

Paragon Australian Long Short Fund

ARSN 161 565 920

Annual Report

For the year ended 30 June 2021

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These financial statements cover Paragon Australian Long Short Fund as an individual entity.

The Responsible Entity of Paragon Australian Long Short Fund is Paragon Funds Management Ltd (ABN 42 159 623 873) (AFSL 426800).

The Responsible Entity's registered office is:

151/129 Fitzroy Street
St Kilda, VIC 3182

Directors' Report

The Directors of Paragon Funds Management Ltd, the Responsible Entity of Paragon Australian Long Short Fund, present their report together with the financial statements of Paragon Australian Long Short Fund (the 'Fund') for the year ended 30 June 2021.

Principal activities

The Fund's mandate is to invest primarily in Australian listed equities focusing on core competencies in the resource and industrial sectors in accordance with the provisions of the Fund's Constitution. The Fund may also invest in foreign listed stocks and equities in unlisted Australian and foreign companies. The objective of the Fund is to produce absolute returns and capital growth for unitholders over a 5 year investment horizon.

The Fund did not have any employees during the year.

There were no significant changes in the nature of the Fund's activities during the year.

The various service providers of the Fund are detailed below:

| Service | Provider |
|-------------------------------------------|---------------------------------|
| Responsible Entity and Investment Manager | Paragon Funds Management Ltd |
| Prime Broker | UBS AG, Australia Branch |
| Custodian | UBS Nominees Pty Ltd |
| Statutory Auditor | Moore Australia |
| Administrator and Registrar | Link Fund Solutions Pty Limited |

Directors

The following persons held office as Directors of Paragon Funds Management Ltd during the year or since the end of the year and up to the date of this report:

Mr John Deniz
 Ms Hillier Deniz
 Mr Samuel Lanyon

Review and results of operations

During the year, the Fund continued to invest in accordance with target asset allocations as set out in the governing documents of the Fund and in accordance with the provisions of the Fund's Constitution.

The performance of the Fund, as represented by the results of its operations, was as follows:

| | Year ended | |
|--------------------------------------|-----------------|-----------------|
| | 30 June 2021 | 30 June 2020 |
| | \$ | \$ |
| Operating profit/(loss) for the year | 13,889,209 | 5,097,419 |
| Distributions payable | 3,291,831 | 1,871,026 |
| Distributions (cents per unit) | 17.3845 | 11.1409 |

Review and results of operations (continued)

The operating profit for the year was a result of a strong recovery post the COVID-19 pandemic induced market mass sell-off in March 2020. The portfolio was immediately sold down and swiftly leveraged into stocks/sectors that both benefited from or were not impacted by the pandemic itself and the ensuing lockdowns experienced globally. Strong conviction in gold/silver as a response to fiscal policies globally, plus technology stocks soaring from the change in working environments, and resources stocks linked to the global decarbonisation focus, such as stocks within the Fund's 'electric vehicle thematic', all played out favourably for the year. The Fund achieved a net performance of +43.6% net compared with the ASX All Ordinaries Accum. Index of +30.3%.

Significant changes in the state of affairs

The strong recovery resulted in the Fund exceeding its high watermark - ie, its highest unit price since the last performance fees paid, being 31 December 2017 - resulting in a performance fee crystallising for the second half of the financial year. Performance fees are expected to continue to be crystallised, subject to the Fund continuing to deliver on its performance objective and exceeding the 5% p.a. hurdle rate, in accordance with the Product Disclosure Statement.

In the opinion of the Directors, there were no other significant changes in the state of affairs of the Fund that occurred during the financial year.

Matters subsequent to the end of the financial year

The COVID-19 pandemic has created unprecedented uncertainty all over the world and the economic environment that we operate within. Actual economic events and conditions in future may be materially different from those realised in the 2021 financial year and projected for the 2022 financial year. Although the Fund's performance since the market mass sell-off in late March has been strong as reported above, and the Fund is believed to be weighted towards sectors that do well in such economic circumstances, there are of course no guarantees. As at the date of the Financial Statements, an estimate of the future effects of the COVID-19 pandemic on the Fund's financial performance and/or financial position cannot be made, as the impact will depend on the magnitude and duration of the economic downturn and how markets continue to react to this, with the full range of possible effects unknown.

As reported in our half-year report to 31 December 2020, the Fund's investment in Isignthis Limited (ASX: ISX) remains suspended from the ASX, and is unlikely to be lifted until a judgement is reached in the case against ASX, as well as the civil proceedings subsequently initiated by ASIC in December 2020 against ISX and its managing director. Court proceedings for both cases have unfortunately been adjourned on several occasions throughout the year, mainly caused by backlogs in the courts due to the continuing lockdowns imposed and completely outside ISX's control. Despite this, ISX continues to grow its revenue and has expanded its revenue channels in the last 12 months. Furthermore, ISX remains cash flow positive, despite the adverse impact of the court cases and the associated legal costs. ISX peers globally have experienced significant share price appreciation over the last 18-24 months since ISX's suspension. The Directors do not expect to make any further write-down of the carrying value of the investment until there is a court judgement unless there is a significant decline in its balance sheet or profitability. For further details with respect to this matter, refer to Note 4 of the Financial Statements.

The convertible notes held by the Fund at 30 June 2021 for its investment in Mawson Infrastructure Group Inc (formerly Wize Pharma Inc) were converted in August 2021 to ordinary shares, at a conversion rate of almost 3 times the original value of the convertible notes.

Paragon Funds Management Ltd was issued an amendment to its AFS licence on 28 July 2021, for authorisations to deal, issue and provide general advice on foreign exchange contracts, in the context of its capacity as Responsible Entity of the Fund. Typically, foreign exchange contracts will be entered into at spot rates for currency requirements for trading in international securities, and forward contracts for any hedging of foreign currency exposures of the Fund. In accordance with the Fund's current PDS, the Fund is permitted to invest in international securities and may undertake hedging of foreign currency exposures where deemed appropriate.

Matters subsequent to the end of the financial year (continued)

No other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may have a significant effect on:

- (i) the operations of the Fund in future financial years; or
- (ii) the results of those operations in future financial years; or
- (iii) the state of affairs of the Fund in future financial years.

Likely developments and expected results of operations

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the Product Disclosure Statement ('PDS') and the provisions of the Fund's Constitution.

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Indemnification and insurance of officers

The Responsible Entity has paid an insurance premium to insure its Directors under a combined Professional Indemnity and Directors and Officers Insurance policy. Details of the indemnity insurance are as follows:

- The Directors, the Fund and the Responsible Entity are indemnified to an aggregate amount of \$5million, against any liability arising from a claim brought against them by a third party, for losses arising from a wrongful act (as defined in the policy), in relation to the provision of professional services provided by the Responsible Entity.

- The policy further indemnifies each of the following Directors against liabilities for costs and expenses incurred by them in defending legal proceedings arising from their conduct while acting in the capacity of director of the company, other than conduct involving a wilful breach of duty in relation to the Fund:

Mr John Deniz
Ms Hillier Deniz
Mr Samuel Lanyon

The policy is a combined policy and as such, premiums for each Director cannot be quantified. Further disclosure of information relating to this policy is not permitted under the contract of insurance.

Indemnification of auditor

The auditor of the Fund is in no way indemnified out of the assets of the Fund.

Fees paid to and interests held in the Fund by the Responsible Entity and its associates

Fees paid to the Responsible Entity and its associates out of Fund property during the year are disclosed in Note 15 to the financial statements.

No fees were paid out of Fund property to the Directors of the Responsible Entity during the year.

The number of interests in the Fund held by the Responsible Entity or its associates as at the end of the financial year are disclosed in Note 15 to the financial statements.

Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in Note 8 to the financial statements.

The value of the Fund's assets and liabilities is disclosed in the Statement of Financial Position and derived using the basis set out in Note 2 to the financial statements.

Environmental regulation

The operations of the Fund are not subject to any particular or significant environmental regulations under Commonwealth, State or Territory law.

**Paragon Australian Long Short Fund
Directors' Report
For the year ended 30 June 2021
(continued)**

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6.

This report is made in accordance with a resolution of the Directors of Paragon Funds Management Ltd.



Mr John Deniz
Director

St Kilda, VIC
27 September 2021



MOORE

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**AUDITOR'S INDEPENDENCE DECLARATION
UNDER S 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF PARAGON FUNDS MANAGEMENT LIMITED, THE RESPONSIBLE
ENTITY**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2021, there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

Moore Australia

MOORE AUSTRALIA AUDIT (VIC)
ABN 16 847 721 257

RYAN LEEMON
Partner
Audit and Assurance

Melbourne, Victoria

27 September 2021

Paragon Australian Long Short Fund
Statement of Comprehensive Income
For the year ended 30 June 2021

Statement of Comprehensive Income

| | | Year ended | |
|----------------------------------------------------------------------------------|--------------|-------------------|------------------|
| | | 30 June | 30 June |
| | Notes | 2021 | 2020 |
| | | \$ | \$ |
| Investment income | | | |
| Interest income from financial assets at amortised cost | | 10,018 | 28,117 |
| Dividend income | | 247,870 | 119,500 |
| Net gains/(losses) on financial instruments at fair value through profit or loss | 5 | 16,862,514 | 6,104,217 |
| Net foreign exchange gain/(loss) | | (57) | - |
| Total investment income/(loss) | | 17,120,345 | 6,251,834 |
| Expenses | | | |
| Management fees | 15 | 622,899 | 497,344 |
| Performance fees | 15 | 1,816,206 | - |
| Interest expense | | 146,077 | 141,276 |
| Custody fees | | 3,946 | 4,286 |
| Transaction costs | | 295,537 | 218,900 |
| Stock loan fees | | 62,759 | 79,058 |
| Short dividend expense | | 172,237 | 128,639 |
| Expense reimbursement fees | 15 | 103,839 | 84,539 |
| Other operating expenses | | 7,636 | 373 |
| Total operating expenses | | 3,231,136 | 1,154,415 |
| Operating profit/(loss) | | 13,889,209 | 5,097,419 |
| Finance costs attributable to unitholders | | | |
| Distributions to unitholders | 9 | (3,291,831) | (1,871,026) |
| (Increase)/decrease in net assets attributable to unitholders | 8 | (10,597,378) | (3,226,393) |
| Profit/(loss) for the year | | - | - |
| Other comprehensive income | | - | - |
| Total comprehensive income for the year | | - | - |

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Paragon Australian Long Short Fund
Statement of Financial Position
As at 30 June 2021

Statement of Financial Position

| | | As at | |
|-----------------------------------------------------------------------------|--------------|-------------------|-------------------|
| | | 30 June | 30 June |
| | Notes | 2021 | 2020 |
| | | \$ | \$ |
| Assets | | | |
| Receivables | 12 | 225,620 | 68,204 |
| Due from brokers - receivable for securities sold | | 8,037,899 | 3,520,103 |
| Financial assets at fair value through profit or loss | 6 | 76,174,695 | 47,894,354 |
| Total assets | | 84,438,214 | 51,482,661 |
| Liabilities | | | |
| Borrowings | 10 | 20,821,787 | 14,424,345 |
| Distributions payable | 9 | 3,291,831 | 1,871,026 |
| Payables | 13 | 2,794,290 | 122,402 |
| Due to brokers - payable for securities purchased | | 1,625,828 | 1,250,000 |
| Financial liabilities at fair value through profit or loss | 7 | 10,424,786 | 3,703,750 |
| Total liabilities (excluding net assets attributable to unitholders) | | 38,958,522 | 21,371,523 |
| Net assets attributable to unitholders - liability | 8 | 45,479,692 | 30,111,138 |

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Paragon Australian Long Short Fund
Statement of Changes in Equity
For the year ended 30 June 2021

Statement of Changes in Equity

| | Year ended | |
|------------------------------------------------------------|-----------------|-----------------|
| | 30 June 2021 | 30 June 2020 |
| | \$ | \$ |
| Total equity at the beginning of the financial year | - | - |
| Profit/(loss) for the year | - | - |
| Other comprehensive income | - | - |
| Total comprehensive income | - | - |
| Transactions with owners in their capacity as owners | - | - |
| Total equity at the end of the financial year | - | - |

Under Australian Accounting Standards, net assets attributable to unitholders are classified as a liability rather than equity. As a result, there was no equity at the start or the end of the year.

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Paragon Australian Long Short Fund
Statement of Cash Flows
For the year ended 30 June 2021

Statement of Cash Flows

| | Year ended | |
|-----------------------------------------------------------------------------------------|---------------------------|----------------|
| | 30 June | 30 June |
| | 2021 | 2020 |
| Notes | \$ | \$ |
| Cash flows from operating activities | | |
| Proceeds from sale of financial assets at fair value through profit or loss | 378,143,398 | 198,744,129 |
| Payments for purchase of financial assets at fair value through profit or loss | (391,128,719) | (193,661,259) |
| Proceeds from re-purchase of financial liabilities at fair value through profit or loss | 48,733,813 | 39,290,312 |
| Payments for settlement of financial liabilities at fair value through profit or loss | (44,587,251) | (41,181,028) |
| Interest income received from financial assets at amortised cost | 10,189 | 33,994 |
| Dividends and distributions received | 247,870 | 119,500 |
| Net GST amounts (paid)/received | (24,694) | 10,205 |
| Management fees paid | (600,418) | (500,606) |
| Transaction costs paid | (295,537) | (218,900) |
| Stock loan fees paid | (59,588) | (83,819) |
| Custody fees paid | (3,946) | (4,286) |
| Expense reimbursement fees paid | (100,167) | (85,369) |
| Interest expense paid | (139,102) | (144,108) |
| Short dividends paid | (232,747) | (71,379) |
| Other operating expenses paid | (7,636) | (281) |
| Net cash inflow/(outflow) from operating activities | 11(a) (10,044,535) | 2,247,105 |
| Cash flows from financing activities | | |
| Proceeds from applications by unitholders | 8,337,684 | 2,126,605 |
| Payments for redemptions by unitholders | (3,646,683) | (12,346,724) |
| Distributions paid to unitholders | (1,043,851) | (277,319) |
| Net cash inflow/(outflow) from financing activities | 3,647,150 | (10,497,438) |
| Net increase/(decrease) in cash and cash equivalents | (6,397,385) | (8,250,333) |
| Cash and cash equivalents at the beginning of the year | (14,424,345) | (6,174,012) |
| Effects of foreign currency exchange rate changes on cash and cash equivalents | (57) | - |
| Cash and cash equivalents at the end of the year | 10 (20,821,787) | (14,424,345) |
| Non-cash financing activities | 11(b) 827,175 | 219,269 |

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

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1 General information

These financial statements cover Paragon Australian Long Short Fund (the 'Fund') as an individual entity. The Fund was constituted on 6 December 2012, registered with the Australian Securities and Investments Commission on 20 December 2012 and commenced operations on 1 March 2013. The Fund will terminate on 5 December 2092 unless terminated earlier in accordance with the provisions of the Fund's Constitution.

Paragon Australian Long Short Fund is a registered managed investment scheme under the *Corporations Act 2001*.

