



Paragon Australian Long Short Fund

OCTOBER 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	-2.0%	-1.8%	-31.3%	-2.3%	-37.8%	-1.0%	+4.2%	+0.3%	+8.2%	+114.7%
ASX All Ordinaries Accum. Index	+5.7%	+0.2%	-6.5%	+6.5%	-3.5%	+11.6%	+5.2%	+7.5%	+7.7%	+104.0%
ASX Small Ords. Accum. Index	+6.5%	-4.9%	-14.4%	+6.0%	-18.3%	+3.5%	+1.5%	+4.2%	+4.7%	+55.5%

OVERVIEW

The Fund returned -2.1% after fees in October. Global Indices were up: Nasdaq +4% and S&P500 +8%. Local Indices were also up: All Ords AI +5.7% (led by strong moves in the Banks), Small Ords AI +6.5% and Resources AI +1.4%. Pilbara and Life360 performed well for the Fund, however they were offset by declines in Patriot Battery Metals, Red Dirt Metals and AJ Lukas (AJL). Despite the EU energy crisis and AJL's huge gas potential, we exited the position after a change in government saw the UK reimpose a moratorium on gas fracking. Outside of Lithium, Oil and Gas, commodity prices are being impacted by falling demand caused by China's lockdowns. We believe these will end soon, given their economy is suffering as a result.

Markets bounced in October, likely a function of overly bearish sentiment and positioning, coupled with dovish comments from a couple of Fed members on the forward path regarding US interest rates.

Market Insights:

A good contrarian indicator on markets is sentiment, which is currently extremely bearish and nearing GFC lows, as shown in red below. Against this is the S&P500 Index shown in green. Usually, when bearish sentiment is this low, it's typically getting close to a market bottom.

Chart 1: Sentiment overly bearish, near GFC lows; charted against S&P500 Index.



Source: Investor Intelligence

Paul Tudor Jones, one of the greatest macro traders of all time, believes the US recession 'officially' got underway in October. Historically recessions have averaged 10 months in duration. The equity market is a forward discounting mechanism and history shows it tends to bottom 4 months before a recession ends. This implies the current bear market could bottom in March 2023, where the best stocks can take off ~2 months earlier, say from January 2023. Whilst drawdowns and bear markets are painful in the short-term, bull markets are borne out of them. Further, the best returns are made in the first 2 years of recovery. Paragon is ready and looking forward to capitalising on this, as we did emerging from 2020's Covid-related bear markets.

FUND POSITIONING & RISK METRICS

Fund Size	\$40.7m
Longs	24
Shorts	6
Net exposure	69%
Beta-adj net exposure/ Average (rolling 12mths)	74%/65%
Gross exposure	100%
Cash	31%
Index Futures	0%
Correlation	0.54
% Positive Months	58%
Up/Down Capture	107%/90%
Liquidity (% saleable inside 10BD)	89%

UNIT PRICING

NAV (Mid-Price)	\$1.6198
Entry Price	\$1.6222
Exit Price	\$1.6173

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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