

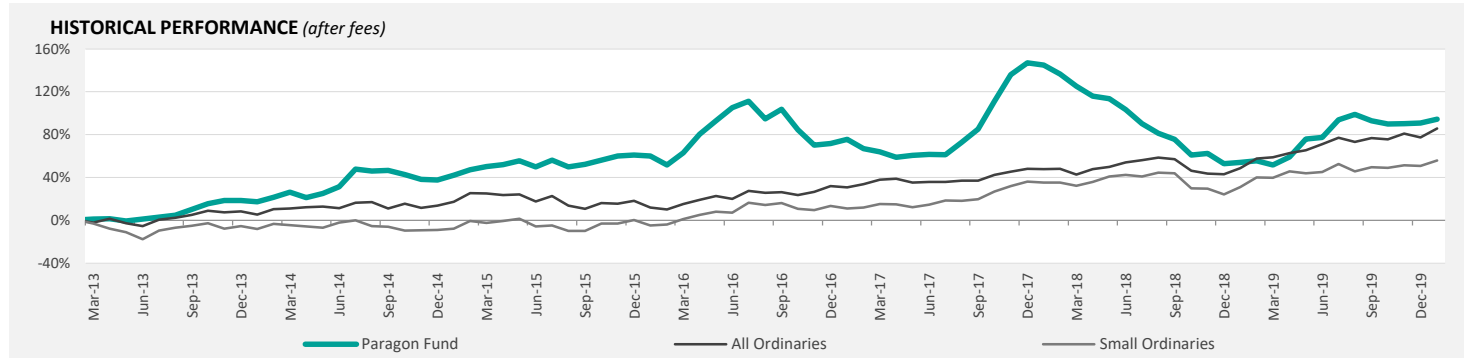


PARAGON AUSTRALIAN LONG SHORT FUND // January 2020

PERFORMANCE SUMMARY (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	+2.0%	+2.5%	+0.3%	+9.7%	+26.2%	-10.7%	+3.5%	+6.5%	+10.1%	+94.5%
ASX All Ordinaries Accum. Index	+4.7%	+5.9%	+4.9%	+8.5%	+25.0%	+12.2%	+12.4%	+9.7%	+9.4%	+85.7%
ASX Small Ords. Accum. Index	+3.4%	+4.7%	+2.9%	+7.5%	+19.0%	+7.4%	+12.2%	+11.2%	+6.6%	+55.9%

*Since inception 1 March 2013



FUND STRATEGY AND OBJECTIVE

An Australian equities long-bias long/short fund, fundamentally driven with a concentrated portfolio of high conviction stocks. The Fund’s objective is to return in excess of 10% p.a. after fees over a 5yr investment horizon.

OVERVIEW

The Fund returned +2.0% after fees for January. Positive contributors were PointsBet, Alkane and Xero. These were partially offset by declines in Alacer Gold (conservative CY20F production guidance) and Atrium.

January was a volatile month, with global markets initially hitting new highs, then selling off on the Coronavirus outbreak. The lethal virus put health authorities and in turn markets on high alert around the world. This volatility caused US 10yr yields to drop by -21% to 1.5% and US\$ gold to go up +5% to US\$1,589/oz, with A\$ gold closing at record highs at A\$2,365/oz. Recent volatility has also seen the market bring forward expectations for a 4th Fed rate cut in July 2020 (from December 2020), which bodes well for gold. Looking at 40 years of viral outbreaks including the 2003 SARS epidemic, markets were initially weak for 1-2 months, followed by a solid recovery over the next 6-12 months.

PORTFOLIO INSIGHTS – Tesla reignites the EV theme (yet again)

Tesla’s recent share price strength has been staggering. Only 8 months ago it was trading at 3-year lows at <US\$180/sh as the market and many vocal high-profile shorts talked of Tesla’s woes - production issues, demand concerns, threat of high-calibre EV competition, an over-indebted balance sheet, liquidity risks and potential insolvency. We have repeatedly said we would never bet against Elon Musk and Tesla, and in any case, do not like to bet against a company with such a significant short interest.

Typically, when so many are positioned one-way, the opposite will happen. eg. Fortescue was heavily shorted back in 2015 and was supposedly going to zero on the short bear-case narrative that Iron Ore would fall well under marginal cash-cost of production, causing Fortescue to drown in its over-indebted balance sheet. We certainly didn’t hold this view as previously written about. How wrong the short bear-case was with FMG up >5x since! Tesla too has destroyed the shorts, rising to US\$734/sh (US\$130b market cap), up 4x in 8 months.

The weight of money is starting to take a view on Tesla’s bull-case which continues to strengthen, providing a major catalyst for the EV supply chain. Tesla’s Model 3 pre-sales event in May 2016 proved a major catalyst for EV battery minerals Lithium and Cobalt, which the Fund was very well positioned in. The Lithium price in our view is likely bottoming, as the industry has either curtailed, shut-in, delayed or mothballed over 450kt of Lithium capacity; equivalent to next year’s expected Lithium market size. Further, whilst inventory de-stocking has put pressure on Lithium spot prices, it has pushed prices to below the marginal cash-cost of production which is unsustainable and likely nearing an end. China EV subsidies have not been cut further as many had feared, setting up for what we believe is a strong medium to long-term period of battery minerals demand, driven by an exciting period of strong EV adoption (at present only 2% market penetration).

With the entire auto industry rapidly moving towards full EV-fleets as fast as they can, it’s clear that strong demand for battery minerals is coming and the return of deficit markets in the medium-term. Prices for key battery ingredients including Lithium, Cobalt, Nickel and Copper will need to rise to ‘new-supply’ incentive pricing, which will prove to be yet again the tailwind for sustainable re-rates in the underlying equities.

Having successfully invested in these sectors for over 10 years, we know the thematic well and the preferred equities with the best reward vs risk.

FUND POSITIONING & RISK METRICS

Fund Size	\$35.2m
Longs	22
Shorts	5
Net exposure	122%
Gross exposure	149%
Index futures	0%
Cash	-22%
Beta-adj net exposure/ Average since inception	71%/70%
Correlation	0.4
% Positive Months	61%
Up/Down Capture	75%/39%

UNIT PRICING – LEAD SERIES

NAV (Mid-Price)	\$1.8066
Entry Price	\$1.8093
Exit Price	\$1.8039

FUND FACTS

APIR Code	PGF0001AU
Responsible Entity & Investment Manager	Paragon Funds Management Ltd
Strategy	Aust Equities L/S
Objective	>10%p.a. over 5 yrs
Structure	Unit trust
Domicile	Australia
Pricing/Applications/ Redemptions	Daily
Min. Investment	\$25,000
Min. Add/Redemptions	\$5,000/\$10,000
Administrator	Link Fund Solutions
Prime Broker/Custodian	UBS

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