



Paragon Australian Long Short Fund

February 2022

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	-14.1%	-24.7%	-27.0%	-11.3%	-4.8%	+25.5%	+18.8%	+9.4%	+11.3%	+161.2%
ASX All Ordinaries Accum. Index	+1.7%	-2.4%	-4.1%	-0.6%	+10.0%	+9.8%	+9.3%	+9.0%	+8.3%	+105.7%
ASX Small Ords. Accum. Index	0%	-7.7%	-9.1%	-4.0%	+5.0%	+10.9%	+7.8%	+9.4%	+6.4%	+75.2%

OVERVIEW

The Fund returned -14.1% after fees in February, due to another violent 'risk-off' sell-off. Global Indices were hit: -3.4% (Nasdaq), -3.1% (S&P500) and -2.7% (Russell3000), with CYTD peak to trough corrections of 15-25%. Local Indices fared better: 0% (Small Ords AI) and +1.7% (All Ords AI) as the weight of money moved to large and mega-cap resources. Global markets encountered extreme volatility as geopolitical tensions escalated, culminating with Russia's unexpected invasion of Ukraine. Our stocks were not traded on their merits, but on fear-based macro headlines. Woodside performed well, however the balance of the portfolio corrected.

Our outlook for 2022 remains unchanged, despite this set-back. Given rapidly depleting inventories, and the outlook for long-term industry deficits across various resources markets (strong demand and lack of timely new supply), our net exposure continues to be deliberately high. Whilst many of our small and mid-caps have corrected ~25% since the start of the year, we expect them to recover quickly and do very well given strengthening commodity prices, a genuine need for material levels of new supply and an ongoing M&A cycle. We used the sell-off to add to Lithium Power and Woodside. Pleasingly, we've had a solid start to March.

Portfolio insights: Russia attacking Ukraine only strengthens case for Inflation & Resources

Russia's attack has further exacerbated tight commodity markets and importantly, will have longer term strategic implications for nations re-thinking their commodity mix and procurement moving forward. These two factors will set up the foundation for an even stronger move in the commodity markets over coming years. Russia and Ukraine are both critical to the supply of commodities. Wheat prices are soaring, as Russia is the world's top wheat exporter and together with Ukraine accounts for ~30% of the global wheat export market. Europe relies on Russia for 40% of its natural gas. Oil prices are at 7-year highs of ~US\$100/bbl (Russia ~10% of global supply), Palladium is back at 7-month highs (Russia ~40% of global supply), Gold is breaking out (Russian central bank having just announced they will resume buying gold after halting 2 years ago) and Nickel is at 11-year highs of US\$25,000/t (Russia ~7% of global nickel supply and produces ~20% of the world's class 1 nickel used in electric vehicle batteries). Copper is rising again towards all-time highs of US\$4.60/lb+ (Russia ~4% of global supply). Russia's attack could prove to be like the OPEC oil embargo of 1973 – oil rose ~4x - which drove inflation much higher and where energy, resources and precious metals stocks performed very well.

The strong decarbonisation theme continues. The addition of any credible sanctions on Russia's exports will only add fuel to the resources supercycle. Despite the current sell-off in global markets, battery-EV minerals' fundamentals are strengthening. Chinese EV sales are up 144% yoy. Lithium prices continue to accelerate, breaking records of US\$67,000/t+ (see Chart 1) and Rare Earths NdPr price is breaking 10-year highs of US\$151/kg. Added to this, in 'old-energy', global oil inventories are at their lowest levels in 20 years, having fallen by ~650m barrels. This has created an inventory-draw unparalleled in oil-market history, with demand now outstripping supply after years of under-investment.

Historically, crises including wars have not had a sustained market impact. Wars don't last and the day of invasion typically signifies a market bottom. As illustrated in Table 2, markets are typically higher 3, 6, 9 & 12 months later. As with the 1Q20 COVID-crash, Paragon has demonstrated its ability to successfully navigate through a crisis and return to new highs. There is now a big dislocation between small to mid-cap resources stocks and their underlying commodities, which we will benefit from.

