



Paragon Australian Long Short Fund

DECEMBER 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	-9.3%	-8.3%	-8.5%	-8.5%	-42.4%	-8.9%	+1.7%	-4.1%	+7.4%	+100.8%
ASX All Ordinaries Accum. Index	-3.3%	+8.8%	+9.6%	+9.6%	-3.0%	+6.9%	+5.8%	+7.2%	+7.8%	+110.0%
ASX Small Ords. Accum. Index	-3.7%	+7.5%	+7.0%	+7.0%	-18.4%	-2.3%	+1.4%	+2.9%	+4.7%	+57.1%

OVERVIEW

The Fund returned -9.3% after fees in December. Global Indices were down: Nasdaq -9% and S&P500 -6%. Local Indices were also down: All Ords AI -3.3% and Small Ords AI -3.7%. Our Lithium producers and developers were sold-off as Lithium spot prices corrected by 10%. The sector was impacted by Tesla falling -37% (-65% for 2022) which continues to drive sector sentiment despite its own unique set of issues and the rapid ramp-up of EVs across all car manufacturers.

Inflation continued to roll over from mid-year highs after the release of a softer US CPI for November. The Fed slowed their rate rises to 50bps in December as expected. Despite this, a 'risk-off' sell-off in global markets occurred, driven by Powell's hawkish guidance for more moderate rate rises and keeping them at restrictive levels until the Fed's inflation fight is done. China continued its gradual re-opening, resulting in iron ore and base metals having solid bounces off their lows. Gold and silver continued to perform on slowing rate rises and a falling US\$.

2022 in Review: Global bear market is now 1 years old

2022 was a painful year for the Fund returning -42.4% after fees, with the bulk of the damage done in the June Qtr. Global Indices were down: Nasdaq -34% and S&P500 -19%, in their worst year since the 2008 GFC. Local Indices were also down: Small Ords AI -18% and All Ords AI -3%, faring better thanks to outperforming Resources mega caps (such as BHP and RIO) and the Banks - which the Fund tends not to own. The Russian/Ukraine war, high inflation driving the fastest Fed tightening cycle in 40+ yrs, ongoing Chinese 'covid-zero' lockdowns and US recession fears made for a very challenging year.

A weakening macro hit our strong micro themes hard. With medium to long-term shortages expected across so many Resources markets, coupled with strong M&A particularly across the Lithium sector, we positioned the Fund in various tier 1 developers. Lithium prices did very well in 2022, rising over 100%, however this did not help our small and micro-caps who were hard hit amid the intense volatility throughout the year. Frustratingly, we got the call on commodities right, but it was not a 'buy and hold' market for concentrated long positions, rather, very much an aggressive 'trading' market. Our key winners in the year were Patriot, Pilbara and Woodside. These were more than offset by losses in Lithium Power, Mawson, Firefinch, Leo Lithium, as well as small caps across base metals. Given our constructive views and in turn net-long bias, our winning shorts didn't soften the blow.

Despite the havoc experienced in markets in 2022, the decade-long micro drivers supporting decarbonisation and electrification, with investment in the trillions, have not gone away. We strongly believe Resources will provide market leading opportunities, across battery-EV minerals, base metals, precious metals (central banks have stepped up their buying of gold) and 'old' energy. China's re-opening will see a much better 2023, given it is ~50% of demand in almost all commodities.

Bear markets do end and provide exceptional opportunities in the subsequent 1-2 years recovery. We look forward to capitalising on this. We will discuss the Fund's 2023 outlook and positioning in our upcoming webinar to be held on 18th of January.

FUND POSITIONING & RISK METRICS

Fund Size	\$40m
Longs	17
Shorts	0
Net exposure	63%
Beta-adj net exposure/ Average (rolling 12mths)	60%/65%
Gross exposure	63%
Cash	37%
Index Futures	0%
Correlation	0.54
% Positive Months	58%
Up/Down Capture	105%/95%
Liquidity (% saleable inside 10BD)	87%

UNIT PRICING

NAV (Mid-Price)	\$1.5156
Entry Price	\$1.5179
Exit Price	\$1.5133

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