



PARAGON FUNDS MANAGEMENT

Perfect storm for a major move in gold

By John Deniz, CIO, Paragon

NWR Virtual Resources Conference
07 May 2020



Paragon Funds Management



The Manager

- + Founded and majority owned by John Deniz, CIO of the **Paragon Australian Long Short Fund**
- + John is a highly experienced stock-picker with an extensive background in Resources and Industrials
- + Strong alignment of interests, significant portion of our personal wealth is invested in the Fund, attracting the same fees

The Fund

- + Investment Strategy is Long Short Australian equities – predominantly Resources & Industrials
- + An all-cap and flexible mandate - completely index unaware
- + Investment Process is thematic-led (economic tailwinds) and fundamentally driven
- + Concentrated capital allocation into the best long and short ideas (risk-reward)

Key catalysts in place for major gold bull market



- + Very low bond rates (US 10yr bond's collapsing to 0.70%) and US real yields falling further negative (-0.43%)
- + US fed going “all-in” - unprecedented monetary stimulus:
 - + Cutting rates to zero; Initiating US\$4t of QE4 (already exceeding the GFC's combined QE1, 2 & 3)
 - + Fed's ever-expanding balance sheet at US\$7.8t - 38% of US GDP!
- + China, Europe & Japanese central banks have initiated similar massive fiscal and monetary stimulus
- + Unprecedented US fiscal stimulus of US\$2t (10% of GDP, double initial GFC response); another US\$1t on the way
- + Ballooning US twin deficits – currently 7% of GDP; will double this yr (hit 12% of GDP in 2011 when gold peaked)



Key drivers in play from previous epic Nov08-Sep11 gold bull run



- + US cash rates cut to zero (blue line)
- + US real rates collapsed (green line)
- + US 10yr bond rates fell 57%
- + QE1 Nov 2008
- + QE2 Nov 2010
- + US twin deficits blew out to 12% of GDP in 2011 when gold peaked
- + US\$ gold almost tripled (yellow line)

