PARAGON FUNDS MANAGEMENT

THE PARAGON FUND // June 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	+6.3%	+26.0%	+27.8%	+37.0%	+37.0%	+25.0%	+26.7%	+24.0%	+105.1%
ASX All Ordinaries Acc.	-2.3%	+4.0%	+1.6%	+2.0%	+2.0%	+3.8%	+8.2%	+5.6%	+19.8%
RBA Cash Rate	+0.2%	+0.5%	+1.0%	+2.0%	+2.0%	+2.2%	+2.3%	+2.4 %	+8.1%

RISK METRICS

Sharp Ratio	1.5
Sortino Ratio	3.5
Volatility p.a.	+13.4
% Positive Months	+72%
Up/Down Capture	103%/-12%

FUND DETAILS

NAV	$1.9308
Entry Price	$1.9337
Exit Price	$1.9279
Fund Size	$65.4m
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. Paragon'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.

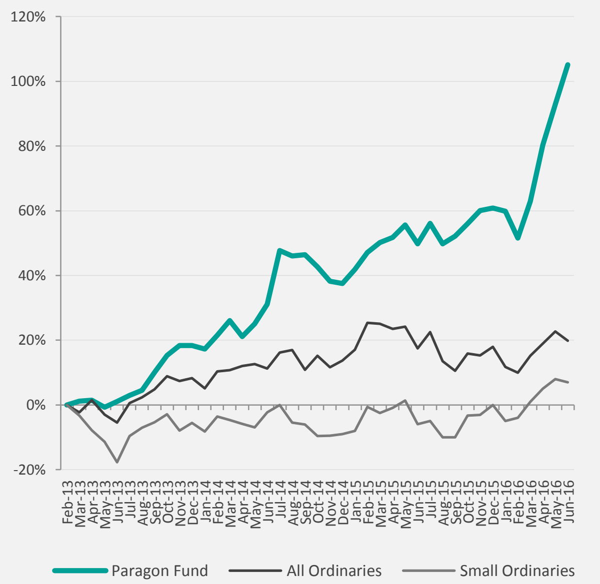
OVERVIEW & POSITIONING

The Paragon Fund returned +6.3% after fees for the month of June 2016 and 37.0% after fees for FY16. Since inception (March 2013) the Fund has returned +105.1% after fees vs. the market (All Ordinaries Accumulation Index) +19.8%.

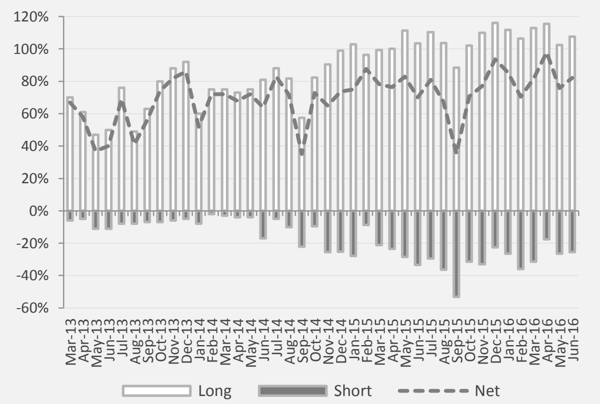
Key positive contributors for June included longs in various gold and lithium holdings, as well as Mayne Pharma and A2 Milk, offset by long positions in Netcomm Wireless, Link Administration and Costa Group. At the end of the month the Fund had 32 long positions and 13 short positions.

INDUSTRY EXPOSURE	Long	Short	Net
Resources	+64.8%	-11.4%	+53.4%
Industrials	+35.5%	-9.1%	+26.4%
Financials	+7.3%	-4.9%	+2.3%
Index Futures		0%	0%
Total	**+107.6%**	**-25.5%**	**+82.1%**
Cash			**+17.9%**

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%	6.3%							**27.8%**

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

A$ gold hits new all-time highs

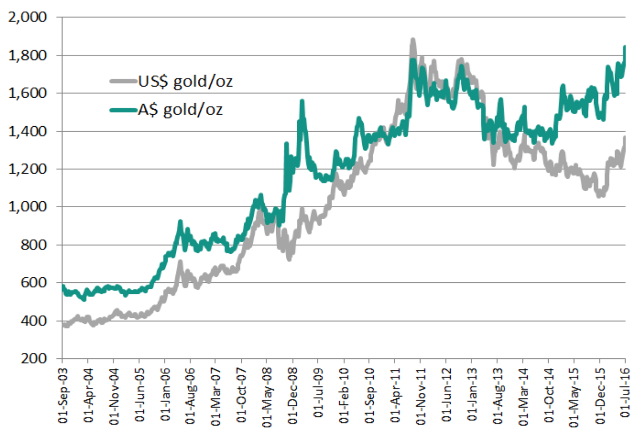
We wrote about our top-down gold investment thesis and the companies best placed to benefit in our February 2016 update. As stated previously, gold's investment case has merit given the unprecedented level of global QE and currency debasement, and we have become increasingly constructive on gold given the return of negative real interest rates across the globe. Lastly, we also like gold as a hedge to global market volatility.

Since the beginning of 2016, we have observed key positive catalysts for gold including:

1. Economic and political uncertainly following the Brexit referendum - increasing the likelihood of other populist election victories across Europe and the USA;
2. US Fed rate rise expectations being pushed out for the foreseeable future; and
3. ongoing USD weakness.

Gold in US$/oz (grey line in chart below) has had a solid move off its recent lows and gold in A$/oz ("A$ gold" - green line in chart below) is hitting all-time highs. Combined with input cost deflation since the previous boom, various Australian gold producers are achieving record margins.

