



Paragon Australian Long Short Fund

JANUARY 2021

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	-2.5%	+7.7%	+1.6%	+15.0%	+21.3%	+23.7%	-1.1%	+8.1%	+11.5%	+135.9%
ASX All Ordinaries Accum. Index	+0.3%	+12.4%	+14.9%	+16.1%	-0.6%	+11.4%	+7.7%	+10.5%	+8.0%	+84.4%
ASX Small Ords. Accum. Index	-0.3%	+13.0%	+18.3%	+20.0%	+5.4%	+12.0%	+6.7%	+11.6%	+6.5%	+64.3%

OVERVIEW

The Fund returned -2.5% after fees in January. Markets corrected in the last week of the month on excessive optimism, leaving global Indices mixed: -2% (Dow) to +1.4% (Nasdaq) and gold equities -4.0% (GDX). The VIX jumped 45% to 33. Local Indices too were mixed: -0.3% (Small Ords AI) to +0.3% (All Ords AI) and -1.9% (Small Resources). Positive contributors for the Fund were Pilbara (took profits), PointsBet and DeGrey (short), offset by declines in gold and technology holdings impacted by the market sell-off.

The US\$ Index was marginally up to 90.58c. US real rates fell to -1.02%. Gold was down -2.7% to US\$1,848/oz, however Silver was up +2% to US\$27/oz. Copper was unchanged at 7yr highs of US\$3.56/lb and Brent Oil was up +6.3% to US\$55/bbl. Electric Vehicle (EV) battery mineral prices are up strongly off 2020 lows: 1) Lithium +100% to ~US\$10,000/t (see Figure 1 overleaf); and 2) Rare Earth NdPr (increasingly used in magnets for EV drive-trains and wind turbine generators) also up +100% to ~US\$71,000/t.

Both monetary and fiscal stimulus tailwinds remain, with Biden proposing new spending plans at ~US\$2t. The strength in markets is analogous to the recovery and expansion from March 2009 lows. We reiterate our view that this equities bull market is early-stage (and not late).

PORTFOLIO INSIGHTS: Battery minerals recovery underway; EV adoption will go parabolic

We have been early and high conviction investors in the EV battery minerals thematic, and have written about it several times over the years going back as far as [August 2013](#), and [this time last year](#) we also wrote about why you would not want to be short Tesla. With the entire value chain booming, investors are increasingly embracing its strong long-term growth outlook. An increasing global focus on decarbonisation has driven pro-EV policy settings. Huge investment across the entire EV supply chain is well underway and has over 10 years to run. Recent key catalysts include:

- 1) EV sales surprised to the upside in 2020 at ~3.2m units, an annual increase of 43% despite COVID-19. EV penetration rate now at ~3% (of a global ~85m p.a. new car sales market). Consensus is expecting ~10% penetration by 2025 and ~30% by 2030. However, let's not forget how grossly underdone consensus were on the mobile phone market roll-out! We continue to expect a steeper EV adoption curve.
- 2) 181 Lithium-ion (downstream) battery mega-factories to be built by 2030, anticipating battery mineral markets to grow by multiples (>6x for Lithium and ~3x for NdPr). These are staggering growth rates well beyond latent capacity. Considerable investment in new Lithium and Rare Earths (upstream) supply will be needed.
- 3) Ongoing trade tensions between the USA and China, driving the USA's push for battery minerals supply chain outside of China. Whilst potentially politically motivated, China has since signalled it will use all rare earth oxides it produces for its own growth needs.
- 4) For the first time in its history, Lithium has been added to the USA's critical raw materials list. Additionally, the US has commenced fiscal investment into downstream refining.
- 5) Germany and the UK have increased subsidies for EV's, with Germany instigating sales bans on internal combustion engine (ICE) vehicles from 2030.
- 6) EU now leading EV sales market globally, having overtaken China, and have since made huge investment across the downstream supply chain. See Figure 2 overleaf.
- 7) Autonomous EV pursuit by many well-funded Technology mega caps including Tesla, GM/Microsoft and Apple/Hyundai partnerships.
- 8) Tesla's 4Q20 EV production was 720k annualised and its China and German giga factory build out continues at pace. EV battery to ICE cost and performance parity is coming, which will drive mass EV adoption.

