



Paragon Fund Monthly Performance Report

September 2013

PARAGON FUND UPDATE – September 2013

KEY FUND FACTS

Fund Managers	John Deniz & Nick Reddaway
Strategy	Australian absolute return
Inception Date	01/03/2013
Total Net Return	10.0%

FUND PERFORMANCE (net of fees)

1 month	5.3%
3 month	8.9%
6 month	8.8%
1 yr	-

COMMENTARY

The Paragon Fund returned +5.3% net of fees for the month of September vs. the market (All Ordinaries Accumulation Index) +2.4%. Since inception the Paragon Fund has returned +10.0% net of fees vs. +4.7% for the market.

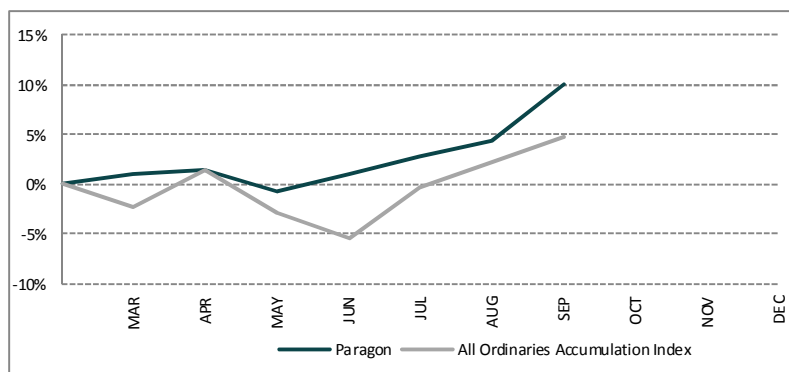
Despite the expectation for September to be a seasonally soft month the ASX 200 Accumulation Index hit a record high, surpassing the previous peak reached almost 6 years ago in November 2007. The Australian market was buoyed by a strong election result and continuing improvements in the Australian housing market with positive returns seen across cyclical sectors broadly. Despite an unexpected decision by the US Federal Reserve to not begin reducing its quantitative easing program, continued political deadlock over raising the US debt ceiling (raised 26 times to date – decision due later this week), and an impending US government lockdown (now into its second week), major developed equity markets remain close to year highs. We believe that these 2 latter issues will be worked through in the near term, and focus will again turn to improving global macro conditions driven by supportive central banks.

Key drivers of the Paragon Fund performance for September included a combination of:

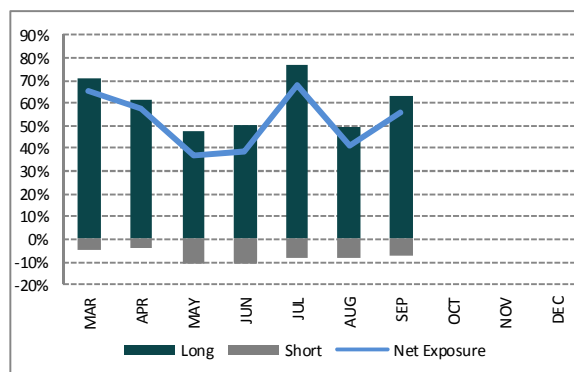
- Strong performance from core holdings in Crown Resorts, Orocobre, Virtus Health, G8 Education, Xero and our short position in Sirius Resources
- Maintaining net equity exposure above 60% on average for the month

This month we highlight our active investment approach via our trades in SEEK (SEK).

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%	5.3%				10.0%

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			HOLDINGS		CONCENTRATION	
	Long	Short	Net	Long		
Resources	12.6%	-5.5%	7.1%	Short	3	Top 5 28.5%
Industrials	44.1%	-	44.1%	Total	22	Top 10 45.9%
Financials	6.7%	-1.5%	5.1%			
Total	63.3%	-7.0%	56.3%			
Cash			43.7%			

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At Paragon we believe that as market sentiment waxes and wanes to the latest news of the day, it creates opportunities to drive better returns for our clients and reduce risk through being active and by not committing to a traditional, fully invested buy and hold strategy. For us, this holds true regardless of whether the market is rising or falling. To borrow from one of the great investors of our time, Seth Klarman from the Baupost Group (Warren Buffett reportedly has a copy of his book “Margin of Safety” on his desk):

Some argue that holding significant cash is gambling, that being less than fully invested is akin to market timing. But isn't a yes or no decision the crucial one in investing? Where does it say that investing means always buying something....?

