



Paragon Australian Long Short Fund

JUNE 2022

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	-16.4%	-32.0%	-37.0%	-25.4%	-25.4%	+3.5%	+7.4%	+6.3%	+8.8%	+119.7%
ASX All Ordinaries Accum. Index	-9.4%	-12.9%	-11.5%	-7.4%	-7.4%	+9.8%	+3.8%	+7.2%	+7.2%	+91.5%
ASX Small Ords. Accum. Index	-13.1%	-20.4%	-23.7%	-19.5%	-19.5%	+3.6%	+0.4%	+5.1	+4.2%	+46.8%

OVERVIEW

The Fund returned -16.4% after fees in June amid another violent 'risk-off' sell-off. Global Indices were down materially: Nasdaq -9.0% (now 32% off its highs); S&P500 -8.4% (now in a bear market having fallen >20%) and Russell2000 -8.4%. Local Indices were also down materially: Small Ords AI -13.1%; All Ords AI -9.4% and the Small Resources Index -22.1% (its worst month since Oct 2008, the worst month of the GFC). Global markets were impacted by another high US inflation print at 8.6%, the Fed aggressively hiking the cash rate by 0.75% (the first increase of this size since 1994 and signalling more rate rises of 0.5%-0.75% if needed to reduce inflation), and Covid-driven lockdowns in China (which have since started to unwind). Shorts in Evolution Gold, AEF and EV-related stocks performed well, however only partially offsetting the declines across all our longs. We believe the bulk of our performance damage is done. We have lowered net exposure significantly, reducing our portfolio to core holdings only.

In responding to high inflation, the Fed continues its increasingly hawkish stance in an attempt to break inflation and its psychology. Recession fear has driven equity market sentiment to extremely bearish levels, nearing GFC lows. Whilst positive from a contrarian viewpoint, a Fed pivot (or simply pausing on rate rises) will mark an important inflection point and should be a key catalyst in positive market trajectory, flows and liquidity. China continues to loosen its monetary policy to promote its own economic recovery, important for Resources demand.

Market Insights: Bear markets are always followed by bull markets

The S&P500 is having its 4th worst start to a year in its history, only eclipsed by 1932, 1940 and 1962). Despite extreme bearish sentiment, it is important to remember bear markets do end and are always followed by bull markets. Its increasingly likely that this bear market will be associated with a US recession - with the debate raging around whether it will be mild or deep (impacting the quantum and duration of the bear cycle). We remain open-minded and focussed on key drivers of both possible outcomes. The equity market is a forward discounting mechanism and history shows it tends to bottom for 4 months before a recession ends.

We have experienced 2 prior bear markets associated with recessions, in 2020 caused by the COVID-19 pandemic, and previous to Paragon, in the GFC. Whilst performance was similarly impacted in both cases, gross returns in excess of 200% were subsequently achieved (inside of 21 months), by remaining focussed on key equity market and stock catalysts.

Our themes and core stock picks continue to boast outstanding medium to long-term fundamentals. The electrification thematic has not gone away. Likewise, the undersupplied battery minerals secular bull cycles are setting up for an even stronger upswing when equity market flows return. Despite recession fears, Lithium prices are trading near all-time highs and major auto companies (more recently Ford and Stellantis) continue to make substantial investments upstream by funding Lithium developers globally. We remain extremely positive about the significant opportunities that lie ahead.

FUND POSITIONING & RISK METRICS

Fund Size	\$40.4m
Longs	11
Shorts	9
Net exposure	11%
Beta-adj net exposure/ Average (rolling 12mths)	-12%/73%
Gross exposure	59%
Cash	89%
Index Futures	0%
Correlation	0.55
% Positive Months	59%
Up/Down Capture	113%/91%
Liquidity (% saleable inside 10BD)	80%

UNIT PRICING

NAV (Mid-Price)	\$1.7911
Entry Price	\$1.7938
Exit Price	\$1.7884

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