



Paragon Australian Long Short Fund

FEBRUARY 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	+16.3%	+23.8	+7.6%	+33.8%	+65.6%	+32.8%	+5.1%	+12.6%	+13.5%	+174.4%
ASX All Ordinaries Accum. Index	+1.4%	+3.5%	+12.4%	+17.8%	+9.6%	+8.9%	+8.1%	+11.2%	+8.1%	+87.0%
ASX Small Ords. Accum. Index	+1.5%	+4.1%	+12.1%	+21.8%	+17.2%	+9.2%	+7.2%	+11.7%	+6.6%	+66.8%

OVERVIEW

The Fund returned +16.3% after fees in February amid yet another highly volatile month for equities globally. Global Indices were up +2.6% (S&P500) to +0.9% (Nasdaq), and gold equities down -9.8% (GDX). Local Indices were up +1.5% (Small Ords AI) and +1.4% (All Ords AI). Positive contributors for the Fund were Cettire, Betmakers, Chalice, Ionic and Appen (short), marginally offset by declines in OceanaGold and PointsBet.

US 10yr bond rates jumped +32% to 1.4% with the yield curve (10-2yr bond rates) starting to go vertical – great for Resources. US real rates rose to -0.71%, driving gold down -6.2% to US\$1,734/oz. Silver was flat at US\$26.67/oz, benefiting from its dual role as both a monetary and industrial metal, the latter driven by the ongoing transition to green energy and electric vehicles. Copper broke 10-yr highs, up +15% to US\$4.09/lb, and Brent Oil was up +17.5% to US\$64.42/bbl. Battery mineral prices continued to rise with Lithium up +15% to ~US\$12,000/t and key Rare Earth (RE) NdPr was up +17% to ~US\$82,000/t. Inflation is everywhere, as evident in double-digit-% price rises across food, base metals, timber and house prices. Headline CPI numbers in our view are misrepresentative of true inflation. Markets are embracing the breadth and strength across Resources and increasingly the prospect of a super-cycle ahead.

PORTFOLIO INSIGHTS: Catalyst-rich stocks with asymmetric risk-reward

Adriatic Metals confirmed its permitting and development timeline in February. We typically don't hold stocks going into the 2nd part of the 'Resource S-curve' as they can underperform through the perceived 'boring' feasibility, funding and construction phases. However, as the stock offers material upside, has a high takeover likelihood, and its underlying resources (Silver and base metals) are in bull markets, we are happily staying long and strong.

Chalice released more outstanding assays from its Julimar discovery. Whilst we eagerly await clearance to drill their northern tenement, Julimar is growing and de-risking as a 'world-class' Palladium and base metals discovery. Further metallurgical test-work also released shows initial recoveries exceeding expectations. A conventional process flow sheet and modest capital intensity are increasingly likely. Julimar-only project economics are outstanding, and underwrite our \$10/sh price target. Northern extensions offer 'blue-sky' upside.

Ionic Rare Earths is, in our view, the best emerging project amid an exciting rare earths (RE) bull market desperately looking for supply sources outside China (85% of global supply). Large-scale 'ionic adsorption clay' RE orebodies outside of China are rare and Ionic's Makuutu RE project is exactly this – a key competitive advantage. Given its combination of scale, high-value RE basket price mix (final product >70% heavy and critical RE; favourably weighted to high-value heavy RE of ~25% + NdPr of ~25%), simple metallurgy (key to lower capex and opex), payabilities of ~75% for heavy and critical RE carbonate (~2x that of its peers - RE concentrate derived from hard-rock orebodies) and infrastructure advantages (it's already there!), Makuutu will de-risk strong project economics and prove to be a 'company-maker'.

Cosmos Capital is an unlisted bitcoin miner domiciled in Australia with low-cost operations in the USA, and boasts an enviable petahash growth pipeline. We are bullish on Blockchain, seeing it as hugely disruptive, and view Bitcoin as an alternative store of value, like 'digital' gold. Gold's features and value factors include it being scarce, portable and divisible. Bitcoin boasts all of these features also, important in an increasingly digital world. Bitcoin was up substantially in February, +46% to US\$47,800/bitcoin, its market cap hitting US\$1T for the first time and now one-tenth of gold's (above ground) market cap. We've always been fans of stores of value that can't be de-based, preferring to invest in the miners for their leverage to the underlying. Prior to Bitcoin's recent price surge, we invested a modest 2.25% of capital in Cosmos on preferential terms, anticipated to be realised mid-year upon its listing on the Nasdaq (Ticker Code: CMOS). Current market caps of listed peer comps such as MARA US and RIOT US are ~17.5x our Cosmos cost-base valuation, a strong sign that Cosmos should be a major winner for the Fund on IPO when we will mark it to market.

FUND POSITIONING & RISK METRICS

Fund Size	\$43.0m
Longs	31
Shorts	10
Net exposure	134%
Beta-adj net exposure/ Average since inception	121%/71%
Gross exposure	186%
Cash	-34%
Index Futures	0%
Correlation	0.54
% Positive Months	61%
Up/Down Capture	108%/67%

UNIT PRICING

NAV (Mid-Price)	\$2.3993
Entry Price	\$2.4029
Exit Price	\$2.3957

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

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