



THE PARAGON FUND // JULY 2014

PROFILE

Fund Managers	John Deniz & Nick Reddaway
Strategy	Australian absolute return
Inception Date	01/03/2013
Net Return p.a.	31.6%
Total Net Return	47.7%

PERFORMANCE *(after fees)*

1 month	12.5%
3 month	21.7%
6 month	25.8%
Financial YTD	12.5%
1 year	43.6%

DETAILS

NAV	\$1.4210
Entry Price	\$1.4231
Exit Price	\$1.4188
Fund Size	\$15.0m
APIR Code	PGF0001AU

OVERVIEW & POSITIONING

The Paragon Fund returned +12.5% after fees for the month of July 2014. Since inception the Paragon Fund has returned +47.7% after fees vs. the market (All Ordinaries Accumulation Index) +16.2%.

The Australian equity market bucked weak developed market leads to rise 4.5% in July. A resurgent mining sector rose +8.8% after a gauge of Chinese manufacturing activity (the Chinese PMI) reached a 6 month high, allaying fears of a potential hard landing. The positive sentiment towards the resource sector can't come quickly enough for the mining services industry, with three companies again lowering profit forecasts in July (Cardno, ALS Ltd, and Boart Longyear) as resource company capex continues to be held in check.

Key drivers of the Paragon Fund performance for July included strong returns from our resource investments in Liquefied Natural Gas, Triton Minerals, Orocobre Ltd and OZ Minerals. Industrial firms Crown Resorts and G8 Education also had strong months. At the end of June the fund had 25 long positions and 4 short positions.

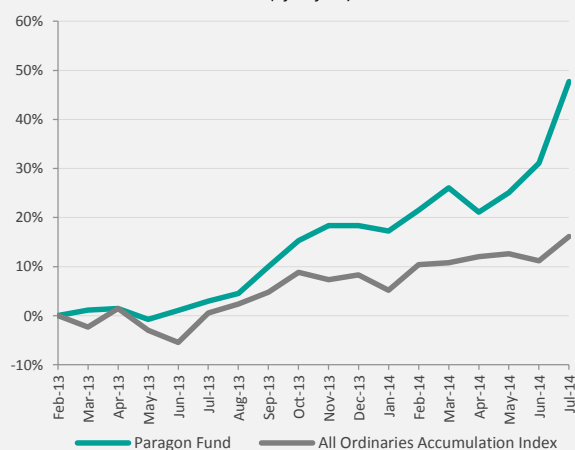
INDUSTRY EXPOSURE	Long	Short	Net
Resources	52.0%	-3.0%	49.0%
Industrials	39.0%	-4.2%	34.8%
Financials	0.0%	0.0%	0.0%
Total	91.0%	-7.2%	83.8%
Cash			16.2%

PORTFOLIO INSIGHT

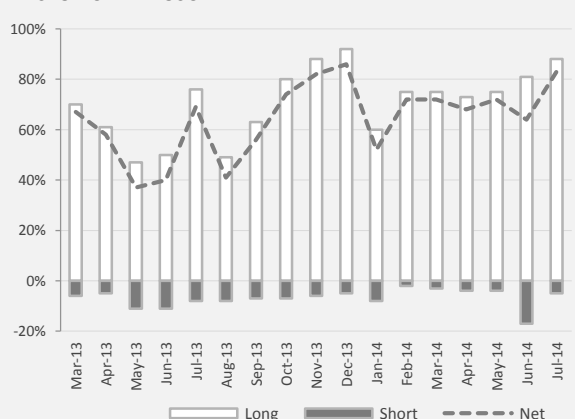
Given the funds strong return in July we thought it would be useful to provide some further insight into the two primary drivers behind this return, namely the fund's sector allocation and stock selection.

