



## PARAGON AUSTRALIAN LONG SHORT FUND // December 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>	+0.3%	-1.1%	+7.6%	+7.6%	+24.8%	-12.1%	+3.6%	+6.8%	+9.9%	+90.7%
ASX All Ordinaries Accum. Index	-1.9%	+0.4%	+3.7%	+3.7%	+24.2%	+9.5%	+10.4	+9.3%	+8.8%	+77.4%
ASX Small Ords. Accum. Index	-0.3%	+0.9%	+4.0%	+4.0%	+21.5%	+5.3%	+10.0%	+10.7%	+6.2%	+50.8%

\*Since inception 1 March 2013

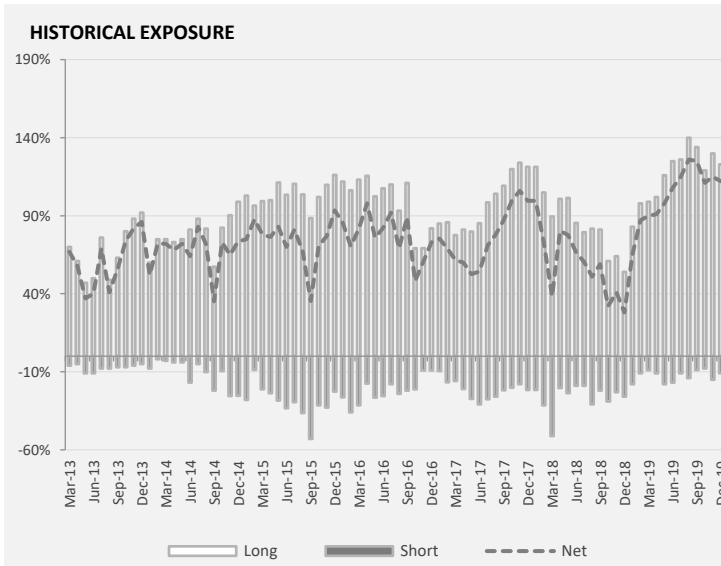
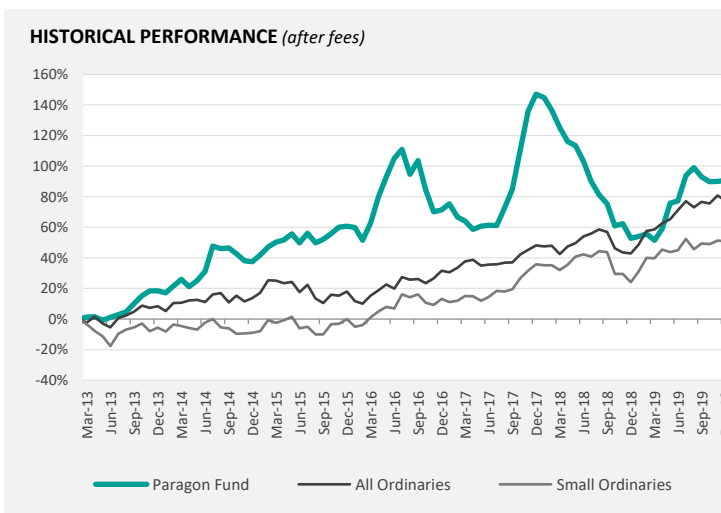
### FUND STRATEGY AND OBJECTIVE

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 +0.3% after fees for December and +24.8% for 2019 vs the All Ordinaries Accumulation Index (AI) +24.2%.

Positive contributors for December were Adriatic and Atrium (resource upgrades), offset by declines in Audinate and Telix Pharma. The All Ordinaries AI was down -1.9%, trailing US indices which were up +3%. US 10yr yields were up +8% to 1.9%, US\$ gold was up +3.6% to US\$1,517/oz and the AUD/USD FX rate was up +3.8% to 0.70. The US-China trade narrative continued to improve with a phase 1 deal agreed in principle and expected to be signed in January. December saw more gold M&A, with Northern Star acquiring Newmont's 50% interest in the Super Pit in Kalgoorlie, WA. We provide a review of 2019's performance and our outlook for 2020 overleaf.



### FUND POSITIONING

Longs / Shorts (#)	21/4
Net exposure	112%
Gross exposure	135%
Index futures	0%
Cash	-12%
Beta-adj net exposure	71%
FUM	\$35.0m

### FUND FACTS

Structure	Unit trust
Domicile	Australia
Applications & Redemptions	Daily
Minimum investment	\$25,000
APIR Code	PGF0001AU
Administrator	Link Fund Solutions
Prime Broker/Custodian	UBS

### RISK METRICS

Correlation	0.4
% Positive Months	61%
Up/Down Capture	76%/39%

### UNIT PRICE

NAV	\$1.7712
Entry Price	\$1.7738
Exit Price	\$1.7685

### MONTHLY PERFORMANCE BY CALENDAR YEAR

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	CYTD
<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%	-1.6%	0.2%	0.3%	<b>24.8%</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.



