



## PARAGON AUSTRALIAN LONG SHORT FUND // December 2017

### PERFORMANCE SUMMARY *(after fees)*

	1 month	3 month	6 month	Financial YTD	1 year	2 year p.a.	3 year p.a.	Net Return p.a.	Total Net Return
<b>Paragon Aust. Long Short Fund</b>	+4.7%	+33.6%	+53.1%	+53.1%	+44.1%	+24.0%	+21.6%	+20.6%	+147.1%
<b>ASX All Ordinaries Acc.</b>	+2.0%	+8.1%	+9.3%	+9.3%	+12.4%	+12.0%	+9.2%	+8.5%	+48.1%
<b>RBA Cash Rate</b>	+0.1%	+0.4%	+0.8%	+0.8%	+1.5%	+1.6%	+1.8%	+2.1 %	+10.6%

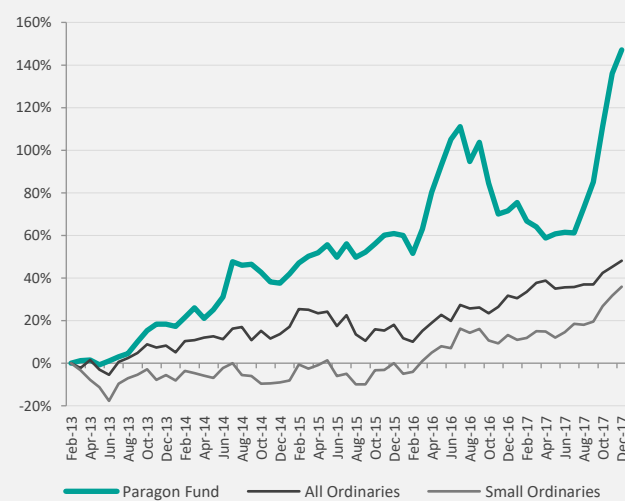
### RISK METRICS

<b>Sharpe Ratio</b>	1.2
<b>Sortino Ratio</b>	2.1
<b>Correlation</b>	0.4
<b>% Positive Months</b>	+70%
<b>Up / Down Capture</b>	+109% / +15%

### FUND DETAILS

<b>NAV</b>	\$2.3257
<b>Entry Price</b>	\$2.3292
<b>Exit Price</b>	\$2.3222
<b>Fund Size</b>	\$84.4m
<b>APIR Code</b>	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.

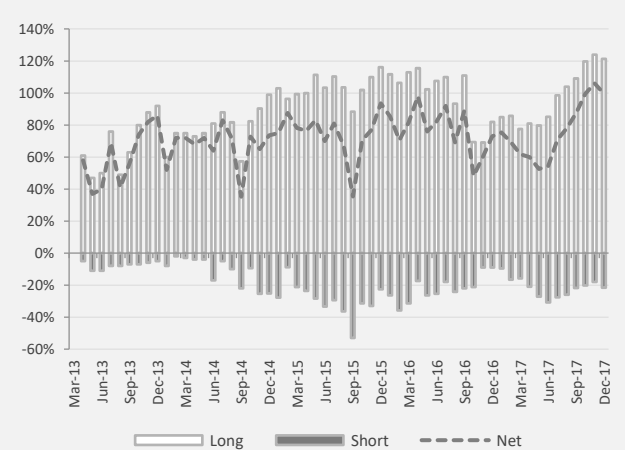
### OVERVIEW & POSITIONING

The Fund returned +4.7% after fees for the month of December. Since inception (March 2013) the Fund has returned +147.1% after fees vs. the market (All Ordinaries Accumulation Index) +48.1%.

The Fund had another solid month in December driven by contributions from Long holdings in our electric vehicle theme, along with Updater, Aristocrat, Dacian Gold and Global Energy and short in Qantas, offset by declines in European Cobalt and New Century Zinc. At the end of the month the Fund had 39 long and 15 short positions.

