



# Paragon Australian Long Short Fund

DECEMBER 2020

[www.paragonfunds.com.au](http://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	+9.1%	+4.4%	+18.0%	+18.0%	+26.8%	+25.8%	-0.7%	+8.5%	+11.9%	+141.9%
ASX All Ordinaries Accum. Index	+1.8%	+14.5%	+15.8%	+15.8%	+3.8%	+13.4%	+7.5%	+9.3%	+8.1%	+83.9%
ASX Small Ords. Accum. Index	+2.5%	+13.5%	+20.0%	+20.0%	+8.9%	+15.0%	+6.5%	+10.4%	+6.5%	+64.3%

## OVERVIEW

The Fund returned +9.1% after fees in December. Global Indices were up +3.7% (S&P500) to +5.7% (Nasdaq), and gold equities +0.2% (GDX). Local Indices were up +2.5% (Small Ords AI) and +1.8% (All Ords AI). Positive contributors for the Fund were from our battery minerals (Pilbara), base metals (EM2) and precious metals (WAF & Investigator) holdings.

The US\$ Index continued its decline, down -1.5% to 89.9c (new 2.5yr low), and US real rates fell 18bps to -1.09%. Gold was up +4.6% to US\$1,899/oz and Silver was up +10.0% to US\$26.40/oz, on another US\$0.9t fiscal stimulus bill. Copper was up +4% to US\$3.52/lb and Brent Oil up +9.3% to US\$51.80/bbl. Collectively representing great tailwinds for our portfolio going into 2021. Readers interested in a comprehensive coverage of our 2020 performance and 2021 outlook can view our [webinar](#) held on 17 December 2020, also summarised below.

## 2020 Year in review

2020 was another solid year for the Paragon Australian Long Short Fund with an estimated return of +26.8% after fees, substantially ahead of all relevant indices for the year (and since inception) as depicted in the table below:

CY	Paragon	All Ordinaries Accum.	ASX300 Resources	ASX300 Industrials	Small Ordinaries Accum.	Small Resources	Small Industrials	Eureka Hedge Au/NZ HedgeFunds
2013*	18.7%	8.3%	-3.8%	12.0%	-5.6%	-43.1%	5.0%	15.0%
2014	15.9%	5.0%	-16.6%	11.0%	-3.8%	-29.1%	1.2%	8.2%
2015	16.8%	3.8%	-24.9%	8.3%	10.2%	-14.3%	9.3%	15.4%
2016	6.8%	11.6%	42.9%	7.4%	13.2%	53.3%	2.4%	-0.2%
2017	44.1%	12.4%	25.8%	9.2%	20.0%	38.7%	11.8%	11.0%
2018	-38.0%	-3.5%	2.3%	-4.4%	-8.7%	-16.0%	-6.5%	-7.0%
2019	24.8%	24.0%	26.1%	23.1%	21.5%	10.0%	24.5%	16.6%
2020	26.8%	3.8%	9.2%	-0.1%	8.9%	23.1%	6.0%	1.3%
Cumulative	141.9%	83.9%	52.4%	86.0%	64.3%	-4.6%	91.1%	5.9%
CAGR since Inception	11.9%	8.1%	5.5%	8.2%	6.5%	-0.6%	8.6%	2.9%

\* Paragon inception March 2013.

Source: Bloomberg, Paragon

## Performance attribution:

2020 was an extraordinary, volatile and challenging year of four very different quarters for the Fund, with 1Q heavily impacted by COVID-19, followed by an outstanding 2Q, and solid performances for both 3Q and 4Q despite ongoing market volatility. During the year, we saw the rapid COVID-19 bear market crash as a short-term 'cyclical' downturn only, and expected the 'secular' bull market to resume. We covered all our shorts just before the market bottom in late-March, and quickly allocated capital in April, positioning the Fund for a strong recovery which followed.

Performance can be broken down as follows - +22.8% longs / +4% shorts (by stocks), +20% Resources / +6.8% Industrials (by sectors).

Our key winners in the year were:

- **Resources:** DeGrey, Chalice, Alacer, West African and Adriatic (all precious metals); and Pilbara (battery minerals). Plus shorts in Whitehaven Coal, Western Areas and Sandfire.
- **Industrials:** Technology/Fin-tech/Med-tech stocks PointsBet, Xero and Paradigm. Plus shorts in Qantas, Atlas and AGL.

