PARAGON FUNDS MANAGEMENT

PARAGON AUSTRALIAN LONG SHORT FUND // January 2017

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 Aust. Long Short Fund	+2.3%	-5.0%	-16.9%	-14.5%	+9.8%	+11.2%	+14.3%	+15.4%	+75.4%
ASX All Ordinaries Acc.	-0.8%	+5.7%	+2.5%	+8.9%	+16.9%	+5.6%	+7.5%	+7.1%	+30.7%
RBA Cash Rate	+0.2%	+0.4%	+0.8%	+0.9%	+1.7%	+1.9%	+2.1%	+2.2 %	+9.1%

RISK METRICS

Sharpe Ratio	0.9
Sortino Ratio	1.5
Volatility p.a.	+15.3
% Positive Months	+70%
Up/Down Capture	+80%/+5%

FUND DETAILS

NAV	$1.6512
Entry Price	$1.6537
Exit Price	$1.6488
Fund Size	$82.9m
APIR Code	PGF0001AU

FUND STRATEGY

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

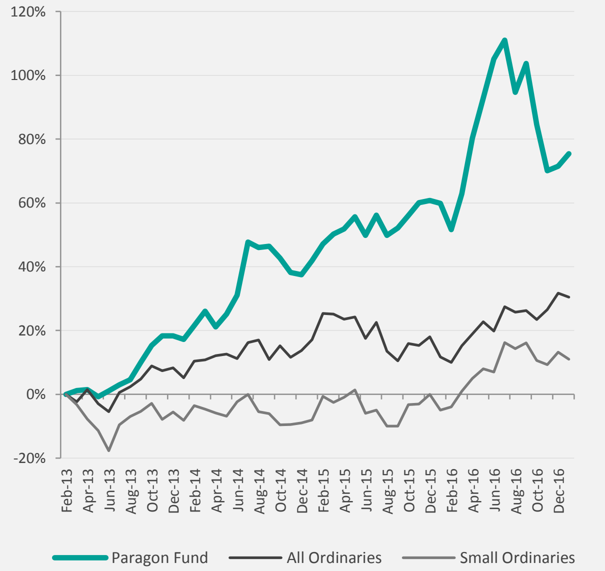
OVERVIEW & POSITIONING

The Fund returned +2.3% after fees for the month of January 2017. Since inception (March 2013) the Fund has returned +75.4% after fees vs. the market (All Ordinaries Accumulation Index) +30.7%.

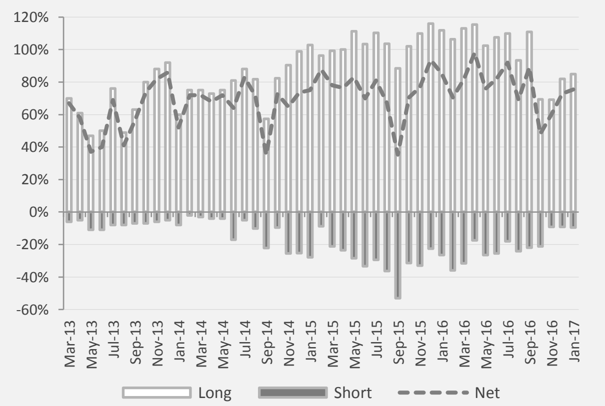
Main contributors to the positive result in January were gains in Blackham Resources, Galaxy Resources and other resource exposures, partially offset by falls across financials holdings and Kidman Resources. At the end of the month the Fund had 30 long positions and 7 short positions.

INDUSTRY EXPOSURE	Long	Short	Net
Financials	+19.2%	-1.5%	+17.7%
Industrials	+14.2%	-6.1%	+8.1%
Resources	+51.6%	-2.0%	+49.6%
Index Futures		0%	0%
Total	**+85.0%**	**-9.6%**	**+75.3%**
Cash			**+24.7%**

HISTORICAL PERFORMANCE *(after fees)*



HISTORICAL EXPOSURE



MONTHLY PERFORMANCE BY CALENDAR 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%	-7.8%	4.3%	-9.0%	-7.9%	0.8%	**6.8%**
2017	2.3%												**2.3%**

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.

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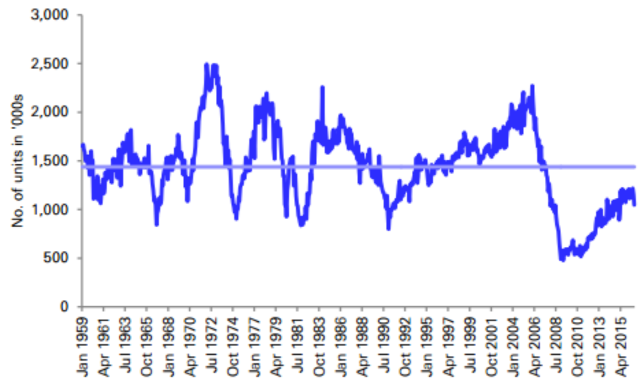
James Hardie (JHX)

James Hardie is an Australian manufacturer and global leader in fibre-reinforced cement. The business has been operating for 125 years producing products used in new residential construction, manufactured housing, repair & remodelling and other applications.

