



Paragon Australian Long Short Fund

AUGUST 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 (est)	+23.7%	+11.7%	+30.1%	+21.2%	+40.0%	+33.9%	+25.3%	+12.9%	+16.2%	+256.9%
ASX All Ordinaries Accum. Index	+2.6%	+6.3%	+14.7%	+3.7%	+29.0%	+11.6%	+10.6%	+11.3%	+9.8%	+114.6%
ASX Small Ords. Accum. Index	+5.0%	+8.9%	+15.6%	+5.7%	+29.5%	+15.0%	+10.1%	+11.0%	+8.5%	+92.8%

OVERVIEW

The Fund returned an estimated +23.7% after fees in August. Global Indices were up: +2.9% (S&P500), +4.2% (Nasdaq) and +2.3% (Russell2000); Local Indices were mixed: +5.0% (Small Ords AI), +2.6% (All Ords AI) and -8.4% (ASX300 Resources). The Fund's strong performance was spread across 8 key stocks, individually returning in excess of +1% attribution, including Mawson Infrastructure Group (ex-Cosmos Capital), Loneer, Sayona, Firefinch and Uniti Wireless. Shorts in Beach Petroleum and AGL, both downgrading, also contributed. The Fund remains highly liquid, with a median market cap of \$1.01b for our top 15 holdings. Our outlook remains bullish.

At Jackson Hole in late August, US Fed Chairman Powell was clearly dovish: 1) re-iterating tapering of the US\$120b/month bond-buying program as likely to start towards the end of the year and not earlier; and 2) pushing out any expectations of early rate rises. The US\$ index closed the month at 92.6, up +0.5%. US 10yr bond rates rose 9bps to 1.31% with real rates rising 13bps to -1.03%, remaining negative, supporting the Fund's investments. Gold was unchanged at US\$1,813/oz, whilst silver was down -6.3% to US\$24/oz. The VIX continued its 'risk-on' downtrend by falling 9.2% to 16.5, next to post Covid-19 lows.

PORTFOLIO INSIGHTS: Lithium surprising to the upside; Mawson well placed to go multiples

Our battery-EV 'secular' growth thematic continues to strengthen and has a long runway ahead. Key stock picks this year include Sayona (up 5x on our entry price), Firefinch (up 3x) and Loneer (up 2x). Material price catalysts are anticipated in the near term for all three stocks. Paragon has proven capability in identifying the next 'company-making' asset ahead of the market, and once full value has been realised, recycling the capital into the next best thematically-led, fundamentally-driven stock picks. Within Lithium alone, some examples of previous stock super-performers include Orocobre, Galaxy, Pilbara, Kidman, Loneer and General Mining. Strong Lithium price rises are providing an excellent tailwind. Chinese spot Lithium Hydroxide is US\$19,000/t+ and hard-rock Spodumene is US\$1,200/t+, both up ~30% for the month and accelerating towards record highs (set in early 2018), given tight markets and material long-term deficits anticipated.

Global nickel inventories were down 9% in August and fast approaching critical levels. It's no surprise that Andrew Forrest and BHP are in a bidding war for emerging nickel-play Noront, and that Independence is pursuing Western Areas. Nickel prices are doing well today, but this is just the beginning - investors may remember that the last nickel super-cycle was premised on deficit markets, whereby prices rose to US\$24/lb+, 3x current levels. Forrest's belief that there is a shortage of investment opportunities in quality nickel names is spot on, as most ASX-listed stocks have marginal assets with short mine lives, and run by low quality management in some cases. Our nickel-strong investment in Queensland Pacific Metals is very well placed.

The 'cyclical' sell-off in crypto markets which started in April is now over. The 'secular' bull market has resumed, providing a great tailwind for bitcoin miner **Mawson Infrastructure Group** (Mawson), which we wrote about in [February](#). We are bullish about blockchain, seeing it as hugely disruptive, and view bitcoin as an alternative store of value like 'digital' gold. We've always been fans of stores of value that can't be de-based, preferring to invest in the miners for their leverage to the underlying resource. Note gold producers are 2-3x leveraged to the gold price, compared to bitcoin miners at 5-6x. In August, Mawson successfully raised US\$50m at US\$8/sh, almost 4x our initial cost base, and is currently trading at US\$16.49/sh. Mawson is poised to become a bitcoin miner of scale by 2023, targeting petahash (PH) capacity of 5000PH and power generating capacity 1,000MW (>80% renewable/non carbon emitting). On PH, this would place it 3rd behind its Nasdaq-listed peers Marathon and Riot. At spot bitcoin prices, Mawson is anticipated to generate US\$350m in annualised revenue at an 85% gross profit margin, implying a modest 3x FY22F revenue vs peer average of ~10x. We believe this discount will progressively unwind once Mawson lists on the Nasdaq, anticipated inside the next 2 months.

FUND POSITIONING & RISK METRICS

Fund Size	\$60.4m
Longs	30
Shorts	11
Net exposure	146%
Beta-adj net exposure/ Average (rolling 12mths)	97%/91%
Gross exposure	188%
Cash	-46%
Index Futures	0%
Correlation	0.52
% Positive Months	61%
Up/Down Capture	116%/67%
Liquidity (% saleable inside 10BD)	80%

UNIT PRICING*

NAV (Mid-Price)	\$2.9115
Entry Price	\$2.9159
Exit Price	\$2.9072

* 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

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.