Frequently Asked Questions

MCM Israeli IT-Security (Cyber) Fund

Content

The Cybersecurity Market

Q: Why invest in the cybersecurity market?

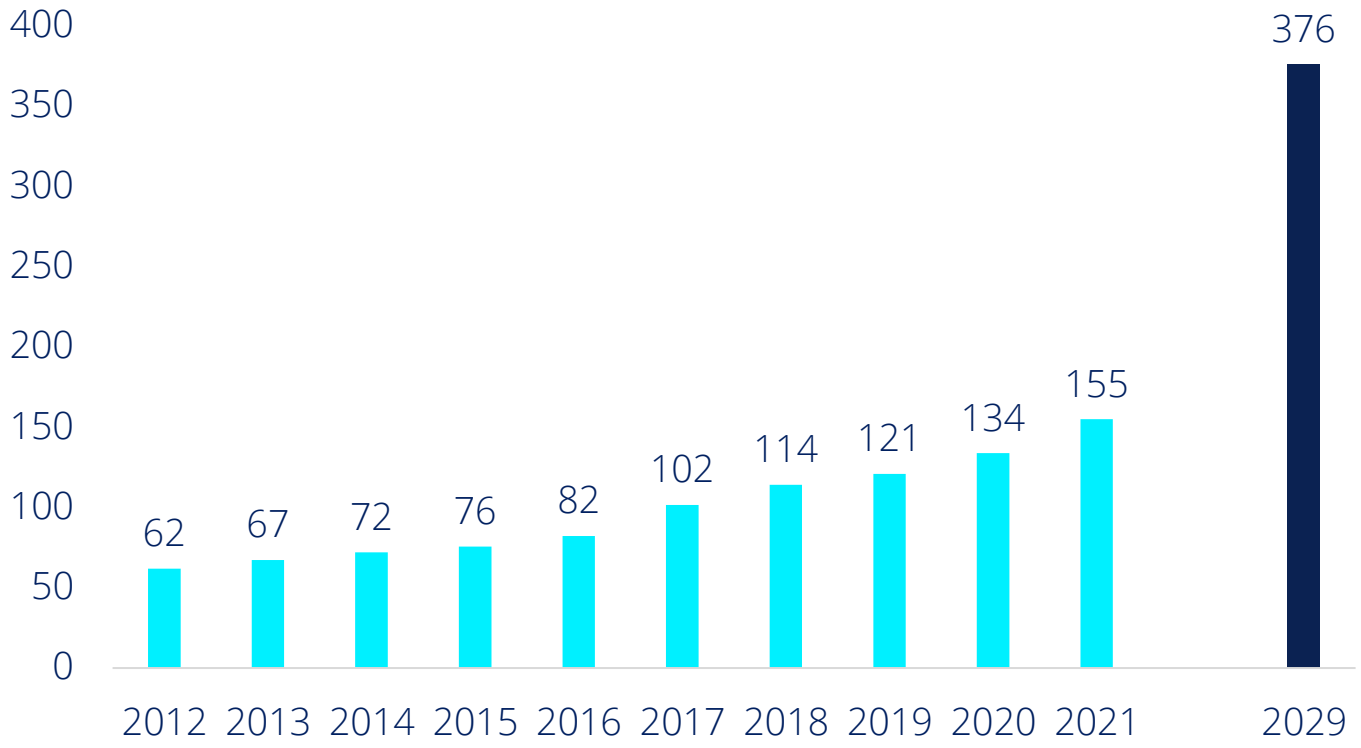
A: The cyber security market is unique because it is little affected by interest rate hikes or market conditions, but from changes in technology. As long as new technologies arise, there will be a demand for cyber security products. The demand ranges from private users to the largest enterprises in the world. Data breach costs rose from USD 3.86 million to USD 4.24 million, the highest average total cost in the 17-year history (IBM).

In addition, new regulatory and insurance demands will require companies to have sufficient safety measures to secure their organization in order to meet increasing requirements.

Overall, global cyber security market is projected to grow from USD 155.83 billion in 2022 to USD 376.32 billion by 2029, exhibiting a CAGR of 13.4% (Fortune).

In summary, according to our estimation, the cyber security market will almost double in size during the next 5 years, as shown in the following figure.

Global Spending on I.T. Security (in billion U.S dollars):

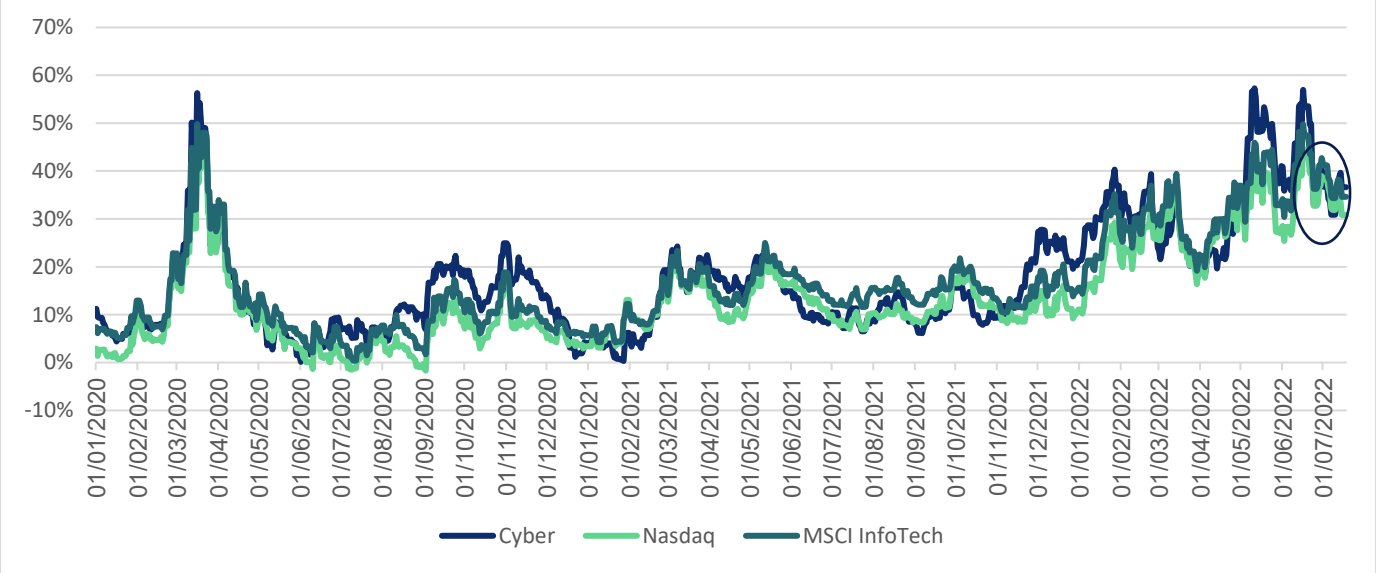


Q: Aren't cybersecurity companies overvalued?

A: We do not see a bubble or turmoil in the cybersecurity market because demand for their products and services will continue to increase. Therefore, we see a great long-term potential in cybersecurity firms.

The following figure shows the upside based on the best target price from Bloomberg vs. the Nasdaq Index and MSCI World Infotech index.

