PARAGON FUNDS MANAGEMENT

PARAGON AUSTRALIAN LONG SHORT FUND // March 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	-2.7%	-0.9%	-13.7%	-25.5%	-32.8%	-3.9%	-2.4%	+3.7%	+7.1%	+51.5%
ASX All Ordinaries Accum. Index	+0.7%	+11.1%	+1.1%	+3.0%	+11.2%	+8.7%	+11.3%	+7.5%	+7.9%	+58.7%
ASX Small Ords. Accum. Index	-0.1%	+12.6%	-2.8%	-1.8%	+5.8%	+11.8%	+11.4%	+8.0%	+5.7%	+39.7%

RISK METRICS

Sharpe Ratio	0.3
Sortino Ratio	0.7
Correlation	0.4
% Positive Months	55%
Up/Down Capture	67% / 44%

UNIT PRICE & FUM

NAV	$1.4256
Entry Price	$1.4278
Exit Price	$1.4235
Fund Size	$36.4m
APIR Code	PGF0001AU

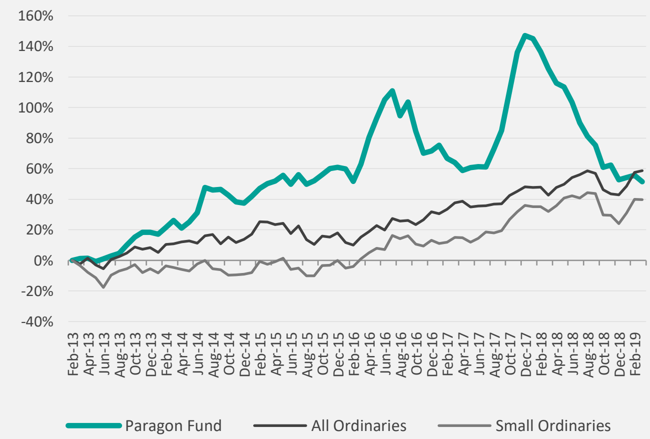
FUND STRATEGY

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.

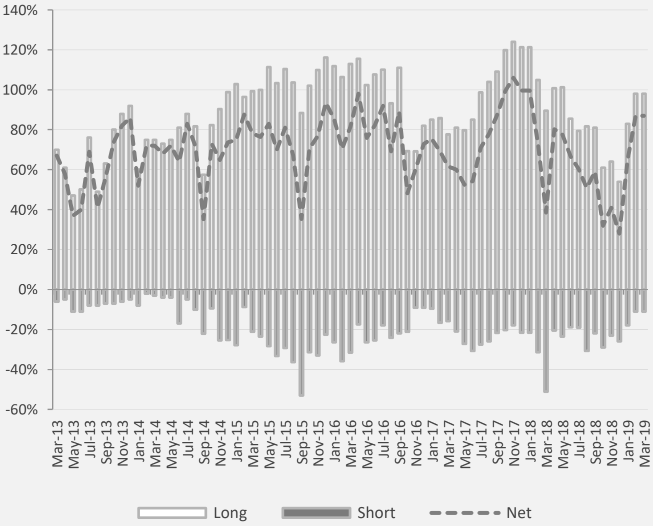
OVERVIEW AND POSITIONING

The Fund returned -2.7% after fees for March. Negative contributions for the month were from Kidman, Platinum (founder sell-down) and Dacian Gold (1Q19 production downgrade). These were partially offset by gains in Adriatic (exploration permit awarded for its prolific northern extension), Cann (executes 5yr-offtake with Aurora and provides maiden FY21F revenue guidance of $180m) and Nearmap. We provide an update on several of these overleaf.

HISTORICAL PERFORMANCE *(after fees)*



HISTORICAL EXPOSURE



FUND POSITIONING

Number of Longs	23
Number of Shorts	4
Net exposure	90%
Gross exposure	109%
Index futures	0%
Cash	10%

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%	-2.7%										**-0.9%**

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.

PARAGON FUNDS MANAGEMENT

Portfolio insights

Kidman – strategic world-class assets don't stay this cheap for long

We previously discussed Kidman in November 2018. Kidman's opportunistic asset claim was settled in December 2018 as anticipated, and a product offtake with LG Chem followed (set to turn binding in July 2019).

After having taken profits and fully exiting Kidman at much higher levels in the first half of 2018, we restablished a long position following it's material price correction in October and have been adding to the position since.

Kidman's current market cap of ~US$330m is at a material discount to its NPV and relative to Albemarle's US$1.15b purchase of a 50% share of Wodgina's integrated Lithium project. We note that Albemarle also gained exclusive product offtake rights for Wodgina's Lithium Hydroxide (LiOH) output for the life of the operation, hence the big price premium.

Lithium's growth was previously Lithium Carbonate (LC) based. However, it is rapidly moving towards LiOH, the desired Lithium chemical for EV battery chemistries targeting higher energy densities and longer driving ranges. We expect substantial growth in LiOH over LC, reinforcing SQM's pursuit and focus on Kidman's Mt Holland LiOH project. Kidman's share of its Mt Holland project capex funding has yet to be completed, which explains the current discount in its share price. The calibre of Kidman's project offtake partners and strong project economics means conventional competitive debt funding will be available, and only a moderate amount of equity capital will be needed. Mt Holland's bankable feasibility study is due July 2019, and full funding is expected to follow shortly thereafter, substantially de-risking Kidman's investment case.

