



PARAGON AUSTRALIAN LONG SHORT FUND // April 2019

PERFORMANCE SUMMARY *(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	+5.1%	+3.2%	-1.0%	-21.8%	-26.3%	+0.1%	-4.1%	+5.6%	+7.8%	+59.1%
ASX All Ordinaries Accum. Index	+2.5%	+9.5%	+11.3%	+5.6%	+10.2%	+8.3%	+11.0%	+7.7%	+8.2%	+62.7%
ASX Small Ords. Accum. Index	+4.1%	+11.0%	+12.3%	+2.3%	+7.2%	+12.7%	+11.8%	+9.1%	+6.3%	+45.5%

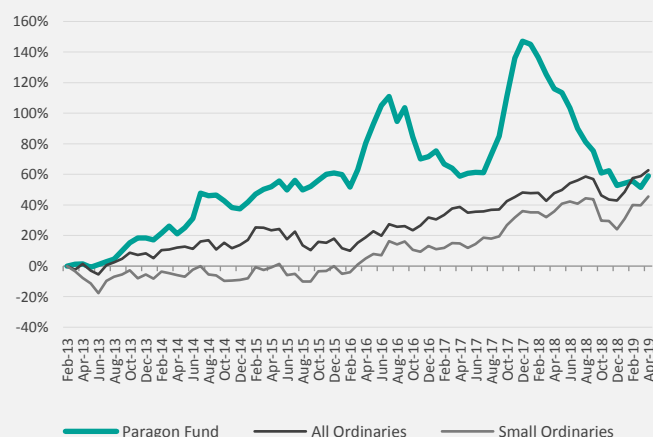
RISK METRICS

Sharpe Ratio	0.4
Sortino Ratio	0.7
Correlation	0.4
% Positive Months	59%
Up/Down Capture	70% / 44%

UNIT PRICE & FUM

NAV	\$1.4977
Entry Price	\$1.4999
Exit Price	\$1.4955
Fund Size	\$35.9m
APIR Code	PGF0001AU

HISTORICAL PERFORMANCE *(after fees)*



FUND STRATEGY

Established in March 2013 as an Australian equities long/short fund that is fundamentally driven with 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 AND POSITIONING

The Fund returned +5.1% after fees for April. Positive contributions for the month were from Nearnmap, Atrum, Xero and Adriatic. These were partially offset by declines in gold holdings. Atrum's neighbour to the immediate south, Riversdale, has seen its largest shareholders rejecting Gina Reinhardt's bid in pursuit of a higher price, still a solid ~7x higher than Atrum's current EV/resource despite its initial re-rating. The Fund has had a great start to May, with Kidman receiving a takeover bid from Wesfarmers, putting Kidman in play. This sets a timeline and higher competing bids are likely in our view, discussed further overleaf.

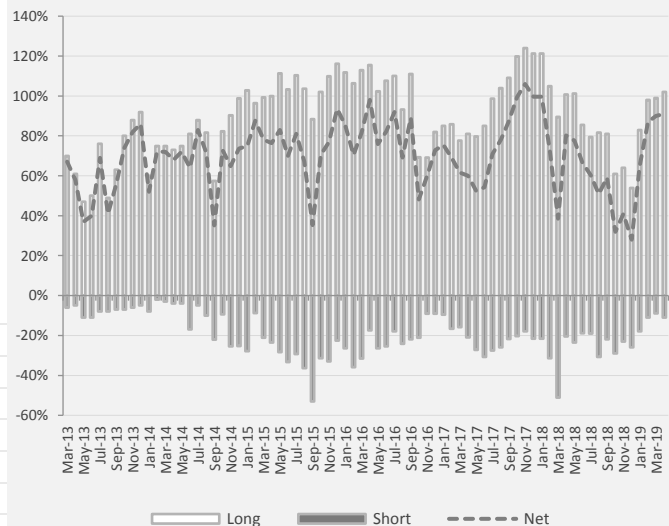
FUND POSITIONING

Number of Longs	21
Number of Shorts	7
Net exposure	91%
Gross exposure	114%
Index futures	0%
Cash	9%

FUND FACTS

Structure	Unit trust
Domicile	Australia
Applications & Redemptions	Daily
Minimum investment	\$25,000
Min. addition/redemptions	\$5,000/\$10,000
Administrator	Link Fund Solutions
Prime Broker/Custodian	UBS

HISTORICAL EXPOSURE



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%	14.0%	11.9%	4.7%	44.1%
2018	-1.3%	-3.0%	-4.7%	-4.2%	-1.2%	-4.7%	-6.5%	-4.6%	-3.2%	-8.4%	0.9%	-5.8%	-38.1%
2019	0.8%	1.0%	-2.7%	5.1%									4.1%

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.



Portfolio insights

Kidman – in play after Wesfarmers' \$1.90/sh (\$776m) cash bid; timeline now set for counter bids from other major players

Last month we wrote about buying back into Kidman at recent lows, believing it to be a strategic world class asset that wouldn't stay cheap for long. Pleasingly and not surprisingly, Wesfarmers' bid on 2nd May was at a 47% premium to Kidman's previous close. However, we still see considerable value on offer in Kidman. Whilst Wesfarmers has secured pre-acceptances of 17% of Kidman's shares is outstanding, and Kidman's board intends to recommend the bid, both are in the absence of a superior proposal. Kidman is in play.

Kidman, as written previously, is an obvious M&A target. Kidman's JV with SQM in the Mt Holland integrated Lithium Hydroxide (LiOH) project in Kwinana is world class – being a high-margin generational mine-life asset which will sit at the bottom end of the cost curve and has attracted arguably the world's best Lithium producer SQM as its JV partner. **Mt Holland is also the last world-class integrated battery-grade LiOH project on offer globally** (battery-grade LiOH is the desired premium-priced Lithium derivative required for the long-term growth in Electric Vehicles (EV)). As anticipated, any interested parties were likely to emerge before 30th June, when the bulk of Kidman's product offtake (to Mitsui & LG Chem) was due to turn binding.

