Frequently Asked Questions
MCM Israeli IT-Security (Cyber) Fund

September 2019

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.

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.

The cybersecurity market size is estimated to be 160B USD. **There are several market segments that we estimate a double-digit growth ranged by 15%-25% annually:**

Data Protection Market – The increase of data collection, both on premise and cloud, as well as tighter regulation like GDPR increases the demand for the 120B USD market. This market also includes web filtering, social media security, messaging security market and security assurance. We expect this demand to increase by 12% annually until 2023, mainly due to the adoption of several data protection solutions to meet cyber insurance and GDPR requirements. However, the growth will not be linear and we expect 20% growth in 2019 followed by moderate growth in 2020-2023.

Encryption Software Market – As data breaches increase and the regulation tightens, transferring encrypted data becomes crucial to protect against ransomware or DDoS in this 5B USD market. We estimate a market growth in this segment of 25% annually over the next 5 years, primarily as a result of our expectation of increasing volumes of total data transferred, including the cloud.

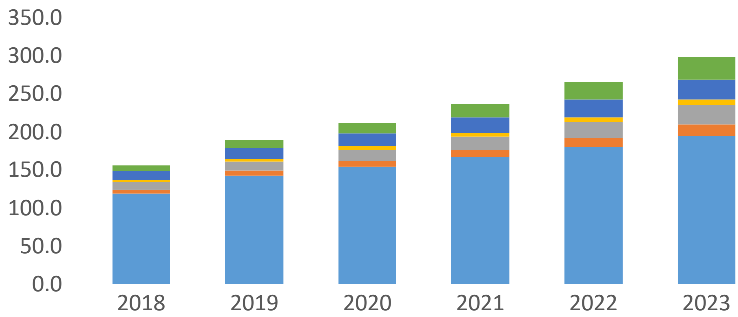
User Activity Monitoring Market and Privileged Account Market – With some of the data breaches and data theft being made by inside workers, monitoring activities to detect anomaly behavior of employees becomes based more on AI methods. The activity monitoring market analyzes and reports the CISO for abnormal behavior. Usually these solutions are for large enterprises with many employees. In this market we also include the privileged account solution. We estimate this market to be 10B USD and expect annual growth of 20%. This estimation is based on market assessment historical annual growth.

DDoS Protection Market – In E-commerce, the value of customer satisfaction and trust is crucial for almost every online retailer. With increasing web traffic and numbers of DDoS attacks in 2018, there is increased demand for DDoS solutions, mainly to shift traffic to other servers. Hence, we estimate that the 3B USD market will grow annually by 20% in the next 5 years. This estimation is based on the increase of E-commerce industry sales, web traffic estimation and the expected growth on DDoS attacks.

Cloud Protection Market – The size of the cloud market is estimated to be 190B USD. The largest market share in terms of revenues is Cloud Application Services (SaaS) with 40% of the market. The fastest growing segment is Cloud System Infrastructure Services (IaaS) with annual growth of more than 30%. We estimate that the adoption of the multi-cloud strategy among enterprises increases the demand for the cloud protection market, which estimated to be 12B USD. We estimate an annual 25% growth for the cloud protection market. Our estimation is based on the current pace of cloud adoption by enterprises (both IaaS and SaaS) for both private and public clouds. This adoption is estimated to be 15%-25% annually and thus the growth in cloud protection, at least in the initial step of cloud adoption, will be higher in order to ensure customer trust.

IoT Protection Market – The number of IoT connected devices is currently 7B USD, however the estimation is for accelerating growth to 22B USD by 2025, an annual growth rate of 21%. This includes wearables, mobile phones, toys, autonomous cars, etc. The current security market is estimated to be 8B USD and we estimate a higher growth of 30% annually, supported by the accelerated growth in the number of connected devices and the growth in the number of IoT attacks in 2018.

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.

