PARAGON FUNDS MANAGEMENT

PARAGON AUSTRALIAN LONG SHORT FUND // February 2019

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	+1.0%	-4.1%	-14.2%	-23.5%	-34.2%	-3.4%	+0.9%	+5.0%	+7.6%	+55.6%
ASX All Ordinaries Accum. Index	+6.1%	+9.8%	-0.7%	+2.3%	+6.6%	+8.7%	+12.7%	+7.4%	+7.9%	+57.6%
ASX Small Ords. Accum. Index	+6.8%	+8.0%	-3.1%	-1.6%	+3.5%	+11.8%	+13.4%	+7.7%	+5.8%	+39.9%

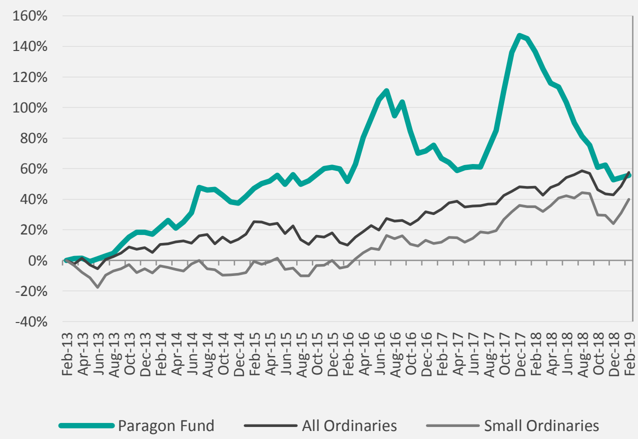
RISK METRICS

Sharpe Ratio	0.4
Sortino Ratio	0.7
Correlation	0.4
% Positive Months	60%
Up/Down Capture	70%/-10%

UNIT PRICE & FUM

NAV	$1.4646
Entry Price	$1.4668
Exit Price	$1.4624
Fund Size	$39.2m
APIR Code	PGF0001AU

HISTORICAL PERFORMANCE *(after fees)*



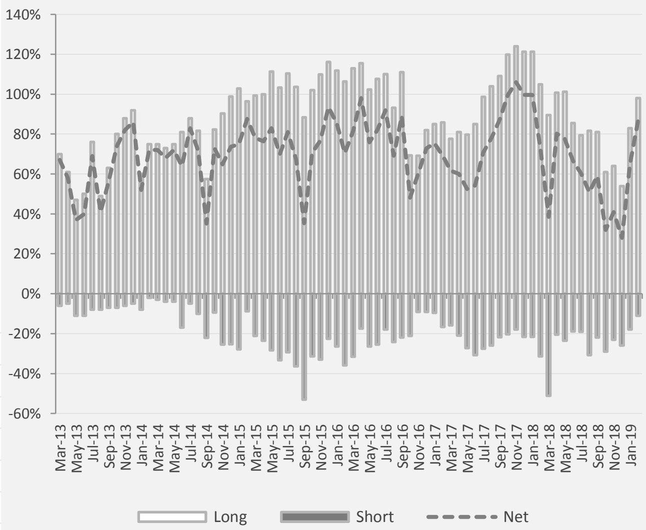
FUND STRATEGY

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 +1.0% after fees for February. Positive contributions for the month were from Kidman, Nearmap and Fortescue. These were partially offset by declines in Agrimin, Cann group and a short in Amcor. Gina Reinhart's Hancock Prospecting bid $600m for the 80.2% of Riversdale Resources it doesn't already own, a hard coking coal (HCC) project in Alberta Canada, providing a major catalyst to neighbouring Atrum Coal. HCC boasts strong long-term fundamentals, and Canada's west-coast is set to become a tier 1 seaborne HCC province. We discuss Atrum Coal overleaf.

HISTORICAL EXPOSURE



FUND POSITIONING

Number of Longs	25
Number of Shorts	5
Net exposure	87%
Gross exposure	110%
Index futures	0%
Cash	13%

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%**
2019	0.8%	1.0%											**1.8%**

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.

