

## 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.

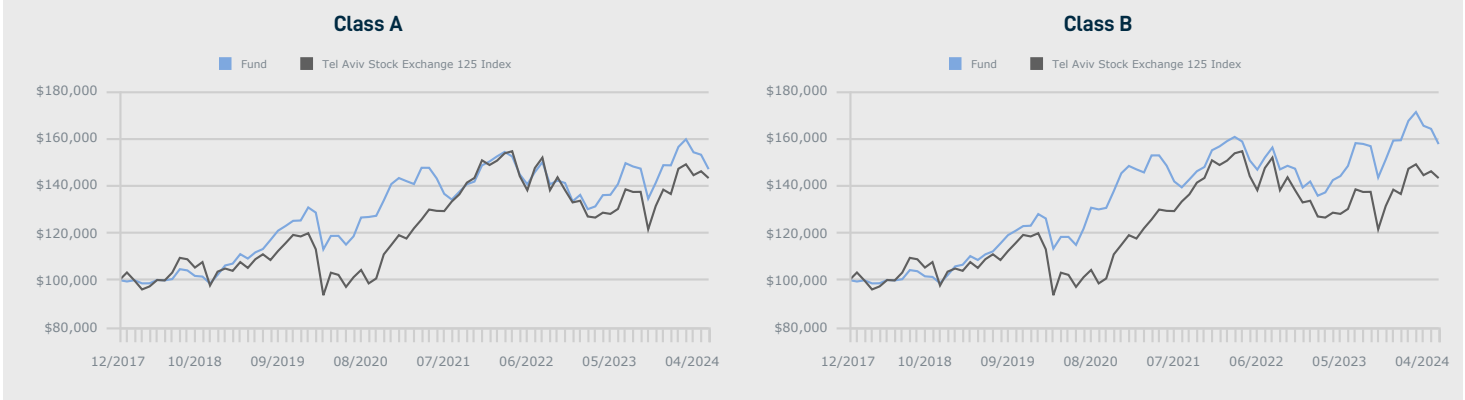
### PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 30 Jun 2024<sup>1</sup>

| Alpha Israel Fund Class A (AUD)   |       |        |              |              |                      |
|-----------------------------------|-------|--------|--------------|--------------|----------------------|
|                                   | 1MTH  | 1 YEAR | 2 YEARS P.A. | 3 YEARS P.A. | SINCE INCEPTION P.A. |
| Alpha Israel Fund Class A         | -4%   | 4.5%   | 2.3%         | 0.9%         | 6.1%                 |
| Tel Aviv Stock Exchange 125 Index | -2%   | 10%    | 1.8%         | 3.5%         | 5.7%                 |
| Alpha Israel Fund Class B (USD)   |       |        |              |              |                      |
|                                   | 1MTH  | 1 YEAR | 2 YEARS P.A. | 3 YEARS P.A. | SINCE INCEPTION P.A. |
| Alpha Israel Fund Class B         | -3.9% | 6.2%   | 3.6%         | 2%           | 7.3%                 |
| Tel Aviv Stock Exchange 125 Index | -2%   | 10%    | 1.8%         | 3.5%         | 5.7%                 |

### PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION<sup>2</sup>



### TOP HOLDINGS (ALPHABETICALLY)

|                    |                                 |
|--------------------|---------------------------------|
| Argo Properties NV | Real Estate Operating Companies |
| Azrieli Group Ltd  | Real Estate Operating Companies |
| Bank Hapoalim BM   | Diversified Banks               |
| Bank Leumi LE IS   | Diversified Banks               |
| Prioritech Ltd     | Electronic Components           |

### SECTOR BREAKDOWN

|                        |       |
|------------------------|-------|
| Consumer Discretionary | 5.6%  |
| Financials             | 23.7% |
| Health Care            | 8.3%  |
| Industrials            | 9.5%  |
| Information Technology | 16.8% |
| Real Estate            | 13.9% |
| Utilities              | 4.7%  |
| Energy                 | 4.5%  |
| Options                | 0.4%  |
| Cash                   | 12.6% |

### CAPITALISATION BREAKDOWN

|                          |       |
|--------------------------|-------|
| Under 100m USD           | 1.9%  |
| In between 100 - 1bn USD | 41.1% |
| In between 1bn - 5bn USD | 15.1% |
| Above 5bn USD            | 28.8% |
| Derivatives              | 0.4%  |
| Cash                     | 12.6% |

### STATISTICAL DATA

VOLATILITY<sup>3</sup> 11.8%

NUMBER OF STOCKS 24

BETA<sup>4</sup> 0.63

MAXIMUM DRAW DOWN -15.7%

## JUNE REPORT

### COMMENTARY

- In general, global equities continued to make good progress during June, with the U.S. showing positive returns but with weaker returns across European and Chinese markets.
- In Israel, the month of June brought back geopolitical considerations around the possibility of a cease-fire deal and release of hostages in the South, and growing concern of escalation with Hezbollah in the North. This obviously led to a month of underperformance of the Israeli capital market versus global markets.
- The Fund returned -4% (Class A, AUD) and -3.9% (Class B, USD), while the TA 125 Index returned -2% in May.

