Paragon Fund

ARSN 161 565 920

Annual Report

For the year ended 30 June 2014

Paragon Fund
ARSN 161 565 920
Annual Report - 30 June 2014

Contents

These financial statements cover Paragon Fund as an individual entity.

The Responsible Entity of Paragon Fund is Paragon Funds Management Ltd
(ABN 42 159 623 873) (AFSL 426800). The Responsible Entity's registered office is:

Suite 2, Level 2
1 Little Collins Street
Melbourne VIC 3000

Directors' Report

The Directors of Paragon Funds Management Ltd, the Responsible Entity of Paragon Fund, present their report together with the financial statements of Paragon Fund (the 'Fund') for the year ended 30 June 2014.

Principal activities

The Fund's mandate is to invest in Australian listed equities focusing on core competencies in the resource and industrial sectors in accordance with the provisions of the Fund's Constitution.

The Fund did not have any employees during the year.

There were no significant changes in the nature of the Fund's activities during the year.

The various service providers of the Fund are detailed below:

Service	Provider
Responsible Entity	Paragon Funds Management Ltd
Investment Manager	Paragon Funds Management Ltd
Prime Broker	Merrill Lynch International
Statutory Auditor	Nexia Melbourne
Administrator and Registrar	White Outsourcing Pty Limited

Directors

The following persons held office as Directors of Paragon Funds Management Ltd during the year or since the end of the year and up to the date of this report:

Mr John Deniz
Mr Nick Reddaway
Ms Hillier Deniz

Review and results of operations

During the year, the Fund continued to invest in accordance with the governing documents of the Fund and in accordance with the provisions of the Fund's Constitution.

The performance of the Fund, as represented by the results of its operations, was as follows:

	Year ended 30 June 2014	For the period 1 March 2013 to 30 June 2013
	$	$
Operating profit before finance costs attributable to unitholders	**1,901,268**	11,346
Distributions		
Distributions payable	**447,426**	-
Distributions (cents per unit)	**4.9414**	-

Significant changes in state of affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the Fund that occurred during the financial year.

Matters subsequent to the end of the financial year

On 29 August 2014, the Fund created a separate non-series based class of units to be issued to IDPS operators and IDPS-like schemes as permitted by the constitution. An amendment to the constitution was issued by way of a Supplementary Deed, covering the issue and nature of these B Class units. As the rights and benefits of direct retail and wholesale unit holders are not impacted by the new class, the Fund was not required to obtain approval from the members for this amendment.

A Supplementary Product Disclosure Statement (SPDS) dated 29 August 2014 was issued by the Responsible Entity, including disclosure details of this new class of units and the nature of the investment for indirect investors. The issue of B Class units remains at the discretion of the Responsible Entity, but is limited to IDPS operators and IDPS-like schemes in accordance with the SPDS.

The financial effect of this transaction has not been brought to account in the 2014 financial report.

No other matter or circumstance has arisen since 30 June 2014 that has significantly affected, or may significantly affect:

(i) the operations of the Fund in future financial years, or
(ii) the results of those operations in future financial years, or
(iii) the state of affairs of the Fund in future financial years.

Likely developments and expected results of operations

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Fund and in accordance with the provisions of the Fund's Constitution.

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Indemnification and insurance of officers

The Responsible Entity has paid an insurance premium to insure its Directors under a combined Professional Indemnity and Directors and Officers Insurance policy. Details of the indemnity insurance are as follows:

- The Directors, the Fund and the Responsible Entity are indemnified to an aggregate amount of $5million, against any liability arising from a claim brought against them by a third party, for losses arising from a wrongful act (as defined in the policy), in relation to the provision of professional services provided by the Responsible Entity.

- The policy further indemnifies each of the following Directors against liabilities for costs and expenses incurred by them in defending legal proceedings arising from their conduct while acting in the capacity of director of the company, other than conduct involving a wilful breach of duty in relation to the Fund:

Mr John Deniz
Mr Nick Reddaway
Ms Hillier Deniz

The policy is a combined policy and as such, premiums for each Director cannot be quantified. Further disclosure of information relating to this policy is not permitted under the contract of insurance.

Indemnification of auditors

The auditors of the Fund are in no way indemnified out of the assets of the Fund.

Fees paid to and interests held in the Fund by the Responsible Entity or its associates

Fees paid to the Responsible Entity and its associates out of Fund property during the year are disclosed in Note 15 to the financial statements.

No fees were paid out of Fund property to the Directors of the Responsible Entity during the year.

The number of interests in the Fund held by the Responsible Entity or its associates as at the end of the financial year are disclosed in Note 15 to the financial statements.

Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in Note 8 to the financial statements.

The value of the Fund's assets and liabilities is disclosed in the Statement of Financial Position and derived using the basis set out in Note 2 to the financial statements.

Environmental regulation

The operations of the Fund are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

This report is made in accordance with a resolution of the Directors of Paragon Funds Management Ltd.

Mr John Deniz
Director

Melbourne, VIC
22 September 2014

nexia
australia

the next solution

AUDITOR'S INDEPENDENCE DECLARATION
UNDER S 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF PARAGON FUNDS MANAGEMENT LTD, THE RESPONSIBLE ENTITY

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2014, there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

NEXIA MELBOURNE
ABN 16 847 721 257

GEORGE S DAKIS
Partner
Audit & Assurance Services

Melbourne

22 September 2014

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Statement of Comprehensive Income

	Notes	Year ended 30 June 2014 $	For the period 1 March 2013 to 30 June 2013 $
Investment income			
Interest income		**64,822**	18,633
Dividend income		**56,435**	16,989
Net gains/(losses) on financial instruments held at fair value through profit or loss	5	**2,459,056**	11,085
Total net investment income		**2,580,313**	46,707
Expenses			
Management fees	15	**116,338**	16,904
Performance fees	15	**480,733**	335
Interest expense		**28**	-
Custody fees		**652**	19
Transaction costs		**29,924**	6,582
Withholding tax on foreign dividends and interest		**199**	34
Short dividend expense		**5,044**	1,816
Expense reimbursement fees		**38,795**	5,637
Other operating expenses		**7,332**	4,034
Total operating expenses		**679,045**	35,361
Operating profit		**1,901,268**	11,346
Finance costs attributable to unitholders			
Distributions to unitholders	9	**(447,426)**	-
Increase in net assets attributable to unitholders	8	**(1,453,842)**	(11,346)
Profit/(loss) for the year		**-**	-
Other comprehensive income		**-**	-
Total comprehensive income for the year		**-**	-

