

Paragon Australian Long Short Fund

ARSN 161 565 920

Annual Report

For the year ended 30 June 2018

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These financial statements cover Paragon Australian Long Short Fund as an individual entity.

The Responsible Entity of Paragon Australian Long Short Fund is Paragon Funds Management Ltd (ABN 42 159 623 873) (AFSL 426800). The Responsible Entity's registered office is:

Level 19
80 Collins Street
Melbourne VIC 3000

**Paragon Australian Long Short Fund
Directors' Report
For the year ended 30 June 2018**

Directors' Report

The Directors of Paragon Funds Management Ltd, the Responsible Entity of Paragon Australian Long Short Fund, present their report together with the financial statements of Paragon Australian Long Short Fund (the 'Fund') for the year ended 30 June 2018.

Principal activities

The Fund's mandate is to invest in Australian listed equities focusing on core competencies in the resource and industrial sectors in accordance with the provisions of the Fund's Constitution. The objective of the Fund is to produce absolute returns and capital growth for unitholders over a 3 - 5 year investment horizon.

The Fund did not have any employees during the year.

There were no significant changes in the nature of the Fund's activities during the year.

The various service providers of the Fund are detailed below:

Service	Provider
Responsible Entity	Paragon Funds Management Ltd
Investment Manager	Paragon Funds Management Ltd
Prime Broker	UBS AG, Australia Branch
Custodian	UBS Nominees Pty Ltd
Statutory Auditor	Moore Stephens Victoria
Administrator and Registrar	Link Fund Solutions Pty Limited

Directors

The following persons held office as Directors of Paragon Funds Management Ltd during the year or since the end of the year and up to the date of this report:

Mr John Deniz
 Ms Hillier Deniz
 Mr Nick Reddaway (resigned 30 September 2017)
 Mr Samuel Lanyon (appointed 1 October 2017)

Review and results of operations

During the year, the Fund continued to invest in accordance with target asset allocations as set out in the governing documents of the Fund and in accordance with the provisions of the Fund's Constitution.

The performance of the Fund, as represented by the results of its operations, was as follows:

	Year ended	
	30 June 2018	30 June 2017
	\$	\$
Operating profit/(loss) for the year	16,706,937	(19,252,118)

Review and results of operations (continued)

The operating profit for the year was attributable to a strong half year performance to 31 December 2017 (H1) with a partial offset in the second half of the financial year (H2).

The strong performance for H1 was the result of strong recovery of several key structural theme-led stocks held in the portfolio that had suffered declines in value in the previous financial year due to a rotation in the markets from long duration growth and gold stocks to cyclicals. Catalysts crystallised for many of the Fund's holdings in H1 resulting in a full recovery of the Fund's high watermark.

Unfortunately H2 was almost a repeat of the prior year's second half, with a decline across the portfolio experienced, this time key structural them led stocks were adversely impacted by market sentiment shifting away from Resources and escalating US-China trade war fears, as a significant portion of the portfolio comprises of China facing stocks.

There were no distributions declared for the year ended 30 June 2018 and 30 June 2017.

Significant changes in state of affairs

An announcement was made on 30 August to advise of a restructure of Paragon Funds Management Ltd ('Paragon'), the Fund's responsible entity and investment manager. On 1 September 2017, John Deniz was appointed as Chief Investment Officer of the Fund, dedicating 100% of his time to executing the investment strategy of the Fund. Hillier Deniz was appointed as Chief Executive Officer of Paragon and assumes the overall responsibility of managing the business and all non-investment functions of the Fund continue to be outsourced to independent service providers. Nick Reddaway, formerly co-Fund Manager along with John Deniz, departed from Paragon and the Fund. The Directors were pleased with the execution of these significant changes and the avoidance of any disruption to the operations of the Fund.

The Fund's investment strategy and day to day operations of the Fund remain unchanged.

Liquidity levels in the Fund at the time enabled outflows resulting from these changes (as anticipated) to be adequately met without any adverse impact to the Fund's performance nor individual unit holders remaining in the Fund.

In the opinion of the Directors, there were no other significant changes in the state of affairs of the Fund that occurred during the period.

Matters subsequent to the end of the financial year

No other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may have a significant effect on:

- (i) the operations of the Fund in future financial years,
- (ii) the results of those operations in future financial years, or
- (iii) the state of affairs of the Fund in future financial years.

The Directors note that the adverse impact on the Fund's performance in the second half of the year, resulting from market sentiment away from Resources plus the escalation of US-China trade war threats, continued to adversely impact the Fund's performance post 30 June 2018. Although a de-risking of the portfolio has been undertaken, and confidence in the long-term structural themes and stocks held by the Fund remain strong, reversal of the drawdown experienced so far is yet to be realised. The financial impact post 30 June resulting from negative performance is a further loss of just over \$8m at the date of this report of which an estimated \$7m equates to the approximate movement in fair value of financial assets held at 30 June 2018 (per Note 4). The Directors are disappointed in this outcome but remain confident in the longer term outlook.

Likely developments and expected results of operations

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the Product Disclosure Statement ('PDS') and the provisions of the Fund's Constitution.

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Indemnification and insurance of officers

The Responsible Entity has paid an insurance premium to insure its Directors under a combined Professional Indemnity and Directors and Officers Insurance policy. Details of the indemnity insurance are as follows:

- The Directors, the Fund and the Responsible Entity are indemnified to an aggregate amount of \$5million, against any liability arising from a claim brought against them by a third party, for losses arising from a wrongful act (as defined in the policy), in relation to the provision of professional services provided by the Responsible Entity.
- The policy further indemnifies each of the following Directors against liabilities for costs and expenses incurred by them in defending legal proceedings arising from their conduct while acting in the capacity of director of the company, other than conduct involving a wilful breach of duty in relation to the Fund:

Mr John Deniz
Ms Hillier Deniz
Mr Nick Reddaway (resigned 30 September 2017)
Mr Samuel Lanyon (appointed 1 October 2017)

The policy is a combined policy and as such, premiums for each Director cannot be quantified. Further disclosure of information relating to this policy is not permitted under the contract of insurance.

Indemnification of auditor

The auditor of the Fund is in no way indemnified out of the assets of the Fund.

Fees paid to and interests held in the Fund by the Responsible Entity and its associates

Fees paid to the Responsible Entity and its associates out of Fund property during the year are disclosed in Note 14 to the financial statements.

No fees were paid out of Fund property to the Directors of the Responsible Entity during the year.

