PARAGON FUNDS MANAGEMENT

PARAGON AUSTRALIAN LONG SHORT FUND // March 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	-1.6%	-4.4%	-19.3%	-20.0%	+0.7%	+4.5%	+9.1%	+12.9%	+64.0%
ASX All Ordinaries Acc.	+3.2%	+4.7%	+9.1%	+15.1%	+19.7%	+4.8%	+7.6%	+8.2%	+37.7%
RBA Cash Rate	+0.2%	+0.4%	+0.8%	+1.3%	+1.7%	+1.9%	+2.1%	+2.2 %	+9.3%

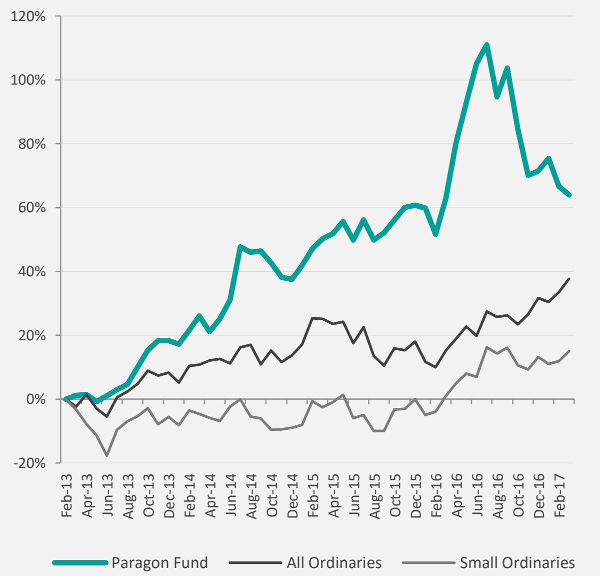
RISK METRICS

Sharpe Ratio	0.7
Sortino Ratio	1.2
Volatility p.a.	+15.3
% Positive Months	+67%
Up/Down Capture	+68%/+8%

FUND DETAILS

NAV	$1.5437
Entry Price	$1.5460
Exit Price	$1.5413
Fund Size	$77.3m
APIR Code	PGF0001AU

HISTORICAL PERFORMANCE *(after fees)*



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.

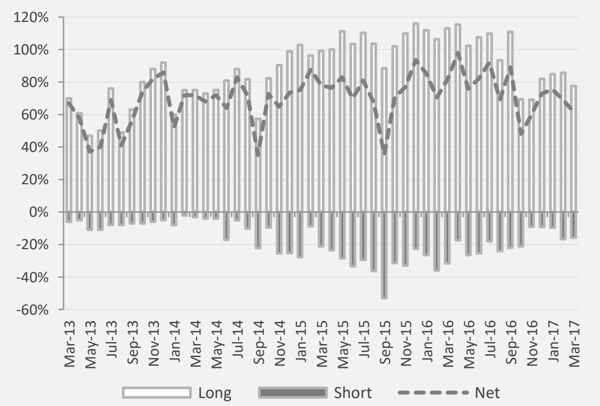
The objective of the Fund is to return in excess of 10% p.a. after fees over a 3-5yr investment horizon.

OVERVIEW & POSITIONING

The Fund returned -1.6% after fees for the month of March 2017. Since inception (March 2013) the Fund has returned +64.0% after fees vs. the market (All Ordinaries Accumulation Index) +37.7%.

Main contributors to the result in March were gains in Star Entertainment, Clean Teq, Challenger, James Hardie & Global Geoscience, offset however by declines in Resolute, Blackham Resources, Netcomm Wireless & Galaxy. At the end of the month the Fund had 29 long positions and 12 short positions.

HISTORICAL EXPOSURE



INDUSTRY EXPOSURE	Long	Short	Net
Financials	+25.1%	-1.8%	+23.3%
Industrials	+29.1%	-7.4%	+21.7%
Resources	+23.3%	-6.6%	+16.7%
Index Futures		0%	0%
Total	**+77.6%**	**-15.9%**	**+61.7%**
Cash			**+38.3%**

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%	-5.0%	-1.6%										**-4.4%**

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.