*\*As we write this report on the 7<sup>th</sup> of July, a new positive development has emerged in the last few days in which very high chances that both sides have given initial approval for a U.S.-backed proposal for a phased cease-fire deal which will be brokered in the next few weeks.*

There is no doubt that Israel is facing one of its most challenging geopolitical periods, but it is important to point out that the big tech global players of the world (Such as Nvidia, Intel, and others) are continuing to show their belief in the long-term outperformance of the Israeli economy (as we did in 2022) by reinforcing their presence and business in Israel. A very recent example happened in June where the tech giant "Google" announced a massive office lease for its R&D centre in Israel. This deal will see Google pay over \$300 million USD over the next ten years.

This is a landmark deal worth \$30 million USD per year for ten years. Google will occupy a significant portion of Tel Aviv's soon-to-be-completed ToHa2 tower, solidifying the agreement as the largest office rental contract in Israeli history. Google will lease approximately 60,000 square meters of office space, translating to at least 20 floors in the towering structure.

We at Alpha share the same unconditional strong conviction that we will prevail and that the Israeli economy will return to its record highs of 2022 and even take it to stronger figures than before.

Or as the former Minister of Finance of Australia, Mr. Josh Frydenberg was quoted saying in March 2024:

*"Israel has a diversified economy and a very strong high-tech sector. There are countries and companies that have continued to invest in Israel despite pressure from outside not to do so. Companies understand very well where the good and brilliant minds are. A country at war will face challenges, but what stands in its favour is a strong, productive, export-oriented technology sector."*

### Market Review

Global equities continued to make strong gains during June, led by the US market; however, Israeli shares underperformed. This followed rising geo-political risk, as fears grew that ongoing skirmishes in the north of Israel with Hezbollah could escalate. Nonetheless, reports are emerging of a possible ceasefire agreement in Gaza and a hostage/prisoner swap. An end to hostilities would be highly positive for equity valuation levels.

Expectations that inflation will reach the upper bounds of the Bank of Israel's 1.0% – 3.0% inflation target over the next few months mean it is likely to keep interest rates on hold at 4.50% when it meets in July. Geo-political uncertainty and Israel's highly expansionary fiscal policy (to finance the conflict in Gaza) will further push back the

timing of further interest rate cuts. Futures market prices imply interest rates will fall to 4.15% over the next 12 months.

Despite grave geo-political challenges, Israel remains very stable financially, with its foreign exchange reserves increasing from US\$208.1 billion to US\$210.5 billion in May. This represents almost 40% of GDP, the third highest figure in the OECD (after Switzerland and the Czech Republic).

Israel's economy expanded by 14.4% quarter-on-quarter over the first three months of the year, aided by April's 2.3% month-on-month increase in industrial production. Economic growth is expected to bounce back sharply when hostilities cease, following the pattern of previous conflicts.

## Portfolio Commentary

The Fund continues to take a positive view of Israel's economic and share market prospects, despite the ongoing geo-political uncertainty. The Fund holds a net equity exposure of approximately 80%.

One of the largest contributors to the Fund's relative return in June was its overweight position in the printed circuit board manufacturing company **Priortech**. Its share price increased by 14% upon strong investor interest in semiconductor stocks across global markets as AI-related chip demand continues to grow.

Another large contributor to relative returns in June was the Fund's overweight position in **Global-e**, the leading cross-border business-to-consumer e-commerce platform. The stock price jumped 16% upon improving global investor sentiment towards technology stocks after the company announced stronger first-quarter revenues in late May.

The largest detractor from relative returns in May was the Fund's holding in **Retailors**, which operates branded sports stores under the Nike and Foot Locker brands across Israel, Canada, Europe, and Australia. It underperformed upon Nike's weaker-than-expected revenue over the last quarter, largely in its US and China markets, and weaker forward guidance. Nike sales face a lag as new product innovation takes time to feed through into revenue growth, which led to the Fund exiting its position in Retailors.