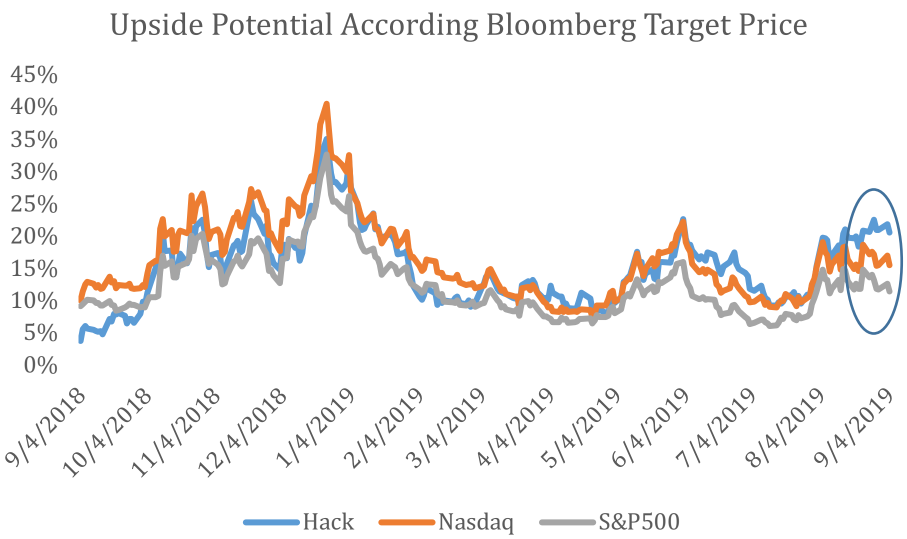


	2018	2019	2020	2021	2022	2023
IoT protection	8.0	10.4	13.5	17.6	22.8	29.7
Cloud	11.5	14.4	17.3	19.8	22.8	26.2
DDoS protection	3.0	3.6	4.3	5.2	6.2	7.5
User Activity Monitoring Market	10.0	12.0	14.4	17.3	20.7	24.9
Encryption Software	5.0	6.3	7.8	9.8	12.2	15.3
Data protection	120.0	144.0	155.5	168.0	181.4	195.9

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.

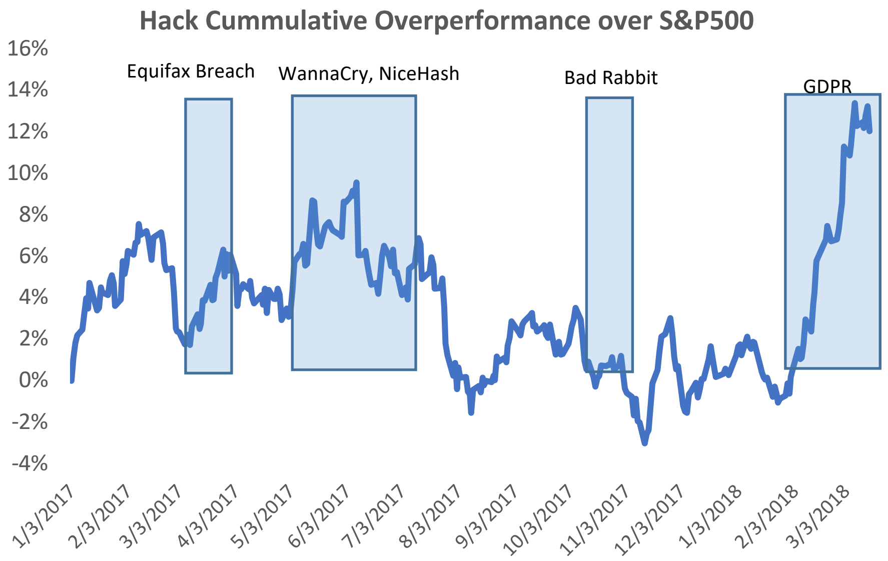
The following figure shows the upside based on the best target price from Bloomberg vs. the Nasdaq Index and S&P500.