## FUND POSITIONING & RISK METRICS

Fund Size	\$37.7m
Longs	30
Shorts	5
Net exposure	130%
Beta-adj net exposure/ Average since inception	78%/71%
Gross exposure	151%
Cash	-30%
Index Futures	0%
Correlation	0.56
% Positive Months	62%
Up/Down Capture	101%/67%

## UNIT PRICING

NAV (Mid-Price)	\$2.1150
Entry Price	\$2.1181
Exit Price	\$2.1118

## FUND FACTS

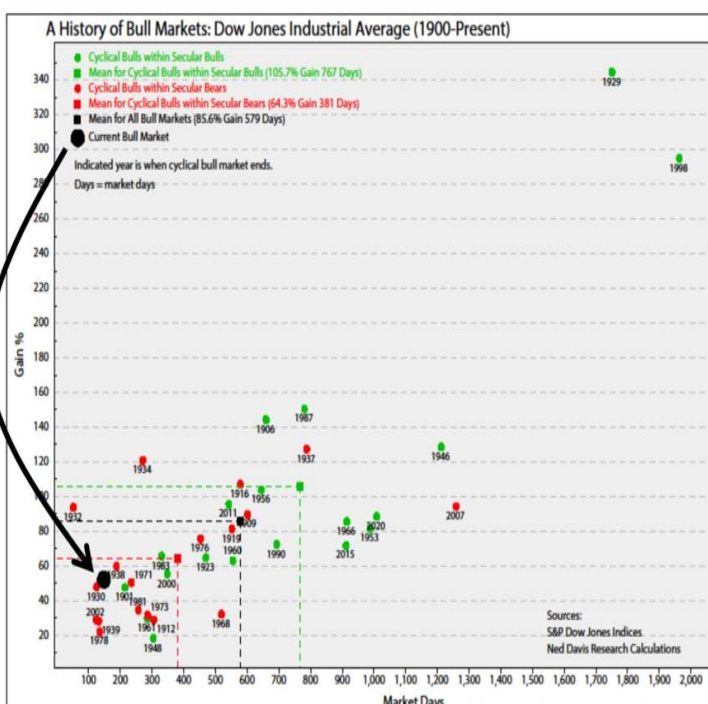
APIR Code	PGF0001AU
Responsible Entity & Investment Manager	Paragon Funds Management Ltd
<b>Strategy*</b>	Aust Equities L/S (long-bias), Fundamental, Concentrated. Global and unlisted permitted.
Objective	>10% p.a. over 5yrs
Structure	Unit trust
Domicile	Australia
<b>Pricing/Applications/ Redemptions*</b>	Monthly
Min. Investment	\$25,000
Min. Additions	\$5,000
Min. Redemptions	\$10,000
Administrator	Link Fund Solutions
Prime Broker/Custodian	UBS
<b>* Changed from 1 July 2020</b>	

DISCLAIMER: This report has been prepared without taking account of your personal objectives, financial situation or needs and should not be relied upon as the basis of an investment decision. You should seek independent professional advice before making any decisions regarding the content of this report, including a decision to invest. The Product Disclosure Statement for the Paragon Australian Long Short Fund is available from our website. There is no guarantee against loss resulting from an investment in the Fund and past performance is not a reliable indicator of future performance.

## Market Outlook:

Unprecedented and enormous US Fed monetary stimulus (US\$4t of QE4 - exceeding the GFC's combined QE1, 2 & 3), and US fiscal stimulus (of ~US\$3t or 15% of GDP), has markets well placed to continue their secular bull run. Global markets love excess liquidity and ongoing 'cheap money' (zero or negative rates). More of the same is expected in 2021 given ballooning US deficits which means more 'money-printing' to fund. Equity yields continue to be relatively attractive, driving major inflows into equities. Chart 1 below illustrates that the current secular bull market is both short in duration and magnitude in comparison to historical bull cycles.

