



Paragon Australian Long Short Fund

JULY 2020

www.paragonfunds.com.au

*Since inception - 1 March 2013

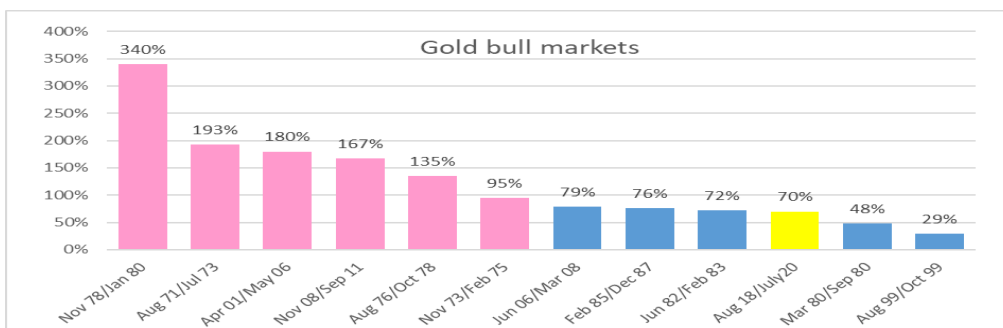
PERFORMANCE DATA (after fees)	1 month	3 months	6 months	Financial YTD	1 year	2 year p.a.	3 year p.a.	5 year p.a.	Net Return p.a.	Total Net Return*
Paragon Aust. Long Short Fund (est)	+13.0%	+45.3%	+19.3%	+13.0%	+19.8%	+10.6%	+13.0%	+8.3%	+12.1%	+132.4%
ASX All Ordinaries Accum. Index	+1.0%	+8.6%	-13.6%	+1.0%	-9.0%	+1.4%	+5.7%	+5.5%	+6.6%	+60.4%
ASX Small Ords. Accum. Index	+1.4%	+9.9%	-11.0%	+1.4%	-8.4%	-0.7%	+6.5%	+7.9%	+4.5%	+38.8%

OVERVIEW

The Fund delivered another strong performance in July, returning an estimated +13.0% after fees and +21.7% CY20td (+31.2% ahead of the market). July saw further significant stimulus of US\$1t by the US and €750b by the EU. Global Indices were mixed, -1.0% (Russell 2000) to +3.5% (Nasdaq), and locally +1.0% (All Ords AI) to +1.4% (Small Ords AI). Positive contributors for the Fund were from our gold and polymetallic holdings, with Adriatic the standout, offset by declines in Mesoblast and Telix. Silver broke 7-yr highs (being pulled up by gold), closing the month at US\$24.39/oz – which bodes very well for Adriatic, the highest quality silver exposure on the ASX. OceanaGold is currently the Fund's largest position, having entered at near recent lows. Whilst a gold stock, it's also a classic turnaround story, soon to be net cash, unhedged, with enviable self-funded organic growth - providing long-life, high-margin production and strong free cashflows. Despite being a \$2.3b large-cap, it's trading on a mere EV/CY21F FCF of ~4.5x (vs Aussie peers of 10-15x) and is very well placed to go up 2-3x inside the next 2 yrs. An annual distribution of 11c/unit was paid to investors in July. The Fund remains liquid, 84% saleable in 10 trading days (30% a.d.v.), with our top 10 median market cap at \$813m.

PORTFOLIO INSIGHTS: US\$ gold breaks all-time highs, history suggests bigger moves ahead

US\$ gold broke the previous record (US\$1,921/oz; 6th of Sept 2011), closing the month at a new all-time high of US\$1,976/oz. US 10-yr bond rates fell to 0.55%, their lowest monthly close in history. US real rates continued to fall to new cycle lows to -1.0%, falling below the previous post-GFC Sep 2011 cycle low. The US budget deficit totalled US\$2.7t in the first nine months of the US FY20, ~3x as big as the shortfall registered for the entire previous year. Unprecedented and historic US fiscal and monetary stimulus, combined with ballooning US twin deficits, record government debt and a surging Fed balance sheet - not seen since the post-1940's war era – in time is likely to create an inflation problem. Global liquidity (M2 money supply) has gone vertical - up >20% CYTD! Finally, the US\$ index has given way, falling 10% since March to 93.35c and new 2+ yrs lows on increasing US\$ debasement fears. As discussed regularly, all of these are key drivers for gold. The biggest gold bull cycles (in pink below) occurred when US real rates went negative (note US real rates fell to -6% in 1979!). Just like the Nov 08 – Sep 11 gold bull market, today's weight of money is seeing gold ETF inflows rising and starting to outpace S&P 500 ETF inflows. The current gold cycle (in yellow below) continues to boast strong upside risk.



USD down-cycles have typically fuelled material gains in precious metals, small-caps and resources. This is where Paragon has proven capability. Metals already in or approaching deficit markets like copper, nickel, lithium and uranium should do particularly well. Excess inventories can unwind in the short-term, setting the scene for significant bull markets in these metals. Finally, growth equities continue to look attractive relative to very low (or negative) bond and cash rates. We remain very excited by the opportunity set and see the next 2 years to be like 2009 and 2010, in which we did very well.

FUND POSITIONING & RISK METRICS

Fund Size	\$35.5m
Longs	27
Shorts	5
Net exposure	148%
Beta-adj net exposure/ Average since inception	97%/70%
Gross exposure	175%
Cash	-48%
Index Futures	0%
Correlation	0.9
% Positive Months	62%
Up/Down Capture	100%/62%

UNIT PRICING (est)*

NAV (Mid-Price)	\$2.0260
Entry Price	\$2.0290
Exit Price	\$2.0229

* Based on our estimated return.
Official UP to be issued ~BD7 by the Fund's Administrator.

FUND FACTS

APIR Code	PGF0001AU
Responsible Entity & Investment Manager	Paragon Funds Management Ltd
Strategy*	Aust Equities L/S (long-bias), Fundamental, Concentrated. Global and unlisted permitted.
Objective	>10%p.a. over 5yrs
Structure	Unit trust
Domicile	Australia
Pricing/Applications/ Redemptions*	Monthly
Min. Investment	\$25,000
Min. Additions	\$5,000
Min. Redemptions	\$10,000
Administrator	Link Fund Solutions
Prime Broker/Custodian	UBS

* Changed from 1 July 2020