PARAGON FUNDS MANAGEMENT

PARAGON AUSTRALIAN LONG SHORT FUND // November 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	+0.2%	-4.5%	+8.2%	+7.2%	+17.2%	-10.3%	+3.8%	+6.6%	+10.0%	+90.1%
ASX All Ordinaries Accum. Index	+3.1%	+4.5%	+9.3%	+5.7%	+26.0%	+11.6%	+12.7%	+10.1%	+9.2%	+80.8%
ASX Small Ords. Accum. Index	+1.6%	+3.8%	+5.3%	+4.3%	+16.7%	+7.2%	+11.4%	+10.8%	+6.3%	+51.2%

*Since inception 1 March 2013

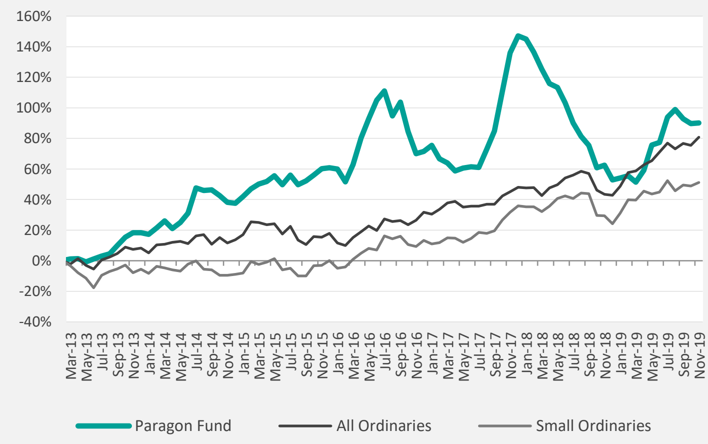
RISK METRICS

Sharpe Ratio	0.5
Sortino Ratio	1.0
Correlation	0.4
% Positive Months	60%
Up/Down Capture	76%/41%

UNIT PRICE & FUM

NAV	$1.7654
Entry Price	$1.7681
Exit Price	$1.7628
Fund Size	$36.1m
APIR Code	PGF0001AU

HISTORICAL PERFORMANCE *(after fees)*



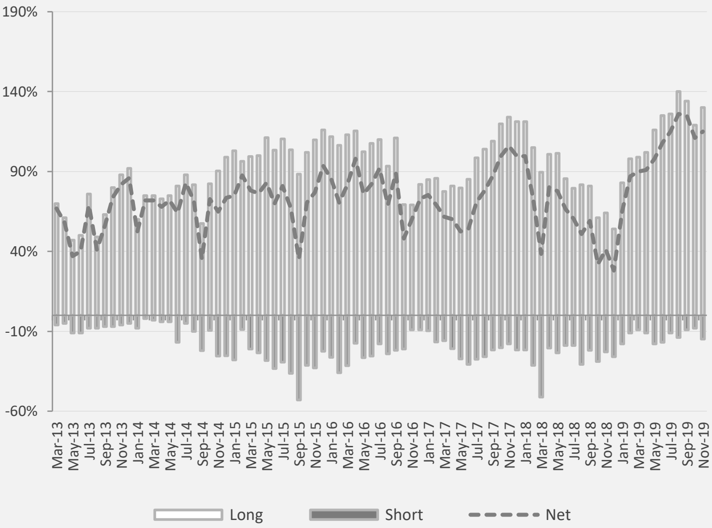
FUND STRATEGY AND OBJECTIVE

An Australian equities long/short fund, with a long-bias, fundamentally driven with a concentrated portfolio of high conviction stocks. 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 +0.2% after fees for November. Positive contributors were Adriatic (outstanding scoping study economics), Alacer Gold (resource upgrade), Xero (strong 1H20 result) and PointsBet. These were offset by declines in Agrimin, Atrum and Alkane. US 10yr yields were up +5% to 1.8% and US$ gold was down -3.2% to US$1,457/oz. The US-China trade narrative continued to improve, with optimism building towards a phase 1 deal and China looking to tighten its IP rules (although this has since deteriorated). November saw more gold M&A, with Evolution and Saracen making material acquisitions in high-cost complex assets. Adriatic released an outstanding scoping study for its polymetallic Vares project, illustrating strong economics and considerable upside despite the stock breaking new all-time highs. It's hard not to like a project when its NPV is 5x its capex and market cap, and with <1yr payback and >10-yr mine life - discussed overleaf.

