



Paragon Australian Long Short Fund

JULY 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	-0.5%	-30.1%	-28.2%	-0.5%	-24.3%	-3.0%	+4.1%	+6.3%	+8.7%	+118.5%
ASX All Ordinaries Accum. Index	+6.3%	-6.6%	+0.7%	+6.3%	-2.6%	+12.7%	+4.9%	+8.4%	+7.9%	+103.7%
ASX Small Ords. Accum. Index	+11.4%	-9.9%	-6.6%	+11.4%	-10.9%	+8.6%	+2.6%	+7.3%	+5.4%	+63.6%

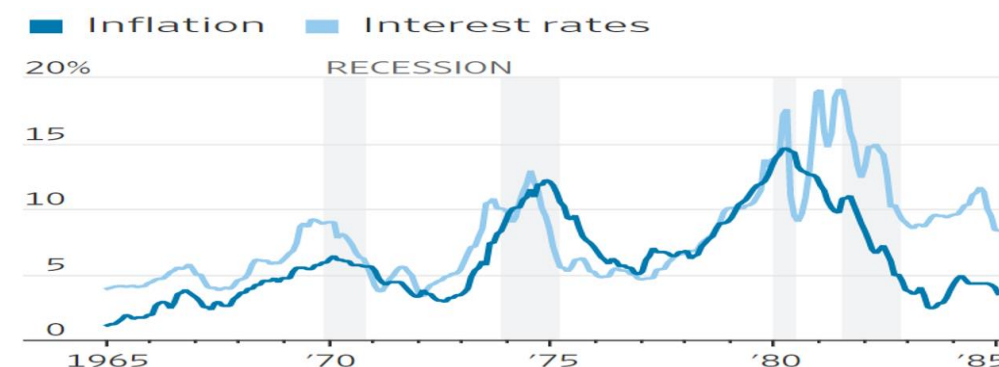
OVERVIEW

The Fund returned -0.5% after fees in July. Global Indices were all up from oversold levels following overly bearish sentiment: Nasdaq +12.5%; S&P500 +9.1% and Russell2000 +10.4%. Local Indices were also up: Small Ords AI +11.4% and All Ords AI +6.3%; with the ASX300 Resources AI down -0.5%. Concerns about China's growth contributed to a decline in commodity prices, which drove the underperformance of resource stocks. Our lithium holdings with the exception of Leo Lithium performed well but were offset by our base metals and gold holdings.

Following another high US inflation print at 9.1%, the Fed hiked the cash rate by 0.75% to 2.5% in July. Global markets rallied as the Fed's outlook comments were more dovish, with their future actions no longer on a pre-set path and to be economic 'data dependent'. Markets continue to price another two 50bps cash rate rises this year, with cuts starting in 2023. In our view, a Fed pivot is approaching near term, where resources and particularly precious metals should do very well.

Market Insights: Fed's expected pivot; Major EV growth commitments continue

As discussed last month, a **Fed pivot** (or simply pausing on rate rises) will mark an important inflection point and should be a key catalyst for positive market trajectory, flows and liquidity. The 1970s featured several abandoned 'rate hike' attempts by the Fed to bring down inflation as recessions took hold. US 2Q22 real GDP just printed a consecutive negative quarter at -0.8%, where like in the 1970s, the Fed is trying to balance recession risk (grey area below) with inflation risk.



Whilst most indices nor resources stocks don't go back to 1970s, large-caps BHP and RIO did. Although both stocks experienced high volatility, they rose by multiples, particularly in the big inflation years of 1978 - 1980.

On a micro level, **EV milestones** in July included: 1. US announced a ~\$370b climate and clean energy spending bill which includes a new EV tax credit of US\$4,000/vehicle plus an extension of the existing US\$7,500 tax credits for new EV purchases; 2. China also announced an extension to their new EV tax credits; 3. Latest industry estimates by benchmark suggest the battery industry needs to invest \$200b in EV gigafactories to meet the growing demand for EVs and energy storage by 2030; 4. Major EV growth commitments by the auto sector continues unabated; 5. EV sales in the US, whilst lagging China and the EU, have now exceeded 5% penetration – the threshold for mass market adoption; and 6. Despite broker reports calling for a collapse amid weakening macro, Lithium prices continue to rise due to very strong demand. It's very much early days in this thematic with a vast opportunity set of strong investments.

FUND POSITIONING & RISK METRICS

Fund Size	\$40.6m
Longs	19
Shorts	0
Net exposure	59%
Beta-adj net exposure/ Average (rolling 12mths)	48%/70%
Gross exposure	59%
Cash	41%
Index Futures	0%
Correlation	0.54
% Positive Months	58%
Up/Down Capture	110%/92%
Liquidity (% saleable inside 10BD)	75%

UNIT PRICING

NAV (Mid-Price)	\$1.6491
Entry Price	\$1.6516
Exit Price	\$1.6466

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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