



# Paragon Australian Long Short Fund

APRIL 2020

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	+17.6%	-18.0%	-15.9%	-10.0%	+0.3%	-14.0%	+0.2%	+1.0%	+6.7%	+59.5%
ASX All Ordinaries Accum. Index	+9.5%	-20.4%	-15.7%	-13.7%	-9.2%	0%	+2.1%	+3.7%	+5.6%	+47.7%
ASX Small Ords. Accum. Index	+14.3%	-19.0%	-15.2%	-12.9%	-13.2%	-3.6%	+3.3%	+5.0%	+3.3%	+26.3%

## OVERVIEW

The Fund returned +17.6% after fees for April. Global markets bounced as peak-virus 'negative-news' passed, with the rate of change of contracted cases decelerating in the US and Europe and many nations' infection curves starting to top out. Global Indices finished up +13% (S&P500, Russell2000), and locally the All Ordinaries Accumulation Index (AI) and Small Ordinaries AI were up +9.5% to +14.3% respectively. Positive contributors for the Fund were across all of our gold and technology holdings, driving performance above all relevant indices. This was offset by a material write-down of iSignthis (ISX) prudently taken by Paragon on 30 April, as a result of ongoing legal proceedings and the adverse impact caused by the ASX suspension as evidenced in their 1Q20 result (after an outstanding 4Q19). The Fund's current median market cap is \$1.0b.

US\$ gold bounced from the recent sell-off, now breaking new 7-year highs, up 7% to \$1,689/oz. A\$ gold closed flat at A\$2,586/oz as the A\$ rallied against the US\$ which was moderately lower. Despite a historic deal between OPEC+ and the USA to curtail production by record levels, oil prices collapsed to US\$19/bbl with oil futures going negative as inventories near full storage capacities.

## PORTFOLIO INSIGHTS – Gold quickly recovers from March sell-off to break new highs

Compelling drivers for gold continued in April. US 10yr yields remained low at 0.64% with real yields falling further negative, from -0.20% to -0.43%. The Fed's enormous QE4 program continued in earnest, already exceeding the GFC's combined QE1, 2 & 3 (See chart 1 overleaf for the Fed's ever-expanding balance sheet at US\$7.8t; 38% of US GDP!). Japan's central bank followed suit by initiating 'unlimited QE'. QE, a.k.a. 'money printing', only debases fiat currencies. Ever expanding central bank balance sheets and ballooning US twin deficits (currently ~7% of US GDP and likely to double), provide a strong tailwind to drive gold higher. We re-iterate our firm view that US\$ gold will break new all-time highs (US\$1,921 intra-day high on 6/9/2011) in the short to medium-term, and for our gold stock picks to continue re-rating. We discussed gold and the equities best placed in a recent podcast with [Nucleus Wealth](#).

Chart 2 overleaf shows a relative performance graph of ASX gold peers since the 23 March 2020 bear market low. Pleasingly, 4 of Paragon's stock picks are in the top 5, including the top 2 performers DeGrey and SKY, and all are well ahead of local and global gold indices. Noteworthy updates across our gold stocks include:

- Alacer** announced a strong 1Q20, exceeding production and cash margin expectations. Alacer's target sulphide expansion to 3mtpa throughput (+50%) by 1Q21 end, will lower unit costs on greater gold production, and at a modest capex of ~US\$15m. Boasting a low-cost operation, unhedged and paying a low 5% cash tax rate, Alacer has sector leading cash margins – vs peers with CY20/21 hedge books way out of the money and paying 30% tax rates. Alacer remains cheap at 6.4x free cashflow (FCF), now net cash and set to generate \$350m+ p.a. of FCF.
- West African (WAF)** also announced a strong 1Q20, with its newly commissioned Sanbrado gold mine ramping up to full run-rate in CY20. WAF can generate \$300m+ FCF by end of FY21, completely wiping out its debt and offering strong financial leverage (much like our buying Alacer in January 2019 before its construction debt unwind and share price tripled). WAF's recent cheaply acquired 1moz Toego boasts high-margin mineable gold resources, requires minimal capex, making it materially accretive.
- DeGrey's** prolific gold discovery at its Hemi prospect continues to surprise to the upside with broad gold zones discovered in April at other high-priority targets. DeGrey is the standout gold discovery-delineation investment on the ASX. On our modelling DeGrey already has delineated 4moz+ of gold, with exploration and valuation upside.