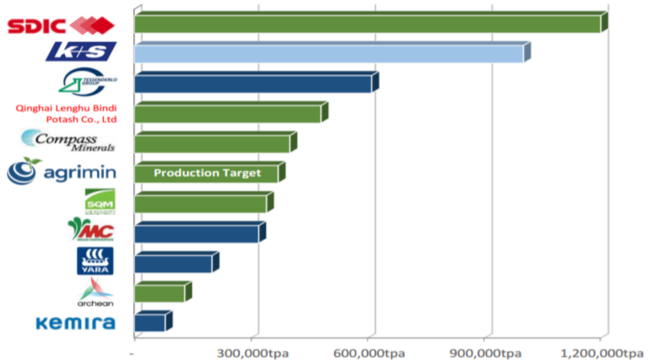
Level 19, 80 Collins St, Melbourne VIC 3000 **eml.** info@paragonfunds.com.au **tel.** +61 3 9652 2500 www.paragonfunds.com.au

A globally unique world-class project in an undersupplied market

One of our preferred commodity exposures is sulphate of potash (SOP). SOP is principally used as a fertiliser for high value specialty crops including potatoes, beans, specialty nuts, strawberries, mangoes, cocoa and tobacco. SOP use is essential for many of these chloride-sensitive crops (not to be confused with the more common muriate of potash (MOP), containing 46% chloride and in an oversupplied market). We previously wrote about SOP two years ago in our March 2015 monthly. SOP makes up ~10% of the overall potash market, or ~7mtpa, (a US$4b+ p.a. market). China is the world's largest producer and consumer of SOP, accounting for >40% of annual global demand. Since 2000, SOP demand has experienced strong growth rates of 5% p.a. compared to MOP of 2.3% p.a. This growth rate implies an additional 350kt of SOP is required annually – the question is, where will the additional supply come from?

SOP supply is highly concentrated, where the top five producers account for ~50% of global production (see Figure 1 below) – many of these existing operations are besieged with legacy issues and struggling to maintain current production rates. ~50% of the world's SOP is produced by converting MOP to SOP via the Mannheim process. This is a high-cost process, which provides an important price floor for SOP. This process also produces an undesirable hydrochloric acid by-product which is causing existing Mannheim furnaces to curtail production or shut down entirely – driving the current supply shortage. Today, ~35% of the world's SOP is produced by brine-based sources, the lowest cost method, which has grown from ~15% a decade ago.

Figure 1: Installed SOP production capacity (Top 10). *Green denotes brines, light blue reacted salts & dark blue from the Mannheim Process.*



Source: AMN, company reports

SOP has a strong market outlook. The SOP price is already high enough to incentivise new supply, offering strong margins for brine-based projects. The industry is essentially fully utilised, and there is a genuine need for new large-scale development assets. The majors have been searching the globe for new development projects. This reminds us of where lithium was 1-2 years ago. However unlike lithium, there are very few genuine new supply sources.

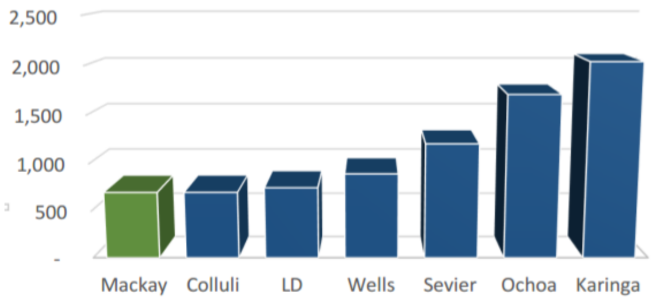
New SOP production sources are rare and ultimately strategic. We have shortlisted eight new supply projects globally, however most are challenged. Be it geologically, environmentally, and with prohibitive capex and/or high opex – essentially rendering most development projects as uneconomic or highly precarious due to sovereign risk (think Spain, Eritrea & Ethiopia). Whilst we identified two brine-based project candidates, both in Western Australia, today we only hold a position in Agrimin for its Lake Mackay project. Whilst both exhibited most of the key technical attributes, brine-based resources can be complex. One of the key risk factors is the ability to extract very large volumes of brine, with consistent chemistry, required to underwrite a long-life and large-scale operation. Agrimin has progressed at rapid rate, de-risking our investment case substantially and has since surpassed all of its SOP peers to be the leading SOP development asset globally.

Agrimin has 100% ownership of the world-class Lake Mackay SOP project, one of the biggest salt lakes in the world. It compares very well to the two biggest global operations, SDIC's Luobupo in China (Chinese SOE) and Compass Minerals' Great Salt Lake in the USA (NYSE-listed; CMP US; US$2.3b market cap where most of its value is due to its US-based SOP producing asset). Agrimin has delineated one of the world's largest drainable SOP resources that will underwrite a 370ktpa SOP production operation (via conventional trenching like SDIC's and Compass' operations) for a 20+ year mine life. A video of AMN's Lake Mackay project can be viewed at http://www.agrimin.com.au/mackay-project/.

