



## PARAGON AUSTRALIAN LONG SHORT FUND // June 2019

### PERFORMANCE SUMMARY *(after fees)*

	1 month	3 months	6 months	Financial YTD	1 year	2 year p.a.	3 year p.a.	5 year p.a.	Net Return p.a.	Total Net Return
<b>Paragon Aust. Long Short Fund</b>	+0.9%	+17.0%	+16.0%	-12.8%	-12.8%	+4.8%	-4.7%	+6.2%	+9.5%	+77.3%
ASX All Ordinaries Accum. Index	+3.4%	+7.8%	+19.8%	+11.0%	+11.0%	+12.4%	+12.6%	+9.0%	+8.9%	+71.1%
ASX Small Ords. Accum. Index	+0.9%	+3.7%	+16.8%	+1.9%	+1.9%	+12.5%	+10.7%	+9.3%	+6.0%	+45.0%

### RISK METRICS

Sharpe Ratio	0.5
Sortino Ratio	0.9
Correlation	0.4
% Positive Months	61%
Up/Down Capture	76%/44%

### UNIT PRICE & FUM (\*cum)

NAV*	\$1.6686
Entry Price*	\$1.6711
Exit Price*	\$1.6661
Fund Size*	\$37.4m
APIR Code	PGF0001AU

### FUND STRATEGY

An Australian equities long/short fund, with a long-bias, fundamentally driven with a concentrated portfolio of high conviction stocks, managed by a dedicated investment team and offering transparency to investors. Paragon's proprietary research and extensive investment process includes active portfolio management and is overlaid with strong risk management. The objective of the Fund is to return in excess of 10% p.a. after fees over a 3-5yr investment horizon.

### OVERVIEW AND POSITIONING

The Fund returned +0.9% after fees for June. Positive contributions were from Alacer Gold, Nearmap and Jumbo. These were offset by declines in Atrum and PowerApp. Markets performed well globally following a poor May, compliments of the FED's dovish shift - signalling the start of their rate cutting cycle - plus talk of more QE from the ECB. In June, Gold broke out above a long-term (6-yr) base of US\$1,350/oz, with A\$ gold continuing to break all-time highs. We discuss our constructive view on gold and A\$ gold equities this month. Lastly, as anticipated and discussed in [January](#), Sandfire has as of 2 July increased its interest in Adriatic to 11%. We expect Sandfire to pursue the rest of Adriatic at a premium in time.

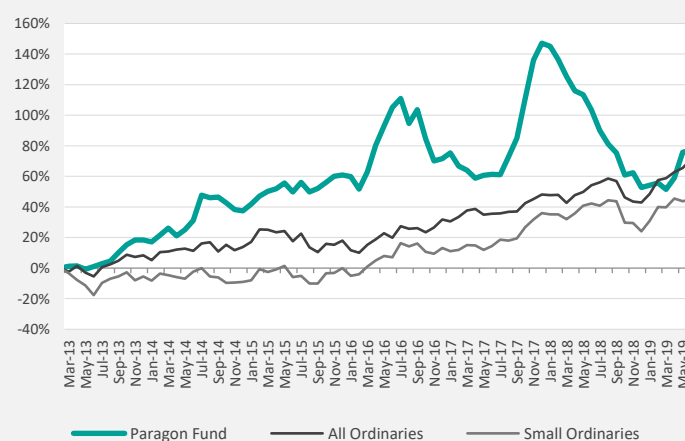
### FUND POSITIONING

Number of Longs	29
Number of Shorts	9
Net exposure	108%
Gross exposure	141%
Index futures	0%
Cash	-8%

