PARAGON FUNDS MANAGEMENT

THE PARAGON FUND // AUGUST 2014

PROFILE		PERFORMANCE *(after fees)*		DETAILS	
Fund Managers	John Deniz & Nick Reddaway	**1 month**	-1.1%	**NAV**	$1.4048
Strategy	Australian absolute return	**3 month**	16.6%	**Entry Price**	$1.4069
Inception Date	01/03/2013	**6 month**	19.8%	**Exit Price**	$1.4027
Net Return p.a.	28.6%	**1 year**	39.7%	**Fund Size**	$16.8m
Total Net Return	46.0%	**Financial YTD**	11.2%	**APIR Code**	PGF0001AU

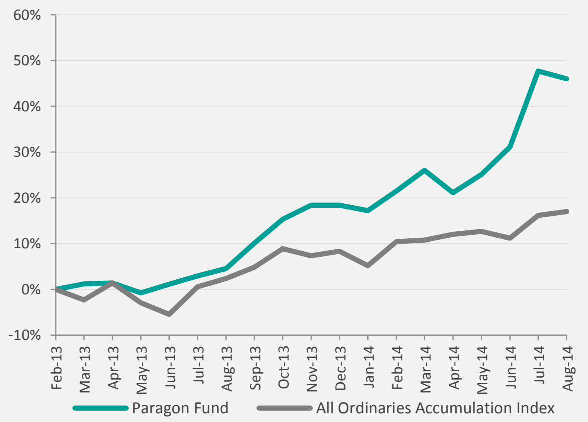
OVERVIEW & POSITIONING

The Paragon Fund returned -1.1 % after fees for the month of August 2014. Since inception the Paragon Fund has returned +46.0% after fees vs. the market (All Ordinaries Accumulation Index) +17.0%.

The Australian equity market eked out a small gain in August after falling nearly 3.5% intra month. Defensive buying across yield sectors offset weakness in resources, particularly iron ore companies, after the metal fell over 8% for the month on concerns of rising supply. Australian unemployment hit 6.4%, its highest level in over 12 years and while European economic data suffers from concerns over the Ukraine crisis, American manufacturing data continued to point to robust activity.

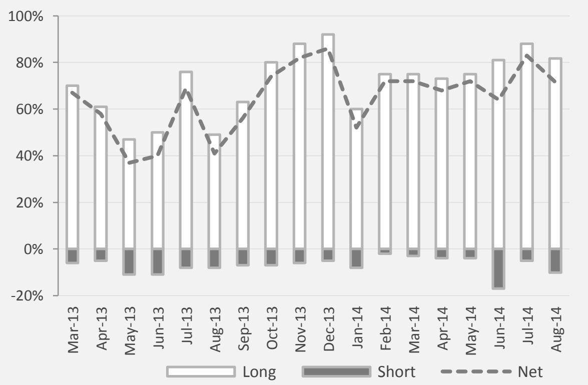
Key drivers of the Paragon Fund performance for August included strong returns from Orocobre, Orora, G8 Education and our short position in JB Hi-Fi, offset by falls in our resource holdings, and Xero. At the end of August the fund had 21 long positions and 7 short positions.

HISTORICAL PERFORMANCE *(after fees)*



INDUSTRY EXPOSURE	Long	Short	Net
Resources	40.2%	3.4%	36.8%
Industrials	38.5%	6.7%	31.8%
Financials	3.0%	0.0%	3.0%
Total	**81.7%**	**10.1%**	**71.6%**
Cash			**28.4%**

HISTORICAL EXPOSURE



STOCK HIGHLIGHTS

Orora (ORA AU)

Paragon invested in Orora in May 2014 at $1.49/sh. Having demerged from Amcor in December 2013, Orora is Australia's dominant manufacturer of beverage and fibre packaging whilst also providing packaging distribution services in North America. Orora generates over $3bn in sales (62% in Australasia, 38% in North America) and employs over 5500 people in 7 countries.

In our view, Orora offers a set of investment attributes that aren't common in the Australian equity market today. Through internal self-help measures (closure of loss making operations, efficiency gains, and the ramp-up of the Botany B9 recycled paper plant) the company can reliably grow its earnings regardless of the direction of the economy over the next 2 years.

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With $39m in cumulative cost reductions to date, management expect there is an additional $54m to be delivered over the next 2-3years. These cost improvements are in part the benefit seen from over $1bn that has been invested into the business by Amcor in the 6 years prior to the demerger to improve manufacturing capabilities and position the business for growth. The revenue it does generate in Australia is very defensive given the end markets it serves (everyday consumer items) and should mimic GDP style growth while the faster growing and more fragmented North American packaging distribution division provides the opportunity for accretive acquisitions.

Orora released its first full year results as a listed company in August 2014. While flat revenues were experienced in Australasia, the company pleasingly delivered at the high end of expectations on its internal cost and productivity benefits, enjoyed double digit sales growth in North America and made progress lifting margins in all regions. Management improved returns on capital while also delivering strong cash flow growth and debt reduction. The market reacted positively to the result, lifting the stock +11.5% on the day, and +12.2% for the month.

We believe the 2014 full year result will be indicative of what's to come for Orora over the next 2 years. Management's ability to meet or even exceed its own cost benefit guidance and continued growth in North America should drive earnings growth close to +15% per year. Managements Net Debt/Ebitda target of 2.5x provides ample headroom such that accretive acquisitions will be possible, funded from increasingly strong free cash generation. Coupled with a 5% dividend, we think the potential total returns to shareholders remains attractive relative to Orora's defensiveness.

G8 Education (GEM AU)

Paragon invested in G8 Education in March 2013 at $2.10/sh. G8 Education is Australia's largest listed childcare operator, providing care and educational services to children across Australia. G8 will generate over $500m in sales this calendar year across 375 centres in Australia and 18 in Singapore under 16 branded childcare groups.

G8 Education continues to grow through acquisition, with their strategy being to roll up existing child care centres and integrate the head office and staff rostering functions into their management systems to drive profitability. Since 2009, management have been able to reduce head office costs by almost 2/3rds while Ebitda margins have more than doubled. In the wake of the spectacular ABC Learning failure, G8 has been able to use its scale to gain access to funding in order to consolidate a highly fragmented market. While G8 is second in terms of market share, their 375 centres in Australia represent a small portion of the total 6000 centres currently operating. Importantly, G8 does not buy the property, only the rights to manage the centres which are regulated by the government, such that they remain conservatively geared and highly cash generative. Despite buying out a competitor on above average multiples given the strategic nature of the asset, management remain very disciplined towards acquisitions.

An important milestone for investors was the release of the government productivity commission draft report into the childcare sector in July 2014. While the market was rightly worried about the potential onerous findings given the ~$6bn and growing government funding to the sector, the draft report's findings inevitably should only aid in making childcare more affordable in order to boost female participation in the workforce. Coupled with natural population growth, this provides increasing demand for childcare services that, particularly in metro areas, will continue to outstrip supply regardless of the direction of the economy.

We believe that G8 can continue to grow both organically (efficiency gains, pricing and occupancy) and through acquisitions for the foreseeable future. While conservatism on prices paid for new centres will remain the clear focus point, the strong cash generation of the high margin business model should allow G8 to fund over 40 highly accretive acquisitions per year and deliver dividend yields above 5%. We think shareholders will continue to be rewarded with compounded total returns exceeding 20% per year and a share price exceeding $7/sh.

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%	-1.1%					**23.0%**

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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