



## PARAGON AUSTRALIAN LONG SHORT FUND // September 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>	-3.1%	+8.8%	+27.3%	+8.8%	+9.9%	+2.1%	-1.7%	+5.7%	+10.5%	+92.9%
ASX All Ordinaries Accum. Index	+2.1%	+3.3%	+11.4%	+3.3%	+12.6%	+13.6%	+11.9%	+9.8%	+9.0%	+76.7%
ASX Small Ords. Accum. Index	+2.6%	+3.1%	+7.0%	+3.1%	+3.9%	+11.8%	+8.8%	+9.6%	+6.3%	+49.5%

\*Since inception 1 March 2013

### RISK METRICS

Sharpe Ratio	0.5
Sortino Ratio	1.1
Correlation	0.4
% Positive Months	61%
Up/Down Capture	77%/39%

### UNIT PRICE & FUM

NAV	\$1.7909
Entry Price	\$1.7936
Exit Price	\$1.7883
Fund Size	\$37.3m
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 -3.1% after fees for September. Positive contributors were Atrium, Jumbo and Nickel Mines. These were more than offset by declines in iSignthis, Agrimin and our gold holdings. The Fed cut the cash-rate by another 25bps, US 10yr yields bounced off their lows to ~1.7% and both US\$ & A\$ gold corrected ~5% from recent highs. It is worth noting that in the previous bull cycle of 2009-2011, gold had ten >5% corrections amid its 167% gain. Volatility in gold bull cycles is a given and historically its paid very well being patiently invested. In September, we visited Atrium's Elan project in Canada and Adriatic released initial metallurgical results – both surprising to the upside - discussed overleaf.

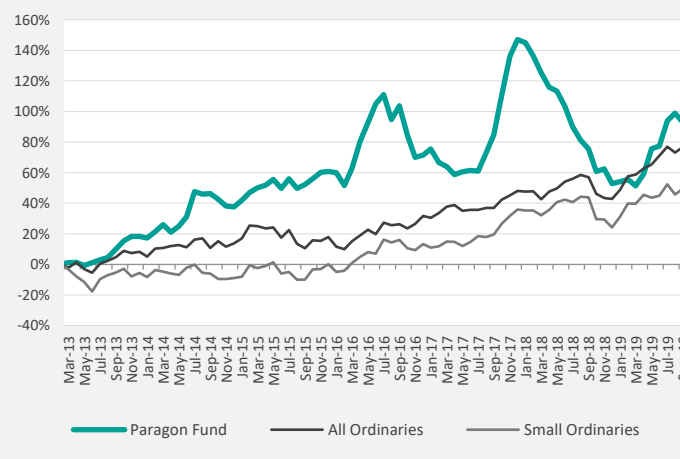
### FUND POSITIONING

Number of Longs	29
Number of Shorts	4
Net exposure	125%
Gross exposure	144%
Index futures	0%
Cash	-25%
Beta-adj net exposure	64%

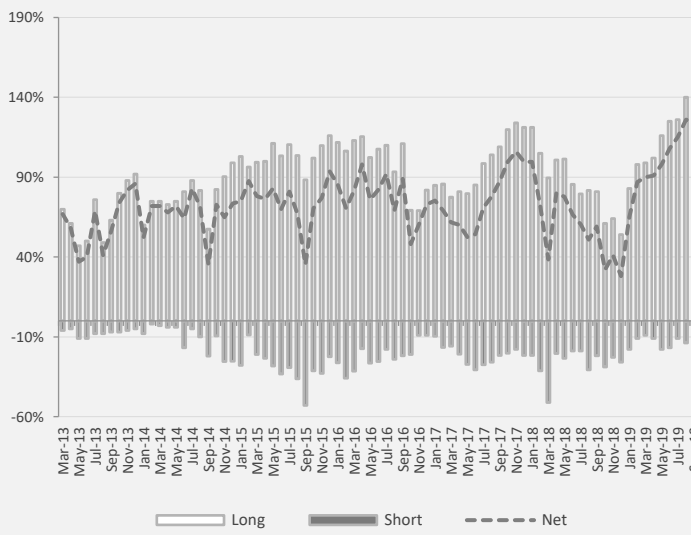
### FUND FACTS

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%	9.4%	2.6%	-3.1%				<b>26.2%</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.



