PARAGON
FUNDS MANAGEMENT
5 YEARS
2013 - 2018

PARAGON AUSTRALIAN LONG SHORT FUND // April 2018

PERFORMANCE SUMMARY *(after fees)*

	1 month	3 months	6 months	Financial YTD	1 year	2 year p.a.	3 year p.a.	5 year p.a.	Net Return p.a.	Total Net Return
Paragon Aust. Long Short Fund	-4.2%	-11.5%	+2.3%	+33.7%	+36.0%	+9.4%	+12.4%	+16.3%	+16.1%	+115.9%
ASX All Ordinaries Accum. Index	+3.5%	0.0%	+3.6%	+8.9%	+6.4%	+11.4%	+6.1%	+7.8%	+7.8%	+47.6%
RBA Cash Rate	+0.1%	+0.4%	+0.8%	+1.3%	+1.5%	+1.5%	+1.7%	+2.0%	+2.1%	+11.1%

RISK METRICS

Sharpe Ratio	0.9
Sortino Ratio	1.7
Correlation	0.4
% Positive Months	+65%
Up/Down Capture	+96% / +24%

UNIT PRICE & FUM

NAV	$2.0318
Entry Price	$2.0349
Exit Price	$2.0288
Fund Size	$67.9m
APIR Code	PGF0001AU

FUND STRATEGY

Established in March 2013 as an Australian equities long/short fund that is fundamentally driven with 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 AND POSITIONING

The Fund returned -4.2% after fees for the month of April. Since inception (March 2013) the Fund has returned +115.9% after fees vs. the market +47.6%.

Positive contributions in the month were from Macquarie, Aristocrat, Origin, Seven Group, Cann and our IOOF short. These were more than offset by declines in holdings from our Electric Vehicle and Technological Innovations themes, and shorts in IPH Limited and Aurizon.

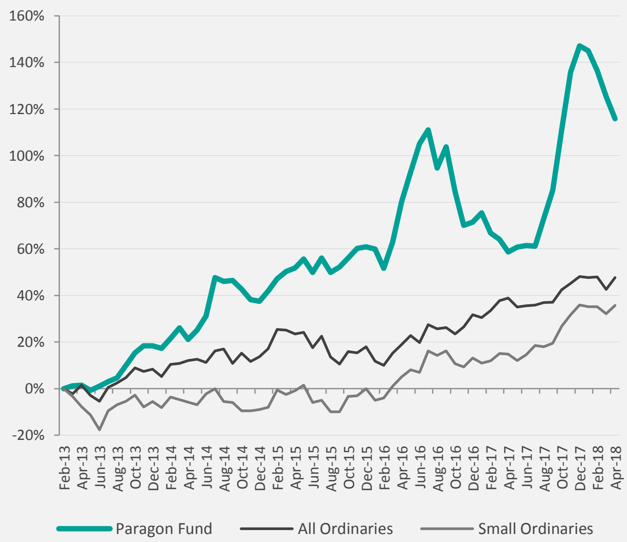
FUND POSITIONING

Number of Longs	30
Number of Shorts	9
Net exposure	80.2%
Gross exposure	121.2%
Index futures	0%
Cash	19.8%

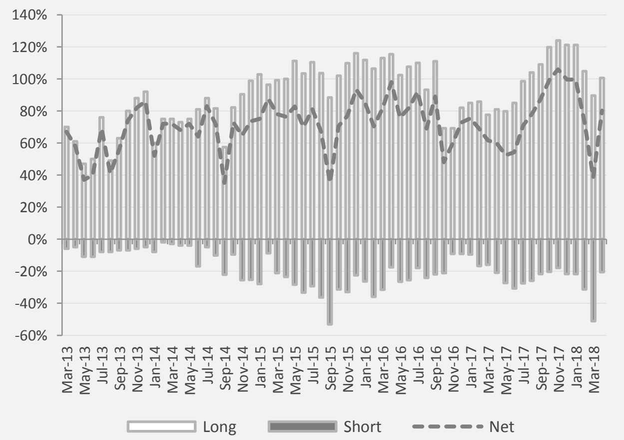
FUND FACTS

Structure	Unit trust
Domicile	Australia
Applications & Redemptions	Daily
Minimum investment	$25,000
Min. addition/redemptions	$5,000/$10,000
Administrator	Link Fund Solutions
Prime Broker/Custodian	UBS

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%	1.3%	0.4%	-0.2%	7.3%	7.0%	14.0%	11.9%	4.7%	**44.1%**
2018	-1.3%	-3.0%	-4.7%	-4.2%									**-12.6%**

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 daily unit pricing methodology based on historical data.

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Portfolio insights

Frustratingly, many of our high conviction long positions continued to drift during April. However, this has not been caused by any major negative drivers or downgrades, but rather, many of these stocks are experiencing an ongoing 'buyers-strike' amid 'risk off' market volatility.

Approximately half of the Fund's decline for 2018 to date is attributed to our Electric Vehicles (EV) thematic stock picks – both Lithium and Cobalt names correcting on misplaced 'oversupply anxiety'. Overall our EV stocks have been strong performers for the Fund, both in the current fiscal year as well as since inception, and remain very well placed to continue to do so – as discussed in our January update.