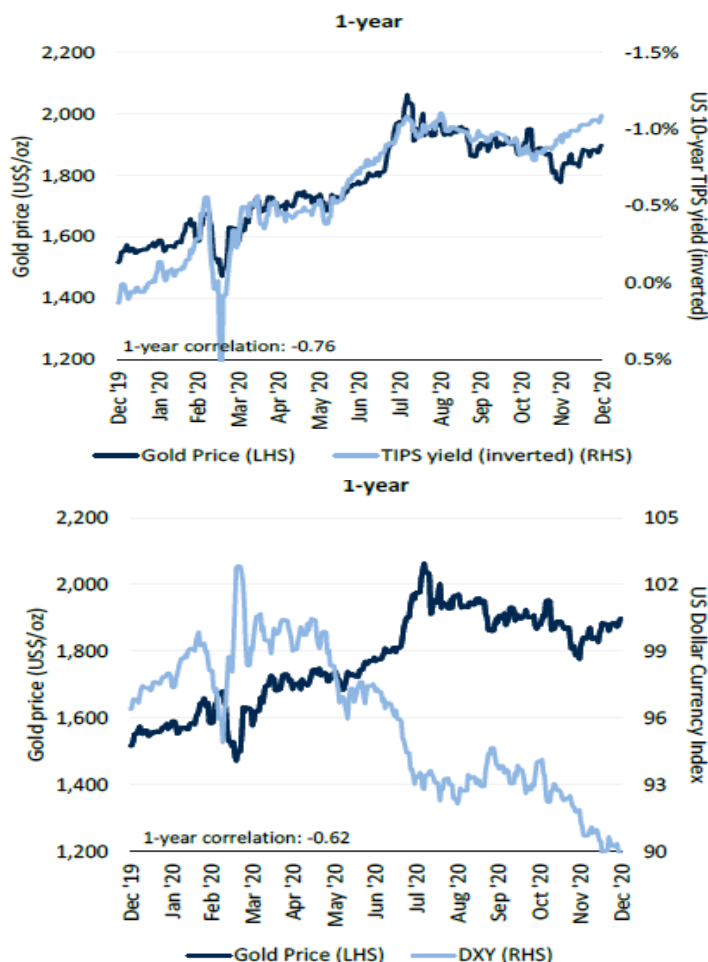
Chart 1: A history of bull market cycles



China, the biggest consumer (~50%) of commodities is recovering strongly. Along with a strong recovery in global PMI's, a broad-based commodities bull market cycle is now clearly underway. The best opportunities in our view are in battery metals, which are fuelling a secular bull market across the Electric Vehicles value-chain, as well as base metals, Iron Ore and Energy, all in strong cyclical upswings.

The 'green-theme' remains front and centre globally where Climate transition has the potential to drive US\$2t p.a. of infrastructure investments for the next decade. Renewable energy systems require 5x more copper vs conventional power generation and Electric Vehicles require 3x more copper than conventional vehicles. Copper deficits are expected over the medium term and record copper prices near-term are likely to incentivise new supply.

Supportive drivers for precious metals remain, with US real rates resuming a downtrend of -1.08%, coupled with US\$ breaking 2-yr lows of 89.5c, pushing cycle lows. See charts in next column by RBC. With the US\$ rolling over, various leading indicators are pointing to inflation, where gold and commodities should continue to do very well, providing a great tailwind for our stock picks.



Furthermore, big opportunities continue in growth technology, where COVID-19 has provided a structural shift expediting technological adoption into various underpenetrated and huge addressable markets.

## Fund Positioning:

The table below summarises our portfolio by theme at today's date, and the number of stocks (both long and short) held in each. We carry higher weightings where we are most constructive.

Secular Thematic Exposure	# of stocks	Net Weight
<b>Electric Vehicles</b>	<b>7</b>	<b>28.1%</b>
<b>Technology</b>	<b>5</b>	<b>20.4%</b>
<b>MedTech</b>	<b>3</b>	<b>8.3%</b>
<b>FinTech</b>	<b>1</b>	<b>6.9%</b>
<b>Cyclical Thematic Exposure</b>		
<b>Base metals</b>	<b>3</b>	<b>24.5%</b>
<b>Energy</b>	<b>2</b>	<b>10.2%</b>
<b>Cyclical turnaround</b>	<b>1</b>	<b>4.7%</b>
<b>Gold</b>	<b>8</b>	<b>29.2%</b>
<b>Silver</b>	<b>1</b>	<b>4.0%</b>
<b>Stock Specific</b>		
<b>Discovery / delineation</b>	<b>4</b>	<b>11.0%</b>
<b>Special situation</b>	<b>0</b>	<b>0.0%</b>
<b>Earnings Risk</b>	<b>3</b>	<b>-6.5%</b>
<b>Total Exposure</b>	<b>38</b>	<b>141%</b>
<b>SPI</b>		<b>0%</b>
<b>Net Exposure</b>		<b>141%</b>
<b>Beta adjusted Net exposure</b>		<b>93%</b>

The portfolio's top 15 holdings average at a market cap of \$848m, providing ample liquidity at 74% saleable inside 10 trading days. We continue to manage the Fund as though its \$200m+ FUM.

The Fund is limited by capital, not ideas, where capital allocation is our biggest challenge given the opportunity set ahead is abundant and extremely exciting.