HISTORICAL EXPOSURE



FUND POSITIONING

Number of Longs	26
Number of Shorts	6
Net exposure	115%
Gross exposure	144%
Index futures	0%
Cash	-15%
Beta-adj net exposure	80%

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

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%	2.6%	-3.1%	-1.6%	0.2%		**24.4%**

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

Adriatic - Outstanding scoping study economics for Vares project

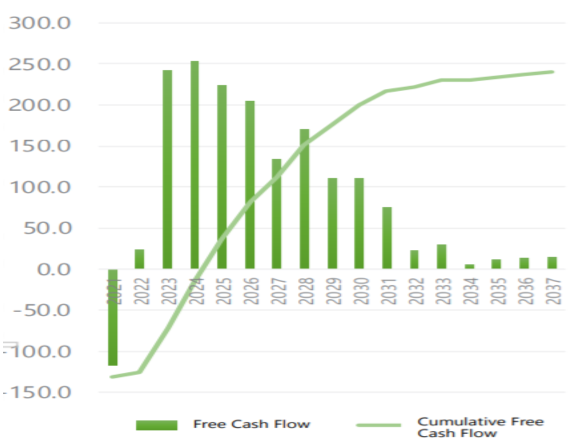
As one of our key long positions, Adriatic Metals (ADT) has been discussed already in November 2018 and January 2019. In November, Adriatic released an outstanding scoping study for its high-grade polymetallic Vares project. The study surprised to the upside, with better economics than our (conservative) modelling and given the positive share price response also exceeded market expectations. Despite the stock breaking all-time highs (currently trading at $1.35/sh), in our view, there remains considerable upside in Adriatic.

Figure 1: Adriatic performance (%) since its May 2018 IPO relative to Resources Indices

Note: Relative to ASX 300 Resources AI (ASA48) and Small Resources AI (ASA39) Source: Bloomberg

The scoping study was completed by CSA Global, a reputable third-party consulting group, who used realistic to conservative project parameters and commodity prices. (The scoping study was done on maiden resources only, noting the prolific high-grade polymetallic Rupice orebody has since extended to south and north). Despite this conservatism, Vares' economics are outstanding - **boasting a NPV of $1.35b vs Adriatic's current fully diluted market cap of $270m, IRR of 107% and an extraordinary project payback of only 8 months.** If adding the additional 1mt+ of resources delineated at Rupice since its maiden resource release, all these key metrics moderately improve. Its hard not to like a project when its NPV is multiples (5x) of its project capex and market cap, and with such a short payback and >10-yr mine life. Capex of US$178m includes a 30% contingency and Opex of US$57/t of ore – should both reduce as Adriatic de-risks and delivers its bankable feasibility study. As illustrated in Figure 2, free cashflows are strong at US$200-250m p.a. ($300-365m p.a.) in the early years due to Rupice's favourable orebody attributes, high-grade and polymentallic nature.

Figure 2: Vares project free cashflows (US$m) – very strong in early years



Source: Adriatic

As with all of our Resource development investments, we derive our valuation by fully diluting the capital structure for project funding. In doing so, Adriatic's NPV is $3.60/sh un-risked, based on current delineated resources. If we were to roll this forward by 2 years to first production and cashflows, NPV rises to >$5/sh. Adriatic's risk-reward is asymmetrically to the upside.

Given Vares' outstanding project economics, sizeable land holding and exploration upside, its highly likely Adriatic would already be attracting strong interest from several Resource companies. As discussed previously, Sandfire have accumulated their interest in Adriatic on market (~16% shareholding as of 5 December). We are well aligned with the board and management, in particular CEO Paul Cronin whose performance has been excellent to date, and importantly, hold a blocking 20% stake and won't sell for less than fair value.

Many mid- and large-cap Resource companies are flush with cash and lack quality growth assets. Sandfire is a prime example with its flagship Degrussa Copper-Gold mine rapidly depleting (only 3yrs of mine life remaining). Sandfire's recent acquisition of MOD Resources T3 project in Botswana helps offset some of Degrussa's production decline, however with inferior metrics (T3 project capex of US$182m, 30ktpa of Copper producing free cashflow of <US$50m pa, payback of ~4yrs) they will need to do a lot more – see Figure 3 below. Sandfire's Black Butte project in the USA doesn't cut it and will unlikely happen in the timeframe required.

Figure 3: Sandfire's production (in FY) set to fall off a cliff as Degrussa depletes

Source: Sandfire reports, Canaccord Genuity estimates

Sandfire currently has $260m in net cash and at spot Copper prices, its Degrussa asset should generate another $500m+ of free cashflow over the next 3 years of its useful life. This implies a cumulative $750m+ of net cash. Sandfire has the means to do a cash plus scrip bid for Adriatic, and could develop both T3 and Adriatic's Vares with little or no debt required. In any case, there is no question that Vares with its substantially superior economics, sits at the top of Sandfire's capital budgeting pecking order. **For context, despite being half the capex, Adriatic's Vares is set to produce $1b more cumulative free cashflow than Sandfire's Degrussa mine will have generated by the time its depleted in 2022.**

To capture the most value, we would prefer to see Adriatic build their Vares project. However, we don't think they will get a chance to as it will most likely be taken over.

Near term catalysts for Adriatic include:

- 'Step-out' drill hole results;
- environmental and urban planning permits;
- exploitation license (next quarter); and
- amendments to the existing concession agreement, clearing a defined permitting pathway to production.

We look forward to updating investors with Adriatic's progress.

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