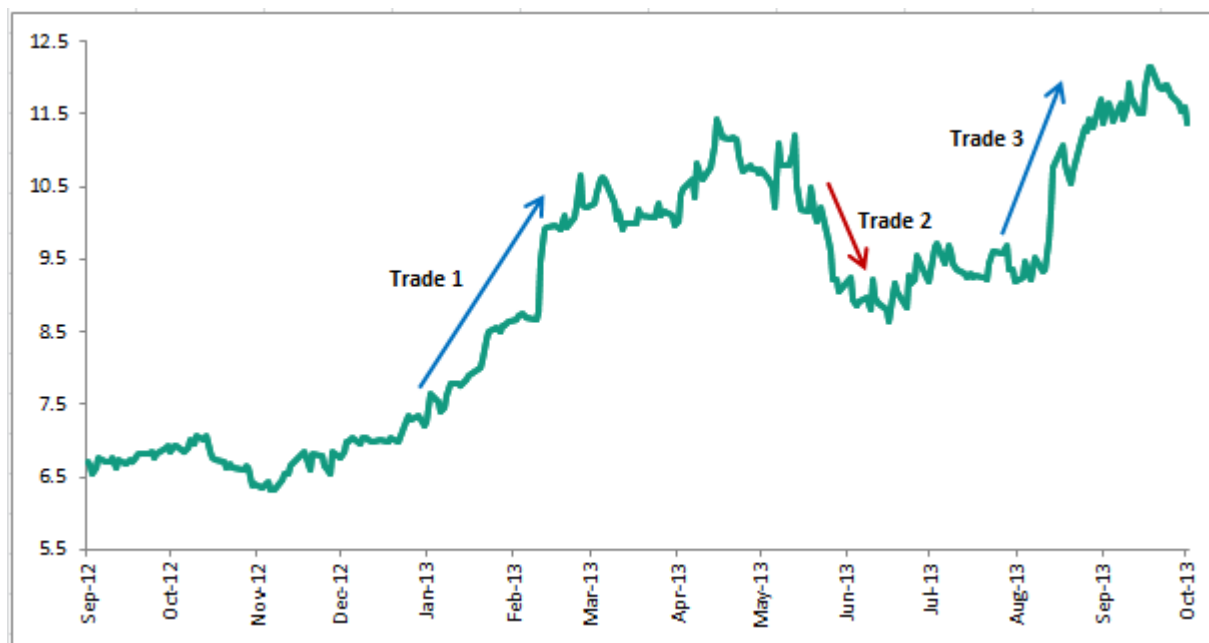
Being fully invested at all times will at best generate mediocre returns; at worst they entail both a high opportunity cost – foregoing the next good opportunity to invest – and the risk of appreciable loss.

We take a considered approach to each and every decision because we are managing our clients' funds and our own personal wealth in the Paragon Fund. When we do invest, typically we are looking for 2 types of opportunities. One is a core holding which we have identified as being an exceptional company benefitting from long term structural themes. The other is of a shorter term nature where a company's prospects have been incorrectly assessed by the market and we can identify reasons for that view to change. By adopting these two approaches, we try to benefit from the markets long term recognition for superior businesses and the markets ability to consistently overreact both positively and negatively in the short term.

We have touched on several core investments in our last 3 notes (e.g. Crown Resorts, 21st Century Fox, Orocobre, G8 Education, Virtus Health, Xero and our short position in Sirius Resources). This month we want to discuss our trades in SEEK (SEK).

SEEK – Paragon's active investment approach drives 80% cumulative return vs. 60% if simply bought and held:

In our view, SEEK is a fantastic gauge of investor sentiment towards the Australian economy. SEEK has grown revenue 38% p.a over the last 10 years as it benefits from the structural migration of print to online ads despite its domestic business remaining in a funk. Once its biggest profit generator, the domestic business is posting job ad volumes still some 27% below a peak reached in 2007. However should the RBA's drive to stimulate growth via the cash rate prove effective, this business has the potential for significantly better earnings than it currently generates. We believe SEEK's share price will continue to swing as investor appetite for cyclical risk changes.