Given the strength of identified opportunities ahead, we are extremely excited about the Fund's performance from here, with our optimism akin to when coming out of the GFC.

## FUND POSITIONING & RISK METRICS

Fund Size	\$25.4m
Longs	22
Shorts	2
Net exposure	158%
Gross exposure	175%
Index futures	0%
Cash	-58%
Beta-adj net exposure/ Average since inception	78%/70%
Correlation	0.58
% Positive Months	60%
Up/Down Capture	82%/60%

## UNIT PRICING

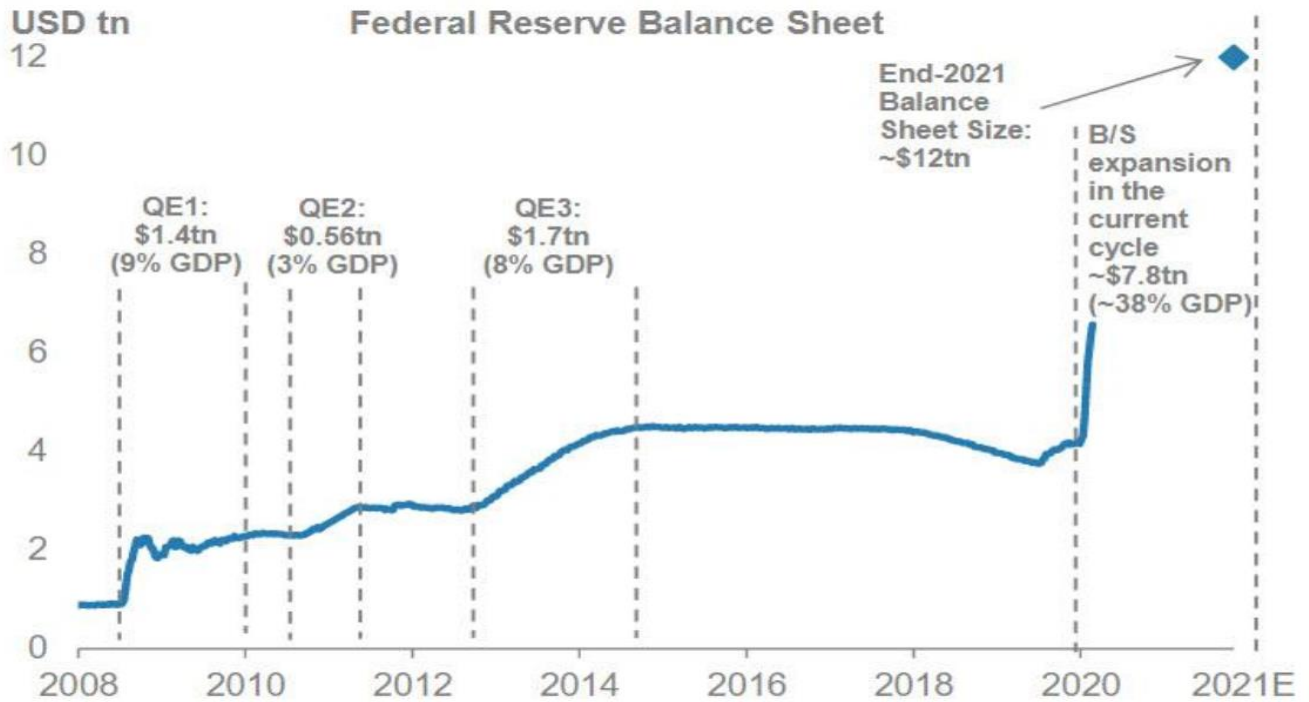
NAV (Mid-Price)	\$1.4816
Entry Price	\$1.4838
Exit Price	\$1.4794

## FUND FACTS

APIR Code	PGF0001AU
Responsible Entity & Investment Manager	Paragon Funds Management Ltd
Strategy	Aust Equities L/S, Long-bias, Fundamental, Concentrated
Objective	>10%p.a. over 5yrs
Structure	Unit trust
Domicile	Australia
Pricing/Applications/ Redemptions	Daily
Min. Investment	\$25,000
Min. Additions	\$5,000
Min. Redemptions	\$10,000
Administrator	Link Fund Solutions
Prime Broker/Custodian	UBS

