



Paragon Australian Long Short Fund

APRIL 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	+2.2%	-8.2%	-2.8%	-5.0%	-33.3%	-19.0%	+9.4%	-0.7%	+7.5%	+108.6%
ASX All Ordinaries Accum. Index	+1.8%	-0.9%	+8.5%	+15.6%	+1.5%	+5.8%	+14.5%	+8.4%	+8.1%	+121.4%
ASX Small Ords. Accum. Index	+2.8%	-1.7%	+5.8%	+12.1%	-9.4%	-3.5%	+9.2%	+3.9%	+5.0%	+64.5%

OVERVIEW

The Fund returned +2.2% after fees in April. Global Indices were up: Nasdaq +0.5% and S&P500 +1.5%. Local Indices were up: All Ords AI +1.8%, Small Ords AI +2.8%. ASX300 Resources AI was down -2.2% and Global Resources SPDR ETF was down -7.1%. Meteoric and our gold stocks performed well, offset by declines in Winsome, Sierra Rutile and Hartshead. The US\$ fell -1% with Gold +1% higher and Silver +4% higher. Oil was flat and Copper -5.5% lower. After significant falls off November highs, Chinese Lithium prices look to have bottomed, with futures +40% off their lows to US\$30,600/t – almost twice what the equities are discounting.

Portfolio insights: Rare earths / precious metals update

Meteoric has made a company-making acquisition with its Caldeira Rare Earths project in Brazil. Caldeira has scale. Its maiden resource at 409mt is already one of the largest ionic absorption clay (IAC) orebodies globally. We expect it to exceed 1bt given the size of their tenement holding (only ¼ of tenements drilled so far), the homogenous nature of mineralisation and very shallow drilling to date (<10m from surface; clay profile likely 25m). At 2,626ppm it is also the world's highest-grade IAC orebody. One of the key attractions to IAC projects is the much lower capex relative to hard rock peers (2-3x higher). Good metallurgy, low impurities and solid recoveries will mean outstanding project economics and a capex payback of <2yrs – a global standout. Brazil boasts a big mining industry and Caldeira's permitting path is favourable for a 5-10mtpa operation producing key rare earths NdPr of 3-5ktpa. For context, Lynas (market cap \$6b; 20x MEI's) produces 6ktpa of NdPr. NdPr prices have halved since November 2022. With demand expected to almost double by 2030 - driven by massive growth in renewables and electric vehicles - we expect NdPr prices to rise substantially to incentivise new supply. Caldeira will prove a strategic asset.

As discussed previously, a bull run is underway for precious metals. Gold closed at US\$1,990/oz and silver at US\$25/oz, excellent levels for our key stock picks. Whilst gold has closed over US\$2,000/oz on a daily and weekly basis in April, a monthly close over this level we believe will be significant. Gold and silver are under-owned and out of favour despite their strong relative and absolute performances since 2022. Rate pauses and then cuts have historically been very good for precious metals – particularly following the last two rate hike cycles. Central banks purchased record levels of gold in 2022 and China and Russia continued to buy large volumes in 1Q23. Gold M&A is underway with several transactions announced globally across small to large caps. Our stocks are performing well, reporting solid to strong 1Q23 updates. **Resolute's** (gold) turnaround has been impressive, with new MD Terry Holohan executing well on his strategy. He has improved production, getting costs under control, and delivering on substantial near-mine exploration upside. The company will be net cash in 2Q23, is producing free cashflows (FCF) of \$100m+ annualised and self-funding its growth. We have taken some profits with its share price doubling on our cost base. **Emerald** (gold) Okvau continues to produce 110koz+ pa at low costs and sector leading margins, whilst advancing Bullseye, its second high-grade project. **Adriatic** (silver) is having great exploration success which should add considerably to its high-grade mine-life. The stock presents as great value, with near term catalysts. Producing peers are trading at >2x Adriatic's CY24F FCF multiple.

FUND POSITIONING & RISK METRICS

Fund Size	\$41.5m
Longs	24
Shorts	0
Net exposure	108%
Beta-adj net exposure/ Average (rolling 12mths)	68%/64%
Gross exposure	108%
Cash	-8%
Index Futures	0%
Correlation	0.55
% Positive Months	58%
Up/Down Capture	108%/100%
Liquidity (% saleable inside 10BD)	85%

UNIT PRICING

NAV (Mid-Price)	\$1.5742
Entry Price	\$1.5765
Exit Price	\$1.5718

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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