PARAGON FUNDS MANAGEMENT

THE PARAGON FUND // MARCH 2016

PERFORMANCE SUMMARY *(after fees)*

	1 month	3 month	6 month	Financial YTD	1 year	2 year p.a.	3 year p.a.	Net Return p.a.	Total Net Return
Paragon Fund	+7.4%	+1.4%	+7.0%	+8.7%	+8.4%	+13.6%	+17.2%	+17.1%	+62.9%
ASX All Ordinaries Acc.	+4.7%	-2.4%	+4.1%	-1.9%	-8.0%	+2.0%	+5.6%	+4.7%	+15.2%
RBA Cash Rate	+0.2%	+0.5%	+1.0%	+1.5%	+2.0%	+2.3%	+2.4%	+2.4 %	+7.4%

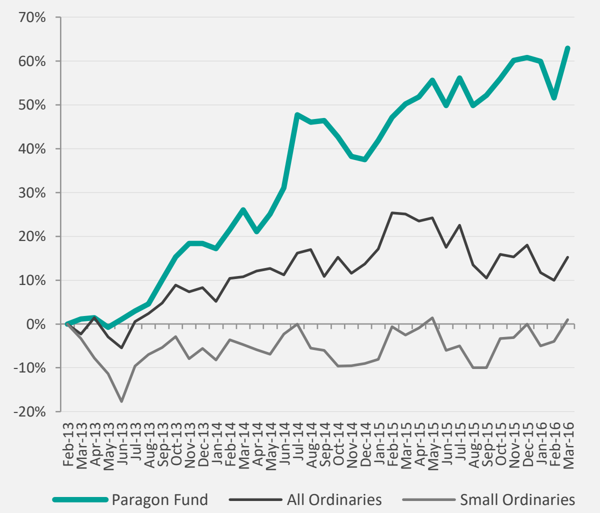
RISK METRICS

Sharp Ratio	1.2
Sortino Ratio	2.4
Volatility p.a.	+12.2%
% Positive Months	+70.3%
Up/Down Capture	83% / -1%

FUND DETAILS

NAV	$1.5328
Entry Price	$1.5351
Exit Price	$1.5305
Fund Size	$40.0m
APIR Code	PGF0001AU

HISTORICAL PERFORMANCE *(after fees)*



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.

The objective of the Paragon Fund is to return in excess of 10% p.a. after fees over a 3-5yr investment horizon.

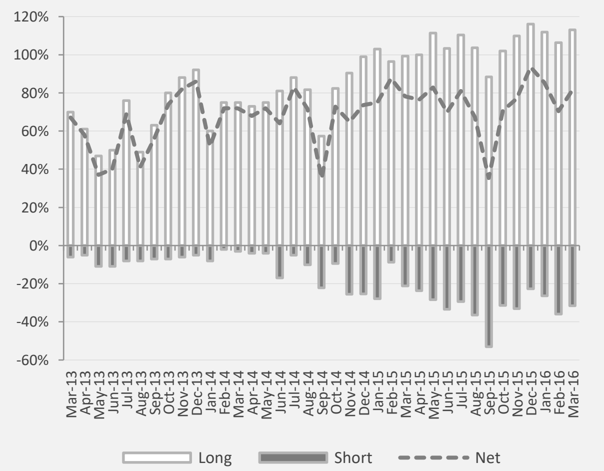
OVERVIEW & POSITIONING

The Paragon Fund returned +7.4% after fees for the month of March 2016. Since inception the Fund has returned +62.9% after fees vs. the market (All Ordinaries Accumulation Index) +15.2%.

Key positive contributors for March included longs in our lithium holdings, Netcomm Wireless, Aconex, Mayne Pharma, and our gold holdings. Short positions in Westpac and 1-Page also contributed. At the end of the month the Fund had 33 long positions and 12 short positions.

INDUSTRY EXPOSURE	Long	Short	Net
Resources	+57.0%	0.0%	+57.0%
Industrials	+44.7%	-18.1%	+26.2%
Financials	+11.2%	-3.5%	+7.7%
Index Futures		-9.9%	-9.9%
Total	**+113.0%**	**-31.5%**	**+81.0%**
Cash			**+19.0%**

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%	4.3%	-4.2%	1.6%	2.5%	2.6%	0.3%	**16.8%**
2016	-0.5%	-5.2%	7.4%										**1.4%**

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.

STOCK HIGHLIGHTS

Mayne Pharma (MYX)

We last wrote about our holding in Mayne Pharma in our November 2015 monthly. We feel there is long term secular growth in demand for generic drug manufacturing due to the ageing population adding further pressure to reduce costs in a bulging healthcare system. We are attracted to the Mayne business because we feel it also has the ability to continue to grow organically through its product developments.

We first invested in the company on their decision to undertake a significantly accretive acquisition. This deal would see them in-house the US distribution of the acne drug, Doryx, rather than act solely as the manufacturer. The most recent company results have shown strong execution by the company in managing this process. Doryx sales have been ahead of target while their higher margin, lower dose formulation has also been successfully launched. With ~9% of the generic acne market, management are confident that the better than expected Doryx sales should continue through 2017 given they already have a market leading offering with an improved product to be released in 2017. While competition is expected in the higher dose formulation, management remain confident of their ability to weather this given 80% of their distribution is through specialty pharmaceutical channels already contracted to Mayne.

