



Paragon Australian Long Short Fund

MARCH 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	-6.2%	+6.4%	+11.1%	+25.5%	+89.8%	+30.4%	+4.5%	+9.6%	+12.4%	+157.5%
ASX All Ordinaries Accum. Index	+1.8%	+3.6%	+18.6%	+19.9%	+41.2%	+9.5%	+10.1%	+10.6%	+8.7%	+90.4%
ASX Small Ords. Accum. Index	+0.8%	+2.1%	+16.2%	+22.8%	+52.2%	+9.7%	+8.4%	+10.7%	+7.2%	+68.1%

OVERVIEW

The Fund returned -6.2% after fees in March amid yet another highly volatile month for equities globally. Global Indices were up +4.2% (S&P500) to +0.4% (Nasdaq), with local Indices mixed - +0.8% (Small Ords AI), +1.8% (All Ords AI) and -4.1% (ASX300 Resources). Whilst the major indices continued to rise there was unprecedented turbulence below the surface. Positive contributors for the Fund were Cettire, Betmakers and Chalice, more than offset by declines in Ionic, Adriatic and other Resources holdings.

The VIX fell by 17% to 19, the first time it has fallen below 20 since the COVID-19 spike. US 10yr bond rates continued to rise, +34bps to 1.74%, with US inflation rising 21bps to 2.49% (to 7-yr highs). The 2–10 yield curve steepened 31bps to 1.58%, providing fuel to the pro-cyclical value stocks. The US\$ index increased +2.4% to 93.2, whilst gold and silver were down -2.7% to US\$1,708/oz and -8% to US\$24.42/oz respectively. Palladium was up +11% to US\$2,628/oz, nearing record highs and great for our investment in Chalice. Bitcoin continued its record-breaking run, up +20.7% to ~US\$59,000, great for our investment in Cosmos. Copper was down -3% to US\$4.00/lb, and Brent Oil -4% to US\$63.46/bbl. Battery mineral prices continued to rise with Lithium up +10% to ~US\$13,000/t and Rare Earth (RE) NdPr up +5% to ~US\$89,000/t. We continue to have a very friendly FED. As expected in the March FOMC meeting, Powell re-iterated: 1) Keeping the cash rate at 0-0.25% through CY23; 2) Ongoing QE (and importantly no taper); and 3) Ongoing push for full employment. “Don’t fight the FED” continues and every commodity is a winner.

PORTFOLIO INSIGHTS: Cettire - an e-commerce standout

Cettire (CTT) is a global online retailer offering a large selection of in demand personal luxury goods (via its website cettire.com). The company connects directly through its ERP system with offline suppliers (not the brands) to provide their products online. Effectively a virtual inventory system, enabling Cettire to offer one of the largest collections of luxury goods online globally, without carrying any inventory risk nor requiring a capital-intensive physical store footprint or warehousing facilities. The company operates across 53 countries and ~92% of revenue is generated from overseas.

Cettire boasts: 1) Exceptional top line revenue growth >400% at a healthy gross margin of 32%; 2) A large total addressable market (TAM) providing a long runway of growth and structural tailwinds in the continuing shift towards online shopping; and 3) A scalable platform providing operating leverage. All key metrics are trending favourably with website traffic continuing to grow, conversion rates improving, average order size increasing, number of active customers growing and repeat customers’ level of spend increasing.

Return on investment is a standout with each customer acquired returning 3x in value. If its current trend continues, even with top line growing at >100%, marketing expenses remaining at current levels of 8.8% of sales, and tight cost control overall, Cettire is well positioned to improve its EBITDA margin (currently 12.8%) and in turn its valuation multiples.

Cettire has been a strong performer for the Fund. The company listed in late December 2020 raising \$65m with a muted debut, dipping below its listing price of \$0.50/sh (\$190m market cap). Paragon didn’t participate in the IPO. However, after performing our due diligence post-IPO, we quickly formed a view that the company was mis-priced for such a high growth and quality business, and took a position on market at an average of \$0.54/sh (implying a modest EV/Sales multiple of 2.2x). Cettire closed the month at \$1.40/sh, +133% return in three months.

We forecast FY22 growth moderating to 150% YoY, implying sales of \$175m, representing an EV/sales multiple of 2.7x. This is still attractively priced when you consider its mature global peers are trading on 12x and domestic online retailers 6-12x, and Cettire’s growth rate is outpacing them. With \$45m cash, no debt, a massive TAM and impressive unit economics, and should management continue to deliver, we believe there remains a large runway for ongoing strong share price performance.

FUND POSITIONING & RISK METRICS

Fund Size	\$41.3m
Longs	32
Shorts	6
Net exposure	130%
Beta-adj net exposure/ Average since inception	103%/71%
Gross exposure	164%
Cash	-30%
Index Futures	0%
Correlation	0.54
% Positive Months	61%
Up/Down Capture	108%/67%

UNIT PRICING

NAV (Mid-Price)	\$2.2509
Entry Price	\$2.2542
Exit Price	\$2.2475

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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