekel). No allowance has been made for buy/sell spreads. Past performance is not a reliable indicator of future performance, the value of investments can go up and down.
2. Inception 1st January 2018.
3. Annualised Standard Deviation since inception
4. Relative to Tel Aviv Stock Exchange 125 Index

Please note: This fund is only open to Wholesale Investors.

PENGANA ALPHA ISRAEL FUND

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Pengana Capital Limited (ABN 30 103 800 568, AFSL 226566) ("Pengana") is the issuer of units in the Pengana Alpha Israel Fund (the "Fund"). An information memorandum for the Fund is available and can be obtained from our distribution team. A person should consider the information memorandum carefully and consult with their financial adviser before deciding whether to acquire, or to continue to hold, or making any other decision in respect of, the units in the Fund. This information has been prepared for Wholesale Clients only. This information does not contain any investment recommendation or investment advice and has been prepared without taking account of any person's objectives, financial situation or needs. Therefore, before acting on this information a person should consider the appropriateness of the information, having regard to their objectives, financial situation and needs.