

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 11.1%

NUMBER OF STOCKS 30

BETA⁴ 0.58

MAXIMUM DRAW DOWN -15.7%

PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 May 2023¹

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	0.1%	-6%	-4%	4.7%	5.9%
Tel Aviv Stock Exchange 125 Index	-0.4%	-11.1%	-0.7%	7.8%	4.7%

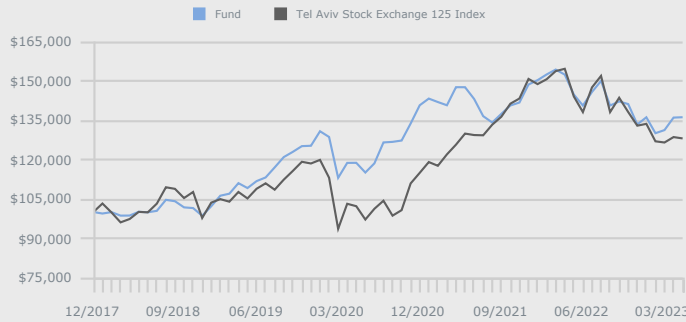
Alpha Israel Fund Class B (USD)

	1 MTH	1 YEAR	2 YEARS P.A.	3 YEARS P.A.	SINCE INCEPTION P.A.
Alpha Israel Fund Class B	1.2%	-4.4%	-2.9%	6.8%	7%
Tel Aviv Stock Exchange 125 Index	-0.4%	-11.1%	-0.7%	7.8%	4.7%

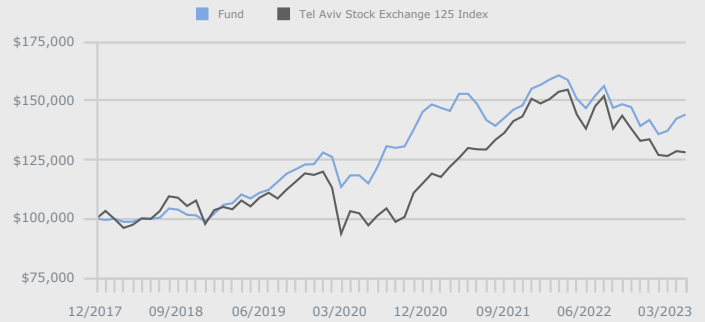
PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION²

Class A



Class B



TOP HOLDINGS (ALPHABETICALLY)

Bank Hapoalim BM	Diversified Banks
Bank Leumi LE IS	Diversified Banks
Camtek	Semiconductor Materials & Equipment
Electra Real Estate Ltd	Real Estate Operating Companies
Payton Planar	Electronic Components

SECTOR BREAKDOWN

Consumer Discretionary	5.3%
Financials	18.5%
Health Care	7.7%
Industrials	11.1%
Information Technology	17.6%
Real Estate	12.6%
Consumer Staples	0%
Energy	10%
Other	2.2%
Options	0.7%
Cash	14.3%

CAPITALISATION BREAKDOWN

Under 100m USD	6.4%
In between 100 - 1bn USD	33.1%
In between 1bn - 5bn USD	20.5%
Above 5bn USD	25.1%
Derivatives	0.7%
Cash	14.3%

MAY REPORT

COMMENTARY

The Fund returned 0.1% (Class A, AUD) and 1.2% (Class B, USD) in May, while the TA 125 Index returned -0.4%.

The Israeli share market remained relatively stable in May, as investors awaited the outcome of the US debt ceiling talks, and their impact on the broader global equity market.

The local market is also focussed on whether May's 0.25% increase in Israel's interest rate to 4.75% represents a peak in this cycle. Most analysts expect inflation to remain elevated for some time, which will pressure the Bank of Israel to increase the interest rate to 5.00%.

Market Review

The decision by the Bank of Israel to increase interest rates at its 22 May meeting was in line with analysts' expectations. This was the Bank's tenth consecutive rate increase and brings the borrowing cost to levels last seen in early 2006.

Annual inflation remained at 5.0% in April, above the upper limit of the Bank's 1.0% – 3.0% target range, although the market expects inflation to fall back towards 3.0% over the next 12 months.

The next meeting of the Bank of Israel on 10 July will closely consider the May inflation report, which is expected to show prices still rising significantly faster than the 3.0% target level. It will also wait to see if the European Central Bank and the Bank of England raise rates at their forthcoming meetings. Both face comparable inflation challenges, especially relating to core inflation. Consequently, there is a high chance the Bank of Israel will increase interest rates to 5.0% when it next meets.

Israel's technology sector experienced a sharp rally during May. This followed the strong gains seen globally in such stocks following US chip developer Nvidia's stronger than expected first quarter earnings results and second quarter revenue growth forecasts. These gains reflected soaring demand for the advanced chips needed to train generative artificial intelligence (AI) systems, such as ChatGPT. It is expected that innovation in artificial intelligence is already bringing a rapid acceleration in the earnings [growth](#) of certain tech companies.

However, the current slowdown in Israel's high-tech services sector is expected to continue. The trend began in the middle of last year and reflects rising interest rates, falling investor risk appetite, and slowing demand in Israel's principal export markets of North America and Europe.

Israel's high-tech exports tend to lag movement in the technology-intensive Nasdaq market index in the US. Therefore, a substantial decline in high-tech exports could have been expected following the sharp fall in the NASDAQ during 2022. However, export growth slowed to 2.3% year-on-year but did not decline. This slowdown is expected to continue over the coming months, but the US recovery which is now underway should be reflected in Israel's high-tech services sector next year.

Portfolio Commentary

The strongest contributor to relative returns in May was the Fund's holding in **Camtek**, which gained 15% during the month, following the strong gains made by global semiconductor companies. It is a leading manufacturer of metrology and inspection equipment and software solutions for the semiconductor industry.

The Fund's position in **Planar Magnetics**, which produces transformers for electric vehicles, was another large contributor to relative returns as its shares rose 20% in May.

In May, **Nvidia** announced it is to build one of the world's most powerful AI supercomputers at its research and development facility in Israel. The system, called Israel-1, is expected to start early production by the end of 2023 and is valued at several hundred million US dollars.

This facility was originally established by the Israeli technology company Mellanox Holdings, which was held in the Fund, before being acquired by Nvidia in 2020. This reflects one of the Fund's goals, which is to identify companies that demonstrate technology leadership and offer the potential of being acquired by large global tech groups at an advantageous price to shareholders.

The Fund maintains its large exposure to the natural gas sector through its holdings in **Ratio Energies** and **The Tamar Group**. These are expected to benefit as plans to extend the East Mediterranean Gas Company pipeline are progressed. This carries gas from Israel to Egypt and will be used to increase export volumes to the European Union as it seeks to diversify away from Russian supplies.

Volatility in global equity markets fell in May, which was reflected in the Israeli share market. This brought lower option prices which enabled the Fund to purchase downside market protection at an attractive price level. The Fund has established a long put spread position maturing in September to protect approximately 30% of its US portfolio from a market correction in excess of 10%.

When this position moved into the money later in May it was sold and the proceeds were used to establish a position that also matures at the end of June but is 1.5 times greater. The new position protects approximately 40% of the local market exposure from any market fall over 7% of the current market level.

FEATURES

APIR CODE PCL6469AU (USD Class) CTS0045AU (AUD Class)

REDEMPTION PRICE A\$ 0.9975

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



PENGANA.COM

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