UPSIDE POTENTIAL ACCORDING BLOOMBERG TARGET PRICE



As of the 18.7.22, the potential upside for Cyber companies is about 40%.

Q: Can you explain what happened in the past quarter in the cybersecurity in terms of financial earnings?

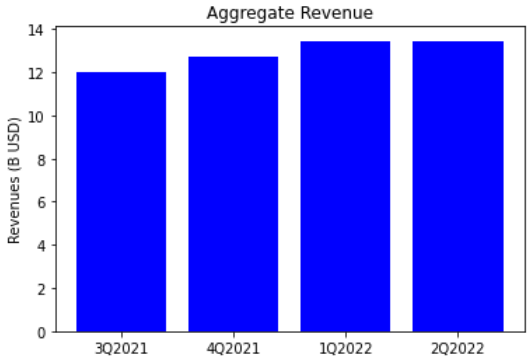
A: Overall, the total Revenue in this quarter is $13.45 B, an increase of 0.28%. 20 companies have increased their quarterly revenues. Total Net income is $889 M, an increase of 158%, and 14 companies have increased their quarterly net income. Total number of profitable companies is 12 compared to 13 in the previous quarter.

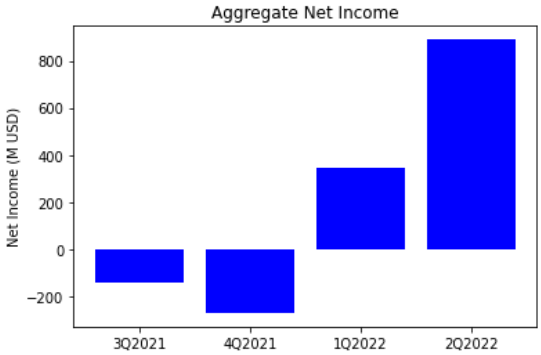
In Q2, 24 companies have surpassed the market net income census, while 7 companies have had a negative earnings surprise.

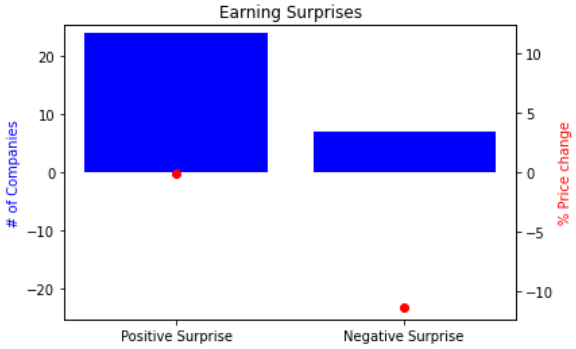
Interestingly, in terms of market price, there has been almost no price movement after positive earnings surprise, while for negative earnings surprise the average price decline has been 10%.

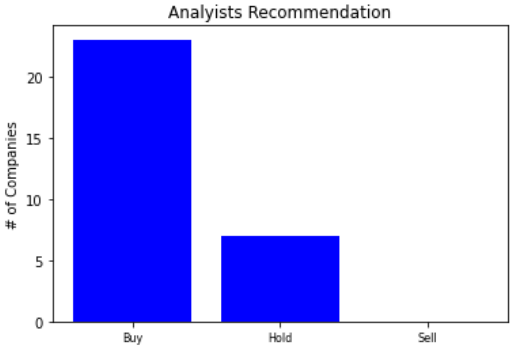
After the earnings season, it seems that analysts still remain bullish on the cybersecurity sector, with 20 companies having a "Buy" recommendation and 6 having a "Hold" recommendation.

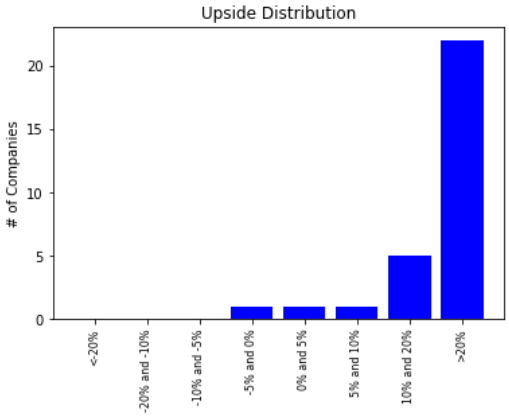
Also, the distribution of target prices by analysts is very optimistic. For 23 companies, the upside is more than 20% with only one company having a negative target price.


Aggregate Revenue
Revenues (B USD)
0
2
4
6
8
10
12
14
3Q2021
4Q2021
1Q2022
2Q2022


Aggregate Net Income
Net Income (M USD)
−200
0
200
400
600
800
3Q2021
4Q2021
1Q2022
2Q2022


Earning Surprises
# of Companies
% Price change
20
10
0
−10
−20
10
5
0
−5
−10
Positive Surprise
Negative Surprise

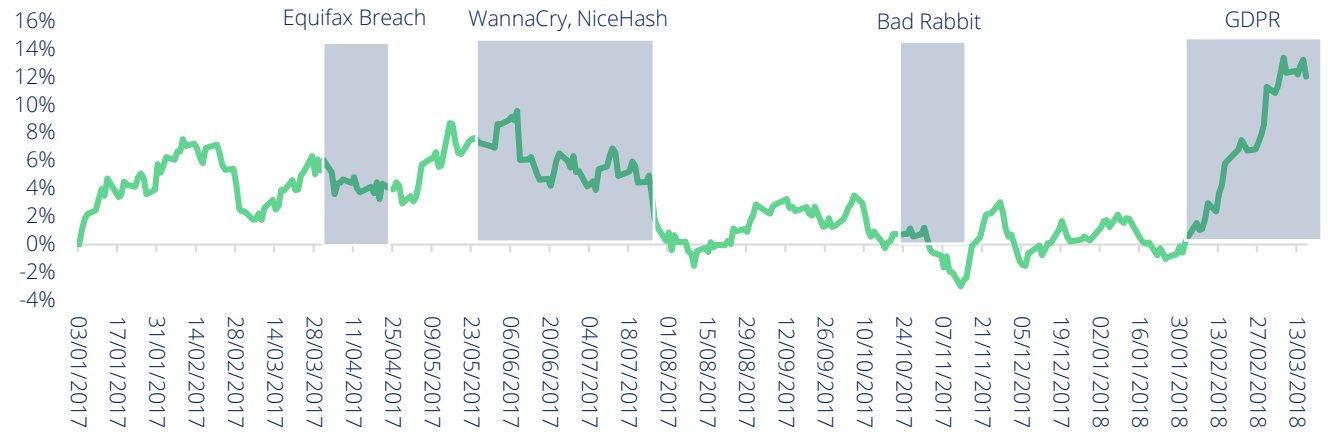

Analyists Recommendation
# of Companies
0
5
10
15
20
Buy
Hold
Sell


Upside Distribution
# of Companies
0
5
10
15
20
<-20%
-20% and -10%
-10% and -5%
-5% and 0%
0% and 5%
5% and 10%
10% and 20%
>20%

