



# Paragon Australian Long Short Fund

MAY 2022

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	-16.0%	+0.6%	-24.3%	-10.8%	-17.8%	+16.5%	+14.3%	+10.3%	+11.0%	+162.7%
ASX All Ordinaries Accum. Index	-3.1%	+2.7%	+0.2%	+2.1%	+4.7%	+16.7%	+8.5%	+9.3%	+8.4%	+111.3%
ASX Small Ords. Accum. Index	-7.0%	-3.6%	-11.0%	-7.4%	-4.6%	+10.0%	+5.5%	+8.5%	+5.8%	+68.9%

## OVERVIEW

The Fund returned -16.0% after fees in May due to another violent 'risk-off' sell-off. Global Indices were down materially intra-month then ending mixed: -1.7% (Nasdaq), 0% (S&P500) and 0% (Russell2000); Local Indices were down: -7.0% (Small Ords AI) and -3.1% (All Ords AI). Global markets once again encountered extreme volatility (90th percentile), this time from an increasingly hawkish Fed and Covid-driven lockdowns in China – both impacting equity market sentiment and flows. Stanmore performed well, however the bulk of our portfolio holdings were down.

In responding to high inflation, the Fed has been moving the goal posts for the past couple of months, signalling several more 50bps rate rises with rapid speed. Whether simply 'jawboning' as an attempt to break inflation psychology or their genuine intent, the Fed is rattling markets and making investing difficult in the short-term. If the Fed pivots, or simply pauses on rate rises at their September FOMC meeting as they recently intimated, then this could mark an important inflection point and positive trajectory in markets. In trying to support its economy impacted by lockdowns, and after months of rhetoric, China has since announced stimulus measures at ~2% of their GDP. Whilst small compared to previous downturns, this is expected to be followed by additional targeted stimulus. Note the lockdowns have started unwinding.

The S&P500 and Nasdaq have encountered 7 down weeks in a row for the first time in 21 years (just the fourth time we've seen such a streak since 1928), with the ongoing sell-off in Technology stocks intensifying. Despite strong fundamentals, once again Resources stocks are being used as a source of liquidity, causing their sell-off. We remind investors that we are concentrated, fundamental investors deliberately positioned in exceptional small and mid-cap stock picks. Whilst its painful seeing our names fall, flows/liquidity can quickly turn, driving rapid rebounds. We are confident of recovering from this drawdown in the near term as this sell-off proves to be cyclical in nature and our stock picks boast outstanding fundamentals.

Whilst some commodity prices have corrected, these have been only modest (base and precious metals), and others remain at or near all-time/52-wk highs (battery-EV minerals and 'old energy'). We firmly believe the Resources supercycle will continue as inventories remain at critically low levels and we're yet to see a big supply response.

## Portfolio Insight: Emerald Resources takes control of Bullseye Mining

Gold producer **Emerald Resources** has achieved a controlling interest in Bullseye (currently 59%) and is well placed to gain the balance in the near-term. Emerald will proceed to expand gold resources at Bullseye and develop their second producing asset. Bullseye is a rare undeveloped high-grade gold project in WA, likely to delineate >1moz of mineable high-grade gold supporting a second 100koz p.a. operation. Emerald boasts a first-class management and development team poised to build yet another mine on time and on budget. Emerald's Okvau producing asset is generating strong free cashflows of ~\$100m p.a. The company should be net cash in the next 2 months and able to self-fund Bullseye's development, meaning no need for external equity. Emerald's share price should in time double from current levels, and any rise in the gold price itself will be a bonus.

## FUND POSITIONING & RISK METRICS

Fund Size	\$51m
Longs	17
Shorts	8
Net exposure	68%
Beta-adj net exposure/ Average (rolling 12mths)	56%/82%
Gross exposure	111%
Cash	32%
Index Futures	0%
Correlation	0.53
% Positive Months	59%
Up/Down Capture	113%/86%
Liquidity (% saleable inside 10BD)	80%

## UNIT PRICING

NAV (Mid-Price)	\$2.1426
Entry Price	\$2.1458
Exit Price	\$2.1394

## 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