Albemarle's acquisition of Wodgina in November and Wesfarmers' recent US$1.1b hostile move on Lynas show that both Lithium-majors and Industrial large caps are pursuing and paying a premium for strategic world class assets, reflecting strong long-term views on the upstream EV-battery supply chain. Kidman's Mt Holland is the last under-developed world class LiOH-integrated project globally which reinforces that something has to give. Either Kidman re-rates as it secures its capex funding, or a large-cap corporate flush with cash will see value and target Kidman (potentially prior to its lucrative product offtake rights become binding in July). Strategic world-class assets don't stay cheap for long, particulalrly not when the Lithium industry is rapidly moving towards LiOH.

Dacian – 1Q19 production disappoints, but 2Q19 set to see 200kozpa+

It's a great time to bring on a new gold mine in Australia, with the AUD gold price >A$1800/oz, nearing record highs. We previously discussed Dacian in March 2018 and our A$ gold investment thesis in June 2016.

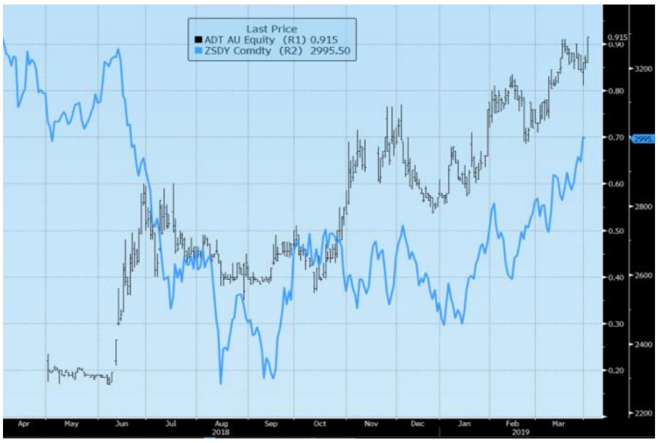
Dacian has been ramping up its newly constructed and commissioned 100% owned Mt Morgan high-margin gold project in the Laverton goldfield in WA. Production ramp up issues in 1Q19 (stemming from availability issues at its Westralia underground operations) saw Dacian temper its FY19 guidance. Dacian's share price corrected ~25%, however, we expect this to be a mere speed bump and remain bullish on its outlook. Dacian trades at half the multiple of its established producing peers. We expect to see its share price re-rate as 2Q19 is expected to see annualised production of 200koz pa at all-in costs of <A$1,100/oz, implying high-margin gold ounces.

Adriatic Metals – drilling underway at prolific Rupice northern extension

We previously wrote about Adriatic in January and November 2018. Adriatic's Rupice discovery is still open to the North and South-East, presenting an excellent opportunity for further resource upside. Adriatic has been the best resources IPO in the last year due to its drilling success at Rupice, delineating exceptional grade and thickness up to its previous northern tenement boundary. In November, Adriatic was awarded a northern extension of its tenement. Granting of exploration permits followed, which enable the company to drill its prolific northern extension. Less than 10% of its Rupice target area has been drilled to date, with scope for sub-parallel discoveries.

We expect our initial resource estimates for Adriatic's Rupice polymetallic orebody of >6mt at 12% Zinc equivalent to prove conservative. Rupice could be twice this. Further, Zinc spot prices continue to strengthen as inventories decline towards critical levels globally. Adriatic is very well placed to continue re-rating.

Chart 1: Adriatic (ADT AU) share price performance vs Zinc spot price (US$/t)

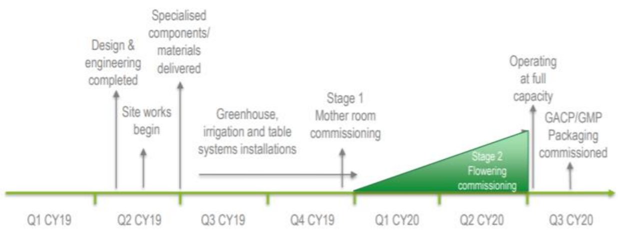


Source: Bloomberg

Cann - 5yr-offtake secured & maiden FY21F revenue guidance of $180m

Cann Group signed a long-term offtake agreement in March with Canadian large-cap Aurora Cannabis, to purchase all excess cannabis-based products not required by patients in Australia. Cann also confirmed commissioning of its new Mildura-based facility for later this year and full run-rate production is expected from 3Q 2020. Cann provided revenue guidance of ~$180m based on 50,000kg of medicinal cannabis production, leaving significant upside through oils or other higher value-added products. As noted previously, this guidance implies annualised forward cashflows of $100m+. With offtake in hand, Cann is well placed to debt fund the balance of its capex requirement and we expect this to be announced in due course. Combined with its strong net cash reserves of $70m+, Cann will be fully-funded to first cashflows, continuing to boast attractive risk-reward.

Chart 2: Cann's pathway to 'large-scale' production



Source: Cann Group