PARAGON FUNDS MANAGEMENT

THE PARAGON FUND // July 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	+2.9%	+17.0%	+32.1%	+2.9%	+35.1%	+19.6%	+27.1%	+24.4%	+111.1%
ASX All Ordinaries Acc.	+6.3%	+7.1%	+14.1%	+6.3%	+4.0%	+4.7%	+8.5%	+7.3%	+27.4%
RBA Cash Rate	+0.2%	+0.4%	+0.9 %	+0.1%	+2.0%	+2.1%	+2.3%	+2.4 %	+8.3%

RISK METRICS

Sharpe Ratio	1.6
Sortino Ratio	3.6
Volatility p.a.	+13.1
% Positive Months	+74%
Up/Down Capture	+98%/-12%

FUND DETAILS

NAV	$1.9866
Entry Price	$1.9895
Exit Price	$1.9836
Fund Size	$77.0m
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.

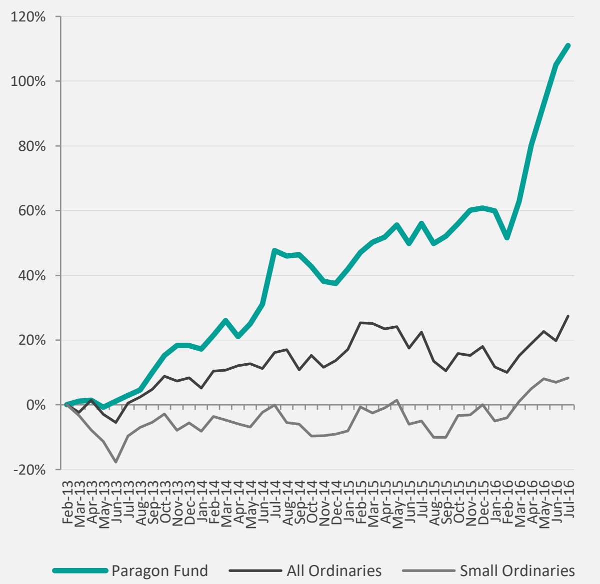
OVERVIEW & POSITIONING

The Paragon Fund returned +2.9% after fees for the month of July 2016. Since inception (March 2013) the Fund has returned +111.1% after fees vs. the market (All Ordinaries Accumulation Index) +27.4%.

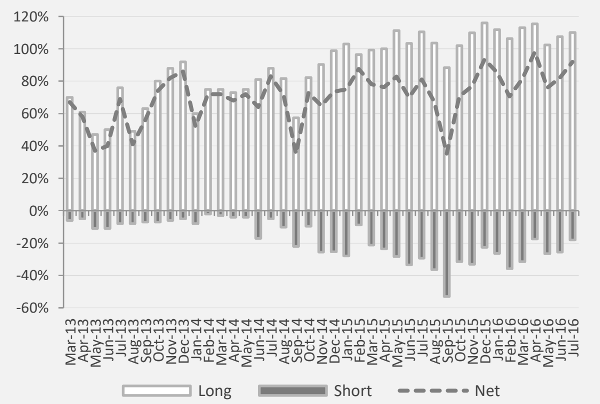
Key positive contributors for July included various gold holdings, as well as NetComm Wireless, Aconex and Smartgroup, offset by short positions in a rising market. At the end of the month the Fund had 31 long positions and 9 short positions.

INDUSTRY EXPOSURE	Long	Short	Net
Resources	+61.8%	-1.9%	+59.9%
Industrials	+33.1%	-12.8%	+20.3%
Financials	+15.5%	-3.1%	+12.4%
Index Futures		0%	0%
Total	**+110.4%**	**-17.9%**	**+92.6%**
Cash			**+7.4%**

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%	2.9%						**31.4%**

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 first purchased shares in Mayne in February 2015 as part of the capital raise to buy the Doryx franchise and discussed our investment in our November 2015 monthly. While generics are a competitive industry, we believe there is underlying growth in demand for generic drugs required to lessen the strain on government budgets as populations' age. According to IMS Health, in the US 86% of dispensed prescriptions in 2013 were for generic drugs and their proliferation has saved the US healthcare system almost $1.5t in the last 10 years.

Mayne delivered a great finish to the end of the financial year, announcing the acquisition of a drug portfolio from Teva Pharmaceuticals. Teva is undertaking the US$40b acquisition of Allergan which has led the Federal Trade Commission to force them to divest of various assets (the FTC stated 79 current and future drugs were sold to preserve competition). Mayne bought a drug portfolio consisting of 37 approved molecules and 5 in the FDA approval process and paid US$652m for the assets (<6x EBITDA, half of Mayne's multiple).