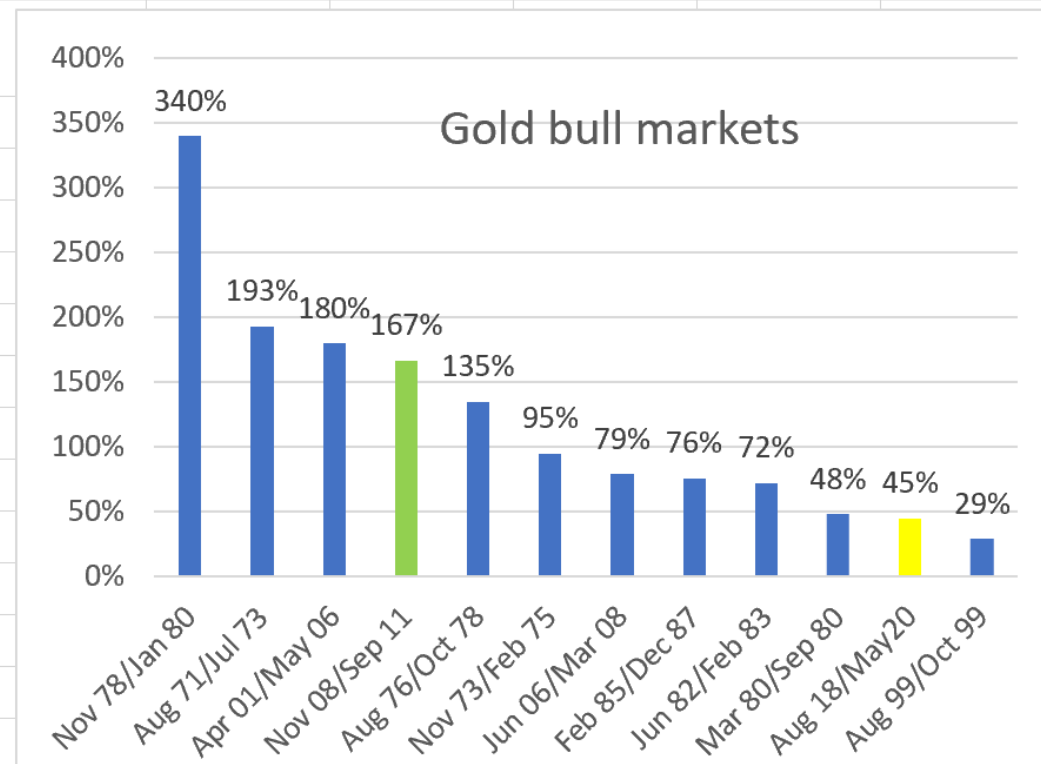


History repeats – GFC gold cycle (in green) a good analogue



Top 12 gold bull markets

Period	Chg in Gold	Chg in Gold Equities
Nov 78/Jan 80	340%	n/a
Aug 71/Jul 73	193%	n/a
Apr 01/May 06	180%	280%
Nov 08/Sep 11	167%	194%
Aug 76/Oct 78	135%	n/a
Nov 73/Feb 75	95%	n/a
Jun 06/Mar 08	79%	98%
Feb 85/Dec 87	76%	n/a
Jun 82/Feb 83	72%	n/a
Mar 80/Sep 80	48%	n/a
Aug 18/May 20	45%	85%
Aug 99/Oct 99	29%	36%
Average bull market	107%	



