



Paragon Australian Long Short Fund

JANUARY 2023

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	+13.1%	+5.8%	+4.0%	+3.5%	-25.3%	-1.9%	+5.3%	-1.4%	+8.6%	+127.2%
ASX All Ordinaries Accum. Index	+6.4%	+9.6%	+9.7%	+16.7%	+10.5%	+10.1%	+6.4%	+8.7%	+8.5%	+123.5%
ASX Small Ords. Accum. Index	+6.6%	+7.6%	+2.3%	+14.0%	-4.4%	+1.0%	+2.4%	+4.4%	+5.3%	+67.4%

OVERVIEW

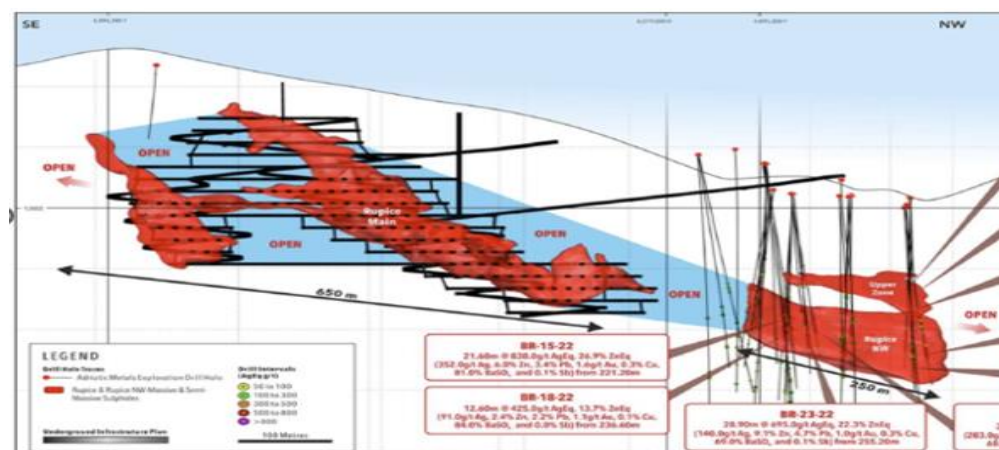
The Fund returned +13.1% after fees in January. Global Indices were up: Nasdaq +10.6% and S&P500 +6.2%. Local Indices were also up: All Ords AI +6.4% and Small Ords AI +6.6%. Patriot Battery Metals, Leo Lithium, Capstone and Resolute Gold performed well for the Fund, partially offset by declines in our precious metals stocks.

Inflation continued to roll over from mid-2022 highs, after the release of a softer US CPI for December. The Fed slowed their rate rises to 25bps in February as expected, guiding for more moderate rate rises throughout this year. We continue to believe a pause on rate rises is nearing. Previous major headwinds are turning into tailwinds, with the US\$ and credit spreads both rolling over. China's re-opening continues to be the biggest driver for Resources markets, with metals prices strengthening.

Portfolio insights: Patriot and Adriatic both surprising to the upside

Patriot Battery Metals' recent exploration updates to the north-east (NE) of its Corvette CV5 prospect have been truly exceptional, driving a strong ongoing re-rating to a \$2b+ stock. Its discovery is unquestionably world class. NE extensions are massive in terms of both grade and metres, and if they continue will quickly add material and highly economic resource tonnes. Our [previous](#) orebody estimates are likely to prove conservative. Corvette is a highly strategic discovery – likely the largest and highest-grade hard rock Lithium orebody in North America, proximal to infrastructure including cheap hydro power, boasting favourable government support and local to the US' huge EV growth market. We also note with interest, as reported in the [AFR](#), \$17b Mineral Resources has recently commenced buying Patriot on market.

Adriatic Metals has already been a big winner for the Fund, having owned it from the 20c IPO in 2018 until selling at near highs of ~\$3/sh in 2021, upon entering the 'boring and risky' funding and construction phases. We have kept a close eye on Adriatic's progress since, knowing it is set to generate strong free cashflows (FCF) of ~\$300m p.a. later this year, and given its exploration upside. We bought back in October 2022, as Adriatic discovered the NE extension of its high-grade orebody (red area shown on the RHS of long section diagram below). This adds ~40%, another 3-4 years of high-grade ore feed, and increases total mine life to ~12yrs. Importantly, the NE extension remains open and likely to add several more years of production. [Project development](#) is fully funded, on time and on budget, impressive given the inflationary environment. Adriatic's modest market cap of ~\$900m implies ~3x FCF vs peers on 6-8x.



FUND POSITIONING & RISK METRICS

Fund Size	\$45m
Longs	29
Shorts	5
Net exposure	108%
Beta-adj net exposure/ Average (rolling 12mths)	97%/66%
Gross exposure	153%
Cash	-8%
Index Futures	0%
Correlation	0.55
% Positive Months	58%
Up/Down Capture	108%/95%
Liquidity (% saleable inside 10BD)	88%

UNIT PRICING

NAV (Mid-Price)	\$1.7170
Entry Price	\$1.7144
Exit Price	\$1.7118

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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