



PARAGON AUSTRALIAN LONG SHORT FUND // November 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 Aust. Long Short Fund	-7.9%	-12.6%	-11.9%	-17.1%	+6.3%	+11.0%	+12.8%	+15.2%	+70.1%
ASX All Ordinaries Acc.	+2.5%	+0.6%	+3.1%	+5.5%	+10.0%	+6.5%	+5.6%	+6.7%	+26.5%
RBA Cash Rate	+0.2%	+0.4%	+0.9%	+0.6%	+1.9%	+2.1%	+2.2%	+2.3%	+8.8%

RISK METRICS*

Sharpe Ratio	1.0
Sortino Ratio	1.9
Volatility p.a.	+14.9
% Positive Months	+70%
Up/Down Capture	+98%/+11%

* As of October 2016

FUND DETAILS

NAV	\$1.6013
Entry Price	\$1.6037
Exit Price	\$1.5989
Fund Size	\$79.7m
APIR Code	PGF0001AU

FUND STRATEGY

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

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

OVERVIEW & POSITIONING

The Fund returned -7.9% after fees for the month of November 2016. Since inception (March 2013) the Fund has returned +70.1% after fees vs. the market (All Ordinaries Accumulation Index) +26.5%.

Main contributors to our negative result in November were declines in our gold and coal holdings, Kidman Resources, Mayne Pharma, Aconex, and Medical Developments. At the end of the month the Fund had 27 long positions and 6 short positions.

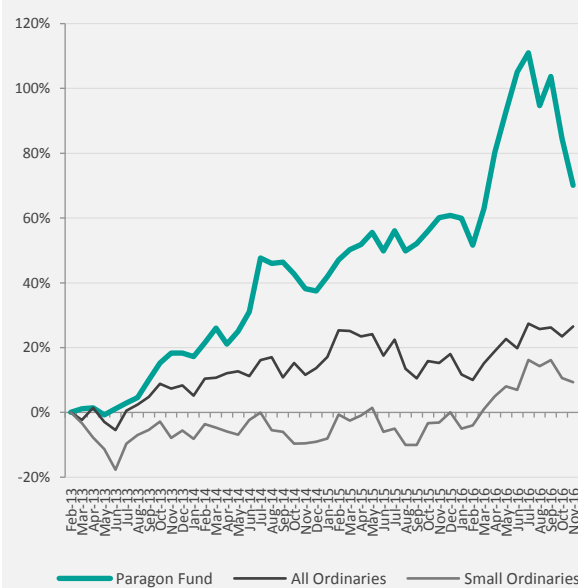
INDUSTRY EXPOSURE	Long	Short	Net
Financials	+25.8%	-0.0%	+25.8%
Industrials	+16.1%	-7.1%	+8.9%
Resources	+26.3%	-2.0%	+24.4%
Index Futures		0%	0%
Total	+68.2%	-9.1%	+59.1%
Cash			+40.9%

MONTHLY PERFORMANCE BY YEAR

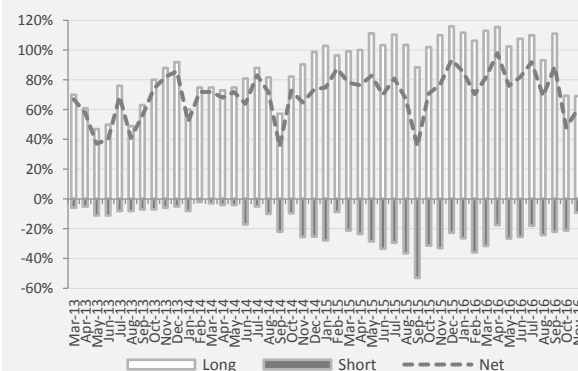
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2013			1.1%	0.3%	-2.2%	1.8%	1.8%	1.6%	5.3%	4.9%	2.8%	0.0%	18.7%
2014	-1.1%	3.8%	3.6%	-3.9%	3.2%	4.9%	12.5%	-1.1%	0.3%	-2.5%	-3.1%	-0.5%	15.9%
2015	3.2%	3.6%	2.1%	1.1%	2.4%	-3.8%	4.3%	-4.2%	1.6%	2.5%	2.6%	0.3%	16.8%
2016	-0.5%	-5.2%	7.4%	10.8%	7.0%	6.3%	2.9%	-7.8%	4.3%	-9.0%	-7.9%		6.0%

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.