The Responsible Entity of the Fund is Paragon Funds Management Ltd (ABN 42 159 623 873) (AFSL 426800) (the 'Responsible Entity'). The Responsible Entity's registered office is 151/129 Fitzroy Street St Kilda, VIC 3182. The Responsible Entity is incorporated and domiciled in Australia.

The Fund's mandate is to invest primarily in Australian listed equities focusing on core competencies in the resource and industrial sectors in accordance with PDS and the provisions of the Fund's Constitution. The Fund may also invest in foreign listed stocks and equities in unlisted Australian and foreign companies. The objective of the Fund is to produce absolute returns and capital growth for unitholders over a 5 year investment horizon.

The financial statements of the Fund are for the year ended 30 June 2021. The financial statements are presented in the Australian currency.

The financial statements were authorised for issue by the Directors of the Responsible Entity on the date the Directors' Declaration was signed. The Directors of the Responsible Entity have the power to amend and reissue the financial statements.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated in the following text.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001* in Australia. The Fund is a for-profit entity for the purpose of preparing the financial statements.

The financial statements are prepared on the basis of fair value measurement of assets and liabilities, except where otherwise stated.

The Statement of Financial Position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and do not distinguish between current and non-current. All balances are expected to be recovered or settled within twelve months, except for investments in financial assets and liabilities and net assets attributable to unitholders.

The Fund manages financial assets at fair value through profit or loss based on the economic circumstances at any given point in time, as well as to meet any liquidity requirements. As such, it is expected that a portion of the portfolio will be realised within 12 months, however, an estimate of that amount cannot be determined as at reporting date.

In the case of net assets attributable to unitholders, the units are redeemable on demand at the unitholder's option. However, holders of these instruments typically retain them for the medium to long term. As such, the amount expected to be settled within 12 months cannot be reliably determined.

(i) Compliance with International Financial Reporting Standards (IFRS)

The financial statements of the Fund also comply with IFRS as issued by the International Accounting Standards Board (IASB).

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(ii) New and amended standards adopted by the Fund

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2020 that have a material impact on the amounts recognised in the prior periods or will affect the current or future periods.

(iii) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2021 and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Fund.

(b) Financial instruments

(i) Classification

• Financial assets

The Fund classifies its financial assets in the following measurement categories:

- those to be measured at fair value through profit or loss; and
- those to be measured at amortised cost.

The Fund classifies its financial assets based on its business model for managing those financial assets and the contractual cash flow characteristics of the financial assets.

The Fund's portfolio of financial assets is managed and performance is evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's policy is for the Responsible Entity to evaluate the information about these financial assets on a fair value basis together with other related financial information.

For equity securities, the contractual cash flows of these instruments do not represent solely payments of principal and interest. Consequently, these investments are measured at fair value through profit or loss.

For cash and cash equivalents, due from brokers and receivables, these assets are held in order to collect the contractual cash flows and the contractual terms of these assets give rise on specified dates to cash flow that are solely payments of principal and interest on the principal amount outstanding. Consequently, these are measured at amortised cost.

• Financial liabilities

The Fund makes short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security, or it may use short sales for various arbitrage transactions. Short sales are classified as financial liabilities at fair value through profit or loss.

For financial liabilities that are not classified and measured at fair value through profit or loss, these are classified as financial liabilities at amortised cost (distributions payable, management fee payable, other payables and due to brokers).

(ii) Recognition and derecognition

The Fund recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or the Fund has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised when the obligation under the liabilities are discharged, cancelled or expired.

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

(iii) Measurement

• Financial instruments at fair value through profit or loss

At initial recognition, the Fund measures financial assets and financial liabilities at fair value. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in the Statement of Comprehensive Income.

Subsequent to initial recognition, all financial assets and liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets or financial liabilities at fair value through profit or loss' category are presented in the Statement of Comprehensive Income within 'net gains/(losses) on financial instruments at fair value through profit or loss' in the period in which they arise. Dividend expense on short sales of securities, which have been classified at fair value through profit or loss, is presented as expense in the Statement of Comprehensive Income.

For further details on how the fair value of financial instruments is determined, please see Note 4 to the financial statements.

(iv) Impairment

At each reporting date, the Fund shall estimate a loss allowance on each of the financial assets at amortised cost (cash and cash equivalents, due from brokers and receivables) at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund shall measure the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the counter party, probability that the counter party will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that the asset is credit impaired. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due. Any contractual payment which is more than 90 days past due is considered credit impaired.

(v) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the Statement of Financial Position when the Fund has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

As at the end of the reporting period, there are no financial assets or liabilities offset or with the right to offset in the Statement of Financial Position.

(c) Net assets attributable to unitholders

Units are redeemable at the unitholders' option, however, applications and redemptions may be suspended by the Responsible Entity if it is in the best interests of the unitholders. The units are classified as financial liabilities.

The units can be put back to the Fund at any time for cash based on the redemption price.

The value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the end of the reporting period if the unitholders exercised their right to redeem units in the Fund.

(d) Cash and cash equivalents

For the purpose of presentation in the Statement of Cash Flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, as well borrowings which comprise of cash advances. Refer to Note 10 for further details.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as trading of these securities represents the Fund's main income generating activity.

2 Summary of significant accounting policies (continued)

(e) Investment income

Interest income from financial assets at amortised cost is recognised on a time-proportionate basis using the effective interest method and includes interest from cash and cash equivalents.

Changes in fair value of financial instruments at fair value through profit or loss are recorded in accordance with the policies described in Note 2(b) to the financial statements.

Dividend income is recognised on the ex-dividend date with any related foreign withholding tax recorded as an expense. The Fund currently incurs withholding tax imposed by certain countries on investment income. Such income is recorded gross of withholding tax in the Statement of Comprehensive Income.

Dividends declared on securities sold short are recorded as a dividend expense on the ex-dividend date.

Trust distributions are recognised on an entitlement basis.

(f) Expenses

All expenses are recognised in the Statement of Comprehensive Income on an accruals basis.

(g) Income tax

Under current legislation, the Fund is not subject to income tax provided it attributes the entirety of its taxable income to its unitholders.

(h) Distributions

The Fund distributes its distributable income, in accordance with the Fund's Constitution, to unitholders by cash or reinvestment. The distribution is recognised in the Statement of Comprehensive Income.

(i) Increase/decrease in net assets attributable to unitholders

Income not distributed is included in net assets attributable to unitholders. Where the Fund's units are classified as financial liabilities, movements in net assets attributable to unitholders are recognised in the Statement of Comprehensive Income as finance costs.

(j) Due from/to brokers

Amounts due from/to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by the end of the year. The due from brokers balance is held for collection and is recognised initially at fair value and subsequently measured at amortised cost.

(k) Receivables

Receivables may include amounts for interest, dividends and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Where applicable, interest is accrued on a daily basis (previously accrued at the end of each reporting period from the time of last payment) in accordance with the policy set out in Note 2(e) above. Amounts are generally received within 30 days of being recorded as receivables.

Receivables also include such items as Reduced Input Tax Credits (RITC).

(l) Payables

Payables include liabilities and accrued expenses owed by the Fund which are unpaid as at the end of the reporting period.

A separate distributions payable is recognised in the Statement of Financial Position.

Distributions declared effective 30 June in relation to unitholders who have previously elected to reinvest distributions are recognised as reinvested effective 1 July of the following financial year. Distributions will be automatically reinvested unless elected to be paid out in accordance with the Fund's PDS.

2 Summary of significant accounting policies (continued)

(m) Applications and redemptions

Unit application and redemption prices are determined by reference to the net assets of the Fund divided by the number of units on issue, adjusted for buy/sell spreads.