In terms of the funds sector allocation, the fund has been transitioning away from industrials and financials, towards resources. In a month where mining stocks on average rose

HISTORICAL PERFORMANCE *(after fees)*



HISTORICAL EXPOSURE

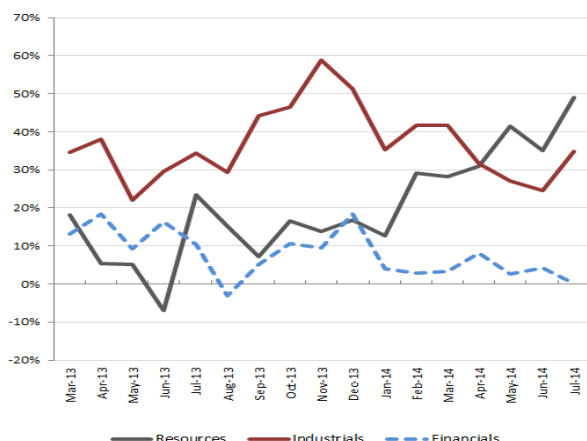


by close to 9%, the Paragon Fund clearly benefited by having almost 50% of the fund exposed to this sector in July.

We have felt for some time that the major banks were fully priced with muted credit growth and cyclically low bad debts, while a lot of industrial companies have also re-rated significantly since the RBA began cutting rates in 2012.



The Paragon Fund – Sector Exposure



While this shift towards resources was predominantly an expression of the opportunity we saw at the underlying stock level, clearly the prospect of better global growth is a tailwind for the much unloved resource sector. With real-time global economic conditions (as measured by the PMI indexes) at a 4 year high, it is clear there is a broadening economic improvement being experienced across the major developed markets and China.

Indeed the near 100% outperformance of the financial sector vs. resources on a total return basis since 2009 would suggest that the relative strength in resource stocks experienced in July could have some way to go should economic conditions remain robust and investor's begin transitioning away from chasing yield when interest rate normalisation begins.

Regarding the funds stock selection, while the majority of the fund's holdings performed well in July, there was a significant re-rating to stocks exposed to electric vehicles and lithium-ion batteries. We wrote a stock piece on lithium producer Orocobre in our August 2013 and May 2014 monthlies and

talked further about this market in our highlight into our emerging graphite company Triton Minerals last month.

On 10th July, news emerged that £47b global mining giant, Glencore, was looking to buy the largest listed graphite company Syrah Resources for up to \$2bn. This compared very favourably to Syrah's then \$700m market capitalisation and had huge valuation implications for the listed graphite sector in Australia. While Syrah is the most advanced of the emerging graphite projects globally and also currently boasts the world's largest, high-grade graphite resource, it also trades on an implied resource metric over 5x its adjacent neighbour and closest peer, Triton. However, given a takeover of Syrah is not our central case, we further reduced our position in Triton into strength.

Then on the 15th July, further high-priced M&A in the lithium sector saw US-listed chemical company Albermarle bid US\$6b (implied 11x CY14F EV/EBITDA) for Rockwood Holdings - the world's largest lithium producer. Tesla's planned 50GWh/yr lithium battery plant has no doubt spurred Albermarle into action given it will effectively double the world's current battery production and consume close to 25% of the world's existing lithium production. This is clearly significant for Orocobre, which remains the only pure-play project on lithium-brine globally still in public hands. We believe that on a similar acquisition multiple implied for Rockwood, Orocobre would command \$5/sh+.

A mention also has to go to LNG Ltd. LNG Ltd rallied 70% in July on its agreement to acquire a second North American LNG export project, Bear Head LNG. LNG Ltd is very well placed to replicate its Magnolia LNG Project's success to date and fast-track development by using its existing development team and liquefaction technology. Financial close on Bear Head LNG is expected this month, which we value as materially accretive to LNG Ltd.

MONTHLY PERFORMANCE BY YEAR

	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%	3.8%	3.6%	-3.9%	3.2%	4.9%	12.5%						24.4%

Performance results are presented net of all transaction costs, investment management and performance fees incurred by the Fund. Monthly performance figures are calculated based on the lead series using a monthly unit pricing methodology based on historical data.

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