

## 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<sup>3</sup> 11.8%

NUMBER OF STOCKS 30

BETA<sup>4</sup> 0.62

MAXIMUM DRAW DOWN -15.7%

### PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 Jan 2024<sup>1</sup>

#### 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	0.0%	9.2%	-0.5%	1.2%	6.7%
Tel Aviv Stock Exchange 125 Index	-1.3%	2.1%	-4.2%	4.7%	5.2%

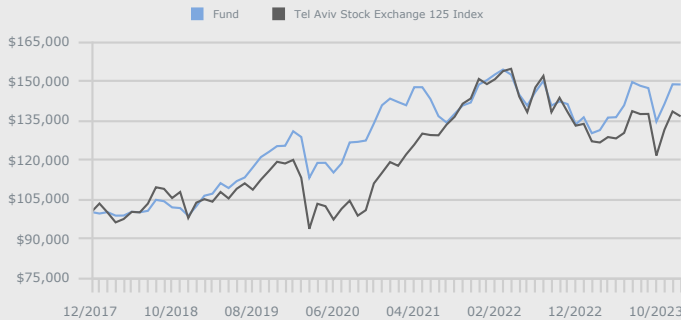
#### Alpha Israel Fund Class B (USD)

	1 MTH	1 YEAR	2 YEARS P.A.	3 YEARS P.A.	SINCE INCEPTION P.A.
Alpha Israel Fund Class B	0.1%	12.3%	0.8%	2.4%	7.9%
Tel Aviv Stock Exchange 125 Index	-1.3%	2.1%	-4.2%	4.7%	5.2%

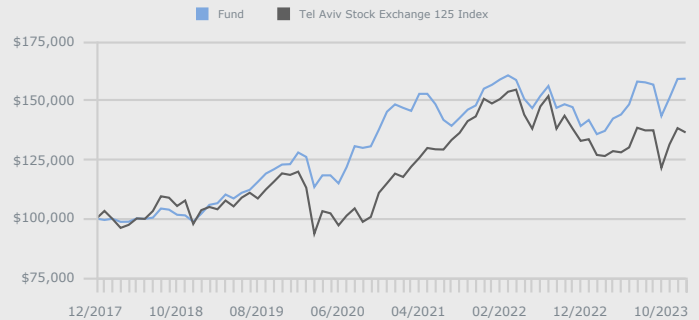
### PERFORMANCE CHART

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

#### Class A



#### Class B



### 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
Bezeq The Israeli Telecommunic	Integrated Telecommunication Services

### SECTOR BREAKDOWN

Communication Services	5%
Consumer Discretionary	4.6%
Financials	30.8%
Health Care	6.4%
Industrials	3.3%
Information Technology	21.4%
Real Estate	17.6%
Consumer Staples	1.7%
Energy	2.9%
Options	0.1%
Cash	6.1%

### CAPITALISATION BREAKDOWN

Under 100m USD	2.8%
In between 100 - 1bn USD	33.7%
In between 1bn - 5bn USD	16.4%
Above 5bn USD	40.8%
Derivatives	0.1%
Cash	6.1%

## JANUARY REPORT

### COMMENTARY

- Israeli equities were moderately weaker in January, reflecting ongoing geopolitical risks and lower expectations of US interest rate cuts
- Inflation continues to fall which is expected to lead the Bank of Israel to make further cuts in interest rates, which should support share prices
- The Fund returned 0% (Class A, AUD) and 0.1% (Class B, USD), while the TA 125 Index returned -1.3% in January

### Market Review

Israel's share market finished 2023 strongly, reflecting positive global sentiment as economic data remained robust and hopes increased of early interest rate cuts.

However, despite global markets edging up further in January as December quarter corporate earnings remained strong, Israeli shares weakened after a good start to the month, closing 1.3% down. This reflected the ongoing conflict in Gaza, but also moderating expectations for cuts in US interest rates as inflation remains above target.

Earlier in January, markets were pricing in US interest rates to fall by 1.74% (i.e. almost seven 0.25% cuts) over 2024. However, sticky US services and wage inflation led to expectations that the Federal Reserve would only begin cutting later in the year and at a more gradual pace.

This led to a weaker Israeli share market as market pricing came to reflect the geo-political risks more fully; we believe it now looks attractively valued given the attractive prospects of its many quality companies.

Israel's consumer price index eased further to 3.0% year-on-year in December, from the previous 3.3%. Price pressures are moderating further as the Israeli shekel appreciates in anticipation of a possible cease-fire, reducing import prices. January CPI is forecast to fall to 2.7%. This has led the market to price in a 40% likelihood of the Bank of Israel again cutting interest rates this month by 0.25% from the current 4.50%. Further rate cuts are expected throughout 2024.

The Israeli economy remains in reasonably good shape, with November industrial production expanding by 2.5%. An end to military hostilities would be expected to accelerate economic growth, supporting equity valuation levels.

### Portfolio Commentary

The largest contributor to relative returns in January was the Fund's new holding in the **Tel Aviv Stock Exchange**. The position was first established early in January but was then increased when the Fund participated in a US\$100 million capital raise later in the month, which was oversubscribed. High overseas investor interest, including from Bill Ackman, founder of leading hedge fund Pershing Square Capital Management, was seen as a vote of confidence in the Israeli stock market.

The Exchange benefits from multiple revenue channels – trading fees, registration fees, clearing fees, and income from information services – which have strong growth potential. Low fees and low volumes by global standards imply good opportunities to expand earnings over the long-term. Having returned 15% in January, it is still valued at an attractive 22 times current earnings, which fully reflects the current geo-political environment.

Another strong contributor to relative returns in January was the holding in the global fintech **Nayex**, which provides a comprehensive operating system and payment platform for unattended machines (e.g. vending, office drink dispensers, laundry appliances, car wash, public transport, parking, and EV charging, etc) and retailers. Its revenue streams derive from terminal sales, software as a service, and clearing, with 70% recurring revenue at high margins. The company currently has over one million terminals deployed worldwide, from which it receives a growing monthly income. It has invested heavily in innovations such as smart EV chargers, apps, and other services for retail customers. Despite strong revenue growth it remains attractively valued at 20 times 2025 earnings, having appreciated 27% in January.

The main detractor to relative returns in January was the Fund's exposure to the financial sector, especially banks, which declined about 5-7% over the month.

Another recently established holding in the Fund is **Teva Pharmaceuticals**, the world's largest generic drug manufacturer, with 3,600 products. The company also makes active pharmaceutical ingredients and proprietary pharmaceuticals. The company has reduced its debt levels over recent years, reducing the need to refinance at high interest rate levels, which will support earnings. New launches of generic drugs and original products represent an opportunity to grow earnings. This is not reflected in the current valuation of seven times earnings that is based on the perception of it being an unexciting generic company, rather than an innovative biomedical group.

An improving global economic outlook, easier monetary policy, and the prospects of lower geo-political risk and earnings growth in attractively valued portfolio companies give us grounds for optimism. This is demonstrated by the Fund's high 82% net equity exposure, which reflects its limited derivative positions that protect the portfolio from downside market risk.

## FEATURES

APIR CODE	PCL6469AU (USD Class) CTS0045AU (AUD Class)
REDEMPTION PRICE	A\$ 1.0304
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. Please refer to the PDS for information regarding risks. 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

### PENGANA CAPITAL LIMITED

ABN 30 103 800 568

AFSL 226566

### CLIENT SERVICE

T: +61 2 8524 9900

F: +61 2 8524 9901

E: [clientservice@pengana.com](mailto:clientservice@pengana.com)



### PENGANA.COM

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.