PARAGON FUNDS MANAGEMENT

THE PARAGON FUND // May 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	+7.0%	+27.3%	+20.5%	+28.9%	+24.0%	+24.2%	+24.8%	+22.4%	+93.0%
ASX All Ordinaries Acc.	+3.1%	+11.5%	+6.7%	+4.4%	-1.2%	+4.3%	+8.1%	+6.5%	+22.6%
RBA Cash Rate	+0.2%	+0.5%	+1.0%	+1.8%	+2.0%	+2.2%	+2.3%	+2.4 %	+7.8%

RISK METRICS

Sharp Ratio	1.4
Sortino Ratio	3.2
Volatility p.a.	+13.4
% Positive Months	+72%
Up/Down Capture	103% / -1%

FUND DETAILS

NAV	$1.8165
Entry Price	$1.8192
Exit Price	$1.8137
Fund Size	$53.7m
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.

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

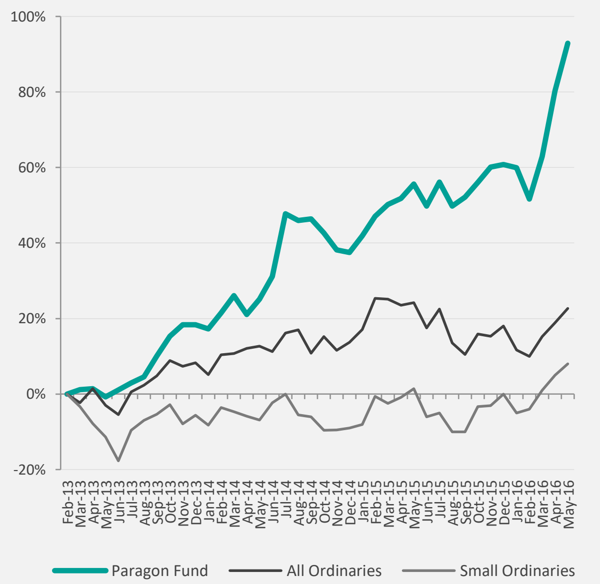
OVERVIEW & POSITIONING

The Paragon Fund returned +7.0% after fees for the month of May 2016. Since inception the Fund has returned +93.0% after fees vs. the market (All Ordinaries Accumulation Index) +22.6%.

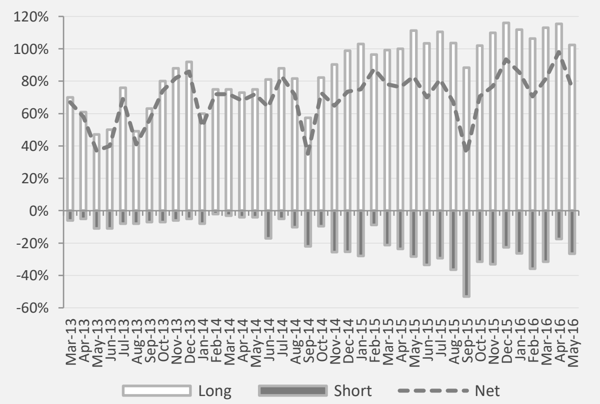
Key positive contributors for May included longs in our lithium holdings, as well as Mayne Pharma, Smartgroup and Yowie. This was offset by our short positions in a rising market. At the end of the month the Fund had 31 long positions and 13 short positions.

INDUSTRY EXPOSURE	Long	Short	Net
Resources	+54.3%	-4.1%	+50.2%
Industrials	+39.3%	-19.1%	+20.2%
Financials	+8.7%	-3.4%	+5.4%
Index Futures		0%	0%
Total	**+102.4%**	**-26.6%**	**+75.8%**
Cash			**+24.2%**

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%	4.3%	-4.2%	1.6%	2.5%	2.6%	0.3%	**16.8%**
2016	-0.5%	-5.2%	7.4%	10.8%	7.0%								**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.

PORTFOLIO INSIGHTS

In our January outlook note for 2016, we outlined several significant issues facing investors. The strong US dollar and tepid growth pressuring US corporate earnings and commodity prices (namely oil) was leading to distress in high yield credit markets in conjunction with the ever present worries over the Chinese economy. Global equity markets were in free fall with many global indices entering technical bear markets, including Australia.

