



# Paragon Australian Long Short Fund

MARCH 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	+1.1%	+1.7%	-6.7%	-7.0%	-36.8%	-11.0%	+14.6%	-1.9%	+7.3%	+104.2%
ASX All Ordinaries Accum. Index	-0.2%	+3.6%	+12.7%	+13.6%	-1.1%	+6.9%	+17.3%	+8.8%	+8.0%	+117.6%
ASX Small Ords. Accum. Index	-0.7%	+1.9%	+9.6%	+9.0%	-13.2%	-2.4%	+13.2%	+3.9%	+4.8%	+60.1%

## OVERVIEW

The Fund returned 1.1% after fees in March. Global Indices were up: Nasdaq +9.5% and S&P500 +3.5%. Local Indices were down: All Ords AI -0.2%, Small Ords AI -0.7%. Resolute Gold and Adriatic performed well for the Fund, offset by a decline in Patriot. Global markets were volatile in March as a result of two sizeable US bank failures. Fear of contagion saw a run on some regional US banks. Credit Suisse, which has been in trouble for the last decade, had a forced takeover for a nominal amount by UBS. The escalating banking crises saw the US and Suisse Central Banks respond by securing deposits, providing guarantees and ample liquidity. This saw the US 2yr bond rate (which leads the cash rate) fall 80bps to 4.1%. The Fed raised rates by 25bps to 5% at its March FOMC, with the market rapidly moving to price in 100bps of rate cuts in 2H-CY23. The US\$ fell, sending gold higher. Lithium prices continued their correction off November highs, with majors using the short-term weakness to pursue M&A.

### Portfolio insights: Lithium M&A heats up on two Spodumene developers

US-listed Albemarle, the world's largest Lithium company, made an unsuccessful cash offer of \$5.5b for developer Lontown, its third bid in five months. Lontown's hard rock Lithium project in WA has a resource of 156mt at 1.4%, the bulk of which is underground, and its proposed mining method has never been done before. Its less favourable metallurgy adds several steps of floatation. Albemarle is clearly bullish on Lithium long-term and is seeing through Lontown's complexities and higher capex and opex. Sigma hit an all-time high market cap of \$6b after speculation of it also being a takeover target. Sigma's hard rock resource in Brazil is 86mt at 1.4% Lithium. Both companies' projects are in construction, with Sigma's now entering its commissioning phase. As highlighted in yellow below, Lontown and Sigma are trading on an enterprise value to resource tonne (EV/LCE) of \$1,132/t and \$1,761/t respectively, multiples higher than Patriot (estimated as \$406/t using Paragon's base case resource and \$266/t upside case). Patriot is earlier stage, with its maiden resource due out late 2Q23, but should trade at an EV/LCE premium, given its world-class orebody attributes including peer leading metallurgy and cheap hydro power (lower capex and opex). Further, its ability to feed a local refinery to produce battery-grade lithium hydroxide and proximity to huge US growth market are huge competitive advantages.

Hardrock Lithium Producers and Developers	Sayona Mining	Pilbara	Core Lithium	Lontown Resources	Sigma Lithium	Critical Elements Limited	Green Tech Metals	Global Lithium	Patriot Battery Metals	Patriot Battery Metals
Market Data	SYA AU	PLS AU	COX AU	LTR AU	SGML CN	CRE CN	GT1 AU	GL1 AU	base	upside
Ticker	Equity	Equity	Equity	Equity	Equity	Equity	Equity	Equity	PMET CN	PMET CN
Reporting Currency	AUD	AUD	AUD	AUD	CAD	CAD	AUD	AUD	CAD	CAD
Share price	0.20	3.69	0.81	2.59	51.28	2.32	0.70	1.40	12.22	12.22
Basic O/S (m)	9,000	3,117	1,865	2,210	104	217	275	270	134	134
Market Cap (\$m)	1,755	11,502	1,501	5,724	5,307	503	193	378	1,637	1,637
Enterprise Value (\$m)	1,679	9,502	1,401	6,190	5,322	473	163	302	1,577	1,577
Project Data										
Project	Abitibi Hub	Pilgangooro	Finniss	Kathleen Valley	Grota Do Cirilo	Rose	Seymour / Root / Wise	Manna	Corvette	Corvette
Asset Ownership	75%	100%	100%	100%	100%	100%	80%	100%	100%	100%
Location	Canada	Australia	Australia	Australia	Brazil	Canada	Canada	Australia	Canada	Canada
Status	DFS	Production	DFS + SS	DFS	FS + PFS	DFS	Drilling	SS	Canada Drilling	Canada Drilling
Resources (Mt)	100	300	20	156	86	31	10	32	131	200
Li grade (%)	1.05%	1.10%	1.32%	1.40%	1.43%	0.99%	1.16%	1.10%	1.20%	1.20%
Resources (Mt LCE) - attributable	1.94	8.14	0.65	5.39	3.02	0.77	0.23	0.87	3.88	5.92
Throughput (kt)	2,000	4,000	1,000	4,000	1,500	1,400	2,000	4000	4000	4000
Project Life (yrs)	18	18	10	23	13	17	10	10	33	50
Metallurgy	Complex	Complex	Good	OK	Good	Good	OK	OK	Great	Great
EV/LCE Resource (attributable) US\$/t	\$596	\$805	\$1,484	\$792	\$1,214	\$425	\$491	\$240	\$280	\$184
EV/LCE Resource (attributable) A\$/t	\$852	\$1,150	\$2,120	\$1,132	\$1,761	\$616	\$701	\$342	\$406	\$266

Note: Patriot base-case and high-case resource metrics are Paragon estimates.

Source: Paragon, Bloomberg, company data

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## FUND POSITIONING & RISK METRICS

Fund Size	\$40.9m
Longs	21
Shorts	0
Net exposure	89%
Beta-adj net exposure/ Average (rolling 12mths)	63%/65%
Gross exposure	89%
Cash	11%
Index Futures	0%
Correlation	0.55
% Positive Months	58%
Up/Down Capture	108%/101%
Liquidity (% saleable inside 10BD)	87%

## UNIT PRICING

NAV (Mid-Price)	\$1.5409
Entry Price	\$1.5432
Exit Price	\$1.5386

## 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