The number of interests in the Fund held by the Responsible Entity or its associates as at the end of the financial year are disclosed in Note 14 to the financial statements.

Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in Note 8 to the financial statements.

The value of the Fund's assets and liabilities is disclosed in the Statement of Financial Position and derived using the basis set out in Note 2 to the financial statements.

Environmental regulation

The operations of the Fund are not subject to any particular or significant environmental regulations under Commonwealth, State or Territory law.

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6.

This report is made in accordance with a resolution of the Directors of Paragon Funds Management Ltd.

A handwritten signature in black ink, appearing to read 'John Deniz', with a stylized flourish at the end.

Mr John Deniz
Director

Melbourne, VIC
25 September 2018

Moore Stephens Audit (Vic)

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**AUDITOR'S INDEPENDENCE DECLARATION
UNDER S 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF PARAGON FUNDS MANAGEMENT LIMITED, THE RESPONSIBLE ENTITY**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2018, there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.



MOORE STEPHENS AUDIT (VIC)
ABN 16 847 721 257



GEORGE S. DAKIS
Partner
Audit & Assurance Services

Melbourne, Victoria

25 September 2018

Paragon Australian Long Short Fund
Statement of Comprehensive Income
For the year ended 30 June 2018

Statement of Comprehensive Income

		Year ended	
		30 June	30 June
		2018	2017
	Notes	\$	\$
Investment income			
Interest income		312,745	353,374
Dividend income		672,277	724,597
Unit trust distributions		124,471	101,125
Net gains/(losses) on financial instruments held at fair value through profit or loss	5	22,116,524	(18,154,112)
Total investment income/(loss)		23,226,017	(16,975,016)
Expenses			
Management fees	14	1,062,847	1,099,538
Performance fees	14	4,025,598	8,661
Interest expense		166,491	32,835
Custody fees		4,181	2,220
Transaction costs		179,721	238,041
Stock loan fees		159,432	166,789
Withholding tax on foreign dividends and interest		41,593	3,551
Establishment cost expense		-	16,968
Short dividend expense		691,973	421,858
Expense reimbursement fees	14	186,663	286,079
Other operating expenses		581	562
Total operating expenses		6,519,080	2,277,102
Operating profit/(loss)		16,706,937	(19,252,118)
Finance costs attributable to unitholders			
(Increase)/decrease in net assets attributable to unitholders	8	(16,706,937)	19,252,118
Profit/(loss) for the year		-	-
Other comprehensive income		-	-
Total comprehensive income for the year		-	-

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Paragon Australian Long Short Fund
Statement of Financial Position
As at 30 June 2018

Statement of Financial Position

		As at	
		30 June	30 June
		2018	2017
	Notes	\$	\$
Assets			
Cash and cash equivalents	9	22,990,178	28,650,603
Receivables	11	569,906	1,310,004
Due from brokers - receivable for securities sold		196,075	6,071,398
Financial assets held at fair value through profit or loss	6	54,859,314	61,077,338
Total assets		78,615,473	97,109,343
Liabilities			
Payables	12	774,290	342,527
Due to brokers - payable for securities purchased		1,329,056	3,292,917
Financial liabilities held at fair value through profit or loss	7	12,124,620	20,840,450
Total liabilities (excluding net assets attributable to unitholders)		14,227,966	24,475,894
Net assets attributable to unitholders - liability		64,387,507	72,633,449

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Paragon Australian Long Short Fund
Statement of Changes in Equity
For the year ended 30 June 2018

Statement of Changes in Equity

	Year ended	
	30 June	30 June
	2018	2017
	\$	\$
Total equity at the beginning of the year	-	-
Profit/(loss) for the year	-	-
Other comprehensive income	-	-
Total comprehensive income	-	-
Transactions with owners in their capacity as owners	-	-
Total equity at the end of the year	-	-

Under Australian Accounting Standards, net assets attributable to unitholders are classified as a liability rather than equity. As a result, there was no equity at the start or the end of the year.

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Paragon Australian Long Short Fund
Statement of Cash Flows
For the year ended 30 June 2018

Statement of Cash Flows

	Year ended	
	30 June	30 June
	2018	2017
Notes	\$	\$
Cash flows from operating activities		
Proceeds from sale of financial assets held at fair value through profit or loss	195,737,086	227,352,918
Purchase of financial assets held at fair value through profit or loss	(164,573,719)	(241,377,543)
Proceeds from re-purchase of financial liabilities held at fair value through profit or loss	106,192,193	125,626,006
Payments for settlement of financial liabilities held at fair value through profit or loss	(113,184,265)	(128,492,872)
Interest income received	330,575	341,874
Dividends and distributions received	907,254	617,336
Performance fees paid	(4,107,182)	(3,054,039)
Management fees paid	(1,067,413)	(1,132,111)
Transaction costs paid	(173,675)	(253,594)
Stock loan fees paid	(171,502)	(155,992)
Custody fees paid	(4,181)	(2,360)
Expense reimbursement fees paid	(188,430)	(296,588)
Interest expense paid	(166,491)	(35,575)
Establishment cost expense paid	-	(25,456)
Short dividends paid	(794,676)	(330,483)
Other operating expenses paid	(34,253)	(225)
Net cash inflow/(outflow) from operating activities	10(a) 18,701,321	(21,218,704)
Cash flows from financing activities		
Proceeds from applications by unitholders	10,103,146	43,517,407
Payments for redemptions by unitholders	(34,464,892)	(11,765,339)
Distributions paid from operating activities	-	(909)
Net cash inflow/(outflow) from financing activities	(24,361,746)	31,751,159
Net increase/(decrease) in cash and cash equivalents	(5,660,425)	10,532,455
Cash and cash equivalents at the beginning of the year	28,650,603	18,118,148
Cash and cash equivalents at the end of the year	9 22,990,178	28,650,603

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

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1 General information

These financial statements cover Paragon Australian Long Short Fund (the 'Fund') as an individual entity. The Fund was constituted on 6 December 2012, registered with the Australian Securities and Investments Commission on 20 December 2012 and commenced operations on 1 March 2013. The Fund will terminate on 5 December 2092 unless terminated earlier in accordance with the provisions of the Fund's Constitution.

Paragon Australian Long Short Fund is a registered managed investment scheme under the *Corporations Act 2001*.

