PARAGON FUNDS MANAGEMENT

THE PARAGON FUND // JUNE 2015

PROFILE		PERFORMANCE *(after fees)*		DETAILS	
Fund Managers	John Deniz & Nick Reddaway	**1 month**	-3.8%	**NAV**	$1.4412
Strategy	Australian absolute return	**3 month**	-0.3%	**Entry Price**	$1.4434
Inception Date	01/03/2013	**6 month**	+8.9%	**Exit Price**	$1.4391
Net Return p.a.	+18.9%	**1 year**	+14.1%	**Fund Size**	$29.4m
Total Net Return	+49.8%	**Financial YTD**	+14.1%	**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 manager's research process and active portfolio management is overlaid with strong risk management and a focus on capital preservation.

OVERVIEW & POSITIONING

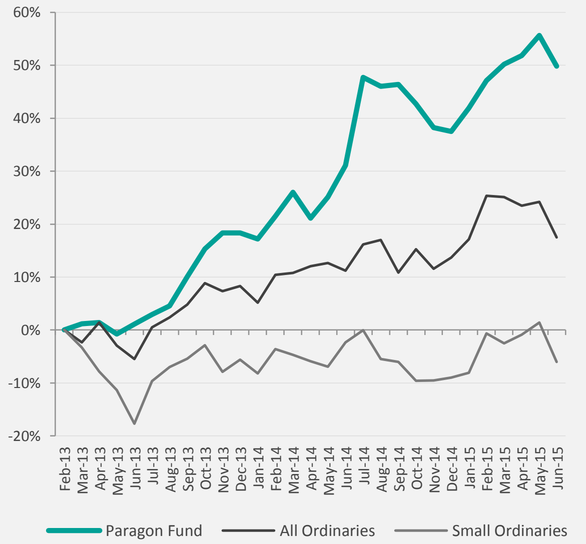
The Paragon Fund returned -3.8% after fees for the month of June 2015, taking the net financial year return to +14.1% vs. the market (All Ordinaries Accumulation Index) +5.4%. Since inception the Fund has returned +49.8% after fees vs. the market +17.5%.

The Australian equity market recorded its biggest fall in over 3 years (-5.4%), underperforming global equity markets. A raft of weak earnings reports (Seek, Nine, Flight Centre) and corporate issues (IOOF, Slater & Gordon) weighed on sentiment and weak commodity prices took their toll on the resource sector. The inability of European creditors and the Syrzia led Greek government to reach an agreement heightened uncertainty over Greece's future in the Eurozone.

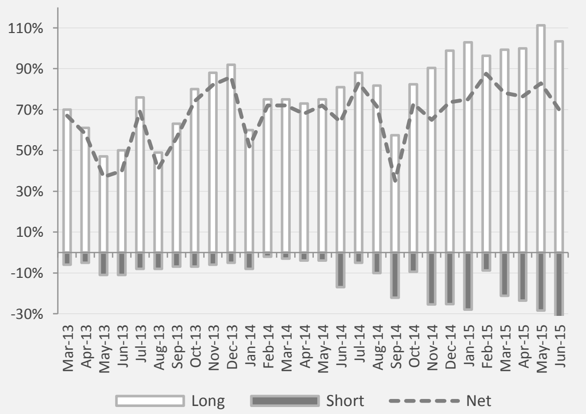
Key positive contributors for June included Yowie, Adairs, Senetas, St. Barbara and short positions in Wesfarmers and Origin. These were offset by our net positive equity exposure, and holdings in Orocobre, IOOF, and Fortescue (FMG sold for a small overall gain). At the end of the month the Fund had 28 long positions and 15 short positions.

INDUSTRY EXPOSURE	Long	Short	Net
Resources	32.6%	-9.0%	23.5%
Industrials	47.3%	-17.9%	29.4%
Financials	23.5%	-6.5%	17.0%
Total	**103.4%**	**-33.4%**	**69.9%**
Cash			**30.1%**

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%	1.1%	2.4%	-3.8%							**8.9%**

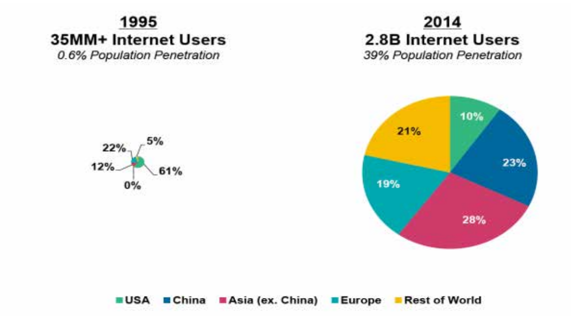
Performance results are presented net of all transaction costs, investment management and performance fees incurred by the Fund. Monthly performance figures are calculated based on the lead series using a monthly unit pricing methodology based on historical data.