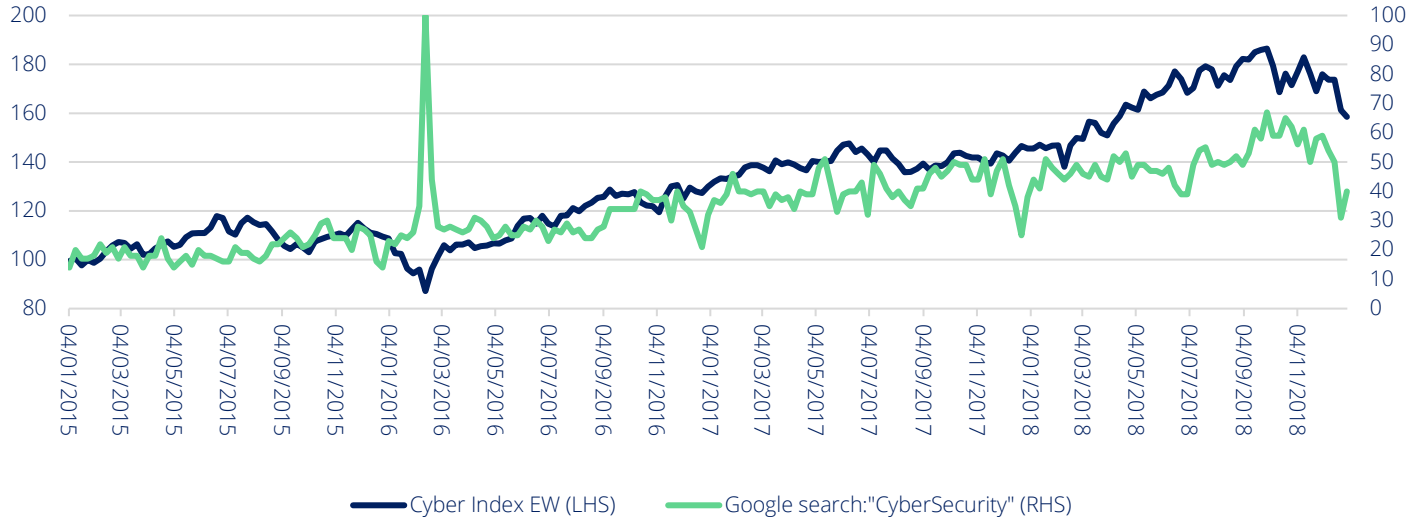
Q: Do you see a connection between mega cyber-attack and the trend in the cybersecurity financial market?

A: Yes, we see a correlation between the outperformance of the Hack over the S&P500 and large cybersecurity attacks or new regulation. We believe that each cyber-attack increases the awareness of cyber risks and the need to search for product solution patches.

HACK CUMMULATIVE OVERPERFORMANCE OVER S&P500



There is a robust connection between the performances of the Cyber Equal Weight Index and the google search for '*cybersecurity*', as can see in the following figure. The explanation of the connection between these two factors is caused by cyberattacks. It seems that in periods of massive cybercrimes, the public / corporations look for explanations and protection from one side and investors try to capitalize on this opportunity from the other side.



Q: WHY DO YOU FOCUS ON ISRAELI FIRMS?

A: To date, there are approximately 450 cybersecurity corporations operating in Israel (Forbes). Around 40% of the private global investment in cyber security funding rounds are in Israel. Israel is considered to be the "startup nation". R&D Expenditures as a percentage of GDP are the highest in the world. More than 307 global companies decided to open R&D centers in Israel including; Intel, IBM, Microsoft and Amazon. Specifically, 21 global companies have their cybersecurity R&D centers in Israel. In addition to this, Israel is considered to be one of the main favored targets by hackers (e.g. the Israeli electricity company reports dozens of cybersecurity attacks a day). Moreover, many cyber companies like Check Point are identified as Israeli.

The main strength of Migdal Capital Markets as a local investment house is its close proximity to all the listed IT security

Q: WHAT ARE THE BENEFITS OF INVESTING IN ISRAELI LISTED COMPANIES RATHER THAN ISRAELI STARTUPS?

- The ability to build and harvest a significant AUM portfolio of startup companies can take years
- For the Israel listed companies, the market cap is usually small cap (in global perspective) and the benefits are enjoyed both from:
  - The startup ecosystem - listed Israeli companies that were bought by other companies, usually with nice double-digit upside e.g. MobileEye, Orbotech, Imperva, Mellanox, Mazor
  - Large companies buying small startups e.g: Palo Alto bought Demisto, Checkpoint Bought Dome9

In addition, the general differences between investment in startups and listed companies are:

- Liquidity – By having listed companies you can liquidate your position relative to startups where it is almost impossible (unless M&A or IPO).
  Valuation – In startups, the valuation is determined by the last round which does not necessarily represent the true valuation. In addition, when investing in startups you usually carry out a full DD which in most cases is not cost efficient (you won't invest in every startup although you've carried out a full DD)
- Governance and Control – In startup companies the investors are usually not passive, both in strategy and further investments, which requires time and professionalism
- Success Ratio – The main issue with investing in startups is the failure probabilities (more than 80%) and the binary valuation of the company if it fails. In addition, startup rounds can dilute the investments with no liquidity until M&A or IPO. The statistic that we're familiar with shows there is only a 6% probability for an IPO. Listed companies have already been successful in going to the market and do not have the same binary results

Investment Strategy

Q: What is the Fund strategy?

A: The Sub-Fund's main objective is to achieve a long term capital appreciation by selecting stocks within Israel's IT-Security sector based on quantitative models. The strategy will then overweight those stocks within a large and diversified basket of global IT security stocks. The Sub-Fund aims to maximize the increase in value of the portfolio with agile response to the Israel, London and US markets.

Q: WHAT IS THE UNIVERSE AND THE INVESTMENT POLICY?

A: In order to achieve its investment objective, the Sub-Fund will mainly invest in Israeli related tech stocks and global cyber-security stocks and will overweight the equities related to the IT security sector within a portfolio of global technology stocks in accordance with the "General Investment Restrictions". The Sub-Fund will invest (up to 100% of its net assets) in equities mainly listed on the US, London and Israel markets. The quantitative models used by the Manager aim to achieve the investment objective through a dynamic risk protection process, which increases allocation to low risk money markets during periods of high risk, as well as dynamically allocating to the best performing equities.

Q: How many equities are in the Investment universe?

A: As of May 2022, the universe includes 31 pure player cybersecurity companies and 60 companies containing cybersecurity products with total market cap of $319 Billion.

Q: What is the market cap threshold?

A: Stocks must have a minimum market capitalization of $100M, in order to enter the fund investment universe.

Q: Can the fund invest in non-Israeli companies?

A: Yes. However we are not allowed to invest more than 50%.

Q: Can the fund invest in non-cybersecurity companies?

A: Yes, but only from the fund investment universe, up to 25% of the fund assets.

Q: Please describe why from 91 companies the fund invests only in 21?

A: From a total of 91 companies we excluded; 14 companies trading only on the Tel-Aviv Stock Exchange because of their low trading volume, 26 companies that are below our $100M market cap criteria or have a "Sell" recommendation. Our qualitative analysis led to what we call the "Relevant Universe" of 48 companies: 12 companies are Israeli IT and 36 cyber security.

