

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 10.8%

NUMBER OF STOCKS 35

BETA⁴ 0.55

MAXIMUM DRAW DOWN -13.6%

PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 May 2022¹

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 | -5% | -1.9% | 10.4% | 9.9% | 8.7% |
| Tel Aviv Stock Exchange 125 Index | -6.8% | 10.9% | 18.7% | 11% | 8.6% |

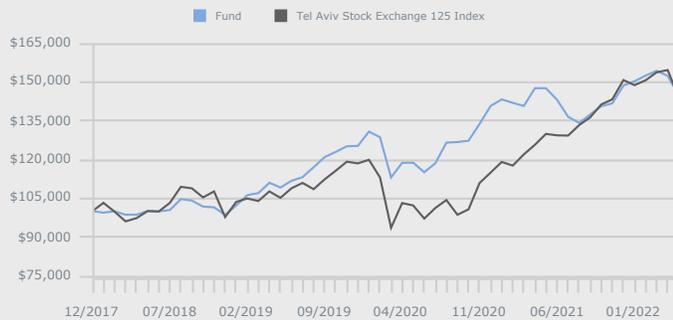
Alpha Israel Fund Class B (USD)

| | 1 MTH | 1 YEAR | 2 YEARS P.A. | 3 YEARS P.A. | SINCE INCEPTION P.A. |
|-----------------------------------|-------|--------|--------------|--------------|----------------------|
| Alpha Israel Fund Class B | -5% | -1.4% | 12.9% | 11.6% | 9.7% |
| Tel Aviv Stock Exchange 125 Index | -6.8% | 10.9% | 18.7% | 11% | 8.6% |

PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION²

Class A



Class B



TOP HOLDINGS (ALPHABETICALLY)

| | |
|-------------------------|--|
| Camtek | Semiconductor Equipment |
| Electra Real Estate Ltd | Real Estate Operating Companies |
| 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 | 2.1% |
| Financials | 6.8% |
| Health Care | 10% |
| Industrials | 11% |
| Information Technology | 20.9% |
| Materials | 2.3% |
| Real Estate | 13.3% |
| Utilities | 6.6% |
| Energy | 7.6% |
| Other | 2.4% |
| Options | -0.1% |
| Cash | 13.7% |

CAPITALISATION BREAKDOWN

| | |
|--------------------------|-------|
| Under 100m USD | 6.9% |
| In between 100 - 1bn USD | 38.9% |
| In between 1bn - 5bn USD | 28.5% |
| Above 5bn USD | 12% |
| Derivatives | -0.1% |
| Cash | 13.7% |

MAY REPORT

COMMENTARY

The Fund returned -5.0% in May compared to the TA 125 index which was down -6.8%.

The main positive contributor was Ratio Energies in the natural gas sector, which was up 6% for the month (see commentary below). The main detractors were in the tech sector with Perion Networks dropping 12% and profit-taking in Rada, which was down 19%.

The Israeli stock market gave back most of its 2022 outperformance in May. By comparison, the tech-heavy Nasdaq Composite lost -2.0%, leading to a YTD loss of -22.8%.

During the month we increased our holding in FMS, a value position that is benefiting from the political turmoil in Europe. FMS is a global pioneer in advanced ballistic protection technology and production. From mid-March the company witnessed a significant increase in demand for its products, which we expect to be reflected in the Q2 results, despite an increase in raw materials and transportation costs. The company is highly profitable and does not anticipate that the increase in costs will have a significant impact. There is also the scope for an increase in US sales after delays with US defence budget approvals.

As at the time of writing, the standard deviations of the Israeli indices were much lower than US and European indices. We therefore decided to increase the Fund's downside put option protection on the local indices and maintain the current put option protection on global indices.

Stock in Focus: Ratio Energies

Ratio Energies (symbol RATI) recently released its first-quarter report. The results were good and in line with its forecasts in the annual Natural Reserve Report published several months ago. Leviathan Reservoir generated about 2.72 BCM in the quarter (maximum annual production capacity of 12 BCM) and is expected to generate revenues of over \$320 million this year. Operating profit for the quarter was \$50 million with EBITDA of \$56 million.

It's worth noting that the mechanism used to link gas prices to Brent Oil uses a three month average of the oil price, resulting in a quarterly delay between the movement in oil prices and the price of gas. Ratio will therefore benefit from this link in the second quarter and, of course, later in the year should oil prices remain at these levels. Ratio trades on a conservative P/E multiple of 8, without taking account of the price increases. It is our opinion that the company is attractively priced with high visibility and relatively low risk.

Macro developments

Three factors have combined to cause the inflationary pressures affecting most economies:

1. The war in Ukraine has caused the prices of many goods, including oil, fertilizers, and various grains to rise and remain high
2. The zero COVID policy adopted by China has reduced its industrial activity to its lowest level since February 2020
3. Shortages of containers and drivers, congestion at seaports around the world, etc. have led to disruptions

in global supply chains

Any of these factors would be enough on their own to support price increases, let alone all three together. When faced with such inflationary pressures, it is inevitable that central banks will employ monetary policy to curb them. However interest rates affect long term demand, not increases in raw materials prices caused by geopolitical pressures and other supply-side factors. At this stage, there is no evidence of these pressures easing, and it is unclear how long it will be until inflation moderates.

In response, the Bank of Israel (BOI) hiked interest rates by 40bps to 0.75% in May. This latest move represents the highest rate hike since April 2011 and places Israeli interest rates at their highest level since the beginning of 2014.

In its statement, the BOI said "The Israeli economy is recording strong growth, accompanied by a tight labour market and a continued increase in the inflation environment. The Committee has therefore decided to continue the gradual process of increasing the interest rate. The pace of raising the interest rate will be determined in accordance with activity data and the development of inflation, in order to continue supporting the attainment of the policy goals."

It appears the Bol will strive to return the interest rate to a "neutral" level, and even to a "restraining" level, which means an increase in real terms from the current negative level to at least near-zero. Within this framework, we forecast the Bol will continue this process and will raise the interest rate to a level of 1.75% by year-end 2022, and to 2.00% during the first quarter of 2023.

The unemployment rate has continued to decline, alongside a continued rise in the number of available jobs in the economy. The employment data from the Central Bureau of Statistics (CBS) continues to indicate a tight labour market. The unemployment rate declined in April to 3.5%, compared to 3.8% in March, and 5.4% in April 2021. The current level of unemployment is close to its level from before the outbreak of the coronavirus crisis – 3.4% in February 2020.

FEATURES

| | |
|----------------------------|---|
| APIR CODE | PCL6469AU (USD Class) CTS0045AU (AUD Class) |
| REDEMPTION PRICE | A\$ 1.3504 |
| 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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