PORTFOLIO INSIGHTS

As an absolute return fund, we aim to produce positive returns every year, regardless of the underlying market conditions. Several characteristics of the fund aid in us achieving this, including our active portfolio management, flexibility to hold significant cash levels and the ability to benefit from falling share prices through short selling. At the individual stock level, we seek to find companies that are exposed to secular trends which can provide through the cycle profit drivers, delivering long term outperformance.

We have used the term “mobile internet” to describe the secular trend towards consuming goods, storing data, and sharing content over the internet. Paragon has successfully invested in Australian companies that do, in different ways, benefit from the drivers of the secular mobile internet trend. These include media content creator 21st Century Fox, cloud accounting software company Xero, and Australia’s dominant mobile provider Telstra.

The evolution of the mobile internet has been driven by the convergence of 3G infrastructure, cloud computing, social networking, video content, online commerce and the iPhone almost a decade ago.



Source: Euromonitor, ITU, US Census

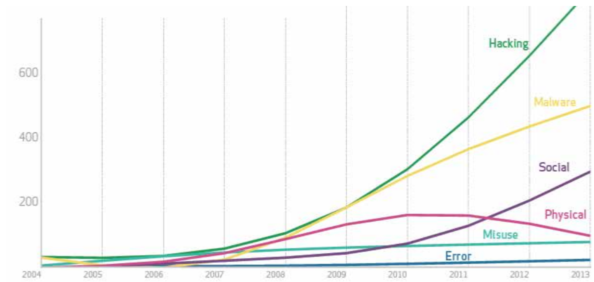
Today, we continue to believe that the drivers behind the mobile internet remain firmly in place. Cisco expects that the number of connected mobile devices will exceed 10bn by 2019 driving compounded mobile data traffic growth of 57% p.a. from 2014 – 2019. The touted third industrial revolution, the Internet of Things (IoT), is forecast by Gartner to see over 25 billion internet connected devices by 2020, growth of 10x in 5 years. We are currently invested in two globally relevant Australian technology firms benefitting from these two areas of growth, Senetas (data security) and NetComm Wireless (machine-to-machine (M2M)).

Senetas

Senetas is a global leader in the design and manufacture of defence-grade high speed encryption hardware. Senetas has been building their network encryption business since 1997, signing their global distribution agreement in 2003 and supplying hardware to the US Department of Defence since 2004. Their cyber security products are designed to protect data in transit (voice, video, data) across any WAN/LAN infrastructure and are now sold in 20 countries to government, military, financial and telecommunication customers. Senetas is the only global manufacturer to be certified across all 4 encryption standards.

Increasing mobile data and cloud computing usage is compounding the amount of data being used, shared, and stored over the internet. The growing need for governments and corporates to protect their data is being driven by government regulation to enforce the protection of private and sensitive information in the wake of increasing amounts of data breaches and theft. According to Markets&Markets, global cyber security spending is expected to grow at 10% p.a. to $170bn through to 2020.

CYBER SECURITY BREACHES



Source: Verizon 2014 Data Breach Report

Senetas encryptors are developed to secure layer 2 networks for data in transit (it is estimated that 62.5% of data theft occurs while data is in transit), rendering any stolen data as redundant. Layer 2 networks refer to the data link layer (Ethernet frames) while layer 1 is the physical (cables and wires) and layer 3 is the network (IP packets). While 90% of encryption today occurs in layer 3 networks, as data and performance demands rise, increasingly layer 2 encryption is being adopted. Because layer 2 encryptors provide no loss of performance regardless of the bandwidth required, while also requiring less management and greater reliability, they deliver a lower cost per gigabyte than layer 3. Senetas expects the layer 2 encryption market to triple over the next 3 years with IDC estimating that the level of data encrypted in the cloud will rise from 20% in 2015 to 80% by 2018.

Having re-organised the company, re-negotiated the global distribution contract with Gemalto, and delivered two solid sets of results, we began purchasing the shares in January 2015. While we have taken some profits given the doubling in the share price, the shares remain valued below those of their global peers (the cyber security index trades on 34x next year’s earnings). Senetas invests over 30% of revenue back into R&D as it continues to innovate in order to maintain its technology leadership through product performance enhancements and the development of next generation encryption platforms. With a growing cash balance of ~ 10% of the market capitalisation, top line growth exceeding 20% p.a. and EBITDA margins approaching 40%, the shares are well placed to double again over the next 18 months.

NetComm Wireless

NetComm Wireless design and manufacture broadband products for global telecommunication carriers and network providers. The company has delivered data communication products for over 32 years and is now predominantly focused on 3/4G wireless devices for the global machine-to-machine (M2M) and rural broadband markets. The company is proving its world leading deployment of rural broadband wireless technology through its work with the NBN and is partnering with major global telecommunication companies (Vodafone, Ericsson, Verizon, Deutsche Telekom, Singtel among others) to supply its products into the burgeoning M2M market.

Gartner expects the IoT will produce almost $2 trillion of economic benefit through transforming enterprises into digital businesses, vastly improving efficiency and facilitating new business models. These devices are connected through M2M technology which allows wireless and wired systems to communicate with other devices across industries such as industrial automation, telematics, logistics & transport, smart grids, smart cities, and healthcare.