Whilst some pundits are calling the rapid re-rate in Tesla and upstream battery mineral equities a 'bubble', we remain invested in specific stocks offering strong risk-reward in the best projects leveraged to Lithium, heavy Rare Earths, Nickel and Copper, which we view as having the best fundamentals.

FUND POSITIONING & RISK METRICS

Fund Size	\$36.5m
Longs	32
Shorts	12
Net exposure	126%
Beta-adj net exposure/ Average since inception	89%/71%
Gross exposure	187%
Cash	-26%
Index Futures	0%
Correlation	0.55
% Positive Months	61%
Up/Down Capture	92%/67%

UNIT PRICING

NAV (Mid-Price)	\$2.0623
Entry Price	\$2.0654
Exit Price	\$2.0592

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	

Figure 1: Lithium price acceleration

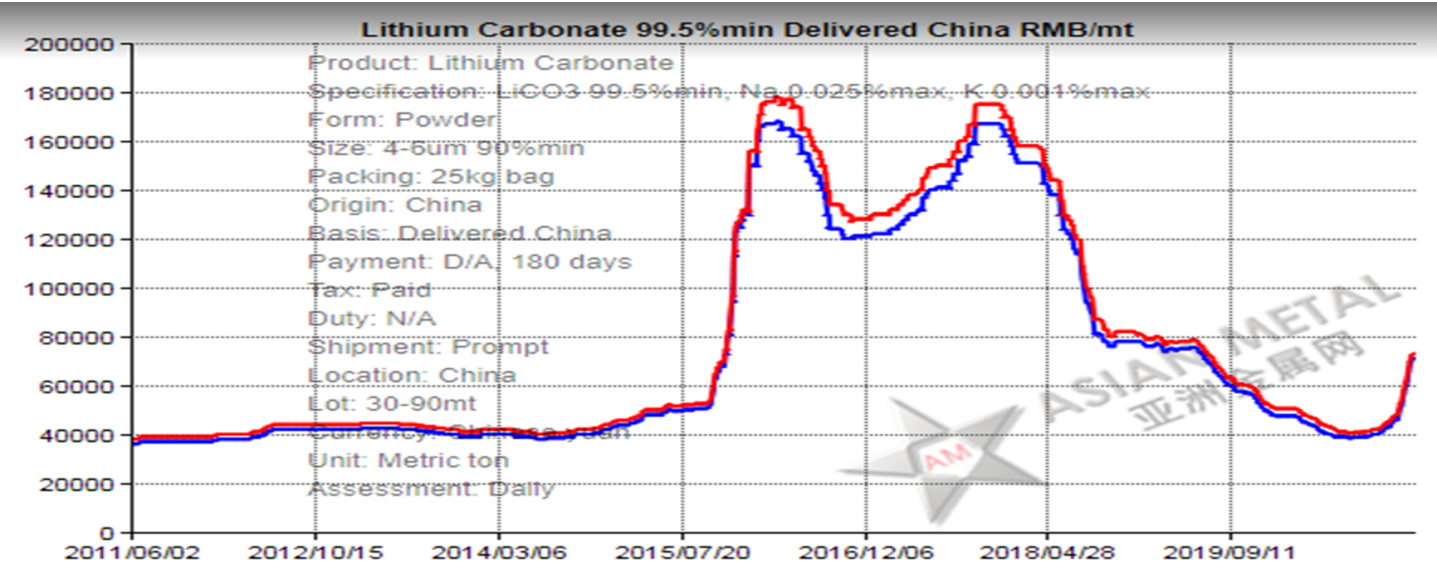


Figure 2: Europe is becoming a global hub for EV and battery production – now the leading EV sales market globally

