PENGANA CAPITAL GROUP

MONTHLY REPORT
JUNE 2022

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

VOLATILITY[3]	NUMBER OF STOCKS	BETA[4]	MAXIMUM DRAW DOWN
10.9%	37	0.56	-13.6%

PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 30 Jun 2022[1]

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	-2.9%	-1.8%	10.5%	7.9%	7.9%
Tel Aviv Stock Exchange 125 Index	-4.1%	6.8%	19.2%	8.2%	7.4%

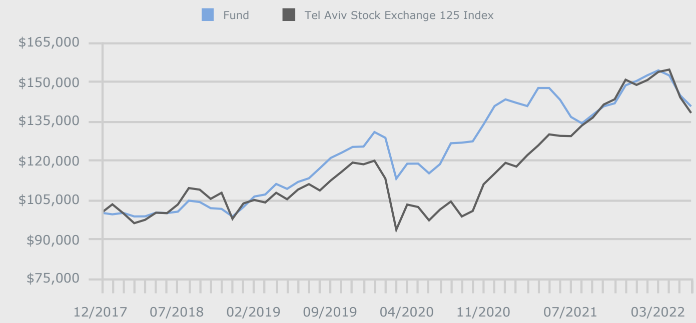
Alpha Israel Fund Class B (USD)

	1 MTH	1 YEAR	2 YEARS P.A.	3 YEARS P.A.	SINCE INCEPTION P.A.
Alpha Israel Fund Class B	-2.6%	-1.1%	13.0%	9.8%	8.9%
Tel Aviv Stock Exchange 125 Index	-4.1%	6.8%	19.2%	8.2%	7.4%

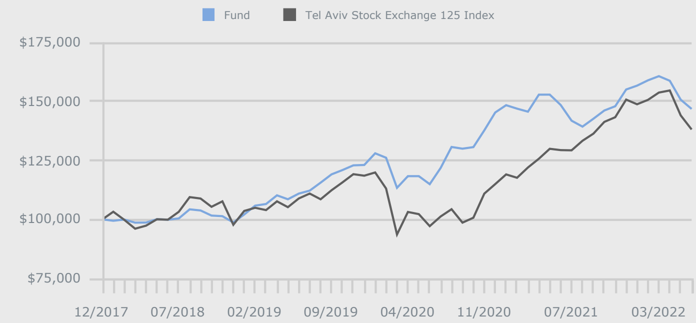
PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]

Class A



Class B



TOP HOLDINGS (ALPHABETICALLY)

Bank Hapoalim BM	Diversified Banks
FMS Enterprises Migun	Aerospace & Defense
Kenon Holdings Ltd	Independent Power Producers & Energy Traders
Medi Power	Diversified Real Estate Activities
Telsys	Technology Distributors

SECTOR BREAKDOWN

Communication Services	3.3%
Consumer Discretionary	4.6%
Financials	11.7%
Health Care	9.5%
Industrials	9%
Information Technology	21.5%
Materials	2%
Real Estate	12.7%
Utilities	5.1%
Energy	6.1%
Other	2.7%
Options	1.3%
Cash	10.5%

CAPITALISATION BREAKDOWN

Under 100m USD	7.6%
In between 100 - 1bn USD	44%
In between 1bn - 5bn USD	22.2%
Above 5bn USD	14.4%
Derivatives	1.3%
Cash	10.5%

RADA - OUR FIFTH ACQUISITION BY A FOREIGN MULTINATIONAL GLOBAL LEADER

COMMENTARY

The Fund returned -2.9% (Class A, AUD) and -2.6% (Class B, USD) in June, outperforming the the TA 125 index which was down -4.1%. The main cause of the market decline was the inflation rate in the US, which reached 8.6% on an annualized basis, forcing the Federal Reserve to increase interest rates by a further 0.75%. Expectations are that US interest rates will rise to about 3.5% by the end of the year.

The main contributor to performance this month was our Consumer Discretionary Services holding **Issta** (leisure facilities & service), which was up 18%. The main detractors were due to profit-taking in sectors that worked well over the past year, such as our Natural Gas holdings **Ratio** and **Delek**, which were down 10.5% and 15% respectively, and **Kenon** (freight shipping), which was down 25%.

The second quarter was characterised by sharp declines in most equity indexes. The Israeli market held up relatively well thanks to its dominant high-tech industry and relatively low inflation of around 4%. To put the falls in context, the NASDAQ fell -7.9% in June and is now around -30% down this calendar year. Similarly, the S&P 500 lost -7.4% in June and is now nearly -20% lower than at the start of the year.

The change in sentiment this year, driven by rising inflation and interest rates, issues stemming from Russia's war in Ukraine, and the continued impact of COVID, has been significant. Companies that only focused on growth, without reference to cash flow or expenses, have been punished. Even venture capital funds that finance these businesses have begun to demand that company management moderate expenditure and, in some cases, begin the process of reductions and layoffs.