LEVEL OF CONNECTED 'THINGS'

Source: Cisco

NetComm re-focused away from their consumer business (fixed-line ADSL and 3G routers) to focus on the M2M opportunity several years ago. NetComm utilise their experience in solution architecture to develop devices specific to client requirements, gaining initial contracts supplying the fixed wireless devices on the NBN project, 3G communications cards for Ausnet smart meters, and the Cubic Wi-Fi routers for the Sydney transport smartcard system. A recent earnings upgrade by the company on the back of increasing levels of work for the NBN shows that there will be strong growth for the next few years for NetComm as the NBN rollout gathers pace.

We first purchased the shares in February 2014 at $0.37/sh and believe the shares to be worth closer to $1/sh given there is further upside in the NBN project alone (increasing penetration, technology refreshes). Given their proven expertise in rural broadband (Boston Consulting Group expect the addressable market for rural fast broadband is $80bn) and global telecom M2M supply contracts to date, there is significant opportunity for the business to grow as the IoT materialises. Importantly, with a 32 year track record, the company has shown that it can adapt to technological change while management remain significantly aligned with investors (CEO holds 18% equity in the company).

PARAGON FUNDS MANAGEMENT

RG 240 Annual Disclosures:

The following disclosures are provided in accordance with ASIC regulatory guide RG240 requirements, covering the financial year ended 30 June 2015.

Investment Strategy:

The Paragon Fund is a concentrated long/short Australian equities product that is fundamentally driven with a focus on the industrials and resources sectors. The investment strategy has not changed in the financial year ended 30 June 2015.

Asset Allocation:

In accordance with the Fund's investment strategy, asset classes invested in by the Fund over the course of the financial year were Australian Equities, with the balance in Cash.

The percentage of assets held by the Fund by class, at the close of 30 June 2015 was:

Australian Equities -70%
Cash - 30%
Total - 100%.

On occasion, exchange traded derivatives were also invested in during the financial year, typically for hedging purposes, both against specific stock holdings as well as the portfolio overall. There were no derivatives held at 30 June 2015. The maximum exposure to derivatives at any point in time over the year, expressed as a percentage of the total portfolio, was 30%.

Asset allocation by class and industry sector are reported on a monthly basis in the monthly updates.

Liquidity:

In accordance with the Fund's investment strategy, the Fund is invested in asset classes whereby it can reasonably be expected to realise at least 80% of its assets, at the value ascribed to those assets in calculating the Fund's NAV, within 10 days at all times.

The liquidity profile of the Fund met this requirement at all times during the financial year ended 30 June 2015.

Based on the Fund's closing position at 30 June 2015, 85% of its assets are capable of being realised within 10 business days.

Leverage:

Leveraging through securities lending is permitted and will be deployed in accordance with the Fund's investment strategy. The maximum gross exposure limit set for the Fund taking into account leverage is 200% of the NAV of the Fund.

Leverage levels were well within this maximum limit over the financial year. Based on the Fund's closing position at 30 June 2015, the Fund is long 103% and short 33%. The resultant gross leverage is 136%, and net exposure is 70%.

Gross long and short and net exposure levels are reported on a monthly basis in the monthly updates.

The Fund did not enter into any other borrowings over the course of the financial year.

Key Service Providers:

Paragon Funds Management Ltd (Paragon) is the Responsible Entity of the Paragon Fund and is also the Investment Manager of the Fund.

The investment team comprise of the two principals of Paragon, John Deniz and Nick Reddaway.

There has been no change to the key management of Paragon nor the investment team of the Paragon Fund since inception of the Fund.

The key external service providers of the Fund at 30 June 2015 are:

+ Prime Broker and Custodian – UBS AG, Australia Branch & UBS Nominees Pty Ltd (UBS), appointed on 21st April 2015, replacing Merrill Lynch International; and
+ Fund Administrator – White Outsourcing Pty Ltd.

Both UBS and White Outsourcing Pty Ltd are independent third party service providers and provide their services on an arms' length commercial basis in accordance with legally binding contractual agreements.

The change in Prime Broker and Custodian was communicated to investors in our April monthly report. Further details relating to this changeover is available from our website as well as the current PDS.

There were no other changes to key service providers in the financial year.

Derivative counterparties:

The Fund continues to use its Prime Broker as the sole counterparty to any derivative transactions. UBS AG, Australia Branch replaced Merrill Lynch International as the Fund's Prime Broker in April 2015 as reported above.

No other derivative counterparties have been engaged by the Fund in the financial year ended 30 June 2015.

Summary of disclosures:

There have been no changes to the Fund's investment strategy, risk profile or investment team since inception, and more specifically, during the financial year ended 30 June 2015.

Any material changes to the above disclosures over the course of the new financial year, will continue to be communicated to investors in monthly updates (as well as via our website), followed by an annual summary at the end of the financial year.

Any further questions on these disclosures can be directed to the Investment and/or Operations teams at Paragon.