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Financial Position

	Notes	As at 30 June 2014 $	30 June 2013 $
Assets			
Cash and cash equivalents	10	**5,342,494**	4,033,505
Receivables	12	**55,362**	83,994
Due from brokers - receivable for securities sold		**984,601**	-
Financial assets held at fair value through profit or loss	6	**9,821,575**	2,029,492
Total assets		**16,204,032**	6,146,991
Liabilities			
Distributions payable	9	**447,426**	-
Payables	13	**987,402**	647,620
Due to brokers - payable for securities purchased		**1,274,462**	1,003,992
Financial liabilities held at fair value through profit or loss	7	**2,056,000**	446,494
Total liabilities (excluding net assets attributable to unitholders)		**4,765,290**	2,098,106
Net assets attributable to unitholders - liability		**11,438,742**	4,048,885

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

	Year ended 30 June 2014 $	For the period 1 March 2013 to 30 June 2013 $
Total equity at the beginning of the year	-	-
Profit/(loss) for the year	-	-
Other comprehensive income	-	-
Total comprehensive income	-	-
Transactions with owners in their capacity as owners	-	-
Total equity at the end of the year	-	-

Under Australian Accounting Standards, net assets attributable to unitholders are classified as a liability rather than equity. As a result, there was no equity at the start or the end of the year.

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

	Notes	Year ended 30 June 2014 $	For the period 1 March 2013 to 30 June 2013 $
Cash flows from operating activities			
Proceeds from sale of financial assets held at fair value through profit or loss		**41,094,087**	6,453,711
Purchase of financial assets held at fair value through profit or loss		**(46,647,606)**	(8,886,858)
Re-purchase of financial liabilities held at fair value through profit or loss		**11,637,338**	5,622,694
Proceeds from short sale of financial liabilities held at fair value through profit or loss		**(10,521,473)**	(3,757,468)
Interest received		**75,471**	18,307
Dividends and distributions received		**52,288**	5,658
Management fees paid		**(345,708)**	(13,011)
Transaction costs paid		**(33,209)**	(7,446)
Custody fees paid		**(652)**	(19)
Expense reimbursement fees paid		**(35,197)**	(3,970)
Short dividends paid		**(6,894)**	-
Other operating expenses paid		**(8,196)**	(3,507)
Net cash outflow from operating activities	11(a)	**(4,739,751)**	(571,909)
Cash flows from financing activities			
Proceeds from applications by unitholders		**6,048,740**	4,605,414
Net cash inflow from financing activities		**6,048,740**	4,605,414
Net increase/(decrease) in cash and cash equivalents		**1,308,989**	4,033,505
Cash and cash equivalents at the beginning of the year		**4,033,505**	-
Cash and cash equivalents at the end of the year	10	**5,342,494**	4,033,505
Non-cash financing activities	11(b)	-	-

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

Contents

1 General information

These financial statements cover Paragon Fund (the 'Fund') as an individual entity. The Fund was constituted on 6 December 2012, registered with the Australian Securities and Investments Commission on 20 December 2012 and commenced operations on 1 March 2013. The Fund will terminate on 5 December 2092 unless terminated earlier in accordance with the provisions of the Fund's Constitution.

Paragon Fund is a registered managed investment scheme under the *Corporations Act 2001*.

The Responsible Entity of the Fund is Paragon Funds Management Ltd (ABN 42 159 623 873) (AFSL 426800) (the 'Responsible Entity'). The Responsible Entity's registered office is Suite 2, Level 2, 1 Little Collins Street, Melbourne, VIC 3000.

The Fund's mandate is to invest in Australian listed equities focusing on core competencies in the resource and industrial sectors in accordance with the provisions of the Fund's Constitution. The objective of the Fund is to produce absolute returns and capital growth for unitholders over a 3 - 5 year investment horizon.

The financial statements of the Fund are for the year ended 30 June 2014. The comparative period is for 4 months from 1 March 2013 to 30 June 2013. The financial statements are presented in the Australian currency.

The financial statements were authorised for issue by the Directors on the date the Directors' Declaration was signed. The Directors of the Responsible Entity have the power to amend and reissue the financial statements.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated in the following text.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. The Fund is a for-profit unit trust for the purpose of preparing the financial statements.

The financial statements are prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The Statement of Financial Position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and do not distinguish between current and non-current. All balances are expected to be recovered or settled within twelve months, except for investments in financial assets and net assets attributable to unitholders. The amount expected to be recovered or settled within twelve months after the end of each reporting period cannot be reliably determined.

(i) Compliance with International Financial Reporting Standards

The financial statements of the Fund also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(ii) New and amended standards adopted by the Fund

The Fund had to change some of its accounting policies as the result of new and revised accounting standards which became effective for the annual reporting period commencing on 1 July 2013. The affected policies are:

- AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13*

Changes in accounting policy: Fair value measurement

AASB 13 *Fair Value Measurement* aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Australian Accounting Standards. The standard does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other Australian Accounting Standards.

On adoption of the standard, the Fund has changed its valuation inputs for listed financial assets or liabilities from quoted bid and ask prices to quoted last sale prices consistent with its unit pricing policy. There has been no material impact to the net gains/(losses) on financial instruments held at fair value through profit or loss.

Previously the fair value of financial liabilities (including derivatives) was measured on the basis that the financial liability would be settled or extinguished with the counterparty. The adoption of AASB 13 has clarified that fair value is an exit price notion, and as such, the fair value of financial liabilities should be determined based on a transfer value to a third party market participant. As a result of this change, the fair value of derivative liabilities has changed on transition to AASB 13, largely due to incorporating credit risk into the valuation. There is no impact to the Fund as it does not engage in derivative transactions.

