

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 11.8%

NUMBER OF STOCKS 30

BETA⁴ 0.62

MAXIMUM DRAW DOWN -15.7%

PERFORMANCE TABLE

NET PERFORMANCE FOR PERIODS ENDING 31 Dec 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	5.3%	11.5%	0.0%	1.9%	6.8%
Tel Aviv Stock Exchange 125 Index	5.3%	4.1%	-4.2%	6.4%	5.6%

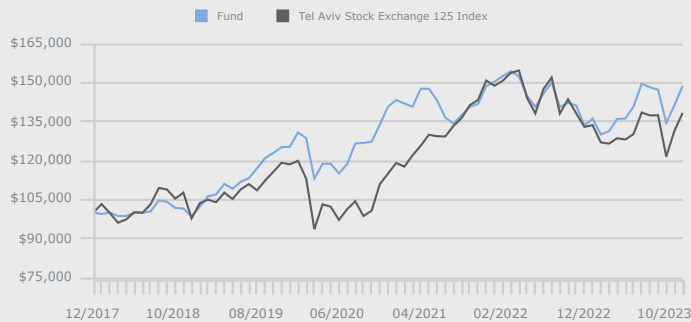
Alpha Israel Fund Class B (USD)

	1 MTH	1 YEAR	2 YEARS P.A.	3 YEARS P.A.	SINCE INCEPTION P.A.
Alpha Israel Fund Class B	5.3%	14.3%	1.3%	3.1%	8.1%
Tel Aviv Stock Exchange 125 Index	5.3%	4.1%	-4.2%	6.4%	5.6%

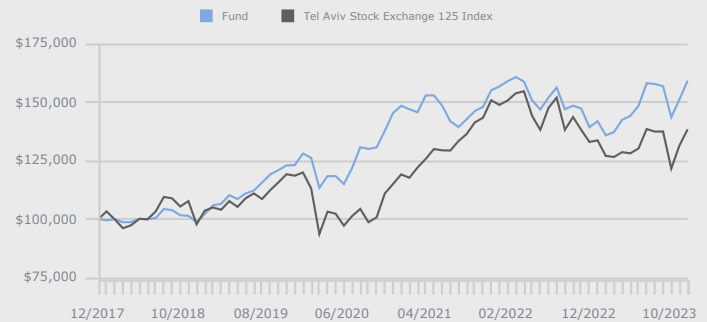
PERFORMANCE CHART

NET PERFORMANCE SINCE INCEPTION²

Class A



Class B



TOP HOLDINGS (ALPHABETICALLY)

Alony Hetz Properties	Real Estate Operating Companies
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

SECTOR BREAKDOWN

Communication Services	4.4%
Consumer Discretionary	3.7%
Financials	26.4%
Health Care	3.5%
Industrials	2.9%
Information Technology	21.4%
Real Estate	20.1%
Consumer Staples	0%
Energy	5.8%
Other	1.7%
Options	0.2%
Cash	9.9%

CAPITALISATION BREAKDOWN

Under 100m USD	5.2%
In between 100 - 1bn USD	31.1%
In between 1bn - 5bn USD	14.6%
Above 5bn USD	37.3%
Derivatives	0.2%
Not Classified	1.7%
Cash	9.9%

DECEMBER REPORT

COMMENTARY

- Israeli equities continued to make strong gains in December, reflecting buoyant global share markets, bringing a year of solid returns to a close.
- Falling inflation in Israel allowed the Bank of Israel to cut interest rates in December by 0.25% to 4.50%, which helped support share prices.
- The Fund returned 5.3% (Class A, AUD) and 5.3% (Class B, USD), the TA 125 Index also returned 5.3% in December; over the full year the Fund returned 11.5% (Class A, AUD) and 14.3% (Class B, USD), while the TA 125 Index returned 4.1%.

Market Review

Israel's share market continued to deliver strong returns in December. It benefitted from the rebound in global equities as the US Federal Reserve hinted interest rates may fall sooner and faster than had been expected.

The Bank of Israel reduced the interest rate in December by 0.25% to 4.50% after November inflation fell 0.4% to 3.7% year-on-year. The central bank's post-meeting commentary was considered 'dovish' as it highlighted that core inflation was now within the bank's target range. Governor Amir Yaron confirmed that future rate cuts were contingent on inflation converging with its 1.0% – 3.0% inflation target and also the government's fiscal policy. The Bank expects interest rates to have fallen to 3.75% – 4.00% by the final quarter of 2024.

