PARAGON FUNDS MANAGEMENT

THE PARAGON FUND // APRIL 2016

PERFORMANCE SUMMARY *(after fees)*

	1 month	3 month	6 month	Financial YTD	1 year	2 year p.a.	3 year p.a.	Net Return p.a.	Total Net Return
Paragon Fund	+10.8%	+12.9%	+15.6%	+20.5%	+18.7%	+21.9%	+21.2%	+20.5%	+80.4%
ASX All Ordinaries Acc.	+3.2%	6.5%	+2.7%	+1.3%	-3.1%	+3.0%	+5.4%	+5.6%	+19.0%
RBA Cash Rate	+0.2%	+0.5%	+1.0%	+1.5%	+2.0%	+2.3%	+2.4%	+2.4 %	+7.8%

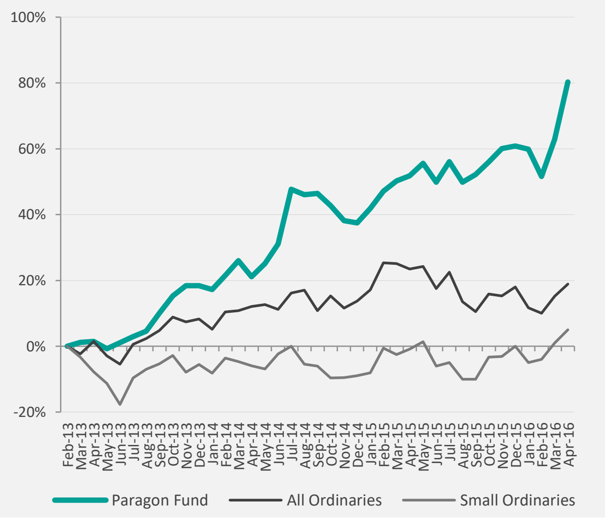
RISK METRICS

Sharp Ratio	1.3
Sortino Ratio	2.9
Volatility p.a.	+13.2
% Positive Months	+71.1%
Up/Down Capture	96% / -1%

FUND DETAILS

NAV	$1.6978
Entry Price	$1.7003
Exit Price	$1.6953
Fund Size	$44.7m
APIR Code	PGF0001AU

HISTORICAL PERFORMANCE *(after fees)*



FUND STRATEGY

The Paragon Fund is an Australian equities long/short fund established in March 2013. The Fund's strategy is fundamentally driven, concentrated and transparent for investors. The manager's research process and active portfolio management is overlaid with strong risk management and a focus on capital preservation.

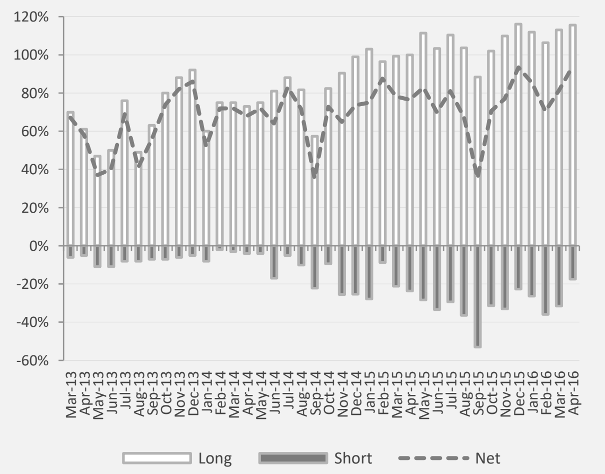
The objective of the Paragon Fund is to return in excess of 10% p.a. after fees over a 3-5yr investment horizon.

OVERVIEW & POSITIONING

The Paragon Fund returned +10.8% after fees for the month of April 2016. Since inception the Fund has returned +80.4% after fees vs. the market (All Ordinaries Accumulation Index) +19.0%.

Key positive contributors for April included longs in our lithium holdings ORE, GMM, GXY & PLS, our oil holdings STO & ORG, our gold holdings including NCM and SBM, and various Industrial holdings including LNK, YOW, NAN and NTC. At the end of the month the Fund had 34 long positions and 9 short positions.