FUND POSITIONING & RISK METRICS

Fund Size	\$47.3m
Longs	20
Shorts	5
Net exposure	95%
Beta-adj net exposure/ Average (rolling 12mths)	69%/89%
Gross exposure	124%
Cash	5%
Index Futures	0%
Correlation	0.5
% Positive Months	60%
Up/Down Capture	105%/72%
Liquidity (% saleable inside 10BD)	80%

UNIT PRICING

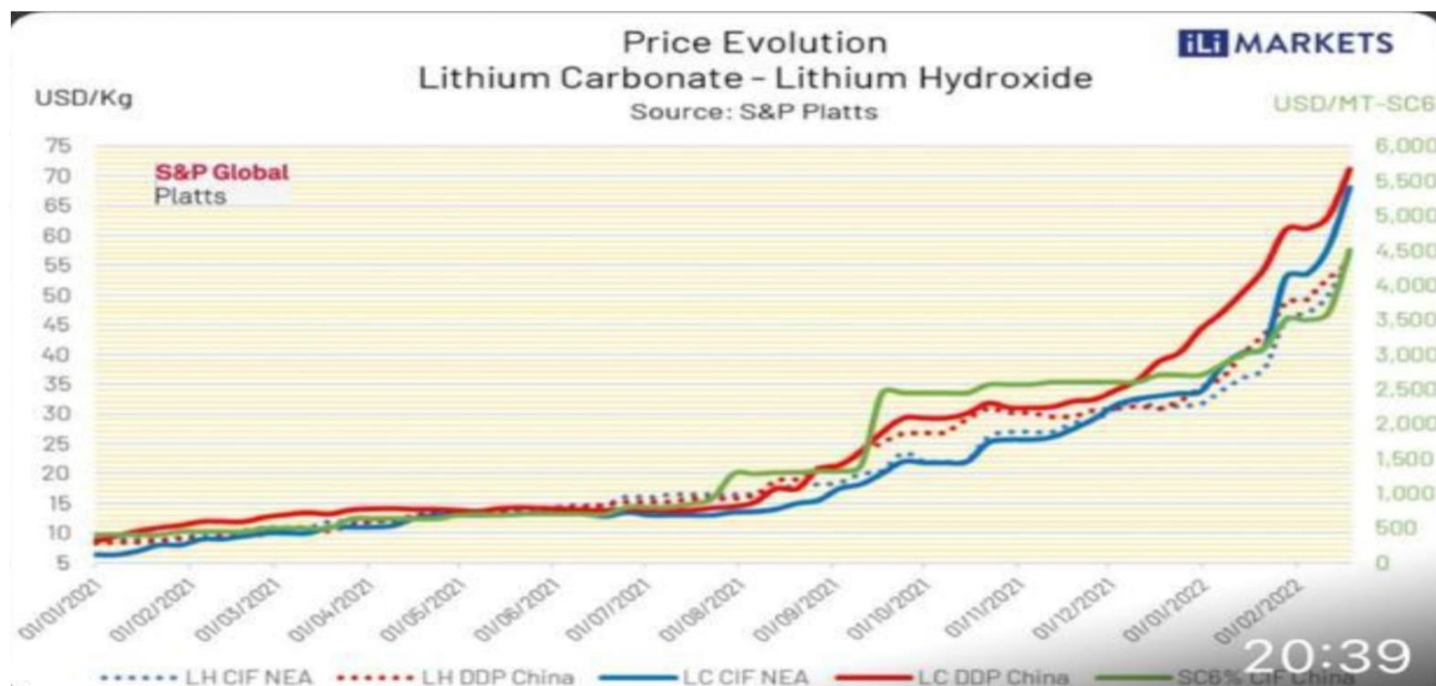
NAV (Mid-Price)	\$2.1308
Entry Price	\$2.1340
Exit Price	\$2.1276

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.

