



Paragon Australian Long Short Fund

JUNE 2021

www.paragonfunds.com.au

*Since inception - 1 March 2013

PERFORMANCE DATA <i>(after fees)</i>	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	-7.9%	+14.4%	+21.7%	+43.6%	+43.6%	+28.9%	+13.1%	+7.5%	+13.8%	+194.5%
ASX All Ordinaries Accum. Index	+2.6%	+8.7%	+12.6%	+30.3%	+30.3%	+10.0%	+10.3%	+11.5%	+9.5%	+106.9%
ASX Small Ords. Accum. Index	+3.1%	+8.5%	+10.8%	+33.2%	+33.2%	+12.2%	+8.6%	+11.3%	+8.0%	+82.4%

OVERVIEW

The Fund returned -7.9% after fees in June, caused by a market overreaction explained further below. Despite this, the Fund achieved +43.6% for FY21, well ahead of the market's +30.3%. Pleasingly, this will translate to our highest distribution payment since the Fund's inception, for which ~50% is re-invested including what's invested by Paragon's management and directors. Global Indices were up: +2.2% (S&P500), +5.5% (Nasdaq) and 0.1% (Russell2000), however gold indices were down a bruising -14%; Local Indices were up: +3.1% (Small Ords AI) and +2.6% (All Ords AI). Positive contributors for the Fund were Sayona, Cettire and Queensland Pacific Metals, more than offset by declines in Chalice and our precious metals and copper holdings.

The Fund was impacted by the Fed's mid-June FOMC meeting hawkish turn, responding to rising inflation, despite their narrative for it to be 'transitory'. The Fed brought forward expectations of 2 cash rate increases to 2H-CY23 (from CY24) and indicated they may start the discussion regarding potential tapering of their (US\$1.2t annualised) bond buying program. This caused the US\$ index to bounce +3% off its lows to 92.2, driving a sell-off in most commodities, precious metals and related equities. Gold and silver were down -7.8% to US\$1,770/oz and -6.8% to US\$26.13/oz respectively. Importantly, precious metals are much more correlated to negative real rates which were next to unchanged at -0.9% and near cycle lows. Copper was down -8.2% to US\$4.68/lb, as China tried to temper its strong price rise by announcing plans to release Copper from its state reserves (estimated at ~2mt). Given China consumes 12mtpa of a 24mtpa Copper market, these measures won't move the dial. China tried similar measures in 2005 only to see the secular Copper bull cycle continue for many years. The US also announced plans for further fiscal stimulus, a bipartisan infrastructure bill at US\$800b, providing a tailwind for broader resources demand.

PORTFOLIO INSIGHTS: Sayona advancing towards a leading Nth American Lithium supplier

As discussed in [January](#), an ongoing global focus on decarbonisation has driven pro-EV policy settings and huge investment across the entire EV supply chain. This secular thematic has over 10 years to run. Our focus is within upstream battery minerals - Lithium, heavy Rare Earths, Nickel and Copper - which we view as having outstanding fundamentals. Battery mineral prices continue to rise with Lithium currently US\$14,000/t+ and Spodumene (hard-rock key input for Lithium) currently US\$750/t+, both up >100% since November 2020.

Sayona (~\$500m fully diluted market cap) is advancing its 75% owned (25% Piedmont) Authier and Tansim hard rock Lithium projects in Quebec, Canada. In June, Sayona secured a transformational deal to acquire neighbouring NAL, via a joint 75%/25% bid with Piedmont, for a modest C\$94m. NAL is an established mine with infrastructure (nameplate Spodumene production capacity of 180ktpa), and with \$400m already spent by its previous owners, requires modest capex and a short timeline to re-start. Combining all three projects' resources and infrastructure means a large-scale operation with improved ore blend and stronger economics. Importantly, production should ramp up as early as 4Q22, placing Sayona as the quickest credible new entrant in North America. The scale benefits should see this upstream operation easily underwrite a refinery to produce 30ktpa battery-EV Lithium.

NAL JV partner Piedmont (\$1.7b fully diluted market cap) also owns 19.9% of Sayona equity. Piedmont is advancing its own integrated Lithium project in North Carolina, USA, which has an offtake agreement to supply Spodumene to Tesla in 18 months. We expect Piedmont to pursue Sayona, making them an undisputed leading Lithium player with Nth American operations. The USA's EV auto market is keenly pursuing local supply over Chinese, a major Joe Biden directive.

Sayona has been a strong performer for the Fund, more than doubling since our entry in March. Leading Spodumene peer Pilbara boasts a \$4.2b fully diluted market cap, ~5.5x that of Sayona's (pro-rata 100% asset ownership), despite offering only 3x the medium-term production potential. Hence why we were happy to take profits in Pilbara earlier in the year at near highs and recycle that capital into Sayona.

FUND POSITIONING & RISK METRICS

Fund Size	\$47.1m
Longs	29
Shorts	6
Net exposure	139%
Beta-adj net exposure/ Average (rolling 12mths)	96%/89%
Gross exposure	184%
Cash	-39%
Index Futures	0%
Correlation	0.52
% Positive Months	61%
Up/Down Capture	107%/67%
Liquidity (% saleable inside 10BD)	81%

UNIT PRICING*

NAV (Mid-Price)	\$2.5757
Entry Price	\$2.5795
Exit Price	\$2.5718

* pre-distribution

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

DISCLAIMER: This report has been prepared without taking account of your personal objectives, financial situation or needs and should not be relied upon as the basis of an investment decision. 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. There is no guarantee against loss resulting from an investment in the Fund and past performance is not a reliable indicator of future performance.