PARAGON FUNDS MANAGEMENT

PARAGON AUSTRALIAN LONG SHORT FUND // APRIL 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	-3.2%	-9.6%	-14.1%	-22.6%	-12.0%	+2.2%	+9.4%	+11.7%	+58.7%
ASX All Ordinaries Acc.	+0.8%	+6.1%	+12.4%	+15.8%	+16.6%	+6.0%	+7.4%	+8.2%	+38.8%
RBA Cash Rate	+0.2%	+0.4%	+0.8%	+1.3%	+1.6%	+1.8%	+2.0%	+2.2 %	+9.5%

RISK METRICS

Sharpe Ratio	0.7
Sortino Ratio	1.1
Volatility p.a.	+15.1
% Positive Months	+66%
Up/Down Capture	+66%/+18%

FUND DETAILS

NAV	$1.4936
Entry Price	$1.4959
Exit Price	$1.4914
Fund Size	$74.0m
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.

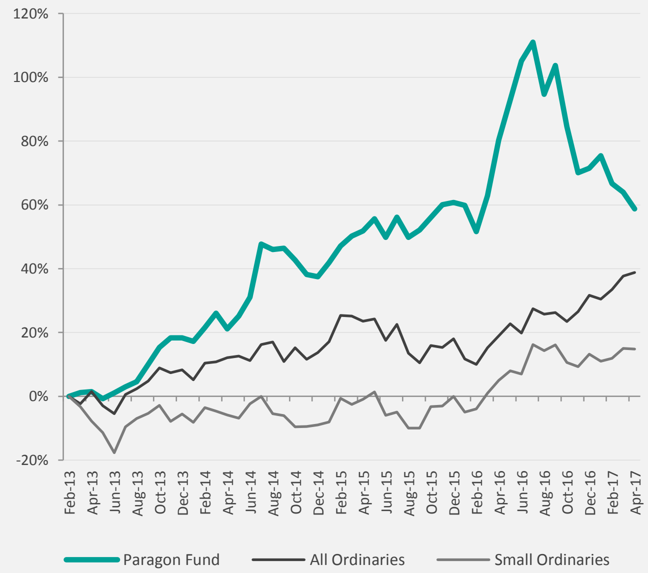
OVERVIEW & POSITIONING

The Fund returned -3.2% after fees for the month of April 2017. Since inception (March 2013) the Fund has returned +58.7% after fees vs. the market (All Ordinaries Accumulation Index) +38.8%.

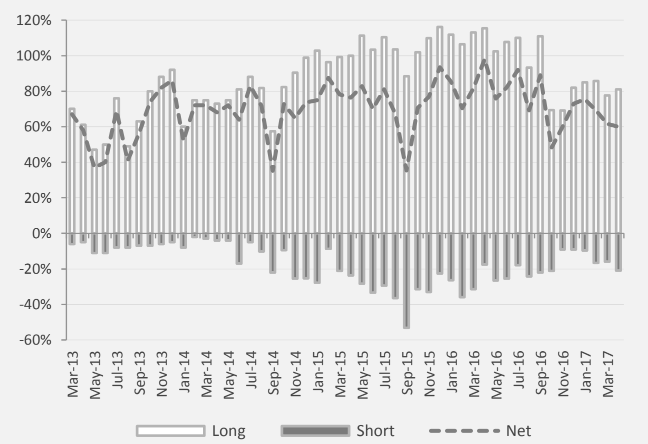
Main contributors to the result in April were gains in Challenger, Aristocrat Leisure and James Hardie, plus short positions in Telstra, Mineral Resources and Pilbara Minerals (exited). These were offset however by declines in Blackham Resources (exited), Agrimin, Clean Teq and Kidman Resources (despite the falls in these four stocks this month, note they have contributed over 15% to the Fund's total gross return). At the end of the month the Fund had 33 long positions and 14 short positions.

INDUSTRY EXPOSURE	Long	Short	Net
Financials	+34.2%	-6.2%	+28.0%
Industrials	+27.5%	-7.6%	+19.9%
Resources	+19.4%	-7.5%	+11.9%
Index Futures		0%	0%
Total	**+81.1%**	**-21.3%**	**+59.8%**
Cash			**+40.2%**

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%	-5.0%	-1.6%	-3.2%									**-7.5%**

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

The Fund has had exposure to companies that benefit from the secular mobile internet thematic since inception. The evolution of the mobile internet has been driven by the convergence of 3G/4G infrastructure, cloud computing, social networking, video content, online commerce and the iPhone almost a decade ago. Our task is to find companies that are exposed to this theme which can provide through the cycle profit drivers, delivering long term outperformance to shareholders. Importantly, we remain focused on the bottom up drivers of the individual businesses which at times can lead us to recognising that a company's operational performance can vary over time despite the positive long term thematic.