Amongst the 48 stocks in the "Relevant Universe", only 25 companies have a "Buy" recommendation. Then, the risk management process (detailed in section 4) screens the universe to build the current portfolio containing 21 securities.

Q: What is the correlation between the fund and other comparable indices?

A: The correlation between the fund and its peer indices is shown in the following table:

SECURITY	Fund	XHR	ISPY	BGTH	MSCI Info-Tech
Fund	1.000	0.845	0.409	0.793	0.745
XHR	0.845	1.000	0.500	0.724	0.729
ISPY	0.409	0.500	1.000	0.431	0.333
BGTH	0.793	0.724	0.431	1.000	0.708
MSCI Info-Tech	0.745	0.729	0.333	0.708	1.000

Q: What is the Sharpe ratio, volatility and performance for the fund and the peer indices?

RETURN	*YTD*	*1 Month*	*1 Year*	*3 Years*	*Since Inc.*
NHS MCM ISRAELI IT SEC-G	-26.43%	-5.06%	-26.40%	6.23%	81.65%
ETFMG PRIME CYBER SECURITY E	-25.47%	-4.22%	-24.48%	15.16%	70.01%
BlueStar Is Gl Tech	-28.69%	-5.99%	-35.55%	16.68%	84.33%
NASDAQ COMPOSITE	-29.51%	-8.71%	-23.96%	37.75%	110.08%
STD DEV	*YTD*	*1 Month*	*1 Year*	*3 Years*	*Since Inc.*
NHS MCM ISRAELI IT SEC-G			21.19%	23.22%	22.64%
ETFMG PRIME CYBER SECURITY E			22.16%	23.48%	22.72%
BlueStar Is Gl Tech			19.92%	24.96%	22.68%
NASDAQ COMPOSITE			21.07%	21.50%	20.67%
SHARPE	*YTD*	*1 Month*	*1 Year*	*3 Years*	*Since Inc.*
NHS MCM ISRAELI IT SEC-G			-1.29	0.21	0.44
ETFMG PRIME CYBER SECURITY E			-1.15	0.33	0.43
BlueStar Is Gl Tech			-1.83	0.37	0.42
NASDAQ COMPOSITE			-1.18	0.68	0.56

As of 1.7.2022

Q: How long is the "historical data"? Three years? Five years? Do you think that this model would weather a financial crisis (like 2008 GFC)?

A: As for the historical data, Please find the table below

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	ANNUAL
2022	-9.91%	2.05%	3.46%	-9.88%	-9.60%	-5.06%							-26.43%
2021	-0.57%	0.19%	-6.78%	4.01%	-1.82%	7.57%	3.50%	3.48%	-6.43%	6.32%	-6.50%	0.42%	2.05%
2020	3.35%	-8.85%	-9.48%	7.33%	14.24%	-0.88%	7.72%	3.64%	-5.16%	-3.39%	11.66%	14.75%	35.85%
2019	12.57%	7.37%	2.66%	3.18%	-3.72%	3.34%	4.76%	-1.27%	-5.97%	2.06%	6.75%	-1.68%	32.68&
2018	3.47%	4.81%	3.04%	3.67%	5.84%	0.65%	-1.45%	10.28%	-1.76%	-12.56%	1.35%	-6.56%	9.10%
2017	6.85%	0.39%	2.36%	1.46%	4.81%	0.46%	0.09%	1.60%	1.08%	1.38%	1.01%	-0.47%	22.89%
2016									2.45%	-4.45%	1.75%	0.52%	0.27%

Q: What is the Fund recent ranking?

A: please see recent ranking of CityWire

https://citywireselector.com/fund/nhs-sicav-ii-mcm-israeli-it-security-g-usd/c571363?periodMonths=12

In addition, the fund has ranked 4 stars at Morningstar in 2018.

In addition, historical ranking were:

(1) The ranking was as of 31.12.2018. Out of 468 funds in EAA Fund Sector Equity Technology Morningstar Category. (2) The ranking was as of 31.1.2019 over 1 year (1.2.18-31.1.19). Out of 491 funds in EAA Fund Sector Equity Technology Morningstar Category. Morningstar methodology ranked: The Placement of particular fund in a ranking, with 1 being the highest percentile and 100 the lowest, of its peers (i.e. Morningstar Category) for a specific data point. (3) Source and Copyright: Citywire. The NHS-SICAV II-MCM Israeli IT-Security G USD fund was ranked number 1 on a total return basis over 1 year (1.2.18-31.1.19) by Citywire, to the period January 2018.

Fundamental Analysis

3.1 Can you describe the fundamental analysis process of a cyber company?

A: The methodology for analyzing cyber companies is similar to a growth company methodology, the difference being that cyber companies have larger R&D expenditures relative to IT growth companies.

The main steps are:

- Speaking with and meeting companies, their competitors and clients to understand the products, their S.W.O.T, the product pipeline and the build the projections (e.g. sales growth, investment in R&D and marketing).
- Building a DCF model which usually contains our assumptions for product sales and services. We differentiate between R&D Capex and Opex to build our projections on future profitability. This is where our very close proximity to the R&D departments enables us to build very detailed projections. The DCF model is usually constructed for 5-7 years with our own assumptions for each year. The reason for the 5-7 year horizon is to minimize the dependency on the terminal year valuation, which could impact the total valuation.
- The discount rates usually range between 8% and 15%, depending on the inherent company risk, our conviction in its products and our S.W.O.T analysis.
- The DCF valuation sets the target price for the relevant universe.
- The model is updated every quarter, when the company reports or upon a major event.

Q: What exactly are your assumptions? What type of fields (FCF?) do analysts input? Does the DCF model usually contain your assumptions?

A: The DCF contains several assumptions:

- Revenues:
  - Market trends (e.g: general assumptions on the specific sub sector) - we usually take these assumptions from Gartner and Markets and Markets
  - Geographic allocation and exposure
  - New pipeline of products
  - Retention rate – as most of the companies are service providers we usually look to see the renewal rate, deferred revenues (% of revenue)
  - New regulation that could affect the demand of the company's revenues (e.g. GDPR)
  - New client base
  - Currency exposure
  - Guidance vs. actual assumptions
  - Major clients or service providers

- R&D:
  - R&D expenditure (Capex and Opex) as of revenues

- Sales and Marketing:
  - Analysis of sales strategy, "go-to-market approach"
  - Revenue allocation based on sales strategy

- Correlation between sales and billing
- Customer satisfaction

In tech companies are usually based on FCF, however time horizons can change (3-5 years) and is very much company specific.

The analysts' estimations rely on historical data, quantitative data and meetings with the company and competitors. As mentioned, we discuss and challenge the assumption both in-house and with other peer market professionals.

Q: Have you had and updated the DCF models since July 2022?

A: The DCF models are updated constantly (not the methodology, but the assumptions for the DCF).

Q: Could you detail your research resources? Do you use only in-house research capabilities? Or do you use sell-side and independent research?

A: We rely on in-house research capabilities. We mainly use external data providers for market analysis and trends. We do have some external sell-side resources but these usually tend to be a counter-assumption to compare against our internal assumptions, Therefore we do not rely on the sell-side for buying a company but do consider their view on the market and the company.

