PARAGON FUNDS MANAGEMENT

5 YEARS 2013 - 2018

PARAGON AUSTRALIAN LONG SHORT FUND // June 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	-4.7%	-9.8%	-17.7%	+26.0%	+26.0%	-0.4%	+10.7%	+15.0%	+14.2%	+103.3%
ASX All Ordinaries Accum. Index	+3.0%	+8.0%	+4.0%	+13.7%	+13.7%	+13.4%	+9.5%	+10.3%	+8.4%	+54.1%
RBA Cash Rate	+0.1%	+0.4%	+0.8%	+1.5%	+1.5%	+1.5%	+1.7%	+2.0%	+2.0%	+11.4%

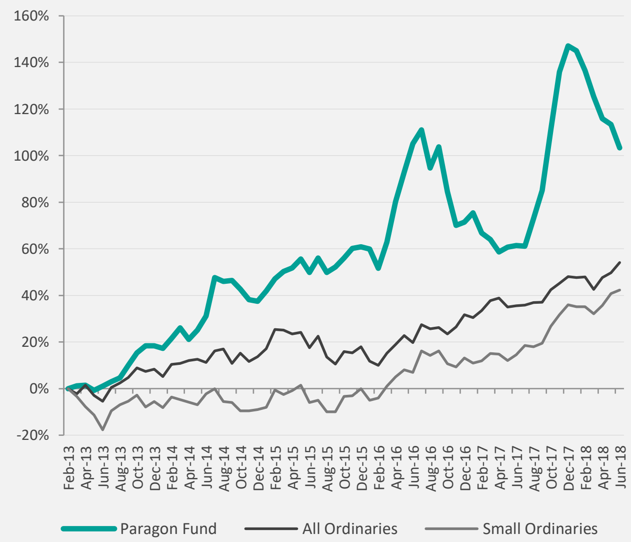
RISK METRICS

Sharpe Ratio	0.9
Sortino Ratio	1.7
Correlation	0.4
% Positive Months	63%
Up/Down Capture	94% / 24%

UNIT PRICE & FUM

NAV	$1.9140
Entry Price	$1.9169
Exit Price	$1.9112
Fund Size	$64.4m
APIR Code	PGF0001AU

HISTORICAL PERFORMANCE *(after fees)*



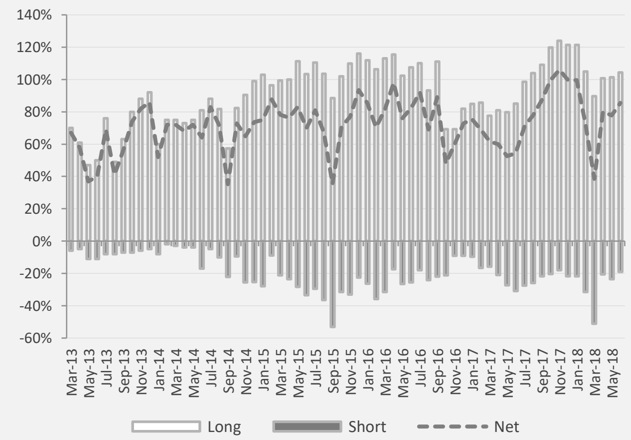
FUND STRATEGY

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 -4.7% after fees for the month of June. The Fund was impacted adversely by escalating USA-China trade war concerns and fiscal year-end tax loss selling. Positive contributors for the month were short positions in Telstra and Ramsay Health (profit downgrade). These were more than offset by declines in long positions including Global Geoscience, Kidman, Wattle Heath, Global Energy and our Gold holdings. Despite a negative start to 2018, the Fund generated an overall net return of +26.0% for FY18 compared to the market (All Ordinaries Accumulation Index) of +13.7%. We review the financial year's performance in more detail overleaf.

HISTORICAL EXPOSURE



FUND POSITIONING

Number of Longs	25
Number of Shorts	10
Net exposure	67%
Gross exposure	104%
Index futures	0%
Cash	33%

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

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%	-1.2%	-4.7%							**-17.7%**

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.