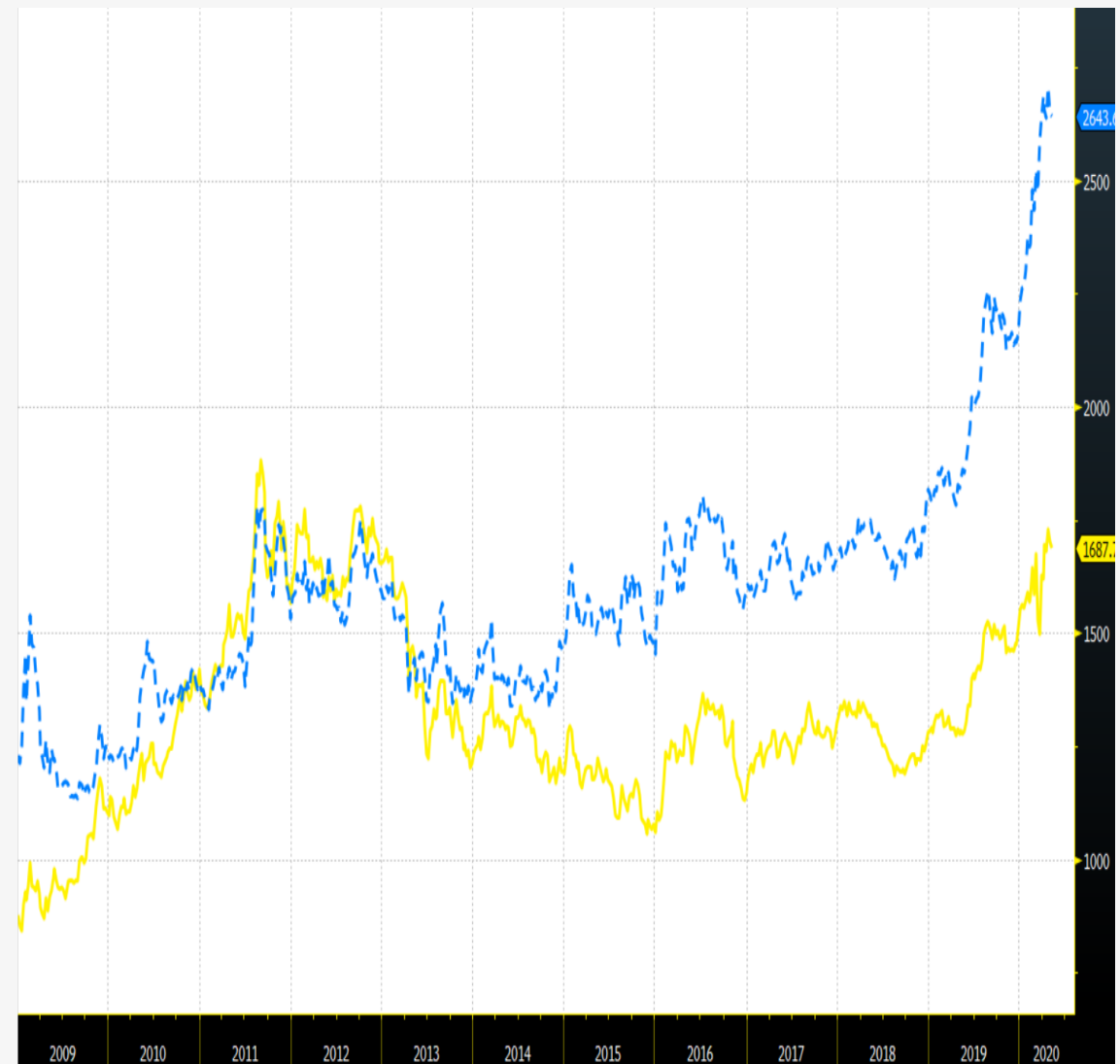
Source: Bloomberg, Paragon

+ We expect US\$ gold will break new all-time highs (US\$1,921 on 6 Sep 2011) in the short to medium-term

