



PARAGON AUSTRALIAN LONG SHORT FUND // July 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*
Paragon Aust. Long Short Fund	+9.4%	+21.9%	+25.8%	+9.4%	+2.0%	+9.7%	-2.8%	+5.6%	+10.9%	+93.9%
ASX All Ordinaries Accum. Index	+3.4%	+8.8%	+19.1%	+3.4%	+13.5%	+14.2%	+11.6%	+8.8%	+9.3%	+77.0%
ASX Small Ords. Accum. Index	+5.1%	+4.7%	+16.3%	+5.1%	+8.2%	+15.2%	+9.5%	+9.3%	+6.8%	+52.4%

*Since inception 1 March 2013

RISK METRICS

Sharpe Ratio	0.5
Sortino Ratio	1.1
Correlation	0.4
% Positive Months	61%
Up/Down Capture	81%/44%

UNIT PRICE & FUM

NAV	\$1.8010
Entry Price	\$1.8037
Exit Price	\$1.7983
Fund Size	\$40.2m
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 +9.4% after fees for July. Positive contributors were from gold holdings including Alacer Gold, as well as iSignthis, Xero, Agrimin and Pilbara (short). The Fed has started its rate easing cycle by cutting the cash rate 25bps in July and also halting quantitative tightening two months early. The Fed is trying to extend the cycle – as was done in 1995 when rates were cut by 75bps in total (3 x 25bps cuts in June, Sept & Oct 1995). Futures markets are currently pricing in a further 75bps of cash rate cuts by June 2020. A\$ gold continues to break all-time highs, currently >A\$2,100/oz, offering outstanding margins and economics for our gold stocks.

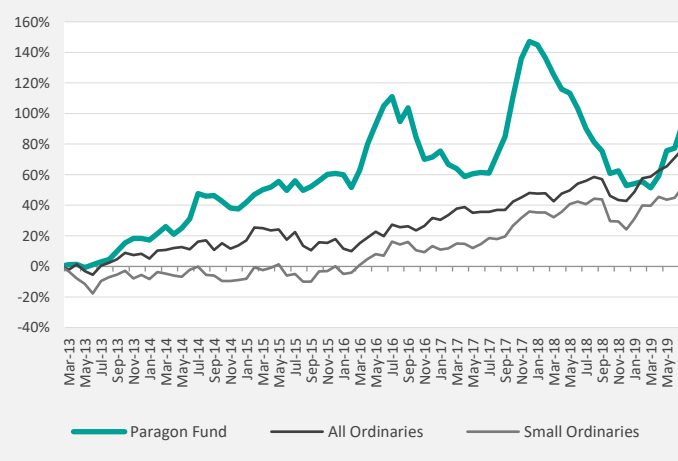
FUND POSITIONING

Number of Longs	28
Number of Shorts	6
Net exposure	115%
Gross exposure	137%
Index futures	0%
Cash	-15%
Beta-adj net exposure	69%

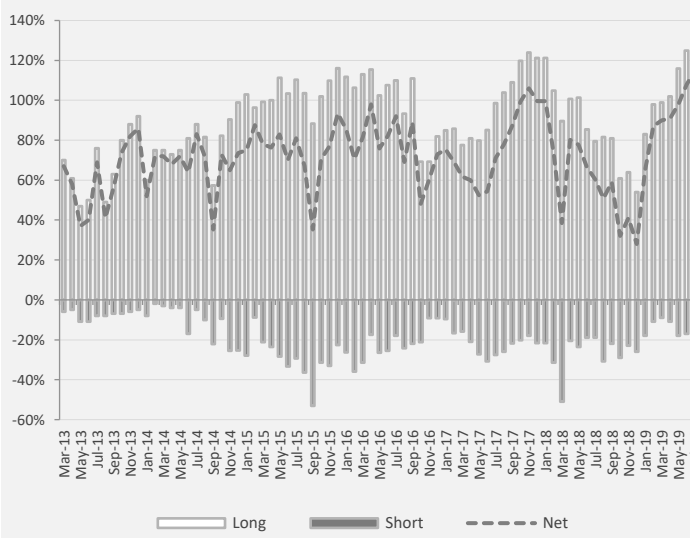
FUND FACTS

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
2013			1.1%	0.3%	-2.2%	1.8%	1.8%	1.6%	5.3%	4.9%	2.8%	0.0%	18.7%
2014	-1.1%	3.8%	3.6%	-3.9%	3.2%	4.9%	12.5%	-1.1%	0.3%	-2.5%	-3.1%	-0.5%	15.9%
2015	3.2%	3.6%	2.1%	1.1%	2.4%	-3.8%	4.3%	-4.2%	1.6%	2.5%	2.6%	0.3%	16.8%
2016	-0.5%	-5.2%	7.4%	10.8%	7.0%	6.3%	2.9%	-7.8%	4.3%	-9.0%	-7.9%	0.8%	6.8%
2017	2.3%	-5.0%	-1.6%	-3.2%	1.3%	0.4%	-0.2%	7.3%	7.0%	14.0%	11.9%	4.7%	44.1%
2018	-1.3%	-3.0%	-4.7%	-4.2%	-1.2%	-4.7%	-6.5%	-4.6%	-3.2%	-8.4%	0.9%	-5.8%	-38.1%
2019	0.8%	1.0%	-2.7%	5.1%	10.4%	0.9%	9.4%						26.9%

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

Strong Catalysts for Gold

We continue to be very constructive on gold, especially A\$ gold. As discussed previously, gold particularly benefits from accommodative monetary policy (namely low and falling cash rates), quantitative easing (QE), falling bond rates (namely negative or approaching negative real rates) and global market volatility.