(iii) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2014 reporting periods and have not been early adopted by the Fund. The Directors' assessment of the impact of these new standards (to the extent relevant to the Fund) and interpretations is set out below:

(i) AASB 9 *Financial Instruments (2009 or 2010 version)*, AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9*, AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*, AASB 2012-6 *Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures* and AASB 2013-9 *Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments* (effective from 1 January 2018)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. It has now also introduced revised rules around hedge accounting. The standard is not applicable until 1 January 2018 but is available for early adoption. The Directors do not expect this to have a significant impact on the recognition and measurement of the Fund's financial instruments as they are carried at fair value through profit or loss. The derecognition rules have not been changed from the previous requirements, and the Fund does not apply hedge accounting. The Fund has not yet decided when to adopt AASB 9.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2 Summary of significant accounting policies (continued)

(b) Financial instruments

(i) Classification

The Fund's investments are classified as at fair value through profit or loss. They comprise:

- Financial instruments designated at fair value through profit or loss upon initial recognition

These include financial assets and liabilities that are not held for trading purposes and which may be sold. These are investments in exchange traded equity instruments.

The Fund makes short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security, or it may use short sales for various arbitrage transactions. Short sales are classified as financial liabilities at fair value through profit or loss.

Financial assets and liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's policy is for the Responsible Entity to evaluate the information about these financial instruments on a fair value basis together with other related financial information.

The information on the fair value basis is provided internally to the Fund's key management personnel. In addition, the designation of financial assets and financial liabilities at fair value through profit or loss will reduce any measurement or recognition inconsistencies and any accounting mismatch that would otherwise arise.

(ii) Recognition/derecognition

The Fund recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or the Fund has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the obligation under the liabilities are discharged.

(iii) Measurement

Financial instruments held at fair value through profit or loss

At initial recognition, the Fund measures financial assets and financial liabilities at fair value. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in the Statement of Comprehensive Income.

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets or financial liabilities at fair value through profit or loss' category are presented in the Statement of Comprehensive Income within net gains/(losses) on financial instruments held at fair value through profit or loss in the period in which they arise. This also includes dividend expense on short sales of securities, which have been classified at fair value through profit or loss.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of financial assets and liabilities traded in active markets is subsequently based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. Prior to 1 July 2013, the quoted market price used for financial assets held by the Fund was the current bid price and the quoted market price for financial liabilities was the current asking price. The Fund adopted AASB 13 from 1 July 2013 and has changed its valuation inputs for listed financial assets or liabilities to last sale price consistent with its unit pricing policy.

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

(iii) Measurement (continued)

Financial instruments held at fair value through profit or loss (continued)

The fair value of financial assets and liabilities that are not traded in an active market are determined using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques used include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs.

For further details on how the fair value of financial instruments is determined, please see Note 4 to the financial statements.

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position where the Fund currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

As at the end of the reporting period, there are no financial assets or liabilities offset or which could be offset in the Statement of Financial Position.

(c) Net assets attributable to unitholders

Units are redeemable at the unitholders' option, however, applications and redemptions may be suspended by the Responsible Entity if it is in the best interests of the unitholders. The units are classified as financial liabilities as the Fund is required to distribute its distributable income. The units can be put back to the Fund at any time for cash based on the redemption price. The value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the end of the reporting period if the unitholders exercised their right to redeem units in the Fund.

(d) Cash and cash equivalents

For the purpose of presentation in the Statement of Cash Flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in the Statement of Financial Position.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as movements in the fair value of these securities represent the Fund's main income generating activity.

(e) Investment income

Interest income earned on cash and cash equivalents is recognised in the Statement of Comprehensive Income on an accruals basis.

Other changes in fair value for financial instruments held at fair value through profit or loss are recorded in accordance with the policies described in Note 2(b).

Dividend income is recognised on the ex-dividend date with any related foreign withholding tax recorded as an expense. The Fund currently incurs withholding tax imposed by certain countries on investment income. Such income is recorded gross of withholding tax in the Statement of Comprehensive Income.

Dividends declared on securities sold short are recorded as a dividend expense on the ex-dividend date.

Trust distributions are recognised on an entitlement basis.

Other income is recognised on an accruals basis.

2 Summary of significant accounting policies (continued)

(f) Expenses

All expenses are recognised in the Statement of Comprehensive Income on an accruals basis.

(g) Income tax

Under current legislation, the Fund is not subject to income tax as unitholders are presently entitled to the income of the Fund.

The benefit of imputation credits is passed on to unitholders.

(h) Distributions

The Fund distributes its distributable income in accordance with the Fund's Constitution, to unitholders by cash or reinvestment. The distributions are recognised in the Statement of Comprehensive Income as finance costs attributable to unitholders.

(i) Increase/decrease in net assets attributable to unitholders

Income not distributed is included in net assets attributable to unitholders. Movements in net assets attributable to unitholders are recognised in the Statement of Comprehensive Income as finance costs.

(j) Due from/to brokers

Amounts due from/to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by the end of the year. Trades are recorded on trade date, and for equities normally settled within three business days. A provision for impairment of amounts due from brokers is recognised in the Statement of Comprehensive Income when there is objective evidence that the Fund will not be able to collect all amounts due from the relevant broker. Indicators that the amount due from brokers is impaired include significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation and default in payments.

(k) Receivables

Receivables may include amounts for dividends, interest and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Where applicable, interest is accrued at the end of each reporting period from the time of last payment in accordance with the policy set out in Note 2(e) above. Amounts are generally received within 30 days of being recorded as receivables.

Receivables also include such items as Reduced Input Tax Credits (RITC).

(l) Payables

Payables include liabilities and accrued expenses owed by the Fund which are unpaid as at the end of the reporting period.

As the Fund has a contractual obligation to distribute its distributable income, a separate distribution payable is recognised in the Statement of Financial Position as at the end of each reporting period where this amount remains unpaid as at the end of the reporting period.