US\$ gold breaking 7-yr highs at US\$1,687/oz; A\$ gold record highs

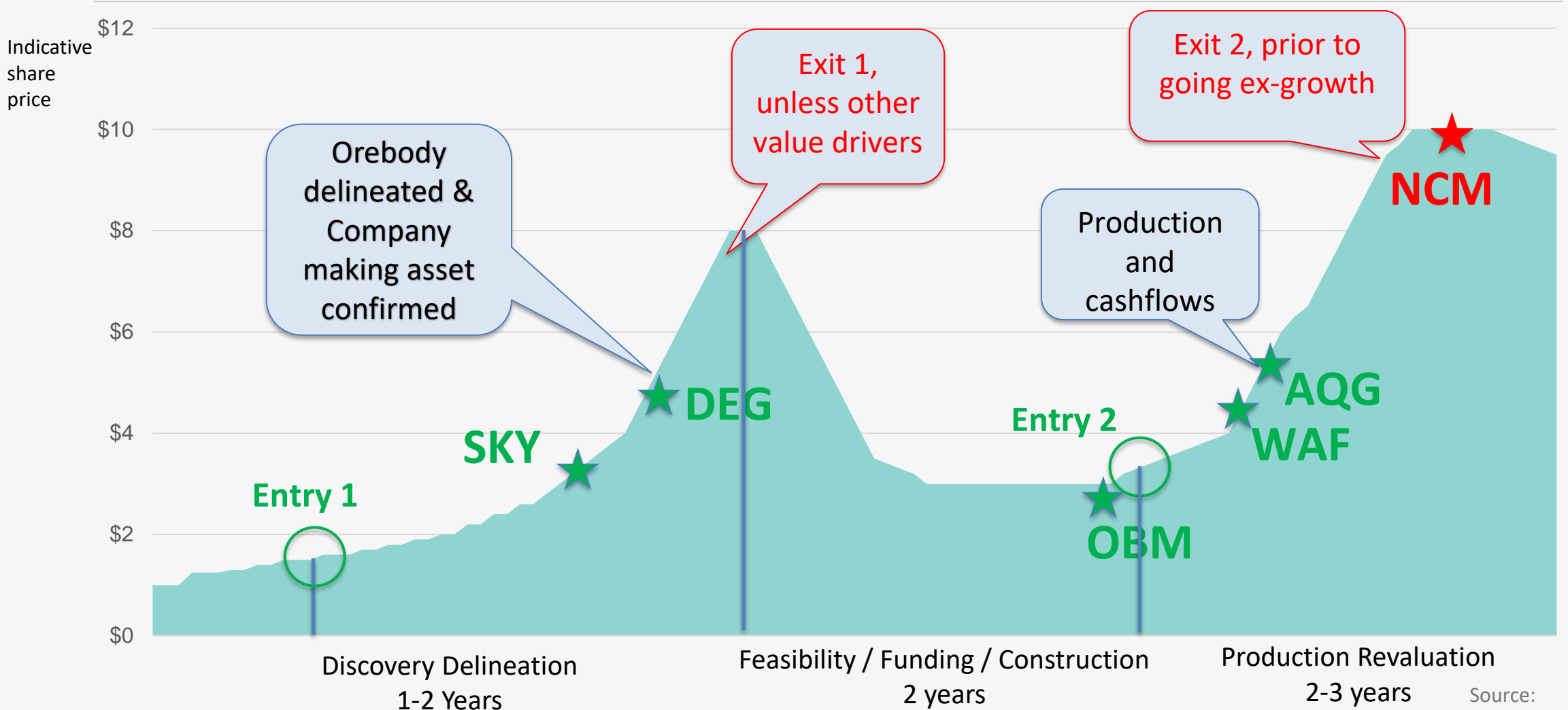


- + Massive tailwind for gold equities, particularly A\$ gold stocks
 - + A\$ gold (blue) A\$2650/oz at record highs
 - + Select stocks at >100% margins and generating strong free cashflows
- + Solid returns expected from attractively priced, unhedged, low-cost, mid and large cap producers
- + Biggest gains will come from delineation/discovery, emerging developers and high-cost leverage producers