We also have an advisory board with people from the cyber industry that help us with tech trends, valuation of previous rounds for peer companies, etc.

Q: What is the role of the advisory board?

A: The advisory board supports the investment team by helping to identify current and future trends within the many sub-sectors in cybersecurity. These enables the investment team to focus on companies with positive exposure to these trends.

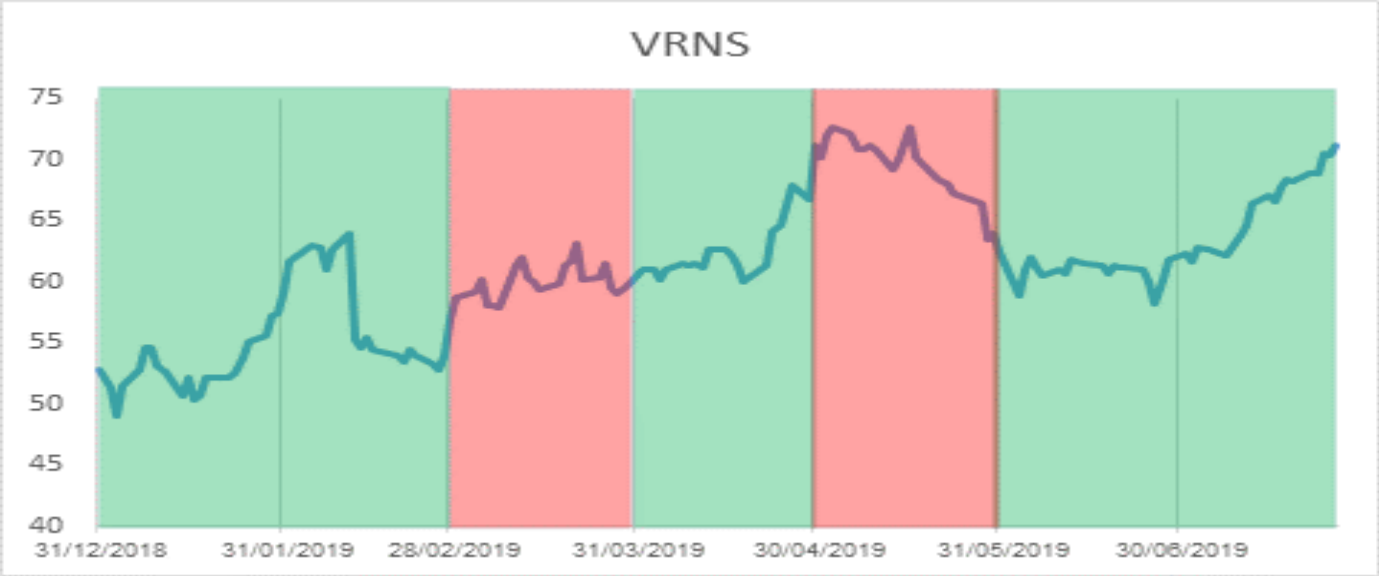
Q: If the overall market continues to go up, how do you think about the risks that there are no “Buy” recommendations? Is a target price absolute or relative? Does the DCF model set a target price?

A: The Target price is absolute and not relative and the DCF sets an absolute target price. The "Buy" or "Sell" recommendation is derived from the relative value of current stock price. However, we constantly check our models and update them (every earnings report, major announcement and after meeting the company).

In the case of "no Buy" recommendations, the maximum exposure to cash is 20%, while we can continue to invest according to the same methodology with best in breed companies.

Q: Could you tell me the specific examples when the DCF model worked well, especially on sell discipline? Were there any cases where the DCF model indicated “Sell” and the “Sell” stocks then underperformed?

A: We had that case with Varonis at the beginning of the March 2019 rebalance when the target price reflected no major upside. We sold VRNS, the price declined and we bought it back at the beginning of April. The following figure shows VRNS performance YTD compared to the recommendation.



Q: The Fund's universe includes 95 companies. How many companies have the DCF models your analysts built?

A: As part of our investment process we initially screen out companies with relatively low trading volume and small market cap but still follow them. For the higher liquidity, larger market cap stocks we carry out full analysis. We currently have 60 companies with full DCF models.

Q: Why do you invest in growth companies with current negative cashflow?

A: We distinguish between companies whose business conditions are difficult (decreasing revenues, net losses and decreasing guidance) and growth companies that decided to invest in R&D and increased investment in order to grow their revenues and profits. We favor the latter with the expectations that their increased R&D spending will lead to higher revenues in 1 to 3 years.

In addition to this, the advisory board helps us understand which sectors offer a feasible and sustainable growth potential, such that a positive cash flow can be expected in the following years. Thus, we invest in companies with current negative cash flow only if we believe that they will be sustainably profitable in the next 1 to 3 years.

Q: How do you the decide when to add or subtract a security?

A: The DCF model sets a target price. Each security is classified as follows: "Buy" – if the target price exceeds the current market price by 15%. "Sell" – if the current market price exceeds the target price by 15%. "Hold" – otherwise.

When the company has a "Sell" recommendation it is removed from the fund holdings.

Q: How many analysts do you have?

A: We have 10 analysts covering the entire Israeli market. 3 analysts are dedicated to global cyber and IT security.

Q: You have 10 analysts covering the entire Israeli market. How many companies do 10 analysts cover?

A: It is usually ranged between 30-50 companies. Some of the analysts cover simple companies and can therefore analyze 50 companies. Some of the analysts cover very complicated companies and therefore they analyze a maximum of 30 companies.

Q: How many one-on-one meetings with listed companies did you have in 2020-2022?

A: More than 280 meetings.

Q: Could you give me key person's biographies?

A: For the fund there are two key persons who are the co-managers:

Dr. Yossi Shvimer – Chief Economist and the Head of Research Department. In addition Dr. Shvimer is the CEO of MCM Alternative Investments and has been working for over 15 years in the Israeli capital markets. Dr. Shvimer is also a member of the Bank of Israel forecasters committee. Dr. Shvimer holds a BA in Economics from Ben-Gurion University, an MBA from the College of Management (cum laude), and a PhD in Finance at Bar-Ilan University.

Mr. Joseph Mavor – Mr. Mavor is Head of Quantitative Investments at Migdal Capital Markets. Before joining MCM, Mr. Mavor was the Senior Manager of the quantitative financial modeling group at PwC, and head of the PwC quant team at BNP Paribas Bank in Brussels. Prior to PwC, Mr. Mavor was the Quantitative Investment Manager at Eliahu Capital and Derivatives. Mr. Mavor holds a BA in Economics from Tufts University, Boston, Mass. and an MA in Statistics and Algorithmics from the University of Brussels.

Other key persons can be found via this link:

https://www.msh.co.il/migdal-capital-markets/board-members/?lang=en

Q: Are there any cases where Mr. Shvimer and Mr. Mavor participate in one on one meetings with listed companies?

A: Yossi Shvimer covers tech and cyber companies and so meets the companies. In every meeting with companies we try to include ALL the analysts to listen and learn from the meeting. We prefer that it's not "one on one" but "many on one".

Joseph Mavor is not part of the fundamental process (explained below).

