



# Paragon Australian Long Short Fund

OCTOBER 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 (est)	-2.9%	+20.5%	+9.3%	+18.1%	+58.7%	+35.3%	+29.3%	+13.5%	+15.5%	+247.7%
ASX All Ordinaries Accum. Index	+0.2%	+1.1%	+6.9%	+2.2%	+29.0%	+9.8%	+12.9%	+11.4%	+9.4%	+111.5%
ASX Small Ords. Accum. Index	+0.9%	+3.7%	+7.9%	+4.4%	+31.0%	+13.1%	+13.7%	+11.5%	+8.2%	+90.4%

## OVERVIEW

The Fund returned an estimated -2.9% after fees in October. Global Indices rebounded in October: +6.9% (S&P500), +7.3% (Nasdaq) and +2.5% (Russell2000); Local Indices were marginally up: +0.9% (Small Ords AI) and +0.2% (All Ords AI). Positive contributors were Sunstone, 360 and Cannindah, more than offset by declines in QPM, EML and Atomo. Five of our top 10 holdings raised capital in October at discounts of 7-15%. Despite substantially de-risking their growth profiles, all pulled back to the issue price. We expect all 5 stocks to continue re-rating once passed the typical 4-6 weeks capital raise 'indigestion' phase.

'Risk-on' rally indicators were aplenty in October, including US inflation expectations hitting +2.8% (+22bps - see below), FX at A\$0.75/US\$ (+4.6%), Brent Oil hitting 3.5yr and post-Covid highs of US\$84/bbl (+6.5%), Copper and Nickel rallying (both rising ~10%), Bitcoin hitting all-time highs (+35%), the VIX falling to 16.3 (-30%), and record liquidity (global equities logged US\$1t+ of inflows during the last year, 4x larger than the next best annual inflow!). Moderate-sized M&A continued in Lithium development assets, including: 1) a 3-way bidding war between China's Ganfeng, CATL and Lithium Americas, all pursuing Millennial Lithium; 2) Zinjin Mining's takeover of Neo Lithium; 3) Ganfeng's 50% acquisition of Firefinch's Goulamina; 4) Sibanye-Stillwater's 50% acquisition of Ioneer's Rhyolite Ridge; and 5) Sayona's 60% acquisition of Moblan. Importantly, we are yet to see large-scale Lithium M&A - such as a mega-miner acquiring a leader like Albemarle - and are confident we are still some time away from a potential top in the Lithium cycle. We remain excited by our key themes and outlook.

## PORTFOLIO INSIGHTS: Inflation not 'transitory' and we are positioned to capitalise

For the last 18+ months the FED has continued with its rhetoric that inflation is 'transitory'. Even the FED are now starting to admit that US inflation may persist near-term, blaming it on supply bottlenecks and shortages due to COVID-19 - deliberately silent on the impact from US money supply growing ~40% over the last 2 years and unprecedented US fiscal stimulus! We have consistently stated in our monthlies and webinars that, in our view, inflation is not transitory. Various key indicators including rising energy, raw materials and soft commodity prices, rising wages and tightening labour markets are all confirming big increases in inflation to levels not seen for 10yrs+. Wage inflation is a key sticking point, and well and truly underway globally. US hourly pay rates were up +4.6% in the year to 30 September 2021, while CPI rose +5.4%. The FED is doing their best to temper fears, yet US inflation expectations are now at 10yr highs and rising - see below chart:



US\$WIT10 Currency (USD INFL SWAP ZC 10Y) - weekly 8/11/2011 to 5/11/2021

Source: Bloomberg

Elevated inflation in the USA has not been seen since the late 70's and early 80's. As did 40+yrs ago, we expect Resources, Precious Metals, Energy and some cyclicals to perform very well, and for growth-technology and high-yield stocks to underperform. The Fund continues to be positioned to exploit the opportunity set on both the long and short sides.

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.

## FUND POSITIONING & RISK METRICS

Fund Size	\$60.1m
Longs	33
Shorts	11
Net exposure	144%
Beta-adj net exposure/ Average (rolling 12mths)	99%/96%
Gross exposure	193%
Cash	-44%
Index Futures	0%
Correlation	0.5
% Positive Months	61%
Up/Down Capture	115%/66%
Liquidity (% saleable inside 10BD)	79%

## UNIT PRICING\*

NAV (Mid-Price)	\$2.8362
Entry Price	\$2.8404
Exit Price	\$2.8319

\* 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