Wesfarmers are serious about the growth opportunity in battery minerals and the EV thematic, as evidenced by:

- 1) being ~\$1.4b underbidders to Albemarle's \$1.65b winning bid for 50% of Mineral Resources' Wodgina LiOH project;
- 2) a recent \$1.5b hostile bid for Lynas and its 100% owned Mt Weld Rare Earths project;
- 3) now bidding \$776m for Kidman and its 50% interest in the Mt Holland LiOH project.

We are certain that Wesfarmers have recognised Mt Holland as the superior asset over Wodgina. Mt Holland has lead agency status by the WA government, and with a higher-grade resource boasting lower strip ratios, and being in 'refinery-friendly' Kwinana in WA (resulting in lower reagent transportation and labour costs), all suggests Mt Holland will achieve higher margins than Wodgina.

The environment for M&A is ripe with many of the Australian Resources majors boasting strong balance sheets, in some cases their strongest financial position in their history. Many are already in a net cash position or likely to be inside 12-18 months as they continue to generate strong free cashflows. Recently, Fortescue declared their interest in a 'big elephant/established lithium project', and they would only be interested in a world-class integrated asset. At this stage of the resources cycle, many of these companies are undoubtedly assessing growth opportunities, particularly those that are 'ex-growth', like Wesfarmers. Kidman is one of very few cheap world-class assets boasting both strong long-term fundamentals and strong internal rates of return (IRR). We count up to four other Resources majors as potential bidding contenders.

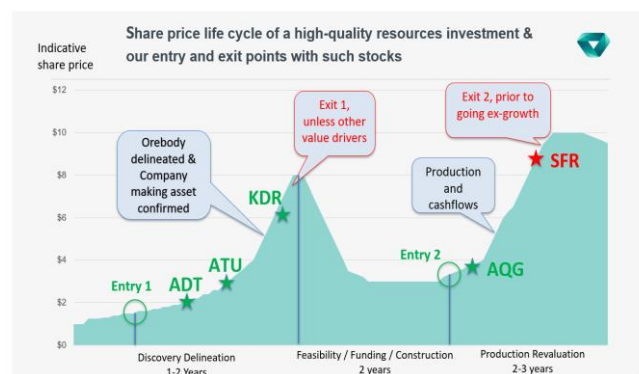
Kidman's base-case NPV is ~\$2.00/sh based on 45ktpa LiOH with a post-tax IRR of 25%. Its high-case NPV is \$3.30/sh based on 90ktpa LiOH, with a post-tax IRR 28% and any would-be acquirer with ample capital will be eyeing this likelihood. These are massive projected returns and any interested major would have ample capacity to pay more for Kidman whilst still achieving their own economic IRR's. As estimated in November, Albemarle's \$1.65b purchase of a 50% share of Wodgina's LiOH project implied an economic IRR of ~13% for Albemarle. Wodgina is certainly not worth twice as much as Mt

Holland, hence ample value remains in Kidman and we continue to maintain our position in the stock. If we're wrong and another bid doesn't eventuate, our downside is the \$1.90/sh Wesfarmers cash bid which we view as highly likely to complete. However, if we are right and a competing bid presents, then we're looking at further gains in our Kidman position and the prospect of a bidding war.

Kidman – share price evolution

Chart 1 below illustrates where Kidman currently is on the typical life-cycle of a high-quality Resources investment (as detailed in January). We initially invested in Kidman in June 2016 upon confirmation of its initial resource discovery (at 'Entry 1') and were active in the stock as annotated in Chart 2 below.

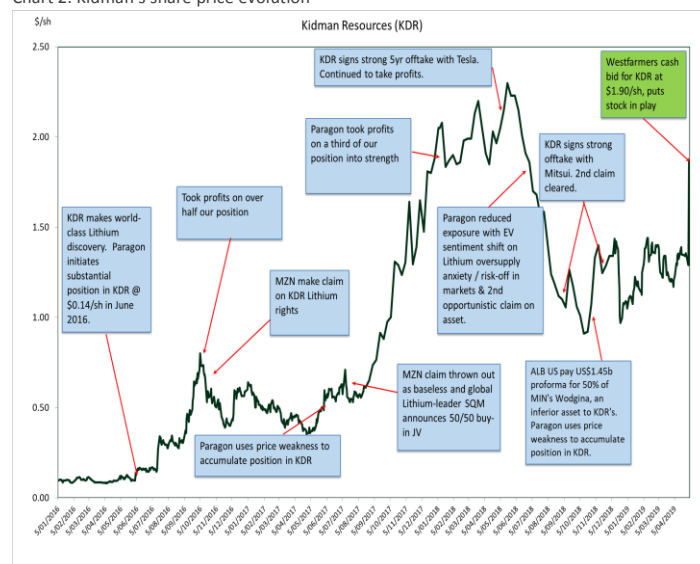
Chart 1: Share price life-cycle of some of our Resources investments



Source: Paragon

Kidman's Discovery-Delineation phase was particularly volatile thanks to two highly opportunistic asset claims. All things considered, we believe we navigated well, complying with our investment process and valuation discipline.

Chart 2: Kidman's share price evolution



Source: Bloomberg, Paragon

After Kidman's material correction last year we took advantage of the price weakness to buy back in from November 2018 onward. Despite much noise and sizeable volatility, we remained convicted, as we continue to be today, and have reaped the rewards of Kidman's continuing success.

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