Chart 1: Lithium prices accelerating across the board. No signs of any slowdown, given any material supply response is 2+ years away.



Source: Platts

Table 2: History shows markets rebound after a crisis including wars/invasions. US stocks' losses during crisis events have been recouped in a few months. Since 1907, Dow Jones Industrial Average (DJIA) has fallen an average of 7% during a crisis, to then rise 9.6% six months later (trading days).

Crisis Events, DJIA Declines, and Subsequence Performance													
Event	Reaction Dates	Reaction Date %	DJIA % Change Days after				Event	Reaction Dates	Reaction Date %	DJIA % Change Days after Reaction			
			22	63	126	253				22	63	126	253
Panic of 1907	02/15/1907 - 11/20/1907	-42.9	6.9	14.7	29.9	48.3	Financial Panic '87	10/02/1987 - 10/19/1987	-34.2	11.5	11.4	15.0	24.2
Exchange Closed WWI	07/22/1914 - 12/24/1914	-10.2	10.0	6.6	21.2	80.2	Invasion of Panama	12/15/1989 - 12/20/1989	-1.9	-2.7	0.3	8.0	-2.2
Woodrow Wilson Stroke	09/25/1919 - 09/26/1919	1.3	5.7	-4.5	-16.0	-21.8	Iraq Invades Kuwait	08/02/1990 - 08/23/1990	-13.3	0.1	2.3	16.3	22.4
Bombing at JP Morgan Office	09/15/1920 - 09/30/1920	-5.5	2.4	-14.9	-9.5	-17.3	Gulf War	01/16/1991 - 01/17/1991	4.6	11.8	14.3	15.0	24.5
Market Crash of 1929	10/11/1929 - 11/13/1929	-43.7	27.3	34.1	46.0	11.8	Gorbachev Coup	08/16/1991 - 08/19/1991	-2.4	4.4	1.6	11.3	14.9
Germany invades France	05/09/1940 - 06/22/1940	-17.1	-0.5	8.4	7.0	-5.2	ERM U.K. Currency	09/15/1992 - 10/16/1992	-4.6	0.6	3.2	9.2	14.7
Pearl Harbor	12/06/1941 - 12/10/1941	-6.5	3.8	-2.9	-9.6	5.4	World Trade Center Bombing	02/25/1993 - 02/27/1993	-0.3	2.4	5.1	8.5	14.2
Truman Upset Victory	11/02/1948 - 11/10/1948	-4.9	1.6	3.5	1.9	6.1	Oklahoma City	04/18/1995 - 04/20/1995	1.2	3.9	9.7	12.9	30.8
Korean War	06/23/1950 - 07/13/1950	-12.0	9.1	15.3	19.2	26.3	Asian Stock Market Crisis	10/07/1997 - 10/27/1997	-12.4	8.8	10.5	25.0	16.9
Eisenhower Heart Attack	09/23/1955 - 09/26/1955	-6.5	0.0	6.6	11.7	5.7	U.S. Embassy Bombings	08/06/1998 - 08/14/1998	-1.8	-4.0	4.8	10.4	32.0
Suez Canal Crisis	10/30/1956 - 10/31/1956	-1.4	0.3	-0.6	3.4	-9.5	U.S.S. Cole Yemen	10/11/2000 - 10/18/2000	-4.2	6.6	6.1	6.1	-5.1
Sputnik	10/03/1957 - 10/22/1957	-9.9	5.5	6.7	7.2	29.2	Bombing	09/10/2001 - 09/21/2001	-14.3	13.4	21.2	24.8	-6.7