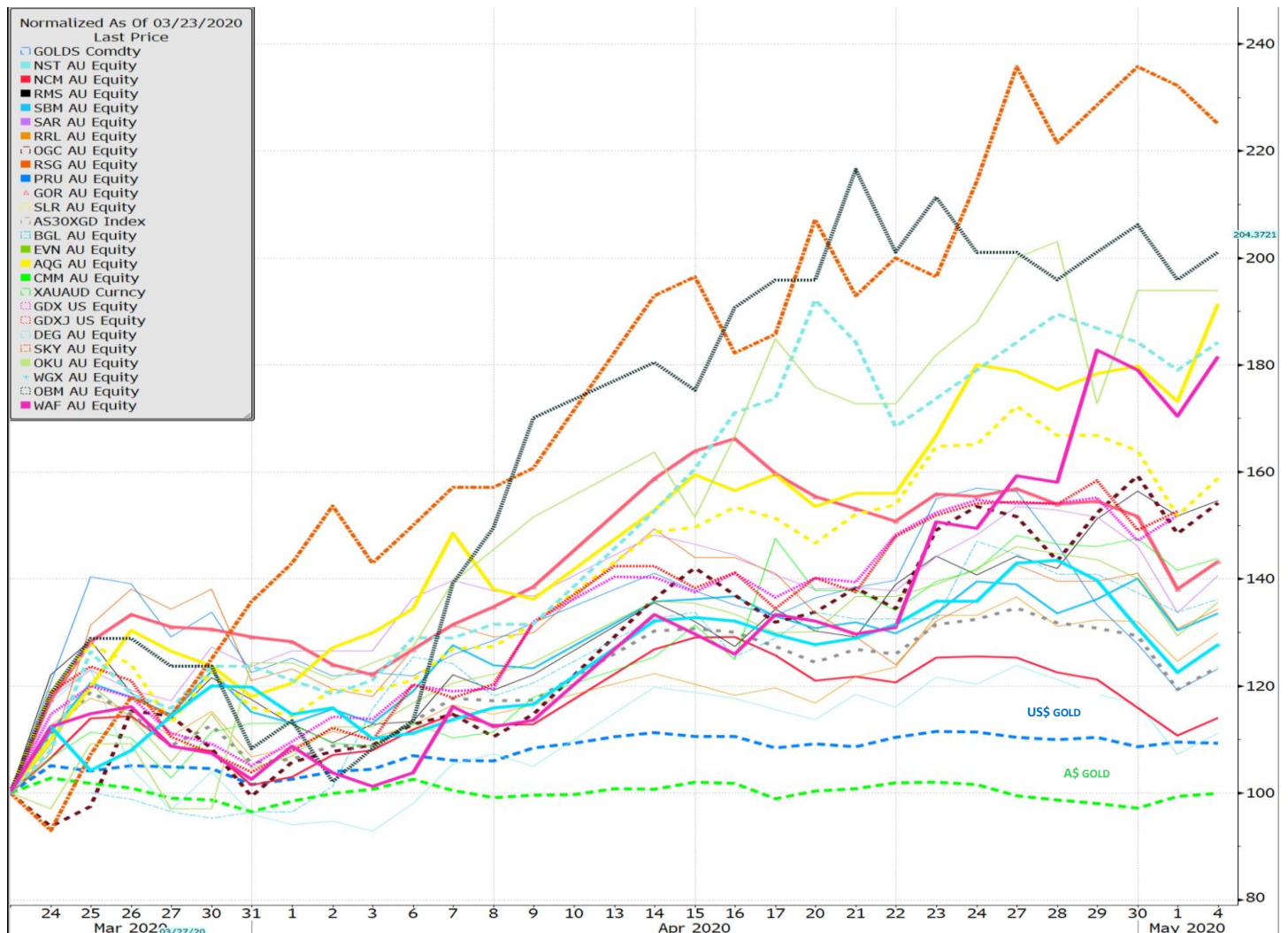


Chart 1: The Fed's balance sheet expanding by more than QE1, 2 & 3 combined in this cycle



Source: US Fed, Morgan Stanley

Chart 2: Relative price performance of ASX gold peers since 23 March 2020 bear market low – 4 of Paragon's stock picks are in the top 5 performers, well ahead of gold indices AS30XGD, GDX US & GDXJ. US\$ gold (dashed blue) is up 10% and A\$ gold is flat.



Source: Bloomberg, Paragon