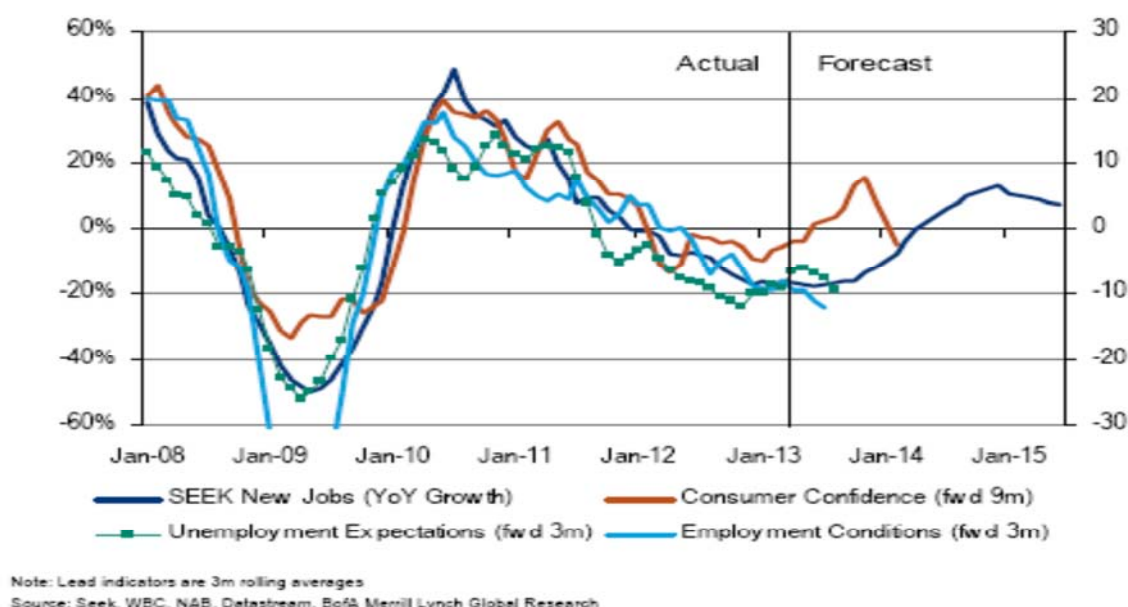
Trade 1 – Long: +36%

We first bought SEEK in January 2013* after the company had confirmed the profit outlook at its 2012 AGM. Optimism surrounding the Australian economy was being driven by the prospect of further rate cuts and improving global growth. The valuation had drifted some 30% below its listed online peers (REA and CRZ) and we believed that in an improving environment SEEK could continue to break out above the \$7 trading range that had held it for all of 2012 and move towards our \$10 valuation at the time.

When the positive sentiment surrounding the business was echoed at its quarterly results in February 2013 we closed the trade with a 36% gain after SEEK had approached our valuation target and outperformed the market by some 30%.

Trade 2 – Short: +10%

While positive sentiment was rife early in calendar year 2013, by the time the market received economic data for April, sentiment had begun to change towards the health of the domestic economy. The chart below shows the drop in consumer confidence in Australia and the lack of improvement in the domestic labour market at that time.



When the market turned south on the Federal Reserve's tapering announcement in May, we initiated a short position in SEEK. We felt that the short term buying support for the MSCI index rebalance that month, the weakening sentiment to the domestic economy, and the +40% performance year to date qualified it as a good hedge to our long positions.

SEEK fell 15% in less than 2 weeks and underperformed the market by almost 10%. We closed the short in the middle of June on expectations the market had come close to pricing in the above factors.

Trade 3 – Long: +20%

We again purchased SEEK on the day of their full year results in August 2013. We took the view that investors would warm to SEEK as equity markets recovered and optimism grew for the Australian economy driven by rising house prices. SEEK had de-rated through the market sell off and the valuation discrepancy to its listed internet peers had again widened.

Management highlighted the growth being achieved in their international business and strong cost control which increased the potential uplift to earnings in outer years. SEEK also confirmed that it would look to IPO its China subsidiary, Zhaopin, which would help to unlock some of the value within the SEEK international portfolio.

We sold the position for a 20% gain as it approached our \$12.50 valuation and outperformed the market by some 17% between August and September.

• this was in the Paragon model portfolio prior to our actual live launch date in March 2013