Major catalyst drops for Atrum Coal

Gina Reinhart bids for Riverdale Resources (RR)

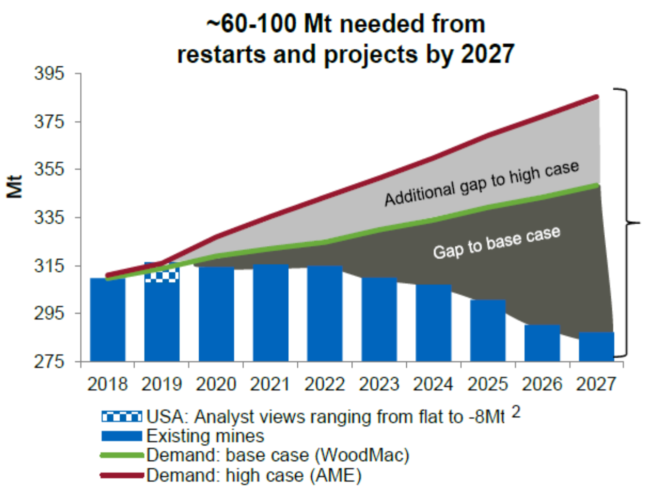
Premium-quality hard coking coal (HCC) growth assets with access to underutilised infrastructure are few and far between. Late in February, Gina Reinhart's Hancock Prospecting bid ~$600m for the remaining 80% of RR it doesn't already own. RR's flagship asset is its development-ready Grassy Mountain (GM) HCC project in Alberta, Canada. Gina's bid for control represents an almost 50% premium to her initial 20% purchase of RR completed only 5 months earlier. Alberta is a tier 1 mining jurisdiction with access to cheap power and skilled labour. GM boasts a ~200mt HCC open-cut resource, low capital intensity and planned 4.5mtpa of high-margin HCC (cost of ~US$70/t vs spot HCC prices of ~US$200/t), scheduled to ramp up in 2021 and run for 24yrs+. Importantly, GM is proximal to existing and materially underutilised rail and port infrastructure – key to any bulk commodity development growth asset.

Seaborne HCC has strong fundamentals

Whilst Coal is a dirty word at present, this is primarily pointed to thermal coal used for power generation. Coking coal, also known as metallurgical coal or steelmaking coal, has no substitute where ~0.7t of HCC (along with 2t of Iron Ore) is used to produce 1t of steel. The seaborne coking coal market is currently ~300mtpa, where HCC is ~200mtpa (~2/3 of the overall coking coal market), with long term inflation adjusted HCC prices of ~US$200/t. Coking coal supply has been constrained following a period of under-investment in new capacity during the 2013-2016 downturn. Existing supply continues to be seasonally impacted by weather disruptions to the main seaborne coking coal supply out of Queensland.

Demand for HCC has been resilient, driven by growth of the global steel industry and ongoing environmental controls in China restricting its own production. China lacks premium HCC, where both Chinese and locally imported Mongolian HCC resources are very high in Sulphur. Also, >250Mtpa of steel capacity has shifted from inland China to its east coast, in turn increasing demand for seaborne coking coal. HCC markets are expected to be tight, as Indian and Chinese seaborne demand drive growth, with long-term industry deficits potentially on the horizon.

Chart 1: Coking Coal outlook – existing supply and demand scenarios



Source: Teck Resources

Canada is the 3rd largest coking coal market (behind Australia and the USA) currently exporting ~28mtpa from Teck's west-coast HCC British Columbia operations. Current west-coast Canadian port capacity is ~61mtpa which is largely underutilised with expansion plans to increase this further to ~75mtpa in the medium-term, a strong positive for HCC development assets looking to enter the lucrative seaborne Canadian HCC market.

