PARAGON
FUNDS MANAGEMENT
5 YEARS 2013 - 2018

PARAGON AUSTRALIAN LONG SHORT FUND // July 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	-6.5%	-11.9%	-22.1%	-6.5%	+18.0%	-5.1%	+6.8%	+13.1%	+12.6%	+90.1%
ASX All Ordinaries Accum. Index	+1.2%	+5.7%	+5.7%	+1.2%	+14.9%	+10.7%	+8.4%	+9.4%	+8.6%	+56.0%
RBA Cash Rate	+0.1%	+0.4%	+0.8%	+0.1%	+1.5%	+1.5%	+1.7%	+2.0%	+2.0%	+11.5%

RISK METRICS

Sharpe Ratio	0.7
Sortino Ratio	1.3
Correlation	0.4
% Positive Months	62%
Up/Down Capture	80% / 24%

UNIT PRICE & FUM

NAV	$1.7891
Entry Price	$1.7918
Exit Price	$1.7864
Fund Size	$60.2m
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 -6.5% after fees for the month of July. The Fund continued to be impacted by escalating USA-China trade war concerns and negative sentiment toward Electric Vehicles/Lithium. Positive contributors for the month were Aristocrat, Wattle Health, Updater and a short position in Saracen. These were more than offset by declines in Global Geoscience, Kidman, Cann Group and our Gold holdings.

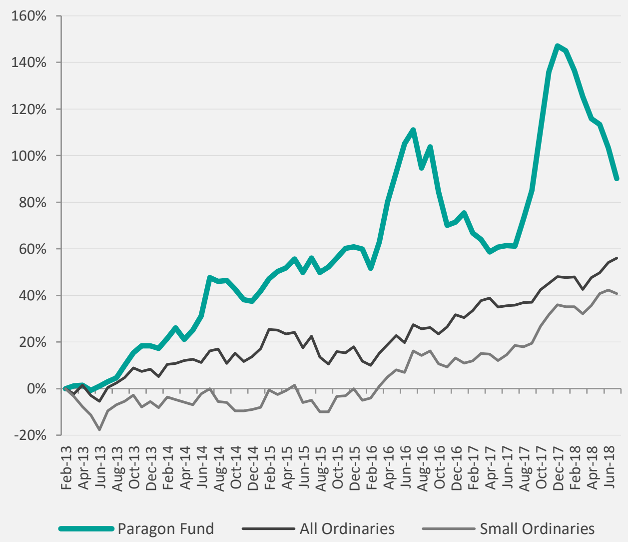
FUND POSITIONING

Number of Longs	26
Number of Shorts	11
Net exposure	60%
Gross exposure	99%
Index futures	0%
Cash	40%

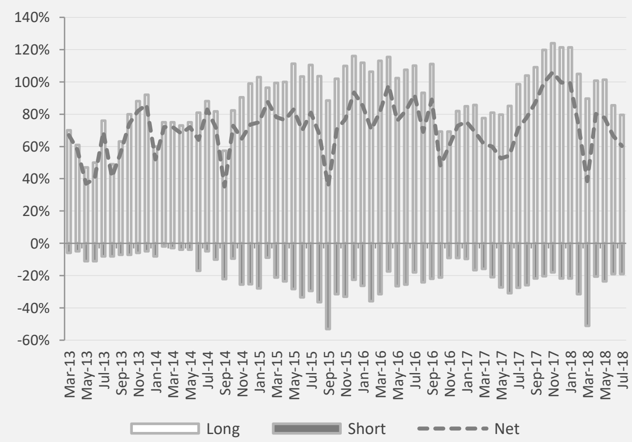
FUND FACTS

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%	-1.2%	-4.7%	-6.5%						**-23.1%**

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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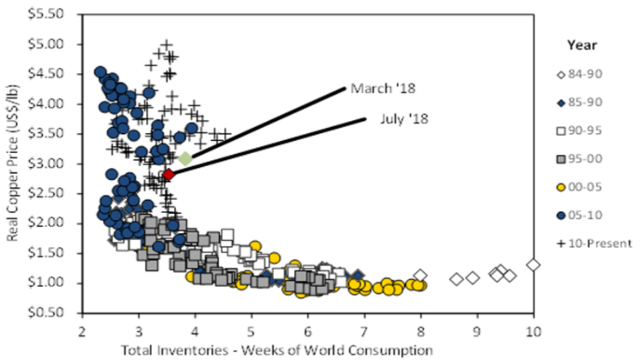
Market and Portfolio insights

US-China trade war intensifies; China-facing stocks dealt a blow

The US-China trade spat intensified in July, with President Trump threatening a further US$200b of trade tariffs on China and potentially increasing the tariff rate from 10% to 25%. China responded by suggesting that there would be swift retaliation to any further tariff measures by the US. Additional rhetoric by Trump suggested the US would consider increasing tariffs to US$500b, an amount which represents all Chinese exports to the USA. This caused further market volatility and a sell-off in many Chinese-facing equities globally, driving ~25% decline in the Chinese sharemarket, compared with US markets which are trading at all-time highs.