(m) Applications and redemptions

Unit application and redemption prices are determined by reference to the net assets of the Fund divided by the number of units on issue, adjusted for buy/sell spreads.

2 Summary of significant accounting policies (continued)

(n) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Fund by third parties such as custodial services, investment management fees and performance fees have been passed onto the Fund. The Fund qualifies for Reduced Input Tax Credits (RITC) at a rate of at least 55%; hence investment management fees, performance fees, custodial fees and other expenses have been recognised in the Statement of Comprehensive Income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the Statement of Financial Position. Cash flows relating to GST are included in the Statement of Cash Flows on a gross basis.

(o) Use of estimates

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

For the majority of the Fund's financial instruments, quoted market prices are readily available.

For certain other financial instruments, including amounts due from/to brokers and payables, the carrying amounts approximate fair value due to the short-term nature of these financial instruments.

For more information on how fair value is calculated please refer to Note 4 to the financial statements.

(p) Significant judgments made in the application of accounting policies

Related party relationship and control - managed investment schemes
While the Responsible Entity controls the financial and operating activities of the Fund in accordance with the Fund's Constitution and Product Disclosure Statement, the Responsible Entity's fiduciary obligations to the unitholders of the Fund prevent it from benefiting directly from the activities of the Fund. Instead, the Responsible Entity governs the financial and operating activities of the Fund for the sole purpose of fulfilling its fiduciary obligation of acting in the best interest of the unitholders in its capacity as the Responsible Entity. Accordingly, the Directors do not consider that the Responsible Entity controls the Fund as defined in AASB 127: *Consolidated and Separate Financial Statements*.

However, for the purpose of AASB 124: *Related Party Disclosures*, the Directors consider that the Responsible Entity is a related party of the Fund as it is the management entity that provides key management personnel services to the Fund. Accordingly, both the Responsible Entity and its Directors are considered to be key management personnel of the Fund.

3 Financial risk management

The Fund's activities expose it to a variety of financial risks including market risk (which incorporates price risk and interest rate risk), credit risk and liquidity risk.

The Fund's overall risk management programme focuses on ensuring compliance with the Fund's Constitution, the offer document and the investment guidelines of the Fund. It also seeks to maximise the returns derived for the level of risk to which the Fund is exposed and seeks to minimise potential adverse effects on the Fund's financial performance.

The Fund invests in a diversified portfolio of stocks comprising companies that are listed on the Australian Securities Exchange ('ASX'). The Fund may use derivatives to gain exposure to the underlying physical investments and for hedging purposes. Derivatives are not used speculatively.

Derivatives were not used at 30 June 2014.

The investment objective of the Fund is to produce absolute returns and capital growth for unitholders over a 3-5 year investment horizon before taking into account Fund fees and expenses.

The Fund uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of market risks and ratings analysis for credit risk.

3 Financial risk management (continued)

(a) Market risk

Market risk is the risk that changes in market prices, such as interest rates and other market prices will affect the Fund's income or the carrying value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Responsible Entity intends to limit this risk by ensuring strict adherence to the investment process.

(i) Price risk

The Fund is exposed to price risk on equity securities listed or quoted on recognised securities exchange. Price risk arises from investments held by the Fund for which prices in the future are uncertain.

Other market price risk is the risk that the value of an instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

As the majority of the Fund's investments are carried at fair value with fair value changes recognised in the statement of comprehensive income, all changes in market conditions will directly affect net investment income.

All securities investments present a risk of loss of capital. Except for equities sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from equities sold short can be unlimited.

The Fund mitigates this price risk through diversification, in terms of company, industry, sector, and selection of securities in accordance with the Fund's investment guidelines.

The Fund has built in procedures to ensure adherence to the Fund's investment guidelines at all times.

At 30 June, the overall net market exposures were as follows:

	As at	
	30 June 2014	30 June 2013
	$	$
Listed equities	**9,341,575**	2,029,492
Listed equities sold short	**(2,056,000)**	(446,494)
Listed property trusts	**480,000**	-
Total	**7,765,575**	1,582,998

The table in Note 3(b) summarises the sensitivities of the Fund's assets and liabilities to price risk. The analysis is based on the assumption that the markets in which the Fund invests moved by +/- 15%.

(ii) Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund is exposed to cash flow interest rate risk on financial instruments with variable interest rates. Financial instruments with fixed rates expose the Fund to fair value interest rate risk.

The table below summarises the Fund's exposure to interest rate risks. It includes the Fund's assets and liabilities at fair values, categorised by the earlier of contractual repricing or maturity dates.

3 Financial risk management (continued)

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk (continued)

As at 30 June 2014

	Floating interest rate $	Fixed interest rate $	Non-interesting bearing $	Total $
Assets				
Cash and cash equivalents	5,342,494	-	-	5,342,494
Receivables	-	-	55,362	55,362
Due from brokers - receivable for securities sold	-	-	984,601	984,601
Financial assets held at fair value through profit or loss	-	-	9,821,575	9,821,575
Total assets	5,342,494	-	10,861,538	16,204,032
Liabilities				
Distributions payable	-	-	(447,426)	(447,426)
Payables	-	-	(987,402)	(987,402)
Due to brokers - payable for securities purchased	-	-	(1,274,462)	(1,274,462)
Financial liabilities held at fair value through profit or loss	-	-	(2,056,000)	(2,056,000)
Total liabilities (excluding net assets attributable to unitholders	-	-	(4,765,290)	(4,765,290)
Net exposure	5,342,494	-	6,096,248	11,438,742

3 Financial risk management (continued)

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk (continued)

As at 30 June 2013

	Floating interest rate $	Fixed interest rate $	Non-interesting bearing $	Total $
Assets				
Cash and cash equivalents	4,033,505	-	-	4,033,505
Receivables	-	-	83,994	83,994
Financial assets held at fair value through profit or loss	-	-	2,029,492	2,029,492
Total assets	4,033,505	-	2,113,486	6,146,991
Liabilities				
Payables	-	-	(647,620)	(647,620)
Due to brokers - payable for securities purchased	-	-	(1,003,992)	(1,003,992)
Financial liabilities held at fair value through profit or loss	-	-	(446,494)	(446,494)
Total liabilities (excluding net assets attributable to unitholders	-	-	(2,098,106)	(2,098,106)
Net exposure	4,033,505	-	15,380	4,048,885

The table in Note 3(b) summarises the impact of an increase/decrease of interest rates on the Fund's operating profit and net assets attributable to unitholders through changes in fair value or changes in future cash flows. The analysis is based on the assumption that interest rates changed by +/- 75 basis points (2013: +/- 75 basis points) from the year end rates with all other variables held constant.