HISTORICAL EXPOSURE



INDUSTRY EXPOSURE	Long	Short	Net
Resources	+60.2%	0.0%	+60.2%
Industrials	+43.3%	-14.4%	+28.9%
Financials	+7.9%	-3.1%	+4.9%
Index Futures		0%	0%
Total	**+115.5%**	**-17.5%**	**+94.0%**
Cash			**+6.0%**

MONTHLY PERFORMANCE BY YEAR

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2013			1.1%	0.3%	-2.2%	1.8%	1.8%	1.6%	5.3%	4.9%	2.8%	0.0%	**18.7%**
2014	-1.1%	3.8%	3.6%	-3.9%	3.2%	4.9%	12.5%	-1.1%	0.3%	-2.5%	-3.1%	-0.5%	**15.9%**
2015	3.2%	3.6%	2.1%	1.1%	2.4%	-3.8%	4.3%	-4.2%	1.6%	2.5%	2.6%	0.3%	**16.8%**
2016	-0.5%	-5.2%	7.4%	10.8%									**12.3%**

Performance results are presented net of all transaction costs, investment management and performance fees incurred by the Fund. Monthly performance figures are calculated based on the lead series using a monthly unit pricing methodology based on historical data.

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STOCK HIGHLIGHTS

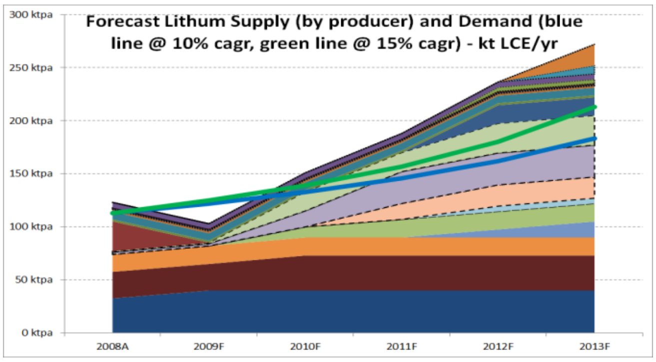
Lithium market going from strength to strength

We have written about our top-down Lithium investment thesis and the companies' best placed to benefit in several monthlies over the last 3 years, most recently in December 2015 – **"Lithium is in an undisputed bull market".**

Since the beginning of 2016, we have observed several key positive industry catalysts: 1) Tesla's March 2016 Model 3 launch - boasting 325,000 orders and equating to **US$14b+ of pre-sales** in one week – was the biggest one-week launch of any product, ever (Model 3 pre-sales continue to rise, currently at 400,000). **Tesla is now targeting 500k Electric Vehicles (EV) pa by 2018, where this was previously guidance for 2020 and now expect 1m by 2020**; 2) Further commitments to building Lithium-ion battery mega-factories, with 12 mega-factories to be built by 2020 according to Benchmark Minerals; 3) Warren Buffett's BYD Co., China's largest electric car and bus manufacturer, announced plans to go upstream, and obtain and secure Lithium supply; 4) Goldman Sachs (GS) introduced their long term bull-market outlook for Lithium. They estimate that EV are forecast to take up 3.5% of the new car market by 2025, resulting in Lithium demand to more than triple to 530kmt+; 5) The German government announced in April that it reached a deal with automakers to jointly spend US$1.4b on incentives to promote EV sales; and 6) NMT's Mt Marion and GXY/GMM's Mt Cattlin projects have forward sold and/or executed binding offtakes with Asian buyers for most to all of the medium term production, at higher than prevailing market pricing.
In response, Lithium Carbonate Equivalent (LCE) prices have strengthened further in 2016, (both contract global average ("contract") and China spot prices). Lithium contract prices have also risen further, with large producers quoting realised prices up >25% to US$7,500/t+, suggesting our medium-term Lithium contract price forecast of US$9,000/t+ is conservative. Domestic spot prices in China have risen >70% to ~US$24,000/t, which continues to bode well for contract prices.

The strong rise in prices will incentivise new supply, with industry end users and offtakers likely to pursue greenfield projects. The potential for oversupply is a key risk consideration of ours and is dependent on committed and likely new projects both coming online **on time AND at design-capacity**. History suggests that this is highly unlikely.

