PARAGON FUNDS MANAGEMENT

THE PARAGON FUND // JANUARY 2015

PROFILE		PERFORMANCE *(after fees)*		DETAILS	
Fund Managers	John Deniz & Nick Reddaway	**1 month**	3.2%	**NAV**	$1.3660
Strategy	Australian absolute return	**3 month**	-0.5%	**Entry Price**	$1.3681
Inception Date	01/03/2013	**6 month**	-3.9%	**Exit Price**	$1.3640
Net Return p.a.	20.0%	**1 year**	20.9%	**Fund Size**	$24.7m
Total Net Return	41.9%	**Financial YTD**	8.1%	**APIR Code**	PGF0001AU

OVERVIEW & POSITIONING

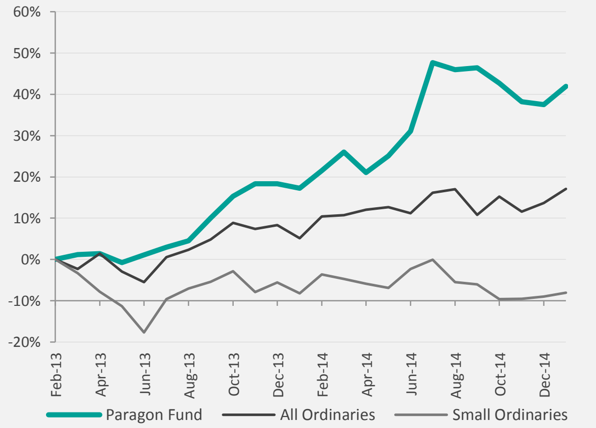
The Paragon Fund returned +3.2% after fees for the month of January 2015. Since inception the Paragon Fund has returned +41.9% after fees vs. the market (All Ordinaries Accumulation Index) +17.1%.

After falling almost 3% in the first half of the month, the Australian equity market rose in January as European equity markets were buoyed by confirmation of large-scale European quantitative easing. This along with the Swiss removing their currency peg led to big moves in currency markets. In Australia, the banks and defensive sectors outperformed and resources were down again moderately. Oil continued to trade lower, falling 7%, whilst gold was up 6% despite a strengthening USD.

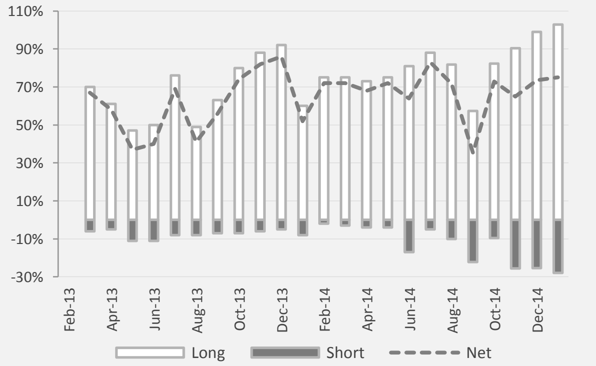
Key drivers of the Paragon Fund performance for January included solid returns from industrial firms Qantas and Orora, from our AREIT & Infrastructure stocks, Henderson Group and our gold stock picks. At the end of January the fund had 29 long positions and 14 short positions.

INDUSTRY EXPOSURE	Long	Short	Net
Resources	15.3%	-8.6%	6.8%
Industrials	56.5%	-8.6%	47.9%
Financials	31.1%	-10.7%	20.4%
Total	**102.9%**	**-27.9%**	**75.0%**
Cash			**25.0%**

HISTORICAL PERFORMANCE *(after fees)*



HISTORICAL EXPOSURE



PORTFOLIO INSIGHT

Since December, the Australian equity market has outpaced the S&P500 by 7% and the MSCI World Index by 5%. Despite the negativity towards our natural resources and politicians, global investors have flocked to our high yielding dividends aided by our weakening currency.

This search for yield has been further driven by recent central bank easing in 2015 as the ECB embarked on its own EUR 1trn in quantitative easing in January, Switzerland and Denmark moved further into negative interest rate territory, and both Singapore and Australia have cut interest rates.

