



Paragon Australian Long Short Fund

NOVEMBER 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%	-3.5%	+8.0%	+17.2%	+55.7%	+34.7%	+28.6%	+15.2%	+15.2%	+245.1%
ASX All Ordinaries Accum. Index	-0.3%	-0.3%	+4.5%	+1.9%	+16.7%	+8.0%	+13.7%	+10.8%	+9.3%	+110.8%
ASX Small Ords. Accum. Index	-0.3%	-0.3%	+7.3%	+4.1%	+18.4%	+12.0%	+13.6%	+11.7%	+8.1%	+89.8%

OVERVIEW

The Fund returned an estimated 0% after fees in November. Global Indices were down: -0.8% (S&P500), -3.7% (Dow) and -4.3% (Russell2000); Local Indices were marginally down: -0.3% (Small Ords AI) and -0.3% (All Ords AI). News of the omicron variant impacted what would have otherwise been a solid month, with volatility rising and the VIX jumping to 27 in the last week of the month. Positive contributors included our precious metals and Lithium holdings, offset by declines in our Industrials and base metals holdings.

Fed Chairman Powell finally acknowledged that inflation is not 'transitory', ie. likely to be persistent. Also, hawkish comments to possibly fast track the taper schedule by ~3 months saw the USD index rise +2.0% to 96.0, a short-term headwind for Resources and the 'risk-on' rally. Battery EV minerals nevertheless continue to strengthen. Lithium prices broke all-time highs, with Rare Earth and Nickel prices also at cycle highs. Nickel inventories continue to fall and are rapidly approaching critically low levels, setting the scene for materially higher Nickel prices.

PORTFOLIO INSIGHTS: Portfolio update

Chalice: We first wrote about Chalice in [September 2020](#) on its prolific Gonneville precious and base metals discovery, and more recently in [May](#). Chalice has since released its 'high-grade' maiden resource, 74mt @ 2.8g/t Palladium-Equivalent (Pd-E), in-line with our expectations. Recoveries of the various metals however were lower. The 'low-grade' maiden resource of 250mt at 1.0g/t Pd-E positively surprised and now warrants option-like value given we can form a view on strip ratio, grade and metallurgy (a major mining company would likely exploit this resource in a much higher throughput operation). Palladium and platinum prices have corrected ~30% from their recent highs on supply chain bottlenecks impacting the auto sector, somewhat offset by stronger Nickel prices. Likely development scenarios are broad with management considering throughputs of up to 16mtpa. Assuming 10mtpa and marking our Chalice valuation model to market, the stock is now pricing in another Gonneville-like orebody at its prolific Hartog target (immediately to the north; access to drill is imminent), consequently we have reduced our position size. Chalice would have to 'shoot themselves in the foot' to not find a lot more, given Hartog is one of many promising targets to the NE. The only question is how many of these targets prove to be high-grade mineable orebodies.

Lithium: Given the outlook for major long-term deficits, many development assets have been and will continue to get funded, or be taken over like several have this year. Despite the strong re-rates in our stock picks, we see various names more than doubling, including Firefinch and our more recent addition Lithium Power International. The Lithium market needs these assets developed and major Lithium and supply-chain companies are pursuing them. Of course, re-rates are never in a straight line. Aside from being impacted in 'risk-off' market volatility, these stocks can experience corrections on JV funding partner milestones. Once the speculators are done selling, the stock tends to recover in the short-term and re-rate as institutional buying takes over. Examples of this include: 1) June 2021 Firefinch signed a JV with major Ganfeng to sell 50% of Goulimina for US\$130m. Firefinch's market cap at the time was \$400m (note it also has the Morila gold asset, worth at least half of its market cap) and it fell 25%; 2) July 2017 Kidman signed a JV with major SQM to sell 50% of Mt Holland for US\$110m, with a market cap of ~\$240m at the time and it fell 25%; and 3) October 2012 Orocobre signed a JV with Toyota to sell 25% of Olaroz for US\$55m, with a market cap of \$215m at the time and it fell 33%. Initial sell offs were also due to deals being done at discounts (~50%) to project NPV's, however in all three cases, the stocks reached new highs as institutional buying overwhelmed on capex funding de-risking. Firefinch has since doubled, Kidman rose by many multiples (ultimately taken over by Wesfarmers for \$780m) and Orocobre rose by several multiples (now a producer). Whilst we actively manage our capital, we will happily hold stocks through the perceived boring 'bankable-feasibility, funding and construction phases' when: a) the underlying commodity is in a bull market; 2) the reward to risk is strong; and 3) the asset is a likely take-over target. All 3 conditions apply to our Lithium developers.

FUND POSITIONING & RISK METRICS

Fund Size	\$60.6m
Longs	31
Shorts	10
Net exposure	105%
Beta-adj net exposure/ Average (rolling 12mths)	71%/94%
Gross exposure	148%
Cash	-5%
Index Futures	0%
Correlation	0.49
% Positive Months	60%
Up/Down Capture	115%/66%
Liquidity (% saleable inside 10BD)	80%

UNIT PRICING*

NAV (Mid-Price)	\$2.8146
Entry Price	\$2.8189
Exit Price	\$2.8104

* 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