



Paragon Australian Long Short Fund

DECEMBER 2023

www.paragonfunds.com.au

**Since inception - 1 March 2013*

PERFORMANCE DATA <i>(after fees)</i>	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	+7.7%	+11.9%	+6.0%	+6.0%	+21.8%	-16.2%	+0.4%	+9.9%	+8.6%	+144.7%
ASX All Ordinaries Accum. Index	+7.4%	+8.7%	+8.0%	+8.0%	+13.0%	+4.7%	+8.9%	+10.7%	+8.3%	+137.3%
ASX Small Ords. Accum. Index	+7.2%	+8.5%	+6.4%	+6.4%	+7.8%	-6.2%	+0.9%	+6.4%	+5.0%	+69.4%

OVERVIEW

The Fund returned +7.7% after fees in December. Global Indices were up: Nasdaq +5.5%, S&P500 +4.4%. Local Indices were also up: All Ords AI +7.4%, Small Ords AI +7.2%. WA1, Meteoric, Adriatic and our Copper holdings performed well for the Fund, partially offset by declines in Strickland and our Lithium holdings.

The Fed kept rates on hold for the third straight meeting in December as inflation continued to roll over. More importantly, the Fed dovishly pivoted on forward guidance, indicating no further hikes and signalling 3 rate cuts in 2024 (net 50bp lower than previous guidance), driving a global 'risk-on' rally. US 10yr bonds fell 40bps. The US\$ fell -2.1%. Gold rose +1.2% to record highs, yet Silver fell -5.8%. Oil fell -5.8%. Uranium rose +13.5%. Copper was up +1.6% amid supply risks. Lithium fell -19.5% and Rare Earths NdPr -8.3%.

2023 in Review: A frustrating year of '2 steps forward, 1 step back'.

The Fund returned +21.8% after fees for 2023. Global Indices were mixed: Nasdaq an outstanding +54% and S&P500 +24%; the Global Lithium Index fell -13% (masked by Tesla +101% vs Lithium majors -24% to -50%) and Precious Metals Indices up +1% to +8%. Local Indices were also mixed: Small Ords AI +8%, All Ords AI +13%, and the Small Resources Index -1%. US recession fears, macro headwinds including a hawkish 'high-for longer' Fed, as well as Chinese growth concerns (Shanghai Index was down -3.7%; 2nd consecutive negative year), made for a volatile and challenging year.

Our biggest exposure throughout the year was in battery minerals amid strong growth in China EV sales of ~37%. We underestimated the extent of the price falls in Lithium -82% (albeit off unrealistic highs) impacted by China inventory destocking, and Rare Earths -38% on increased Chinese supply quotas. Our stock picks comprised of Tier 1/world-class discovery and developer stocks, with outstanding fundamentals boasting strong takeover appeal. We did well investing early in big winners including Patriot (although it materially corrected despite Albemarle buying in near its highs), Wildcat, Azure and Lithium Power (both receiving takeover offers at substantial premiums). Emerging Lithium stocks including Winsome and Solis, however, were hit hard.

We got the call on Gold right, breaking all-time highs amid strong central bank buying, providing a solid tailwind to winners including Orabanda and Spartan (both turnaround/brownfield discoveries), Emerald, Adriatic and Resolute.

Our Copper picks Firefly and Capstone also did well. Other big winners include WA1 (outstanding Niobium discovery) and Meteoric (best Rare Earths project globally). Unfortunately, 'unforced errors' such as poorly timed or sized investments into discovery stocks that proved sub-scale/uneconomic, impacted the Fund's overall performance.

Given our constructive view for a market recovery, we maintained a predominant net-long bias throughout the year. Winning shorts in Chalice (very weak feasibility study metrics) and Aurizon were largely offset by others that went against us.

2023's performance was "ok", well short of returns we would expect to deliver post a bear market recovery. Nevertheless, we believe its ahead of us with prior year macro headwinds recently turning into tailwinds. The decade-long drivers supporting decarbonisation, electrification and deglobalisation, with investment in the trillions, continue to strengthen. We believe stock picks across precious metals, copper, energy and battery-EV minerals will provide strong returns. We will discuss the Fund's 2024 outlook and positioning in our upcoming webinar to be held on 18th of January.

FUND POSITIONING & RISK METRICS

Fund Size	\$48m
Longs	38
Shorts	4
Net exposure	147%
Beta-adj net exposure/ Average (rolling 12mths)	109%/90%
Gross exposure	179%
Cash	-47%
Index Futures	0%
Correlation	0.54
% Positive Months	58%
Up/Down Capture	105%/90%
Liquidity (% saleable inside 10BD)	85%

UNIT PRICING

NAV (Mid-Price)	\$1.8210
Entry Price	\$1.8238
Exit Price	\$1.8183

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