The Responsible Entity of the Fund is Paragon Funds Management Ltd (ABN 42 159 623 873) (AFSL 426800) (the 'Responsible Entity'). The Responsible Entity's registered office is Level 19, 80 Collins Street, Melbourne, VIC 3000. The financial statements are presented in the Australian currency unless otherwise noted.

The Fund's mandate is to invest in Australian listed equities focusing on core competencies in the resource and industrial sectors in accordance with PDS and the provisions of the Fund's Constitution. The objective of the Fund is to produce absolute returns and capital growth for unitholders over a 3 - 5 year investment horizon.

On 5 May 2016, a new tax regime applying to Managed Investment Trusts ("MITs") was established under the Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016. The Attribution Managed Investment Trust ("AMIT") regime allows MITs that meet certain requirements to make an irrevocable choice to be an AMIT. In order to allow the Fund to elect into the AMIT tax regime, the Fund's Constitution has been amended and the other conditions to adopt the AMIT tax regime have been met effective 1 July 2017. The Responsible Entity is therefore no longer contractually obligated to pay distributions.

The financial statements were authorised for issue by the Directors on the date the Directors' Declaration was signed. The Directors of the Responsible Entity have the power to amend and reissue the financial statements.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated in the following text.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001* in Australia. The Fund is a for-profit entity for the purpose of preparing the financial statements.

The financial statements are prepared on the basis of fair value measurement of assets and liabilities, except where otherwise stated.

The Statement of Financial Position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and do not distinguish between current and non-current. All balances are expected to be recovered or settled within twelve months, except for investments in financial assets and liabilities and net assets attributable to unitholders.

The Fund manages financial assets at fair value through profit or loss based on the economic circumstances at any given point in time, as well as to meet any liquidity requirements. As such, it is expected that a portion of the portfolio will be realised within 12 months, however, an estimate of that amount cannot be determined as at reporting date.

In the case of net assets attributable to unitholders, the units are redeemable on demand at the unitholder's option. However, holders of these instruments typically retain them for the medium to long term. As such, the amount expected to be settled within 12 months cannot be reliably determined.

(i) Compliance with International Financial Reporting Standards (IFRS)

The financial statements of the Fund also comply with IFRS as issued by the International Accounting Standards Board (IASB).

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(ii) *New and amended standards adopted by the Fund*

There are no new standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2017 that have a material impact on the Fund.

(iii) *New standards and interpretations not yet adopted*

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2018 reporting period and have not been early adopted by the Fund. The Directors' assessment of the impact of these new standards (to the extent relevant to the Fund) and interpretations is set out below:

- **AASB 9 *Financial Instruments*** (and applicable amendments) (effective from 1 January 2018)

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. It has now also introduced revised rules around hedge accounting and impairment. The standard is not applicable until 1 January 2018 but is available for early adoption. The Directors do not expect this to have a significant impact on the recognition, classification and measurement of the Fund's financial instruments as they are carried at fair value through profit or loss. The derecognition rules have not been changed from the previous requirements, and the Fund does not apply hedge accounting. AASB 9 introduces a new impairment model. However, as the Fund's investments are all held at fair value through profit or loss, the change in impairment rules will not impact the Fund.

- **AASB 15 *Revenue from Contracts with Customers*** (effective from 1 January 2018)

AASB 15 will replace AASB 118 *Revenue* which covers contracts for goods and services and AASB 111 *Construction Contracts* which covers construction contracts. AASB 15 is based on the principle that revenue is recognised when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards.

The Fund's main sources of income are interest, dividends and distributions and gains on financial instruments held at fair value. All of these are outside the scope of the new revenue standard. As a consequence, the Directors do not expect the adoption of AASB 15 to have a significant impact on the Fund's accounting policies or the amounts recognised in the financial statements.

There are no other standards that are not yet effective and that are expected to have a material impact on the Fund in the current or future reporting periods and on foreseeable future transactions.

(b) Financial instruments

(i) *Classification*

The Fund's investments are classified as held at fair value through profit or loss. They comprise of:

- Financial instruments held for trading

These are investments in derivative financial instruments such as futures. The Fund does not designate any derivatives as hedges in a hedging relationship.

- Financial instruments designated at fair value through profit or loss upon initial recognition

These include financial assets and liabilities that are not held for trading purposes and which may be sold. These are investments in exchange traded equity instruments and unlisted unit trusts.

The Fund makes short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security, or it may use short sales for various arbitrage transactions. Short sales are classified as financial liabilities at fair value through profit or loss.

Financial assets and liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's policy is for the Responsible Entity to evaluate the information about these financial instruments on a fair value basis together with other related financial information.

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

(i) Classification (continued)

The information on the fair value basis is provided internally to the Fund's key management personnel. In addition, the designation of financial assets and financial liabilities at fair value through profit or loss will reduce any measurement or recognition inconsistencies and any accounting mismatch that would otherwise arise.

(ii) Recognition/derecognition

The Fund recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or the Fund has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised when the obligation under the liabilities are discharged.

(iii) Measurement

Financial instruments held at fair value through profit or loss

At initial recognition, the Fund measures financial assets and financial liabilities at fair value. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in the Statement of Comprehensive Income.

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets or financial liabilities at fair value through profit or loss' category are presented in the Statement of Comprehensive Income within net gains/(losses) on financial instruments held at fair value through profit or loss in the period in which they arise. Dividend expense on short sales of securities, which have been classified at fair value through profit or loss, is presented as expense in the Statement of Comprehensive Income.

For further details on how the fair value of financial instruments is determined, please see Note 4 to the financial statements.

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the Statement of Financial Position when the Fund has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

As at the end of the reporting period, there are no financial assets or liabilities offset or with the right to offset in the Statement of Financial Position.

(c) Net assets attributable to unitholders

Units are redeemable at the unitholders' option, however, applications and redemptions may be suspended by the Responsible Entity if it is in the best interests of the unitholders. The units are classified as financial liabilities.

The units can be put back to the Fund at any time for cash based on the redemption price.

The value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the end of the reporting period if the unitholders exercised their right to redeem units in the Fund.

(d) Cash and cash equivalents

For the purpose of presentation in the Statement of Cash Flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as trading of these securities represent the Fund's main income generating activity.

2 Summary of significant accounting policies (continued)

(e) Investment income

Interest income on cash and cash equivalents is recognised in the Statement of Comprehensive Income on an accruals basis.

Changes in fair value for financial instruments held at fair value through profit or loss are recorded in accordance with the policies described in Note 2(b) to the financial statements.