3 Financial risk management (continued)

(b) Summarised sensitivity analysis

The following table summarises the sensitivity of the Fund's operating profit and net assets attributable to unitholders to market risks. The reasonably possible movements in the risk variables have been determined based on management's best estimate having regard to a number of factors, including historical levels of changes in interest rates and the historical correlation of the Fund's investments with the relevant benchmark and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the Fund invests. As a result, historic variations in risk variables are not a definitive indicator of future variances in the risk variables.

	Impact on operating profit/ Net assets attributable to unitholders			
	Price risk		Interest rate risk	
	-15%	+15%	-75bps	+75bps
	$	$	$	$
30 June 2014	**(1,164,836)**	**1,164,836**	**(40,069)**	**40,069**
30 June 2013	(237,450)	237,450	(30,250)	30,250

(c) Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. Market prices generally incorporate credit assessments into valuations and risk of loss is implicitly provided for in the carrying value of on-balance sheet financial assets and liabilities as they are carried at fair value. The total credit risk for on-balance sheet items, other than derivatives, is therefore limited to the amount carried on the Statement of Financial Position.

The Fund's maximum credit risk exposure at balance date in relation to each class of recognised financial asset, other than equity and derivative financial instruments, is the carrying amount of those assets as indicated in the balance sheet. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

In relation to equity financial instruments, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement. The risk associated with these contracts is minimised by undertaking transactions with counterparties on recognised exchanges, or where applicable ensuring that transactions are undertaken with a large number of counterparties.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values.

There are no financial assets that are past due or impaired, or would otherwise be past due or impaired.

The Fund uses Merrill Lynch International as its prime broker. Merrill Lynch International has a rating of A by Standard & Poor's at 30 June 2014 (2013: A).

3 Financial risk management (continued)

(c) Credit risk (continued)

The Fund also manages its exposure to credit risk by analysing the investment portfolio by industrial sector. The table below is a summary of the significant sector concentrations within the equity portfolio, net of securities sold short.

Sector	**As at 30 June 2014 Fund's equity portfolio (%)**	As at 30 June 2013 Fund's equity portfolio (%)
Information technology	**10.5**	5.4
Financial services	**6.7**	44.0
Energy	**9.1**	6.3
Health care	**4.0**	-
Consumer staples	**(0.1)**	8.8
Industrials	**7.0**	6.1
Consumer discretionary	**14.6**	24.7
Materials	**52.1**	(5.4)
Telecommunications services	**(3.9)**	10.1
Total	**100.0**	100.0

(i) Settlement of securities transactions

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered low, as delivery of securities sold is only made once the broker has received payment. Payment is made once purchase on the securities have been received by the broker. The trade will fail if either party fails to meet its obligations.

(ii) Cash and cash equivalents

In accordance with the Fund's policy, the Investment Manager monitors the Fund's credit position on a daily basis, and the Board of Directors reviews it on a quarterly basis.

(iii) Other

The Fund is not materially exposed to credit risk on other financial assets.

The maximum exposure to credit risk at the end of each reporting period is the carrying amount of the financial assets. None of these assets are impaired nor past due but not impaired.

(d) Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund is exposed to monthly cash redemptions of redeemable units. It therefore primarily holds investments that are traded in an active market and can be readily disposed.

At all times, the Investment Manager aims to maintain a predominantly liquid portfolio, although liquidity is not guaranteed.

In order to manage the Fund's overall liquidity, the Responsible Entity has the discretion to reject an application for units and to defer or adjust a redemption of units if the exercise of such discretion is in the best interests of unitholders. The Fund did not reject or withhold any redemptions during 2014 and 2013.

3 Financial risk management (continued)

(d) Liquidity risk (continued)

(i) Maturities of non-derivative financial liabilities

The table below analyses the Fund's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

As at 30 June 2014

	Less than 1 month $	**1-6 months $**	**6-12 months $**	**1-2 years $**	**On call $**
Distributions payable	**447,426**	-	-	-	-
Payables	**987,402**	-	-	-	-
Due to brokers - payable for securities purchased	**1,274,462**	-	-	-	-
Financial liabilities at fair value through profit or loss	-	**2,056,000**	-	-	-
Net assets attributable to unitholders	**11,438,742**	-	-	-	-
Contractual cash flows	**14,148,032**	**2,056,000**	-	-	-

As at 30 June 2013

	Less than 1 month $	1-6 months $	6-12 months $	1-2 years $	On call $
Payables	647,620	-	-	-	-
Due to brokers - payable for securities purchased	1,003,992	-	-	-	-
Financial liabilities at fair value through profit or loss	-	446,494	-	-	-
Net assets attributable to unitholders	4,048,885	-	-	-	-
Contractual cash flows	5,700,497	446,494	-	-	-

Financial instruments at fair value through profit or loss where there are no contractual cash flows are disclosed based on the financial instruments' fair value at 30 June and their estimated maturity at this date.

For the year ended 30 June 2014, the Fund did not include financial assets and financial liabilities that were determined using valuation techniques. The fair values of the Fund's financial assets and liabilities for the year then ended were determined directly by reference to quoted prices that were available from various sources, such as exchanges, dealers, brokers, industry groups and pricing services.

