PARAGON FUNDS MANAGEMENT

PARAGON AUSTRALIAN LONG SHORT FUND // August 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	+7.3%	+7.6%	+3.7%	+7.1%	-11.2%	+7.4%	+5.8%	+12.9%	+72.9%
ASX All Ordinaries Acc.	+0.8%	+1.3%	+2.6%	+1.0%	+8.9%	+9.8%	+5.4%	+7.2%	+36.9%
RBA Cash Rate	+0.1%	+0.4%	+0.8%	+0.1%	+1.5%	+1.7%	+1.9%	+2.2 %	+10.0%

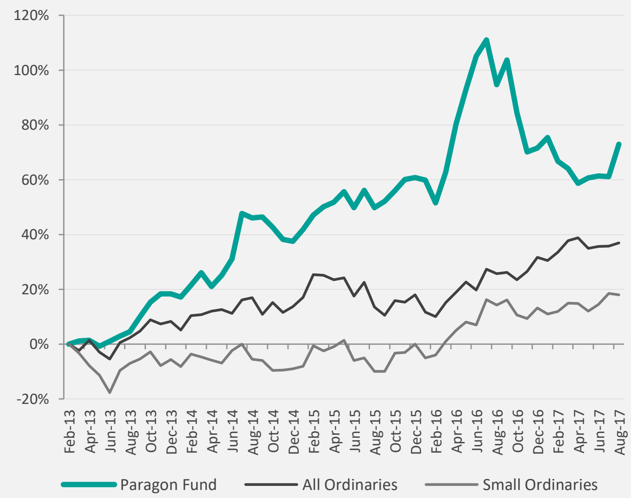
RISK METRICS

Sharpe Ratio	0.8
Sortino Ratio	1.2
Volatility p.a.	+14.9
% Positive Months	+68%
Up/Down Capture	+76%/+15%

FUND DETAILS

NAV	$1.6273
Entry Price	$1.6297
Exit Price	$1.6248
Fund Size	$72.3m
APIR Code	PGF0001AU

HISTORICAL PERFORMANCE *(after fees)*



FUND STRATEGY

Established in March 2013 as an Australian equities long/short fund that is fundamentally driven, has a concentrated portfolio of high conviction stocks, managed by a dedicated investment team and offering transparency to investors. Paragon's proprietary research and extensive investment process which includes active portfolio management, is overlaid with a strong risk management function and a focus on capital preservation.

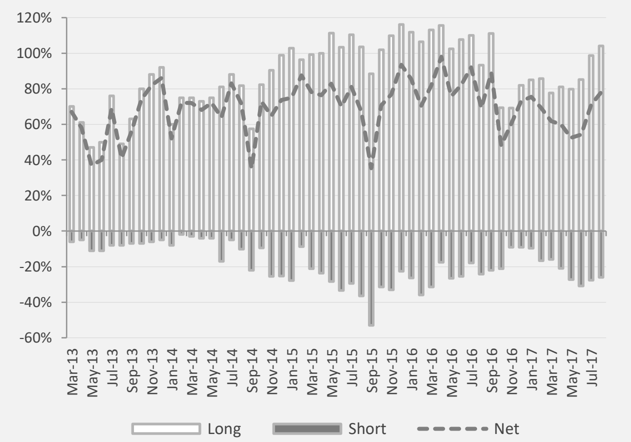
The objective of the Fund is to return in excess of 10% p.a. after fees over a 3-5yr investment horizon.

OVERVIEW & POSITIONING

The Fund returned +7.3% after fees for the month of August 2017. Since inception (March 2013) the Fund has returned +72.9% after fees vs. the market (All Ordinaries Accumulation Index) +36.9%.

The Fund had a strong August reporting season. Main contributors for the month were gains in Kidman, Updater (upgrade), Global GeoScience, Smartgroup (upgrade), FastBrick Robotics, Wattle Heath and Lynas (upgrade) plus shorts in Telstra, Domino's Pizza and Select Harvest (all downgrading). At the end of the month the Fund had 42 long and 18 short positions.

HISTORICAL EXPOSURE



INDUSTRY EXPOSURE

	Long	Short	Net
Financials	+19.6%	-6.9%	+12.7%
Industrials	+26.8%	-10.1%	+16.7%
Resources	+57.9%	-8.1%	+49.8%
Index Futures		0%	0%
Total	**+104.3%**	**-25.1%**	**+79.2%**
Cash			**+20.8%**

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%	1.3%	0.4%	-0.2%	+7.3%					**0.8%**

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.