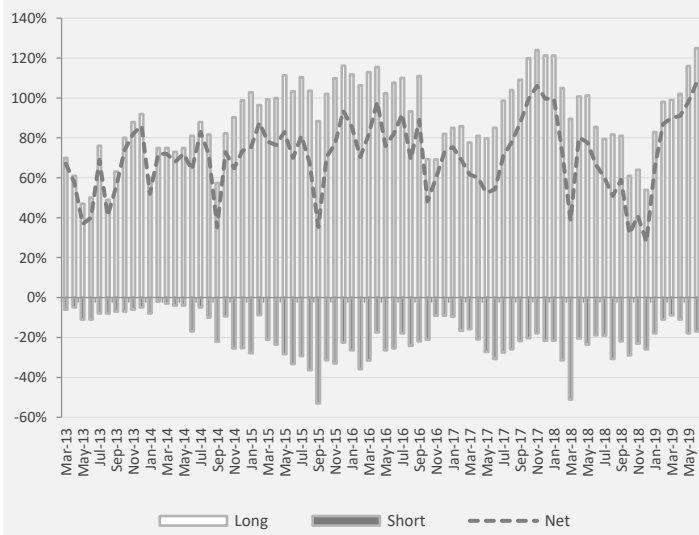
### FUND FACTS

Structure	Unit trust
Domicile	Australia
Applications & Redemptions	Daily
Minimum investment	\$25,000
Min. addition/redemptions	\$5,000/\$10,000
Administrator	Link Fund Solutions
Prime Broker/Custodian	UBS

### HISTORICAL PERFORMANCE *(after fees)*



### HISTORICAL EXPOSURE



### MONTHLY PERFORMANCE BY CALENDAR YEAR

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
<b>2013</b>			1.1%	0.3%	-2.2%	1.8%	1.8%	1.6%	5.3%	4.9%	2.8%	0.0%	<b>18.7%</b>
<b>2014</b>	-1.1%	3.8%	3.6%	-3.9%	3.2%	4.9%	12.5%	-1.1%	0.3%	-2.5%	-3.1%	-0.5%	<b>15.9%</b>
<b>2015</b>	3.2%	3.6%	2.1%	1.1%	2.4%	-3.8%	4.3%	-4.2%	1.6%	2.5%	2.6%	0.3%	<b>16.8%</b>
<b>2016</b>	-0.5%	-5.2%	7.4%	10.8%	7.0%	6.3%	2.9%	-7.8%	4.3%	-9.0%	-7.9%	0.8%	<b>6.8%</b>
<b>2017</b>	2.3%	-5.0%	-1.6%	-3.2%	1.3%	0.4%	-0.2%	7.3%	7.0%	14.0%	11.9%	4.7%	<b>44.1%</b>
<b>2018</b>	-1.3%	-3.0%	-4.7%	-4.2%	-1.2%	-4.7%	-6.5%	-4.6%	-3.2%	-8.4%	0.9%	-5.8%	<b>-38.1%</b>
<b>2019</b>	0.8%	1.0%	-2.7%	5.1%	10.4%	0.9%							<b>16.0%</b>

Performance results are presented net of all transaction costs, investment management and performance fees incurred by the Fund. Monthly performance figures are calculated based on the lead series, using a daily unit pricing methodology based on historical data.



Portfolio insights

Gold at new cycle highs compliments of FED’s dovish shift

In June, Gold broke out above a long-term (6-yr) base of US\$1,350/oz (see red line in Chart 1 below). A\$ gold continues to break all-time highs. At the time of writing US\$ gold was trading at US\$1,425/oz (black line in below) and A\$ gold at A\$2,037/oz (green line below).

Chart 1. US\$ and A\$ gold breaking out to 6-yr and all-time highs respectively

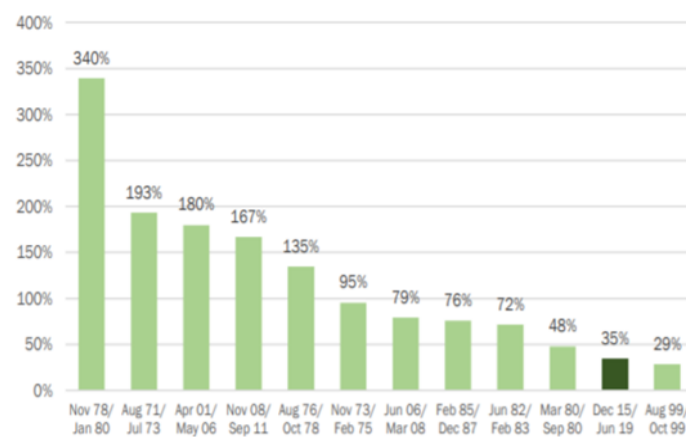


Source: Bloomberg, Paragon

As we have stated previously, we consider gold a strong hedge to global market volatility as this is when gold tends to do well. Volatility will be an ongoing feature in global markets due to the mix of macro risk factors including US-China trade wars, growth slowing globally and US recession fears.

