



Paragon Australian Long Short Fund

FEBRUARY 2024

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	-2.4%	-14.1%	-11.2%	-15.5%	-4.4%	-23.1%	-9.1%	+5.3%	+6.3%	+95.1%
ASX All Ordinaries Accum. Index	+1.2%	+9.9%	+8.0%	+10.4%	+11.5%	+5.2%	+8.6%	+9.0%	+8.4%	+142.6%
ASX Small Ords. Accum. Index	+1.7%	+10.1%	+6.9%	+9.2%	+8.6%	-3.0%	+1.2%	+4.5%	+5.2%	+73.9%

OVERVIEW

The Fund returned -2.4% after fees in February. Global Indices were mixed: Russel2000 +5.5%; Gold -5.6%, Uranium -9.4% and Lithium +10.4%. Local Indices were also mixed: All Ords AI +1.2%, Small Ords AI +1.7% and Resources -5.9%. Orabanda, Patriot and WA1 performed well for the Fund, but were offset by falls in Bravo, Meteoric and our Uranium holdings.

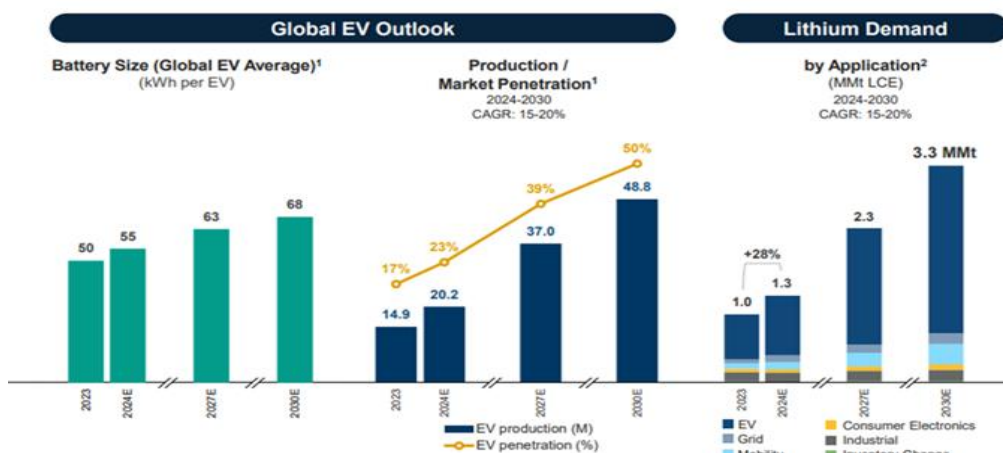
Market expectations for the 1st 2024 rate cut by the Fed were pushed back to June. US 10yr bonds and the US\$ rose +34bps and +0.9% respectively. Gold was unchanged but has since broken all-time highs. Oil rose +2.3% and Uranium fell -6.7%. Copper fell by -1.8%. Rare Earths NdPr price fell -9%. Lithium, and its key input Spodumene, both rose +9%.

Portfolio insights: Lithium recovery underway

Inventory destocking and Lithium surpluses (driven by supply growth outpacing demand growth in 2023), has driven bearish sentiment and a material decline in Lithium prices since November 2022. This continued into 2024 as Chinese New Year shutdowns coincided with a seasonally soft 1st quarter for China's EV market. The Lithium market grew to ~1mt in 2023, with the bulk of new supply coming from African spodumene and Chinese lepidolite – both surprising to the upside. Lithium prices have fallen to unsustainable levels, and based on our estimates, at least 25% of supply is losing money. Global EV sales are forecast to hit ~48m in 2030 (~50% penetration vs ~15% today), driving Lithium demand to ~3mt. See figure 1 below. That is an industry growing 3x its size this decade – unrivalled growth that requires 20x world-class Patriot's!

Figure 1. Lithium demand outlook

Source: Albemarle



We believe consensus is overly bearish at the bottom, based on a dated view of near-term supply exceeding demand growth. Consensus supply estimates for CY24 are ~1.4mt vs demand of ~1.25mt, for a ~150kt surplus. However, the supply side is changing rapidly. Supply curtailments in CY24 from high-cost loss-making operations, slowed expansions and unfunded development assets include: 1) Australian Spodumene production - Core (~12kt), Greenbushes (24kt), Mt Cattlin (4kt), Wodgina T3 (~30kt), Mt Holland (~20kt), Kathleen Valley (~20kt) = up to 100kt; 2) Nth and Sth American Spodumene - NAL (~20kt) and Grota do Cirilo (~20kt) = up to 40kt; 3) Argentina brines up to 20kt; 4) 'Non-integrated' high-cost African supply up to 50kt; and 5) Chinese Lepidolite (1/3 of the grade of Spodumene) up to 50kt. Collectively these are likely to reduce supply by up to 250kt in 2024, at a minimum bringing the Lithium industry back into balance. Lithium prices have bounced from their lows with the equities leading, typical price action early in a recovery.

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	\$38m
Longs	25
Shorts	0
Net exposure	127%
Beta-adj net exposure/ Average (rolling 12mths)	89%/89%
Gross exposure	127%
Cash	-27%
Index Futures	0%
Correlation	0.53
% Positive Months	58%
Up/Down Capture	96%/90%
Liquidity (% saleable inside 10BD)	76%

UNIT PRICING

NAV (Mid-Price)	\$1.4520
Entry Price	\$1.4541
Exit Price	\$1.4498

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