



PARAGON AUSTRALIAN LONG SHORT FUND // September 2017

PERFORMANCE SUMMARY *(after fees)*

	1 month	3 month	6 month	Financial YTD	1 year	2 year p.a.	3 year p.a.	Net Return p.a.	Total Net Return
Paragon Aust. Long Short Fund	+7.0%	+14.6%	+12.8%	+14.6%	-8.9%	+10.3%	+8.1%	+14.4%	+85.0%
ASX All Ordinaries Acc.	+0.1%	+1.3%	+2.6%	+1.0%	+8.5%	+11.2%	+7.3%	+7.1%	+37.0%
RBA Cash Rate	+0.1%	+0.5%	+0.9%	+0.4%	+1.5%	+1.7%	+1.9%	+2.1 %	+10.2%

RISK METRICS

Sharpe Ratio	0.9
Sortino Ratio	1.4
Correlation	0.4
% Positive Months	+67%
Up/Down Capture	+83%/+15%

FUND DETAILS

NAV	\$1.7415
Entry Price	\$1.7441
Exit Price	\$1.7389
Fund Size	\$67.4m
APIR Code	PGF0001AU

FUND STRATEGY

Established in March 2013 as an Australian equities long/short fund that is fundamentally driven, has a concentrated portfolio of high conviction stocks, managed by a dedicated investment team and offering transparency to investors. Paragon's proprietary research and extensive investment process which includes active portfolio management, is overlaid with a strong risk management function and a focus on capital preservation.

The objective of the Fund is to return in excess of 10% p.a. after fees over a 3-5yr investment horizon.

OVERVIEW & POSITIONING

The Fund returned +7.0% after fees for the month of September 2017. Since inception (March 2013) the Fund has returned +85.0% after fees vs. the market (All Ordinaries Accumulation Index) +37.0%.

The strong performance for September was driven by several long positions from our Electric Vehicle thematic, New Century Zinc and Lend Lease, and short positions in Newcrest, Telstra, Select Harvest and Perpetual. At the end of the month the Fund had 36 long and 14 short positions.

INDUSTRY EXPOSURE

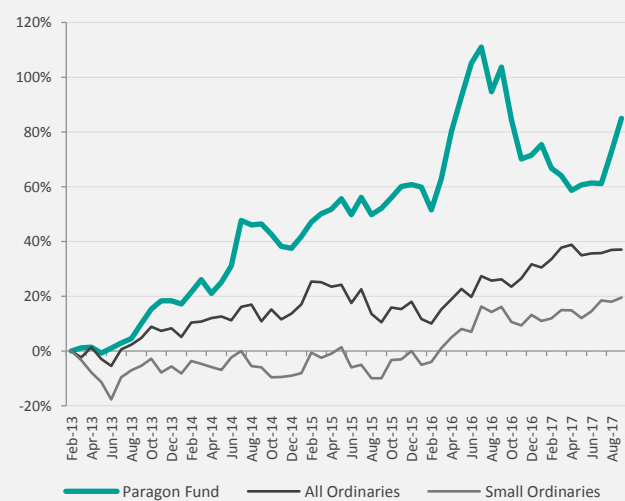
	Long	Short	Net
Financials	+26.1%	-8.5%	+17.6%
Industrials	+26.3%	-9.8%	+16.5%
Resources	+56.7%	-3.5%	+53.2%
Index Futures		0%	0%
Total	+109.1%	-21.8%	+87.3%
Cash			+12.7%