HISTORICAL PERFORMANCE *(after fees)*



HISTORICAL EXPOSURE





At Paragon our investment process is thematic based i.e. identifying and extensively researching 5-6 medium to long term investment themes and then investing in attractively priced stocks exposed to these themes. This process has served us very well over time, with the majority of returns since inception coming from theme-led investments including Orocobre, Galaxy, Kidman Resources (Theme: Electrical Vehicles), Netcomm Wireless, Xero (Mobile Internet), Nanosonics (Medical Innovation), Blackham Resources (AUD Gold) and Crown Resorts (Emerging Consumer).

The Fund's concentration in key themes may however expose it to volatility, particularly during major market turns as has been the case in the last few months. We have successfully positioned ourselves well in prior significant turns including the end of the both the energy and resources bear markets earlier this year. With what is increasingly looking like the end of the +30 year decline in bond rates, the magnitude and speed of the recent sentiment shift in the bond market, to our disappointment, caught us wrong-footed.

USA 10-yr bond yield



Source: Bloomberg

This rise in bond yields, amplified by Trump's surprise election victory early in November - with his substantial fiscal promises - has continued to drive the rotation away from long duration, growth and gold stocks which the fund has had reasonable exposure to since the funds inception. The below chart shows the historical significance of this rotation within the Australian equity market.

Australian Equity market Rotation



Source: Macquarie

This rotation coincided with some stock specific issues, discussed below, collectively driving November's underperformance.

Kidman Resources (Theme: Electrical Vehicles). Kidman has made an outstanding hard-rock Lithium discovery at its Mt Holland project in WA. Their recently announced 120mt @ 1.44% Lithium maiden resource is the biggest and best underdeveloped hard-rock lithium resource globally and

importantly sits on a granted mining lease. Kidman has a low capital-intensity infrastructure solution, with an exclusive option to process through Poseidon Nickel's Lake Johnston 1.5Mtpa existing plant and infrastructure. This means a much shorter timeline to production at minimal expenditure, beating many of its development peers including Pilbara Resources to market. We had already taken profits on just over half of our position into strength at an average of \$0.66/sh versus a cost of \$0.15/sh. However, in November on the day of Kidman's AGM, neighbouring tenement holder Marindi Metals lodged a claim on Kidman's Mt Holland Lithium assets impacting adversely on Kidman's share price. Based on our own investigation, we are satisfied the claim is baseless. We expect to see this issue go away in time, having separately spoken to Marindi 5 months ago as part of our initial due diligence on Kidman, and we have given our support to Kidman management in light of this greenmail attempt. We expect Kidman to re-rate towards Pilbara's market capitalisation (5x Kidman's) in time given its optimal attributes discussed above.

Blackham Resources (Theme: AUD gold). We have discussed Blackham most recently in our [August 2016 monthly](#), and despite its correction since its August highs we remain constructive on the stock. Blackham downgraded its 4Q16 production guidance in November, essentially pushing out ounces by a mere month, and despite upgrading its FY17 guidance, the stock was sold off along with the decline in the gold price. We continue to view the downgrade as marginal and look forward to Blackham confirming its high-margin Matilda gold project running at 100koz+ pa run-rate inside the next 6-8 weeks. At spot gold prices and FX, Blackham is trading on CY17F EV/CF multiple of <3x, which is very cheap and half that of its producing peers. Despite its price correction, Blackham has been an exceptional turnaround story that happens to be exposed to gold. Ultimately its 50% margins will see Blackham become a strong cashflow story. We expect Blackham within the next 6 months to confirm their ability to self-fund doubling of production, whilst maintaining strong mine life, by utilising and upgrading much of their existing gold resources. Whilst the sector is currently out of favour, with the whole sector sold down further post Trump's victory, most of the mid and large cap gold peer group have depleting reserve bases and short quality self-funded growth assets, and Blackham's Matilda is the standout.

Amongst the negative newsflow were two senior management departures. Our remaining holding in Aconex was sold after the CFO departed, and only days after announcing their significant Fibre to the Curb contract with the NBN, the CEO of Netcomm Wireless retired. To add to this, Mayne Pharma was named in a previously released DOJ investigation into generic drug pricing in the USA. "When it rains it pours..."

Portfolio and risk management review

Current volatility levels are higher than what we are comfortable with and as such, we have recently commenced a review of our risk management process, and recently presented this to our external advisory board member, Tony Hodges, a highly experienced 35-year industry veteran (ex IOOF CIO, founding partner of Perennial). We expect through this review to identify potential enhancements to our existing process that will be back tested for validity prior to making any changes.

We have also taken action by derisking our portfolio, along with some repositioning. We have reduced our net and gross exposure, reducing our long duration and growth exposures and have hedged our AUD gold exposure. We have selectively increased our exposure to businesses expected to benefit from increased offshore spending and growth. We still own other key structural theme-led stocks that we expect to serve us well over time and look forward to updating investors with our progress.

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