



Paragon Australian Long Short Fund

JULY 2021

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	-2.0%	-9.3%	+22.3%	-2.0%	+24.3%	+22.0%	+14.9%	+6.5%	+13.4%	+188.6%
ASX All Ordinaries Accum. Index	+1.1%	+5.7%	+13.4%	+1.1%	+30.4%	+8.9%	+10.3%	+10.4%	+9.6%	+109.1%
ASX Small Ords. Accum. Index	+0.7%	+4.1%	+11.8%	+0.7%	+32.3%	+10.1%	+9.2%	+9.6%	+8.0%	+83.6%

OVERVIEW

The Fund returned -2% after fees in July with various stock picks correcting amid yet another volatile month for global equities. Global Indices were mixed: +2.3% (S&P500), +2.8% (Nasdaq) and -3.7% (Russell2000); Local Indices were up: +0.7% (Small Ords AI) and +1.1% (All Ords AI). Positive contributors for the Fund were Adriatic, loneer and QPM, more than offset by declines in our technology and copper holdings. Ideally, we would always produce positive returns. However, given our fundamentally-driven concentrated strategy, we expect and will 'wear' some near-term volatility, for the scope of a bigger move which we anticipate is ahead.

After initially rallying, the US\$ index rolled over to end the month at 92.0, down -0.4%, taking most commodities, precious metals and related equities for another volatile ride. US 10yr bond rates fell 25bps to 1.22% with real rates falling 29bps to -1.16%, new cycle lows. Gold was up +2.5% to US\$1,814/oz whilst silver was down -2.4% to US\$25.48/oz. Copper was up +4.3% to US\$4.49/lb, despite China's attempt to temper its price rise by releasing immaterial supply from its limited state reserves. Nickel, a key battery-EV mineral approaching sustained long-term deficits, was up +7.3% to US\$8.88/lb, great for our nickel stock pick QPM.

PORTFOLIO INSIGHTS: Two key Technology stocks with strong growth trajectories

'Neo-bank' **Wisr** (market cap \$400m, \$93m cash) is effectively an online non-bank lender offering personal lending services. The business is growing exponentially, having delivered 20 consecutive quarters of loan origination growth. 2Q21 was a standout with loan origination of \$123m representing 190% yoy and 26% QoQ. The loan book at the end of the quarter grew to \$379m (342% yoy), and importantly, reached the operating cash flow positive inflection point in June. Management's medium-term loan book target is \$1b which would generate \$25m of EBITDA. We believe on the current growth trajectory they can achieve this within 12-18 months. Ascribing a commensurate 15x EBITDA multiple implies a share price of ~\$0.60/sh, double its current share price.

The growth opportunity is however much larger. The overseas experience appears to be playing out in Australia, whereby customer centric digital lenders are accelerating their growth and taking market share from traditional banks. In the US, non-bank lenders' market share grew to 25% within 7 years. Wisr's market share today is tiny, at <0.5% of the \$98b addressable market, so there is a very long runway of growth ahead. Heading into FY22 with a strong loan book, expanded funding facility, \$93m cash and recently launched new products, Wisr is well placed to continue re-rating.

Tesseract (market cap \$330m) has grown quickly over the past 12 months through a series of acquisitions, positioning itself as the largest ASX-listed cyber security provider. The cyber security industry has very strong tailwinds due to the proliferation of remote working and the heightened level of security and spend required by governments and organisations to protect their data. Tesseract is very well positioned to benefit from this. Investors are typically cautious of roll-up strategies and want to see acquisitions successfully integrated and generating intended synergies. Based on 2Q21 results we believe this is starting to be demonstrated.

Tesseract has reached the inflection point and we expect an accelerated earnings trajectory which should be rewarded by the market. The 2Q21 was a standout quarter with record turnover of \$38.2m, +81% on the prior quarter and +250% yoy, resulting in a record operating EBITDA of \$3.8m. Cash conversion was high with receipts of \$33.5m and a record single month of turnover of \$20.8m in June. Management's annual revenue run-rate (ARR) guidance of \$180m appears very conservative, given the recent rate of growth. We anticipate organic growth and further acquisitions to drive upgrades in ARR guidance to over \$200m. We also expect EBITDA margin to move towards the industry average of 15% as operating efficiencies are realised. On our estimates, ascribing a 15x EV/EBITDA implies a value \$0.45/sh.

FUND POSITIONING & RISK METRICS

Fund Size	\$47.4m
Longs	31
Shorts	11
Net exposure	136%
Beta-adj net exposure/ Average (rolling 12mths)	88%/89%
Gross exposure	190%
Cash	-36%
Index Futures	0%
Correlation	0.52
% Positive Months	60%
Up/Down Capture	106%/67%
Liquidity (% saleable inside 10BD)	80%

UNIT PRICING

NAV (Mid-Price)	\$2.3537
Entry Price	\$2.3573
Exit Price	\$2.3502

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