



Paragon Australian Long Short Fund

SEPTEMBER 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)	+0.1%	+21.6%	+39.1%	+21.6%	+54.5%	+36.2%	+26.8%	+12.0%	+16.0%	+258.0%
ASX All Ordinaries Accum. Index	-1.6%	+2.0%	+10.9%	+2.0%	+31.5%	+9.5%	+10.4%	+10.9%	+9.5%	+111.2%
ASX Small Ords. Accum. Index	-2.1%	+3.4%	+12.2%	+3.4%	+30.4%	+12.3%	+9.5%	+10.2%	+8.2%	+88.7%

OVERVIEW

The Fund returned an estimated +0.1% after fees in September amid yet another volatile month for global equities. Global Indices were all down on a suite of macro concerns/noise: -4.8% (S&P500), -5.3% (Nasdaq) and -3.1% (Russell2000); Local Indices were all down: -2.1% (Small Ords AI), -1.6% (All Ords AI) and -6.7% (ASX300 Resources). Positive contributors were Queensland Pacific Metals (QPM), Cettire, Ioneer, Sayona and our shorts in DeGrey and other golds, offset by declines in Mawson, Chalice and our technology holdings. The Fund delivered +22% for 3Q21 and +48% for CY21 to date, outperforming all relevant benchmarks by 20-40%.

Lithium prices continued to accelerate, with spot prices +53% to ~US\$27,000/t+. Nickel inventories continue to fall off a cliff, down -19% in September, fast approaching critical levels.

PORTFOLIO INSIGHTS: QPM attracts tier 1 partners and 'lead-project' state significance

QPM is advancing its 100% owned Townsville Energy Chemicals Hub (TECH) project in Queensland. Processed via its Direct Nickel (DNI) flowsheet, which QPM has a license to use, and has been adapted to suit the specifications of its New Caledonian ore supply, will produce battery-EV minerals including nickel and cobalt sulphate and high purity alumina. DNI should not be confused with complex, highly capital-intensive, environmentally and sustainability challenged, high-pressure acid-leach (HPAL) processing. QPM's DNI process uses nitric acid under atmospheric conditions. QPM's TECH project is well placed to achieve a zero-carbon outcome – a big plus as it's becoming a key factor for all stakeholders and financiers.

Nickel-in-battery-EV demand is set to grow at >20% cagr through the next decade (by 5x!), with a looming supply gap of ~1mtpa by 2030. Tesla and many other end-consumers across the battery-EV supply chain are actively pursuing new supply sources. After extensive due diligence of QPM's DNI process and product quality, both LG Chem and Posco signed binding 7yr product offtakes. Furthermore, LG Chem and Posco invested a combined US\$15m into QPM, acquiring 7% and 3% equity respectively. Across the battery-EV sector, QPM is the only developer to sign binding offtakes and receive a capital injection with tier 1 partners ahead of a bankable feasibility study (BFS). This is a strong validation by leading battery-EV partners with deep expertise across the supply chain.

LG Chem and Posco are both pushing for QPM to double its project scale and speed to market, an enviable position to be in and confirmation of strong end-user demand. Near term catalysts include its zero-carbon and sustainability study in 3Q21 and its BFS and funding milestones due ~2Q22. Various debt and equity funding sources are likely to be available given strong project economics (after-tax NPV of >2x its ~\$1b capex) and binding offtakes with credit-worthy partners. Despite QPM's strong share price performance (both absolute and relative to its ASX-listed peers as illustrated below), the stock is trading at <20% of its NPV, and is very well placed to continue re-rating.



FUND POSITIONING & RISK METRICS

Fund Size	\$60.5m
Longs	32
Shorts	10
Net exposure	141%
Beta-adj net exposure/ Average (rolling 12mths)	98%/93%
Gross exposure	178%
Cash	-41%
Index Futures	0%
Correlation	0.5
% Positive Months	61%
Up/Down Capture	117%/66%
Liquidity (% saleable inside 10BD)	80%

UNIT PRICING*

NAV (Mid-Price)	\$2.9244
Entry Price	\$2.9200
Exit Price	\$2.9156

* 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

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