Portfolio Construction

Q: How do you build the portfolio?

The investment management process in the fund is divided into 2 parts: a qualitative fundamentals-based stock selection to make up the monthly investment universe and a quantitative systematic ranking and weighting of those selected stocks based on risk adjusted momentum.

A: The equities are allocated using the following systematic process:

1) At the end of each month, the universe is qualitatively reviewed as described under section 3 leading to the "Relevant Universe" list of about 50 stocks.
2) The quantitative allocation model is used to rank stocks included in the "Relevant Universe" according to their momentum and low volatility factors.
3) The best ranked 5 stocks will each represent 8% of the portfolio. The next best ranked 15 stocks will each weigh 4% of the portfolio. These weights are also in line with the UCITS 5/10/40 rules.
4) Stock weights are allowed to drift during each month.
5) If there is no change in the ranking at the end of the next month, no rebalancing occurs in order to lessen rebalancing costs.
6) Any breach in the UCITS 5/10/40 rules will require immediate correction, which entails minimal adjustments only to the breaching stock in order to keep the rebalancing costs as minimal as possible.

The general 5/10/40 UCITS rule requires that no more than 10% of the net assets are invested in transferable securities or money market instruments issued by the same body. For any exposures to a single issuers larger than 5% of the net assets, there is an additional aggregate limit of 40% of the portfolio. A "breach" happens whenever one or several holdings stock weights passes above the thresholds defined in the UCITS 5/10/40 rule. A breach is considered as "passive" if it is caused by unforeseen events such as unusual market volatility and not caused directly by the manager's allocation.

Several "passive breaches" occurred in the portfolio on February 5, 2018 because of the extreme volatility experienced. Following these breaches, the weights of several stocks needed to be reduced.

Q: How often does the Fund reset positions? All holdings are equally weighted and the stocks with the highest Sharp ratio will be double-weighted. In terms of Sharp ratio, how long is the time horizon?

A: We reset positions once a month - the model recalculates and ranks the stocks in the investable universe. The top 5 ranked stocks are invested at a portfolio weight of 8% and the next 15 stocks are invested at a portfolio weight of 4%. The stock ranking is calculated using risk adjusted momentum.

Q: I'd like to know the ranking process by risk adjusted momentum.: Do you rank "Buy" recommendation stocks and "HOLD" recommendation stocks separately? Do you pick 15 "Buy" recommendation stocks and 5 "HOLD" recommendation stocks? Do you rank "Buy" and "HOLD" recommendation stocks together and then you pick "Buy" recommendation stocks and "HOLD" recommendations stocks that meet the threshold?

The risk adjusted momentum ranking of the stocks is performed at the beginning of every month based on a systematic quantitative model. The model assumes nothing about the previous month's portfolio and therefore there is no notion of "HOLD" recommendations regarding the risk adjusted momentum. We simply "BUY" the top 20 ranked stocks and "SELL" all stocks from the previous month if they are not ranked in the top 20 in the following month.

Q: Does risk adjusted momentum strategy tends to work well. Is there a risk that you would buy a stock at an expensive price. Do you use the DCF model (setting the target price) to avoid buying a stock at an expensive price.

A: Yes, the DCF model helps to identify stocks that are too expensive for the momentum model. We believe that the 2 approaches (DCF+momentum) work well together in the opposite sense: the DCF model identifies stocks with sufficient "upside" and the momentum model then identifies the correct timing to buy those stocks. Otherwise you might buy stocks with a nice upside but that are not yet trending positively (i.e. gaining in price). In terms of 8% vs 4% weight allocation, the top 5 stocks receive double the weight of the next ranking 15 stocks and we have proven in testing that this is a good way to express the momentum factor since the stocks with the highest risk adjusted momentum will have the highest rank.

Q: Have you changed the rules as above since inception (Sep 2016)? Would there be any cases where you change the rules?

A: No. these rules have not changed since the model was approved before the fund was launched in 2016. The rules are fixed. A model recalibration is not foreseen because these rules are sufficiently generic to remain robust over the long term.

Q: Could you tell us the structural reasons why these rules (risk adjusted momentum) are sufficiently generic to remain robust over the long term? The potential distributor would like to have more confidence that these rules will continue to work well in the long term. Is it robust due to the back testing?

A: These criteria are supported by our in-sample empirical analysis for the back test and have remained very robust for the last 3 years of the fund.
Risk Adjusted momentum has an extensive academic framework which has already examined momentum for the long-term, for example:

- Rachev, S., Jašić, T., Stoyanov, S., & Fabozzi, F. J. (2007). Momentum strategies based on reward–risk stock selection criteria. Journal of Banking & Finance, 31(8), 2325-2346.
- Daryl, C. R. M., Shawn, L. K. J., & Sabrina, C. H. Y. (2013). Return and Risk-Return Ratio Based Momentum Strategies: A Fresh Perspective. Journal of Finance and Investment Analysis, 2(1), 1-13.
- Jegadeesh, N; Titman S (1999). "Profitability of Momentum Strategies: An Evaluation of Alternative Explanations". NBER Working Paper (7159).
- Jegadeesh, N; Titman S (1993). "Returns to Buying Winners and Selling Losers: Implications for Stock Market Efficiency". Journal of Finance. 48 (48): 65–91. doi:10.1111/j.1540-6261.1993.tb04702.x.
- Low, R.K.Y.; Tan, E. (2016). "The Role of Analysts' Forecasts in the Momentum Effect". International Review of Financial Analysis. 48: 67–84. doi:10.1016/j.irfa.2016.09.007.
- https://www.businessinsider.com/goldman-sachs-sharpe-ratio-based-stock-picks-2017-6?r=US&IR=T

Q: I understood that the momentum model identifies the correct timing to buy those stocks. How did you find this momentum model?

A: Migdal Capital Markets is academically oriented: every Tuesday a different asset manager presents an academic paper (mainly empirical) which we then discuss and see if it's interesting to test (empirically) on other asset classes or on the Israeli market.
This existing model was created after empirical testing of concepts, strategies and frameworks found in academic literature.

Q: Could you detail how you came to use this momentum model?

A: The Risk-Adjusted Momentum used in the fund is based on a framework that has been used repeatedly in previous models and investment strategies at Migdal Capital Markets. As mentioned, prior to that, this strategy has been used

extensively in the investment industry and dates back to multi-factor models developed in the 90's. It has one of the most well based foundations of any investment strategy. The above-mentioned papers shed some light on that.

Q: Did you select risk adjusted momentum among many factors?

A: Yes. Risk adjusted momentum based on 30 days and 90 days volatility and price momentum. These factors were robust.

Q: Describe the momentum factor?

A: The quantitative screening process ranks the "Relevant Universe" on the basis of the momentum and volatility of each stock (a positive score for momentum and negative score for volatility, similar to the Sharpe Ratio). The momentum factor is calculated using the return of each stock over a previous period. Therefore, during a prolonged market correction, fewer stocks will have a positive momentum and will be included in the portfolio.

Risk Management

Q: If the rules didn't work well for a prolonged period of time, would you consider the effectiveness of the quantitative systematic rules? Would you consider adjusting the quantitative systematic rules?

