Paragon Australian Long Short Fund

MAY 2023

www.paragonfunds.com.au

*Since	inception	-	1	March	201.
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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	+5.7%	+9.2%	-0.4%	+0.4%	-16.0%	-16.9%	+4.4%	+0.7%	+8.0%	+120.6%	
ASX All Ordinaries Accum. Index	-2.6%	-1.1%	-0.7%	+12.6%	+2.0%	+3.4%	+11.6%	+7.6%	+7.8%	+115.6%	
ASX Small Ords. Accum. Index	-3.3%	-1.3%	-2.5%	+8.4%	-5.8%	-5.2%	+4.5%	+2.5%	+4.6%	+59.1%	

OVERVIEW

The Fund returned +5.7% after fees in May. Global Indices were mixed: Nasdaq +7.6%, S&P500 +0.3% and Russell2000 -1.1%. Local Indices all fell: All Ords AI -2.6%, Small Ords AI -3.3% and Small Resources AI -7.1%. WA1, Leo Lithium, Patriot and Meteoric performed well for the Fund, partially offset by declines in PointsBet and our precious metals holdings. The US\$ rose +2.6%, with falls in Gold -1.4%, Silver -6.3%, Oil -8.7% and Copper -6.0%. Chinese Lithium prices continued their strong bounce, with futures +110% off their mid-April lows to ~US\$40,000/t. China's EV ownership is now 15m+ units, 4.7% of 319m vehicles in China, and growing rapidly.

Portfolio insights: WA1's Niobium discovery a 'company maker'

WA1 has made a rare Niobium discovery at Luni, located within its 100% owned West Arunta project in WA. Assays released in early May showed exceptional Niobium results, with both high-grade and thickness. The recently released step-out assays in early June have been a 'game changer' for two reasons. Firstly, they indicate even higher grades and wider widths over a growing footprint. Secondly, and importantly, mineralogy is conventional, meaning likely favourable metallurgy and recoverability of Niobium. Many niobium resources worldwide have not been exploited due to their complex metallurgy. For instance, Lynas' Mt Weld has 38mt at a grade of 1.1% Niobium but hasn't been mined even after a decade due to very low recoverability.

Niobium has numerous industrial applications, primarily as an alloying element in steel fabrication. Its increasing importance in industry and concentrated supply, with Brazil accounting for ~90% of global production from just two mines, positions Niobium as a 'critical mineral' to both the US and EU. The global Niobium market is ~100ktpa, with ~ 85% of it sourced from CBMM's high-grade Araxa mine in Brazil, at a grade of ~2.5%. With Niobium prices >US\$30,000/t, Araxa is highly profitable. Deglobalisation has driven countries to seek alternative secure supply sources.

Based on our estimates, WA1 has already delineated a high-grade Niobium resource of ~20mt with a grade of ~2%. Even a 1% grade would be strategic, as only five resources globally have grades exceeding 0.7%. Ongoing step-out drilling, awaiting assay results, suggests that the high-grade resource could potentially increase to over 40mt. This outcome would result in a tier 1 Niobium operation with a projected mine life of 40 years, at throughput of 1mtpa at a grade of 2% Niobium and 50% recovery, implying Ferroniobium production of 10ktpa. This would represent ~10% of the global market and is unlikely to impact Niobium prices. Luni's favourable metallurgy and shallow orebody attributes, along with benchmarking against operational peers, suggest that producing 10ktpa of Ferroniobium should yield margins exceeding 50%, leading to a base-case EBITDA of over \$250m. These strong economics would enable a capex payback of 2x. The market would likely ascribe a minimum EBITDA multiple of 10x. Considering the expected growth in Niobium demand, an upside case scenario could see production reaching 20ktpa, representing 20% of global demand and generating over \$500m in EBITDA. This implies a target unrisked EV range of \$2.5b to \$5b.

Despite WA1's re-rate to a fully diluted market cap of ~\$300m, its risk-reward profile remains attractive. We consider WA1 to be one of the most exciting discovery stocks since finding Patriot early in 2022. Furthermore, we have confidence in the founders, whom we know well and hold in high regard. They have strong equity alignment and are well-positioned to de-risk WA1's development path and maximise value.

FUND POSITIONING & RISK METRICS

Fund Size	\$43.6m
Longs	25
Shorts	0
Net exposure	108%
Beta-adj net exposure/ Average (rolling 12mths)	98%/68%
Gross exposure	108%
Cash	-8%
Index Futures	0%
Correlation	0.55
% Positive Months	58%
Up/Down Capture	108%/95%
Liquidity (% saleable inside 10	BD) 87%

UNIT PRICING*

NAV (Mid-Price)	\$1.6644
Entry Price	\$1.6669
Exit Price	\$1.6619

FUND FACTS

APIR Code		PGF0001AU		
Responsibl Investment	e Entity & t Manager	Paragon Funds Management Ltd		
Strategy	Aust Equ Funda Global a	uities L/S (long-bias), amental, Concentrated. and unlisted permitted.		
Objective		>10% p.a. over 5yrs		
Structure		Unit trust		
Domicile		Australia		
Pricing/App Redemptio	olications/ ns	Monthly		
Min. Invest	ment	\$25,000		
Min. Additi	ions	\$5,000		
Min. Reder	nptions	\$10,000		
Administra	tor	Link Fund Solutions		
Prime Brok	er/Custod	ian UBS		

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