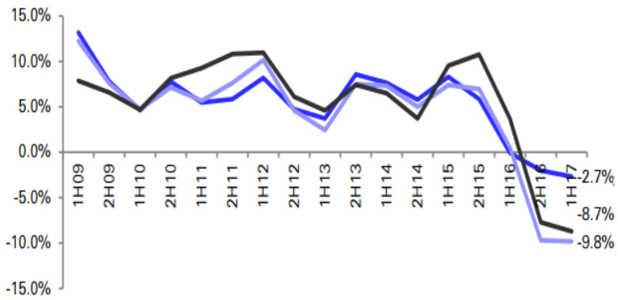
Telstra

Post the fall from the technology bubble peak of $9.20/sh in 1999, to the nadir of $2.50/sh in 2011, Telstra's shares enjoyed a renaissance due to its dominant position in Mobile. The secular growth in mobile data consumption and wayward competition drove a consistent period of earnings growth for the company within its Mobile division.

From FY12 to FY15 Telstra grew its Mobile market share ~18% to 53% and Mobile revenue by 20%, resulting in Mobile EBITDA margins expanding towards 50%. The Fund owned shares in Telstra through 2014/15 before selling the holding above $6.5/sh in early 2015, as we viewed Telstra's valuation was already accounting for the outlook (P/E of 19x and dividend yield below 5%) with Optus also beginning to re-focus on mobile subscriber growth.

We initiated a short positon in February 2017 on the day of Telstra's latest earnings release which highlighted the problems the business was facing today, mainly, rising competition in Mobile driving declining growth rates and an increasingly difficult environment in an NBN world as broadband competition also intensifies.

Telstra Mobile Revenue Growth



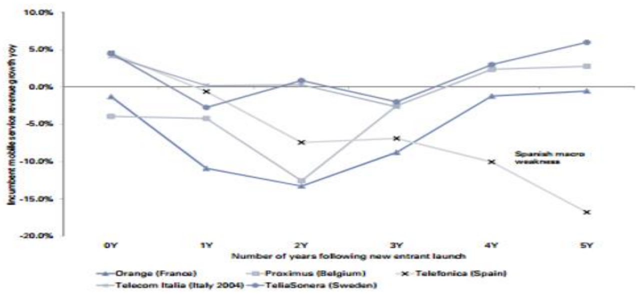
Source: Deutsche

With the company management moving to the lower end of its guidance, putting further doubt on the company's ability to pay its dividend over time (the H1 2017 dividend payment exceeded 100% of earnings), we felt further pressure on the equity was inevitable.

On April 12th 2017, TPG announced its intention to become the fourth mobile operator in Australia's $16bn mobile market. TPG paid a record price for 700MHz spectrum and stated a total cost of almost $2bn to make the foray into this market where Telstra holds the dominant 50% share. The news wiped $5bn from Telstra's market capitalization on the day as investors weighed up the potential impact of a highly regarded and low cost aggressive new entrant.

Similar disruption has taken place globally and the experience from Europe suggests it will be several years before disruption to Telstra's mobile division may settle.

European Mobile Revenue Growth Post Competitive Disruption



Source: Goldman Sachs

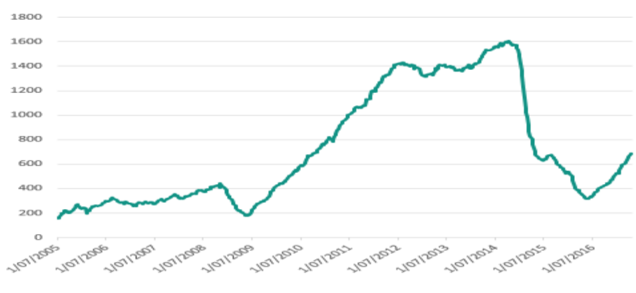
The negative impact to earnings by any decline in revenue in the mobile division (mobile is ~35% of group EBITDA) is clearly magnified given the fixed cost leverage of the business. Depending on the ultimate level of market share achieved by TPG it is increasingly probable that Telstra's dividend heads lower over time taking Telstra's share price with it. With the majority of the shareholder base being retail investors desiring income from the dividend, it is questionable how long they maintain their patience with the prospect of both their capital and income stream being whittled away.

SpeedCast International

Offsetting our negative stance on Telstra within the telecommunications sector, we have a positive exposure to SpeedCast. SpeedCast is a leading global provider of customised satellite telecommunications services to the government, enterprise, telecommunication, maritime and energy markets. The irrepressible rise in internet penetration and data consumption is demanding more robust internet services in industries with specific data requirements and in infrastructure-lite / low density areas. This dynamic is leading to sustained demand for SpeedCast's expertise.

Through the acquisition of Harris CapRock in late 2016, SpeedCast has taken a leading global position within the energy sector, providing satellite service solutions and outsourcing of IT services to onshore and offshore oil rigs. The investor day highlighted that energy bandwidth demand is expected to more than treble in the next decade while 4Q16 was the first quarter in 7 that that revenue to Oilfield Service Companies improved.

US Oil Rig Count



Source: Bloomberg, Paragon

It increasingly looks like an astute purchase at the bottom of the cycle. The synergies in the acquisition, growing rig count with an improved oil market, and very capable management led by a CEO who participated further in the capital raise are positive for the business' outlook. While the energy business should gain traction from here, the maritime division continues to show double digit growth. We are confident that the overall business can deliver on management's double digit organic growth target over the long term given the positive industry dynamics.

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