4 Fair value measurement

The Fund measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Financial assets / liabilities at fair value through profit or loss (FVTPL) (see Note 6 and 7)

The Fund has no assets or liabilities measured at fair value on a non-recurring basis in the current reporting period.

AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)

(b) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2), and

(c) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

(i) Fair value in an active market (level 1)

The fair value of financial assets and liabilities traded in active markets (such as listed equity securities) is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs.

The Fund values its investments in accordance with the accounting policies set out in Note 2 to the financial statements. For the majority of its investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

The quoted market price used for financial assets and financial liabilities held by the Fund is the last sale price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Recognised fair value measurements

The following table presents the Fund's assets and liabilities measured and recognised at fair value as at 30 June.

At 30 June 2014	**Level 1**	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Financial assets				
Financial assets designated at fair value through profit or loss:				
Equity securities	**9,341,575**	-	-	**9,341,575**
Listed property trusts	**480,000**	-	-	**480,000**
Total financial assets	**9,821,575**	-	-	**9,821,575**
Financial liabilities				
Financial liabilities designated at fair value through profit or loss:				
Equity securities sold short	**2,056,000**	-	-	**2,056,000**
Total financial liabilities	**2,056,000**	-	-	**2,056,000**

4 Fair value measurement (continued)

Recognised fair value measurements (continued)

At 30 June 2013	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets				
Financial assets designated at fair value through profit or loss:				
Equity securities	2,029,492	-	-	2,029,492
Total financial assets	2,029,492	-	-	2,029,492
Financial liabilities				
Financial liabilities designated at fair value through profit or loss:				
Equity securities sold short	446,494	-	-	446,494
Total financial liabilities	446,494	-	-	446,494

(ii) Transfers between levels

Management's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

There were no transfers between levels at the end of the reporting period.

Fair value of financial instruments not carried at fair value

The carrying value of trade receivables and trade payables are assumed to approximate their fair values.

Net assets attributable to unitholders' carrying value does differ from its fair value (deemed to be redemption price for individual units) due to no differences in valuation inputs.

5 Net gains/(losses) on financial instruments held at fair value through profit or loss

Net gains/(losses) recognised in relation to financial assets and financial liabilities held at fair value through profit or loss:

	Year ended 30 June 2014 $	For the period 1 March 2013 to 30 June 2013 $
Financial assets		
Net gain/(loss) on financial assets held for trading	**(91,061)**	-
Net gain/(loss) on financial assets designated as at fair value through profit or loss	**2,748,332**	(69,537)
Net gains/(losses) on financial assets held at fair value through profit or loss	**2,657,271**	(69,537)
Net realised loss on financial assets at fair value through profit or loss	**1,564,572**	(156,301)
Net unrealised gain on financial assets held at fair value through profit or loss	**1,092,699**	86,764
Net gains/(losses) on financial assets held at fair value through profit or loss	**2,657,271**	(69,537)
Financial liabilities		
Net gain/(loss) on financial liabilities designated as at fair value through profit or loss	**(198,215)**	80,622
Net gains/(losses) on financial liabilities held at fair value through profit or loss	**(198,215)**	80,622
Net realised gain/(loss) on financial liabilities at fair value through profit or loss	**(175,850)**	80,622
Net unrealised gain/(loss) on financial liabilities held at fair value through profit or loss	**(22,365)**	-
Net gains/(losses) on financial liabilities held at fair value through profit or loss	**(198,215)**	80,622
Total net gains/(losses) on financial instruments held at fair value through profit or loss	**2,459,056**	11,085

6 Financial assets held at fair value through profit or loss

	As at 30 June 2014 $	30 June 2013 $
Designated at fair value through profit or loss		
Equity securities	**9,821,575**	2,029,492
Total designated at fair value through profit or loss	**9,821,575**	2,029,492
Total financial assets held at fair value through profit or loss	**9,821,575**	2,029,492
Comprising:		
Equity securities		
Australian listed equity securities	**9,341,575**	2,029,492
Australian listed property trusts	**480,000**	-
Total equity securities	**9,821,575**	2,029,492

An overview of the risk exposures and fair value measurements relating to financial assets at fair value through profit or loss is included in Note 3 and 4 to the financial statements.

7 Financial liabilities held at fair value through profit or loss

	As at 30 June 2014 $	30 June 2013 $
Designated at fair value through profit or loss		
Listed equity securities sold short	**2,056,000**	446,494
Total designated at fair value through profit or loss	**2,056,000**	446,494
Total financial liabilities held at fair value through profit or loss	**2,056,000**	446,494
Comprising:		
Listed equity securities sold short		
Australian equity securities	**2,056,000**	446,494
Total listed equity securities sold short	**2,056,000**	446,494

An overview of the risk exposures and fair value measurements relating to financial liabilities at fair value through profit or loss is included in Note 3 and 4 to the financial statements.

8 Net assets attributable to unitholders

Movements in the number of units and net assets attributable to unitholders during the year were as follows:

	Year ended 30 June 2014 Units	**Year ended 30 June 2014 $**	For the period 1 March 2013 to 30 June 2013 Units	For the period 1 March 2013 to 30 June 2013 $
Opening balance	**4,014,725**	**4,048,885**	-	-
Applications	**5,040,275**	**5,936,015**	4,014,725	4,037,539
Application units through series rollover	**2,690,830**	**3,193,208**	-	-
Redemption units through series rollover	**(2,691,224)**	**(3,193,208)**	-	-
Increase in net assets attributable to unitholders	**-**	**1,453,842**	-	11,346
Closing balance	**9,054,606**	**11,438,742**	4,014,725	4,048,885

As stipulated in the Fund's Constitution, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets in the Fund.

Each series of units within the same class has the same rights as all other units within that class, except for different performance fees. In order to ensure that unitholders bear the performance fee according to the actual performance of their units, having regard to the different dates and prices at which such units were acquired, a new series of units is issued on each unit pricing date being every month end. As soon as practicable after a performance fee is payable, all units in all series with a performance fee payable will normally be consolidated into a single series.