(n) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Fund by third parties such as custodial services, investment management fees and performance fees have been passed onto the Fund. The Fund qualifies for RITC at a rate of at least 55%; hence investment management fees, performance fees, custodial fees and other expenses have been recognised in the Statement of Comprehensive Income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Amounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the Statement of Financial Position. Cash flows relating to GST are included in the Statement of Cash Flows on a gross basis.

(o) Use of estimates

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the current and next financial year. Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

For the majority of the Fund's financial instruments, quoted market prices are readily available.

The Fund estimates that the resultant expected credit loss (ECL) derived from using impairment model has not materially impacted the Fund. Please see Note 3 for more information on credit risk.

For more information on how fair value is calculated please refer to Note 4 to the financial statements.

(p) Significant judgments made in the application of accounting policies

Related party relationship and control - managed investment schemes

While the Responsible Entity controls the financial and operating activities of the Fund in accordance with the Fund's Constitution and PDS, the Responsible Entity's fiduciary obligations to the unitholders of the Fund prevent it from benefiting directly from the activities of the Fund. Instead, the Responsible Entity governs the financial and operating activities of the Fund for the sole purpose of fulfilling its fiduciary obligation of acting in the best interest of the unitholders in its capacity as the Responsible Entity. Accordingly, the Directors do not consider that the Responsible Entity controls the Fund as defined in AASB 127: *Consolidated and Separate Financial Statements*.

However, for the purpose of AASB 124: *Related Party Disclosures*, the Directors consider that the Responsible Entity is a related party of the Fund as it is the management entity that provides key management personnel services to the Fund. Accordingly, both the Responsible Entity and its Directors are considered to be key management personnel of the Fund. Refer to Note 15 for additional detail on related party transactions.

3 Financial risk management

The Fund's activities expose it to a variety of financial risks including market risk (which incorporates price risk and interest rate risk), credit risk and liquidity risk.

The Fund's overall risk management programme focuses on ensuring compliance with the Fund's PDS and the investment guidelines of the Fund. It also seeks to maximise the returns derived for the level of risk to which the Fund is exposed and seeks to minimise potential adverse effects on the Fund's financial performance.

The Fund invests in a diversified portfolio of long and short stocks comprising equities that are listed on the Australian Securities Exchange ('ASX'). The Fund may use exchange traded derivatives to gain exposure to the underlying physical investments and for hedging purposes. Derivatives are not used speculatively. The Fund may also invest a portion of the Fund's assets in foreign equities listed overseas as well as equities of unlisted Australian and foreign companies, to limits as prescribed in the PDS.

The investment objective of the Fund is to produce absolute returns and capital growth for unitholders over a 5 year investment horizon before taking into account Fund fees and expenses.

The Fund uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of market risk and ratings analysis for credit risk.

(a) Market risk

Market risk is the risk that changes in market prices, such as interest rates and other market prices will affect the Fund's income or the carrying value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Responsible Entity intends to limit this risk by ensuring strict adherence to the Fund's investment guidelines.

(i) Price risk

The Fund is exposed to price risk on equity securities listed or quoted on recognised securities exchange. Price risk arises from investments held by the Fund for which prices in the future are uncertain. Other market price risk is the risk that the value of an instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

As the majority of the Fund's investments are carried at fair value with fair value changes recognised in the Statement of Comprehensive Income, all changes in market conditions will directly affect net investment income.

All investments present a risk of loss of capital. Except for equities sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from equities sold short can be unlimited.

The Fund mitigates this price risk through diversification, in terms of company, industry, sector, and selection of securities in accordance with the Fund's investment guidelines.

The Fund has built in procedures to ensure adherence to the Fund's investment guidelines at all times.

At 30 June, the overall net market exposures were as follows:

| | As at | |
|----------------------------------------------------|---------------------|----------------|
| | 30 June | 30 June |
| | 2021 | 2020 |
| | \$ | \$ |
| Australian equity securities and trusts | 75,093,259 | 47,894,354 |
| International equity securities | 1,081,436 | - |
| Australian equity securities and trusts sold short | (10,424,786) | (3,703,750) |
| Total | 65,749,909 | 44,190,604 |

3 Financial risk management (continued)

(a) Market risk (continued)

(i) Price risk (continued)

The Fund manages its exposure to price risk by analysing the investment portfolio by industrial sector. The table below is a summary of the significant sector concentrations within the equity portfolio, net of securities sold short.

| Sector | As at 30 June 2021 Fund's equity portfolio (%) | As at 30 June 2020 Fund's equity portfolio (%) |
|-----------------------------|---------------------------------------------------------------|---------------------------------------------------------------|
| Information technology | 10.8 | 5.2 |
| Financial services | (2.5) | 1.5 |
| Energy | 9.3 | 3.4 |
| Health care | 3.8 | 10.6 |
| Consumer staples | - | (1.5) |
| Consumer discretionary | 6.8 | 3.9 |
| Utilities | - | (1.9) |
| Materials | 73.4 | 75.5 |
| Telecommunications services | (1.6) | 3.3 |
| Total | 100.0 | 100.0 |

The table in Note 3(b) summarises the sensitivities of the Fund's assets and liabilities to price risk. The analysis is based on the assumption that the markets in which the Fund invests move by +/- 15% (2020: +/- 15%).

(ii) Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund is exposed to cash flow interest rate risk on financial instruments with variable interest rates. Financial instruments with fixed rates expose the Fund to fair value interest rate risk.

3 Financial risk management (continued)

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk (continued)

The table below summarises the Fund's exposure to interest rate risk. It includes the Fund's assets and liabilities at fair values, categorised by the earlier of contractual repricing or maturity dates.

As at 30 June 2021

| | Floating interest rate \$ | Fixed interest rate \$ | Non- interest bearing \$ | Total \$ |
|-----------------------------------------------------------------------------|---------------------------------|------------------------------|-----------------------------------|---------------------|
| Assets | | | | |
| Receivables | - | - | 225,620 | 225,620 |
| Due from brokers - receivable for securities sold | - | - | 8,037,899 | 8,037,899 |
| Financial assets at fair value through profit or loss | - | - | 76,174,695 | 76,174,695 |
| Total assets | - | - | 84,438,214 | 84,438,214 |
| Liabilities | | | | |
| Borrowings | (20,821,787) | - | - | (20,821,787) |
| Distributions payable | - | - | (3,291,831) | (3,291,831) |
| Payables | - | - | (2,794,290) | (2,794,290) |
| Due to brokers - payable for securities purchased | - | - | (1,625,828) | (1,625,828) |
| Financial liabilities at fair value through profit or loss | - | - | (10,424,786) | (10,424,786) |
| Total liabilities (excluding net assets attributable to unitholders) | (20,821,787) | - | (18,136,735) | (38,958,522) |
| Net exposure | (20,821,787) | - | 66,301,479 | 45,479,692 |

3 Financial risk management (continued)

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk (continued)

As at 30 June 2020

| | Floating interest rate \$ | Fixed interest rate \$ | Non- interest bearing \$ | Total \$ |
|-----------------------------------------------------------------------------|---------------------------------|------------------------------|-----------------------------------|--------------|
| Assets | | | | |
| Receivables | - | - | 68,204 | 68,204 |
| Due from brokers - receivable for securities sold | - | - | 3,520,103 | 3,520,103 |
| Financial assets at fair value through profit or loss | - | - | 47,894,354 | 47,894,354 |
| Total assets | - | - | 51,482,661 | 51,482,661 |
| Liabilities | | | | |
| Borrowings | (14,424,345) | - | - | (14,424,345) |
| Distributions payable | - | - | (1,871,026) | (1,871,026) |
| Payables | - | - | (122,402) | (122,402) |
| Due to brokers - payable for securities purchased | - | - | (1,250,000) | (1,250,000) |
| Financial liabilities at fair value through profit or loss | - | - | (3,703,750) | (3,703,750) |
| Total liabilities (excluding net assets attributable to unitholders) | (14,424,345) | - | (6,947,178) | (21,371,523) |
| Net exposure | (14,424,345) | - | 44,535,483 | 30,111,138 |

The table in Note 3(b) summarises the impact of an increase/decrease in interest rates on the Fund's operating profit/(loss) and net assets attributable to unitholders through changes in fair value or changes in future cash flows. The analysis is based on the assumption that interest rates changed by +/- 75 basis points (2020: +/- 75 basis points) from the year end rates with all other variables held constant.

