PENGANA CAPITAL GROUP

MONTHLY REPORT
DECEMBER 2021

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
11%	35	0.55	-13.6%

PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 Dec 2021[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	4.8%	5.6%	8.9%	14.7%	10.4%
Tel Aviv Stock Exchange 125 Index	5.2%	31.1%	12.8%	15.5%	10.8%

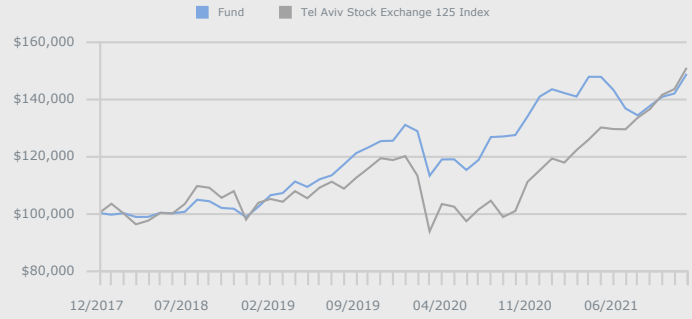
Alpha Israel Fund Class B (USD)

	1 MTH	1 YEAR	2 YEARS P.A.	3 YEARS P.A.	SINCE INCEPTION P.A.
Alpha Israel Fund Class B	4.8%	6.7%	12.2%	16.2%	11.6%
Tel Aviv Stock Exchange 125 Index	5.2%	31.1%	12.8%	15.5%	10.8%

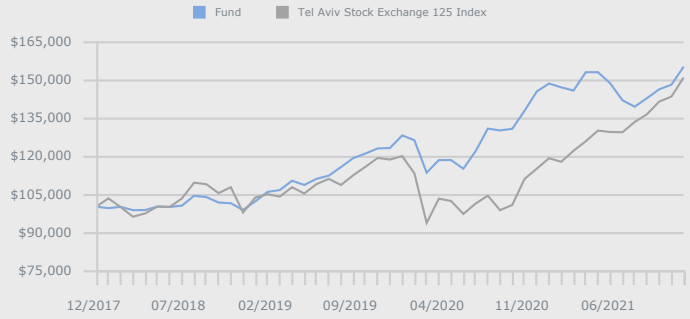
PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION[2]

Class A



Class B



TOP HOLDINGS (ALPHABETICALLY)

Airport City Ltd	Diversified Real Estate Activities
Alony Hetz Properties	Real Estate Operating Companies
Kenon Holdings Ltd	Independent Power Producers & Energy Traders
Priortech Ltd	Electronic Components
Telsys	Technology Distributors

SECTOR BREAKDOWN

Communication Services	2.2%
Consumer Discretionary	6.6%
Financials	9%
Health Care	9%
Industrials	12.5%
Information Technology	21.8%
Real Estate	19%
Utilities	6.9%
Energy	4.5%
Other	0.1%
Options	0.5%
Cash	8%

CAPITALISATION BREAKDOWN

Under 100m USD	10.3%
In between 100 - 1bn USD	38.9%
In between 1bn - 5bn USD	40%
Above 5bn USD	2.3%
Derivatives	0.5%
Cash	8%

YEAR IN REVIEW

COMMENTARY

The Fund rose +4.8% (AUD and USD classes) in December, slightly underperforming the Tel Aviv Stock Exchange 125 Index, which rose +5.2% (ILS).

The main contributors during December were Telsys (+27%), Peninsula (+17%) and Kenon (+10%).

Telsys benefitted from increasing demand for its products and an acquisition by the controlling shareholders, who have significantly increased their holding in the company. Peninsula rose on the news that its balance sheet should grow from USD400m million to about USD700 million, without additional capital raising, by the end of 2022. Kenon, (see below Stocks in Focus), a global container shipping company, continued to appreciate as transport prices remain close to their peak and show little sign of falling in the near future.