MONTHLY PERFORMANCE BY CALENDAR YEAR

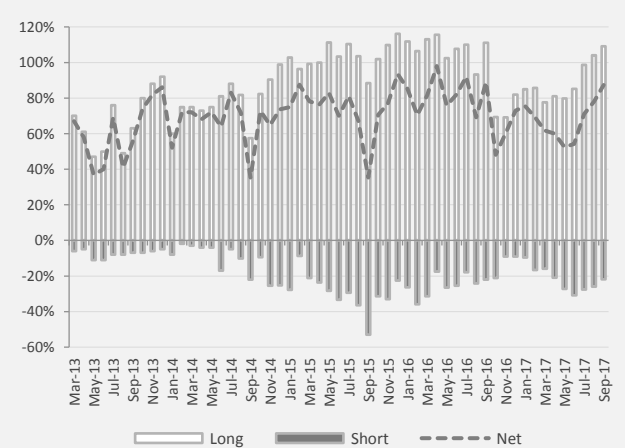
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2013			1.1%	0.3%	-2.2%	1.8%	1.8%	1.6%	5.3%	4.9%	2.8%	0.0%	18.7%
2014	-1.1%	3.8%	3.6%	-3.9%	3.2%	4.9%	12.5%	-1.1%	0.3%	-2.5%	-3.1%	-0.5%	15.9%
2015	3.2%	3.6%	2.1%	1.1%	2.4%	-3.8%	4.3%	-4.2%	1.6%	2.5%	2.6%	0.3%	16.8%
2016	-0.5%	-5.2%	7.4%	10.8%	7.0%	6.3%	2.9%	-7.8%	4.3%	-9.0%	-7.9%	0.8%	6.8%
2017	2.3%	-5.0%	-1.6%	-3.2%	1.3%	0.4%	-0.2%	+7.3%	+7.0%				7.9%

Performance results are presented net of all transaction costs, investment management and performance fees incurred by the Fund. Monthly performance figures are calculated based on the lead series using a daily unit pricing methodology based on historical data.

HISTORICAL PERFORMANCE *(after fees)*



HISTORICAL EXPOSURE





Electric Vehicles (EV) theme update

Our EV thematic has been discussed in previous monthly reports, most recently in [February 2017](#). Given the major developments in this space during September, and this month's strong result being driven by several of our EV thematic long positions, we felt it timely to provide another update.

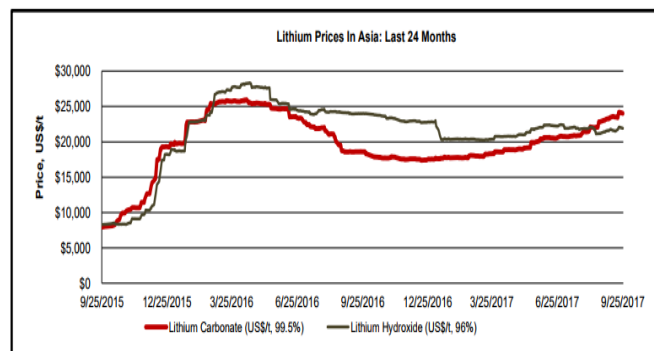
The Fund achieved solid gains in 1) Lithium holdings Kidman and Orocobre; 2) Rare Earths holding Lynas; and 3) Cobalt holdings Cleanteq and European Cobalt.

EV and their mass market rollout plans continue unabated. In September, China, the largest automobile market and a third of the global automobile market, announced plans to transition to full EV. This policy shift, likely to be enforced by 2030, signals China's seriousness to address pollution levels. India, the fifth largest automobile market, indicated its plan to move to full EV by 2030. Other countries are also looking to eliminate internal combustion engines (ICE) and to only sell EV; for example, Norway moving to full EV by 2025 and France and the UK banning ICE sales by 2040. The governor of California also announced it is looking at banning ICE sales.

In addition to these policy announcements, Volkswagen backed up its US\$80b EV investment with a tender for long-term supply for Cobalt, highlighting the need to build up an entirely new supply chain. Daimler also announced a US\$1b investment in an EV plant in the US. Volkswagen plans to add electric or electrified versions of all 300 models of cars it manufactures by 2030. Many other auto manufacturers are making similar statements ie. Volvo, BMW, Mercedes, GM, etc.