3 Financial risk management (continued)

(b) Summarised sensitivity analysis

The following table summarises the sensitivity of the Fund's operating profit/(loss) and net assets attributable to unitholders to market risks. The reasonably possible movements in the risk variables have been determined based on management's best estimate having regard to a number of factors, including historical levels of changes in interest rates and the historical correlation of the Fund's investments with the relevant benchmark and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the Fund invests. As a result, historic variations in risk variables are not a definitive indicator of future variances in the risk variables.

| | Impact on operating profit/(loss)/ Net assets attributable to unitholders | | | |
|--------------|------------------------------------------------------------------------------|-----------|--------------------|---------|
| | Price risk | | Interest rate risk | |
| | -15% | +15% | -75bps | +75bps |
| | \$ | \$ | \$ | \$ |
| 30 June 2021 | (9,862,486) | 9,862,486 | (156,163) | 156,163 |
| 30 June 2020 | (6,628,591) | 6,628,591 | (108,183) | 108,183 |

(c) Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. Market prices generally incorporate credit assessments into valuations and risk of loss is implicitly provided for in the carrying value of on-balance sheet financial assets and liabilities as they are carried at fair value. The total credit risk for on-balance sheet items, other than derivatives, is therefore limited to the amount carried on the Statement of Financial Position.

The Fund's maximum credit risk exposure at balance date in relation to each class of recognised financial asset, other than equity and derivative financial instruments, is the carrying amount of those assets as indicated in the balance sheet. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

The Fund does not have a significant concentration of credit risk that arises from an exposure to a single counterparty or group of counterparties having similar characteristics. The main concentration of credit risk, to which the Fund is exposed, arises from cash and cash equivalents and amounts due from brokers balances. None of these assets are impaired nor past their due date. The maximum exposure to credit risk is the carrying amount of these balances as at the reporting date.

The Fund uses UBS AG, Australia Branch as its prime broker. UBS AG has a rating of A+ by S&P as at 30 June 2021 (30 June 2020: A-).

(i) Derivative financial instruments

For derivative financial instruments, the Responsible Entity/Investment Manager has established limits such that transactions only take place with participants of ASX.

(ii) Settlement of securities transactions

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered low, as delivery of securities sold is only made once the broker has received payment. Payment is made once the securities purchased have been received by the broker. The trade will fail if either party fails to meet its obligations.

(iii) Cash and cash equivalents

In accordance with the Fund's policy, the Investment Manager monitors the Fund's credit position on a daily basis, and the Board of Directors reviews it on a quarterly basis.

3 Financial risk management (continued)

(c) Credit risk (continued)

(iv) Other

The Fund is not materially exposed to credit risk on other financial assets.

The maximum exposure to credit risk at the end of each reporting period is the carrying amount of the financial assets. None of these assets are impaired nor past due but not impaired.

(d) Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund is exposed to monthly cash redemptions of redeemable units. It therefore primarily holds investments that are traded in an active market and can be readily disposed.

The Fund will always comprise of asset classes whereby at least 70% of the Fund's total assets can reasonably be expected to be realised within ten days at all times.

In order to manage the Fund's overall liquidity, the Responsible Entity has the discretion to reject an application for units and to defer or adjust redemption of units if the exercise of such discretion is in the best interests of unitholders. The Fund did not reject or withhold any redemptions during 2021 and 2020.

(i) Maturities of non-derivative financial liabilities

The table below analyses the Fund's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

| | Less than 1 month \$ | 1-6 months \$ | 6-12 months \$ | 1-2 years \$ |
|------------------------------------------------------------|----------------------------|---------------------|----------------------|--------------------|
| As at 30 June 2021 | | | | |
| Borrowings | 20,821,787 | - | - | - |
| Distributions payable | 3,291,831 | - | - | - |
| Payables | 2,794,290 | - | - | - |
| Due to brokers - payable for securities purchased | 1,625,828 | - | - | - |
| Financial liabilities at fair value through profit or loss | - | 10,424,786 | - | - |
| Net assets attributable to unitholders | 45,479,692 | - | - | - |
| Contractual cash flows | 74,013,428 | 10,424,786 | - | - |
| As at 30 June 2020 | | | | |
| Borrowings | 14,424,345 | - | - | - |
| Distributions payable | 1,871,026 | - | - | - |
| Payables | 122,402 | - | - | - |
| Due to brokers - payable for securities purchased | 1,250,000 | - | - | - |
| Financial liabilities at fair value through profit or loss | - | 3,703,750 | - | - |
| Net assets attributable to unitholders | 30,111,138 | - | - | - |
| Contractual cash flows | 47,778,911 | 3,703,750 | - | - |

4 Fair value measurement

The Fund measures and recognises the following financial assets and liabilities at fair value on a recurring basis:

- Financial assets / liabilities at fair value through profit or loss (see Notes 6 and 7)

The Fund has no assets or liabilities measured at fair value on a non-recurring basis in the current reporting period.

AASB 13 *Fair Value Measurement* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

(i) *Fair value in an active market (level 1)*

The fair value of financial assets and liabilities traded in active markets (such as listed equity securities) is based on their quoted market prices at the close of trading at the end of the reporting period without any deduction for estimated future selling costs.

The Fund values its investments in accordance with the accounting policies set out in Note 2 to the financial statements. For the majority of its investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

The quoted market price used for financial assets and financial liabilities held by the Fund is the last sale price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

(ii) *Fair value in an inactive or unquoted market (level 2)*

The fair value of financial assets that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

4 Fair value measurement (continued)

(iii) Recognised fair value measurements

The following table presents the Fund's assets and liabilities measured and recognised at fair value as at 30 June.

| As at 30 June 2021 | Level 1 \$ | Level 2 \$ | Level 3 \$ | Total \$ |
|----------------------------------------------------|-------------------|------------------|------------------|-------------------|
| Financial assets | | | | |
| Australian equity securities and trusts | 69,787,759 | 2,500,000 | 2,805,500 | 75,093,259 |
| International equity securities | 50,176 | - | 1,031,260 | 1,081,436 |
| Total financial assets | 69,837,935 | 2,500,000 | 3,836,760 | 76,174,695 |
| Financial liabilities | | | | |
| Australian equity securities and trusts sold short | 10,424,786 | - | - | 10,424,786 |
| Total financial liabilities | 10,424,786 | - | - | 10,424,786 |

As at 30 June 2020

Financial assets

| | | | | |
|-----------------------------------------|-------------------|------------------|------------------|-------------------|
| Australian equity securities and trusts | 44,588,854 | 1,000,000 | 2,305,500 | 47,894,354 |
| Total financial assets | 44,588,854 | 1,000,000 | 2,305,500 | 47,894,354 |

Financial liabilities

| | | | | |
|----------------------------------------------------|------------------|----------|----------|------------------|
| Australian equity securities and trusts sold short | 3,703,750 | - | - | 3,703,750 |
| Total financial liabilities | 3,703,750 | - | - | 3,703,750 |

The level 2 investments relate to placements in which the Fund had subscribed to during the year. The fair value has been determined using the valuation technique of the subscription price or most recent arms' length placement price and the amount of securities subscribed for by the Fund under the relevant offer.