While this is a big pill to swallow for Mayne, we view the purchase was highly astute executed by a CEO gaining a better reputation by the day. CEO Scott Richards has used existing relationships with Teva to buy a solid asset from a forced seller at a cheap price. The drug portfolio will significantly diversify Mayne's existing portfolio, allow Mayne to better utilise existing manufacturing capacity, and push Mayne into consideration for larger acquirers in a consolidating industry given their expanding scale.

As existing shareholders, we fully participated in the company's funding of this acquisition calculating north of 30% earnings accretion, taking up our rights in the entitlement issue as well as further participating in the capital raise. The market has not surprisingly been very receptive to the deal with the shares trading at $2/sh vs. the theoretical ex-rights price of $1.42/sh.

As discussed in our March 2016 update, the company was granted approval by the FDA to market their generic version of Tikosyn in June (a Pfizer drug used for irregular heartbeats), the first of 18 existing products in the Mayne portfolio to be under review for approval by the FDA. The company also issued guidance for the financial year stating it would be marginally ahead of our forecasts and more recently won a US$20m patent infringement claim against Forrest Laboratories. We think there is only good news to come from this company over the next few years.

Aconex (ACX)

The second company we wrote about in our March 2016 monthly was Aconex. Aconex is a Melbourne based provider of cloud based software as a service (SaaS) solutions to the global construction, infrastructure and resource industries that enables the centralised management of information for large construction projects (documents, data, and communication).

"Six decades into the computer revolution, four decades since the invention of the microprocessor, and two decades into the rise of the modern Internet, all of the technology required to transform industries through software finally works and can be widely delivered at global scale" – (M Andreessen, Why software is eating the world, 20/08/2011).

Aconex has become the dominant vertical SaaS solution in Australia and New Zealand (market share north of 70%) and has embarked on becoming the dominant global solution. Our last note discussed the company's acquisition of Conject, the dominant European competitor to Aconex which would see Aconex take its global market share towards 40%. Post that acquisition it is worth noting that major US software company, Oracle, made 2 acquisitions in the construction SaaS space. Rather than worry about Oracle as a major competitor, we viewed the acquisition as further validation of the attractive growth runway of this industry and our willingness to own the globally dominant provider.

Further validation of Aconex's competitive position came early in July, with the company announcing a 4 year enterprise agreement with ExxonMobil, the world's largest publicly traded oil and gas company. While light on detail it does mention the intent for Exxon to increase its usage of the software over time - one of the drivers of Aconex's profitability will be their ability to increase customer usage across the modules it offers (~20% of customers currently have only one module).

We think that this contract win, on top of contracts already signed with the likes of Bechtel and Flour, further highlights Aconex's competitive advantage, and increases the probability that the shares can trade towards our $14/sh bull case as highlighted in our last update. This scenario was predicated on further increasing the overall penetration rates (particularly in the USA and Asia) within the industry and Aconex's market share exceeding 50%. We think this is increasingly likely and expect to see the market continue to gravitate to this scenario over time.

Smartgroup (SIQ)

Smartgroup is a leading Australian provider of outsourcing solutions in salary packaging and novated lease services within the government, health and corporate sectors. The company's CEO, Deven Billimoria, has been with the business since 2000, maintaining a strong focus on customer service and has been expanding into adjacent services such as workforce management for the healthcare industry.

The well-credentialed, conservative management of this company have been busy. After completing 6 acquisitions pre their IPO in October 2014 and 3 through Q1 of 2016, management announced two further acquisitions in July 2016 alone. The company paid $36m for Autopia which added corporate sector exposure and then bought Selectus Salary Packaging for $169m which further diversified the existing business into the rebatable segment (mostly schools and churches). Both acquisitions cost less than 7x EV/ EBITDA (vs. SIQ on 10x) and leaves the company with comfortable gearing levels.

In part this is no doubt driven by the 30% appreciation in Smartgroup shares post the Federal Labour Government's announcement in May 2016 that they will side with the current Turnbull government stance on salary packaging and related Fringe Benefit Tax measures. The sector had been tarnished by the threat of regulatory risk post Labour's change in stance in 2013 and the removal of this threat has allowed the market to be more comfortable in pricing this sector closer to a market multiple and gave Smartgoup an opportunity to use their more highly rated paper to fund further acquisitions.

Smartgroup is a high quality business led by strong management. The valuation remains reasonable for a business well placed to continue to deliver on expectations through both organic and in-organic growth opportunities.