INDUSTRY EXPOSURE	Long	Short	Net
Financials	+22.9%	-8.5%	+14.4%
Industrials	+33.0%	-9.0%	+24.0%
Resources	+65.4%	-4.2%	+61.2%
Index Futures		0%	0%
<b>Total</b>	<b>+121.3%</b>	<b>-21.7%</b>	<b>+99.6%</b>
<b>Cash</b>			<b>+0.4%</b>

### HISTORICAL EXPOSURE



### MONTHLY PERFORMANCE BY CALENDAR YEAR

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
<b>2013</b>			1.1%	0.3%	-2.2%	1.8%	1.8%	1.6%	5.3%	4.9%	2.8%	0.0%	<b>18.7%</b>
<b>2014</b>	-1.1%	3.8%	3.6%	-3.9%	3.2%	4.9%	12.5%	-1.1%	0.3%	-2.5%	-3.1%	-0.5%	<b>15.9%</b>
<b>2015</b>	3.2%	3.6%	2.1%	1.1%	2.4%	-3.8%	4.3%	-4.2%	1.6%	2.5%	2.6%	0.3%	<b>16.8%</b>
<b>2016</b>	-0.5%	-5.2%	7.4%	10.8%	7.0%	6.3%	2.9%	-7.8%	4.3%	-9.0%	-7.9%	0.8%	<b>6.8%</b>
<b>2017</b>	2.3%	-5.0%	-1.6%	-3.2%	1.3%	0.4%	-0.2%	7.3%	7.0%	14.0%	11.9%	4.7%	<b>44.1%</b>

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.



## 2017 CALENDAR YEAR IN REVIEW

2017 was a testing year for Paragon. Our performance came under pressure in the first half as we endured corrections of some of our high-conviction stocks. We also initiated ownership and management changes. We are proud of the way we maintained our focus and remained resolute in our belief of our key themes and exposures, which ultimately delivered strong returns as anticipated, resulting in an exceptional second half year performance.

The Paragon Australian Long Short Fund delivered +44.1% after fees for the year, versus the All Ordinaries Accumulation Index at +12.4%, the Small Ordinaries Accumulation Index at +20.0%, the EurekaHedge Australia/New Zealand Hedge Fund Index at 7.8% and term deposits below +3.0%.

Below is the Fund's calendar year returns after fees since inception:

CY	Paragon	All Ordinaries Accum. Index	Small Ordinaries Accum. Index	EurekaHedge Au/NZ Hedge Fund Index	RBA Cash Rate
2013*	18.7%	8.3%	-5.6%	15.0%	2.3%
2014	15.9%	5.0%	-3.8%	7.1%	2.5%
2015	16.8%	1.1%	10.2%	11.0%	2.1%
2016	6.8%	11.6%	13.2%	1.3%	1.7%
2017	44.1%	12.4%	20.0%	7.8%	1.5%

\* Paragon inception March 2013.

The strong performance for the year was predominantly generated from mid and small caps - companies with market capitalisations up to \$1.5b. This is not surprising given the outperformance of mid and small-caps over large-caps for the year. Long positions drove the majority of the positive performance result, while Short positions also contributed, albeit to a lesser extent

Paragon's stock picking hit rates, key winners and losers (attribution in terms of contribution to total gross returns) for the year were as follows:

- hit rate for individual stock positions (>+1.0% vs. <-1.0% in attribution) was 85% (implies 8.5 out of 10 right)
- hit rate for individual stock positions (>+0.5% vs. <-0.5% in attribution) was 70% (implies 7.0 out of 10 right)
- best performing Longs: Kidman (+10.3%) & Global Geoscience (+5.6%)
- best performing Shorts: Telstra (+0.6%) & Pilbara Min. (+0.5%+)
- worst performing Longs: Mayne Ph. (-1.6%) & Netcomm (-1.5%)
- worst performing Shorts: Newcrest (-0.7%) and South 32 (-0.5%)

We were also extremely delighted to announce the appointments of Sam Lanyon as a non-executive director and Joshua Baker as an Investment Analyst in the latter part of the year.