## 2019 calendar year in review

Readers interested in a comprehensive coverage of our 2019 performance and 2020 outlook can refer to our [on-demand webinar](#) held on 17 December 2019, also summarised below.

2019 was a solid year for the Paragon Australian Long Short Fund with a performance of +24.8% after fees, ahead of almost all relevant indices. The table below provides the Fund's annual returns after fees since inception vs relevant indices:

CY	Paragon	All Ordinaries Accum. Index	ASX300 Resources Index	ASX300 Industrials Index	Small Ordinaries Accum. Index	Small Resources Index	Small Industrials Index	EurekaHedge Au/NZ HedgeFund Index
2013*	18.7%	8.3%	-3.8%	12.0%	-5.6%	-43.1%	5.0%	15.0%
2014	15.9%	5.0%	-16.6%	11.0%	-3.8%	-29.1%	1.2%	8.2%
2015	16.8%	3.8%	-24.9%	8.3%	10.2%	-14.3%	9.3%	15.4%
2016	6.8%	11.6%	42.9%	7.4%	13.2%	53.3%	2.4%	-0.2%
2017	44.1%	12.4%	25.8%	9.2%	20.0%	38.7%	11.8%	11.0%
2018	-38.1%	-3.5%	2.3%	-4.3%	-8.7%	-16.0%	-6.5%	-7.0%
2019	24.8%	24.2%	25.9%	23.2%	21.5%	9.9%	24.5%	16.6%

\* Paragon inception March 2013.

Source: Bloomberg, Paragon

### Performance attribution

Despite not enjoying the strong bounce in global markets in 1Q following the 4Q18 crash, we achieved a solid result for the year whilst averaging a beta-adjusted net exposure of ~68%. The performance breakdown was +25% longs / +2% shorts and by sector it was +16% Resources / +11% Industrials.

Our key winning longs were:

- **Resources:** Kidman bid for by Wesfarmers; Adriatic's outstanding project economics, Sandfire buys 16%; and Alacer's turnaround in its Sulphide project ramp-up and Oxide production upgrades; and
- **Industrials:** Growth technology/fintech stocks including Nearmap, Xero, PointsBet, Jumbo and iSignthis.

Our key winning shorts were:

- **Resources:** Bluescope and Pilbara, both experiencing material production downgrades with Pilbara needing to raise dilutive equity in order to stay solvent and liquid; and
- **Industrials:** Caltex and Navigator, both experiencing material profit downgrades.

Our biggest loser for the year was Agrimin at -2% which experienced a healthy price correction despite its strengthening fundamentals. Agrimin is still one of our strongest performing stocks since entry.

Pleasingly, in addition to our strong performers, we also avoided major downgrades in many Resources and 'well-owned' Industrials-favourites (too many to list!).

## 2020 Outlook

The biggest debate in 2019 was whether markets were going into recession or not. What a different market we are in today, with global markets continuing to break higher. What's driving this – Central Banks (CB) adding liquidity to the system, outright 'debt monetisation' (even though they are not calling it this) and the Fed's rate cuts – both aimed at extending the cycle. This is very good for equities in general, fuelling the secular bull-market run since the 2009 GFC. In our view, many macro flags have turned green (from red a year ago) particularly the first 4 below:

- CB globally resuming QE
- Dovish FED 3 x 25bps rate cuts in 2H19; 'mid-cycle' adjustment (like 1995)
- US-China trade war improving; tariffs now falling, not rising
- Global PMI's turning up after a long period of contraction
- Chinese growth risks remain, but tax cuts and targeted monetary and fiscal stimulus underway
- US yield curve inverted on 25 August 2019 . Whilst this is a major red flag, rallies can continue for 9+ months before market tops (eg. 1998, 2000 & 2005) and ultimate sell offs.

Equities continue to look attractive relative to very low (or negative) bond and falling cash rates. Money market cash levels at ~US\$3.4T is near highs of GFC market lows, implying there is ample cash on sidelines to push stocks higher. Also, large caps have led markets to new highs, but without broad stock participation until now, with small-cap indices breaking out of long bases. This is classic 'risk on', with weight of money finally starting to move towards small caps.

### Fund positioning

Around half our exposure is in Resources (which includes our gold stocks) and the other half is in structural growth stocks across tech/medtech/fintech. Our growth names do well with market beta and our gold names tend to do even better when the market gets sold off, which has us in-part internally hedged.

Our key themes and stocks have tailwinds and long runways of growth, summarised below:

- Resources - Tailwinds:
  - A\$ gold ~A\$2,250/oz, 2.5% off record highs;
  - Majors and mid-caps flush with cash and needing to pursue quality growth;
  - M&A cycle underway in gold and nickel equities; and
  - Dr Copper starting to break higher = 'risk on'.
- Industrials – Structural growth drivers:
  - Ongoing shift to cloud-based accounting systems;
  - Fintech & neo-banking; and
  - Medical-technology opportunities.

Near-term catalysts are anticipated to drive ongoing re-ratings for many of our stocks and our performance for 2020 and beyond.

Thank you for your ongoing support throughout 2019 and we wish you a healthy and prosperous year ahead.