



Paragon Australian Long Short Fund

May 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	+21.4%	+16.9%	+1.9%	+9.3%	+10.3%	-4.7%	+6.4%	+4.5%	+9.6%	+93.7%
ASX All Ordinaries Accum. Index	+5.0%	-9.1%	-14.1%	-9.3%	-6.2%	+1.8%	+4.7%	+4.5%	+6.2%	+55.1%
ASX Small Ords. Accum. Index	+10.6%	-1.9%	-7.7%	-3.7%	-2.8%	-0.4%	+7.5%	+6.6%	+4.7%	+39.6%

OVERVIEW

The Fund delivered another strong performance in May, returning +21.4% after fees. Markets continued to bounce on the unprecedented liquidity injection by the Fed and the imminent re-starting of global economies, as COVID-19 infection curves across Australia, Europe and America continue to decline. Global Indices finished up +4.5 to +6.5% (S&P500, Russell2000), and locally +5.0% to +10.6% (All Ords AI, Small Ords AI), with small caps outperforming as anticipated in [March](#). Positive contributors for the Fund were from our gold and technology holdings. As with April, there were no 'free-kicks' (ie. being allocated highly discounted re-capitalisations) in our strong performance. We maintain the view that the 1Q20 bear market is likely to prove cyclical, comparing most closely to the cyclical bear-market crash of 1987 which was followed with the resumption of a secular bull market. **We are excited about the opportunities within our thematic and are fully invested to capitalise.**

US\$ gold continued to break new highs, up +2.6% to \$1,730/oz and A\$ gold rose +1% to A\$2,611/oz. Compelling drivers for gold continued with US 10yr yields remaining low at 0.65% and real yields falling further to -0.50%. **We continue to uncover highly lucrative gold-equities set to emerge as the next market leaders.**

PORTFOLIO INSIGHTS – Pointsbet replicating its Australian success in the US

Pointsbet is one of the most exciting growth stocks on the ASX. We exited our profitable position in Pointsbet ahead of the March sell off and took the opportunity to buy back in April at a materially lower price point. Pointsbet offers exposure to a significant structural growth opportunity with the de-regulation of online wagering (sports betting and online casinos) in the US. When looking for growth opportunities our criteria includes identifying companies that are early movers and well positioned in a large total addressable market (TAM), have strong structural tailwinds, top tier management teams with significant 'skin in the game' and are well capitalised (\$110m net cash) to execute on the opportunity. Pointsbet meets all of these.

It does not get much bigger than the estimated US\$40b TAM Pointsbet is chasing (US\$20b online sports wagering and US\$20b iGaming). There are also very strong tailwinds to this thematic. Effectively we are seeing gaming move away from 'black market' operations, to a regulatory and legislative framework which will deliver commercial benefits to both governments and sporting organisations. The commercial drivers to expedite legalisation of online sports betting and casinos are even more pronounced due to the impacts of COVID-19. Pointsbet currently has access to 12 US states with legislation passed in 8 representing turnover of US\$5b. New Jersey was the first to be rolled out where Pointsbet achieved ~5% share with limited marketing, brand recognition nor an iGaming product, which bodes well for the rollout in other states. As sports recommence in the US, we anticipate solid market share gains in each state Pointsbet rolls out over the balance of CY20 and beyond.

Draft Kings, the most relevant peer comparison, listed on the Nasdaq in early May and is up +130% boasting an EV of ~US\$10b. Whilst it has an established user base through its fantasy sports business, its investment case, like Pointsbet, is primarily based on its future success in the US sports betting and iGaming market. Interestingly, George Soros has recently taken a position in Draft Kings, clearly wanting pure-play exposure to this huge growth market. There has already been a plethora of M&A activity across the sector. Early success in the US will place Pointsbet in the cross hairs of industry players with PENN Group (who own 6% through their access agreements) a natural acquirer. In the near term, we see Pointsbet entering a positive catalyst cycle with US national sports leagues progressively commencing, product (sports betting and iGaming) rolling out across more states, and further state access agreements to be executed.

FUND POSITIONING & RISK METRICS

Fund Size	\$30.9m
Longs	20
Shorts	5
Net exposure	141%
Gross exposure	169%
Index futures	0%
Cash	-41%
Beta-adj net exposure/ Average since inception	84%/70%
Correlation	0.59
% Positive Months	61%
Up/Down Capture	92%/60%

UNIT PRICING

NAV (Mid-Price)	\$1.7989
Entry Price	\$1.8016
Exit Price	\$1.7962

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

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