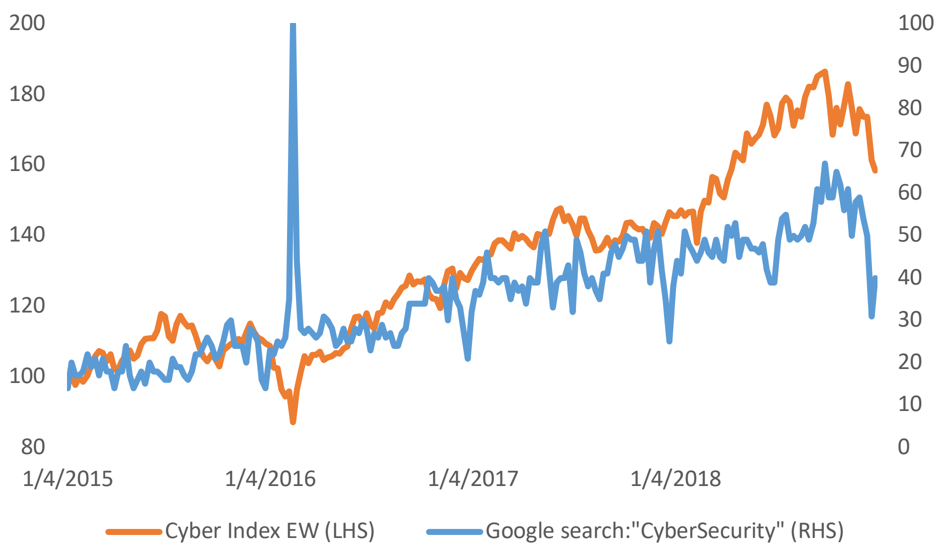
As of the 04.09.19, the potential upside for Cyber companies is about 21% relative to 16% and 11% for the Nasdaq and S&P500 indices respectively.

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.



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: 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 companies in Israel.

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 Fund's main objective is to build a long term exposure to the most promising IT security stocks, with a focus on cybersecurity, and to achieve a consistent outperformance relative to its benchmarks; the TASE-BlueStar Israel Global Technology Index (BGTH Index) and ISE Cyber Security® Index (HXR).

Q: What is the universe and the investment policy?

A: The investment universe comprises IT security and cybersecurity stocks included in the TASE-BlueStar Israel Global Technology Index (BGTH Index) and ISE Cyber Security® Index (HXR), plus some Israeli Cyber Security stocks which are not yet included in the BGTH index.

This is a large and diversified basket of global cybersecurity and Israeli IT security stocks.

The Fund will invest in stocks included in this basket of global cybersecurity and Israeli IT security equities based on qualitative analysis and quantitative models. The focus will be on the Israeli cybersecurity sector, as guidelines do not allow to invest less than 50% in non-Israeli related companies and no more than 25% of the fund assets in non- cybersecurity companies.

Q: How many equities are in the Investment universe?

A: As of September 2019, the Fund's universe includes 95 companies from the two indices (BGTH and HXR) as well as other Israeli Cyber Security stocks which are not yet included in the BGTH index. The total market capitalization is $286 Bn.

The universe includes 54 cyber security companies globally (including the Israeli ones) with a total market cap of $174 Bn and 41 Israeli IT companies with a market cap up of $112 Bn. Our investment universe represents respectively 85.88% and 59.1% of the HXR and BGTH indices.

There are no BioMed or renewable energy companies in the Investment universe.

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 95 companies the fund invests only in 21?

A: From a total of 95 companies we excluded; 17 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: Do the current fund holdings include growth companies with currently negative cashflow? If so, please specify each one of them and the reason for holding these companies.

A: The fund is currently invested in 21 companies, of which 9 reported a net loss (Non-GAAP). However, all these companies are expected to have a positive net income next year.

