



Paragon Australian Long Short Fund

SEPTEMBER 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	-3.4%	-0.3%	-32.2%	-0.3%	-38.9%	-2.8%	+4.3%	+3.4%	+8.5%	+119.0%
ASX All Ordinaries Accum. Index	-6.4%	+0.8%	-12.2%	+0.8%	-8.6%	+9.6%	+3.1%	+7.1%	+7.1%	+93.1%
ASX Small Ords. Accum. Index	-11.2%	-0.5%	-20.8%	-0.5%	-22.6%	+0.5%	-0.8%	+4.1%	+4.0%	+46.1%

OVERVIEW

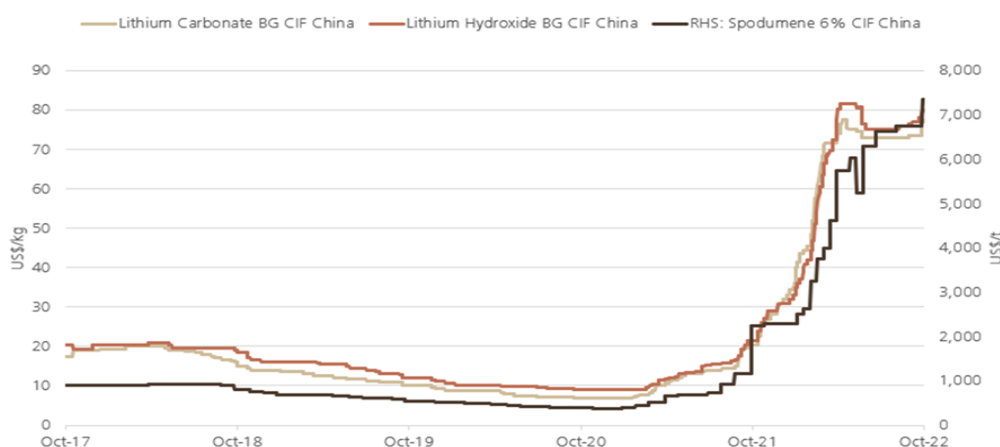
The Fund returned -3.4% after fees in September amid another volatile month globally. Global Indices were all down significantly: Nasdaq -10.6%; S&P500 -9.3% and Russell2000 -9.7%. Local Indices were also down: Small Ords AI -11.2%, All Ords AI -6.4% and Small Resources AI -13.5%. Lithium producer Pilbara performed well for the Fund but this was offset by declines in our Battery EV mineral developers.

Markets sold off heavily following the Fed's 16th of September FOMC meeting. Whilst the cash rate increase of 0.75% was expected, the Fed's hawkish outlook statement of further rises of up to 1.5% by the end of the year (to combat inflation) was 1% higher than previous guidance. The Fed wants to get the cash rate to core PCE inflation, which printed 4.9% in August compared with its peak in June at 5.4%. With US\$300T+ of global debt, we believe central banks can only go so far before something breaks. If/when it does, the Fed will intervene, driving a 'risk-on' rally.

Market Insights: Lithium prices break record highs in September

Despite all the global macro-led 'doom and gloom', Lithium prices continue to break record highs as a result of strong global demand and sustained industry deficits.

Chart 1: Hardrock Lithium Spodumene and battery-grade Lithium Chemical prices. Source: SMM, UBS



The Lithium sector's milestones and catalysts since [July's](#) update include: 1) Global EV sales growth rates continue to surprise to the upside. Monthly EV sales now ~900k/mth or >10m units/yr run rate for ~13% CY22 market share (vs 8% in CY21). Mass market adoption is underway; 2) China, the biggest EV market, extended EV subsidies by a year to the end of 2023; 3) Pilbara achieved a record auction result at a benchmark equivalent Spodumene 6.0% Li₂O price of ~US\$7,708/t, >50% higher than all industry forecasts. It's like Iron Ore's 2003-2011 super cycle all over again, but likely to be stronger; 4) Lithium major SQM confirmed product qualification is now taking only a few months and not 1yr+, as customers are desperate for product; 5) GW1 has sold 30% of its very early-stage Lithium brine project to EV major NIO at a US\$200m/A\$300m valuation. This illustrates just how desperate major EV autos are to lock in supply for their EV growth aspirations; and 5) RIO announced its intention to be a major vertically integrated battery-grade Lithium chemicals producer with a focus in Quebec Canada, where Patriot Metals' world-class Lithium discovery resides. Note RIO does not yet own any hard rock resources, making Patriot Metals a highly probable takeover target.

FUND POSITIONING & RISK METRICS

Fund Size	\$41.5m
Longs	17
Shorts	2
Net exposure	66%
Beta-adj net exposure/ Average (rolling 12mths)	68%/64%
Gross exposure	86%
Cash	34%
Index Futures	0%
Correlation	0.54
% Positive Months	58%
Up/Down Capture	111%/91%
Liquidity (% saleable inside 10BD)	88%

UNIT PRICING

NAV (Mid-Price)	\$1.6524
Entry Price	\$1.6549
Exit Price	\$1.6500

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