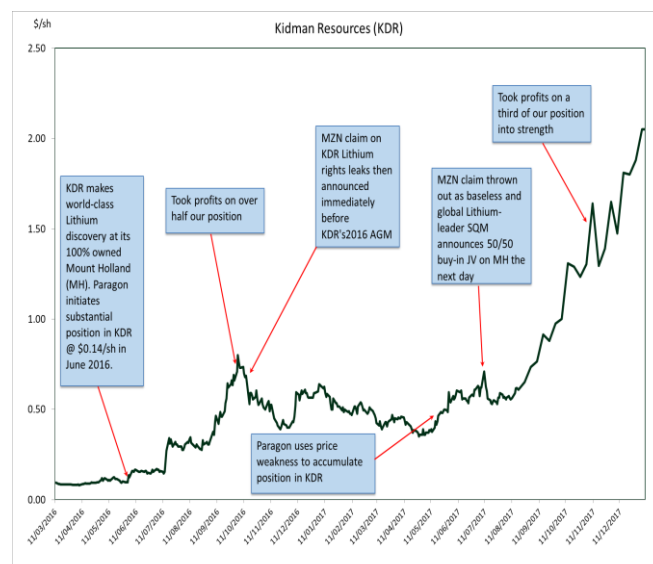
### What worked in 2017

In 2017, we maintained exposure to our continuing themes - many of which we've invested in since inception and covered in our monthly updates over the previous five years.

The strongest theme again for 2017 was Electric Vehicles, with outstanding performers in Lithium (Kidman Resources, Global Geoscience) and Cobalt (Cleanteq, European Cobalt). Our Emerging Consumer theme also performed well, with strong performers in Sulphate of Potash (Agrimin) and Infant Formula (Wattle Health), as did our Medical Innovation theme (Cann Group) and Mobile Internet theme (Updater).

A special mention should go to our investment in Kidman Resources given the Company was one of the best performing ASX300 stocks in 2017 (as with

our other leading stock picks of Galaxy in 2016, LNG Ltd in 2014 and Xero in 2013). We first invested in Kidman in June 2016 at \$0.14/sh and have written about its strong investment case and the eventual re-rating we anticipated in the stock as reflected in the chart below.



### What didn't work in 2017

Most of what didn't work was largely in the first half of the year. Overstaying the course in Mayne Pharma and Netcomm Wireless were the main negatives. Netcomm, in hindsight was fully valued to expensive, given its key contracts timings and execution risks. Mayne Pharma was even worse, as they had acquired assets from Teva at the top of the market, and were crunched on Trump's initiative targeting the lucrative generic drugs landscape (Mayne Pharma was one of 10 drug companies subpoenaed).

### 2018 Outlook

This is the most unloved and cautious bull market we have experienced, yet continues to climb the wall of worry. With concerted global growth, we counter the prevailing gloom and Paragon remains constructive on markets, particularly within our areas of focus – Resources and Industrials, both exhibiting medium to long term tailwinds across our key thematic.

Firm global demand across most Resources markets, combined with China supply cuts to address their environmental issues, are positively driving bulk and base metal prices. Further, the recovery in the capex cycle globally has seen Resources and Industrials sentiment improve substantially.

In terms of our Resources based thematic, Lithium and Cobalt, two key Electric Vehicle raw material ingredients, continue to boast strong fundamentals. Lithium is likely to go from a 200ktpa market to 800ktpa+ by 2025 and Cobalt from 100ktpa to 225ktpa+. Demand for Lithium keeps surprising to the upside, and supply continues to struggle. Nevertheless, the supply response is underway and we're monitoring this closely. Our proprietary Lithium Supply & Demand model shows industry deficits and strong Lithium prices for at least CY18 and CY19, providing us a great 2-year investment window.

Looking at our Industrials based thematic, the strength in the emerging consumer will continue to drive ongoing growth in China facing industries. Finally, we believe both our Medical Innovation and Mobile Internet thematic are set to go from strength to strength.

Several of our key theme-based stock picks are well placed to perform over the coming year, with catalysts anticipated to drive ongoing re-ratings. We are excited by the opportunities in 2018 and beyond and we look forward to updating investors with our progress.