



Paragon Australian Long Short Fund

AUGUST 2024

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	+14.1%	+12.4%	+26.7%	+22.7%	+12.3%	+4.3%	-11.6%	+4.4%	+8.2%	+146.7%
ASX All Ordinaries Accum. Index	+0.4%	+5.0%	+6.3%	+4.3%	+14.7%	+11.8%	+6.3%	+8.4%	+8.6%	+157.8%
ASX Small Ords. Accum. Index	-2.0%	0%	+1.5%	+1.4%	+8.5%	+3.6%	-2.9%	+3.9%	+5.1%	+76.5%

OVERVIEW

The Fund returned +14.1% after fees in August amid a highly volatile month globally. Global Indices were mixed: Russell -1.6%, Nasdaq +1.1%, Lithium -3.5%, Copper -1.4%, Gold +1.8% and Silver -5.0%. Local Indices were also mixed: All Ords AI +0.4%, Small Ords AI -2.0% and Resources -2.9%. Ora Banda, Spartan and Andean Silver performed well for the Fund, partially offset by falls in Lotus and Patriot.

US inflation was lower again, with 4x rate cuts expected this year. The US\$ fell -2.3% and US 10yr bonds fell -13bps. Gold was +2.3% higher, another monthly record close at US\$2,503/oz. Falls occurred in Silver -0.5%, Copper -0.8%, Lithium -10% and Oil -2.4%. Central bank gold buying continued in July, adding 37t net, 2nd this year to January's 45t.

Portfolio insights: St Barbara a deep value play with a likely near-term catalyst

St Barbara has been hit with the perfect storm over the last 5 years. Problematic producing assets (Gwalia in WA and Atlantic in Canada), materially overpriced M&A (acquiring Atlantic and taking on too much debt), a failed sale process for Simberi in the PNG in 4Q22 (did not have key expansion project parameters de-risked – including metallurgy and process flow sheet, unknown capex and opex, resources and reserves not classified as 'mineable'; and gold was 34% lower at ~US\$1,650/oz), permitting delays in Canada, and poor leadership – resulting in the stock's collapse. Gwalia was sold a year ago for \$600m, clearing the company's debt. St Barbara is currently trading at a ~\$200m market cap, is no longer burning cash, and boasts deep value in its remaining assets.

The sum of its parts comprises: 1) Unrestricted cash of ~\$125m and \$130m in franking credits; 2) An investment portfolio trading for ~\$25m (royalties given zero value); 3) Atlantic, on care & maintenance, boasts 2moz of mineable resources and \$250m+ of plant and infrastructure. (Whilst the market is ascribing \$0m, we have valued conservatively at \$50m. A Federal election next year should see a new 'mining-friendly' government expedite permit approvals.); and 4) Simberi, producing ~70koz p.a. and now breaking even. Deducting the parts above implies the market is ascribing a mere ~\$50m in value for Simberi. We believe it's worth multiples of this and is where our primary interest lies.

Andrew Strelein, appointed MD a year ago, has had a clear mandate to realise value for St Barbara's remaining parts and has a solid equity incentive structure that is well aligned. Simberi's expansion has been the focus with key project parameters since de-risked. Its resources were recently upgraded to a huge 5moz, largely Measured and Indicated (M&I) and exploration upside is strong. Reserves were upgraded to 2.8moz. Metallurgy and the process flow sheet for a saleable concentrate with high recoveries of gold have also been de-risked. Feasibility studies for Simberi's expansion are underway, with early estimates indicating outstanding investment metrics (10yrs+ mine life at ~200koz p.a., NPV multiples of its US\$250m capex and ~12 months payback at spot gold). Given St Barbara's deep value, we expect Simberi to attract interest from larger gold companies, and particularly peers with operations in the Pacific region. These include Newmont (Lihir Gold Mine), Harmony Gold (Hidden Valley Mine), Zinjin & Barrick (Porgera Gold Mine JV) and K92 (Kainantu Gold Mine). The acquisitive Chinese, shut out of buying from many OECD jurisdictions, will likely also be interested. Several recent global gold M&A transactions have ranged from US\$100/oz to US\$400/oz. Ascribing a very conservative US\$50/oz on Simberi's 5moz M&I resources implies a valuation of US\$250m / \$400m. Should the market not re-rate St Barbara's share price to reflect fair value, we envisage management will pursue a lucrative sale of either Simberi or the entire company in the near-term.

FUND POSITIONING & RISK METRICS

Fund Size	\$47.2m
Longs	27
Shorts	2
Net exposure	143%
Beta-adj net exposure/ Average (rolling 12mths)	86%/88%
Gross exposure	151%
Cash	-43%
Index Futures	0%
Global (as % FUM)	31%
Unlisted (as % FUM)	8%
Correlation	0.52
% Positive Months	59%
Up/Down Capture	102%/88%
Liquidity (% saleable inside 10BD)	79%

UNIT PRICING

NAV (Mid-Price)	\$1.8491
Entry Price	\$1.8519
Exit Price	\$1.8464

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