

# **Paragon Australian Long Short Fund**

SEPTEMBER 2021

\*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	+0.1%	+21.6%	+39.1%	+21.6%	+54.5%	+36.2%	+26.8%	+12.0%	+16.0%	+258.0%
ASX All Ordinaries Accum. Index	-1.6%	+2.0%	+10.9%	+2.0%	+31.5%	+9.5%	+10.4%	+10.9%	+9.5%	+111.2%
ASX Small Ords. Accum. Index	-2.1%	+3.4%	+12.2%	+3.4%	+30.4%	+12.3%	+9.5%	+10.2%	+8.2%	+88.7%

## **OVERVIEW**

The Fund returned +0.1% after fees in September amid yet another volatile month for global equities. Global Indices were all down on a suite of macro concerns/noise: -4.8% (S&P500), -5.3% (Nasdag) and -3.1% (Russell2000); Local Indices were all down: -2.1% (Small Ords AI), -1.6% (All Ords AI) and -6.7% (ASX300 Resources). Positive contributors were Queensland Pacific Metals (QPM), Cettire, Ioneer, Sayona and our shorts in DeGrey and other golds, offset by declines in Mawson, Chalice and our technology holdings. The Fund delivered +22% for 3Q21 and +48% for CY21 to date, outperforming all relevant benchmarks by 20-40%.

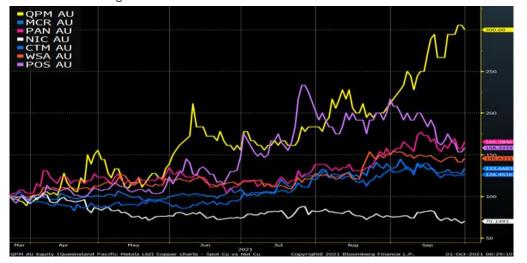
Lithium prices continued to accelerate, with spot prices +53% to ~US\$27,000/t+. Nickel inventories continue to fall off a cliff, down -19% in September, fast approaching critical levels.

## PORTFOLIO INSIGHTS: QPM attracts tier 1 partners and 'lead-project' state significance

QPM is advancing its 100% owned Townsville Energy Chemicals Hub (TECH) project in Queensland. Processed via its Direct Nickel (DNi) flowsheet, which QPM has a license to use, and has been adapted to suit the specifications of its New Caledonian ore supply, will produce battery-EV minerals including nickel and cobalt sulphate and high purity alumina. DNi should not be confused with complex, highly capital-intensive, environmentally and sustainability challenged, high-pressure acid-leach (HPAL) processing. QPM's DNi process uses nitric acid under atmospheric conditions. QPM's TECH project is well placed to achieve a zero-carbon outcome – a big plus as it's becoming a key factor for all stakeholders and financiers.

Nickel-in-battery-EV demand is set to grow at >20% cagr through the next decade (by 5x!), with a looming supply gap of ~1mtpa by 2030. Tesla and many other end-consumers across the battery-EV supply chain are actively pursuing new supply sources. After extensive due diligence of QPM's DNi process and product quality, both LG Chem and Posco signed binding 7yr product offtakes. Furthermore, LG Chem and Posco invested a combined US\$15m into QPM, acquiring 7% and 3% equity respectively. Across the battery-EV sector, QPM is the only developer to sign binding offtakes and receive a capital injection with tier 1 partners ahead of a bankable feasibility study (BFS). This is a strong validation by leading battery-EV partners with deep expertise across the supply chain.

LG Chem and Posco are both pushing for QPM to double its project scale and speed to market, an enviable position to be in and confirmation of strong end-user demand. Near term catalysts include its zero-carbon and sustainability study in 3Q21 and its BFS and funding milestones due ~2Q22. Various debt and equity funding sources are likely to be available given strong project economics (after-tax NPV of >2x its ~\$1b capex) and binding offtakes with credit-worthy partners. Despite QPM's strong share price performance (both absolute and relative to its ASXlisted peers as illustrated below), the stock is trading at <20% of its NPV, and is very well placed to continue re-rating.



#### FUND POSITIONING & RISK METRICS

Fund Size	\$60.7m
Longs	32
Shorts	10
Net exposure	141%
Beta-adj net exposure/ Average (rolling 12mths)	98%/93%
Gross exposure	178%
Cash	-41%
Index Futures	0%
Correlation	0.5
% Positive Months	61%
Up/Down Capture	117%/66%
Liquidity (% saleable inside 10	BD) 80%

### **UNIT PRICING**

NAV (Mid-Price)	\$2.9209
Entry Price	\$2.9252
Exit Price	\$2.9165

PGF0001 ALL

# **FUND FACTS** APIR Code

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		
Administra	tor	Link Fund Solutions		
Prime Broker/Custodi		an UBS		