PARAGON
FUNDS MANAGEMENT

5 YEARS 2013 - 2018

PARAGON AUSTRALIAN LONG SHORT FUND // August 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	-4.6%	-15.0%	-23.4%	-10.9%	+4.8%	-3.5%	+6.6%	+11.6%	+11.4%	+81.3%
ASX All Ordinaries Accum. Index	+1.7%	+6.0%	+7.3%	+3.0%	+15.9%	+12.4%	+11.8%	+9.2%	+8.8%	+58.6%
RBA Cash Rate	+0.1%	+0.4%	+0.8%	+0.3%	+1.5%	+1.5%	+1.6%	+2.0%	+2.0%	+11.7%

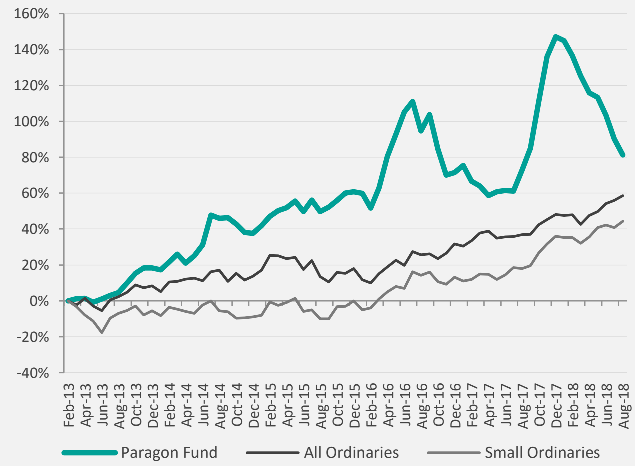
RISK METRICS

Sharpe Ratio	0.6
Sortino Ratio	1.2
Correlation	0.3
% Positive Months	61%
Up/Down Capture	74%/24%

UNIT PRICE & FUM

NAV	$1.7061
Entry Price	$1.7087
Exit Price	$1.7035
Fund Size	$56.0m
APIR Code	PGF0001AU

HISTORICAL PERFORMANCE *(after fees)*



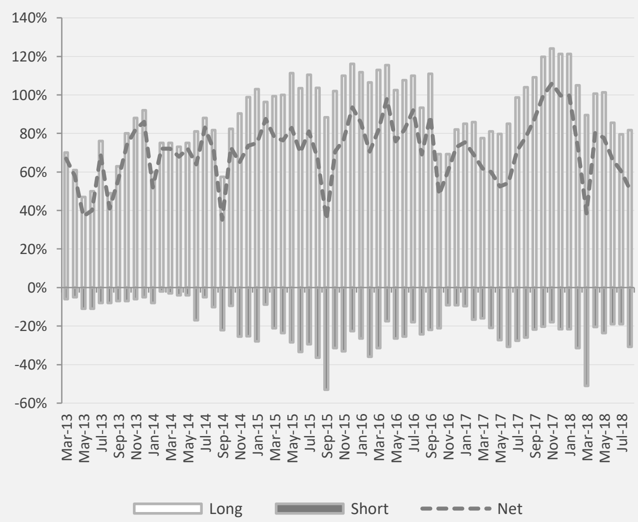
FUND STRATEGY

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 -4.6% after fees for the month of August. Despite a balanced August reporting season for our stocks, overall the Fund continued to be impacted by USA-led trade war and macro concerns. Positive contributors for the month were CSL (upgrade), Mayne Pharma (upgrade) and shorts in Fortescue and IOOF. These were more than offset by declines in our Gold holdings, PushPay, Reliance, Updater and a short in Wisetech. Despite our poor result for CY18 to date, our annualised performance since inception remains ahead of our investment objective (>10% net compounded over 3-5 years) at +11.4% net pa and well ahead of any relevant Industrial and Resources small to large cap index.

HISTORICAL EXPOSURE



FUND POSITIONING

Number of Longs	31
Number of Shorts	20
Net exposure	51%
Gross exposure	113%
Index futures	0%
Cash	49%

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%	-6.5%	-4.6%					**-26.6%**

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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Market and Portfolio Insights

Geopolitical tensions, emerging market scares, risk-off and more

August was another challenging month for the Fund, which had to contend with geopolitical tensions, pressure across the commodities complex and noise of emerging market contagion, all amid an extraordinary August reporting season. Currency crises in emerging markets, namely Argentina and Turkey, combined with increasing US trade war tensions with China and Turkey, drove more short-term volatility. The US dollar (USD) rallied and resource markets bore the brunt of it with Gold and many other hard commodities falling. Resources indices ended the month down 4-6%.

We view fears swelling around emerging market contagion as overblown. Currency, and even financial crises for both Argentina and Turkey, are not uncommon, with both countries having had several of such crises which markets have successfully navigated each time. Indeed, both of these countries are in precarious 'twin deficits' positions – with current account deficits and large external debts denominated in USD. However, these nations combined represent a very small share of emerging markets, which generally are in better financial shape than in the past, with some even in net surplus and low to moderate external debt positions.

