



Paragon Australian Long Short Fund

JULY 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	-3.8%	+6.5%	-2.2%	-3.8%	+1.7%	-12.3%	-1.5%	+3.2%	+8.0%	+122.2%
ASX All Ordinaries Accum. Index	+3.0%	+2.2%	+1.3%	+3.0%	+11.1%	+4.0%	+12.2%	+7.7%	+8.2%	+126.4%
ASX Small Ords. Accum. Index	+3.5%	+0.2%	-1.5%	+3.5%	+0.8%	-5.3%	+5.9%	+3.2%	+4.9%	+64.8%

OVERVIEW

The Fund returned -3.8% after fees in July. Global Indices were up: Nasdaq +3.8% & S&P500 +3.1%. Local Indices were also up: All Ords AI +3.0%, Small Ords AI +3.5% and Small Resources AI +0.1%. Azure, Snowline Gold and Wildcat performed well for the Fund, however were more than offset by declines in Patriot, Solis and Berkeley. The Fed raised the cash rate by 25bps. Inflation continues to roll over, down to 2.9% from 9.1% a year ago. Gold rose +2.4% and Silver +8.7%. Lithium prices corrected -7% to -17%. Pleasingly the Fund has had a strong start to August.

Portfolio insights: Patriot proves world-class; Attracts Lithium major Albemarle

Patriot's Corvette project in Quebec has proven itself as a world-class hard rock Lithium discovery. It released its maiden resource at CV5-only with 109mt @ 1.42% Lithium grade for 3.8mt of contained Lithium. CV5 is all open-pit, boasting a favourable 6:1 strip ratio and excellent mineralogy only requiring dense media separation (DMS). CV5 is already the biggest in the Americas and 8th globally. We estimate that 1) ~25mt was omitted due to conservative pit constraints under a more stringent TSX-NI43101 standard (relative to ASX-JORC); and 2) another ~10mt was not included in shallow areas due to a lack of drilling up-dip from mineralized deeper ore zones. We also estimate another ~25mt already delineated at adjacent CV13. With these additions, we believe Patriot already has a resource of ~170mt, and importantly, is largely 'mineable'. Patriot's CV5 resource is still open in most directions, with exciting nearby walk-up drill targets at CV9, CV10, CV12, CV13 and CV8. We comfortably stand by our call from [a year ago](#) that 200mt+ is coming and likely in the near-term (see Figure 1 overleaf for comps growing over time). At a plant throughput assumption of 5mtpa, Corvette can do ~750ktpa of Spodumene production (vs ~600ktpa Pilbara; \$12b EV) over a huge likely 35yr+ mine life. CV5 boasts next to ideal orebody attributes, DMS-only processing, great metallurgy and with cheap local hydro power, means capital intensity and opex will likely be the lowest globally. Patriot subsequently announced raising C\$109m at a premium to Albemarle, the world's biggest Lithium company, with no product offtake given up. This represents a 4.9% of share on a fully diluted basis, with a 12-month standstill agreement whereby Albemarle cannot buy more or sell any shares. This illustrates Patriot's position of strength, whilst maintaining its strategic appeal to others. Corvette comfortably underwrites an integrated, large-scale refinery to produce Lithium Hydroxide. As part of the financing, Patriot and Albemarle will assess 'going downstream' over the next 9 months. While it's only a MOU for now, this should be another substantial value driver for the stock in time. You will recall our very successful Kidman investment, who's world-class discovery initially attracted a 50/50 JV with Lithium major SQM in 2017, with its 'integrated' downstream scope then attracting a \$780m takeover from Wesfarmers in 2019 for its remaining 50% share - and Lithium prices are up 6x since then. World-class projects are rare and do not stay independent for long. RIO, who continue to talk up their Lithium ambitions in Quebec, are seemingly narrowing in by farming in on nearby projects (Azimut and Midlands). The lacklustre share price response to both Patriot's maiden resource and Albemarle's financing is not surprising. Some fear the stock is going into the less desirable '2nd part of the Resource S-curve' (2RSC). Firstly, Corvette boasts excellent resource upside risk now that drilling activity has resumed after mass summer fires. Secondly, as we've said over the years, we will happily own a stock in the 2RSC where it has considerable growth, the commodity is in a bull market, the stock is attractively priced and has strong takeover likelihood. Patriot boasts all of these. Others fear Canada's perceived challenging permitting path, blankly pointing to extended timelines at both Allkem and Critical Element's Quebec-based Lithium projects also in the James Bay region. Firstly, Quebec is a solid mining jurisdiction with various base metals, gold and diamond mines permitted in the region. Secondly, Allkem's project has arsenic issues with their waste rock which is pervasive - hence their conditional permit. Critical Elements are wanting to put tailings in lakes given their less favourable mineralogy. They also have a major power line going through their property which supplies the US and needs to be moved by government. Both major challenges. Patriot boasts an unrisks NPV of ~\$10b for upstream-only using conservative inputs, compared to its current fully diluted market cap of \$2.15b. Figure 2 overleaf illustrates Patriot's attractive absolute and relative pricing. Well-aligned management has ample experience to de-risk and maximise value.