Whether you believe that President Trump can achieve greater GDP growth or not, US housing should continue to recover from historically depressed levels. Despite rising steadily over the last few years, housing starts remain 20% below a midpoint of historic housing activity. With more than 70% of the company's business exposed to US housing and its strong market position, James Hardie will continue to benefit from the normalisation in the US housing sector.

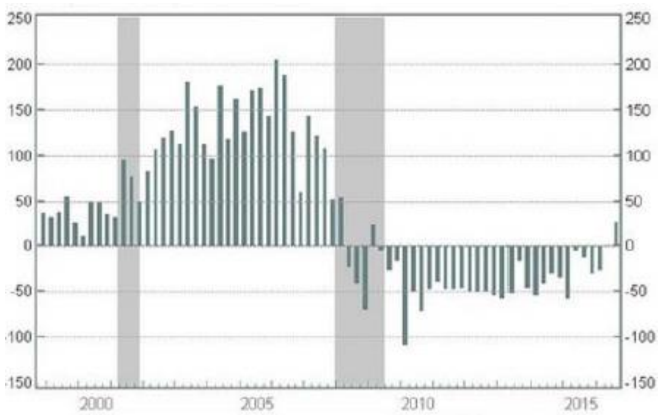
US Housing Starts (SAAR)



Source: US Census

While most forecast a gradually improving trend to the level of housing starts, conditions exist that suggest this may be conservative. These include rising house prices, full US employment, and existing home supply hitting a 24 year low. Additionally, in the last quarter of 2016, net equity extraction from mortgages was positive in for the first time since 2008, which is positive for the US economy.

Home Equity Withdrawals (minus residential construction, $b)



Source: The Gartman Letter

Recent earnings updates from James Hardie have been somewhat underwhelming, having reduced FY17 estimates for the third time as they invest to expand capacity after running production capabilities too tight. This is a relatively short term issue as they optimise throughput of the new plants and set the business up well for FY18 and beyond. The company continues to experience strong organic top line revenue growth driven by increasing market share and underlying market growth.

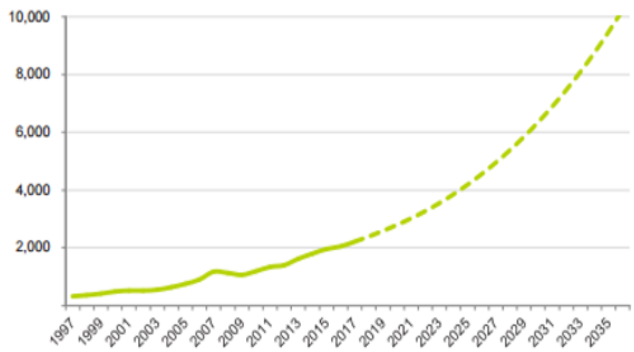
With this backdrop, we believe the outlook for James Hardie remains strong, and the company is capable of delivering greater than 50% return to shareholders as the US housing market continues to recover.

Challenger (CGF)

Challenger is a diversified investment management firm that manages over $60b in assets. Today Challenger is focused on providing wealth creation solutions for those in the accumulation phase of superannuation and also reliable income streams for retirees.

Challenger's leading market positioning in annuities is setting the company for long term earnings growth as Australia's superannuation system, already the 5th largest global pension market, continues to grow at rates 2x that of global pension markets (Towers Watson).

Australia's Superannuation System ($b)



Source: APRA, Deloitte

The ABS forecast the level of Australians aged over 65 will grow by 75% over the next 2 decades. While there will $58b moving from the accumulation to retirement phase in 2017 (Deloitte), this is forecast to continue to grow at 13% CAGR over the next 10 years, as the number of retirees grows. Given Challenger's leading position in annuities products, the company estimates it can capture 4% of this transfer every year.

Challenger continues to broaden its annuities distribution network, signing partnerships with AMP (from FY18) and Mistui Sumitomo Primary Life in Japan (in FY17), having already launched with Colonial First State in 2015. This should see further advisor groups and platforms integrate with Challenger over time to remain competitive. Regulatory tailwinds are also positive with the government requiring super fund trustees to recommend Comprehensive Income Product for Retirement (CIPR) from 2018, a product first created by Challenger and VicSuper.

The ability for Challenger to provide attractive rates of organic growth driven by its strong market positions in structurally growing end markets should continue to see it garner a premium rating to other investment management companies. Challenger remains an attractive long term investment capable of generating strong compounded returns for shareholders.