A: During the 12 months before launching the fund, we tested the robustness of these systematic rules. This was done both on historical data and ran "a shadow fund" for several months before launching. So far, the rules have remained robust and we haven't had to consider changing them during the 3 years since inception.

Q: If the all top 20 ranked stocks are "HOLD" recommendations (rated by the DCF model), how do you position the fund? Do you buy the all top 20 ranked "HOLD" recommendation stocks that meet the threshold of positive momentum? If some of "HOLD" recommendation stocks don't meet the threshold, do you select the next ranked stocks?

A: "HOLD" stocks can enter the universe and are then ranked based their momentum factor ranking.

Q: If you recalibrate the rules, would it be possible to change them without any notice to your clients? Do you need to amend the prospectus of the fund?

A: According to the fund prospectus and CSSF rules, major changes in the fund could invalidate the fund track record. Therefore we haven't changed the rules of the fund methodology and haven't made major changes in the prospectus that could change the track record since inception. The methodology and the fund universe are fixed.
The only changes to the prospectus, were related to the definition that allowed fund of funds to invest in the fund. Therefore, we added this limitation:" However, the Sub-fund shall not invest more than 10% of its net assets in UCITS and/or UCIs. ". This was upon request of Swiss fund of funds manager.

Q: What is the liquidity threshold?

A: The liquidity threshold shall not exceed 30% of average daily volume (computed as the average of 3,6,12 month's daily historical volume). Stocks reaching this threshold may remain in the portfolio, but the managers will not increase their holdings.

Q: Please describe the risk management process?

A: The risk management process is a "passive" process. A decision to raise cash is not an active decision. Rather, it is a passive outcome of the following factors. The first is the valuations resulting from our qualitative process. The current market price is compared to our estimated target price for each stock. During periods of overheated markets, fewer stocks remain on our "Relevant Universe", as the market prices of an increasing number of stocks are significantly over their estimated target prices. This results in profit taking, a decreased number of stocks held in the portfolio and increased cash holdings. The second factor happens during the portfolio construction process based on the momentum and low volatility factors of each stock considered for inclusion in the portfolio. This process ranks the equities with a Buy or Neutral rating based on their momentum and volatility.

Q: What is the market maximum capacity?

A: Currently, the fund maximum capacity is about $800M based on the risk management and liquidity threshold.

Q: What is the turnover in fund equities?

A: Average monthly turnover is 25%. Roughly half of all turnover is attributed to equities entering or exiting the qualitative valuation screening process. The remaining turnover is attributed to rebalancing caused by changes in the momentum and volatility ranking.

Q: When there is exogenous negative news on a holdings, how do you judge investment decision (hold, exit or adding position)? Do you take any actions?

A: We do judge our investment decisions constantly. Our model is systematic and has a monthly rebalance. In the case of exogenous "bad news", we have a specific procedures to determine whether or not to sell the stock.

Q: Can you allocate up to 100% to cash and the money market?

A: The prospectus permits a 100% allocation to cash and money markets in order to provide maximum liquidity and to avoid any gating. However this allocation is only for very exceptional market circumstances.

Typically, cash levels will remain around 5% in order to manage fund inflows and outflows.

Markets or corporate events may lead to a transaction during the month (see point 4.7). This may result in a minor increase/decrease in cash holdings until the next fund rebalancing date.

Q: Can you buy or sell shares during the month?

A: Markets or corporate events may lead to a purchase or a sale during the month. For example, we sold MobileEye intra-month following the announcement of its buyout.

Any breach in the UCITS 5/10/40 rules will require immediate correction, which entails minimal adjustments only to the breaching stock.

Q: How do you handle subscription or redemptions in terms of buy/sell equities?

A: Subscriptions and redemptions may take place on any business day and will trigger immediate end-of-day increase or decrease of equity holdings on an equally weighted basis.

ESG and Sustainability Objectives

Q: Does the Fund apply ESG and RI objectives?

A: According to PRI (Principles for Responsible Investing), Cybersecurity has been recognized as a risk in the World Economic Forum's "Global Risks Report", with the latest version ranking Cyber Security as one of the Top-10 risks that the world will face in the next 10 years.

Q: Does the Fund align to SDGs?

A: The fund aligns to SDGs 9,4,8,16 according to https://europa.eu/capacity4dev/results-and-indicators/cybersecurity

SDG 9 "Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation", SDG 4 "Quality education", SDG 8 "Decent work and economic growth", SDG 16 "Peace, Justice and Strong Institutions".

Q: Does the Fund align to UN SDG Guidelines For Data Privacy?

A: the fund aligns to Un Sdg Guidelines For Data Privacy, Ethics And Protection Guidance Note On Big Data For Achievement Of The 2030 Agenda https://unsdg.un.org/sites/default/files/undg_bigdata_final_web.pdf The guidance described in this document acknowledges and is based on the un guidelines for the regulation of computerized personal data files, adopted by the un general assembly resolution 45/95.

Q: Does the fund align with the EU Taxonomy?

A: The Fund has been tested for Alignment With Eu Taxonomy Eligible Activities. Based on Bloomberg mapping of EU Taxonomy Eligible Activities, our fund is between 90% - 100% eligible (based on % of revenue eligible of the underlying holdings of the fund).

Q: Does the fund qualify for SFDR under Article 8?

A: We are pleased to update that the Fund is undergoing the necessary steps to register with the CSSF Luxembourg financial authority as an SFDR Article 8 fund, taking into account the changing regulatory requirements for this application.

Migdal Capital Markets (MCM)

Q: Could you give color on the competitive landscape of MCM and Migdal Group? What place is MCM in the Israeli asset management market from an AUM perspective? Is MCM the #1 asset manager in Israel based on AUM? What about Migdal Group? Is Migdal Group #1 insurer in Israel based on direct written premium etc.?

A: Please find some key facts regarding Migdal Group and Migdal Capital Markets:

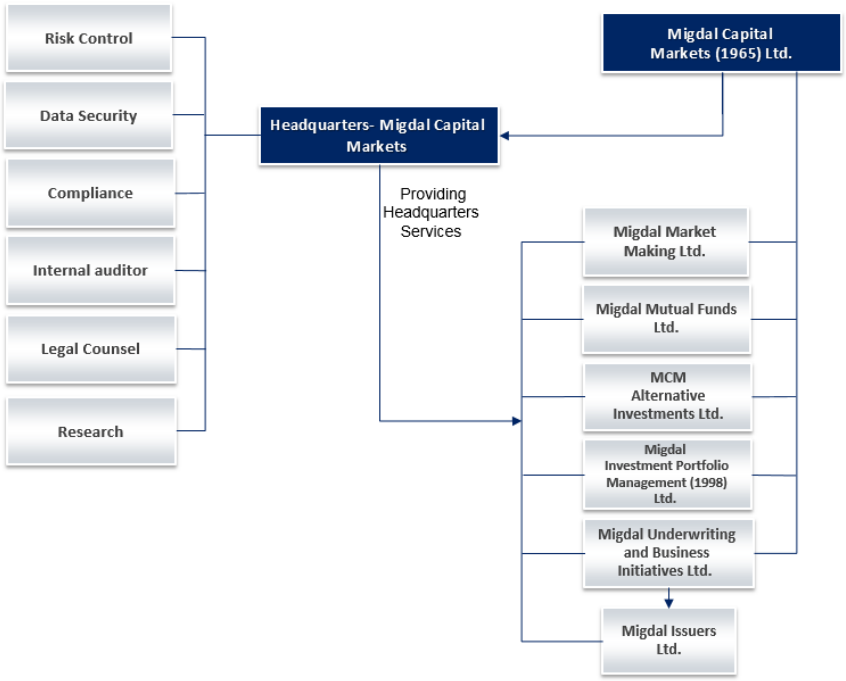
- Migdal Group is the largest asset manager in long term investment in Israel in terms of AuM (established in 1934)
- In terms of Life insurance, Migdal manages 32.2 Billion USD (Market share of 33%)
- Migdal's number of clients: 2.5 million (The total population in Israel: ~9 million)
- Migdal Capital Markets is the oldest investment house in Israel (established in 1965)
- Migdal Capital Markets market share in mutual fund is 12.8%.