		Position	Market Cap	P/E	Bloomberg Upside (Best)@4.9.19
VARONIS SYSTEMS INC	VRNS	7.50%	2,075.10		18.9%
CHECK POINT SOFTWARE TECH	CHKP	7.50%	16,218.07	20.76	14.5%
FORESCOUT TECHNOLOGIES INC	FSCT	7.50%	1,614.61		35.4%
VERINT SYSTEMS INC	VRNT	7.50%	3,484.01	32.70	35.9%
CYBERARK SOFTWARE LTD/ISRAEL	CYBR	7.50%	4,238.27	69.40	26.3%
LIVEPERSON INC	LPSN	4.10%	2,566.07		4.5%
AMDOCS LTD	DOX	4.10%	8,778.43	19.50	10.7%
CACI INTERNATIONAL INC -CL A	CACI	2.10%	5,498.57	20.73	6.4%
SAILPOINT TECHNOLOGIES HOLDI	SAIL	4.10%	1,958.02	1,810.47	18.7%
LEIDOS HOLDINGS INC	LDOS	4.10%	12,417.80	24.26	3.1%
NICE LTD - SPON ADR	NICE	4.10%	9,454.27		2.7%
VERISIGN INC	VRSN	4.10%	23,928.87	41.56	0.8%
SYMANTEC CORP	SYMC	4.10%	14,208.55	57.85	-0.5%
WIX.COM LTD	WIX	4.10%	6,796.14		18.4%
EVERBRIDGE INC	EVBG	4.10%	2,842.81		21.5%
MANTECH INTERNATIONAL CORP-A	MANT	2.10%	2,778.25	31.85	-2.5%
SCIENCE APPLICATIONS INTE	SAIC	4.10%	5,212.14	19.39	6.9%
ZSCALER INC	ZS	4.10%	8,252.22		28.3%
COMMVAULT SYSTEMS INC	CVLT	4.10%	1,947.69	92.77	23.9%
PROOFPOINT INC	PFPT	4.10%	6,561.28		23.5%
RAPID7 INC	RPD	4.10%	2,589.61		35.1%
.Weighted Avg			6,654.14	95.02	18.0%
Nasdaq	ndx index		8,663,013.38	23.69	14.2%

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?

RETURNS	***YTD***	***1 Month***	***3 Months***	***1 Year***	***Since Inc.***
MCM Israeli IT Security Fund	31.70%	-1.31%	6.84%	7.14%	76.79%
ISE Cyber Security Index	21.98%	-4.52%	2.67%	4.48%	62.20%
TASE BigTech Index	32.11%	-0.69%	10.14%	14.13%	67.03%
NASDAQ	21.50%	-2.01%	7.90%	0.48%	59.57%
VOLATILITY					
MCM Israeli IT Security Fund			10.99%	22.82%	15.45%
ISE Cyber Security Index			16.60%	23.54%	16.34%
TASE BigTech Index			12.65%	19.26%	13.27%
NASDAQ			16.71%	21.61%	15.25%
SHARPE RATIO					
MCM Israeli IT Security Fund			0.57	0.21	1.29
ISE Cyber Security Index			0.13	0.09	1.02
TASE BigTech Index			0.76	0.62	1.36
NASDAQ			0.44	(0.08)	1.02

As of 31.8.18

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 (blue numbers shows the back test).