Dividend income is recognised on the ex-dividend date with any related foreign withholding tax recorded as an expense. The Fund currently incurs withholding tax imposed by certain countries on investment income. Such income is recorded gross of withholding tax in the Statement of Comprehensive Income.

Dividends declared on securities sold short are recorded as a dividend expense on the ex-dividend date.

Trust distributions are recognised on an entitlement basis.

(f) Expenses

All expenses are recognised in the Statement of Comprehensive Income on an accruals basis.

(g) Income tax

Under current legislation, the Fund is not subject to income tax provided it attributes the entirety of its taxable income to its unitholders.

(h) Distributions

The Fund may distribute its distributable income, in accordance with the Fund's Constitution, to unitholders by cash or reinvestment. The distributions is recognised in the Statement of Comprehensive Income.

(i) Increase/decrease in net assets attributable to unitholders

Income not distributed is included in net assets attributable to unitholders. Where the Fund's units are classified as financial liabilities, movements in net assets attributable to unitholders are recognised in the Statement of Comprehensive Income as finance costs.

(j) Due from/to brokers

Amounts due from/to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by the end of the year. Trades are recorded on trade date, and normally settled within two business days. A provision for impairment of amounts due from brokers is established when there is objective evidence that the Fund will not be able to collect all amounts due from the relevant broker. Indicators that the amount due from brokers is impaired include significant financial difficulties of the broker, and the probability that the broker will enter into bankruptcy or financial reorganisation and default in payments.

(k) Receivables

Receivables may include amounts for interest, dividends and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Where applicable, interest is accrued on a daily basis (previously accrued at the end of each reporting period from the time of last payment) in accordance with the policy set out in Note 2(e) above. Amounts are generally received within 30 days of being recorded as receivables.

Receivables also include such items as Reduced Input Tax Credits (RITC).

Collectability of receivables is reviewed on an ongoing basis. Receivables which are known to be uncollectable are written off by reducing the carrying amount directly. The amount of the impairment loss is recognised in the Statement of Comprehensive Income within other expenses. Subsequent recoveries of amounts previously written off are credited against other expenses in the Statement of Comprehensive Income.

2 Summary of significant accounting policies (continued)

(l) Payables

Payables include liabilities and accrued expenses owed by the Fund which are unpaid as at the end of the reporting period.

A separate distribution payable is recognised in the Statement of Financial Position.

Distributions declared effective 30 June in relation to unitholders who have previously elected to reinvest distributions are recognised as reinvested effective 1 July of the following financial year. Distributions will be automatically reinvested unless elected to be paid out in accordance with the Fund's PDS.

(m) Applications and redemptions

Unit application and redemption prices are determined by reference to the net assets of the Fund divided by the number of units on issue, adjusted for buy/sell spreads.

(n) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Fund by third parties such as custodial services, investment management fees and performance fees have been passed onto the Fund. The Fund qualifies for Reduced Input Tax Credits (RITC) at a rate of at least 55%; hence investment management fees, performance fees, custodial fees and other expenses have been recognised in the Statement of Comprehensive Income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Amounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the Statement of Financial Position. Cash flows relating to GST are included in the Statement of Cash Flows on a gross basis.

(o) Use of estimates

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the current and next financial year. Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

For the majority of the Fund's financial instruments, quoted market prices are readily available.

For more information on how fair value is calculated please refer to Note 4 to the financial statements.

(p) Significant judgments made in the application of accounting policies

Related party relationship and control - managed investment schemes

While the Responsible Entity controls the financial and operating activities of the Fund in accordance with the Fund's Constitution and PDS, the Responsible Entity's fiduciary obligations to the unitholders of the Fund prevent it from benefiting directly from the activities of the Fund. Instead, the Responsible Entity governs the financial and operating activities of the Fund for the sole purpose of fulfilling its fiduciary obligation of acting in the best interest of the unitholders in its capacity as the Responsible Entity. Accordingly, the Directors do not consider that the Responsible Entity controls the Fund as defined in AASB 127: *Consolidated and Separate Financial Statements*.

However, for the purpose of AASB 124: *Related Party Disclosures*, the Directors consider that the Responsible Entity is a related party of the Fund as it is the management entity that provides key management personnel services to the Fund. Accordingly, both the Responsible Entity and its Directors are considered to be key management personnel of the Fund.

3 Financial risk management

The Fund's activities expose it to a variety of financial risks including market risk (which incorporates price risk and interest rate risk), credit risk and liquidity risk.

The Fund's overall risk management programme focuses on ensuring compliance with the Fund's PDS and the investment guidelines of the Fund. It also seeks to maximise the returns derived for the level of risk to which the Fund is exposed and seeks to minimise potential adverse effects on the Fund's financial performance.

The Fund invests in a diversified portfolio of long and short stocks comprising equities that are listed on the Australian Securities Exchange ('ASX'). The Fund may use exchange traded derivatives to gain exposure to the underlying physical investments and for hedging purposes. Derivatives are not used speculatively. The Fund may also invest a small portion of the Fund's assets in equities of unlisted Australian companies expected to list in 12 months.

The investment objective of the Fund is to produce absolute returns and capital growth for unitholders over a 3-5 year investment horizon before taking into account Fund fees and expenses.

The Fund uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of market risk and ratings analysis for credit risk.

(a) Market risk

Market risk is the risk that changes in market prices, such as interest rates and other market prices will affect the Fund's income or the carrying value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Responsible Entity intends to limit this risk by ensuring strict adherence to the Fund's investment guidelines.

(i) Price risk

The Fund is exposed to price risk on equity securities listed or quoted on recognised securities exchange. Price risk arises from investments held by the Fund for which prices in the future are uncertain. Other market price risk is the risk that the value of an instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

As the majority of the Fund's investments are carried at fair value with fair value changes recognised in the Statement of Comprehensive Income, all changes in market conditions will directly affect net investment income.

All securities investments present a risk of loss of capital. Except for equities sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from equities sold short can be unlimited.

The Fund mitigates this price risk through diversification, in terms of company, industry, sector, and selection of securities in accordance with the Fund's investment guidelines.

The Fund has built in procedures to ensure adherence to the Fund's investment guidelines at all times.

At 30 June, the overall net market exposures were as follows:

	As at	
	30 June 2018	30 June 2017
	\$	\$
Listed equities	54,859,314	61,077,338
Listed equities sold short	(12,124,620)	(20,840,450)
Total	42,734,694	40,236,888

3 Financial risk management (continued)

(a) Market risk (continued)

(i) Price risk (continued)

The Fund manages its exposure to price risk by analysing the investment portfolio by industrial sector. The table below is a summary of the significant sector concentrations within the equity portfolio, net of securities sold short.