Atrum uniquely positioned – Gina's bid for RR a major catalyst

We have been patiently watching Atrum Coal for over a year, primarily interested in its potential company-making asset acquisition - Elan South in Alberta. After a chequered history with questionable management, Atrum refreshed its Board and focus in late 2017 by making this acquisition, which adjoins the northern end of Riversdale's GM and includes ~50km of resource potential to the north.

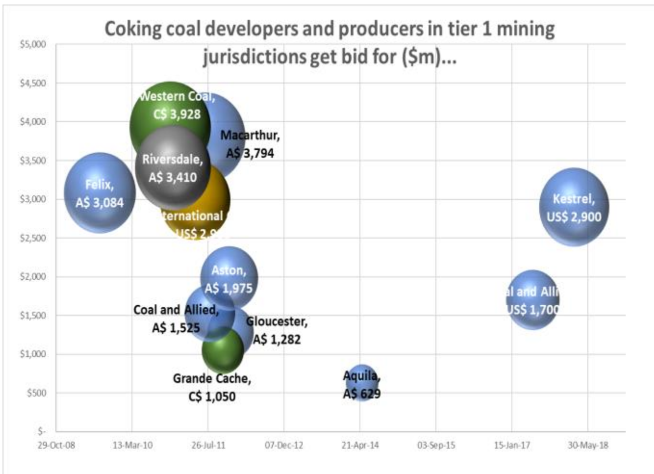
Whilst Elan South is earlier stage (18-24 months) than GM, we've liked its HCC resource potential, knowing the difficulty in finding premium HCC in a tier 1 jurisdiction proximal to underutilised existing infrastructure. Atrum's subsequent Elan South exploration program delineated ~100mt of HCC, adding to the ~200mt of resources at its nearby Elan North. Total HCC resources stand at ~300mt, and are likely to expand to 500mt+ by the end of this year (~2.5x the resource size of GM).

Whilst GM is more advanced (currently pre-permitting but development ready), it is largely growth constrained to the north. Importantly for Atrum, HCC quality throughout the Elk valley improves to the north. Preliminary coal quality results indicate Elan South to be premium-quality HCC, at least as good as neighbouring Teck's HCC and with superior yield and coal quality characteristics to GM. Further, Atrum's project has genuine potential to rapidly expand its HCC resource and is emerging as a globally significant premium HCC company-maker.

Atrum's pricing relative to RR is unquestionably compelling. Gina's bid for RR prices its HCC resource at $3.35/t, 10x that of Atrum's (fully diluted). Whilst RR's much higher metric includes a control premium and its advanced stage of development, land-zoning and resource confidence, Atrum is very well placed to re-rate as it delineates further resources and de-risks through its upcoming milestones.

M&A continues to be a strong theme in coking coal markets, where RR was widely anticipated to IPO on the ASX and Stanmore Coal is also currently under a takeover offer. There are very few HCC exposures on the ASX with strong risk-reward. We are excited by the outlook for Atrum and expect to make multiples on our investment.

Chart 2: Coking coal M&A a strong theme, particuarly for tier 1 assets



Source: Bloomberg, Paragon

Canada's west-coast to become a tier 1 seaborne HCC province

Australia alone cannot fulfil the expected growth in HCC demand, and the USA continues to be the high-cost swing producer. Canada has been a go to destination for Chinese, Japanese, South Korean and now Indian HCC consumers as they look to diversify their HCC supply away from Australia which continues to be plagued by weather events and infrastructure constraints relating to Aurizon. Gina Reinhart clearly sees the potential for Canada's west-coast to become another major coking coal province.

GM and/or Elan South offer investment at less than half the capital intensity of other major HCC seaborne projects, are highly likely to sit at the bottom of the cost curve, in turn boasting strong economics and with readily available port and common user rail infrastructure to serve the growing seaborne HCC market. Gina has the financial capacity (and most likely the ambition, looking at her recent track record of developing the world-class 55mtpa Rory Hill Iron Ore project) to be as big as Teck's existing Canadian operations (27mtpa across 4 Coking Coal mines) and GM alone at 4.5mtpa of HCC won't deliver this.