Capital risk management

The Fund considers its net assets attributable to unit holders as capital, notwithstanding net assets attributable to unitholders are classified as a liability. The amount of net assets attributable to unitholders can change significantly on a monthly basis as the Fund is subject to monthly applications and redemptions at the discretion of unitholders.

Monthly applications and redemptions are reviewed relative to the liquidity of the Fund's underlying assets on a daily basis by the Investment Manager. Under the terms of the Fund's Constitution, the Responsible Entity has the discretion to reject an application for units and to defer or adjust a redemption of units if the exercise of such discretion is in the best interests of unitholders.

9 Distributions to unitholders

The distributions declared during the year were as follows:

	Year ended			
	30 June 2014 $	**30 June 2014 CPU**	For the period 1 March 2013 to 30 June 2013 $	For the period 1 March 2013 to 30 June 2013 CPU
Distributions payable	**447,426**	**4.9414**	-	-
Total distributions	**447,426**	**4.9414**	-	-

10 Cash and cash equivalents

	As at	
	30 June 2014	30 June 2013
	$	$
Cash at bank	**5,342,494**	4,033,505
	5,342,494	4,033,505

The weighted average interest rate of the Fund's cash and cash equivalents as at 30 June 2014 is 2.72% (2013: 2.13%).

11 Reconciliation of profit/(loss) to net cash outflow from operating activities

(a) Reconciliation of profit/(loss) to net cash outflow from operating activities

	Year ended 30 June 2014	For the period 1 March 2013 to 30 June 2013
	$	$
Profit/(loss) for the year	**-**	-
Increase in net assets attributable to unitholders	**1,453,842**	11,346
Distributions to unitholders	**447,426**	-
Proceeds from sale of financial instruments held at fair value through profit or loss	**41,094,087**	6,453,711
Purchase of financial instruments held at fair value through profit or loss	**(46,647,606)**	(8,886,858)
Re-purchase of financial liabilities held at fair value through profit or loss	**11,637,338**	5,622,694
Proceeds from short sale of financial liabilities held at fair value through profit or loss	**(10,521,473)**	(3,757,468)
Net gains/(losses) on financial instruments held at fair value through profit or loss	**(2,459,056)**	(11,085)
Net change in receivables and other assets	**(41,366)**	(12,144)
Net change in payables and other liabilities	**297,057**	7,895
Net cash inflow/(outflow) from operating activities	**(4,739,751)**	(571,909)

(b) Non-cash financing activities

The following distribution payments to unitholders were satisfied by the issue of units under the distribution reinvestment plan	**-**	-
Total non-cash financing activities	**-**	-

As described in Note 2(i), income not distributed is included in net assets attributable to unitholders. The change in this amount each year (as reported in (a) above) represents a non-cash financing cost as it is not settled in cash until such time as it becomes distributable.

12 Receivables

	As at 30 June 2014 $	30 June 2013 $
Interest receivable	**682**	327
Dividends and distributions receivable	**4,275**	11,331
Applications receivable	**-**	70,000
GST receivable	**50,405**	2,336
Total receivables	**55,362**	83,994

13 Payables

	As at 30 June 2014 $	30 June 2013 $
Management fees payable	**16,099**	5,365
Performance fees payable	**285,463**	359
Monies not allocated to units	**680,600**	637,875
Other payables	**5,240**	4,021
Total payables	**987,402**	647,620

14 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditors of the Fund:

	Year ended 30 June 2014 $	For the period 1 March 2013 to 30 June 2013 $
Nexia Melbourne		
Audit and other assurance services		
Audit of financial statements	**9,000**	7,000
Audit of compliance plan	**2,100**	2,000
Total remuneration for audit and other assurance services	**11,100**	9,000
Taxation services		
Tax compliance services	**4,000**	3,500
Total remuneration for taxation services	**4,000**	3,500
Total remuneration of Nexia Melbourne	**15,100**	12,500

The auditor's remuneration is borne by the Responsible Entity.

Fees are stated net of GST.

15 Related party transactions

The Responsible Entity of Paragon Fund is Paragon Funds Management Ltd (ABN 42 159 623 873) (AFSL 426800). Accordingly, transactions with entities related to Paragon Funds Management Ltd are disclosed below.

The Responsible Entity has contracted services to Merrill Lynch International to act as Prime Broker and White Outsourcing Pty Limited to act as Administrator for the Fund. The contracts are on normal commercial terms and conditions.

(a) Directors

Key management personnel include persons who were Directors of Paragon Funds Management Ltd at any time during or since the end of the financial year and up to the date of this report.

Mr John Deniz
Mr Nick Reddaway
Ms Hillier Deniz

(b) Other key management personnel

There were no other persons with responsibility for planning, directing and controlling the activities of the Fund, directly or indirectly during the financial year.

(c) Transactions with key management personnel

There were no transactions with key management personnel during the reporting period.

Key management personnel did not hold units in the Fund as at 30 June 2014 (30 June 2013: nil).

(d) Key management personnel compensation

Key management personnel are paid by Paragon Funds Management Ltd. Payments made from the Fund to Paragon Funds Management Ltd do not include any amounts directly attributable to the compensation of key management personnel.

(e) Key management personnel loans

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period.

(f) Other transactions within the Fund

Apart from those details disclosed in this note, no key management personnel have entered into a material contract with the Fund during the financial year and there were no material contracts involving key management personnel's interests existing at year end.

(g) Responsible Entity and Investment Manager's fees and other transactions

Under the terms of the Product Disclosure Statement, the Investment Manager is entitled to receive management fees of up to 1.5% per annum (inclusive of GST net of RITC), calculated by reference to the monthly net assets value of the Fund and payable monthly by the Fund.

In addition, the investment manager is entitled to a performance fee calculated at the end of each month, monthly in arrears and paid at the end of each half year period or part year period ending 30 June and 31 December. The performance fee is calculated as 20% (inclusive of GST net of RITC) of the Fund's out-performance of the benchmark return subject to a 5% hurdle rate and a high-watermark. At 30 June 2014, a performance fee of $480,733 (inclusive of GST net of RITC) was recorded in the Fund (2013: $335).