Source: Bloomberg, Paragon

Share price life cycle of a high-quality Resources investment

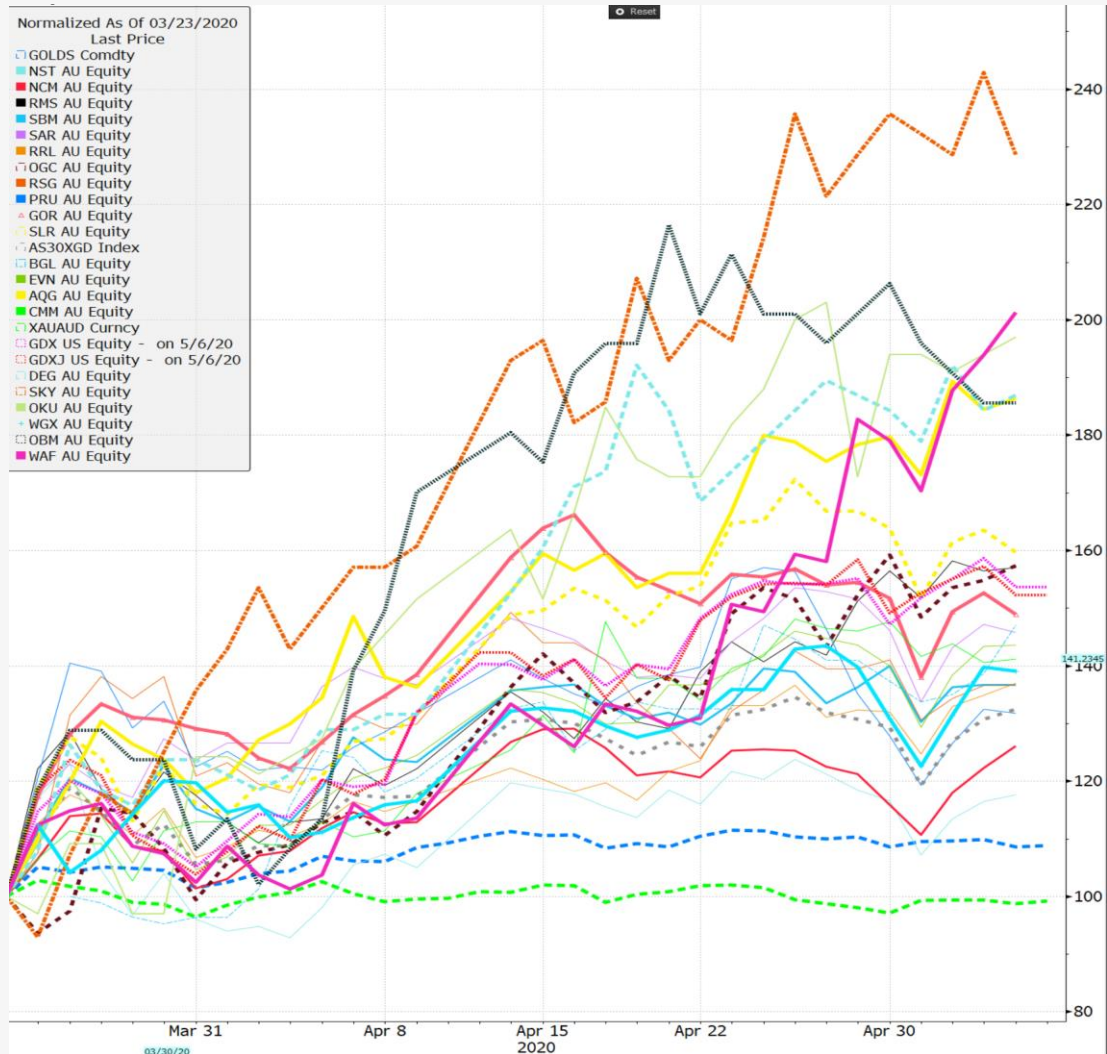


Source: Paragon



Paragon's gold stock picks across the spectrum

ASX gold peers relative performance since 23 mar 2020



- + AQG the standout large cap gold producer
 - + unhedged, low-cost, world class asset
 - + cheap at 6x FCF, net cash and generating \$350m+ p.a. of FCF.
- + WAF started producing from Sanbrado gold mine
 - + unhedged, \$300m+ FCF by end of FY21
 - + strong financial leverage, debt free by FY21 end
- + DEG prolific gold discovery at its Hemi prospect
 - + standout gold discovery-delineation play on the ASX
 - + already has delineated 4moz+ of gold (internal est.)

Best performers since 23 March 2020 SKY, WAF, OKU, DEG, OBM, AQG – Paragon long 5 of top 6

Source: Bloomberg, Paragon

Q&A



Biography



John Deniz, Chief Investment Officer

- + John has **23 years industry specific experience** – 15 years in financial markets (buy-side and sell-side senior roles) prior to establishing Paragon.
- + **Paragon Long/Short Fund** - as founder and major equity holder, John is CIO of Paragon which focuses on Resource and Industrial stocks.
- + **Eye Management**, global Resources hedge fund – John was a senior member of the investment team for 4 years, focused on Australian Long/Short equities component of the portfolio, delivering outstanding compounded returns. FUM grew from US\$37m to US\$85m during John’s tenure, largely performance driven.
- + John held senior positions as an **Engineer** in leading global organisations for 8+ years, including Jacobs and AMEC, designing and project managing various large-scale, greenfield projects across Asia Pacific and the EU.
- + John has an **MBA** from the Melbourne Business School, **BA Engineering (Mechanical)** (Hons) from the University of Melbourne, and has completed **CFA Level 1**.

Disclaimer



- + Paragon Funds Management is not providing any general advice or personal advice regarding any potential investment in any financial product within the meaning of section 766B of the Corporations Act.
- + No consideration has been made of any specific person's investment objectives, financial situation or needs. The provision of this presentation is not and should not be considered as a recommendation in relation to an investment in any entity or that an investment in any entity is a suitable investment for any specific person.
- + Recipients should make their own enquiries and evaluations they consider appropriate to determine the suitability of any investment (including regarding their investment objectives, financial situation, and particular needs) and should seek all necessary financial, legal, tax and investment advice.
- + Paragon, its directors and employees do not accept any liability for results of any actions taken or not taken on the basis of information in this presentation, or for any negligent misstatements, errors or omissions.
- + This presentation is not an advertisement and is not intended for public use or distribution.