



THE PARAGON FUND // October 2016

PERFORMANCE SUMMARY *(after fees)*

	1 month	3 month	6 month	Financial YTD	1 year	2 year p.a.	3 year p.a.	Net Return p.a.	Total Net Return
Paragon Fund	-9.0%	-12.5%	+2.4%	-9.9%	+18.5%	+13.8%	+17.0%	+18.2%	+84.8%
ASX All Ordinaries Acc.	-2.2%	-3.1%	+3.8%	+3.0%	+6.6%	+3.5%	+4.3%	+5.9%	+23.4%
RBA Cash Rate	+0.2%	+0.4%	+0.8%	+0.5%	+1.8%	+2.0%	+2.2%	+2.3%	+8.7%

RISK METRICS*

Sharpe Ratio	1.3
Sortino Ratio	2.7
Volatility p.a.	+13.9
% Positive Months	+70.5%
Up/Down Capture	+98%/-5%

*As at September 16

FUND DETAILS

NAV	\$1.7391
Entry Price	\$1.7417
Exit Price	\$1.7365
Fund Size	\$81.7m
APIR Code	PGF0001AU

FUND STRATEGY

The Paragon Fund is an Australian equities long/short fund established in March 2013. The Fund's strategy is fundamentally driven, concentrated and transparent for investors. Paragon's research process and active portfolio management is overlaid with strong risk management and a focus on capital preservation.

The objective of the Paragon Fund is to return in excess of 10% p.a. after fees over a 3-5yr investment horizon.

OVERVIEW & POSITIONING

The Paragon Fund returned -9.0% after fees for the month of October 2016. Since inception (March 2013) the Fund has returned +84.8% after fees vs. the market (All Ordinaries Accumulation Index) +23.4%.

Main contributors to our negative result in October were declines in Mayne Pharma, Netcomm Wireless, Aconex, Link Administration Holdings, Smartgroup and our gold holdings. At the end of the month the Fund had 26 long positions and 11 short positions.

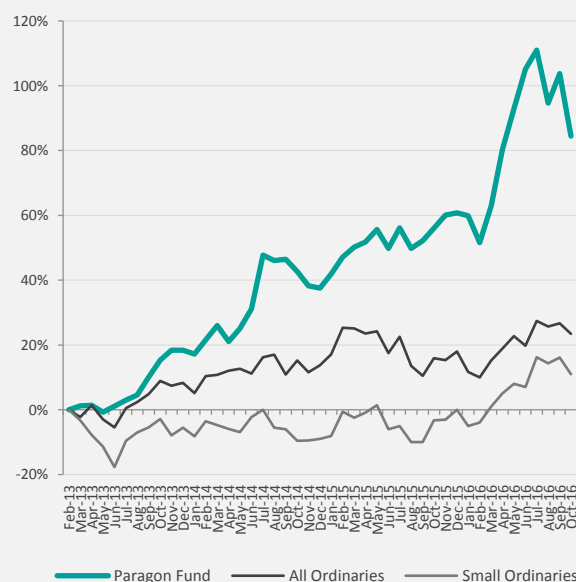
INDUSTRY EXPOSURE	Long	Short	Net
Financials	+6.3%	-2.9%	+3.5%
Industrials	+26.1%	-12.9%	+13.1%
Resources	+35.6%	-5.4%	+30.2%
Index Futures		0%	0%
Total	+68.0%	-21.2%	+46.8%
Cash			+53.2%

MONTHLY PERFORMANCE BY YEAR

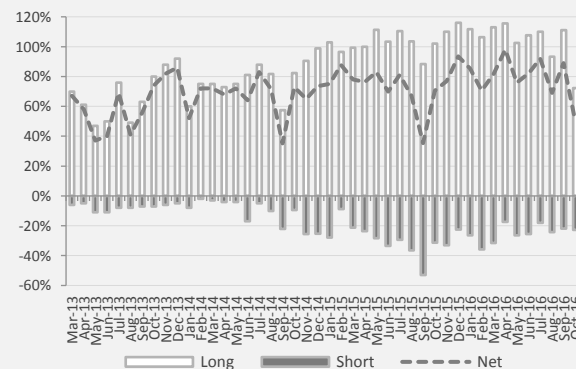
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
2013			1.1%	0.3%	-2.2%	1.8%	1.8%	1.6%	5.3%	4.9%	2.8%	0.0%	18.7%
2014	-1.1%	3.8%	3.6%	-3.9%	3.2%	4.9%	12.5%	-1.1%	0.3%	-2.5%	-3.1%	-0.5%	15.9%
2015	3.2%	3.6%	2.1%	1.1%	2.4%	-3.8%	4.3%	-4.2%	1.6%	2.5%	2.6%	0.3%	16.8%
2016	-0.5%	-5.2%	7.4%	10.8%	7.0%	6.3%	2.9%	-7.8%	4.3%	-9.0%			15.5%

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 monthly unit pricing methodology based on historical data.