Cuban Missile Crisis	10/19/1962 - 10/27/1962	1.1	12.1	17.1	24.2	30.4	WTC and Pentagon	10/05/2001 - 10/09/2001	-0.7	5.9	11.5	12.4	-16.8
JFK Assassinated	11/21/1963 - 11/22/1963	-2.9	7.2	12.4	15.1	24.0	Terrorist Attacks	09/10/2001 - 09/21/2001	-14.3	13.4	21.2	24.8	-6.7
Martin Luther King Assassinated	04/03/1968 - 04/05/1968	-0.4	5.3	6.4	9.3	10.8	War in Afghanistan	10/05/2001 - 10/09/2001	-0.7	5.9	11.5	12.4	-16.8
U.S. Bombs Cambodia	04/29/1970 - 05/14/1970	-7.1	0.4	3.8	13.5	36.7	Bali Nightclub Bombing	10/11/2002 - 10/13/2002	0.3	6.6	12.3	6.7	24.4
Kent State Shootings	05/01/1970 - 05/26/1970	-14.0	9.9	20.3	20.7	43.7	Iraq War	03/19/2003 - 05/01/2003	2.3	5.5	9.2	15.6	22.0
Penn Central Bankruptcy	06/19/1970 - 07/07/1970	-7.1	8.0	16.0	24.9	33.8	Attacks	03/10/2004 - 03/24/2004	-2.4	3.9	3.9	-0.1	4.4
Arab Oil Embargo	10/16/1973 - 12/05/1973	-18.5	9.3	10.2	7.2	-25.5	London Train Bombing	07/06/2005 - 07/07/2005	0.3	2.3	0.1	5.6	7.8
Nixon Resigns	08/07/1974 - 08/29/1974	-17.6	-7.9	-5.7	12.5	27.2	India Israel and	07/11/2006 - 07/18/2006	-3.0	5.0	10.9	16.4	28.3
Iranian Hostage Crisis	11/02/1979 - 11/07/1979	-2.7	4.7	11.1	2.3	17.0	Lebanon Bombings	07/11/2006 - 07/18/2006	-3.0	5.0	10.9	16.4	28.3
U.S.S.R. Invades Afghanistan	12/24/1979 - 01/03/1980	-2.2	6.7	-4.0	6.8	21.0	Bear Stearns Collapse	03/13/2008 - 03/14/2008	-1.6	5.6	3.0	-4.4	-38.1
Hunt Silver Crash	02/13/1980 - 03/27/1980	-15.9	6.7	16.2	25.8	30.6	Russia Invades Georgia	08/08/2008 - 08/16/2008	-2.2	-4.0	-26.0	-34.2	-19.2
Falkland Islands War	04/01/1982 - 05/07/1982	4.3	-8.5	-9.8	20.8	41.8	Lehman Brothers	09/15/2008 - 09/16/2008	1.3	-18.8	-22.6	-32.3	-11.5
Beirut Bombing	10/21/1983 - 10/23/1983	0.0	2.1	-0.5	-6.9	-2.9	Israel Invades Gaza	12/27/2008 - 01/21/2009	-3.0	-13.5	-4.2	7.9	23.6
U.S. Invades Grenada	10/24/1983 - 11/07/1983	-2.7	3.9	-2.8	-3.2	2.4	Boston Marathon	04/12/2013 - 04/15/2013	-1.8	4.6	6.1	4.4	11.4
Continental Illinois	05/08/1984 - 05/27/1984	-6.4	2.3	11.5	10.1	18.3	Russia Invades Crimea	03/07/2014 - 03/14/2014	-2.4	1.2	4.4	5.7	11.1
U.S. Bombs Libya	04/14/1986 - 04/21/1986	2.8	-4.3	-4.1	-1.0	25.9	Chinese Market	08/21/2015 - 08/25/2015	-4.8	4.1	13.6	6.6	17.8
							U.K. Votes to Leave	06/23/2016 - 06/27/2016	-4.8	7.7	5.6	16.3	25.2
							COVID-19 Crash	03/4/2020 - 03/23/2020	-31.4	26.5	40.0	46.0	74.4
							Mean		-7.0	4.2	6.0	9.6	15.3
							Median		-3.0	4.6	6.1	9.3	17.0

Source: Ned David Research

