



Paragon Australian Long Short Fund

SEPTEMBER 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	-9.2%	+13.0%	+70.8%	+13.0%	+20.4%	+15.1%	+7.9%	+8.8%	+11.8%	+132.4%
ASX All Ordinaries Accum. Index	-3.4%	+1.2%	+19.1%	+1.2%	-8.7%	+1.2%	+5.5%	+7.7%	+6.5%	+60.6%
ASX Small Ords. Accum. Index	-2.8%	+5.7%	+31.0%	+5.7%	-3.2%	+0.3%	+6.6%	+10.0%	+5.0%	+44.7%

OVERVIEW

The Fund returned -9.2% after fees in September, in what was a volatile month globally. Despite this, a strong performance of +13% was delivered for the quarter and +21.7% CY20td (+31.1% ahead of the market). Global Indices were down, -3.9% (S&P500) to -5.7% (Nasdaq), gold equities -7.5% (GDX), and locally -3.4% (All Ords AI) to -2.8% (Small Ords AI), driven by delays of the next US fiscal-stimulus bill, anxiety over further lockdowns, and the anticipation of a highly contested US presidential election in November. Portfolio protection/hedges fell, with both gold and treasuries down -4.2% and -3.0% respectively. Positive contributors for the Fund were Chalice and West African, which were more than offset by declines across our gold, silver and technology holdings.

The US\$ Index rose +2% to 93.9c and US real rates rose slightly to -0.94%, driving corrections in precious metals and resources. We view the pull back in gold as merely a correction after a strong run. The US is close to sealing a further ~US\$2t of fiscal stimulus and the US budget deficit has hit an enormous 15% of US GDP (approaching the 1940's world war years of >20% yoy) – both strong drivers for gold. Gold volatility is to be expected, noting that gold had 10x >5% corrections amid its two previous bull cycles of Apr 2001 – May 2006 (gold +180%) and Nov 2008 - Sep 2011 (gold +167%).

PORTFOLIO INSIGHTS: Taking profits in De Grey; Chalice's Julimar following in its footsteps

We wrote in [June](#) about **De Grey's** (\$1b market cap at that time) discovery at Hemi looking like it was world-class. With its market cap growing from \$60m micro-cap at our entry in February, to a ~\$2b large-cap in September, we took profits and exited our position. A \$2b market cap implies the market was ascribing a full US\$200/oz on a 7moz gold discovery. Our modelling suggests this is likely and could indeed get a lot bigger as De Grey is still in its discovery-delineation phase. However, at a \$2b market cap metallurgical complexities (processing refractory gold using pressure oxidation (POX)), which drive the project's development capex and opex need to be de-risked. In our view, management are materially understating both capex (likely to be double initial expectations at \$1b+) and opex may also negatively surprise, as POX is capital and power intensive. Note other jurisdictions using POX to achieve higher gold recoveries such as Alacer in Turkey and Polymetal in Russia both have access to much cheaper hydro power and labour.

Chalice has been another big winner for the Fund over the last six months. We entered the stock in early April, then a \$145m micro-cap, for its greenfield Palladium & Platinum (PGE) and base metals discovery at Julimar in WA. It has since become one of the most exciting discovery-delineation resource stocks globally. Chalice has risen by multiples (currently ~\$850m mid-cap) and is well placed to continue re-rating, on the basis of its scale potential, strong economics and uniqueness of its PGE discovery. Mining magnate and billionaire Robert Friedland has also recognised Julimar's 'world-class' asset potential, buying into Chalice in May.

Leading global examples of Chalice's Julimar are rare: 1) Jinshuan in China which is 500mt over 6km, albeit with stronger base metals and lower PGE grades; and 2) US\$150b+ fully-integrated Norilsk in Russia, which boasts a 1.3bt orebody with higher PGE grades. Using spot commodity prices, Julimar is largely-Palladium (~2/3) which boasts outstanding fundamentals and is trading at US\$2,300/oz, 20% higher than gold. On our modelling, Chalice has already delineated ~20mt of high-grade PGE's (~2.5moz) over <1km (having drilled only 5% of their grounds), with the recent excitement in the stock premised on a new major 6.5km-long likely northern extension. Whilst we have taken some profits, the stock continues to offer strong risk-reward, with the northern extension a credible bonus option on even further material upside.

FUND POSITIONING & RISK METRICS

Fund Size	\$36.7m
Longs	27
Shorts	5
Net exposure	123%
Beta-adj net exposure/ Average since inception	80%/71%
Gross exposure	151%
Cash	-23%
Index Futures	0%
Correlation	0.58
% Positive Months	62%
Up/Down Capture	107%/67%

UNIT PRICING

NAV (Mid-Price)	\$2.0256
Entry Price	\$2.0286
Exit Price	\$2.0225

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

* Changed from 1 July 2020