DISCLAIMER: This report has been prepared without taking account of your personal objectives, financial situation or needs and should not be relied upon as the basis of an investment decision. You should seek independent professional advice before making any decisions regarding the content of this report, including a decision to invest. The Product Disclosure Statement for the Paragon Australian Long Short Fund is available from our website. There is no guarantee against loss resulting from an investment in the Fund and past performance is not a reliable indicator of future performance.

FUND POSITIONING & RISK METRICS

Fund Size	\$44.5m
Longs	40
Shorts	-
Net exposure	147%
Beta-adj net exposure/ Average (rolling 12mths)	101%/81%
Gross exposure	147%
Cash	-47%
Index Futures	0%
Correlation	0.54
% Positive Months	58%
Up/Down Capture	106%/95%
Liquidity (% saleable inside 10BD)	84%

UNIT PRICING

NAV (Mid-Price)	\$1.6533
Entry Price	\$1.6558
Exit Price	\$1.6508

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

Figure 1: Growth of global hard rock Lithium discoveries 2015 to Nov 2022 showing many resources growing over time

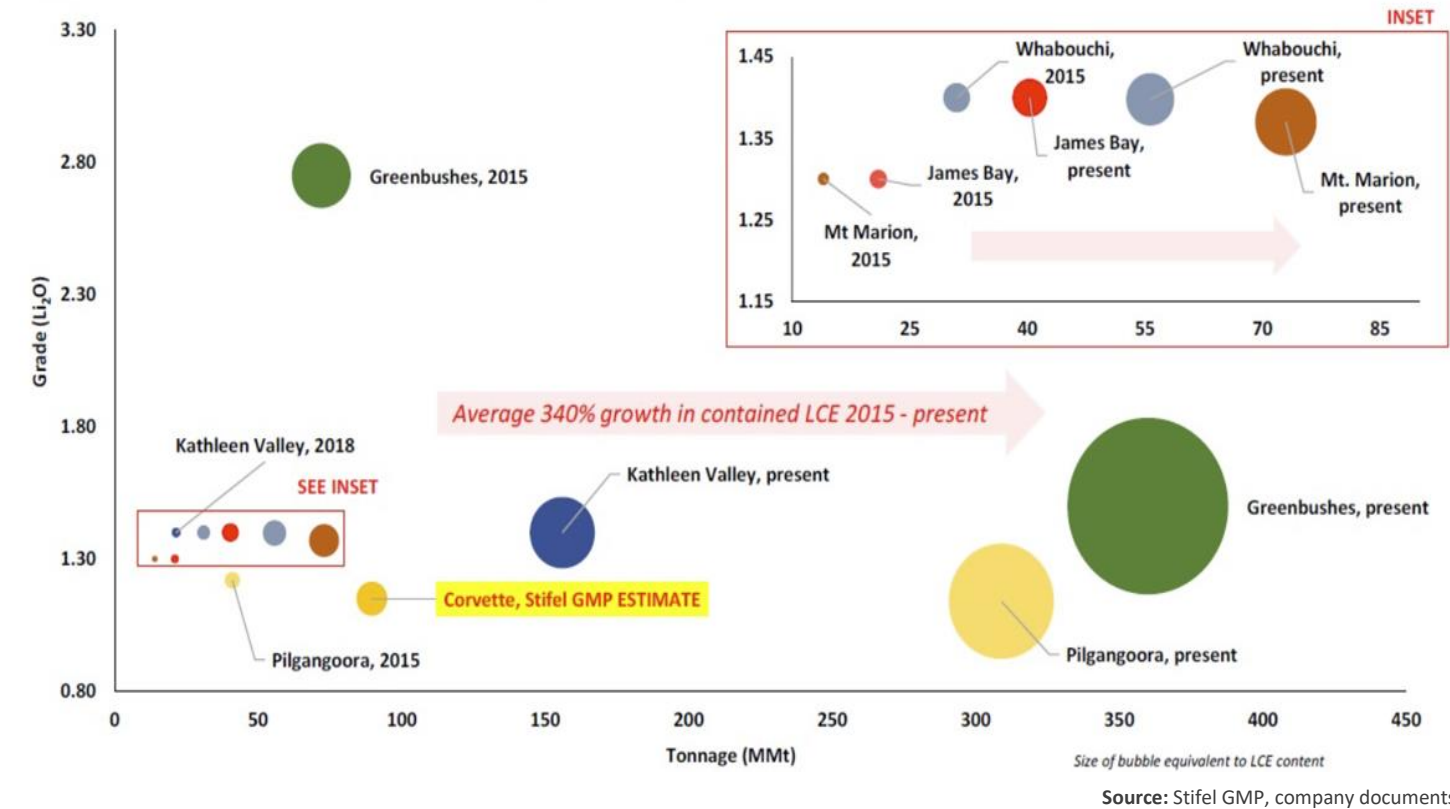
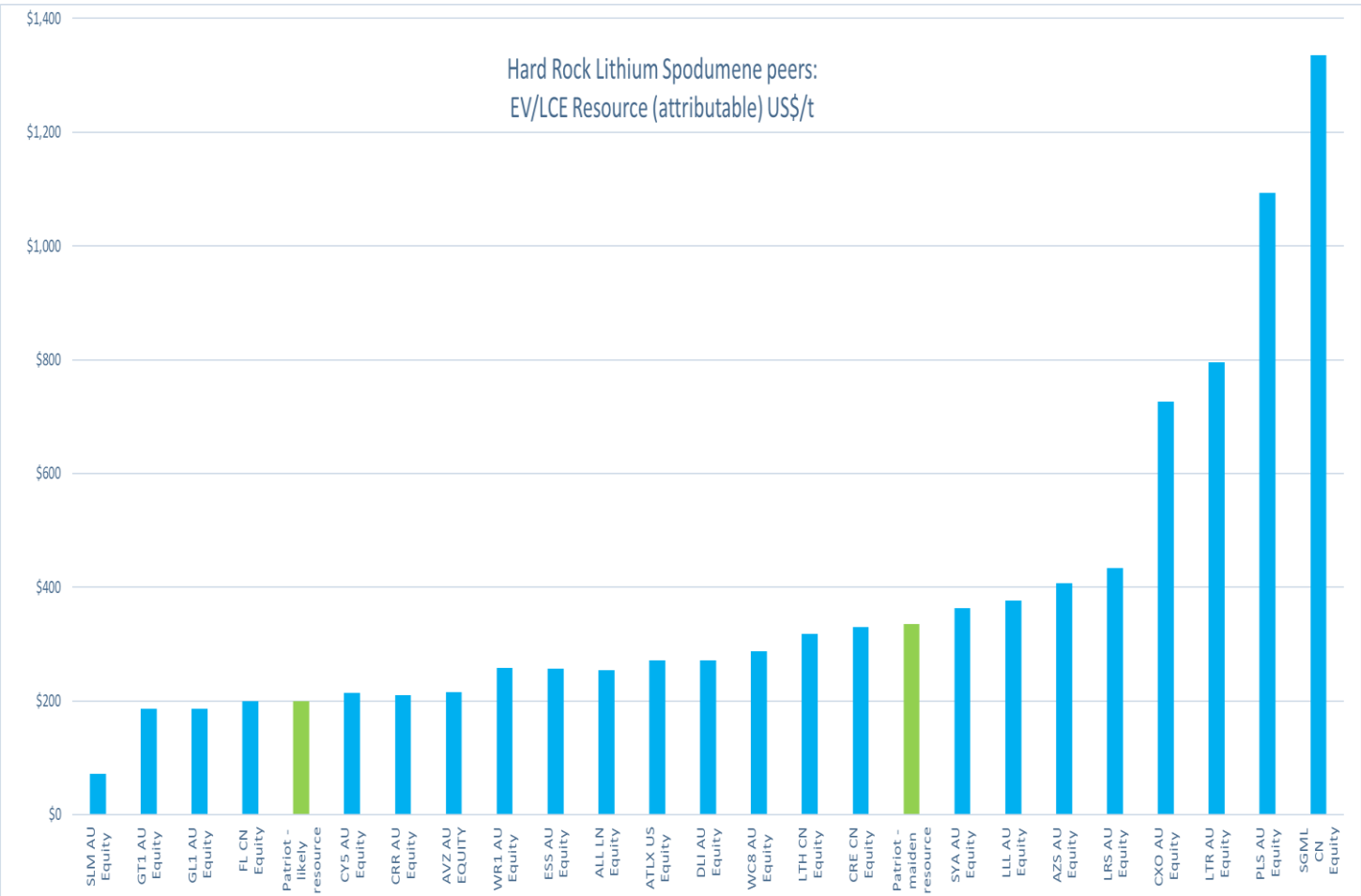


Figure 2: Hard rock Lithium peers – Enterprise Value (EV) / Lithium Carbonate Equivalent (LCE) Resource (attributable) in US\$/t

EV/Resource is a crude metric, as it does not cater for sovereign risk, metallurgy, capex, opex, etc. Nevertheless, it's a metric referred to by many in discovery stocks. Given Patriot is world-class, with low capital intensity and opex, it should trade at a premium.



Source: Paragon, Bloomberg, company documents