



8 April 2024

## Announcements to Unit Holders

### Paragon Funds Management Ltd (Paragon) as Responsible Entity of Paragon Australian Long Short Fund ARSN161 565 920 ('Fund')

#### **SUBJECT: Enhancing Our Investment Strategy and Reinforcing Compliance Measures**

Dear Unit Holders,

In our continuous effort to optimise performance and uphold the highest standards of compliance, Paragon wishes to inform you of our findings from a recent review of our investment processes, and our intended revision of the Fund's investment strategy.

#### 1. **Clarity and Transparency on Recent Review:**

A recent review identified a temporary exceedance of the Fund's prescribed risk limit concerning the allocation to **global stocks**, ie. stocks domiciled outside Australia, at a weighting of 32% against the stipulated 30% cap in the Product Disclosure Statement (PDS), as of 30 November 2023. This deviation was temporary, correcting itself within a few days, with the Fund's allocation returning to within prescribed levels since.

This occurrence was influenced by unprecedented market conditions and strategic investment opportunities that shifted our portfolio's balance. We have taken this event as an opportunity to strengthen our compliance frameworks, implementing real-time monitoring to ensure immediate identification and appropriate rectification of discrepancies.

We are pleased to report that this exceedance did not negatively impact the Fund's performance. On the contrary, the increased exposure to global stocks contributed positively to the Fund's returns, reinforcing our belief in the strategic value of a diversified investment approach.

#### **Background of the Investment Strategy and concentration risk limit:**

Since 1 July 2020, the Fund's investment strategy included a capped limit for investment in global stocks. This strategy is prescribed in the Fund's PDS published on 30 September 2022, pages 6 and 12:

*A portion of the Fund's assets may be invested in equities listed outside Australia. Such holdings will be capped at 30% of the net asset value of the portfolio at any time. "Portfolio" means a collection of investment holdings (defined in the glossary on page 40).*

#### **How and why the limit was breached:**

On 30 November 2023, the actual weighting of global stocks against the net asset value of the portfolio (Total Longs minus Total Shorts held) inadvertently reached 32%, resulting in a 2%

deviation from the PDS limit. However, the deviation corrected within a few days and has since remained below the capped limit of 30%.

The higher weighting of global stocks in November 2023 was partly driven by market conditions and partly by strategic opportunities.

**Measures taken following detection:**

We have identified and addressed a weakness in our compliance processes. Checks have been incorporated into the Fund's portfolio to ensure immediate detection of non-compliance with the PDS limit.

Furthermore, and in addition to the RG240 report (issued annually in July and accessible on our website), we are enhancing communication and transparency by disclosure of the total weight of global stocks in the Fund's monthly updates, commencing from our March 2024 update.

**Impact on Unit Holders:**

The breach did not adversely impact any Unit Holders of the Fund.

Global stocks contributed +1.7% to November's net return of +2.6%, and +2.3% overall from November to February 2024, against the Fund's overall net loss of -11.9% over this period.

**2. Investment Strategy Revised**

Understanding the dynamic nature of global markets, we have decided to revise the Fund's investment strategy to permit a more flexible geographical allocation. This change is a proactive measure to seize global opportunities that align with our commitment to maximising returns and managing risk effectively. Our themes are global in nature, and in many cases across Resources - such as within Copper, Silver, Oil&Gas and Uranium currently - we have identified that the best liquid exposures to these themes are listed in North America.

**Accordingly, the previous 30% cap on global stock allocation will be removed from the Fund's PDS.** This revision of our investment strategy is designed to grant the Fund the agility to capitalise on high-potential investment opportunities wherever they may arise.

The aggregate weighting of global stocks will be driven by bottom-up opportunity, focusing on the best investment opportunities and greatest risk-reward to maximise potential. It is anticipated that most of the selected global stocks will continue to be domiciled in the USA and Canada and traded via our existing prime broker arrangement.

**Maintaining Our Commitment to Risk Management and Transparency:**

We wish to assure you that while we adopt a more flexible investment mandate, our dedication to rigorous risk management and investor protection remains steadfast.

Individual position sizing of such holdings is managed as part of the Fund's overall portfolio risk management framework, which includes profit-risk based position sizing and consideration of its liquidity, plus strict adherence to stop losses at cost and market value. This will not change.

Moreover, we will continue to provide detailed disclosures on global stock allocations in our monthly updates, ensuring you remain fully informed of the Fund's geographical exposure and overall investment strategy.

**Notification and Implementation of Revised Strategy:**

This strategic enhancement is in accordance with the Fund's constitution and does not necessitate Unit Holder approval. However, we are committed to keeping you informed every step of the way.

**The revised strategy and accompanying changes to the PDS will officially take effect from 6 May 2024, following a 28-day notice period commencing today.**

Should you have any questions or require further clarification on these updates, we encourage you to reach out to us via email at [client.services@paragonfunds.com.au](mailto:client.services@paragonfunds.com.au) or call us at 1300 522 500.

We appreciate your continued support and look forward to navigating the future with a strengthened strategy and a reinforced commitment to compliance and transparency.