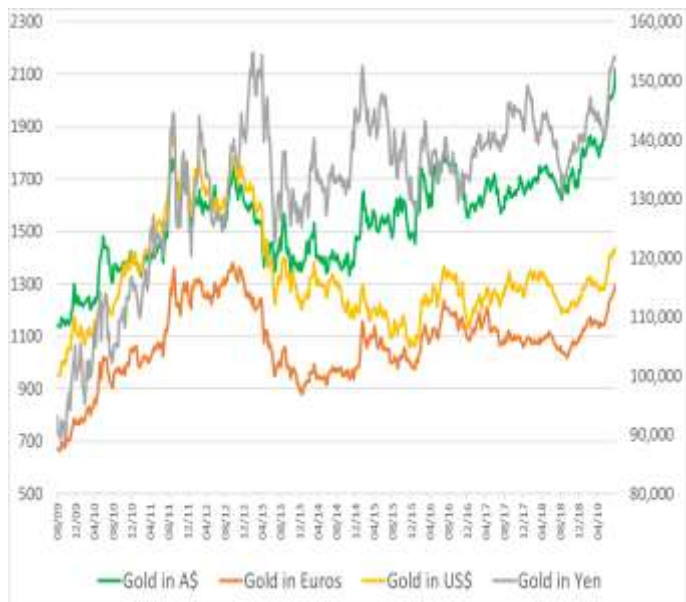
All four arose in the last month:

1. The Fed started its rate easing cycle in July by cutting the cash rate by 25bps;
2. The Fed halted its quantitative tightening two months early, ending on 1st August;
3. US Bond rates fell below 2% and real rates are nearing zero (European and Japanese long-term rates already negative); and
4. Trump escalated the USA-China trade war by threatening to impose a 10% tariff effective September 2019 on the remaining US\$300b Chinese imports not already taxed.

Futures markets are currently pricing in a further 75bps of cash rate cuts by the Fed by June 2020.

Gold responded as we expected, continuing to break higher in all currencies globally, with A\$ gold breaking all-time highs at >A\$2,100/oz (green line in Chart 1 below) and gold in Euros (orange line) and Yen (grey line) also on the cusp of all-time highs. Gold has managed to strengthen in US\$ terms (yellow line) despite a rising US dollar - this de-link is bullish.

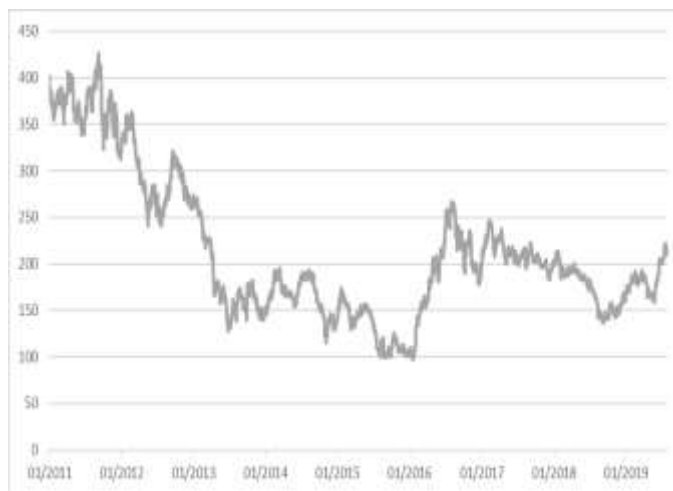
Chart 1. Gold breaking out in all currencies = bullish



Source: Bloomberg, Paragon

The Fund has been positioned for this anticipated move in gold, which resulted in a strong performance for July. **We believe the move in gold, and moves in our gold longs specifically, are still in their infancy.** The global market cap of the gold sector is ~US\$225b, around half what it was at its previous peak in 2011, as illustrated in Chart 2.

Chart 2. Global market cap of the gold sector (\$US billions)



Source: RBC, Paragon

The gold sector has ample scope to continue re-rating, with the biggest gains to be made in micro to mid-cap gold equities. It is worth noting that the junior gold miners index (GDXJ) outperformed its larger-cap gold mining peer (GDX) in 11 of 17 (or ~2/3) of gold rallies over the past 15 years.

We believe (and have already demonstrated) the best returns will be made in identifying key stocks that meet particular criteria:

1. emerging economic project developments such as RED 5 (discussed below);
2. high-cost operating-and/or-leveraged mid-cap producers such as Perseus and Westgold; and
3. growing large-cap producers such as Northern Star and Alacer Gold (update provided below).

Once thought of like a depleted historic gold mine, RED 5 has delineated 3moz of gold in both open pit and underground resources at its King of the Hills (KotH) project in WA. In July, RED 5 announced an open pit reserve of 1.45moz - an outstanding result – and its KotH pre-feasibility metrics for a 4mtpa project producing 175kozpa+. In a bullish A\$ gold market, KotH capex will be easily funded. When combined with its Darlot mining operation, in time, RED 5 could become a >250kozpa producer. Peers of this scale and cash generation are commanding >\$1b market caps which is 3x that of RED 5. In our view, RED 5 is well placed to continue re-rating.

Alacer Gold (as discussed previously in [June](#)) arguably has the strongest operating leverage of the sector - unhedged to the gold price; large-scale growing production; low costs; and ~20yr mine life. A strong 2Q19 result was released in July, surprising to the upside on every key metric. It continues to be the cheapest ASX-listed large cap with an enviable growth profile, offering solid share price upside despite its re-rating. Accordingly, Alacer continues to be the largest gold position in the portfolio.

Paragon's in-depth knowledge of the A\$ gold sector and ability to identify stock-specific opportunities within this strong secular theme, ensure the Fund is well placed to continue to achieve attractive returns in gold.