The level 3 investment as at 30 June 2021 and 30 June 2020 is iSignthis Limited (ASX: ISX), which was suspended from official quotation on the ASX on 2 October 2019 and remains suspended to this date. As reported in our half-year report to 31 December 2020, the suspension is not likely to be lifted until a judgement is reached in the case against ASX, as well as ASIC's civil proceedings against ISX and its managing director which commenced in December 2020. Court proceedings for both cases have unfortunately been adjourned on several occasions throughout the year, mainly caused by backlogs in the courts due to the continuing lockdowns imposed and completely outside ISX's control. Despite this, ISX continues to grow its revenue and has expanded its revenue channels in the last 12 months. Furthermore, ISX remains cash flow positive, despite the adverse impact of the court cases and associated legal costs. ISX peers globally have experienced significant share price appreciation over the last 18-24 months since ISX's suspension.

4 Fair value measurement (continued)

(iii) Recognised fair value measurements (continued)

ISX's carrying value of \$2,305,500, equating to \$0.53/share, is based on the last sell price on 2 October 2019 (original date of ASX suspension), prudently written-down by 50% on 30 April 2020, as a result of the reputational damage caused by the indefinite suspension and the 'unproven' statement of reasons issued by ASX on this same date. Based on current annualised revenue ranging between ~\$30-\$40m and a 50% gross profit margin, ISX has an implied underlying annual EBIT of \$15-20m. Global peers with strong revenue growth rates and strong margins are currently trading on multiples of 20x revenue or 40x EBIT. Ascribing a commensurate EBIT growth multiple of 40x on ISX's underlying near term EBIT range derives a valuation of \$600 - \$800m, equating to \$0.55-\$0.73c/share (dividing by 1,095m fully diluted shares). On implied near-term growth targets taking annualised revenue to \$75m+ and EBIT of \$37.5m+, ISX's valuation increases to \$1.5b, equating to \$1.46/share. On this valuation basis, and considerations noted above, it is the opinion of the directors that the current carry value of ISX remains appropriate, and furthermore, there is no cause for further write down at 30 June 2021.

The other domestic investment in level 3 is convertible notes in an unlisted entity intended for listing within the next twelve months. These convertible notes (debt securities) will be converted at time of IPO, anticipated to be within the next twelve months.

The international investment in level 3 relate to convertible notes held in Mawson Infrastructure Group Inc (MIGI), a company registered in the US (formerly Wize Pharma Inc), initially acquired in March 2021. The value of this investment is reflected at cost at 30 June 2021. The convertible notes have a maximum period of 6 months, at which point they are to be converted to ordinary shares in the company. Accordingly, the conversion was completed in August 2021, at a favourable conversion rate of almost 3 times the original value of the convertible notes. MIGI is currently trading in the OTC market at a share price in excess of US\$14.00/share and a market capitalisation in excess of US\$780m, with an imminent NASDAQ listing planned.

(iv) Transfers between levels

Management's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

There were no transfers between levels in the fair value hierarchy at the end of the reporting period.

(v) Financial instruments not carried at fair value

The carrying values of receivables and payables are assumed to approximate their fair values.

Net assets attributable to unitholders' carrying value does not differ from its fair value (deemed to be redemption price for individual units) due to no differences in valuation inputs.

5 Net gains/(losses) on financial instruments at fair value through profit or loss

Net gains/(losses) recognised in relation to financial assets and financial liabilities at fair value through profit or loss:

| | Year ended | |
|------------------------------------------------------------------------------------------|-------------------|------------------|
| | 30 June 2021 | 30 June 2020 |
| | \$ | \$ |
| Financial assets | | |
| Net realised gain/(loss) on financial assets at fair value through profit or loss | 9,041,762 | 6,576,275 |
| Net unrealised gain/(loss) on financial assets at fair value through profit or loss | 9,394,946 | (450,124) |
| Total net gains/(losses) on financial assets at fair value through profit or loss | 18,436,708 | 6,126,151 |

**5 Net gains/(losses) on financial instruments at fair value through profit or loss
(continued)**

| | Year ended | |
|-----------------------------------------------------------------------------------------------|--------------------|------------------|
| | 30 June 2021 | 30 June 2020 |
| | \$ | \$ |
| Financial liabilities | | |
| Net realised gain/(loss) on financial liabilities at fair value through profit or loss | (1,797,742) | 94,030 |
| Net unrealised gain/(loss) on financial liabilities at fair value through profit or loss | 223,548 | (115,964) |
| Total net gains/(losses) on financial liabilities at fair value through profit or loss | (1,574,194) | (21,934) |
| Total net gains/(losses) on financial instruments at fair value through profit or loss | 16,862,514 | 6,104,217 |

6 Financial assets at fair value through profit or loss

| | As at | |
|--------------------------------------------------------------------|-------------------|-------------------|
| | 30 June 2021 | 30 June 2020 |
| | \$ | \$ |
| Australian equity securities and trusts | 75,093,259 | 47,894,354 |
| International equity securities | 1,081,436 | - |
| Total financial assets at fair value through profit or loss | 76,174,695 | 47,894,354 |

7 Financial liabilities at fair value through profit or loss

| | As at | |
|-------------------------------------------------------------------------|-------------------|------------------|
| | 30 June 2021 | 30 June 2020 |
| | \$ | \$ |
| Australian equity securities and trusts sold short | 10,424,786 | 3,703,750 |
| Total financial liabilities at fair value through profit or loss | 10,424,786 | 3,703,750 |

Paragon Australian Long Short Fund
Notes to the Financial Statements
For the year ended 30 June 2021
(continued)

8 Net assets attributable to unitholders

Movements in the number of units and net assets attributable to unitholders during the year were as follows:

| | Year ended | | Year ended | |
|---------------------------------------------------------------|-------------------|-------------------|-------------------|-------------------|
| | 30 June 2021 | 30 June 2021 | 30 June 2020 | 30 June 2020 |
| | Units | \$ | Units | \$ |
| Opening balance | 16,794,202 | 30,111,138 | 22,357,339 | 36,885,595 |
| Applications | 3,482,351 | 7,590,684 | 1,208,158 | 2,126,605 |
| Redemptions | (1,802,479) | (3,646,683) | (6,904,042) | (12,346,724) |
| Reinvestment of distributions | 461,362 | 827,175 | 132,747 | 219,269 |
| Increase/(decrease) in net assets attributable to unitholders | - | 10,597,378 | - | 3,226,393 |
| Closing balance | 18,935,436 | 45,479,692 | 16,794,202 | 30,111,138 |

| | Year ended | | Year ended | |
|----------------------------------|-------------------|-------------------|-------------------|-------------------|
| | 30 June 2021 | 30 June 2021 | 30 June 2020 | 30 June 2020 |
| | Units | \$ | Units | \$ |
| Class A (non-series based units) | 18,935,436 | 45,479,692 | 16,794,202 | 30,111,138 |
| Closing balance | 18,935,436 | 45,479,692 | 16,794,202 | 30,111,138 |

As stipulated in the Fund's Constitution, each unit represents a right to an individual unit in the Fund and does not extend to a right to the underlying assets in the Fund.

Capital risk management

The Fund considers its net assets attributable to unitholders as capital, notwithstanding that net assets attributable to unitholders are classified as a liability. The amount of net assets attributable to unitholders can change significantly on a monthly basis as the Fund is subject to monthly applications and redemptions at the discretion of unitholders.

Applications and redemptions are reviewed relative to the liquidity of the Fund's underlying assets on at minimum a monthly basis by the Investment Manager. Under the terms of the Fund's Constitution, the Responsible Entity has the discretion to reject an application for units and to defer or adjust a redemption of units if the exercise of such discretion is in the best interests of unitholders.