With another USA-China US$200b tariff trade war looming, there are risks as well as opportunities. Although there are several political agendas at play, we expect that ultimately there will be some form of a negotiated outcome. Either way, whilst impactful to short term sentiment, markets will move forward and discount for any level of tariffs imposed – which even at the maximum threat of US$500b represents <3.5% of Chinese GDP. Finally, US progress made with European and Mexican tariffs are encouraging.

Chinese PMI's showed ongoing expansion in August, modestly ahead of expectations, and well placed to continue following recent stimulus measures to boost domestic demand. Markets experienced a similar dynamic in early 2016, initially doubting China's capacity and stimulus at the time, only later to realise that it drove a strong resources recovery from Feb-2016 and China being a substantial part (~1/3) of overall global growth.

August reporting season – we avoided the 'dogs'

Going into reporting season, expectations were high and valuations in many stocks reflected this. If stocks surprised to the upside, strong re-ratings followed, whilst misses were met with material share price declines and volume selling. The Fund had a broadly balanced reporting season. On a positive note, long positions in CSL and Mayne Pharma surprised to the upside, whilst short positions in Caltex, Aurizon, Ramsay and IOOF were all profitable for the Fund due to downgrades. On the other side of the ledger, long positions in PushPay and Atlas Arteria had a negative impact on performance, with their conservative outlook statements falling short of market expectations. Additionally, our Wisetech short position squeezed higher on a dubiously positive result.

Pleasingly, we avoided long positions in various well-held Industrial and Resources stocks which announced downgrades in August and were dealt a hard blow by the market. Small to mid-caps including Speedcast, Arq, RCR and Netcomm, were down >40% on the day of their result. Large caps including Origin and Costa were down >20% on the back of their results.

Various technology stocks re-rated strongly yet again, and not all of them due to strong profit and/or outlook statement upgrades. Unfortunately, we did not hold long positions in any of these technology-based high-flyers. Their moves as a group were extraordinary, which some commentators described as 'unprecedented', particularly given many were already on lofty near-to-medium term pricing multiples ahead of the re-rate that followed their profit results. Whilst many market pundits have been quick to denounce the strong moves as excessive, we are humble enough to admit that we simply missed some of these major market winners. It is our job to identify genuine opportunities which are appropriately valued versus stock specific exuberance and mass speculation (which clearly should be sold).

Following is a brief overview of key result updates/performers for the Fund:

CSL Limited (CSL) - long. CSL reported a strong FY18 result, surprising to the upside and provided a conservative outlook statement for ongoing growth. CSL has almost routinely under promise and overdeliver and its rerating post the result reflected this.

IOOF (IFL) – short. IOOF's FY18 result illustrated moderate revenue margin decline across both its key Advice and Platform divisions. Whilst aggressive cost cutting helped, it is unlikely to continue at the same rate. Ongoing regulatory and structural issues are gaining momentum to the downside.

Wisetech (WTC) – short. Wisetech reported an FY18 result marginally ahead of guidance and consensus. Despite an already expensive stock reflecting very high expectations, the FY19 guidance set off one of the most intense short squeezes in recent memory which did not involve a takeover, with the stock trading on FY19F PE of ~100x! Market expectations were for margin expansion, and instead the company guided to margin contraction. Whilst we believe the short thesis is intact, timing, as always, will be key.

Fund's current exposures and positioning

We have reduced our exposures across the portfolio to ~17% net long in Resources, with Industrials at ~32% net and Financials at 2% net. The Fund is currently 43% net long and 122% gross, and by thematic, the largest net exposures are as follows: Electric Vehicles 10% net (comprising of 7 stocks long and short); Technological Innovations 11% net (7 stocks); Medical Innovation 13% net (3 stocks); Emerging consumer 15% net (2 stocks); and Resources cycle -11% net (12 stocks).

The Fund currently has ~33% net long exposure in high-growth longs and ~24% net long in value stocks. Our long exposures 12m-forward median PE of ~19x is undemanding. Furthermore, only 21% of our portfolio is in stocks trading at all time or 52-week highs. Our median market cap for the Fund is $749m and the Fund remains liquid – where 76% of our portfolio can be liquidated in one trading day and 85.5% inside 10 trading days (both based on selling at 30% of average daily volume).

We are running a long-term investment strategy

We continue to view many of the themes and stocks we are positioned in as outstanding, long-term opportunities. And it is important to remember that we are not a market-like fund (correlation of 0.36), as we invest in thematics and stocks that we believe will be solid well past the next cycle.

The events of this year are not to be underestimated in terms of their short-term sentiment-driving significance. Navigating short-term events can be tricky for investors with a medium to long-term investment horizon, however we have previously demonstrated that we can make money across both Industrials and Resources through challenging periods. Our cumulative returns since inception are >2.5x ahead of the ASX300 Industrials Accumulation Index (AI) and >5x ahead of the ASX300 Resources AI.

We are continuously reviewing ways to reduce macro-led negative performance periods. Whilst our performance this year has been highly frustrating, we remind ourselves that we did not get here by luck and our process of identifying future winners sets us up well to continue delivering for our investors over the medium to long term.