	As at 30 June 2018	As at 30 June 2017
	Fund's equity portfolio	Fund's equity portfolio
Sector	(%)	(%)
Information technology	16.4	19.8
Financial services	(3.1)	14.1
Energy	8.7	(2.6)
Health care	6.6	6.6
Consumer staples	5.7	(1.8)
Industrials	(2.4)	11.7
Consumer discretionary	4.0	9.4
Utilities	5.0	(1.5)
Materials	59.1	43.2
Telecommunications services	-	1.1
Total	100.00	100.0

The table in Note 3(b) summarises the sensitivities of the Fund's assets and liabilities to price risk. The analysis is based on the assumption that the markets in which the Fund invests move by +/- 15% (2017: +/- 15%).

(ii) Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund is exposed to cash flow interest rate risk on financial instruments with variable interest rates. Financial instruments with fixed rates expose the Fund to fair value interest rate risk.

The table below summarises the Fund's exposure to interest rate risk. It includes the Fund's assets and liabilities at fair values, categorised by the earlier of contractual repricing or maturity dates.

3 Financial risk management (continued)

(a) Market risk (continued)

(iii) Cash flow and fair value interest rate risk (continued)

As at 30 June 2018

	Floating interest rate \$	Fixed interest rate \$	Non- interest bearing \$	Total \$
Assets				
Cash and cash equivalents	22,990,178	-	-	22,990,178
Receivables	-	-	569,906	569,906
Due from brokers - receivable for securities sold	-	-	196,075	196,075
Financial assets held at fair value through profit or loss	-	-	54,859,314	54,859,314
Total assets	22,990,178	-	55,625,295	78,615,473
Liabilities				
Payables	-	-	(774,290)	(774,290)
Due to brokers - payable for securities purchased	-	-	(1,329,056)	(1,329,056)
Financial liabilities held at fair value through profit or loss	-	-	(12,124,620)	(12,124,620)
Total liabilities (excluding net assets attributable to unitholders)	-	-	(14,227,966)	(14,227,966)
Net exposure	22,990,178	-	41,397,329	64,387,507

3 Financial risk management (continued)

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk (continued)

As at 30 June 2017

	Floating interest rate \$	Fixed interest rate \$	Non- interest bearing \$	Total \$
Assets				
Cash and cash equivalents	28,650,603	-	-	28,650,603
Receivables	-	-	637,917	637,917
Due from brokers - receivable for securities sold	-	-	6,071,398	6,071,398
Financial assets held at fair value through profit or loss	-	-	61,749,425	61,749,425
Total assets	28,650,603	-	68,458,740	97,109,343
Liabilities				
Payables	-	-	(342,527)	(342,527)
Due to brokers - payable for securities purchased	-	-	(3,292,917)	(3,292,917)
Financial liabilities held at fair value through profit or loss	-	-	(20,840,450)	(20,840,450)
Total liabilities (excluding net assets attributable to unitholders)	-	-	(24,475,894)	(24,475,894)
Net exposure	28,650,603	-	43,982,846	72,633,449

The table in Note 3(b) summarises the impact of an increase/decrease of interest rates on the Fund's operating profit and net assets attributable to unitholders through changes in fair value or changes in future cash flows. The analysis is based on the assumption that interest rates changed by +/- 75 basis points (2017: +/- 75 basis points) from the year end rates with all other variables held constant.

3 Financial risk management (continued)

(b) Summarised sensitivity analysis

The following table summarises the sensitivity of the Fund's operating profit and net assets attributable to unitholders to market risks. The reasonably possible movements in the risk variables have been determined based on management's best estimate having regard to a number of factors, including historical levels of changes in interest rates and the historical correlation of the Fund's investments with the relevant benchmark and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the Fund invests. As a result, historic variations in risk variables are not a definitive indicator of future variances in the risk variables.

	Impact on operating profit/(loss)/ Net assets attributable to unitholders			
	Price risk		Interest rate risk	
	-15%	+15%	-75bps	+75bps
	\$	\$	\$	\$
30 June 2018	(6,410,204)	6,410,204	(172,426)	172,426
30 June 2017	(6,136,346)	6,136,346	(219,920)	219,920

(c) Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. Market prices generally incorporate credit assessments into valuations and risk of loss is implicitly provided for in the carrying value of on-balance sheet financial assets and liabilities as they are carried at fair value. The total credit risk for on-balance sheet items, other than derivatives, is therefore limited to the amount carried on the Statement of Financial Position.

The Fund's maximum credit risk exposure at balance date in relation to each class of recognised financial asset, other than equity and derivative financial instruments, is the carrying amount of those assets as indicated in the balance sheet. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

The Fund does not have a significant concentration of credit risk that arises from an exposure to a single counterparty or group of counterparties having similar characteristics. The main concentration of credit risk, to which the Fund is exposed, arises from cash and cash equivalents and amounts due from brokers' balances. None of these assets are impaired nor past their due date. The maximum exposure to credit risk at the reporting date is the carrying amount of cash and cash equivalents and amounts due from brokers.

The Fund uses UBS AG, Australia Branch as its prime broker. UBS AG has a rating of A+ by S&P as at 30 June 2018 (30 June 2017: A+).

(i) Derivative financial instruments

For derivative financial instruments, the Responsible Entity/Investment Manager has established limits such that transactions only take place with participants of ASX.

(ii) Settlement of securities transactions

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered low, as delivery of securities sold is only made once the broker has received payment. Payment is made once the securities purchased have been received by the broker. The trade will fail if either party fails to meet its obligations.

(iii) Cash and cash equivalents

In accordance with the Fund's policy, the Investment Manager monitors the Fund's credit position on a daily basis, and the Board of Directors reviews it on a quarterly basis.

3 Financial risk management (continued)

(c) Credit risk (continued)

(iv) Other

The Fund is not materially exposed to credit risk on other financial assets.

The maximum exposure to credit risk at the end of each reporting period is the carrying amount of the financial assets. None of these assets are impaired nor past due but not impaired.

(d) Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund is exposed to monthly cash redemptions of redeemable units. It therefore primarily holds investments that are traded in an active market and can be readily disposed.

The Fund will always comprise of asset classes whereby at least 80% of the Fund's total assets can reasonably be expected to be realised within ten days at all times.