The main detractor this month was Fatal Holdings (-7%), a hotel and hospitality chain in Israel/Europe. We expect this sector to improve in the future, however, we remain cautious and the position is therefore only small. While Fatal's business in Europe has been hurt by COVID, the company receives grants from the EU (European Union) and the Israeli business is profitable due to strong local tourism.

In the last quarter of 2021, we entered a new position in the Natural Gas sector through a holding in Ratio Exploration. Israel's domestic energy market passed a material stress test during COVID and, despite the geopolitical risk inherent in this industry, we believe that our entry price represents an attractive risk/return prospect in view of the company's potential for specialization and expansion. We will elaborate furthermore on this position in our next monthly report.

In the broader commentary below, we review the year that was and take a look at some macro developments and specific stocks in the portfolio.

Year in Review

As we farewell 2021 and reflect on what we have witnessed, we cannot escape using words like "unexpected", "high variance", and "deceiving". These words are often used in capital market commentaries but their intensity was much more pronounced last year. For example, when the S&P 500 closed at a 52-week high on December 29th, 334 companies had hit a 52-week low, more than double the number that marked new one-year highs. That's happened only three times before — one of them in December 1999, a few months before the dot-com bust. The last time it happened was in July 2015, right before a six-month correction that saw the index lose around 14%.

If we look at the top technology companies in the U.S (United States): Apple, Amazon, Microsoft, Google, Facebook, Tesla and Nvidia, these 7 companies now represent more than a quarter of the weight in the S&P500 index. This increases the financial world's dependence on the performance of these 7 companies. Any slight deviation from the optimistic path drawn by investors could lead to an upheaval – in a single stock, in a group of stocks, or even in the market as a whole. This insight leads us to believe that the high volatility that has characterized stock markets over the past six weeks will probably remain with us well into the new year.

Looking specifically at the IPO segment and the Unicorn IPOs in 2021, about 75% of the Israeli companies issued on Wall Street had a negative return. In absolute numbers, only 5 companies, out of 22, recorded a positive return in the period. The declines generally followed the companies' first results announcements or forward forecasts, which

demonstrated that valuations were disconnected from the results and that the IPO targets were too optimistic.

Over the course of the 2021 calendar year the Fund rose +5.6% (Class A) and 6.7% (Class B), underperforming the Tel Aviv Stock Exchange 125 Index, which rose +31.1% (ILS). We believe that a bear market in mid and small-cap tech stocks started in March 2021. This was mainly caused by the shift that has been taking place from growth to value stocks, and was one of the major factors that hurt the Fund's performance in 2021.

Stocks in Focus

The two stocks that added the most value for the Fund in the second half of 2021, and we believe will lead the Fund through 2022, are Zim (which we hold through its parent company Kenon) and Priortech.

Kenon/Zim is a global container shipping company and was one of the main beneficiaries from the turmoil created by COVID on global supply chains. This occurred just as a resurgence in trade and strong demand for commodities meant more goods needed to be transported, resulting in skyrocketing shipping prices.

The company has continued to expand its fleet with the purchase of eight second-hand vessels in the third quarter of 2021, and recently announced a strategic long-term chartering agreement and option exercise with Seaspan. The agreement covers fifteen LNG fuelled vessels, demonstrating ZIM's commitment to reducing its carbon footprint. These 15 vessels are intended to be deployed across ZIM's various global trade routes.

In the third quarter of 2021, the company generated its highest ever quarterly net income of USD1.46 billion and adjusted EBITDA of USD2.08 billion. 30-50% of the total 2021 net income is expected to be distributed to shareholders in 2022.

Priortech is a semiconductor holding company that we have written about in prior monthly newsletters. It has two holdings in the chip industry: Camtek, which manufactures test devices for the quality of chips at the time of their manufacture, and Amitek (a 66.5% shareholding), which is a private company that owns about 40% of Access, a Chinese private company that manufactures bedding and packages for the chip industry.

