PARAGON FUNDS MANAGEMENT

PARAGON FUND UPDATE – August 2013

KEY FUND FACTS

Fund Managers	John Deniz & Nick Reddaway
Strategy	Australian absolute return
Inception Date	01/03/2013
Total Net Return	4.5%

FUND PERFORMANCE (net of fees)

1 month	1.6%
3 month	5.3%
6 month	4.5%
1 yr	-

COMMENTARY

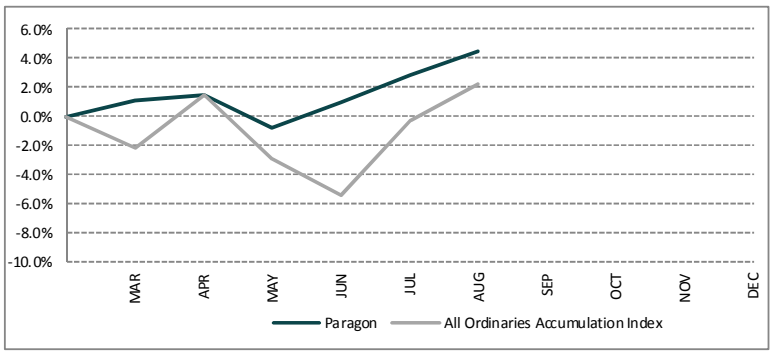
The Paragon Fund returned +1.6% net of fees for the month of August. Since inception the Paragon Fund has returned +4.5% net of fees vs. +2.2% for the All Ordinaries Accumulation Index and +1.7% for 1yr Term Deposits.

The Australian market enjoyed another positive month in August as clarity over the political backdrop emerged and economic data from our biggest trading partner, China, continued to improve. Globally markets were more subdued as we approach the Federal Reserve's announcement regarding the reduction of quantitative easing.

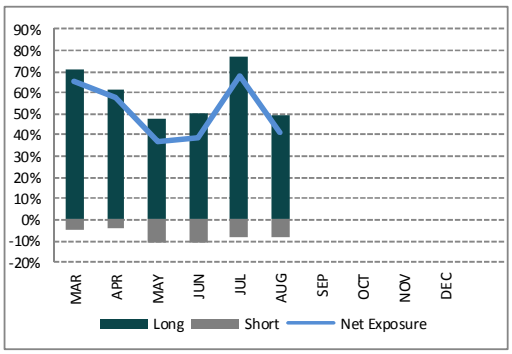
Key drivers of performance for August included a combination of:
- Consumer and resource holdings
- Maintaining net equity exposure above 60% on average for the month

In this month's update we discuss our Long Position in Orocobre Ltd. Orocobre is developing its tier-1, World Class, Lithium brine-based Olaroz project, which we view as the best pure-play to the Lithium market.

HISTORICAL PERFORMANCE (net of fees)



HISTORICAL EXPOSURE



	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%					4.5%

Performance results are presented net of all transaction costs, investment management and performance fees and all other costs incurred by the Fund.

PORTFOLIO BREAKDOWN

INDUSTRY EXPOSURE

	Long	Short	Net
Resources	17.9%	2.8%	15.1%
Industrials	31.4%	2.1%	29.3%
Financials	0%	3.1%	-3.1%
Total	**49.3%**	**8.0%**	**41.3%**
Cash			**58.7%**

HOLDINGS

Long	16
Short	5
Total	21

CONCENTRATION

Top 5	23.7%
Top 10	39.3%

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OROCOBRE (ORE) – world class supplier to the Lithium–ion battery revolution

