



Paragon Australian Long Short Fund

NOVEMBER 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	+1.2%	-13.1%	+14.5%	+8.1%	+16.8%	+17.1%	-2.0%	+6.8%	+10.9%	+122.3%
ASX All Ordinaries Accum. Index	+10.2%	+8.6%	+16.4%	+13.8%	0%	+12.2%	+7.6%	+9.5%	+7.9%	+80.6%
ASX Small Ords. Accum. Index	+10.3%	+7.7%	+14.8%	+17.1%	+6.0%	+11.2%	+6.8%	+10.7%	+6.3%	+60.3%

OVERVIEW

The Fund returned +1.2% after fees in November. Global Indices were up strongly, +10.8% (S&P500) to +18.3% (Russell2000), the fear index fell 46% to 20.6 (VIX) and gold equities dropped -6.0% (GDX). Despite COVID-19 cases hitting record highs and lockdowns in Europe and the USA, news of vaccines with high efficacy rates drove a massive rotation from precious metals and growth stocks into value/cyclical 'old-economy' stocks. The US election saw Joe Biden become President-elect, Republicans retain the Senate and the Democrats just holding the House - which means a gridlocked Washington. Local Indices too were strong, +10.3% (Small Ords AI) and +10.2% (All Ords AI), the latter seeing its highest monthly move in 30yrs+, driven by a +17% move in the banks. Positive contributors for the Fund were Pilbara, Chalice and PolyNovo, offset by declines in our gold and technology holdings. Market rotations are hard to pick/time, in any case are temporary in nature. Our outlook remains constructive.

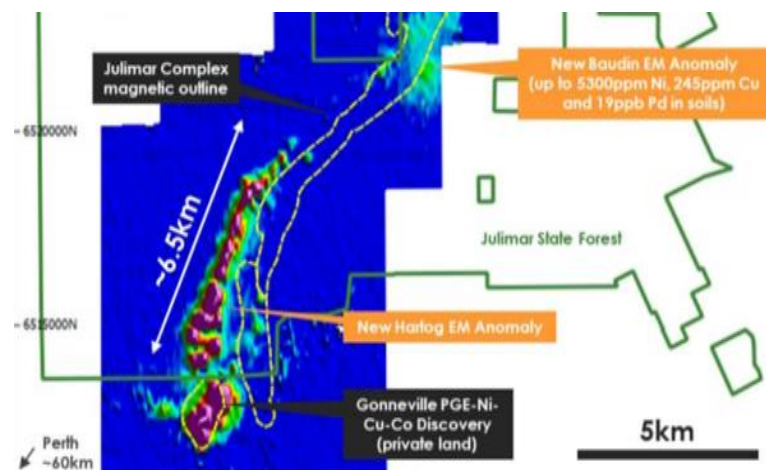
Despite the US\$ Index breaking new 2.5yr lows down -2.3% to 91.9c and US real rates falling -9% to -0.84%, US\$ gold was down -5.4% to US\$1,777/oz on vaccine news and on delays of the next US fiscal stimulus bill. Copper hit 7yr highs, up +12% to US\$3.42/lb, Brent Oil up +27% to US\$47.59/bbl, both great tailwinds for our base metals and oil stock picks.

PORTFOLIO INSIGHTS: Chalice's Gonneville discovery de-risking as a 'world-class' orebody

We wrote in [September](#) about Chalice's greenfield Gonneville Palladium & Platinum (PGE) and base metals discovery at its Julimar project in WA. Exploration results released in November continue to surprise to the upside. Chalice closed the month at an all-time high of \$4.06/sh (~\$1.3b mid-cap), up multiples on our \$0.55/sh entry in April (\$145m micro-cap), and is well capitalised having raised \$30m in May at \$1.05/sh and this week a further \$100m at \$3.75/sh.

On our modelling, Chalice has delineated at its Gonneville target (<1km of strike – see below):

- 1) a high-grade zone in fresh rock of ~25mt at ~3.5g/t Palladium-Equivalent (~2.5moz PdE);
- 2) shallow oxides (first 25m from surface) of ~20mt at ~2g/t PdE; and
- 3) ~400mt of low-grade open-pitabile disseminated resource (at a 0.5g/t Pd cut-off grade).



Using spot commodity prices, Chalice is trading at a proforma (fully-diluted, fully-funded) EV/FCF for its first yr of production of <3x. Hence, we continue to see strong upside for the stock (\$10/sh+ target based only on economic resources delineated to date). Chalice offers material exploration upside if its 6.5km-long northern extension (see above) proves to also have economic resources - where Chalice has identified strong, major airborne electro-magnetic anomalies. Exploration here should commence in the near term (2Q21).

Majors will pursue Chalice should its resource keep growing as anticipated. BHP would be a front-runner for their Nickel West integrated mining operation in Kalgoorlie WA, given their substantial infrastructure but lack of economic resources.

FUND POSITIONING & RISK METRICS

Fund Size	\$34.7m
Longs	32
Shorts	5
Net exposure	132%
Beta-adj net exposure/ Average since inception	89%/71%
Gross exposure	154%
Cash	-32%
Index Futures	0%
Correlation	0.55
% Positive Months	61%
Up/Down Capture	97%/67%

UNIT PRICING*

NAV (Mid-Price)	\$1.9378
Entry Price	\$1.9408
Exit Price	\$1.9349

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