



THE PARAGON FUND // OCTOBER 2014

PROFILE		PERFORMANCE <i>(after fees)</i>		DETAILS	
Fund Managers	John Deniz & Nick Reddaway	1 month	-2.5%	NAV	\$1.3729
Strategy	Australian absolute return	3 month	-3.4%	Entry Price	\$1.3750
Inception Date	01/03/2013	6 month	17.6%	Exit Price	\$1.3708
Net Return p.a.	23.7%	1 year	23.6%	Fund Size	\$21.6m
Total Net Return	42.7%	Financial YTD	8.7%	APIR Code	PGF0001AU

OVERVIEW & POSITIONING

The Paragon Fund returned -2.5% after fees for the month of October 2014. Since inception the Paragon Fund has returned +42.7% after fees vs. the market (All Ordinaries Accumulation Index) +15.2%.

While the Australian equity market was down another 3% in early October, the market closed the month up almost 4% as the banks rallied 8% into their dividend ex dates as fears over further financial regulation subsided. Markets globally were broadly positive post rhetoric from the Federal Reserve and the ECB while falling oil and iron ore prices continued to weigh heavily on the resource sector.

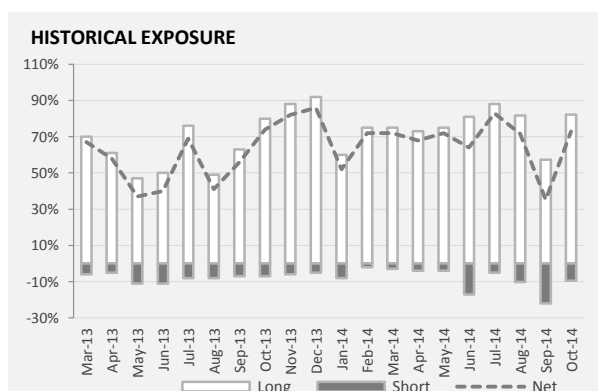
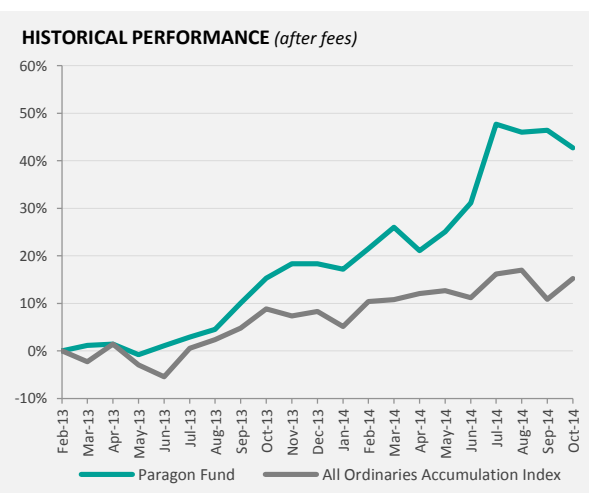
Key drivers of the Paragon Fund performance for October included solid returns from Regis Healthcare and our short position in Syrah Resources, offset by falls in LNG Ltd, TFS Corp and our short position in Transfield Services. At the end of October the fund had 26 long positions and 5 short positions.

INDUSTRY EXPOSURE	Long	Short	Net
Resources	34.6%	-7.4%	27.1%
Industrials	37.3%	-2.1%	35.2%
Financials	10.4%	0.0%	10.4%
Total	82.3%	-9.5%	72.8%
Cash			27.2%

STOCK HIGHLIGHTS

Regis Healthcare (REG AU)

Regis Healthcare is one of Australia's largest residential aged care providers, operating 45 facilities offering a variety of services such as cleaning, laundry and meals to those no longer able to live unassisted in their own homes. Paragon participated in the company's initial public offering in October at \$3.65 /sh with the original founders raising



capital in order to pay down debt and fund future growth. This is the first IPO in which Paragon has participated in any scale since our inception.

We have talked about our desire to invest in companies benefitting from several themes we view as driving long term business outperformance including the rising demand for electric vehicles, the growth in emerging consumer demand and the ageing society. To us, Regis is a clear



beneficiary of the ageing society, a demographic trend prevalent across the western world.

The Australian Bureau of Statistics estimates that the number of people aged over 85 years old will grow at a compounded rate of almost 4% through to 2025. In terms of supply, over the last 8 years the allocation of aged care places in Australia has grown at an average rate of 1.9% p.a. to 190k places. A majority of the industry revenues - \$13.9b annually - are government funded while the allocation of places to approved providers and annual pricing are also regulated by the government. This combination of attractive demand / supply dynamics has driven ongoing growth in demand for aged care services in Australia, evidenced by industry occupancy rates in excess of 90% (as they have been for the last 15 years).

In addition to Regis's strong organic growth, their ability to grow via acquisition and greenfield/brownfield expansion has delivered significant profit growth over the last 5 years. While the stock has performed well since listing (+16%), looking forward the strong cash flows from the existing business will present significant opportunity for the proven management team to continue to grow the business. In our view, Regis's defensive organic growth and acquisition opportunities represent a mix of attributes that should continue to command a premium valuation and reward shareholders over time.

Transfield Services (TSE AU)

Transfield Services is an Operating and Maintenance Engineering Services company servicing Infrastructure, Defence & Property and Resources sectors predominantly across Australia and New Zealand. Transfield operates as a high-volume, low-margin business, and has consistently promoted an order book of solid long-term contracts and in-turn recurring revenues.

However despite its supposed strength in underlying contracts, Transfield has delivered several material profit downgrades over the last several years driven by timing issues, poor contract execution, and weak end markets.

Excess debt levels have seen the company issue dilutive raises to stay afloat.

The stock had doubled in 4 months after delivering a debt restructuring package followed by reasonable earnings guidance in amongst a sea of profit warnings for the industry as a whole. We felt that given the overall negative end market environment and the company's execution history, it had run too far too soon. Paragon initiated a short position in Transfield at its recent highs, when trading at FY15 EV/EBIT of ~8x. However for the first time in our long/short investment careers, one of our shorts received a takeover offer. In October 2014, Transfield received an indicative, non-binding conditional cash proposal from Spanish construction company Ferrovial. The Ferrovial offer valued Transfield at an extremely lofty ~\$1b - implying a FY15 EV/EBIT of 9.3x, well in excess of its listed peers.

Like any short, we take a view on a takeover likelihood, which we had deemed for Transfield as unlikely. Clearly large corporates like Ferrovial can and have proven us wrong in this instance. With Transfield now in play, the prospects of an even higher bid is possible and so we covered our short position quickly and moved on.

Business Update

AsiaHedge Awards

In other news Nick attended the AsiaHedge awards in Hong Kong last month. Paragon's name was featured up alongside some of Australia and Asia's most respected hedge funds. To say we were proud to be a finalist is an understatement. Sadly we were just pipped at the post for "New Fund of the Year". Despite having the best % returns out of the 7 nominated funds, Paragon narrowly missed out given the award criteria looks at a few things other than simply the total return.

So we left with no trophy but a continued determination that we're on the right track. Thanks to all who checked in on our progress.

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%	0.3%	-2.5%			20.2%

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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