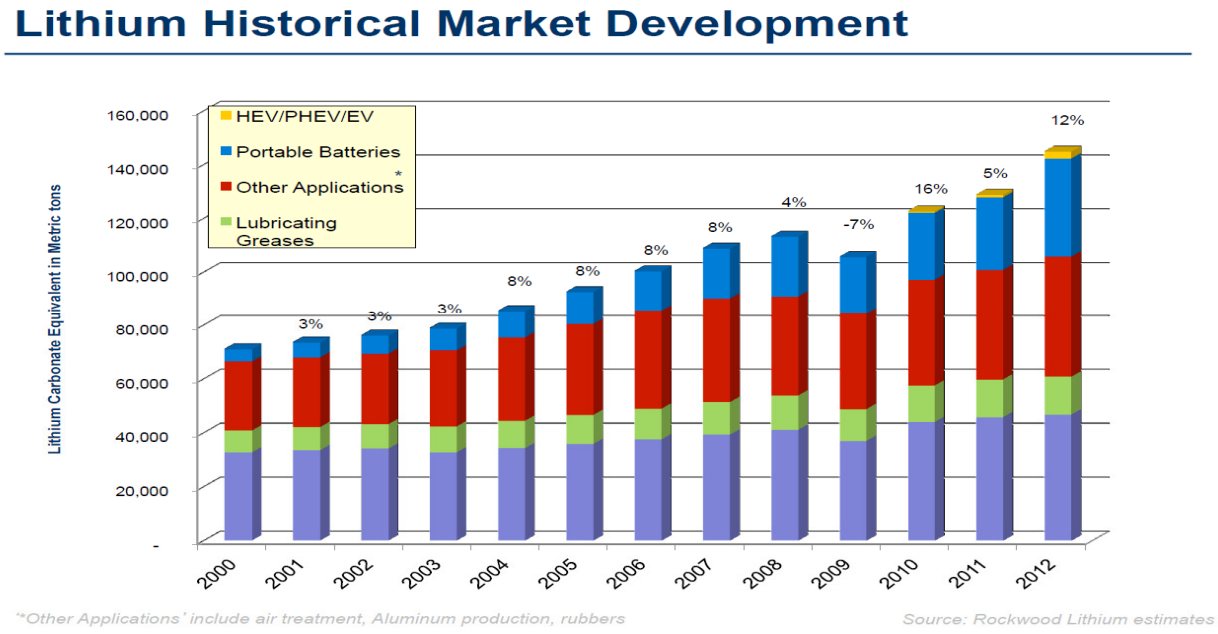
Toyota Prius (1997) vs. Tesla Model S (2013) – the evolution in electric vehicles has come a long way.

Summary

Paragon invested in ORE in May 2013 at $1.45/sh having valued the company at $3/sh. We view the fundamentals of ORE as compelling given 1) the strong Lithium carbonate industry fundamentals, 2) ORE's Olaroz tier-1, World Class, Lithium brine-based project as the best pure-play to the Lithium market, and 3) ORE's Olaroz project's compelling economics and significant re-rating potential as the company completes construction and begins production in 2014. ORE is currently trading $2.10/sh and we continue to be long the stock.

Lithium Industry

Lithium carbonate has traditionally been used in the manufacture of glass & ceramics, lubricants and castings but more recently for Lithium-ion batteries now commonplace in portable devices and other applications for their favourable energy density and low memory effect. Demand for Lithium Carbonate has grown at a rate approaching 10% pa over the last decade driving prices for the batteries main component, Lithium Carbonate Equivalent (LCE), to rise threefold in that time to >US$6,000/t.