The investment case for each of our key long positions remain compelling. Despite the current volatility, we are taking the opportunity, with appropriate caution, to buy more of our key positions that we currently view as cheap, with an expectation to be rewarded in time.

Through our in-depth proprietary research effort, we continue to uncover medium-term winners, such as PushPay Holdings, which we discuss below.

PushPay Holdings Ltd (PPH) – Long

PushPay, a recent addition to the Fund, is one of our positions within the Technological Innovations theme. PushPay offers a mobile payments and engagement product, specifically targeting the US faith sector. PushPay has become a leading solution provider within this sector and has grown from nothing to processing an annualised equivalent run-rate of US$3b of giving to US churches, in ~5 years.

The US faith sector consists of ~340,000 churches, represents ~US$123b p.a. in payments and has typically grown at GDP levels, despite stagnating participation amongst the broader population. In 2017, ~75% of churches had some form of online giving solution, however only 15% of total giving was done online. When compared to mobile engagement and payments in the retail sector, the US faith sector falls far behind. In retail, we note:

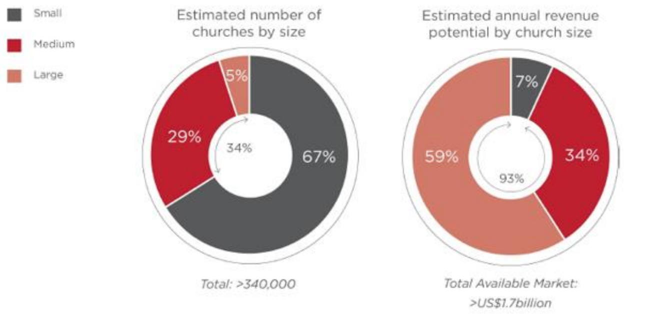
- Global mobile payments for online goods and services is estimated to grow to ~2.1b users in 2019. [Criteo]
- M-commerce will reach ~US$284b, or 45% of the total U.S. e-commerce market by 2020. [BI Intelligence]
- 60% of shoppers plan to start making more mobile purchases in 2017 and shop with retailers offering mobile solutions. [Facebook IQ]

While these may represent a relative extreme, we believe it highlights a significant opportunity for a mobile giving solution as the US faith sector emerges from the 'digital dark ages'.

PushPay's market opportunity is significant. Assuming a 30% penetration rate in digital giving and using current subscription and payment processing rates (PushPay's two key revenue drivers), the revenue opportunity is ~US$1.7b p.a., as illustrated in the chart. If digitalisation approaches levels similar to that of retail (50%+), this increases to in excess of US$2.5b p.a. We also note that PushPay has pivoted its strategy in 2017, with a focus on the large and medium segment of the sector. This segment comprises ~35% of churches by number but represents ~90% of total giving. The Company has only captured ~4.5% of this total revenue opportunity and we believe it has scope to capture a significantly higher level.

PushPay is well placed to achieve ongoing success due to the following:

- Simple user interface that is easy to sign-up and use, which simplifies the ability to give to your church, whether it be to the general fund or any ad-hoc fundraising initiatives.
- Strong payment processing (further improved with payment assurance) and seamless integration with key church management software platforms.
- Continued focus on enhancing the solution which is backed by top cloud service providers, thus offering scalability.
- A multifaceted and fully funded marketing approach that spans from the annual eChurch Summit, to smaller thought leader conferences and direct sales engagement with churches.



Source: PushPay

Our fundamental research effort extended to a comprehensive review of the US faith sector, in which we reviewed over 1,000 churches (mostly large sized, 1,000+ weekly attendees) to identify those using PushPay as well as the extent of penetration by competitors. From this analysis, we believe that PushPay is firmly a leading provider of mobile giving and engagement solutions to the US faith sector. We also conducted a proprietary survey of churches to understand how implementing the PushPay solution has benefited them. This analysis has provided insights into the typical uplift that PushPay's solution can provide a church, as well as how their marketing approach is driving adoption, despite being a premium priced solution.

In our view, we think PushPay can maintain strong growth from customer adoption (5% to 10% p.a.), particularly among the large to medium size segment (higher net lifetime value). We also believe there is latent value in the existing customer base. Additionally:

- When implemented, the typical initial level of giving is ~20% and progresses towards ~30% within the first few years. The focus is now in aiding churches to lift that rate towards 50%+ (PushPay claims some churches are at 80% 'ceasing basket' service). This has two impacts, firstly more giving is processed through PushPay and secondly digital givers typically give more and are more persistent in giving levels thus lifting overall giving for a church.
- There is potential for a material uplift in the existing book as 'legacy' contracts are rolled over to be more consistent with PushPay's pricing for the service today (which is more comprehensive than when those contracts were signed). Any churn risk of churches leaving the solution (rare to our knowledge and typically small in sized) are readily replaced by higher value churches.
- Greater use and adoption of the engagement aspects of PushPay's solution, in which additional revenue can be earned as churches add modules to their level of service.

PushPay is well-placed to grow materially over the medium term (3-year revenue CAGR of 30% p.a.+) as it continues to execute its strategy and benefits from the growing digitalisation within the US faith sector. We rate management highly who are incentivised and aligned via their strong insider ownership. Comparable high-growth 'software as a service' (or SaaS) companies exhibiting leading market positions are commanding premium multiples supporting PushPay's favourable risk-reward.