PARAGON FUNDS MANAGEMENT

THE PARAGON FUND // MARCH 2015

PROFILE		PERFORMANCE *(after fees)*		DETAILS	
Fund Managers	John Deniz & Nick Reddaway	**1 month**	+2.1%	**NAV**	$1.4459
Strategy	Australian absolute return	**3 month**	+9.3%	**Entry Price**	$1.4481
Inception Date	01/03/2013	**6 month**	+2.6%	**Exit Price**	$1.4438
Net Return p.a.	+21.6%	**1 year**	+19.0%	**Fund Size**	$28.1m
Total Net Return	+50.2%	**Financial YTD**	+14.4%	**APIR Code**	PGF0001AU

FUND STRATEGY

The Paragon Fund is an Australian equities long/short fund established in March 2013. The fund's strategy is fundamentally driven, concentrated and transparent for investors. The managers' research process and active portfolio management is overlaid with strong risk management and a focus on capital preservation.

OVERVIEW & POSITIONING

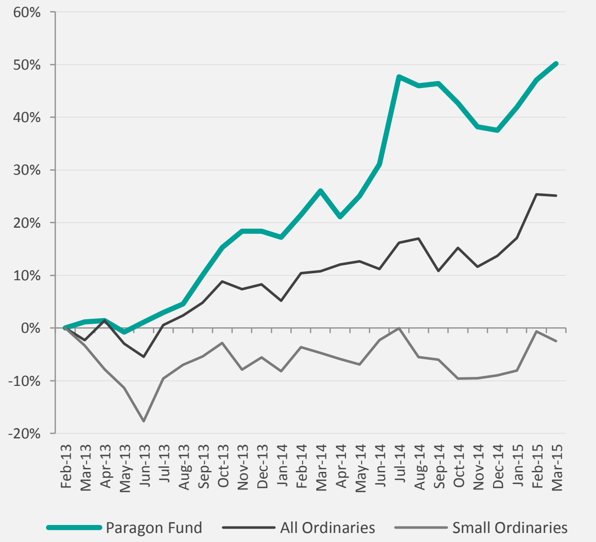
The Paragon Fund returned +2.1% after fees for the month of March 2015. Since inception the fund has returned +50.2% after fees vs. the market (All Ordinaries Accumulation Index) +25.1%.

The Australian equity market was flat in March after two strong months of gains. Australia's resource sector weighed on the market (-7%) with iron ore falling 16% and Brent oil falling 12%. Weak China data didn't deter equity investors with the Chinese stock market rising 13% on expectations of further stimulus while European markets also continued higher amid investor confidence that the central bank will continue to support its economies.

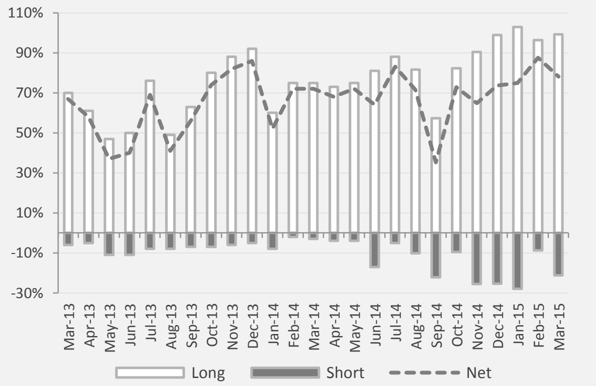
Key drivers of the Paragon Fund's performance for March included solid returns from industrial firms Regis Healthcare and Qantas, from diversified financials Macquarie Bank and Henderson Group, and Netcomm Wireless and Reward Minerals. Short positions in Ardent Leisure and Resolute Gold also contributed. At the end of the month the fund had 30 long positions and 12 short positions.

INDUSTRY EXPOSURE	Long	Short	Net
Resources	25.0%	-10.0%	15.1%
Industrials	42.3%	-8.1%	34.2%
Financials	32.0%	-3.1%	28.9%
Total	**99.3%**	**-21.2%**	**78.2%**
Cash			**21.8%**

HISTORICAL PERFORMANCE *(after fees)*



HISTORICAL EXPOSURE



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%	3.6%	2.1%										**9.3%**

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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STOCK HIGHLIGHTS

ARDENT LEISURE (AAD AU) - SHORT

Ardent Leisure is the owner/operator of multiple leisure businesses including theme parks (DreamWorld), the AMF and Kingpin bowling chains, Goodlife Health Clubs, d'Albora Marinas, and the US based family entertainment centres, Main Event. The business was originally formed out of the Macquarie Leisure Trust Group in 2002 and employs over 7000 people.