In order to manage the Fund's overall liquidity, the Responsible Entity has the discretion to reject an application for units and to defer or adjust redemption of units if the exercise of such discretion is in the best interests of unitholders. The Fund did not reject or withhold any redemptions during 2018 and 2017.

(i) Maturities of non-derivative financial liabilities

The table below analyses the Fund's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

As at 30 June 2018

	Less than 1 month \$	1-6 months \$	6-12 months \$	1-2 years \$
Payables	774,290	-	-	-
Due to brokers - payable for securities purchased	1,329,056	-	-	-
Financial liabilities at fair value through profit or loss	-	12,124,620	-	-
Net assets attributable to unitholders	64,387,507	-	-	-
Contractual cash flows	66,490,853	12,124,620	-	-

As at 30 June 2017

	Less than 1 month \$	1-6 months \$	6-12 months \$	1-2 years \$
Payables	342,527	-	-	-
Due to brokers - payable for securities purchased	3,292,917	-	-	-
Financial liabilities at fair value through profit or loss	-	20,840,450	-	-
Net assets attributable to unitholders	72,633,449	-	-	-
Contractual cash flows	76,268,893	20,840,450	-	-

4 Fair value measurement

The Fund measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Financial assets / liabilities designated at fair value through profit or loss (see Notes 6 and 7)

AASB 13 *Fair Value Measurement* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1),
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2), and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

(i) Fair value in an active market (level 1)

The fair value of financial assets and liabilities traded in active markets (such as listed equity securities) is based on their quoted market prices at the close of trading at the end of the reporting period without any deduction for estimated future selling costs.

The Fund values its investments in accordance with the accounting policies set out in Note 2 to the financial statements. For the majority of its investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

The quoted market price used for financial assets and financial liabilities held by the Fund is the last sale price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

(ii) Fair value in an inactive or unquoted market (level 2 and level 3)

The fair value of financial assets that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

4 Fair value measurement (continued)

(iii) Recognised fair value measurements

The following table presents the Fund's assets and liabilities measured and recognised at fair value as at 30 June.

At 30 June 2018	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial assets				
Financial assets designated at fair value through profit or loss:				
Australian equity securities and trusts	51,096,168	3,763,146	-	54,859,314
Total financial assets	51,096,168	3,763,146	-	54,859,314

Financial liabilities

Financial liabilities designated at fair value through profit or loss:

Australian equity securities and trusts sold short	12,124,620	-	-	12,124,620
Total financial liabilities	12,124,620	-	-	12,124,620

At 30 June 2017	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial assets				
Financial assets designated at fair value through profit or loss:				
Australian equity securities and trusts	59,694,786	1,382,552	-	61,077,338
Total financial assets	59,694,786	1,382,552	-	61,077,338

Financial liabilities

Financial liabilities designated at fair value through profit or loss:

Australian equity securities and trusts sold short	20,840,450	-	-	20,840,450
Total financial liabilities	20,840,450	-	-	20,840,450

The Level 2 investments relate to placements in which the Fund had subscribed to during the year. The fair value has been determined using the valuation technique of the subscription price and the amount of securities subscribed for by the Fund under the relevant offer.

(iv) Transfers between levels

Management's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

There were no transfers between levels at the end of the reporting period.

4 Fair value measurement (continued)

(v) *Financial instruments not carried at fair value*

The carrying value of receivables and payables are assumed to approximate their fair values.

Net assets attributable to unitholders' carrying value does not differ from its fair value (deemed to be redemption price for individual units) due to no differences in valuation inputs.

5 Net gains/(losses) on financial instruments held at fair value through profit or loss

Net gains/(losses) recognised in relation to financial assets and financial liabilities held at fair value through profit or loss:

	Year ended	
	30 June 2018	30 June 2017
	\$	\$
Financial assets		
Net gain/(loss) on financial assets held for trading	-	(420,604)
Net gain/(loss) on financial assets designated as at fair value through profit or loss	23,762,345	(12,544,256)
Net gains/(losses) on financial assets held at fair value through profit or loss	23,762,345	(12,964,860)
Net realised gain/(loss) on financial assets held at fair value through profit or loss	19,337,441	93,234
Net unrealised gain/(loss) on financial assets held at fair value through profit or loss	4,424,904	(13,058,094)
Net gains/(losses) on financial assets held at fair value through profit or loss	23,762,345	(12,964,860)
Financial liabilities		
Net gain/(loss) on financial liabilities designated as at fair value through profit or loss	(1,645,821)	(5,189,252)
Net gains/(losses) on financial liabilities held at fair value through profit or loss	(1,645,821)	(5,189,252)
Net realised gain/(loss) on financial liabilities at fair value through profit or loss	(1,621,757)	(5,811,199)
Net unrealised gain/(loss) on financial liabilities held at fair value through profit or loss	(24,064)	621,947
Net gains/(losses) on financial liabilities held at fair value through profit or loss	(1,645,821)	(5,189,252)
Total net gains/(losses) on financial instruments held at fair value through profit or loss	22,116,524	(18,154,112)

6 Financial assets held at fair value through profit or loss

	As at	
	30 June 2018	30 June 2017
	\$	\$
Designated at fair value through profit or loss		
Equity securities and trusts	54,859,314	61,077,338
Total designated at fair value through profit or loss	54,859,314	61,077,338
Total financial assets held at fair value through profit or loss	54,859,314	61,077,338
Comprising:		
Equity securities and trusts		
Australian listed equity securities	54,859,314	56,843,588
Australian listed property trusts	-	1,863,750
Australian listed unit trusts	-	2,370,000
Total equity securities and trusts	54,859,314	61,077,338

An overview of the risk exposures and fair value measurements relating to financial assets at fair value through profit or loss is included in Note 3 and 4 to the financial statements.

7 Financial liabilities held at fair value through profit or loss

	As at	
	30 June 2018	30 June 2017
	\$	\$
Designated at fair value through profit or loss		
Equity securities and trusts sold short	12,124,620	20,840,450
Total designated at fair value through profit or loss	12,124,620	20,840,450
Total financial liabilities held at fair value through profit or loss	12,124,620	20,840,450
Comprising:		
Equity securities and trusts sold short		
Australian listed equity securities	12,124,620	15,653,950
Australian listed property trusts	-	4,123,000
Australian listed unit trusts	-	1,063,500
Total equity securities and trusts sold short	12,124,620	20,840,450

An overview of the risk exposures and fair value measurements relating to financial liabilities at fair value through profit or loss is included in Note 3 and 4 to the financial statements.

