PARAGON FUNDS MANAGEMENT

5 YEARS 2013 - 2018

PARAGON AUSTRALIAN LONG SHORT FUND // December 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	-5.8%	-12.9%	-24.8%	-24.8%	-38.1%	-5.6%	-1.6%	+5.2%	+7.5%	+52.8%
ASX All Ordinaries Accum. Index	-0.5%	-9.0%	-7.3%	-7.3%	-3.5%	+4.1%	+6.6%	+5.7%	+6.3%	+42.9%
ASX Small Ords. Accum. Index	-4.2%	-13.7%	-12.8%	-12.8%	-8.7%	+4.7%	+7.5%	+5.6%	+3.8%	+24.1%

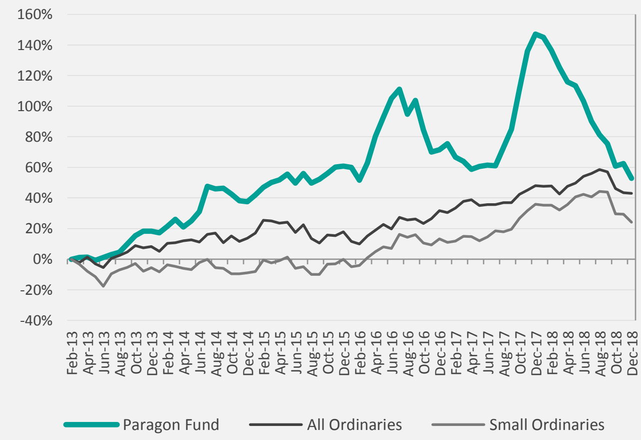
RISK METRICS

Sharpe Ratio	0.4
Sortino Ratio	0.7
Correlation	0.4
% Positive Months	59%
Up/Down Capture	74%/-10%

UNIT PRICE & FUM

NAV	$1.4386
Entry Price	$1.4407
Exit Price	$1.4364
Fund Size	$41.8m
APIR Code	PGF0001AU

HISTORICAL PERFORMANCE *(after fees)*



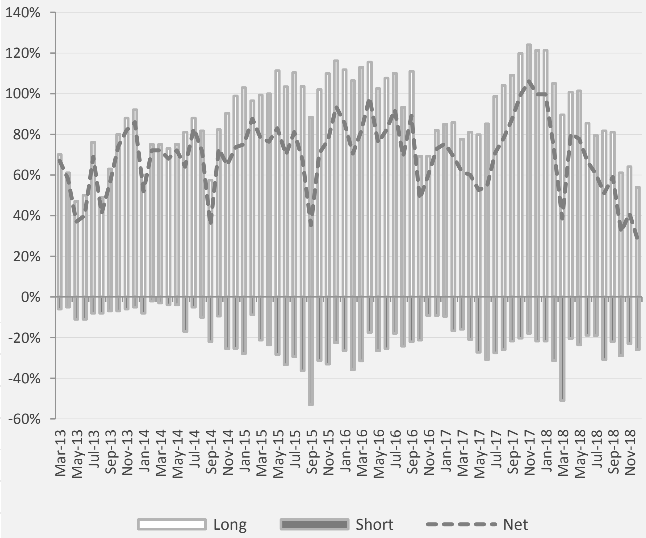
FUND STRATEGY

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 -5.8% after fees for December, in what was another wild month for equities with most Australian and US Indices down -4% and -9% respectively. The US Federal Reserve Bank (Fed) continued to tighten its monetary policy in the month, spooking markets and driving US indices down more than -20% over the fourth quarter of 2018. The Fund's core long positions were sold off amid the global sell-off, which resulted in the overall negative performance for the month. This was partially offset by positive contributions from our long gold holdings and shorts in IOOF and Westgold.

HISTORICAL EXPOSURE



FUND POSITIONING

Number of Longs	15
Number of Shorts	15
Net exposure	28%
Gross exposure	80%
Index futures	0%
Cash	72%

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%	-3.2%	-8.4%	0.9%	-5.8%	**-38.1%**

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.

2018 Calendar year in review

2018 was a bruising year for the Paragon Australian Long Short Fund and our first negative calendar year since inception in March 2013. Indeed 2018 was a challenging year all round, where every asset class globally was down for the year (other than cash), and our Fund was not spared. From March/April, USA-China trade wars, China & emerging markets weakness, coupled with US dollar strength, saw all markets underperform bar the US, until 4Q18, where the US then joined the global rout and sold off materially in its worst quarter since the GFC.

The Fund's 2018 was -38.1% after fees for the year, versus the All Ordinaries Accumulation Index (AI) at -3.5%, the Small Ordinaries AI at -8.7% and the Eureka-Hedge Australia/New Zealand Hedge Fund Index at -3.5%. The table below provides the Fund's calendar year returns after fees vs relevant benchmarks:

CY	Paragon	All Ordinaries Accum. Index	ASX300 Resources Index	ASX300 Industrials Index	Small Ordinaries Accum. Index	Small Resources Index	Small Industrials Index	EurekaHedge Au/NZ HF Index
2013*	18.7%	8.3%	-3.8%	12.0%	-5.6%	-43.1%	5.0%	15.0%
2014	15.9%	5.0%	-16.6%	11.0%	-3.8%	-29.1%	1.2%	7.1%
2015	16.8%	1.1%	-24.9%	8.3%	10.2%	-14.3%	9.3%	11.0%
2016	6.8%	11.6%	42.9%	7.4%	13.2%	53.3%	2.4%	1.3%
2017	44.1%	12.4%	25.8%	9.2%	20.0%	38.7%	11.8%	7.8%
2018	-38.1%	-3.5%	2.3%	-4.3%	-8.7%	-16.0%	-6.5%	-3.5%