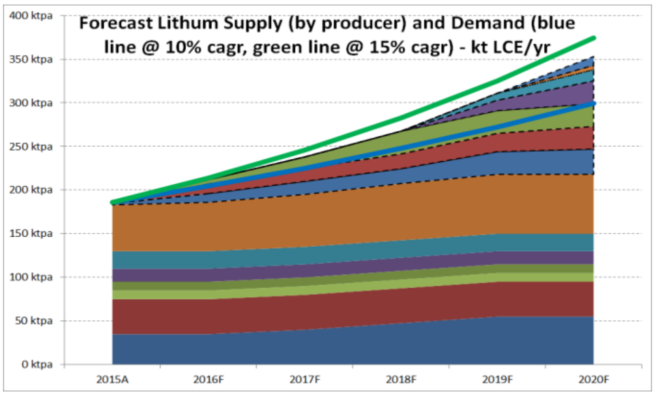
Chart 1: 2009-2013 Lithium market outlook



Source: Paragon research. Note: New supply shown at 85% capacity utilisation.

Chart 1 above shows our historic 2009-2013 view on Lithium Supply & Demand outlook and Chart 2 below shows our current 2016-2020 outlook. What is clear from Chart 1 was that a wall of supply was supposed to result. Fast forward to today, only one of the new projects, Orocobre, has made it into production albeit with delays. Various projects previously touted did not make it at all, failing for technical and/or financial reasons.

Chart 2: 2016-2020 Lithium market outlook



Source: Paragon research. Note: New supply at 85% likely-capacity utilisation.

The other clear difference between 2009 and current projections, is demand growth for EV has been pushed out. Lithium demand was projected to hit 200ktpa in 2013, which eventuated 2.5 yrs later in 2015/2016. Demand is however now growing at double digit rates (confirmed by various large-scale global producers once again in 1Q16 quarterly updates) and expected to continue over the long term. Importantly, inventories are low, with essentially **all the major producers confirming that they are fully sold out.**

Chart 2 models our view of likely brownfield expansion and greenfield projects to increase total Lithium supply to ~350kmt/yr by 2020 – an aggressive assumption given the historical precedence. Nevertheless this still shows the Lithium market as balanced (at demand growth assumption of 10% cagr) to under-supplied (vs 15% cagr). Pleasingly, we have been patiently positioned in our Lithium stock picks, well before the recent market re-rating.

Lithium stocks update

Orocobre's ramp up is progressing well with Lithium Carbonate production now running at 63% nameplate capacity (17.5ktpa), and importantly now cashflow positive. Sovereign risk in Argentina has decreased substantially with the appointment of business friendly President Mauricio Macri and his sweeping economic reforms. We expect the stock to continue to perform well as the company achieves nameplate production and de-risks its phase 2 expansion to 30-40ktpa. Note that GS and Deutsche Bank are valuing Ablemarle's LCE production at ~15x 12m-forward EBITDA, more than double most of its ASX peers. Ascribing 15x on Orocobre's growing EBITDA provides considerable upside.

General Mining & Galaxy Resources have presold 60kt & 120kt of >5.5% spodumene concentrate for CY16 & CY17 respectively, from their WA-based Mt Cattlin project (50% Galaxy and 50% earn in by General Mining) to offtake partner Mitsubishi at US$600/t for CY16 - **which translates into US$8,440/t (A$11,300/t) LCE**. This was a major de-risking event. Despite both stocks re-rating significantly, we continue to own both stocks as we view Mt Cattlin's expansion case of 200ktpa+ (~28ktpa LCE and reflected in Chart 2 above) as increasingly likely, given ongoing strong interest for their product. GXY's Sal De Vida (100% interest) is the best and most advanced undeveloped Lithium brine asset globally, with a US$1b+ NPV and on our numbers is excessively discounted (80-90%) by the market. We expect GXY's Sal de Vida upcoming BFS due out mid-year and development funding solution to be material catalysts for the stock.

Pilbara Minerals has been a great performer, however, after tripling from our cost base and now re-rating towards our base case valuation we have started to take profits.