9 Distributions to unitholders

The distributions declared during the year were as follows:

| | Year ended | | | |
|----------------------------|------------------|-----------------|------------------|-----------------|
| | 30 June 2021 | 30 June 2021 | 30 June 2020 | 30 June 2020 |
| | \$ | CPU* | \$ | CPU* |
| Distributions payable | 3,291,831 | 17.3845 | 1,871,026 | 11.1409 |
| Total distributions | 3,291,831 | 17.3845 | 1,871,026 | 11.1409 |

* Distribution is expressed as cents per unit amount in Australian Dollar.

10 Cash and cash equivalents

| | As at | |
|------------|---------------------|---------------------|
| | 30 June 2021 | 30 June 2020 |
| | \$ | \$ |
| Borrowings | (20,821,787) | (14,424,345) |
| | <u>(20,821,787)</u> | <u>(14,424,345)</u> |

Borrowings comprise of a cash advance (overdrawn balance) provided by the prime broker under a formal prime brokerage agreement, up to a maximum credit limit as determined by the prime broker. Interest expense is calculated on the daily overdrawn balance. The interest rate charged is as set out in the prime brokerage agreement and can be changed by the prime broker from time to time. The Fund's assets are granted as security under a general security deed to the prime broker for all liabilities owing, and the maximum credit limit provided is subject to a margin calculation of the Fund's assets held less liabilities owing, and any shortfall in margin can be immediately called upon.

The weighted average interest rate of the Fund's cash and cash equivalents as at 30 June 2021 is 0.95% (2020: -1.61%).

11 Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

| | Year ended | |
|-----------------------------------------------------------------------------------------|---------------------|------------------|
| | 30 June 2021 | 30 June 2020 |
| | \$ | \$ |
| Profit/(loss) for the year | - | - |
| Increase/(decrease) in net assets attributable to unitholders | 10,597,378 | 3,226,393 |
| Distributions to unitholders | 3,291,831 | 1,871,026 |
| Proceeds from sale of financial assets at fair value through profit or loss | 378,143,398 | 198,744,129 |
| Payments for purchase of financial assets at fair value through profit or loss | (391,128,719) | (193,661,259) |
| Proceeds from re-purchase of financial liabilities at fair value through profit or loss | 48,733,813 | 39,290,312 |
| Payments for settlement of financial liabilities at fair value through profit or loss | (44,587,251) | (41,181,028) |
| Net (gains)/losses on financial instruments at fair value through profit or loss | (16,862,514) | (6,104,217) |
| Effects of foreign currency exchange rate changes on cash and cash equivalents | 57 | - |
| Net change in receivables and other assets | (157,416) | 16,082 |
| Net change in payables and other liabilities | 1,924,888 | 45,667 |
| Net cash inflow/(outflow) from operating activities | (10,044,535) | 2,247,105 |

Paragon Australian Long Short Fund
Notes to the Financial Statements
For the year ended 30 June 2021
(continued)

11 Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities (continued)

(b) Non-cash financing activities

| | Year ended | |
|----------------------------------------------------------------------------------------------------------------------------------|-------------------------|-------------------------|
| | 30 June 2021 | 30 June 2020 |
| | \$ | \$ |
| The following distribution payments to unitholders were satisfied by the issue of units under the distribution reinvestment plan | 827,175 | 219,269 |
| Total non-cash financing activities | 827,175 | 219,269 |

As described in Note 2(i), income not distributed is included in net assets attributable to unitholders. The change in this amount each year (as reported in (a) above) represents a non-cash financing cost as it is not settled in cash until such time as it becomes distributable.

12 Receivables

| | As at | |
|--------------------------|-------------------------|-------------------------|
| | 30 June 2021 | 30 June 2020 |
| | \$ | \$ |
| Interest receivable | 216 | 387 |
| GST receivable | 225,404 | 67,817 |
| Total receivables | 225,620 | 68,204 |

13 Payables

| | As at | |
|-------------------------------|-------------------------|-------------------------|
| | 30 June 2021 | 30 June 2020 |
| | \$ | \$ |
| Notes | | |
| Management fee payable | 15 67,012 | 44,531 |
| Performance fees payable | 1,949,099 | - |
| Monies not allocated to units | 747,000 | - |
| Other payables | 31,179 | 77,871 |
| Total payables | 2,794,290 | 122,402 |

14 Remuneration of auditor

During the year the following fees were paid or payable for services provided by the auditor of the Fund:

| | Year ended | |
|------------------------------------------------------------------|-----------------|-----------------|
| | 30 June 2021 | 30 June 2020 |
| | \$ | \$ |
| Moore Australia | | |
| <i>Audit and other assurance services</i> | | |
| Audit and review of financial statements | 25,500 | 23,000 |
| Audit of compliance plan | 5,500 | 3,500 |
| Total remuneration for audit and other assurance services | 31,000 | 26,500 |
| <i>Taxation services</i> | | |
| Tax compliance services | 8,650 | 8,000 |
| Total remuneration for taxation services | 8,650 | 8,000 |
| Total remuneration of Moore Australia | 39,650 | 34,500 |

The auditor's remuneration is borne by the Responsible Entity.

Fees are stated net of GST.

15 Related party transactions

The Responsible Entity of Paragon Australian Long Short Fund is Paragon Funds Management Ltd (ABN 42 159 623 873) (AFSL 426800). Accordingly, transactions with entities related to Paragon Funds Management Ltd are disclosed below.

The Responsible Entity has contracted services to UBS AG, Australia Branch to act as Prime Broker and Link Fund Solutions Pty Limited to act as Administrator for the Fund. The contracts are on normal commercial terms and conditions.

(a) Directors

Key management personnel include persons who were Directors of Paragon Funds Management Ltd at any time during or since the end of the financial year and up to the date of this report.

Mr John Deniz
Ms Hillier Deniz
Mr Samuel Lanyon

(b) Other key management personnel

In addition to the Directors, Haris Khaliqi, appointed as portfolio manager in March 2020, is considered a key management personnel as he is actively involved in the investment decision making for the Fund.

There were no other persons with responsibility for planning, directing and controlling the activities of the Fund, directly or indirectly during the financial year.

(c) Transactions with key management personnel

There were no transactions with key management personnel during the reporting period.

15 Related party transactions (continued)

(d) Key management personnel compensation

Key management personnel are paid by Paragon Funds Management Ltd. Payments made from the Fund to Paragon Funds Management Ltd do not include any amounts directly attributable to the compensation of key management personnel.

(e) Key management personnel loans

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to key management personnel or their personally related entities at any time during the reporting period.

(f) Other transactions within the Fund

Apart from those details disclosed in this note, no key management personnel have entered into a material contract with the Fund during the financial year and there were no material contracts involving key management personnel's interests existing at year end.

(g) Responsible Entity and Investment Manager's fees and other transactions

Under the terms of the PDS, the Investment Manager is entitled to receive management fees of up to 1.5% per annum (inclusive of GST net of RITC), calculated by reference to the monthly net assets value of the Fund and payable monthly by the Fund.

In addition, the Investment Manager is entitled to a performance fee calculated at the end of each month, monthly in arrears and paid at the end of each half year period ending 30 June and 31 December. The performance fee is calculated as 20% (inclusive of GST net of RITC) of the Fund's out-performance subject to a 5% hurdle rate and a high-watermark. At 30 June 2021, a performance fee of \$1,816,206 (inclusive of GST net of RITC) (30 June 2020: nil) was recorded in the Fund.