Financial Year 2018 - A Year of Two Halves

After a very strong first half performance of +53.1% and a disappointing second half performance of -17.7%, the Fund delivered an overall result of +26.0% for FY18 vs a market return of +13.7%.

Please refer to our December 2017 update for a refresher on what worked well for us in 1H-FY18.

The Fund has been challenged by an ongoing sentiment shift away from some of our key themes and stocks in the second half of the financial year (2H-FY18). Additionally, a spike in long-term global bond rates, global markets correcting ~10% in February, USA-China trade war concerns (Trump's trade protectionism policies first raised in March, then escalated in June), and fiscal year-end tax-loss selling in June, all added to short-term volatility for the Fund. Our dynamic stops reduced some of this downside volatility.

We expand below on the 2H-FY18, and why we remain convicted in delivering growth over the medium to long-term.

2H-FY18 review

After strong performances in many of our long positions in 1H-FY18, several of these corrected by ~20% in 2H-FY18. Our shorts overall did not deliver, as several good short picks were offset by 'expensive-defensives' and 'momentum' shorts going against us. Markets were moderately up over this period, driven by 'momentum' stocks which we were either not in (or we were short). Sector-wise, markets experienced a rotation out of cyclicals to defensives heading into fiscal year-end.

The Fund's attribution in 2H-FY18 can be broken down as follows:

1) ~50% of the decline came from the sentiment shift away from our holdings in the Electric Vehicles (EV) theme - Lithium and Cobalt holdings; and

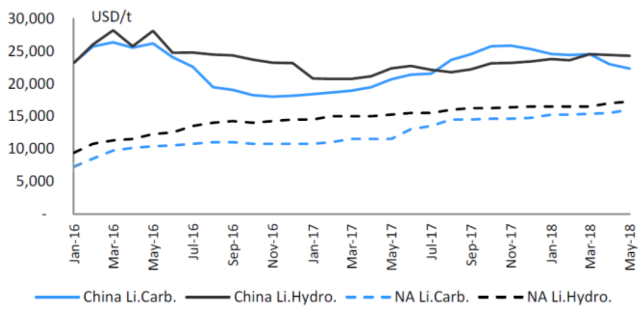
2) ~50% of the decline came from small caps drifting lower and from stock specific issues.

1. Electric Vehicles (EV) theme

Ongoing oversupply anxiety in Lithium and Cobalt markets (discussed in our January update) along with spot prices modestly correcting from their very strong highs (see Lithium price chart below), saw a shift in sentiment in both Lithium and Cobalt and these stocks came under selling pressure as a result.

In our opinion, the correction in Chinese Lithium spot prices (solid lines in chart below) is due to seasonality. As anticipated, Lithium contract prices (dashed lines in chart below) remain strong and continue to rise and converge with Lithium spot prices.

Chart 1 - China vs. North America battery-grade Lithium prices



Source: Asian Metals, Bloomberg Finance LP, DB

Similarly, we do not believe in the current lithium oversupply anxiety. Bottlenecks will be at the downstream refineries and any oversupply is likely to be in upstream hard-rock spodumene. The main sources of new spodumene supply are from WA-based Altura, Pilbara Minerals and Mineral Resources, with their projects being at varying stages of construction. Given the variability in their mineralogy and metallurgy, lack of industry know-how and lengthy ramp up encountered by their predecessors (Greenbushes, Mt Cattlin, Mt Marion) – all of these projects are highly likely to be delayed. Further, whilst capacity expansions in refineries are underway, they are a long way from being ready. History shows they too will take considerable lengths of time to ramp up. Current capacity utilisation for existing refiners is a mere ~50%, despite years of operations. In June we travelled to Shanghai to visit leading Chinese Lithium leader Ganfeng who confirmed that they are still unable to refine up to 40% of their spodumene feed, blaming their slow refinery ramp up and low capacity utilisation on poor Mt Marion supply.