A vote of confidence

Israel's economy expanded 2.5% year-on-year in the third quarter, from the previous 2.8%. During December the central bank published its GDP forecasts, which it expects to grow by 2.3% in 2023 and 2.8% in 2024. Meanwhile, the OECD has forecast a strong bounce-back in 2025, with the economy growing 4.5%.

The country's economy was given an additional boost in December when Intel, the world's largest semiconductor manufacturer announced a US\$25 billion investment in Israel. It will expand its wafer fabrication plant in the south of the country as part of its strategy to diversify its global supply chain. Intel acquired the Israeli driver-assisted technology start up Mobileye in 2017 for US\$15.3 billion before floating the company in October 2022.

Intel Israel develops some of the global company's most advanced chips and its third chip plant in the country will be operational in 2026. The company's exports reached a record of US\$9billion, which represented 5.5% of Israel's technology exports and 1.75% of its GDP.

This financial commitment at a time of macro uncertainty demonstrates Israel's strength in semiconductors; investments from which the Fund has benefitted include:

- Orbotech which was bought by the US capital equipment company KLA for US\$3.6 billion in 2019
- Mellanox which was acquired by the US developer Nvidia for US\$7 billion in 2020

Technology is the growth engine of the Israeli economy and accounts for almost 20% of the country's GDP, over 25% of the government's income tax receipts and 52% of total exports.

Portfolio Commentary

The main contributors to relative returns in December were the Fund's exposure to the real estate (Alony Hetz +19% and Azrieli Group +10%) and technology (SolarEdge +18% and Telsys +14%) sectors. The main detractor was the Fund's derivative protection position as the equity market strengthened.

SolarEdge Technologies is an innovator in smart energy technology. It designs, develops, and sells direct current (DC) optimized inverter systems for solar photovoltaic (PV) installations worldwide. The Fund previously held a position in the stock three years ago. The stock became attractively valued upon interest rate rises, lower electricity prices in Europe and high inventory levels on the market. The Fund took the opportunity to re-establish a significant position at a valuation multiple of less than 10 times its earnings.

Solar continues to enjoy strong secular growth as the global economy decarbonises, electricity use continues to increase and prices rise. The company should begin to recover from 2024 and grow sales to US\$2.8 billion in 2025, which would still be lower than in 2022-23. This should deliver an attractive low double digit operating profit, which represents an attractive risk-return opportunity.

The Fund is building a position in real estate developer and manager Azrieli Group, which is expected to eventually represent 7% of the Fund, (currently 5%). The present valuation level is highly attractive as the market does not fully recognise the earnings growth which will be driven by its data centres.

The Fund reduced its large exposure to the natural gas sector during December following its strong performance in 2023 when it reached a fair valuation level.

The Fund currently holds limited downside protection from adverse market movement through derivative positions. This leaves the Fund with a fairly high level of exposure to equity market upside, reflecting its positive view of the market's valuation level but mindful of ongoing volatility.

Annual Review

2023 was a particularly challenging year as Israel faced a major terrorist attack in the south of the country, leading to a military operation which remains ongoing. This has impacted Israel society more widely, with implications for the economy and investment markets.

However, Israel remains united and optimistic for the future, which has positive implications for long-term investors. History has shown that the country's crises invariably appear more difficult at the time than in hindsight.

Israel entered the current military operation from a position of economic strength, with low unemployment, high GDP growth, strong labour productivity, a good credit rating and fast-growing population with favourable demographics. While the ongoing operation adds uncertainty to the macro-economic environment and represents a strain on the country's labour supply, local share prices are more influenced by global economic and stock market trends, which remain positive.

Investors do well by sticking to an appropriate strategy rather than being thrown off course by dramatic but short-term events. The Fund's strong returns in 2023 reflected a resilient Israeli share market which made solid gains in line with the broader global market. This followed a peak in global interest rates, lower long-term borrowing costs and hopes of a soft landing which should deliver continued corporate earnings growth.

FEATURES

APIR CODE	PCL6469AU (USD Class) CTS0045AU (AUD Class)
REDEMPTION PRICE	A\$ 1.0296
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

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