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	Annual
2019	12.6%	7.4%	2.7%	3.2%	-3.7%	3.3%	4.8%	-1.3%					31.7%
2018	3.5%	4.8%	3.0%	3.7%	5.8%	0.7%	-1.5%	10.3%	-1.8%	-12.6%	1.4%	-6.6%	9.1%
2017	6.9%	0.4%	2.4%	1.5%	4.8%	0.5%	0.1%	1.6%	1.1%	1.4%	1.0%	-0.5%	22.9%
2016	-4.6%	-1.4%	4.8%	-1.7%	6.1%	-0.3%	7.3%	1.7%	4.2%	-4.5%	1.8%	0.5%	14.0%
2015	0.0%	12.3%	-1.1%	2.8%	4.3%	-1.5%	-0.9%	-3.6%	-3.8%	3.0%	3.4%	-4.7%	9.4%
2014	1.9%	12.2%	-0.4%	-10.6%	-1.2%	1.9%	-4.6%	3.5%	-3.4%	2.4%	0.3%	3.3%	3.8%
2013	5.4%	0.1%	2.3%	-1.5%	2.3%	-2.9%	5.6%	-1.8%	5.1%	0.8%	5.0%	9.8%	33.8%
2012							0.4%	1.3%	3.6%	0.4%	4.0%	-0.7%	9.3%

Q: Does the simulated performance (July 2012 to Aug 2016) include fees, transaction costs or other expenses?

A: The back-test performance is shown net and does include our institutional management fee plus a rough estimation that we made for transaction costs.

During the life of the fund we have managed to improve transaction costs when the fund moved to UBS. Recent performance of the fund has lower transaction costs than we used for the back test.

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 as following over the last 12 month:

(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. Motningstar 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 2012?

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.

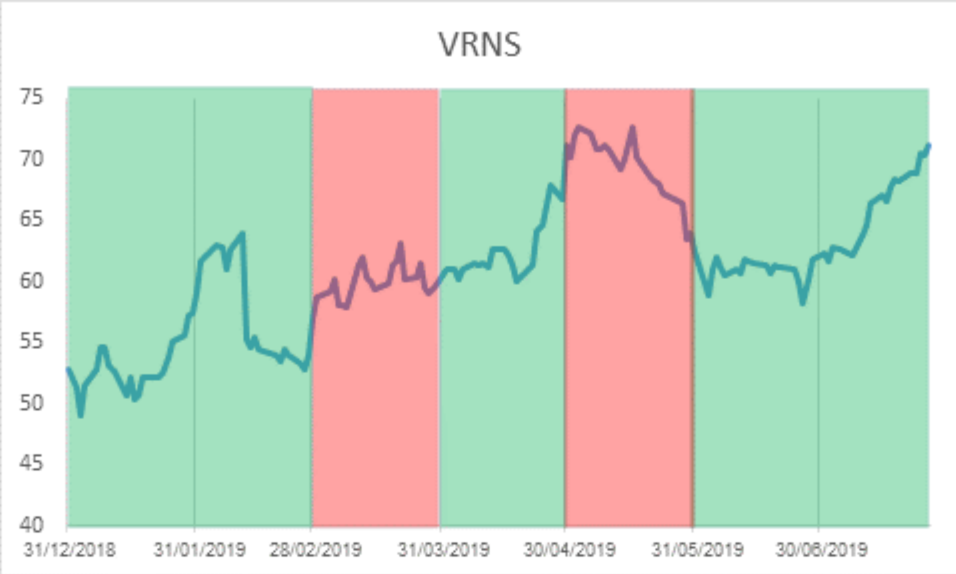
Q: If the overall market continues to go up, how do you think about the risks that there are no “Buy” recommendations? Is a target price absolute or relative? Does the DCF model set a target price?

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 2018?

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.

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:

