



# Paragon Australian Long Short Fund

NOVEMBER 2023

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*\*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	+2.6%	+3.4%	+3.0%	-1.6%	+2.6%	-19.1%	+0.8%	+7.0%	+7.9%	+127.2%
ASX All Ordinaries Accum. Index	+5.2%	-1.7%	+2.4%	+0.5%	+1.7%	+2.4%	+6.9%	+9.0%	+7.7%	+120.8%
ASX Small Ords. Accum. Index	+7.0%	-2.9%	-0.7%	-0.8%	-3.2%	-8.8%	-0.5%	+4.0%	+4.3%	+58.0%

## OVERVIEW

The Fund returned +2.6% after fees in November. Global Indices were up: Nasdaq +10.7%, S&P500 +8.9%, Russell2000 +8.8%. Local Indices were also up: All Ords AI +5.2% and Small Ords AI +7.0%. Our gold holdings including Orabanda, Strickland and Spartan performed well for the Fund, partially offset by declines in our Lithium holdings and Meteoric.

The US Fed kept the cash rate on hold at November's FOMC meeting with inflation continuing to roll over. Markets are pricing in rate cuts of 1.25% over the next 12 months, with the first cut expected in March 2024. US 10yr bonds fell 60bps. Oil fell -5.3%. Uranium rose +9% to 12-yr highs. The US\$ fell -3.0%. Gold rose +2.7% to record highs, as well as rises in Silver of +10.6% and Copper of +4.9%. Lithium fell -26% and Rare Earths NdPr fell -5%.

## Portfolio insights: Orabanda de-risking towards the next \$1b+ Gold Producer

**Orabanda** is a gold producer led by new high-calibre management, delivering on their high-grade underground (UG) gold mining strategy across its Davyhurst operations in WA. Having had a chequered 20yr history prior, many were slow to appreciate its turnaround and strong growth prospects. In its 2015 IPO as Eastern Goldfields, Michael Fotios recognised the vast exploration potential and paid up acquiring and consolidating its sizeable land package. However, high debt levels and poor execution saw the business fail in 2018. A subsequent re-capitalisation saw the stock re-list with an improved balance sheet. But weak leadership and a flawed low-grade, low-scale open pit mining strategy saw the stock once again bleed cash and materially underperform. Having done well in Eastern Goldfields' IPO and selling before the 'truth telling' execution phase, we kept Orabanda on our watchlist.

In mid-2022, with the stock at zero credibility and trading at its market cap lows of ~\$50m, Luke Creagh joined as MD with a focussed high-grade UG mining strategy. Luke was previously COO at Northern Star, working under Bill Beament whose success he is keen to emulate. Luke is well aligned – signing on with a sizeable equity incentive package and acquiring a further \$1m in June 2023. Luke's execution to date has been excellent, doing everything he said he would do. He has driven the stock's turnaround from a <60koz pa loss-making producer to an expected 100koz+ pa gold producer with strong free cashflows (FCF) by FY25. Riverina is the 1st high-grade UG mine ramping up in 2Q24. Sand King is quickly de-risking as its 2<sup>nd</sup> UG ore source which could ramp up from early 2025 and take production to ~150koz pa. Both Riverina and Sand King boast solid exploration upside. Other brownfield exploration targets include Missouri and Callion. All exploration targets are local to the 1.2mtpa central Davyhurst processing plant, which can be expanded as additional ore sources are delineated and developed. Importantly, Orabanda is self-funding its growth. Despite the re-rate to ~\$450m fully diluted market cap, Orabanda remains undervalued, trading on a modest ~4x EV/FCF FY25F (less than half its ASX-listed peers) or ~2x FY26F at spot gold and FX. We believe it is well placed to outperform its entire ASX-listed gold producer peer group over a 1-2yr investment horizon.

Lastly, **Gold** closed November at US\$2,036/oz - it's first ever monthly close >US\$2,000/oz. This is important for the technicians and for money flows into the sector. Whilst an arbitrary level, the first-time gold achieved a monthly close over US\$1,000/oz (Sep 2009), it then rose a further +90% over the next 2 years. Central Banks continued their strong pace of buying of ~330t/qtr for the last 5qtrs, in effect putting a floor under the gold price.

## FUND POSITIONING & RISK METRICS

Fund Size	\$44.8m
Longs	36
Shorts	5
Net exposure	130%
Beta-adj net exposure/ Average (rolling 12mths)	98%/85%
Gross exposure	161%
Cash	-30%
Index Futures	0%
Correlation	0.54
% Positive Months	58%
Up/Down Capture	105%/90%
Liquidity (% saleable inside 10BD)	84%

## UNIT PRICING

NAV (Mid-Price)	\$1.6906
Entry Price	\$1.6932
Exit Price	\$1.6881

## 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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