Outside of existing products, Mayne has a 35+ product pipeline in the US targeting markets exceeding US$7b, 18 of which are pending with the FDA (target markets of > US$2b). Management expects 2 of these products to be approved by the FDA in 2016, with a further 5 due in 2017, which combined have an addressable market of US$900m. It's not unreasonable to expect that Mayne could achieve on average 10% of each of these markets and grow near term forecasted revenues over 30% from where consensus sits today.

We would expect the first of these, Dofetilide (generic version of Tikosyn), this year. Tikosyn is a drug developed by Pfizer that is used to treat irregular heartbeats approaching US$200m in sales. Mayne was the first company to file with the FDA for a generic version and as such has been granted 100 days exclusive access to compete against Tikosyn. If Pfizer elects not to launch its own generic version into the market this alone could add US$26m in revenues to Mayne and a ~25% uplift to EBITDA.

With the above generic Tikosyn example being one of the 18 products currently under pending approval by the FDA, multiple potential positive catalysts lie ahead for the company. We expect that Mayne Pharma will continue to attract a premium multiple and will deliver very attractive compounded shareholder returns as the pipeline of drugs is delivered on.

Aconex (ACX)

Aconex is a cloud based software as a service (SaaS) provider to the global construction, infrastructure and resource industries that enables the centralised management of information for large construction projects (documents, data, and communication). Aconex was founded in Melbourne in 2000, and is now the most widely used online collaboration platform in the world with over 400 employees that have helped manage over $800b in capital projects across 70 countries.

Aconex has sought to help solve a problem for an extremely large and underpenetrated market. According to independent research by Oxford Economics, the global construction industry is expected to grow 70% to US$25t by 2025. With the penetration of online collaboration solutions sitting below 10% today of the ~US$5.7b total addressable market, there is potentially close to US$1b in revenue up for grabs over the next decade for Aconex and their peers. **This large potential growth runway is one of the key attractions of the business, alongside its capital light model, recurring SaaS revenue streams, and high levels of contracted revenue visibility**. This visibility has allowed Aconex to guide to revenue growth of 15%-20% and EBITDA margins between 20%-25% over the medium term.

Similarly to another regional SaaS success story, Xero, Aconex was able to prove its capabilities on home soil to become the dominant solution, before embarking on its global growth ambitions. The key difference to Xero is that Aconex does not face much larger incumbents in offshore markets, as Xero does from Intuit (US) and Sage (UK). The inability of Xero to so far replicate its domestic success overseas was in our view a key hurdle for Aconex even though by the time Aconex listed it had already gained close to 20% share in the Americas and 10% in EMEA with revenues more than double its closest peer. Aconex was able to build on relationships with Lend Lease, John Holland and CIMIC by also signing leading global construction and engineering firm Bechtel in 2015. On the signing of a contract with global engineering firm Burns &McDonnell, we had enough conviction that the most likely outcome would be one where indeed Aconex would become the clear global leader. At this point we purchased shares in the company. Through the recent acquisition of Conject in March, Aconex was able to gain dominance in the most important European construction markets of Germany and the UK and gain an additional 100 enterprise clients which will take its global market share closer to 40%, 3x that of its nearest competitor. Aconex further enhanced its position by recently signing an enterprise agreement with the no. 2 US engineering firm, Fluor.

Given we think Aconex can continue to take global market share from competitors, the long term driver will be how big the total pie can become via the penetration of online collaboration solutions globally. In Australia, the UK and Germany penetration rates exceed 20%. In the Americas it sits at closer to 5% and in Asia where 5 of the world's top 10 construction companies reside, the level is closer to 1%. The nature of adoption rates to follow the developed leaders suggest in time penetration rates can exceed 20% globally. Significant scope for Aconex to drive revenue growth also exists in increasing the level of modules taken on by current clients. The company states that 171 of their existing paying clients (~20%) have taken only one module (which includes 20 enterprise clients).

The ability for Aconex to offer a deeper array of product suites to an increasing number of clients and spend more heavily on R&D should see their competitive advantage grow, further enhancing the need for those companies currently undertaking this task in-house to outsource it. New product development continues such as their cost control solution developed with the acquisition of Worksite in July 2015. Oxford Economics estimate that over 30% of projects exceed budget by more than 10% which equates to over $1t in cost overruns annually. The product is currently in beta testing with 4 key clients and is due to be rolled out later this year. Aconex believes there is significant potential in this product such that it could be as large as their existing collaboration business today.

On purchasing shares in Aconex late last year, we valued the company between $6/sh and $9/sh using a combination of EV/Sales and DCF methodologies. The acquisition of Conject has provided further upside to our valuation, both in earnings accretion and also the likelihood that the company can become the global leader in online collaboration solutions. Should adoption accelerate across the large underpenetrated Americas and Asian regions, we would expect to see the stock trading at $14/sh.

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