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Portfolio highlights

August's strong result came from a good spread across several of our long and short positions all performing well through reporting season. Pleasingly our key performers on the long side saw profit and/or outlook statement upgrades or positive catalysts announced. We had been patiently anticipating and communicating such sentiment in previous monthlies. Importantly, we avoided being long in various well-held stocks which announced downgrades, while pleasingly we were also short three stocks that announced downgrades and consequently performed well for the Fund. Below we provide an update on each (in alphabetical order):

Domino's Pizza (DMP) – short. Domino's missed its FY17 guidance and also downgraded FY18 expectations. We initiated our short at $71/sh premised on it being a very expensive growth stock (>50x PE) under pressure. Competition has been rising via private equity buying Pizza Hut & Eagles Boys franchises. Further, we expected an increase in alternative food delivery (Uber Eats, Deliveroo, etc) to crimp Domino's previous technology advantage. We have taken some profits as most of the easy money has been made and continue to maintain a small short position.

FastBrick Robotics (FBR) - long. We wrote about FastBrick Robotics in our July 2017 monthly report – the company boasts an automated robotic positioning system that can build a house in 2 days vs the current method which takes 28 days. In August 2017 FastBrick announced that it had signed a Memorandum of Understanding (MOU) with the Kingdom of Saudi Arabia to build 50k homes, representing only 10% of the Saudi's 2022 innovative-construction new home target, equating to 100 FastBrick Hadrian X robots. If FastBrick were to secure the full Saudi new home target, it would imply 1000 robots, representing 10% of FastBrick's 10k robot rollout global opportunity. This drove a strong rerating to ~28c (vs our 8c cost base). We took some profits with a view that there was too much in the price for now (initial Saudi project scope not yet binding) while retaining a modest position.

Global GeoScience (GSC) - long. Ongoing project derisking milestones announced has seen Global advancing as an exceptional Lithium & Boron project and a strong performer for the Fund. Global's management team and board are first class and have earned their current success. Pleasingly, Global's Rhyolite Ridge project technical milestones continue to surprise to the upside. Located 300kms from Tesla's gigafactory in Nevada in the USA and local to Albemarle's (NYSE US$13b market cap; global Lithium powerhouse) USA operations, Global's project is rapidly derisking as a strategic world class project. We will discuss Global in more detail in an upcoming monthly update.

Kidman Resources (KDR) - long. We wrote about Kidman in our July 2017 monthly report. SQM (NYSE; US$10.4b market cap) announced its intention to buy-in to Kidman's world-class Mt Holland (MH) project in July 2017. SQM has confirmed it will develop MH as an integrated spodumene-refinery project, developing both the upstream mine and concentrator operation, with a local downstream refinery also. Pleasingly the market is starting to acknowledge the strong merits of this integrated-refinery model resulting in a recovery of Kidman's share price in August following the sell-off in July. We see material upside in Kidman. Lithium spot and contract prices continued to rise through August (from already strong levels) and leading integrated peers are experiencing ongoing expansion of their already high pricing multiples (PE & EV/EBITDA).

Lynas (LYC) - long. Lynas currently produces Rare Earth products, with its key Neodymium-Praseodymium Oxide (NdPr) representing ~80% of its revenue and growing. NdPr is a key input in the manufacturing of high strength magnets used in the electric motors and wind turbines. Lynas is exposed to our Electrical Vehicles (EV) theme (EV require significantly higher levels of rare earths as compared to conventional vehicles; 1kg NdPr vs. <0.25kg NdPr). Lynas is also a great turnaround story from an operating and financial leverage perspective, announcing a solid FY17 and confirming its outlook of a strong FY18. The turnaround queen, Amanda Lucaze, has been inspirational and has done exactly what she said she would do. Cutting costs, improving plant efficiency, achieving plant nameplate output and paying down an over-levered balance sheet. We have been watching Lynas for some time, patiently waiting for a more constructive NdPr price outlook, and initiated a position in July 2017. NdPr is undergoing tightening market conditions and strengthening fundamentals. China continues to clamp down on illegal and pollutive production, forcing consolidation. NdPr prices averaged ~US$33/kg in FY17 vs current spot prices of ~US$65/kg. At US$65/kg NdPr spot prices, Lynas should generate ~$250m in free cash for FY18 and be debt free by this time next year. Lynas is a core long position and we expect its share price to continue to rerate.

Select Harvest (SHV) – short. We have been actively shorting Select Harvest, an almond producer and food retailer, since 2015. We have covered into previous downgrades, however we continue to maintain a short position through the downgrade announced in August as we expect more downside. In an attempt to sure up its liquidity and debt serviceability, Select announced in its FY17 result that it has cut dividends to zero and will not commit to any plantation beyond FY18. Two to three years ago when almond prices spiked to unsustainable highs based on Californian (produces 80% of global almond supply) droughts, Select underwent material debt funded expansion from FY15 to FY17. As weather conditions, and in turn Californian production has improved, global almond prices have seen big falls. That's a compounding negative for Select, whose balance sheet remains extended, while still not over its capex peak. It's difficult to see how the company can avoid a dilutive capital raise, at which point we will likely cover our short.