In our last monthly we pointed to a shift in our portfolio positioning towards companies benefitting from falling bond yields. The basic premise behind this was the view that rising volatility across multiple asset classes through 2014 was likely to continue into 2015, driving the value of their dividend certainty higher.

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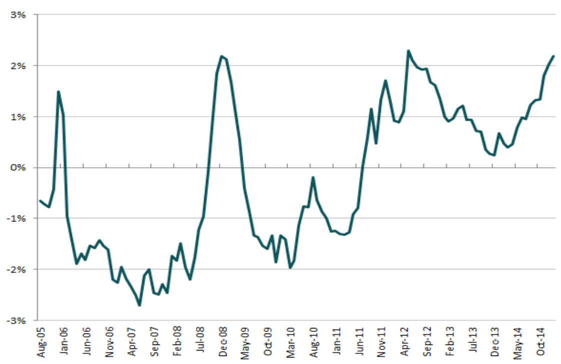
Australian bond yields have fallen by 20% since December 2014 alone, sending many listed equities benefitting from this dynamic to new highs. **Given the low growth / high dividend nature of the majority of these businesses, we tend to group them together as an asset allocation decision whereby they are either attractively priced relative to other asset classes (cash/ bonds), or they are not**. With Australian interest rates at record lows and some 16% of the JP Morgan Global Government Bond Index yielding negative interest rates, in a relative sense to other assets, **Australian dividends (>2x that of the S&P500) remain unequivocally attractive**.

While the performance of most defensive dividend stocks in Australia has been strong, it is worth remembering that the performance of bonds has been stronger. The below chart shows that the dividend of the Australian market relative to that available from government bonds (considered the risk free asset) is at decade highs.

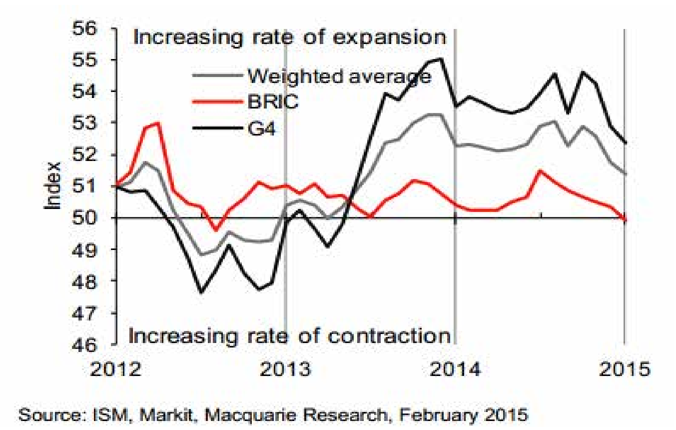
Australian Dividend Yield vs. 10yr Government Bond Yield



Source: Bloomberg

Falling growth and inflation expectations along with diverging central bank policies have been a significant driver of the volatility across bond/commodity/currency markets over the last 12 months. Despite predictions to the contrary, the fall in global manufacturing data has uniformly accelerated since the middle of 2014 to 2 year lows.

Global Manufacturing PMI's (>50 is expansionary)



The US remains the only developed country to still be experiencing YoY expansion in manufacturing conditions which along with the end to its quantitative easing program and the potential for rising rates on the back of improving employment data has seen the USD rally significantly. This of course has only accelerated the falls across the commodity spectrum and indeed with ~40% of US companies generating revenue offshore, will likely finish the run of positive US quarterly earnings growth spanning the last 2 years. With the ECB fighting deflation in Europe and China managing its own growth slowdown, it is difficult to forecast a major change in sentiment in the near term.

In a world awash with central bank money, falling interest rates and rising uncertainty over the growth trajectory, stable returns albeit within the riskier asset class of dividend paying equities (vs. cash/ bonds) should remain in vogue. After underperforming the US and European markets by 20% and 13% respectively in the last 2 years, it would be a surprise to most if this trend continued and the Australian equity market became the Steven Bradbury of the global investment world in 2015.

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%	-3.1%	-0.5%	**15.9%**
2015	3.2%												**3.2%**

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.