8 Net assets attributable to unitholders

Movements in the number of units and net assets attributable to unitholders during the year were as follows:

	Year ended		Year ended	
	30 June 2018	30 June 2018	30 June 2017	30 June 2017
	Units	\$	Units	\$
Opening balance	47,792,000	72,633,449	29,931,126	57,766,809
Applications	4,640,861	9,553,146	25,342,275	45,934,907
Redemptions	(18,659,893)	(34,506,025)	(7,466,342)	(11,816,149)
Application units through series roll over	15,951,707	37,098,885	10,123,236	18,514,779
Redemption units through series roll over	(16,174,063)	(37,098,885)	(10,138,295)	(18,514,779)
Increase/(decrease) in net assets attributable to unitholders	-	16,706,937	-	(19,252,118)
Closing balance	33,550,612	64,387,507	47,792,000	72,633,449

	Year ended		Year ended	
	30 June 2018	30 June 2018	30 June 2017	30 June 2017
	Units	\$	Units	\$
Class A (non-series based units*)	33,550,612	64,387,507	43,489,129	66,157,494
Class B (non-series based units)	-	-	4,302,871	6,475,955
Closing balance	33,550,612	64,387,507	47,792,000	72,633,449

* Class A is non-series based effective 1 January 2017

As stipulated in the Fund's Constitution, each unit represents a right to an individual unit in the Fund and does not extend to a right to the underlying assets in the Fund.

Each series of units within the same class has the same rights as all other units within that class, except for different performance fees. In order to ensure that unitholders bear the performance fee according to the actual performance of their units, having regard to the different dates and prices at which such units were acquired, prior to 1 January 2017 when daily pricing took effect, a new series of units was issued on each unit pricing date being every month end. On 2 January 2018, subsequent to the crystallisation of performance fees payable at 31 December 2017 by all series of units, every other series was consolidated into the lead series, Class A units, including the separate non-series based Class B units held by indirect investors who invest via a platform. As such, from this date onward, all units held by direct and indirect retail investors are in the one class/series and are non-series based.

Capital risk management

The Fund considers its net assets attributable to unitholders as capital, notwithstanding that net assets attributable to unitholders are classified as a liability. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of unitholders.

Daily applications and redemptions are reviewed relative to the liquidity of the Fund's underlying assets on a daily basis by the Investment Manager. Under the terms of the Fund's Constitution, the Responsible Entity has the discretion to reject an application for units and to defer or adjust a redemption of units if the exercise of such discretion is in the best interests of unitholders.

9 Cash and cash equivalents

	As at	
	30 June 2018	30 June 2017
	\$	\$
Cash at bank	22,990,178	28,650,603
	22,990,178	28,650,603

The weighted average interest rate of the Fund's cash and cash equivalents as at 30 June 2018 is -3.06% (2017: 1.30%).

10 Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

	Year ended	
	30 June 2018	30 June 2017
	\$	\$
Profit/(loss) for the year	-	-
Increase/(decrease) in net assets attributable to unitholders	16,706,937	(19,252,118)
Proceeds from sale of financial instruments held at fair value through profit or loss	195,737,086	227,352,918
Purchase of financial instruments held at fair value through profit or loss	(164,573,719)	(241,377,544)
Payments for settlement of financial liabilities held at fair value through profit or loss	(113,184,265)	125,626,006
Proceeds from sale of financial liabilities held at fair value through profit or loss	106,192,193	(128,492,872)
Net gains/(losses) on financial instruments held at fair value through profit or loss	(22,116,524)	18,154,112
Dividends reinvested	30,972	47,198
Net change in receivables and other assets	68,011	(258,254)
Net change in payables and other liabilities	(159,370)	(3,018,150)
Net cash inflow/(outflow) from operating activities	18,701,321	(21,218,704)

As described in Note 2(i), income not distributed is included in net assets attributable to unitholders. The change in this amount each year (as reported in (a) above) represents a non-cash financing cost as it is not settled in cash until such time as it becomes distributable.

11 Receivables

	As at	
	30 June 2018	30 June 2017
	\$	\$
Interest receivable	19,193	37,023
Dividends and distributions receivable	135,370	252,552
GST receivable	415,343	348,342
Other receivables	-	672,087
Total receivables	569,906	1,310,004

12 Payables

	As at	
	30 June 2018	30 June 2017
	\$	\$
Management fees payable	81,002	92,840
Redemptions payable	91,943	50,810
Monies not allocated to units	580,000	30,000
Other payables	21,345	168,877
Total payables	774,290	342,527

13 Remuneration of auditor

During the year the following fees were paid or payable for services provided by the auditor of the Fund:

	Year ended	
	30 June 2018	30 June 2017
	\$	\$
Moore Stephens Victoria		
<i>Audit and other assurance services</i>		
Audit and review of financial statements	24,685	19,400
Audit of compliance plan	3,100	2,800
Total remuneration for audit and other assurance services	27,785	22,200
<i>Taxation services</i>		
Tax compliance services	9,150	8,500
Total remuneration for taxation services	9,150	8,500
Total remuneration of Moore Stephens Victoria	36,935	30,700

The auditor's remuneration is borne by the Responsible Entity.

Fees are stated net of GST.

14 Related party transactions

The Responsible Entity of Paragon Australian Long Short Fund is Paragon Funds Management Ltd (ABN 42 159 623 873) (AFSL 426800). Accordingly, transactions with entities related to Paragon Funds Management Ltd are disclosed below.

The Responsible Entity has contracted services to UBS AG, Australia Branch to act as Prime Broker and Link Fund Solutions Pty Limited to act as Administrator for the Fund. The contracts are on normal commercial terms and conditions.

(a) Directors

Key management personnel include persons who were Directors of Paragon Funds Management Ltd at any time during or since the end of the financial year and up to the date of this report.

Mr John Deniz
Ms Hillier Deniz
Mr Nick Reddaway (resigned 30 September 2017)
Mr Samuel Lanyon (appointed 1 October 2017)

(b) Other key management personnel

There were no other persons with responsibility for planning, directing and controlling the activities of the Fund, directly or indirectly during the financial year.

(c) Transactions with key management personnel

There were no transactions with key management personnel during the reporting period.

(d) Key management personnel compensation

Key management personnel are paid by Paragon Funds Management Ltd. Payments made from the Fund to Paragon Funds Management Ltd do not include any amounts directly attributable to the compensation of key management personnel.