Gold particularly benefits from accommodative monetary policy, namely low and falling cash rates (see Chart 2 below) and quantitative easing (QE). Following the FED’s dovish pivot in January and the end of their recent tightening cycle, in June they signalled the start of their rate cutting cycle - with a likely 25-50bps rate cut in 2H CY19. Futures markets are currently pricing in 90bps of cuts by June 2020.

Chart 2. US\$ gold bull markets – top 4 moves during US rate cut cycles



Source: Canaccord Genuity, Paragon

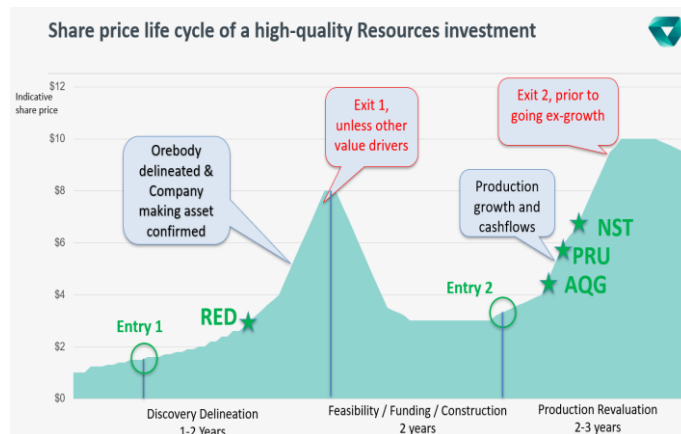
Quantitative tightening by Central Banks globally has also halted, with the ECB in June signalling more QE. With US cash rate cuts coming, the USD cycle may have also peaked and with the prospect of negative real bond rates returning, gold is very well placed to move a lot higher.

These factors above provide a strong tailwind for gold equities, particularly unhedged A\$ gold stocks. We have focused our interest in the Australian gold space leveraged to A\$ gold, particularly strong free cashflowing mid-to-large-cap producers and emerging producers - boasting strong operating leverage with solid mine life and/or exploration upside.

Gold equities however are not for the faint hearted, as evidenced by recent major downgrades across well-owned large and small caps such as St Barbara, Dacian, Gascoyne, Millennium and Aurelia – all production-related downgrades - pleasingly avoided by us.

It is worth noting that the global market cap of the gold sector is ~US\$225b, which if it were a company would rank outside the top 30 stocks in the S&P500. As such, the gold sector has ample scope to re-rate. Generalist funds are under-weight the sector – as they were in 2009 ahead of a very big move in gold. They will initially chase the large cap names as they do every cycle. But the real money will be made in stock picking the next economic project developments, high-cost (operating) leveraged and growing mid-cap producers. We know the sector very well having successfully invested in the 2009-2011 gold bull market and in A\$ gold exposures since 2014. In chart 3 below we provide an illustration of where we view a few of our gold stocks amid their indicative share price life cycle.

Chart 3. Paragon gold exposures today



Source: Paragon

Alacer Gold (AQG) – key long position

Alacer’s Copler mine in Turkey is world class. Its recently commissioned sulphide project is ramping up well ahead of expectations, driving a more than doubling in its share price and in our entry into the stock. Alacer has arguably the strongest operating leverage of the sector, being unhedged to the gold price, large scale growing production, with low costs and ~20yr mine life. Alacer is now free cashflowing and has solid financial leverage – debt in its enterprise value is rapidly turning into equity value, implying significant upside remains. Any further rises in the gold price will simply be a bonus.

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