A few key events during the month:

- As mentioned in prior reports, the Fund has a long position in Kenon which is the parent company of Zim. Due to our concerns regarding a significant drop in freight costs, we hedged our position in Kenon using spread options on Zim. Zim's stock started the month around $67 and we wrote a call option at $80 and purchased a put option at $53 for the end of the year. This worked well as during the decline of the stock in June we realized some puts, and as the significant decline in Zim's share price continued, we rolled our put options from $53 to $40.
- Ratio and Delek in the Natural Gas sector were negatively impacted by profit taking and the prospect of recession. We built a significant position in these stocks, which are exposed to the Leviathan reservoir, at the end of last year. In our opinion, the shares were then significantly under-priced given the expected cash flow from Stage A in Leviathan. We retain this view and believe it is a matter of time before Leviathan B is developed. This is a scarce resource, regardless of the conflict in Ukraine, and we believe that the stocks are far from pricing the potential that exists in Leviathan B.
- June was characterized by exceptional volatility in the Israeli market, which usually makes it difficult to manage our downside protection put position. However, this volatility helped us in June as the first half of the month started with a "dive" in the market followed in the second half by a strong correction. During this time, we managed to roll our put options and realize a 1% gain in the Fund while we improved our downside protection by buying puts closer to the money.

Stock in Focus

On June 21st, an all-stock merger was announced which combines Leonardo DRS, a leading U.S.-based mid-tier defence technology provider, and RADA Electronic Industries Ltd., a leading Israel-based provider of tactical radars, and longstanding investment in the Fund. The combined company will be aligned with some of the fastest growing segments of the U.S. Department of Defence budget and be positioned to pursue global opportunities through the worldwide presence of Leonardo DRS's parent company, Leonardo SpA (LDO).

The Fund sold its entire position in Rada on the day of the merger announcement (21/06). This is the Fund's fifth portfolio company (since the inception of the Fund in January 2018) to be acquired by a foreign multinational global leader.

According to the pro forma figures for the merger, Leonardo SpA and Rada shareholders will own approximately 80.5% and 19.5%, respectively, of the combined company on a diluted basis, which will maintain the name Leonardo DRS and is anticipated to trade on NASDAQ and TASE under the symbol "DRS".

The capabilities of the two companies are expected to generate strong growth from a wide range of new and high growth markets, and are shaping the future battlefield for the U.S. military and its allies across all domains.

Macro developments

Overall, the Israeli economy remains in good shape. The OECD's June Global Economic forecast report stated: "When we look at macro data such as the current account surplus (massive entry of foreign currency), it seems that the momentum remains positive for the Israeli economy. the Israeli economy looks good because of what is happening in its high-tech sector, and the labor market also looks very strong. In addition, Israel's inflation rate compared to other Western countries is moderate. In addition, the new contracts do not see a jump in wages, so no spiral of wages prices has been observed so far. Israel has another advantage: one of the dire consequences of the war, as we noted, is a jump in energy prices, and Israel has respectable gas reserves that provide protection from that increase in prices".

Inflation – Data from the Central Bureau of Statistics (CBS) show the Israeli consumer price index (CPI) increased in May by a rate of 0.6%. The annual rise in the CPI increased in May 2022 to 4.1%. This is the highest rate of inflation since the beginning of 2011

Core inflation indices (CPI excluding housing and fruits and vegetables and the CPI excluding energy) are all above the upper border of the price stability target range (1% – 3%). These data points indicate that the current inflation environment in the local economy has increased but remains low compared to most of developed countries. The average annual inflation rate in the OECD increased in April from 8.8% to 9.2%, while core inflation, excluding food and energy reached an annual rate of 6.3%. Looking ahead, actual annual inflation in Israel is expected to continue to climb as the year progresses, such that the annual rate is expected to reach 5.0% during 2022.

An analysis of the development of prices broken down by services and goods shows that the rise in prices of goods has had the most substantial contribution to the rise in the CPI until now, due to disruptions to global supply chains. However, looking ahead, it appears the process of rising prices on goods is approaching a conclusion, against the backdrop of, among other things, signs of a slight easing in the global supply disruptions, moderation in commodities prices, with stabilization, and even a decline, in global shipping costs.

Interest rates – Against this backdrop of continuing increases in inflation, the Bank of Israel (BoI) is likely to further accelerate the rise in the central bank interest rate in the next announcement, scheduled for July 4th, with a hike of 50bps to 1.25%. The process of interest rate hikes is expected to continue with the Bank of Israel reaching an interest rate level of 2.5% by the beginning of 2023.

FEATURES

APIR CODE	PCL6469AU (USD Class) CTS0045AU (AUD Class)
REDEMPTION PRICE	A$ 1.3153
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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