Similarly, in Cobalt, oversupply anxiety is premised on new supply to come out of the high-risk DRC over the next two years and the possibility of less Cobalt consumption in a move to high-end (and Nickel-rich) Lithium Nickel-Cobalt-Manganese (NCM 523, 622 & 811) battery chemistries. The latest Chinese subsidies for EV's require batteries with higher energy density so average battery sizes are increasing. These higher-spec batteries still require Cobalt as they become unstable and unsafe without it (Cobalt controls the temperature of Nickel in batteries). We expect strong demand growth over the long term for Lithium, Nickel and Cobalt. After trying to talk down its Cobalt needs, Japanese battery powerhouse Panasonic now expects to more than triple its consumption in the next five years.

In addition to China, we also travelled to South Korea visiting many companies across the entire EV supply chain. This included major upstream Lithium and Cobalt producers, Cathode producers, battery manufacturers and EV auto companies. These companies are experiencing significant growth and are investing heavily in new capacity. Security of Lithium and Cobalt supply continues to be a key issue across the supply chain.

Our key takeaway was that many 'pundits' are underestimating demand and that Lithium-ion battery use is spreading. **Unlike supply, demand continues to surprise to the upside, with Lithium demand now growing at 20% p.a.** The consensus forecast 2-3 years back was less than half this actual growth rate. Looking out to 2025, Lithium demand growth is expected to be ~4x. It has been ~100 years since an industry has grown close to this rate (Oil and Gas in the early 1900's) over a similar time period.

Demand is being driven by China's very supportive subsidy policies for the EV sector, as well as strong growth in Energy Storage Systems. Other potential Lithium-ion battery applications include 1) replacing lead-acid batteries, 2) Chinese sky rail projects; and 3) the move to next generation solid-state batteries (which use more Lithium again). None of these applications are incorporated into consensus demand forecasts. Finally, Ganfeng confirmed that Lithium inventories across the supply chain are non-existent. Their output is consumed immediately with the company confirming that they will never sell into fixed-price long term contracts. A bullish tone indeed.

In conclusion, battery metal markets will remain tight and we expect strong pricing for the medium term.

2. Small caps and stock specific issues

Since inception, we have identified several exceptional emerging investment opportunities which have served the Fund well. At times however, these stocks can be volatile, as they were in 2H-FY18.

European Cobalt was the worst culprit. It presented with many technical ingredients in place, very much like our early and very successful investment in Kidman. However European Cobalt ultimately disappointed on its resource and project potential. Whilst we made solid overall gains on our cost base, and had taken some profits in December/January, the stock then fell on disappointing Cobalt results which impacted on our 2H-FY18 performance, and we subsequently sold down our remaining holding.

After a strong 1H-FY18, Wattle Health ('Wattle') detracted from Fund performance in 2H-FY18. Asian infant formula market fundamentals are strong. Having invested in A2 Milk as part of our Emerging Consumer theme, we identified Wattle in April 2017 as an attractive emerging opportunity. Wattle's strategy is to become the first fully Australian vertically-integrated 'organic' infant formula manufacturer pursuing the lucrative Chinese market. Management, whilst new to capital markets, initially positively surprised by executing their vertical integration strategy – de-risking their entire supply chain with increased control, necessary for obtaining ultimate Chinese NCA (factory) and FDA (brand) approvals. Whilst CNCA was successfully achieved, CFDA remains outstanding, as Chinese authorities have experienced delays on all Western product submissions, including Wattle's. The final piece of Wattle's supply chain execution (an enviable JV with Organic Dairy Farmers Association) involved having to raise $75m to fund their spray dryer facility. The capital raising proved challenging without CFDA in place, resulting in a heavily discounted capital raise and rights issue. Whilst the share price correction was significant, Wattle is now fully funded and has all the necessary ingredients to get CFDA approval. Once received, it will be a game-changer and with the guarantee of its supply chain, provides Wattle key competitive and strategic advantage over some of its peers who are trading many multiples higher. Companies like Bellamy's and A2 Milk have grown revenues rapidly and we expect Wattle to do similarly given its material sales contracts in place, pending CFDA approval.