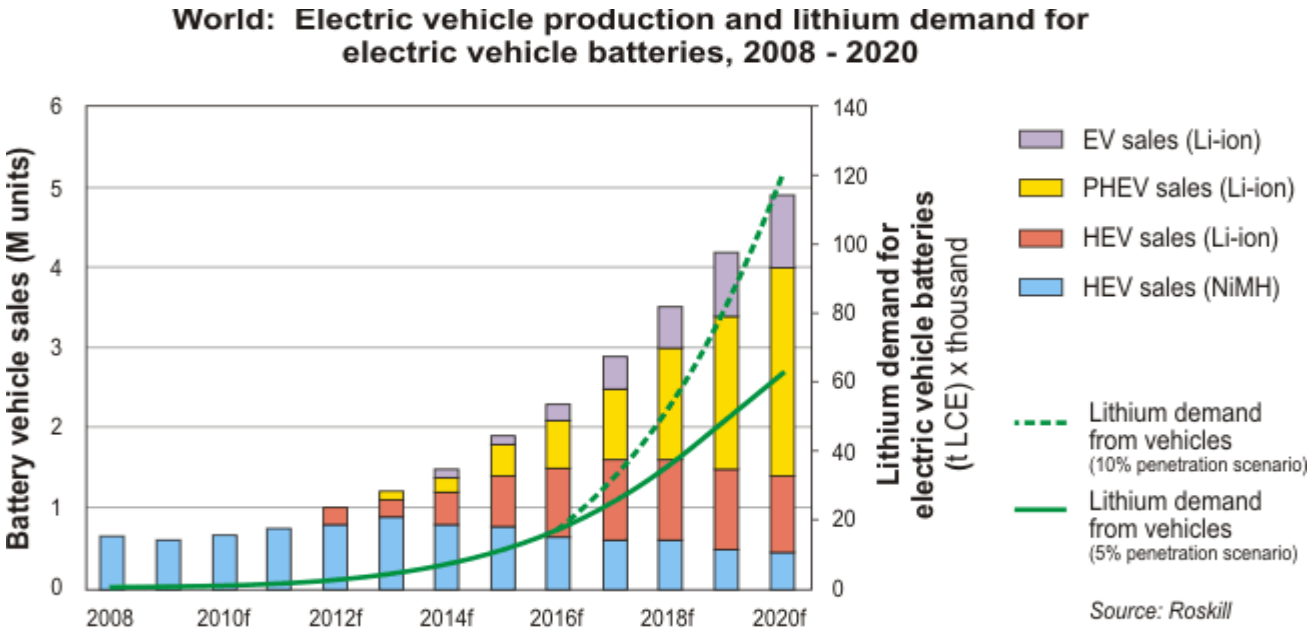


Lithium Carbonate Demand

The major driver for Lithium Carbonate demand going forward is the growth in electric vehicles which are powered by Lithium-ion batteries (note Lithium-ion batteries are increasingly becoming the standard technology for hybrid electric vehicle batteries). Demand for electric vehicles is being driven by 2 trends: the societal adoption of non-conventional "green" cars; and global government regulation and initiatives driving car makers like BMW, Porsche, VW, Toyota, Honda, Ford and General Motors, to

create more desirable electric and hybrid electric vehicles. The validity of the electric vehicle industry is evidenced by the rise of Tesla Motors (today a $20b company vs. $3.6b 1.5 years ago), and the investment by Warren Buffett in Asia's BYD Company.

In 2013, 225k Electric and Hybrid vehicles are expected to be sold, representing a mere 0.3% of the ~74m new cars forecast to be sold globally. Electric and Hybrid vehicle sales globally are likely (base-case) to achieve 4-5% market share of a forecast 100m new car sales market by 2020. This equates to a forecast growth rate of ~50% CAGR through to 2020. As shown below, achieving a 10% penetration rate rather than 5% would double Lithium Carbonate demand again.



Lithium Carbonate Supply

Supply of battery grade Lithium Carbonate comes primarily from South American brine-based producers, SQM (Chile), ROC (Chile) and FMC (Argentina). Brine-based production offers optimal economics - a materially lower cost (<US$2,500/t) operation compared to Lithium-mineral (spodumene-based) production (>US$4,000/t). Interestingly this has not stopped the industry players pursuing higher-cost producers, signalling the strength of the industry longer term. The world's 4th biggest supplier - Talison Lithium, a high-cost spodumene-based producer – was recently taken over by Chengdu Tianqi Industry Group Co. (a Chinese battery maker) for C$850m, trumping ROC's initial offer for Talison by >C$100m. The world's top four producers above collectively produce more than half of the world's Lithium Carbonate. We estimate that effective global production capacity is running at effective full utilisation, ~85% in CY13.

The supply response is coming to meet the strong growth in demand but like most resource projects, brine-based or spodumene-based Lithium Carbonate projects have a very long lead time, taking 4+ years to bring on line. This in our view will prevent an oversupplied market dynamic. The net result is that Lithium Carbonate prices are expected to be well supported and likely to continue trending higher through to the end of the decade.

Orocobre is the best emerging Lithium Carbonate producer

ORE is on track to commence commercial production of battery grade LCE from Olaroz in JunQ 2014, and to be the first large scale, Greenfield Lithium brine-based project to be built in more than 20 years. ORE has enviable project partners, where ORE owns 66.5% of the project and is manager on behalf of its project partners Toyota (25%) and the Argentinean Jujuy Province Mining and Energy Company (8.5%). Its project's construction is relatively plain vanilla, is fully financed, on time and on budget. ORE's Olaroz project boasts a 40+ year mine life and will ramp up to produce ~18,000t of LCE by 2015 which will make it one of the lowest cost Lithium Carbonate producers globally at <US$1,500/t.

ORE's Olaroz project in Argentina has compelling economics with a base-case IRR of 25%. We forecast that once Olaroz is fully operational ORE can generate free cashflow of ~$65m pa, based on current LCE prices. ORE's Olaroz project also has ample capacity to increase production by >50% at modest capex when required for an expanding Lithium market**.** Our base case valuation for ORE is $3/sh, which is the mid-point of two methodologies: 1. NPV @ 10% discount rate, 2. Ascribing a conservative 6x EV/EBITDA multiple. Our high case valuation for ORE is $8.30/sh within 3 years.