Q: Could you give me a visual diagram of your company's structure? Could you detail personnel organization?

A: At MCM (a fully owned subsidiary) there are 200 employees, of which:

- 38 investment managers and traders
- 10 analysts
- 6 risk managers
- 49 salespersons
- 62 back office, middle office, headquarters (Including auditors, compliance, legal, etc.)

Please find attached the company structure:



Q: I'd like to know why MCM has many subsidiaries. Are there any structural reasons?

A: Yes, according to the Israeli regulation, our asset management activities (e.g. mutual funds, portfolio management) and market making should be managed through separate subsidiaries. Other activities are also managed in separate subsidiaries for considerations of the different nature of each activity and due to our policy of corporate governance according to which each activity will be separated.

Q: Do all 165 employees work only for Migdal Capital Markets Ltd?

A: Yes

Q: Are there any employees that work for across subsidiaries?

A: The vast majority of our employees work for each subsidiary separately. Our headquarters staff are employed by our head headquarter company and provide shared services to our subsidiaries.

Q: To what extent is Migdal invested in the fund?

A: This fund has received the largest seed of any MCM fund with $12M from its nostro (Insurance arm).

Q: Are Migdal clients allowed to invest in the fund?

A: Yes. Clients of MCM already invest in the fund. However, because only qualified investors in Israel can invest in the fund, the total investment is about $3M.

Q: Could you give me color on labor turnover rate on analysts and investment professionals?

A: Most of the analysts and investment professional have been working with us for many years. The turnover is very low (only 1 analyst has been replaced over the past 5 years). Average duration is more than 5 years (including salespersons and call centers).

Within the research team, the average is more than 10 years.

Q: How many compliance staffs do you have?

A: 6 persons

Q: Please describe how MCM prevents insider trading.

A: The Company has procedures regarding prohibition of personal trading by the managers and employees. There are exceptions permitted by law such as investments in mutual funds, ETFs, securities of companies traded outside the State of Israel with high market value etc.

In addition, we have procedures of prohibition of the use of insider information, according to which activities that may be exposed to internal information are isolated from other activities of the company. Our procedures also include

mechanism for reporting, blocking and prohibiting trading in the event of participation in a debt representation or in cases of exposure to internal information.

With respect to the securities of our public parent company Migdal – during the period of preparation of the financial statements, a blackout period is defined in which all the employees and managers are prohibited from trading in Migdal's securities

All those procedures are being monitored and controlled by our control department.

Q: Please describe how MCM prevents conflict of interests between discretionary accounts and advisory clients.

A: The advisory activity in our Group is for the MCM Cyber fund only. The research is only "Buy Side". The research analysis is being sent simultaneously to all asset managers. The research department is a separate and independent unit and is part of the headquarters which is physically separated from the advisory client and the asset management units to avoid conflict of interest. The research department has no real time access to the positions of the advisory client or the asset management units and have no knowledge on what the asset allocation and position of those units will be after disposal of the research. In additions, the research department staff do not receive any remuneration with respect to their research or their outcome.

Q: May we check the BCP documents?

A: Migdal Capital Markets Group has a BCP policy (Hebrew), as well as procedures (Hebrew) approved by the Board of Directors and an external DR site. We can provide these documents upon NDA.

Fund Details

Q: Who is the management company?

A: The SICAV has appointed FUCHS ASSET MANAGEMENT S.A. as management company to provide it with management, administration, marketing and domiciliary services for an indeterminate duration .

The Management Company will perform itself the investment management function. The Management Company can appoint at its own costs one or several investment advisors .

The Management Company is authorised as a management company pursuant to the provisions of Chapter 15 of the 2010 Law. It has its registered office in Luxembourg .

The Management Company is remunerated by the SICAV. The nature and level of the Management Company's remuneration is described in section "XI. Expenses charged to the SICAV ."

The Management Company has delegated the administrative, registrar and transfer agent function to EFA and the depository function to UBS Luxembourg .

The Management Company will monitor on a continued basis the activities of the third parties to which it has delegated functions. The agreements entered between the Management Company and the relevant third parties provide that the Management Company can give at any time further instructions to such third parties, and that it can withdraw their mandate with immediate effect if this is in the interest of the Shareholders. The Management Company's liability towards the SICAV is not affected by the fact that it has delegated certain functions to third parties.

Q: Who is the depositary bank, administrative agent and registrar and transfer agent?

A: UBS Luxembourg has been appointed to act as, Depositary Bank, and EFA is the fund's Administrative and Registrar and Transfer agent for the SICAV for an unlimited duration.

Q: What is the liquidity of the fund?

A: Daily Liquidity

Q: What are the fund share classes?

A: The fund share class are:

Class A – EUR – ISIN: LU1345291485 Minimum Subscription : 100,000 EUR	0.75 % p.a. based on the net asset value of the Class A
Class B - EUR – ISIN: LU1345291642 Minimum Subscription : 10,000 EUR	1.5 % p.a. based on the net asset value of the Class B
Class E - USD – ISIN: LU1345292533 Minimum Subscription : 100,000 USD	0.75 % p.a. based on the net asset value of the Class E
Class F - USD – ISIN: LU1345292707 Minimum Subscription : 10,000 USD	1.5 % p.a. based on the net asset value of the Class F
Class G - USD – ISIN: LU1345292962 [Closed to new subscriptions]	0.5 % p.a. based on the net asset value of the Class G
Class I - USD – ISIN: LU2002716376 Minimum Subscription : 10,000 USD	• 1.5 % p.a. based on the net asset value of the Class I • 5% fee amortized linearly over 5 years. Early redemption within 5 years will incur the remaining fee
Class J - EUR– ISIN: LU2002716533 Minimum Subscription : 10,000 EUR	• 1.5 % p.a. based on the net asset value of the Class J • 5% fee amortized linearly over 5 years. Early redemption within 5 years will incur the remaining fee
Class K - GBP – ISIN: LU2002716616 Minimum Subscription : 10,000 GBP	• 1.5 % p.a. based on the net asset value of the Class K • 5% fee amortized linearly over 5 years. Early redemption within 5 years will incur the remaining fee

- Performance fee: None
- Additional classes/currencies can be added upon request

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