



# Paragon Australian Long Short Fund

AUGUST 2022

[www.paragonfunds.com.au](http://www.paragonfunds.com.au)

*\*Since inception - 1 March 2013*

| PERFORMANCE DATA<br>(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)   | +3.7%   | -13.7%   | -13.3%   | +3.2%         | -36.6% | -5.8%       | +4.4%       | +5.6%       | +9.0%           | +126.6%           |
| ASX All Ordinaries Accum. Index  | +1.3%   | -2.4%    | +0.3%    | +7.7%         | -3.9%  | +11.4%      | +6.2%       | +8.5%       | +7.9%           | +106.3%           |
| ASX Small Ords. Accum. Index     | +0.6%   | -2.6%    | -6.1%    | +12.1%        | -14.7% | +5.1%       | +4.1%       | +6.9%       | +5.4%           | +64.5%            |

## OVERVIEW

The Fund returned +3.7% after fees in August. Global Indices were all down: Nasdaq -5.2%; S&P500 -4.2% and Russell2000 -2.2%. Local Indices were up: Small Ords AI +0.6% and All Ords AI +1.3%. Our Lithium holdings performed well with Canadian-listed Patriot Metals (PMET) the standout, offset by declines in Novonix, PointsBet and American Rare Earths.

Markets sold off in response to the Fed's hawkish comments about ongoing interest rate rises to combat inflation. Markets are currently pricing in a 75bps cash rate rise later this month. We continue to believe the Fed can only go so far in order to avoid a hard economic landing, before they pause (or pivot) which will set off a big market rally. Inventories across oil, base and battery-EV metals continue to be very low.

## Market Insights: PMET - Biggest and best hardrock Lithium discovery in the making

We have been early backers of several excellent Resource discoveries over the last 13 years that have risen by many multiples through both bull and bear markets. Many de-risked into world class assets, to be developed or taken over by majors. To name a few across EV metals - Orocobre memorable for its world class Lithium brine discovery at Olaroz in Argentina, with Toyota buying in and funding its development; Pilbara's hard-rock Lithium discovery in WA was another big winner through its discovery-delineation and its production growth phases; Kidman's hard-rock Lithium discovery in WA was even bigger and better than Pilbara's, with Lithium-major SQM buying 50% followed by Wesfarmers' takeover of Kidman; and Ioneer was another super-performer with its US-based Lithium discovery attracting Sibanye who acquired 50% to fund its development. Other memorable Resource discoveries for the Fund include Adriatic (Polymetallic), Chalice (Palladium) and DeGrey (Gold), all huge winners despite periodic weak macro. Finding even only one big discovery stock a year is fine by us.

PMET's hard-rock Lithium discovery in Quebec Canada should be the biggest and best of them all. We discovered PMET in February when trading at C\$0.62/sh (C\$80m fully diluted market cap), attracted to its huge and high-grade discovery assays starting from surface and its substantial footprint. At the time PMET was trading only on Canada's CSE exchange which was unfortunately not able to be accessed by the Fund. Once it commenced trading on Canada's TSX-V exchange in mid-July, we were able to buy in at ~C\$2.60/sh (~C\$300m cap). Our early orebody modelling suggested that PMET could delineate 100mt of 'mineable' resource. Today we think it could be double that, making it the biggest in the western world. And this is all happening amid record high Lithium prices. The USA is rapidly becoming another huge EV market with government incentives promoting battery-EV mineral developments with free-trade partner countries. Canada is showing great economic leadership supporting the multi-billion-dollar build out across its entire EV supply chain.

PMET boasts excellent infrastructure advantages, ideally located next to cheap hydro power, road and rail. Favourable metallurgy means capex and opex will be relatively low and we see the project as being readily funded with modest equity dilution. PMET will be pursued by many major auto's trying to lock in upstream supply to underwrite their large EV growth plans. PMET has recently attracted highly experienced Ken Brinsden, who previously took Pilbara from a small cap developer to a \$10b producer. Currently trading at ~C\$7/sh (~C\$1b), it's still early days in the stock's re-rate. We look forward to its ASX-listing later this year.

Various lower-quality development peers are capped at ~\$2.2-2.5b (Core, Sigma) to \$3-3.6b (Sayona, Liontown). Given PMET has a local 'integrated' development path to produce value-add Lithium chemicals, we believe it will de-risk into a \$4b+ company by its final investment decision milestone.

## FUND POSITIONING & RISK METRICS

|  |          |
|--|----------|
| Fund Size  | \$42.5m  |
| Longs  | 13       |
| Shorts   | 0        |
| Net exposure                                       | 58%      |
| Beta-adj net exposure/<br>Average (rolling 12mths) | 55%/66%  |
| Gross exposure                                     | 58%      |
| Cash   | 42%      |
| Index Futures                                      | 0%       |
| Correlation  | 0.54     |
| % Positive Months                                  | 59%      |
| Up/Down Capture                                    | 111%/92% |
| Liquidity (% saleable inside 10BD)                 | 88%      |

## UNIT PRICING

|                 |          |
|-----------------|----------|
| NAV (Mid-Price) | \$1.7100 |
| Entry Price     | \$1.7125 |
| Exit Price      | \$1.7074 |

## FUND FACTS

|  |  |
|--|--|
| APIR Code                                  | PGF0001AU  |
| Responsible Entity &<br>Investment Manager | Paragon Funds<br>Management Ltd  |
| Strategy                                   | Aust Equities L/S (long-bias),<br>Fundamental, Concentrated.<br>Global and unlisted permitted. |
| Objective                                  | >10% p.a. over 5yrs  |
| Structure                                  | Unit trust   |
| Domicile                                   | Australia  |
| Pricing/Applications/<br>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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