15 Related party transactions (continued)

Transactions with related parties have taken place in the ordinary course of business. The transactions during the year and amounts payable at year end between the Fund and the Responsible Entity and the Investment Manager were as follows:

	Year ended 30 June 2014 **$**	For the period 1 March 2013 to 30 June 2013 $
Management fees for the year paid by the Fund to the Investment Manager	**116,338**	16,904
Performance fees for the year paid by the Fund to the Investment Manager	**480,733**	335
Fees earned by the Responsible Entity in respect of investments by the Fund in other schemes managed by the Responsible Entity	**38,795**	5,637
Aggregate amounts payable to the Investment Manager at the end of the reporting period	**301,562**	5,724
Aggregate amounts payable to the Responsible Entity at the end of the reporting period	**5,265**	1,667

(h) Related party unitholdings

Parties related to the Fund (including Paragon Funds Management Ltd, its related parties and other schemes managed by Paragon Funds Management Ltd), held units in the Fund as follows:

2014

Unitholder	**No. of units held opening (Units)**	**No. of units held closing (Units)**	**Fair value of investment ($)**	**Interest held (%)**	**Distributions paid/payable by the Fund ($)**
Deniz Pty Ltd ATF The Deniz Family Trust	**463,746**	**928,477**	**1,172,439**	**10.25**	**45,880**
M & H Harlock Pty Ltd ATF M & H Harlock Superannuation Fund	**217,241**	**217,167**	**274,413**	**2.40**	**10,731**
John & Prudence Deniz ATF Deniz Superannuation Fund	**179,476**	**205,972**	**260,248**	**2.28**	**10,178**
Nick Reddaway & Catherine Doggett ATF Reddaway Family Superannuation Fund	**205,000**	**214,965**	**271,630**	**2.37**	**10,622**
Reddaway Investment Pty Ltd ATF The Reddaway Family Trust	**270,000**	**270,000**	**341,172**	**2.98**	**13,342**
	1,335,463	**1,836,581**	**2,319,902**	**20.28**	**90,753**

15 Related party transactions (continued)

(h) Related party unitholdings (continued)

2013

Unitholder	No. of units held opening (Units)	No. of units held closing (Units)	Fair value of investment ($)	Interest held (%)	No. of units acquired (Units)	Distributions paid/payable by the Fund ($)
Deniz Pty Ltd ATF The Deniz Family Trust	-	463,746	468,061	11.56	463,746	-
M & H Harlock Pty Ltd ATF M & H Harlock Superannuation Fund	-	217,241	218,783	5.40	217,241	-
John & Prudence Deniz ATF Deniz Superannuation Fund	-	179,476	181,185	4.47	179,476	-
Nick Reddaway & Catherine Doggett ATF Reddaway Family Superannuation Fund	-	205,000	207,030	5.11	205,000	-
Reddaway Investment Pty Ltd ATF The Reddaway Family Trust	-	270,000	272,673	6.73	270,000	-
	-	1,335,463	1,347,732	33.27	1,335,463	-

(i) Investments

The Fund did not hold any investments in Paragon Funds Management Ltd or its related parties during the year (2013: nil).

16 Events occurring after the reporting period

Other than the following, the directors are not aware of any significant events since the end of the reporting period:

On 29 August 2014, the Fund created a separate non-series based class of units to be issued to IDPS operators and IDPS-like schemes as permitted by the constitution. An amendment to the constitution was issued by way of a Supplementary Deed, covering the issue and nature of these B Class units. As the rights and benefits of direct retail and wholesale unit holders are not impacted by the new class, the Fund was not required to obtain approval from the members for this amendment.

A Supplementary Product Disclosure Statement (SPDS) dated 29 August 2014 was issued by the Responsible Entity, including disclosure details of this new class of units and the nature of the investment for indirect investors. The issue of B Class units remains at the discretion of the Responsible Entity, but is limited to IDPS operators and IDPS-like schemes in accordance with the SPDS.

The financial effect of this transaction has not been brought to account in the 2014 financial report.

No other significant events have occurred since the end of the year which would impact on the financial position of the Fund disclosed in the Statement of Financial Position as at 30 June 2014 or on the results and cash flows of the Fund for the year ended on that date.

17 Contingent assets and liabilities and commitments

The Fund's set up costs incurred by Paragon Funds Management Ltd are entitled to be reimbursed out of the Fund. Any reimbursement is contingent upon the subscription of the fund under management reaching $20 million, as per the Product Disclosure Statement. As this had not been reached at year end, a contingent liability exists for payment should the benchmark be achieved at a later date.

The set up cost payable, contingent upon the $20 million subscription being reached, as at the end of the year, is $64,948.

Directors' declaration

In the opinion of the Directors of the Responsible Entity:

(a) the financial statements and notes set out on pages 6 to 33 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the Fund's financial position as at 30 June 2014 and of its performance for the financial year ended on that date,

(b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable, and

(c) Note 2(a) confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the Directors of Paragon Funds Management Ltd.

Mr John Deniz
Director

Melbourne, VIC
22 September 2014

nexia
australia

the next solution

INDEPENDENT AUDITOR'S REPORT
TO THE UNITHOLDERS OF PARAGON FUND

Report on the Financial Report

We have audited the accompanying financial report of Paragon Fund (the "Scheme"), which comprises the statement of financial position as at 30 June 2014, the statement of comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of Paragon Funds Management Ltd (the "Responsible Entity") are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Scheme's preparation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Paragon Funds Management Ltd, would be in the same terms if provided to the directors as at the date of this auditor's report.

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Independent Auditor's Report
To the Unitholders of Paragon Fund

nexia
australia

Auditor's Opinion

In our opinion:

a. the financial report of Paragon Fund is in accordance with the *Corporations Act 2001*, including:

   i. giving a true and fair view of the Scheme's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

NEXIA MELBOURNE
ABN 16 847 721 257

GEORGE S DAKIS
Partner
Audit & Assurance Services

Melbourne

22 September 2014