We're backing both Agrimin's world-class asset as well as Mark Savich, CEO. Mark and Tom Lyons, GM, founded Agrimin back in 2013 when they were examining brine projects globally in pursuit of a world-class SOP asset. In 2014 they pegged tenements across Lake Mackay, WA's largest salt lake, recognising that almost all projects failed to overcome barriers associated with extracting brine and building unlined evaporation ponds on the enormous scale necessary. Early beginnings which reminds us (albeit at a smaller scale) of Andrew Forrest who pegged key Iron Ore grounds around the majors, prior to the Iron Ore Boom of 2003-2011, leading to the makings of what is today the ~$20b Fortescue Metals.

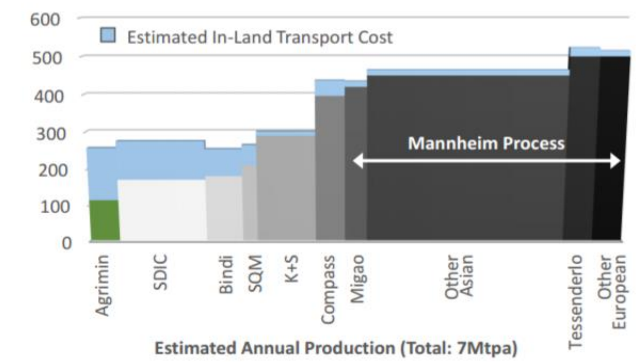
In 3Q16 Agrimin completed a scoping study which delivered highly attractive economics. Using conservative macro and operating inputs, the project has a short payback, with a NPV substantially greater than capex. Lake Mackay has the lowest capital intensity (see Figure 2) and the lowest operating costs (see Figure 3) of all the competing projects globally.

Figure 2: Capital Intensity for undeveloped SOP projects (US$/t)



Source: AMN, company reports

Figure 3: SOP industry mine gate cost curve (US$/t)



Source: AMN, company reports

Agrimin is well advanced and fully funded to deliver Lake Mackay's PFS and native title approvals in 2017, followed by environmental approvals and a DFS in 2018. These should prove to be strong catalysts and create significant corporate appeal. Agrimin has a modest market cap of ~$100m. At 370ktpa SOP production, Lake Mackay would generate ~$150m in EBITDA. Note the market is paying multiples of 10-12x on such world-class asset cashflows, implying a target EV of $1.5-1.8b, supporting a very attractive risk vs reward.

Performance update

It goes without saying that our current drawdown which continued in the month of March is extremely disappointing.

As a recap, we have encountered a highly unusual period of both sectors and market cap rotations, ongoing since August 2016 – basically since the major market turn driven by the end of the 30+yr decline in bond rates. Given our concentrated thematically led strategy, this resulted in an adverse impact on the Fund.

In 1H16 we delivered strong gains driven by our Electric Vehicles theme (namely Lithium), SOP and A$ gold. The bulk of the subsequent declines were in 4Q16, from our Mobile Internet, Medical Innovation and A$ gold thematic stocks. This coincided with a few stock specific issues, which flowed through to February, including Orocobre's surprise downgrade impacting other Lithium holdings also.

In short, we got caught wrong footed by the market turn and have had a lot go against us without enough corresponding winners.

As discussed previously, we took immediate steps to de-risk the portfolio and have also now implemented the use of dynamic stops. This is a further enhancement to our overall risk management process which is particularly relevant in periods of higher volatility.

We remain bullish about our long term outlook. We own several high-alpha positions that we expect to do very well with material catalysts ahead, both in the short and medium term. Despite our drawdown, our annualised compounding return of 12.9% p.a. remains in excess of our investment objective (10% p.a. after fees over a 3-5yr investment horizon) and we look forward to bringing performance back to our historical highs.

Should you wish for us to elaborate further, please call us to discuss or arrange a meeting.

Paragon appoints new Head of Distribution

We were very pleased to announce the appointment of David Livera as Head of Distribution from 20th March 2017.

David is responsible for developing and executing the overall distribution and marketing strategy for the Paragon Australian Long Short Fund. David is a highly regarded person in the industry and will be a great cultural fit for Paragon, having a strong value system that is aligned with ours. David will be working closely with the team to drive business growth, and enable us to continue to focus on delivering the long term objective of the Fund.

Prior to joining Paragon, David held the position of Senior Business Development Manager with Fidante Partners, a division of Challenger Limited, for almost a decade. In this role David was the primary distribution business partner to a number of highly successful boutique equities funds. Prior to Fidante Partners, David was National Key Account Manager for 3.5 years with APN Funds Management.

David's extensive experience has covered the full client spectrum including retail, Ultra High Net Worth, family offices and institutional.

We look forward to introducing David to our investors. Feel free to make contact with David directly on +61 3 9652 2504 or 0402 387 931 or email him at d.livera@paragonfunds.com.au.