Smartgroup (SIQ) - long. We wrote about Smartgroup in our July 2016 monthly report. Smartgroup announced a solid 1H17 upgrade, driven by ongoing organic growth and acquisitions and continues to be a well-run business with a conservative balance sheet. Management has proven itself to be tier 1, delivering double digit organic growth, strong EBIT margins and >100% cashflow conversion. Smartgroup continues to under-promise and over-deliver. We continue to be long the stock expecting a premium rating on growing earnings to drive its upside.

Telstra (TLS) – short. We initiated a short in Telstra at $4.83/sh in February 2017, premised on rising Mobile & Broadband competition which was likely to impact on Telstra's growth outlook. In April 2017, TPG paid a record price for 700MHz spectrum and guided to a $2b investment to become the 4th Mobile operator in Australia. The market responded by swiftly wiping off $5b from Telstra's market cap. Telstra downgraded its FY17 results in August, materially cutting its FY18F dividend from 29.5cps to 22cps, well below 31cps paid in FY17. We are maintaining our short in Telstra.

Updater (UPD) - long. We wrote about Updater in our July 2017 monthly report – a software solution for the home moving market in the US. Updater performed very well in August, announcing it had achieved a 15% (of all US market moves) market penetration milestone, five months earlier than projected. Updater has now upgraded its market penetration target to 35%, which would reinforce Updater's long-term defensible position as a platform for all aspects of the relocation process. The company also confirmed it will be selling Business Products in at least one vertical by the end of the year. With many material, value adding catalysts ahead, we remain long in the stock.

PARAGON FUNDS MANAGEMENT

Paragon changes – your questions answered by John Deniz

After 4.5 years together, Paragon announced that Nick and I are to go our separate ways. We achieved a lot together and I genuinely wish Nick well in his future endeavours. While talking with investors last week some common questions were raised which I'd like to briefly address below.

First and foremost, Paragon's investment strategy will remain unchanged, particularly our culture as a performance driven fund. As CIO, I will continue to focus on theme led investments across resources and industrials sectors. While most of my solid attribution has come from Resources (despite the sector being down since our inception), I wish to assure investors that I have an extensive background in the Industrials space developed over many years prior to establishing Paragon. This expertise has been further enhanced whilst co-managing the Industrials side of the portfolio at Paragon, attested to with strong stock picks across foods, infrastructure and AREITS, technology and diversified financials.

Secondly, I am delighted to announce the promotion of Hillier Deniz from CFO to CEO, now responsible for all functions of the business and oversight of all key service providers of the Fund. For those unaware, Hillier is my older sister and joined Paragon from the outset in 2012. Hillier is a qualified Chartered Accountant with a Bachelor of Commerce from the University of Melbourne and boasts a 25 year accounting and finance track record across a broad cross section of industries including industrials, manufacturing and retail. Hillier has been an integral team member of Paragon, across all functions of the business in her role as CFO, and is ideally positioned now to assume the CEO role, allowing me to dedicate myself solely to managing the Fund's portfolio.

Thirdly, we wish to assure investors that we are very well resourced to deliver on the investment objective of the Fund. Indeed we are actively talking to very capable investment professionals. Paragon will patiently assess all options available to us and look forward to making further announcements in time.

With a talented and committed team – which also includes David Livera as Head of Distribution, I am excited by the journey ahead for Paragon and our investors in Paragon Australian Long Short Fund.

RG240 disclosures – update since 30 June 2017 disclosures

The following is an update of RG240 disclosures made in our July 2017 monthly report in light of the changes announced as follows:

Investment Strategy:

The Paragon Australian Long Short 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.

Liquidity and Leverage:

Liquidity of the Fund remains consistently well above the required liquidity level, measured as > 80% able to be liquidated within 10 business days, currently ~90% at the end of August.

Leverage levels also remain well within maximum limits permitted as reported in this month's update – at the end of August the Fund was long 104% and short 25%. The resultant gross exposure is 129%, and net exposure is 79%.

These levels are similar to those reported for the year ended 30 June 2017. No material change to these exposure levels is anticipated for the coming year.

Investment Team:

The investment team now comprises of John Deniz as CIO.

Nick Reddaway, formerly co-fund manager of the Fund along with John Deniz, is leaving the business on 30 September 2017.

Further changes or additions to the investment team, if any, will be announced as they occur.

Any further questions on these disclosures should be directed to Paragon by email to info@paragonfunds.com.au.