



Paragon Australian Long Short Fund

SEPTEMBER 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	-0.5%	-5.3%	+7.1%	-5.3%	-0.2%	-21.9%	-1.9%	+4.5%	+7.7%	+118.6%
ASX All Ordinaries Accum. Index	-2.8%	-0.7%	+0.3%	-0.7%	+13.1%	+1.7%	+10.8%	+6.8%	+7.7%	+118.3%
ASX Small Ords. Accum. Index	-4.0%	-1.9%	-2.5%	-1.9%	+6.8%	-9.0%	+2.6%	+1.7%	+4.3%	+56.1%

OVERVIEW

The Fund returned -0.5% after fees in September. Global Indices were down: Nasdaq -5.8%, S&P500 -5.0%, Russell2000 -7.1% and the Global Lithium Index fell -7%. Local Indices were also down: All Ords AI -2.8% and Small Ords AI -4.0%. Spartan, Surge, Lithium Power and Chalice (short; took profits) performed well for the Fund, but were offset by declines in Leo Lithium, Bravo and Lindian.

The Fed kept the cash rate unchanged in September, but ongoing hawkish rhetoric has markets pricing in one more hike. Yields continue to be the story, with the US 10-year rising to 4.8% (16-yr highs). Oil rose 6% whilst Uranium prices rallied +23%, breaking 12-yr highs. A strengthening US\$, up +2.5%, drove falls in Gold -4.7% and Silver -9.3%. Lithium prices declined -23% to US\$20,000/t (inventory destocking), now cutting into the cost curve of high-cost producers. Rare Earth prices were up +4% as China kept domestic mining and separation quotas for 2H-CY23 unchanged.

Portfolio insights: EV sales records; Lithium weakness met with Lithium M&A

China's EV sales are on track to hit a record high for the second consecutive month in September, estimated at +11% on August. China's BYD is set to overtake Tesla as the world's biggest EV seller after record sales in September, targeting to sell 3m in CY23 vs Tesla at 1.8m. Leaders BYD Auto and Tesla are >55% of the global EV market and BYD are guiding for 60% Chinese EV penetration in CY25. The US also hit an important milestone, selling 1m EV CY23td, ~10% penetration, with China leading at ~37% and Europe at ~24%.



EVs Everywhere

Year-on-year change in sales of electric, internal combustion and all passenger cars (new cars only)

Region/country	Electric	Internal combustion engine	All passenger car sales
Southeast Asia	235%	18%	20%
India	220	22	23
Japan	100	-7	-6
China	95	-5	10
Australia	90	1	3
US	50	-10	-7
Europe	17	-9	-4
Global	62	-4	2

Source: BloombergNEF Electric Vehicle Outlook 2023.

FUND POSITIONING & RISK METRICS

Fund Size	\$43.8m
Longs	39
Shorts	5
Net exposure	143%
Beta-adj net exposure/ Average (rolling 12mths)	90%/83%
Gross exposure	169%
Cash	-43%
Index Futures	0%
Correlation	0.54
% Positive Months	57%
Up/Down Capture	106%/93%
Liquidity (% saleable inside 10BD)	79%

UNIT PRICING

NAV (Mid-Price)	\$1.6269
Entry Price	\$1.6293
Exit Price	\$1.6244

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

Ongoing growth in EV penetration will absorb excess Lithium inventories, and demand growth will be met with supply challenges. Note a Lithium 'incentive price' is required to bring on new supply for an industry set to grow by multiples.

Lithium M&A continued with industry players looking through short-term cyclical weakness in the sector and taking advantage of depressed prices. **Lithium Power** confirmed an approach by Chilean Copper major Codelco who are a natural acquirer given their existing project JV on stage 2. We believe the stock is in play with the potential for competing bids given the outstanding quality and advanced nature of its asset. Mineral Resources is proceeding to acquire the hard rock Bald Hill mine in WA, over Glencore, where both are reported to have expressed interest at >\$1b. Whilst boasting existing infrastructure, existing resources are patchy and high cost. Gina Rinehart has acquired a \$1b ~15% blocking stake in Lontown, matching the \$3/sh \$6.6b takeover offer from Albemarle - implying a solid Spodumene price of ~US\$2,000/t. Car major Stellantis also acquired a 20% stake in Lithium brine developer Argentina Lithium.

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