In 2014 Ardent Leisure derived 80% of revenues from its domestic businesses. Despite poor conditions for consumer businesses generally, their stock price had more than doubled since 2013, driven by management's solid execution and strong growth in their US based Main Event division. The underwhelming 1st quarter trading update released in October 2014 exposed pressure across their theme park and bowling divisions, requiring a lowering of consensus expectations given it was trading at a 20% premium to the broader industrials index.

In addition, we had become more bearish on the oil price after the surprise OPEC inaction in late Nov 2014. Ardent Leisure's Main Event business operates 19 entertainment centres, 14 of which are in Texas. This business has increasingly been seen as the company's growth driver, its share of total group EBITDA forecast to increase from ~25% to ~45% in the next 2 years. Our view that oil would be lower for longer would invariably impact the Texan economy given the disproportionate employment growth experienced during the shale boom. According to the BLS, since 2008 total Texas employment has risen by 1.3m jobs while the USA excluding Texas has lost 0.9m jobs. While we note average centre spend remains low (~$20 per person), we believed there to be further risk associated with a business exposed to the fate of high-cost shale oil. We initiated a short position in January 2015 @ $2.74/sh.

The company went on to issue a weak 1H2015 result in February 2015, with core earnings for the 1H 2015 declining ~4% over the prior period, driven by weakness in their health clubs division with a backflip on strategy required due to high competition.

In March, the surprise retirement of 13 year CEO Greg Shaw was announced, to be replaced by a Non-Executive Director who was previously the Editor of The Australian Women's Weekly. While we agree that this was not an apples for apples replacement, the stock was marked down 20%, losing over $200m in value in one day. Despite not yet experiencing weakness across the Main Event division, the string of bad news saw the stock fall 26% in 2 months against a rising market, providing us with an opportunity to close out our short position @ $2.06/sh in March 2015. We continue to think risk remains in this environment under new leadership and will see any lasting bounce in the share price as an opportunity to revisit the short case.

REWARD MINERALS (RWD AU) - LONG

Reward is advancing its Sulfate of Potash (SOP) brine-based LD project in Western Australia. In our view, the Reward LD project is one of the most exciting large-scale resource development opportunities globally. SOP (10% of the ~66mtpa global Potash market) is principally used as a fertiliser for high value specialty crops including potatoes, beans, specialty nuts, strawberries, mangoes, cocoa and tobacco.

The rising Asian middle class are increasingly consuming higher quality food, providing a long term driver for the need to use SOP, already a US$3.5bpa+ market and growing. SOP demand is recurring, non-cyclical, with low demand elasticity to underlying soft (agricultural) commodity prices and has no substitutes. China is the world's largest producer and consumer of SOP, accounting for ~2.5mtpa (>40% of annual global demand). The US is the second largest consuming nation at ~1mtpa (~17% of annual global demand) while Australia currently imports its entire Potash requirement of ~550ktpa. Unlike Muriate of Potash (MOP - 90% of the ~66mtpa global Potash market) which is oversupplied and in surplus markets, SOP is undersupplied and approaching short to long term deficits. With very low global SOP inventories, these strong demand dynamics have seen the A$ SOP price triple over last 10 years to A$900/t+, offering exceptional margins for the lowest-cost SOP primary brine-based producers. In our view Reward is very well placed to de-risk its LD project as world class, into a SOP bull market likely to continue for the next decade.

SOP supply is highly concentrated, where the top 5 producers account for ~70% of global production. SOP is produced via primary or secondary sources – both of which are supply constrained. ~50% of the world's SOP is produced by secondary sources - upgrading MOP via the Mannheim process. This is a capital intensive, high-cost process, which also provides an important price floor for SOP. ~20% of the world's SOP is produced by primary brine-based sources, the lowest cost method. New economic primary SOP production sources are very rare, highly desirable and ultimately strategic. Large-scale greenfield projects candidates across the globe are limited and almost all of which are challenged - geologically, environmentally, and with inhibitive capex and/or high opex - essentially rendering most development projects as uneconomic or highly precarious from a sovereign risk point of view.

Reward's primary brine-based LD project is geologically scarce (globally) and boasts a rare combination of ideal resource attributes and climatic conditions, leading to low capex, low opex, and strong economics. Additionally, the project is situated in a low risk jurisdiction allowing for a sustainable view to be taken on its long term earnings generation. Reward's recent Scoping Study has revealed the potential for LD to be a key global 400ktpa+ SOP supplier and likely to be one of the lowest capital intensity and lowest cost SOP producers globally. Reward's LD project has a clear development path through bankable feasibility, permitting, funding and construction. Our current base case valuation for Reward is $1.25/sh and our high case valuation is $4/sh. Reward is currently $0.65/sh and we continue to be long the stock.

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