** Paragon inception March 2013.*

Soure: Paragon, Bloomberg

Long positions drove the negative performance result, where short positions provided only a modest offset due to our net-long bias throughout the year. Additionally, we were too early on various challenged and growth-momentum shorts, which offset some of the gains made in winning shorts - IOOF, Westgold, CSR, Caltex, Telstra and Ramsay Healthcare – all of which experienced material downgrades.

At stock level, our best and worst performers for 2018 were:

- best performing Longs: Aristocrat (+0.6%) & Adriatic (+0.5%)
- best performing Shorts: IOOF (+1.3%) & Westgold (+0.6%)
- worst performing Longs: Orocobre (-2.6%) & Agrimin (-2.0%)
- worst performing Shorts: Wisetech (-0.5%) & Nanosonics (-0.4%)

2018's performance was largely attributable to 3 major events:

1. Electric Vehicles (EV) theme correction *(~33% of the decline)*

Despite the EV theme being the Fund's biggest performance contributor since inception, in 2018 we saw all our core EV-stocks sold off alongside correcting Chinese Lithium spot prices, which were impacted by fears of China's revised EV subsidy regime; the Lithium 'oversupply anxiety' bear case; and increased (seasonal) supply of lower quality (and not EV battery-grade) Lithium from Chinese brine producers. All the while Lithium demand kept surprising to the upside and with very bullish supply chain developments and transactions implying strong long-term Lithium prices.

2. USA-China trade wars *(~33% of the decline)*

Trump's trade protectionism policies were first raised in March and then intensified from July. Trump initially imposed US$50b of tariffs, then threatened a further US$200b of trade tariffs on China and potentially increasing the tariff rate from 10% to 25%. China retaliated both times. With tensions intensifying throughout the year, China-facing stocks and its currency were dealt a blow; and commodities in general were hit despite constructive micro fundamentals. 'Risk-off' selling saw many of our small and mid-cap Resources stocks materially sold off. We anticipated a timely resolution of the trade tensions as a trade war was a lose-lose scenario for both nations, however in hindsight we were overly optimistic on this front. Instead USA-China trade tensions escalated, resulting in a significant market fall-out outside of the US. Whilst a painful period for the Fund, lessons have been learnt from the experience – note the last time two superpowers last went head-to-head was ~35yrs ago (USA-Japan trade wars in the 1980's).

3. Fourth quarter (4Q18) global markets sell-off *(~20% of the decline)*

The Fed continued to tighten its monetary policy in December, raising interest rates and guided for more rate rises in 2019 and for its Quantitative Tightening (QT) program to continue in 'auto-pilot'. This spooked markets and hammered the negative sentiment growing globally even further. Markets were already selling off from early October on global growth concerns, leaving investors pondering over whether the sell-off over the quarter was more than a cyclical correction and potentially the start of a secular bear market. The overwhelming negative sentiment saw US indices fall -20% (S&P500) to -27% (Russell 2000) over 4Q18, which impacted our holdings, despite fundamentals remaining completely intact.

2019 Outlook

After an extended period of ultra-low volatility in 2017, more normal-like volatility has returned to global markets due to QT, Fed interest rates rises, USA-China trade tensions and global growth concerns. All eyes are on the Feds - who can push the global economy into a recession vs have the ability and tools to extend the current cycle. Whilst the risk of a US recession has grown, many key economic indicators are not implying it to be a 2019 event, and we are closely watching these indicators accordingly. In response to the market sell-off since the December rate hike announcement, the US Fed has earlier this week done a backflip, suggesting that they are open (and in our view likely) to pause on rate rises and to go a step further and halt QT if needed. These are two very big catalysts for 'risk assets' globally. Further, USA-China trade discussions are underway and may surprise to the upside. China has commenced loosening its monetary policy and is intimating further fiscal stimulus which will drive commodities demand. We remain open-minded to all possible outcomes.

We are expecting diverging markets, which provides an ideal environment for stock-pickers where secular themes continue to offer strong investment opportunities. We are well placed with 2018's headwinds likely to become 2019's tailwinds. The Fund's largest positive net exposures continue to be across our key secular themes - Electric Vehicles, Emerging Consumer and Medical Innovations – all of which have exciting outlooks with several positive catalysts expected to crystallise in 2019 and beyond. These have been discussed in detail in our September 2018 and November 2018 updates. The Fund's largest negative exposures are to stock specific shorts in stocks identified as having earnings risk and long positions in AUD gold exposed equities (which in effect act as shorts as they tend to do well in times of market stress).

Reporting our negative 2018 performance updates has not been easy. However, we hope that we have provided investors some perspective and context on events impacting the Fund over the year, whilst giving you a sense of what we're thinking and how we're positioned for what's ahead. It is an exciting time to be an active fund manager, with so much going on in markets, where volatility and valuation resets are presenting many opportunities. Thank you for your support in 2018 and we wish you a healthy and successful 2019.