We recently wrote about Global Geoscience ('Global') and Kidman and their strong investment cases. Both stocks corrected last month impacting June's performance, particularly Global as it completed a discounted $50m capital raise, de-rating its share price. In our view this price reaction will prove to be short term. Near term catalysts include its pre-feasability study (PFS) due in the next couple of months. Global is currently trading at a conservatively fully-diluted and fully-funded Price/NPV of ~0.5x. We expect this discount to close, as it has done in the past for several of our other tier-1 project investments.

While these stock specific issues have impacted performance in the short term, we remain convicted in these stocks over the mid-long term.

We remain fundamental stock-pickers at heart, navigating ongoing macro risks.

On current macro concerns, we do not expect a full-blown USA-China trade war. The current level of tariffs to be imposed are not material, and whilst negotiation ahead of the 6th of July 2018 implementation date is unlikely, we do not expect to see 'tit-for-tat' tariffs to escalate to extreme levels. Modest to moderate trade tensions could go on for years, such as with the USA-Japan trade war through the 1980's.

We are not 'momentum' chasers. We will continue to stick with our process and stock-picking approach. Ultimately, we believe that fundamentals always prevail.

OUTLOOK

Catalysts remain a plenty for many of our high conviction holdings and we are well placed to capitalise on these opportunities. When sentiment and the weight of money returns to our stocks, the moves can be equally and potentially stronger to the upside.

To highlight a select few:

1. High quality large caps in an upgrade cycle include Seven Group Holdings, Origin Energy and Aristocrat Leisure, which are all growing strongly with strong operating and financial leverage.
2. Strong technological innovation stocks PushPay and Updater, set to deliver enviable revenue growth and near-term free cashflows.
3. Medicinal cannabis holding Cann Group (discussed in our November 2017 update) continues to de-risk. Its stage 3 expansion facility has been confirmed, more than doubling to 37,000m2. Cann's phase 3 potential cashflows will now be ~$150m pa, implying its trading on a very modest forward cashflow of <3x, well below its global peers.
4. Lithium stocks Global and Kidman will deliver strong project feasibilities with all-in cash costs <US$2000/t Lithium Carbonate and <US$5000/t Lithium Hydroxide respectively, offering exceptional margins vs current spot and contract prices.
5. As evidenced in our recent China EV supply chain trip, Nickel's bull market is real. China's subsidy policy is driving and expediting the move to higher Nickel-content battery chemistries. With the Nickel industry already in deficit and only half its global inventories being Class 1 Nickel (battery grade applicable), the inventory position could unwind in the near to medium term, setting up for strong price rises. Nickel's strong fundamentals are presenting like Lithium did 2-3 years ago and Cobalt 12-18 months ago. We are currently long in mid-cap quality Western Areas and a small-cap near term producer Panoramic.
6. We attended a site trip of Agrimin's Lake Mackay (LM) in April and were positively surprised on the scale and quality of its world class Potassium Sulphate (SOP) project. The PFS released recently was outstanding (completed by Worley Parsons) and demonstrated LM can become the largest and lowest cost seaborne supply. We believe it is all starting to fall into place for Agrimin – excellent SOP fundamentals in China with demand rising, environmental regulations causing supply shut downs, zero inventories and medium-term industry deficits of 1mtpa (vs 7mtpa total market), SOP prices are on the rise, and majors are attempting to secure supply. In the last two weeks we have seen a binding take-or-pay offtake and non-binding marketing deal signed. Agrimin's production remains uncontracted and is becoming increasingly valuable. There is no real 'oversupply anxiety' bear-case for SOP as all of the other Australian supply contenders are trivial and the large international contenders are in high-risk Eritrea or Ethiopia. Agrimin's risk-reward is asymmetric to the upside and remains a key high-conviction position for the Fund.

We look forward to providing investors with further details as these catalysts arise and as the anticipated strong returns are delivered from these high conviction stock positions.