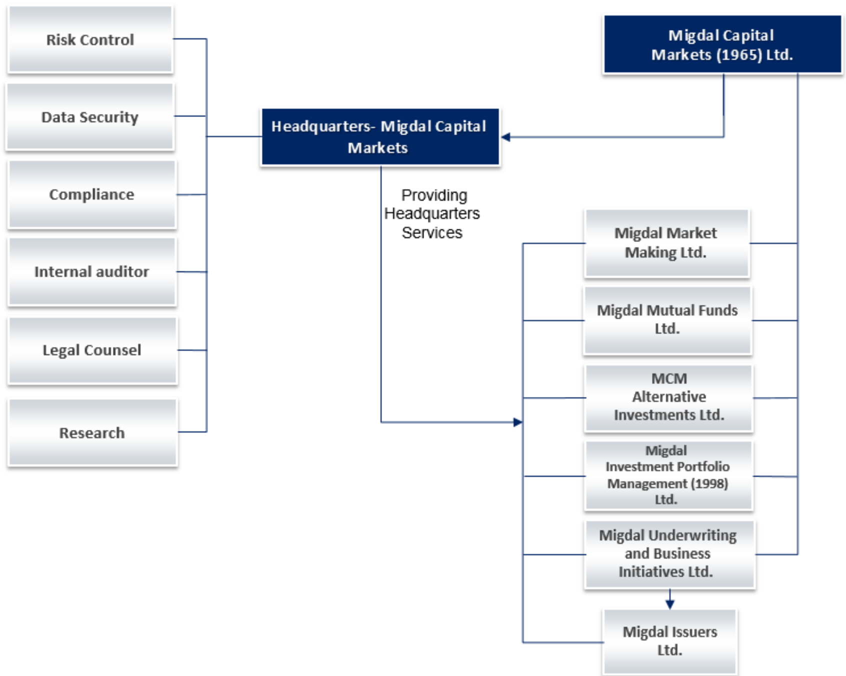
- Migdal Group is the largest asset manager in long term investment in Israel in terms of AuM (established in 1934)
- In terms of Life insurance, Migdal manages 32.2 Billion USD (Market share of 33%)
- Migdal's number of clients: 2.3 million (The total population in Israel: ~8 million)
- Migdal Capital Markets is the oldest investment house in Israel (established in 1965)
- Migdal Capital Markets market share in mutual fund is 9.2%.
- Migdal Capital Markets market share in ETF and Index fund: 13.9%

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 165 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 NOVACAP 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 .

NOVACAP Asset Management S.A. is a public limited liability company (société anonyme) incorporated under the laws of the Grand Duchy of Luxembourg on 12 February 2007 and licensed on 28 March 2007.

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 at 1, rue du Potager, L-2347 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 function as well as the registrar and transfer function to BNP Paribas Securities Services - Succursale de 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	Currency	Management fee	Entry fee	Minimum initial	ISIN code
A	EUR	0.75% p.a.	0	EUR 100K	LU1345291485
B	EUR	1.5% p.a.	0	EUR 10K	LU1345291642
E	USD	0.75% p.a.	0	USD 100K	LU1345292533
F	USD	1.5% p.a.	0	USD 10K	LU1345292707
C-closed	EUR		0	EUR 100K	LU1345292020
D-closed	EUR		0	EUR 10K	LU1345292376
G-closed	USD		0	USD 100K	LU1345292962

H-closed	USD		0	USD 10K	LU1345293184

Q: What are the management fees?

A: The management fees are following:

- Class A – Category EUR: Maximum 0.75 % p.a. based on the average net asset value of the Class A – Category EUR .
- Class B – Category EUR: Maximum 1.5 % p.a. based on the average net asset value of the Class B – Category EUR
- Class E – Category USD: Maximum 0.75 % p.a. based on the average net asset value of the Class E – Category USD.
- Class F – Category USD: Maximum 1.5 % p.a. based on the average net asset value of the Class F – Category USD
- [CLOSED] Class C – Category EUR: Maximum 0.5 % p.a. based on the average net asset value of the Class C – Category EUR .
- [CLOSED] Class D – Category EUR: Maximum 1.2 % p.a. based on the average net asset value of the Class D – Category EUR
- [CLOSED] Class G – Category USD: Maximum 0.5 % p.a. based on the average net asset value of the Class G – Category USD .
- [CLOSED] Class H – Category USD: Maximum 1.2 % p.a. based on the average net asset value of the Class H – Category USD

- Entry charge: None
- Exit and conversion charge: None
- Performance fee: None
- Additional classes/currencies can be added upon request

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