September also saw the first auto manufacturer, China's Great Wall (US\$18b market cap) make an upstream investment in Lithium production to secure supply of the critical raw material ingredient. Great Wall is investing in Pilbara Minerals' greenfield project in WA for its stage 2 expansion. *Note.* Pilbara's stage 1 is currently under construction. This development has significant implications for the sector. It is likely to be the first of many upstream investments made by downstream players, namely auto manufacturers, in order to secure raw material supply. We've been anticipating this for some time, similar to the market dynamics witnessed in the 2003-2011 Iron Ore bull market. Great Wall's move will likely see similar moves by European auto manufacturers looking to secure Lithium and Cobalt supply. This bodes very well for our investments, particularly Kidman, which should be able to fund their 50% share of the capex for the Mt Holland integrated-project JV on favourable terms.

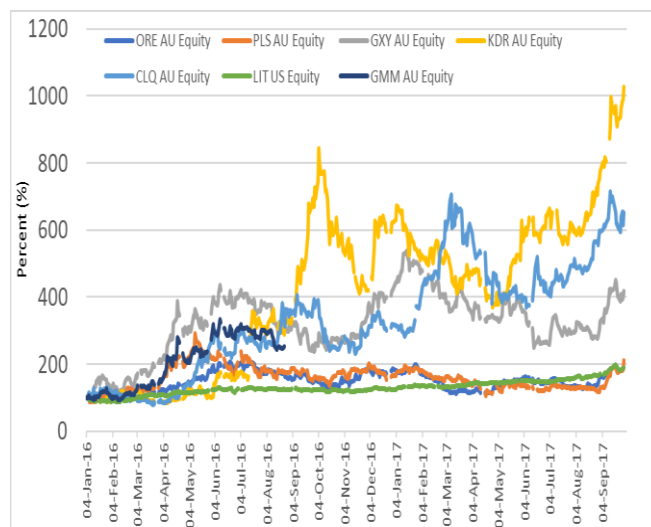
We continue to closely follow and model both demand and supply, remaining constructive on the fundamentals for both Lithium and Cobalt over the medium to long term. As expected, Lithium and Cobalt prices have continued to strengthen.



Source: Asian Metals

Lithium demand has continued to surprise to the upside (was 7-10% CAGR, currently 15-20% CAGR) which has been driven by growth in EV. The supply response is underway albeit likely to experience difficulties and delays, which ultimately will be absorbed by the strong global Lithium demand. Cobalt demand growth is expected to be >10% CAGR with an even more challenging supply response than Lithium.

We are now seeing wider acceptance of the EV thematic, and recognise we have been earlier than most due to our unique process and deep research effort. Our EV theme has been the Fund's best contributor to date and in our view, remains in its infancy. Paragon's stock picks exposed to the EV theme are charted below against the global benchmark Global X Lithium & Battery Materials ETF (NYSE: LIT US; green line).



We're currently long Orocobre, Kidman and Global Geoscience (Lithium), Cleanteq and European Cobalt (Cobalt), Lynas (Rare Earths) and Talga (Graphene). We did very well in Pilbara Minerals, General Mining (taken over by Galaxy) and Galaxy, where we exited with strong profits in all three and recycled our capital into our current long exposures. (Note Global Geoscience is not charted above as its performance has been exceptionally strong and would distort the chart). We were not in every stock charted above from the start, but close to for most, and in any case our stock picks have grossly outperformed the global Lithium (LIT US) benchmark.

While we expect Lithium and Cobalt to perform strongly going forward, it is equally as exciting to consider the growth opportunities with other EV-related raw material inputs which we forecast will experience bull markets as follows:

- 2017+ Lithium / Cobalt
- 2018+ Copper
- 2019+ Possibly Graphite / Graphene
- 2021+ Possibly Nickel (last due to massive industry surpluses that need to unwind)

We will be well positioned in these sub sectors (second derivatives of our EV theme) ahead of them playing out, and very much look forward to updating investors with our progress.

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