The Fund's overweight position in **Energix**, one of Israel's largest renewable energy companies, with operations in the US and Poland, also detracted from relative returns. Its share price dropped 9% in June upon rising expectations that Donald Trump will regain the US presidency. This would risk an unwinding of the Inflation Reduction Act which has provided subsidies to the company, enabling it to progress low-carbon energy projects rapidly, delivering high returns on equity. However, the company has a strong order book, and the demand for renewable energy is expected to grow regardless of US government policy. Moreover, large numbers of US clean energy jobs are likely to influence future public policy choices. Accordingly, the Fund will maintain its position in Energix.

The Fund remains fairly stable and no new positions were established during June.

## Half-Year Review

Over the first half of the year, Israel's share market has lagged the broader global market due to the heightened geo-political risk. However, Israel's economy is well diversified and retains a very strong technology sector whose human capital and innovation continue to attract international investment inflows. This was highlighted by Google-owner Alphabet recently announcing a 10-year lease on 60,000 square meters of office space for its R&D hub in Tel Aviv.

The infrastructure sector has been particularly impacted by the conflict in Gaza. However, the sector has rebounded

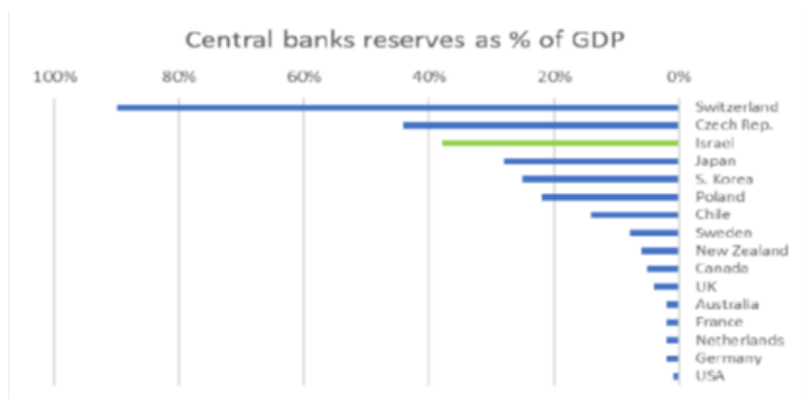
strongly following previous conflicts and is expected to rapidly unwind the sector's recent underperformance relative to global peers when the fighting ends. The fear of escalation is now fully reflected in current share price levels, which brings tremendous potential when the geo-political environment improves.

The Fund has underperformed the benchmark during the first half of the year. However, more than 100% of the market index return was concentrated in just three stocks – Teva Pharmaceuticals and high-tech groups Nova and Camtek, in which the Fund has held underweight positions. The Fund recognises the quality of these stocks but manages risk through broader security diversification. The high quality of the Fund's holdings and attractive valuation levels leave them well positioned to grow earnings and perform strongly when the security situation normalises.

## Macro developments

The state of the economy – It is important to point out that although Israel is facing one of its biggest geo-political challenges ever, Israel's financial stability is very high:

- The Bank of Israel's foreign exchange reserves reached \$210 billion. This figure is the third highest among the OECD countries, when Switzerland and Czech Republic are ahead. The Central Bank of Israel reserves as a percentage of GDP is 40%! (just for comparison, Australia Reserve Bank is at 7%!)



- Israel's GDP recovered impressively in Q-1 of 2024, up 14%- The Israeli economy has a rapid and proven ability to recover following war events
- The balance of the Israeli public's financial assets portfolio in the first quarter of 2024 increased by NIS 269 billion to NIS 5.68 trillion, an increase of 5% compared with the end of 2023

**Inflation** – The forecast for the June CPI remains at 0% for now, and the forecast for the July CPI remains at about +0.50%. The inflation forecast for the coming year remains at about 3.3%.

**Interest rates** – Expectations are that the Bank of Israel will not lower the interest rate in July on the backdrop of geopolitical uncertainty, the highly expansionary fiscal policy, and expectations that inflation will rise to the upper bound of the target range in the summer. The markets are pricing a rate cut in July at a probability of about 15%, and that the interest rate will be at about 4.15% in a year's time.

## FEATURES

|                            |   |
|----------------------------|---|
| APIR CODE                  | PCL6469AU (USD Class) CTS0045AU (AUD Class)   |
| REDEMPTION PRICE           | A\$ 1.0198  |
| FEES *                     | Management Fee: 1.50% p.a. paid monthly in arrears<br>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. Please refer to the PDS for information regarding risks. Past performance is not a reliable indicator of future performance and may not be repeated, 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.COM

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