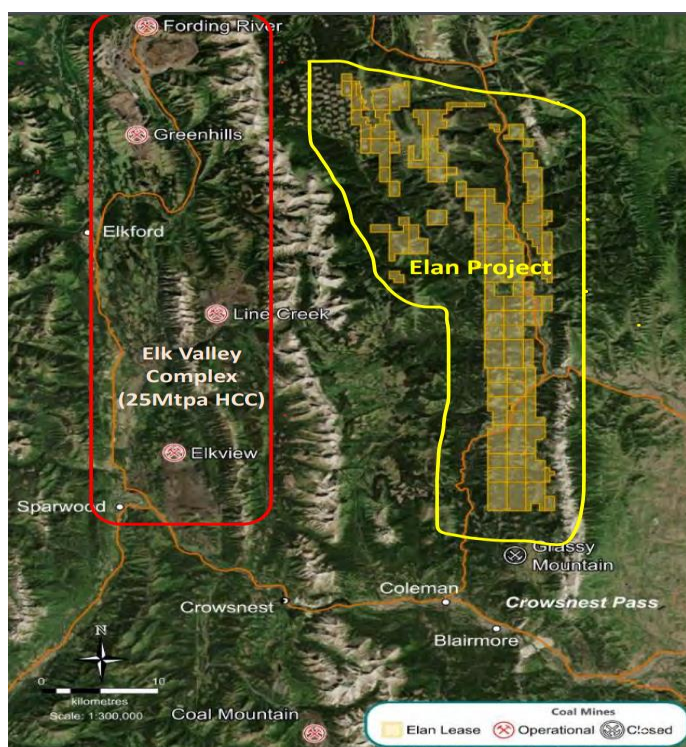
Portfolio insights

Atrum site trip, Alberta Canada – bigger and better than we expected

In September, John Deniz visited Atrum’s 100% owned Elan (Elan South, Isolation South & Elan North) hard coking coal (HCC) project in Alberta Canada and was pleasantly surprised to the upside on several fronts. We previously wrote about Atrum’s investment case in February. In our view, there is no question of Elan’s scale and premium-quality HCC resource potential. Elan HCC resources currently stand at ~300mt, and ongoing drilling success is likely to see our near-term 500mt upgrade prove conservative. Note at 500mt Elan will be ~2.5x the resource size of neighbouring Riversdale Resources (RR) Grassy Mountain (GM) project to the south, which Gina Rinehart has since paid ~\$700m for the remaining 80% of RR. A helicopter ride over the Elan project gave us the best sense of its scale - dwarfing GM in size. Importantly, Elan could develop 3-4 HCC mines - much like Teck’s 25mtpa HCC Elk Valley 30kms to its west, who’s 4 HCC producing mines (Fording River, Greenhills, Line Creek & Elkview – see Figure 1) are cashflowing ~US\$3b pa.

Elan’s current category 2 land zoning, viewed by some as a risk to achieving its ultimate project development permits, is simply a historical arbitrary designation that should be de-risked in due course. Meetings held with Alberta’s energy regulator and provincial ministers reinforced for us their strong support for Elan’s development. Atrum’s legal advisers and environmental consultants (currently working on GM) are experienced and abreast of all project approval requirements. Management’s strong stakeholder engagement was evident, particularly with First-Nations (Alberta’s indigenous) which is key to gaining provincial support. There is very little doubt of the broader support of Elan’s development, with pro-mining and job creation an economic imperative for the region. Gina’s GM is expected to achieve permitting status in mid-2020, which should prove to be a major catalyst for Atrum. Atrum has also built 100kms of road in the last 18 months and secured the largest mining-related exploration permit in Alberta’s history, further supporting our view towards achieving necessary approvals for development.

Figure 1: Atrum Elan project and Teck’s Elk Valley comparison



Source: Atrum

Figure 2: Teck’s Elk View open-cut HCC mining project – great leading example for Atrum



Source: Paragon

Atrum’s Elan is a tier 1 premium HCC development asset, proximal to existing and materially under-utilised rail and port infrastructure. These types of assets are rare and strategic, as evidenced by Gina’s move on GM. We expect Gina to come for Atrum in time, although competing interest may also come from Teck Resources or Chinese/Japanese/Sth Korean/Indian premium HCC consumers. Whilst we’re pleased with Atrum’s stock price doubling since initiating our position in February, we believe there remains considerable upside ahead.

Adriatic - initial Rupice metallurgical test data surprises to the upside

Adriatic released initial metallurgical results for its Rupice’s base and precious metals at 83% and 82% respectively. These were both ahead of our own estimates, particularly for the precious metals. Rupice is a polymetallic orebody (base metals including Zinc, Lead, Copper; precious metals including Gold and Silver; and Barite) looking to produce various concentrates. In order to capitalise on recovering its various metals, ‘clean’ metallurgy is a key de-risking milestone.

We have taken an early view modelling Rupice’s development as a 1mtpa underground mining operation, using comparable projects and experience to derive operating costs and capex. When assuming conservative inputs and spot commodity prices, Rupice’s base and precious metals alone can generate ~\$270m pa of free cashflow. Further, Barite is looking increasingly like it can be monetised (of which the sell-side continues to give zero value) and could potentially add ~\$60m of free cashflow. Despite Rupice’s polymetallic nature, most incorrectly view it as largely a Zinc and Lead project. (Note Rupice’s polymetallic revenue splits are: Zinc 21%, Lead 16%, Copper 8%, Gold 18%, Silver 24% and Barite 13%). Whilst Zinc and Lead spot prices have declined ~25% from their recent highs (impacted by the US-China trade war), with respect to Rupice’s economics, they have been more than offset by rises in Gold and Silver metals prices.

In our view, the market is less familiar with polymetallic resource developments and is yet to work out just how strong Rupice’s economics actually are. Rupice un-risked could generate ~\$330m of free cashflow, boast \$1b+ NPV (vs its current fully diluted market cap of ~\$200m) and see it payback capex in <18 months. Our research process places us well to identify and position the Fund in such strong risk-reward resource development opportunities, where we expect a re-rating by the market to follow and/or industry players to pursue. At its current share price of \$1.05/sh, Adriatic is simply too cheap and a highly attractive takeover target (even after allowing for a material control premium). We’re very excited about Adriatic’s outlook.

DISCLAIMER: This report has been prepared without taking account of your objectives, financial situation or needs and should not be relied upon as the basis of an investment decision. Paragon makes no representation or warranty as to this report’s reliability and does not accept any responsibility or liability in relation to such information or for conclusions which the reader may draw from the report. You should seek independent professional advice before making any decisions regarding the content of this report, including a decision to invest. The Product Disclosure Statement for the Paragon Australian Long Short Fund is available from our website at [www.paragonfunds.com.au](http://www.paragonfunds.com.au). There is no guarantee against loss resulting from an investment in the Fund and past performance is not a reliable indicator of future performance.