(e) Key management personnel loans

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to key management personnel or their personally related entities at any time during the reporting period.

(f) Other transactions within the Fund

Apart from those details disclosed in this note, no key management personnel have entered into a material contract with the Fund during the financial year and there were no material contracts involving key management personnel's interests existing at year end.

(g) Responsible Entity and Investment Manager's fees and other transactions

Under the terms of the PDS, the Investment Manager is entitled to receive management fees of up to 1.5% per annum (inclusive of GST net of RITC), calculated by reference to the monthly net assets value of the Fund and payable monthly by the Fund.

In addition, the Investment Manager is entitled to a performance fee calculated at the end of each month, monthly in arrears and paid at the end of each half year period ending 30 June and 31 December. The performance fee is calculated as 20% (inclusive of GST net of RITC) of the Fund's out-performance subject to a 5% hurdle rate and a high-watermark. At 30 June 2018, a performance fee of \$4,025,598 (inclusive of GST net of RITC) was recorded in the Fund (2017: \$8,661).

14 Related party transactions (continued)

Transactions with related parties have taken place in the ordinary course of business. The transactions during the year and amounts payable at year end between the Fund and the Responsible Entity and the Investment Manager were as follows:

	Year ended	
	30 June 2018	30 June 2017
	\$	\$
Management fees for the year paid by the Fund to the Investment Manager	1,062,847	1,099,538
Performance fees for the year paid by the Fund to the Investment Manager	4,025,598	8,661
Aggregate amounts payable to the Investment Manager at the end of the reporting period	81,002	92,840
Fees earned by the Responsible Entity in respect of investments by the Fund	186,663	286,079
Fees earned by the Responsible Entity in respect of preliminary expenses	-	16,968
Aggregate amounts payable to the Responsible Entity at the end of the reporting period	14,015	15,782

(h) Related party unitholdings

Parties related to the Fund (including Paragon Funds Management Ltd, its related parties and other schemes managed by Paragon Funds Management Ltd), held units in the Fund as follows:

2018

Unitholder	No. of units held opening (Units)	No. of units held closing (Units)	Fair value of investment (\$)	Interest held (%)	Distributions paid/payable by the Fund (\$)
Deniz Pty Ltd ATF The Deniz Family Trust	1,028,980	1,028,980	1,969,468	3.06	-
M & H Harlock Pty Ltd ATF M & H Harlock Superannuation Fund	249,913	256,928	491,761	0.76	-
John & Prudence Deniz ATF Deniz Superannuation Fund	263,389	273,076	522,669	0.81	-
Nick Reddaway & Catherine Doggett ATF Reddaway Family Superannuation Fund*	249,889	-	-	-	-
Reddaway Investment Pty Ltd ATF The Reddaway Family Trust*	322,810	-	-	-	-
Hillier Deniz	25,132	74,761	143,093	0.22	-
Sicksamba Pty Ltd ATF Sicksamba Super Fund	192,891	192,544	368,530	0.57	-
	2,333,004	1,826,289	3,495,521	5.42	-

* Nick Reddaway ceased to be a key management personnel on 30 September 2017.

14 Related party transactions (continued)

(h) Related party unitholdings (continued)

2017

Unitholder	No. of units held opening (Units)	No. of units held closing (Units)	Fair value of investment (\$)	Interest held (%)	Distributions paid/payable by the Fund (\$)
Deniz Pty Ltd ATF The Deniz Family Trust	1,028,980	1,028,980	1,563,638	2.15	-
M & H Harlock Pty Ltd ATF M & H Harlock Superannuation Fund	237,793	249,913	379,671	0.52	-
John & Prudence Deniz ATF Deniz Superannuation Fund	263,455	263,389	400,247	0.55	-
Nick Reddaway & Catherine Doggett ATF Reddaway Family Superannuation Fund	249,889	249,889	379,732	0.52	-
Reddaway Investment Pty Ltd ATF The Reddaway Family Trust	322,810	322,810	490,542	0.68	-
Hillier Deniz	-	25,132	37,924	0.05	-
	<u>2,102,927</u>	<u>2,140,113</u>	<u>3,251,754</u>	<u>4.47</u>	<u>-</u>

(i) Investments

The Fund did not hold any investments in Paragon Funds Management Ltd or its related parties during the year (2017: nil).

15 Events occurring after the reporting period

No significant events have occurred since the end of the year which would impact on the financial position of the Fund disclosed in the Statement of Financial Position as at 30 June 2018 or on the results and cash flows of the Fund for the year ended on that date.

The Directors note that the adverse impact on the Fund's performance in the second half of the year, resulting from market sentiment away from Resources plus the escalation of US-China trade war threats, continued to adversely impact the Fund's performance post 30 June 2018. Although a de-risking of the portfolio has been undertaken, and confidence in the long-term structural themes and stocks held by the Fund remain strong, reversal of the drawdown experienced so far is yet to be realised. The financial impact post 30 June resulting from negative performance is a further loss of just over \$8m at the date of this report of which an estimated \$7m equates to the approximate movement in fair value of financial assets held at 30 June 2018 (per Note 4). The Directors are disappointed in this outcome but remain confident in the longer term outlook.

Directors' declaration

In the opinion of the Directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 7 to 32 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Fund's financial position as at 30 June 2018 and of its performance for the year ended on that date,
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable, and
- (c) Note 2(a) confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the Directors of Paragon Funds Management Ltd.



Mr John Deniz
Director

Melbourne, VIC
25 September 2018

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INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF PARAGON AUSTRALIAN LONG SHORT FUND

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Paragon Australian Long Short Fund (**the Fund**), which comprises the statement of financial position as at 30 June 2018, the statement of comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion:

- a) The accompanying financial report of Paragon Australian Long Short Fund is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the Fund's financial position as at 30 June 2018 and of its financial performance for the year then ended; and
 - ii. complying with *Australian Accounting Standards and the Corporations Regulations 2001*; and
- b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Fund in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 : Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of Paragon Funds Management Limited (the Responsible Entity), would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Fund's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon. Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon. In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of Paragon Funds Management Limited (the Responsible Entity) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report


Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located on the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf.

This description forms part of our auditor's report.



MOORE STEPHENS AUDIT (VIC)
ABN 16 847 721 257



GEORGE S. DAKIS
Partner
Audit & Assurance Services

Melbourne, Victoria
25 September 2018