



Paragon Fund Monthly Performance Report

January 2014



PARAGON FUND UPDATE – January 2014

KEY FUND FACTS		PERFORMANCE (net of fees)		FUND DETAILS	
Fund Managers	John Deniz / Nick Reddaway	1 month	-1.1%	Unit Price	1.174
Strategy	Australian absolute return	3 month	1.7%	Exit Price	1.172
Inception Date	01/03/2013	6 month	14.2%	Fund Size (1 st Feb)	\$8.1m
Total Net Return	17.4%	Financial YTD	16.3%		

COMMENTARY

The Paragon Fund returned -1.1% net of fees for the month of January vs. the market (All Ordinaries Accumulation Index) falling -2.8%. Since inception the Paragon Fund has returned 17.4% net of fees vs. the market 5.2%.

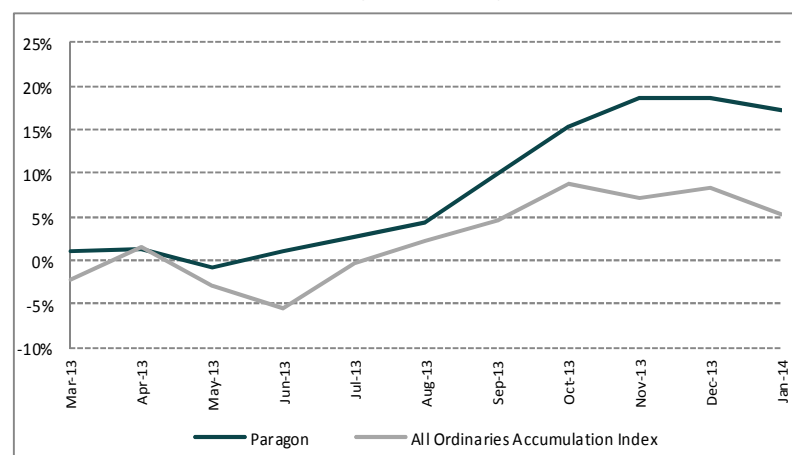
The Australian equity market fell in January along with global equity markets as the Federal Reserve continued to taper its bond purchases despite weak economic data (assumed to be bad weather related). The reduction in liquidity helped intensify precarious economic conditions in emerging markets creating high exchange rate volatility amongst emerging market currencies. Additionally, economic data out of China showed that manufacturing activity signalled contractionary economic conditions. Gold and gold equities performed strongly.

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

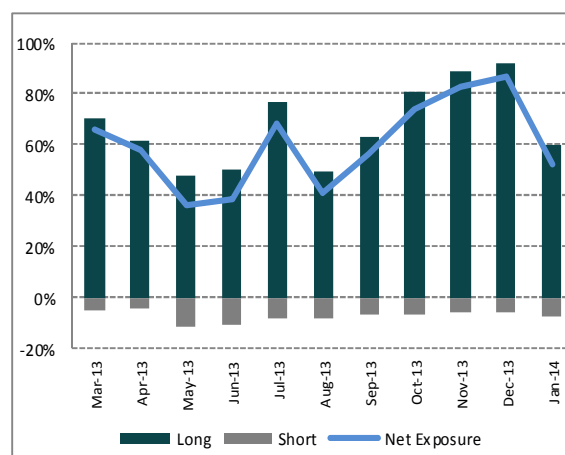
- Strong returns from our technology investments including core holding Xero
- Reducing the net equity exposure from 80% at the beginning of the month to 50% by month end

This month we cover some operational matters and introduce our CFO, Hillier Deniz.

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%	4.9%	2.8%	0.0%	18.7%
2014	-1.1%												-1.1%

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

PORTFOLIO BREAKDOWN

INDUSTRY EXPOSURE			
	Long	Short	Net
Resources	18.2%	5.6%	12.6%
Industrials	35.4%	0.0%	35.4%
Financials	6.0%	2.0%	4.0%
Total	59.6%	7.6%	52.0%
Cash			48.0%

HOLDINGS	
Long	17
Short	4
Total	21

CONCENTRATION	
Top 5	29.7%
Top 10	48.0%

For this month's update, we wanted to cover off some operational matters that we have been working on, in part due to regulatory requirements as well as changes opted by Paragon for the benefit of our clients.

Firstly and most importantly (albeit somewhat overdue!), we would like to formally introduce our CFO, Hillier Deniz. Hillier is a chartered accountant with over 20 years' experience including senior financial controller roles with Simply Energy, Atlas Steel and McCormick Foods. Please visit our website for further details of Hillier's background. Hillier has been with us for the last 1.5 years and has proven critical to Paragon from the initial set up right through to going live and beyond. Hillier looks after all matters outside of the realm of investment management which allows John and myself to be able to devote our time focusing on research and stock picking for the Paragon Fund. Hillier managed to do all this while becoming a first time mother to Ella, which was fantastic for her and her husband Matt. Hillier continues to cover all operational, compliance and finance related functions for Paragon Funds Management.

On to more operational matters, we wanted to update clients on some changes that have been made this month. Withdrawals from the Paragon Fund were previously only available on a quarterly basis. In part this was to help us maintain assets as we tried to grow the business and thankfully, this was not required over the past 12 months, as our clients chose to remain invested in the Fund. As from 1st February however, withdrawals will be brought into alignment with applications, both now available on a monthly basis. A further change is the extension of the monthly applications cut off, which is now the last business day of the month. Likewise the monthly cut off for withdrawals is also the last business day of the month.

In accordance with the recently issued ASIC regulatory guide RG240, which requires changes to the level of disclosures made by certain funds, we have reissued Paragon's PDS, which took effect from 1st February 2014. Pleasingly, most of the disclosures required by this regulatory guide were already being met by Paragon. We wish to bring this new PDS to the attention of our clients, which is now available from our website, and encourage all to have a read.

The following additional information regarding the Paragon Fund is being brought to your attention, in accordance with RG240 requirements, and in future will be communicated by exception only i.e. if the details change at any stage:

- Currently there is only one class of Units, however there are multiple Series of Units. For further information regarding Series of Units, refer to section 7 of the current PDS. The Fund performance information provided in the monthly updates refers to the lead series only.
- The key service providers to the Fund are:
 - Responsible Entity & Investment Manager – Paragon Funds Management Ltd (Paragon);
 - Prime Broker and Custodian - Merrill Lynch International; and
 - Administrator – White Outsourcing Pty Ltd.
 - Merrill Lynch International and White Outsourcing Pty Ltd are independent of the Fund and Paragon, and provide their services on an arms' length basis in accordance with legally binding contractual agreements. Further details are outlined in section 9 of the current PDS.
- Since inception of the Fund, there has not been a material change to any of the following:
 - The Fund's key service providers;
 - The Fund's strategy;
 - The Fund's risk profile; and
 - any change in the Investment Team.
- Derivative transactions, if any, are currently only entered into with Merrill Lynch International. No other derivative counterparties have been engaged by the Fund up to the date of this update.
- The liquidity strategy of the Fund is to always be invested in listed equities whereby it can reasonably be expected to realise at least 80% of its assets, at the value ascribed to those assets in calculating the Fund's NAV, within 10 days at all times.

17th February 2014

Paragon Funds Management