HISTORICAL PERFORMANCE *(after fees)*



HISTORICAL EXPOSURE





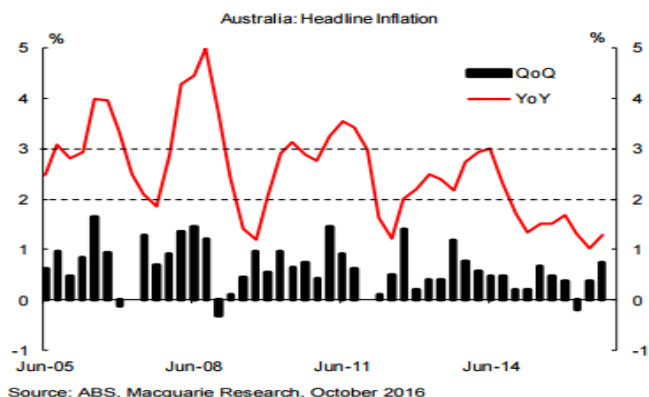
October's underperformance was driven by many of our holdings performing poorly for the month across sectors and market cap spectrums with the Fund returning -9% vs the ASX 300 returning -2%. Whilst this short term volatility occasionally occurs, we remind our investors and readers that The Paragon Fund is a medium to long term investment and the Fund has consistently met its investment objectives (10% pa) over all time periods since inception and is on track to do so for CY 2016.

We find it interesting that while the market was down 2%, there was significant volatility under the hood. The top 6 stocks by market cap (the 4 banks, BHP and RIO), comprising 33% of the total market capitalization of the index were on average up for the month by 2% led by the major resource companies. The next 44 stocks (i.e. rounding out the top 50 large caps), were on average down over 4%. Stock specific issues were at play in companies like Crown Resorts, Healthscope and AMP with other major movers dominated by those businesses related to the continued sell off in yield related companies.

We wrote in September that we had taken advantage of the significant sell off in the shares of these companies (Transurban and Sydney Airports among others) during the month as the stocks had priced in a bigger fall than historically normal given the move in bond yields. While this was of benefit last month, it detracted from performance this month as bond yields marched higher. Clearly the concern over shifting stance of central banks globally that was evident in September, driven by the increasing expectation of another Fed rate hike in December, has been more than a one month phenomenon.

The growing view that inflation, while low, is also bottoming driven by tight labour markets and the cycling of low commodity prices as oil, iron ore and coal have all had significant rallies since the beginning of the year, is adding fuel to the fire laid out by Bridgewater Associates last month, that the effectiveness of monetary policy is waning and that a shift in central bank mentality could be at hand.

The Australian CPI measure released late in the month was a further trigger for the markets poor performance. The headline number at 1.3% year over year, while still historically low, was higher than expected and led investors to the conclusion that the RBA would not be cutting rates further at this time.



The result was that in October US 10yr government bonds fell (and yields rose) the most in almost 2 years while the fall in Australian 10yr government bonds was even more significant.

Not surprisingly infrastructure and REIT's were some of the worst performing stocks in October and we have removed our long exposure that was added in September resulting in the Fund being net short yield. This was the major change in the funds net equity exposure over the

month of October which also detracted from the funds' performance for the month.

The other point to note about October which is directly related to the move in bonds is that strong rotation by equity market participants is occurring globally from higher growth stocks to cyclical stocks likely to benefit from rising rates. While it is clear that Investors are moving away from yield related companies that have both benefited from falling risk free rates, they are also rotating away from strongly performing growth businesses and into cyclical businesses that typically benefit from rising rates due to the correlation to an improving business cycle. This is evidenced by the positive performance from the banks and major resource companies here in Australia in October and the poor performance of almost everything else.

This rotation contributed to underperformance in several of our long held, well performing positions in October that issued no news of any note. Those holdings included Mayne Pharma, Netcomm Wireless, Aconex, despite a positive AGM update, Link Administration Holdings and Smartgroup. The Fund's gold exposure was also a negative contributor after the gold price fell in unison with the fall in bonds (rise in yields).

At a macro level, these periods of investment style rotation occur periodically but in no way changes the outlook for the individual businesses. Looking forward, the original investment thesis for this group of stocks has not changed. Our research supports the view that stocks such as Mayne Pharma, Link Administration Holdings, and Aconex continue to have fundamental merit and indeed look more attractive post their falls. From a portfolio perspective, the industrial, resources and financial net weightings were 13%, 30% and 4% respectively at the end of the month and our highest conviction stocks collectively equate to approximately 35% of the portfolio today which indicates we are positioned to take advantage of each investment thesis and benefit from lower valuations.

Business Update

In other news Paragon was nominated for several annual local and Asia Pacific awards. The award nominations and end results are listed below:

- AI Hedge Fund 2016 - Best Australian Long/Short Equity Fund (3 Years): Winner.
- AI Hedge Fund 2016 - Most Innovative Absolute Return Fund Manager, Australia: Winner.
- AsiaHedge Awards 2016 - Best 'Single Country' fund: Finalist.
- HFM Awards Asia 2016 - Long/short equity Asia ex Japan: Finalist.
- HFM Awards Asia 2016 - Long/short equity overall: Finalist.
- Hedge Funds Rock & The Australian Hedge Fund awards 2016 – Best Long Short Equity Fund: Finalist.

Paragon's name was featured up alongside some of Australia and Asia's most respected hedge funds and we are thrilled with the above results and recognition.