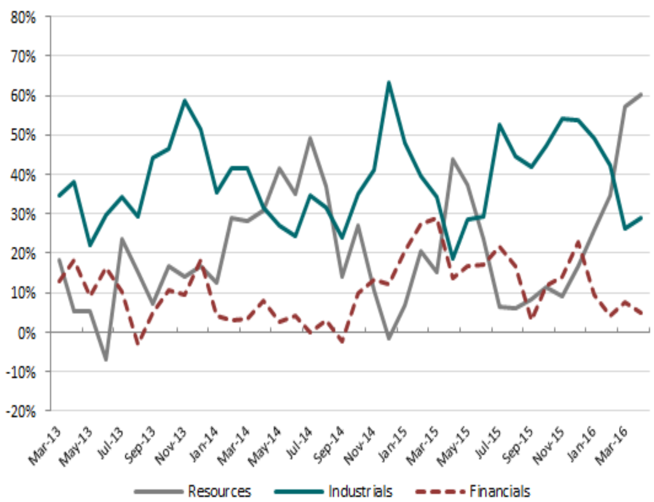
As a counterbalance, we said that markets were likely testing their lower bounds given economic growth globally was still registering a heartbeat, interest rates remained supportive and that low oil was a boon for the global consumer.

As we write this piece, the US dollar has fallen with dovish tones from the US Federal Reserve, oil has almost doubled off the lows, and the S&P 500 is 1% away from reaching all-time highs. The Australian market is flirting with 9 month highs as the RBA has seemingly joined the global race towards negative interest rate policy. Despite the volatility, the Fund has maintained a relatively high level of equity market exposure and to date has delivered a **+20% net return for CY2016 and +29% net return for FY16**. Pleasingly, this performance has been achieved through continuing to identify investment opportunities in line with our strategy set out since our inception.

Through our monthly updates investors will be aware that when we look for attractive companies we are seeking to identify businesses either exposed to long term secular themes or those with their own stock specific drivers that can deliver attractive levels of compounded growth regardless of the economic conditions of the day. Additionally, we are fundamentally driven investors meaning that we need to be able to meet and assess management, understand the drivers to the industry and business, be able to determine a probability weighted valuation target with attractive risk-reward and finally a catalyst to achieve that target.

The chart below of our historical sector exposure shows how this approach has driven our underlying positioning at the sector level.

Paragon Historical Sector Exposure



Source: Paragon

We feel there are some important messages to take from this:

- We remain focused on finding attractive fundamental investment opportunities across the Australian market
- Often this leads us to focus on, but not limit us to, our areas of expertise - resources and industrials (all stocks excluding financials and resources)
- We are disciplined in reducing exposure to companies and sectors when the fundamentals no longer offer an attractive risk-reward

The changes made to the portfolio since the last quarter of 2015 have put us in good stead for the first half of 2016 as momentum stocks globally have suffered while value has outperformed. Industrial companies had enjoyed significant re-ratings over the last 3 years, trading more than 50% above historical multiple ranges as the market chased the only companies delivering reasonable growth in Australia (in a large part driven by the falling AUD and acquisitions rather than higher quality organic growth).

While we had been active in selling holdings that no longer offered attractive risk-reward in the industrial sector and market linked financials, we had also been increasing exposure to gold and lithium companies that we felt had both secular drivers and valuation support. After being net short oil through 2014 and 2015, we also built a small long portfolio exposure to oil at the end of January based on our view that oil prices were unsustainably low in the long term.

The change in tack from the US Federal Reserve and the move to negative interest rates in Japan had led to a large rally in gold in 2016. We have written about our exposure to the gold sector previously and continue to find fundamentally attractive bottom up opportunities to a sector that should provide a good portfolio hedge when volatility returns. While we have been invested in Orocobre since the beginning of our Fund, we had been increasing our exposure to lithium companies on the view that growth in electric vehicle penetration would continue, boosted by the success of E-buses and Tesla, Chinese pollution, and the diesel emission scandals engulfing European car manufacturers. Multiple sector catalysts have now emerged, bringing the sector front and centre to the investment community which has contributed to the Fund producing solid results over the first half of the year.

As is true for some of our other secular investment themes such as the mobile internet and the ageing population, while we feel the long term drivers behind electric vehicle adoption are now in train, this indeed may outlast the ability to continue to see attractive bottom up investment opportunities at times as the market begins to adopt the bright future for this sector. As such we remain focused on continually stress testing all of our investments through our review process to ensure that the risk vs. reward remains favourable.

We maintain our view that global equities will remain in somewhat of a volatile trading range until further catalysts transpire. Economic growth remains ok (Australia is growing at a 3% annual clip, the fastest in 3 years), global interest rates are supportive and the rally in oil has lessened the fear over high yield credit contagion. Concerns over China are a constant and we remain data dependant in gauging any relative change in delta on that front. However the global forces driving markets over the short term will do little to stop the sheer size of the Chinese middle class increasing, stymie the rising number of devices connected to the internet, or stop the increasing demand for electric vehicles.

True to our historical average, we finished May 2016 with 24% of our portfolio in cash, and we continue to view this as a good environment for active managers with the flexibility to deploy capital as opportunities present themselves. We are excited about the Fund's outlook and look forward to updating investors in the future.