Transactions with related parties have taken place in the ordinary course of business. The transactions during the year and amounts payable at year end between the Fund and the Responsible Entity and the Investment Manager were as follows:

| | Year ended | |
|----------------------------------------------------------------------------------------|-------------------------|-------------------------|
| | 30 June 2021 | 30 June 2020 |
| | \$ | \$ |
| Management fees for the year | 622,899 | 497,344 |
| Performance fees for the year | 1,816,206 | - |
| Aggregate amounts payable to the Investment Manager at the end of the reporting period | 2,016,111 | 44,531 |
| Fees earned by the Responsible Entity in respect of investments by the Fund | 103,839 | 84,539 |
| Aggregate amounts payable to the Responsible Entity at the end of the reporting period | 10,958 | 7,286 |

15 Related party transactions (continued)

(h) Related party unitholdings

Parties related to the Fund (including Paragon Funds Management Ltd, its related parties and other schemes managed by Paragon Funds Management Ltd), held units in the Fund as follows:

| As at 30 June 2021 | No. of units held opening | No. of units held closing | Fair value of investment (\$) | Interest held (%) | No. of units acquired | No. of units disposed | Distributions paid/payable by the Fund (\$) |
|-------------------------------------------------------------------|---------------------------------|---------------------------------|----------------------------------------|-------------------------|-----------------------------|-----------------------------|------------------------------------------------------|
| Unitholders | | | | | | | |
| Deniz Pty Ltd ATF The Deniz Family Trust | 1,042,905 | 1,107,710 | 2,853,130 | 5.85 | 64,805 | - | 192,570 |
| M & H Harlock Pty Ltd ATF M & H Harlock Superannuation Fund | 190,221 | 204,554 | 526,869 | 1.08 | 14,333 | - | 35,561 |
| John & Prudence Deniz ATF Deniz Superannuation Fund | 334,398 | 362,295 | 933,163 | 1.91 | 27,897 | - | 62,983 |
| Hillier Deniz | 50,479 | 53,616 | 138,098 | 0.28 | 3,137 | - | 9,321 |
| Sicksamba Pty Ltd ATF Sicksamba Super Fund | 195,150 | 207,276 | 533,882 | 1.09 | 12,126 | - | 36,034 |
| Heidi Sick ATF Sick Family Trust | 45,942 | 48,797 | 125,687 | 0.26 | 2,855 | - | 8,483 |
| Sheren Mostafa | - | 156,388 | 402,810 | 0.83 | 156,388 | - | 27,187 |
| | 1,859,095 | 2,140,636 | 5,513,639 | 11.30 | 281,541 | - | 372,139 |

As at 30 June 2020

Unitholders

| | | | | | | | |
|-------------------------------------------------------------------|------------------|------------------|------------------|--------------|---------------|-----------------|----------------|
| Deniz Pty Ltd ATF The Deniz Family Trust | 1,028,980 | 1,042,905 | 1,986,109 | 6.21 | 13,925 | - | 116,189 |
| M & H Harlock Pty Ltd ATF M & H Harlock Superannuation Fund | 256,928 | 190,221 | 362,257 | 1.13 | 7,956 | (74,663) | 21,192 |
| John & Prudence Deniz ATF Deniz Superannuation Fund | 273,076 | 334,398 | 636,828 | 1.99 | 61,322 | - | 37,255 |
| Hillier Deniz | 68,024 | 50,479 | 96,132 | 0.30 | 921 | (18,466) | 5,624 |
| Sicksamba Pty Ltd ATF Sicksamba Super Fund | 192,544 | 195,150 | 371,644 | 1.16 | 2,606 | - | 21,741 |
| Heidi Sick ATF Sick Family Trust | 45,329 | 45,942 | 87,493 | 0.27 | 613 | - | 5,118 |
| | 1,864,881 | 1,859,095 | 3,540,463 | 11.06 | 87,343 | (93,129) | 207,119 |

(i) Investments

The Fund did not hold any investments in Paragon Funds Management Ltd or its related parties during the year (2020: nil).

16 Events occurring after the reporting period

The COVID-19 pandemic has created unprecedented uncertainty of the economic environment. Actual economic events and conditions in future may be materially different from those estimated by the Fund at the reporting date. In the event the COVID-19 pandemic impacts are more severe or prolonged than anticipated, this may have adverse impacts to the Fund. At the date of the annual report, an estimate of the future effects of the COVID-19 pandemic on the Fund cannot be made, as the impact will depend on the magnitude and duration of the economic downturn and how markets continue to react to this, with the full range of possible effects unknown.

The Fund's investment in Isignthis Limited (ASX: ISX) remains suspended from the ASX, and is unlikely to be lifted until a judgement is reached in the upcoming court cases taken by ISX against the ASX and ASIC against ISX. The directors do not expect to make any further write-down of the carrying value of the investment until this occurs. For further details with respect to this matter, refer to Note 4 of the Financial Statements.

The convertible notes held by the Fund at 30 June 2021 for its investment in Mawson Infrastructure Group Inc (formerly Wize Pharma Inc) were converted in August 2021 to ordinary shares, at a conversion rate of almost 3 times the original value of the convertible notes.

Paragon Funds Management Ltd was issued an amendment to its AFS licence on 28 July 2021, for authorisations to deal, issue and provide general advice on foreign exchange contracts, in the context of its capacity as Responsible Entity of the Fund. Typically, foreign exchange contracts will be entered into at spot rates for currency requirements for trading in international securities, and forward contracts for any hedging of foreign currency exposures of the Fund. In accordance with the Fund's current PDS, the Fund is permitted to invest in international securities and may undertake hedging of foreign currency exposures where deemed appropriate.

No other significant events have occurred since the end of the year which would impact on the financial position of the Fund disclosed in the Statement of Financial Position as at 30 June 2021 or on the results and cash flows of the Fund for the year ended on that date.

17 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2021 and 30 June 2020.

Directors' Declaration

In the opinion of the Directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 7 to 33 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Fund's financial position as at 30 June 2021 and of its performance for the year ended on that date,
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable, and
- (c) Note 2(a) confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the Directors of Paragon Funds Management Ltd.



Mr John Deniz
Director

St Kilda, VIC
27 September 2021

**INDEPENDENT AUDITOR'S REPORT
TO THE UNITHOLDERS OF PARAGON AUSTRALIAN LONG SHORT FUND****Report on the Audit of the Financial Report****Opinion**

We have audited the financial report of Paragon Australian Long Short Fund (**the Fund**), which comprises the statement of financial position as at 30 June 2021, the statement of comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion:

- a) The accompanying financial report of Paragon Australian Long Short Fund is in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the Fund's financial position as at 30 June 2021 and of its financial performance for the year then ended; and
 - ii. complying with *Australian Accounting Standards and the Corporations Regulations 2001*; and
- b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Emphasis of matter – fair value measurement of financial assets

We draw attention to note 4 in the financial statements which identifies that the Fund has an investment in iSignthis Limited (ASX: ISX) with a total carrying value at \$2,305,500 at 30 June 2021. This investment was classified as a level 3 financial asset given the security remained in suspension from active trading at balance date by the ASX. This condition along with other matters as set forth in Note 4 details the director's valuation basis and assessment for this investment. Our opinion is not modified in respect of this matter.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Fund in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 :Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of Paragon Funds Management Limited (the Responsible Entity), would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Fund's annual report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon. In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of Paragon Funds Management Limited (the Responsible Entity) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

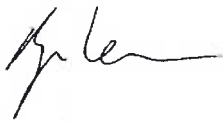
In preparing the financial report, the directors are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located on the Auditing and Assurance Standards Board website at:
http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.

Moore Australia
MOORE AUSTRALIA AUDIT (VIC)
ABN 16 847 721 257



RYAN LEEMON
Partner
Audit and Assurance

Melbourne, Victoria

27 September 2021