It is well documented that the COVID-19 pandemic has disrupted the manufacturing chain of the chip industry. The trade war, which was in the headlines in the Age of Trump, also continues, even though it no longer attracts the attention of the global press as it once did. The Chinese have realised that in order to protect their economy, they must develop their own manufacturing capabilities in the chip industry and the "sub-linen" industry, in which Access specializes. Today, only about 4% of the "bedding" that China uses is produced in China. The government has set a target of reaching a self-production capacity of 30%. Access therefore enjoys great demand within China. In addition, Priortech will soon have the opportunity to increase its stake in Access as the other main shareholder, Principle Capital Group, is in the process of liquidating its investments.

Priortech is an excellent company with the potential for longstanding growth in its target markets. The company has delivered fantastic results in 2021, with subsidiaries Camtek and Access showing rapid growth in attractive niche markets in the global chip industry, and has raised further capital through bonds, improving the Fund's position as a shareholder. Although we have recently reduced the position due to its strong performance, Priortech still constitutes a significant holding in the Fund.

Macro Developments

On the macro front, an announcement was made on December 15th by MSCI that it is considering including the MSCI Israel Index as part of the MSCI Europe Index. The final decision will be announced by February 28, 2022. We strongly believe that Israel should be considered part of Europe and not the Middle East for the purpose of MSCI Indices, for the following reasons:

- Israel is already considered to be part of Europe in many financial aspects and by various financial organizations.
- Israel is not allocated to any major geographical area by MSCI. Israel is the only developed country in the Middle East, which has no major index covering it.
- Investors miss out today on the diversification that comes with exposure to Israel; they miss out on the exposure to the strong (and strengthening) Israeli Shekel and the exposure to the Israeli technology sector
- Many European equity benchmark aware fund managers want to invest in Israel but are unable to as they restricted by their current mandates
- European indices lack technology exposure, especially compared to the US (United States).

Wrap-up

We constantly examine ourselves; we review our successes and failures and share our findings in our monthly reports throughout the year. We are generally quite hard on ourselves, and we find that there is always something to learn. Of utmost importance to us is to preserve our disciplined investment process, and avoid the "background noises" of the market. We examine the portfolio and how decisions are made on an ongoing basis, and on different levels of analysis. For example, what did we predict correctly and what did we get wrong? Did the contribution to the Fund come from the 5 or 10 largest holdings or actually from the smaller holdings? How much did our downside protection strategy benefit or damage the Fund? How did the performance of each sector in the Fund compare against its relevant index?.

Last year, the negative impact on the Fund came from a very specific segment of the market, the high-risk stocks. This has been part of the overall story of 2021, which we have mentioned previously. In 2021, we saw a record number of IPOs on the Israeli stock exchange. This is a positive long-term outcome for the stock market in general, as it increases the number of opportunities that will be created for us. A number of IPOs were for mature and profitable companies, in which case the main question will continue to be the value at which to invest in the company. However, there were quite a lot of IPO's of companies that were pre-mature, reflecting blue sky expectations, which createsa real difficulty in assessing their value. The negative impact was due to the fact that almost all shares in this latter class fell by about 50% this year, almost regardless of the nature of the companies or the progress of their company results.

As we conclude this year, we are certainly not satisfied with our yearly underperformance, but 15 years of funds management have taught us that we will have specific years where we will underperform and years where we will outperform. Our mission is to create significant positive Alpha. Outperforming in the long term is something that we are very proud to have accomplished over the last 15 years. We maintain our approach to managing other people's money as the highest responsibility, and we do not take your investment with us for granted. We very much appreciate your ongoing support and we want to take the opportunity to wish you and your families success and good health in 2022.

FEATURES

APIR CODE	PCL6469AU (USD Class) CTS0045AU (AUD Class)
REDEMPTION PRICE	A$ 1.3890
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.

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