Chart 1: A$ gold vs US$ gold



Source: Bloomberg, Paragon

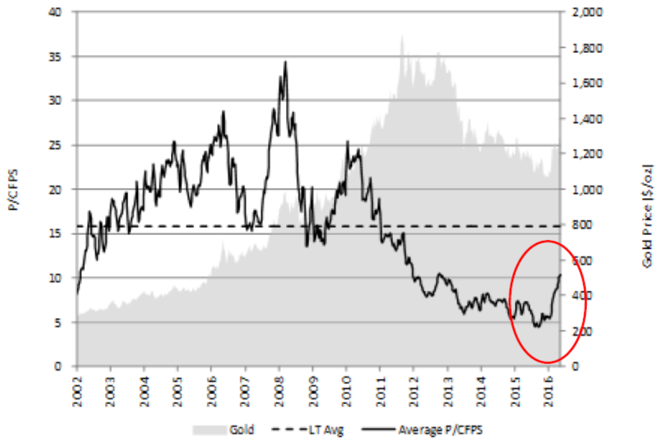
We have particular interest in the Australian gold space leveraged to A$ gold, specifically stocks that are:

1. Strong free cash generating mid-to-large-cap producers with self-funded growth; and/or
2. Emerging producers boasting high-margin, low capital-intensity assets with solid mine life and/or exploration upside.

We discussed this recently in a livewire video – **Positioning for strength in Aussie Dollar gold**. Following is an update on two of our gold holdings.

St Barbara (SBM). St Barbara's cornerstone asset is its world class Gwalia gold mine - one of the best gold operations in Australia. St Barbara is self-funding Gwalia's 15% production increase to 300koz pa. Based on spot A$ gold Gwalia is running at outstanding ~100% margins. Bob Vassie, MD & CEO, in our view is the best in the business. He has turned around the company's fortunes by improving productivity at Gwalia, improving underperforming operations at Simberi, and disposing of the problematic Gold Ridge in the Solomon Islands. His execution has been extraordinary, saving the company from going into administration, by turning a previously highly geared balance sheet to what we expect to be net cash by the end of the year. Despite St Barbara's material share price re-rating, at spot gold prices of A$1,814/oz it is still trading at an attractive proforma FY17F EV/EBITDA multiple of ~5x, compared to producing peers' average of ~8x. Further, we expect this gold bull market to lead to expansion in multiples - see Chart 2 below.

Chart 2: Gold equities historical Price / Cashflow per share (P/CFPS)



Source: BLS, Bloomberg, Federal Reserve, Macquarie Research, July 2016

Blackham Resources (BLK). Blackham is a unique, fully-funded imminent A$ gold producer, boasting exceptionally low capital-intensity given how cheaply it acquired its resources, plant and infrastructure. Blackham recently confirmed guidance - for its 100koz+ pa high-margin Matilda gold project - of 25koz for 4Q16 (hence a full production quarter). Despite Blackham's share price re-rating, at spot gold prices of A$1,814/oz it is still trading on proforma FY17F EV/EBITDA multiple of <3x, half that of its producing peers. Exploration success has seen the company upgrade its resources and reserves, increasing its mine life to >8 years. In our view BLK will surprise to the upside and de-risk a 130koz+ pa high-margin operation, whilst maintaining or extending its mine life. We continue to believe that once in production Blackham will have strong corporate interest from mid and large cap peers that are lacking quality growth assets.

Lithium Update: Galaxy (GXY) announces friendly takeover for General Mining (GMM)

We have discussed our investments in Galaxy and General Mining previously in our April 2016 and December 2015 updates. Galaxy and General Mining are 50/50 JV owners in their WA-based Mt Cattlin and Canadian-based James Bay projects. Consolidating the ownership of these assets is yet another positive for our investment case. With strong downstream interest for Mt Cattlin's product, we now view its expanded production case of 200ktpa+ Spodumene (~28ktpa Lithium Carbonate Equivalent) as a given.

Merger terms are attractive and we will happily accept the all-GXY-scrip deal. General Mining will gain 29% of the merged entity and importantly, gain exposure to Sal De Vida (previously GXY 100% interest). In our view Sal De Vida is the best undeveloped Lithium brine asset globally, which the market is overly discounting. We have seen this all before, previously in Orocobre's Olaroz brine-based Lithium asset, and the re-rating as the asset was advanced and de-risked.

Sal De Vida is well placed to become part of the global Lithium supply mix - as we modelled in Chart 2 in our April 2016 update. We expect the imminent BFS for Sal de Vida to deliver a US$1-1.5b NPV (~5x its capex!) and development funding milestones to be material catalysts for the stock.

RG 240 ANNUAL DISCLOSURES

The following disclosures are provided in accordance with ASIC regulatory guide RG240 requirements, covering the financial year ended 30 June 2016.

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 2016.

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 2016 was:

Australian Equities - 82%
Cash - 18%
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 2016. 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 2016.

Based on the Fund's closing position at 30 June 2016, 90% 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 2016, the Fund is long 108% and short 26%. The resultant gross exposure is 134%, and net exposure is 82%.

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 are:

+ Prime Broker and Custodian – UBS AG, Australia Branch & UBS Nominees Pty Ltd (UBS); 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.

There were no changes to key service providers in the financial year ended 30 June 2016.

Derivative counterparties:

The Fund continues to use its Prime Broker as the sole counterparty to any derivative transactions.

No other derivative counterparties have been engaged by the Fund in the financial year ended 30 June 2016.

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 2016.

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 should be directed to Paragon by email to info@paragonfunds.com.au.