The Trump administration is pursuing what they deem to be unfair trade practices with many jurisdictions around the globe, particularly China. Issuing these trade war threats is an attempt to get China to the negotiating table. Of particular concern for the US is protecting their technology intellectual property, business restrictions when operating in China and high tariffs applied to their goods vs low US tariffs on Chinese goods (thereby addressing its material trade imbalance). Unfortunately, these 'aggressive' trade negotiation tactics have impacted our Fund's performance adversely over the short term, as many of our Resources investments are leveraged to Chinese growth.

Resource stocks globally have underperformed in this period of heated trade war tension. 'Dr Copper' (seen as a bell-weather of economic growth), has fallen amid trade tensions (China represents 50% of global copper demand), despite solid medium-term fundamentals, triggering declines in other base metals. However, inventory levels of Copper are now down to <4 weeks of global supply (see below), which will soon if not already, put a floor on Copper prices and we believe, will turn Resources sentiment with it.



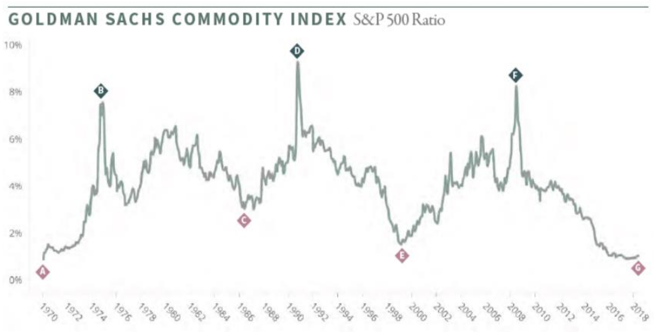
Source: ICSG, RBC, Bloomberg

Equity markets reacted positively to a constructive joint statement on EU-US trade issues, and we expect to be very positively impacted upon a similar US-China outcome.

Reducing exposures on short-term negatives; active allocation of capital once drivers turn

We have been active during July and have reduced our exposures across the portfolio to ~26% net long each in Industrials and Resources, as both sentiment and momentum (or lack of) continue to deteriorate in the short-term. Predicting when stocks will recover is not easy, but we remain convicted in our overall portfolio over the medium to long-term. We believe we are currently holding Industrials and Resources stocks that are undervalued and we will act quickly to allocate capital upon any catalyst that turns short-term drivers in the direction of the long-term value equation.

The chart below illustrates that Resources are the cheapest vs the S&P500 in decades:



Source: Bloomberg, Goehring & Rozencwajg

Growth-momentum outperforming globally; act with caution

Value stocks globally are underperforming CY18 to date, whilst growth-momentum (namely expensive technology) stocks are outperforming with ongoing expansion of their pricing multiples. Our portfolio has not held these growth-momentum stocks, which in the short-term, would have potentially improved the performance of our Fund. We remain cautious as market expectations in growth-momentum companies are very high – for example, both Facebook and Twitter were down 20% in one day's trading last week post results, illustrating the risk of chasing momentum.

However, not all technology stocks are overpriced. We hold several attractively priced technology stocks, as discussed in prior updates, that are well-placed to surprise to the upside and more than grow into their multiples. We are also short select growth-momentum names where we see exuberance and risk-reward to the downside.

Fund's growth and value mix

The Fund currently has ~30% in high-growth longs (with an average 12m fwd PE of 20x) and ~40% in value longs (low PE and/or low P/NPV); and ~10% in high-growth shorts (with an average 12m fwd PE of 28x) and ~9% in various stock specific shorts. Furthermore, only 24% of our portfolio are in stocks trading at all time or 52-week highs.

Performance drawdowns do happen, yet recoveries can be rapid and strong

We are not denying nor hiding from our poor CY18 performance to date. We take some comfort that even Warren Buffett has experienced tough periods of performance, candidly illustrated in his 2018 annual report:

Berkshire Hathaway (BH)

Period	Event	months	BH	S&P500
3/73-6/75	Oil crisis	22	-59%	-30%
10/87	Black Monday 1987	1	-37%	-23%
6/98-3/00	2000 Tech boom	21	-49%	35%
9/08-3/09	GFC	6	-51%	-25%

Source: Bloomberg, Berkshire Hathaway, Paragon

Corrections are a reality for any equity investment strategy and can happen independent of what is happening in broader equity markets, particularly for a non-correlated Fund like ours. We believe the larger risk is not being invested or being underinvested over the long term.

Time in the market is key, rather than trying to time the market. We remain committed to our long-term performance objective and we are confident that 7-8 of our stock picks alone can drive our performance recovery.