PARAGON FUNDS MANAGEMENT

PARAGON AUSTRALIAN LONG SHORT FUND // MAY 2017

PERFORMANCE SUMMARY *(after fees)*

	1 month	3 month	6 month	Financial YTD	1 year	2 year p.a.	3 year p.a.	Net Return p.a.	Total Net Return
Paragon Aust. Long Short Fund	+1.3%	-3.5%	-5.5%	-21.6%	-16.7%	+1.6%	+8.7%	+11.8%	+60.8%
ASX All Ordinaries Acc.	-2.6%	+1.3%	+6.9%	+12.8%	+10.1%	+4.3%	+6.2%	+7.4%	+35.2%
RBA Cash Rate	+0.2%	+0.4%	+0.8%	+1.4%	+1.6%	+1.8%	+2.0%	+2.2 %	+9.6%

RISK METRICS

Sharpe Ratio	0.7
Sortino Ratio	1.1
Volatility p.a.	+15.0
% Positive Months	+68%
Up/Down Capture	+68%/+15%

FUND DETAILS

NAV	$1.5131
Entry Price	$1.5154
Exit Price	$1.5108
Fund Size	$73.8m
APIR Code	PGF0001AU

FUND STRATEGY

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

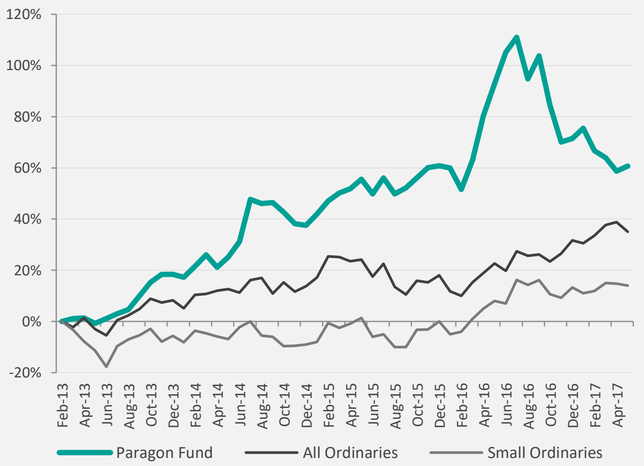
OVERVIEW & POSITIONING

The Fund returned +1.3% after fees for the month of May 2017. Since inception (March 2013) the Fund has returned +60.8% after fees vs. the market (All Ordinaries Accumulation Index) +35.0%.

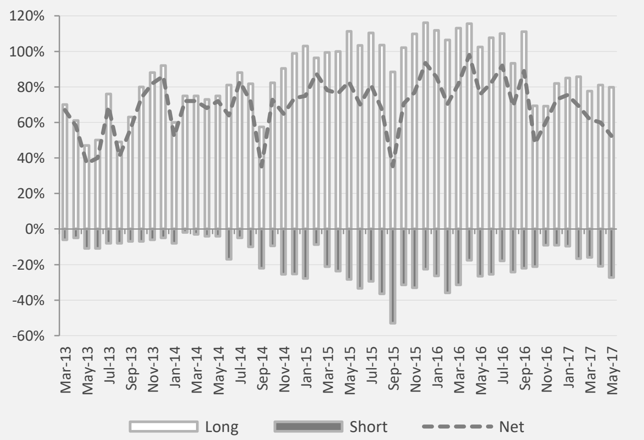
Main contributors to the positive result in May were gains in Kidman Resources, Aristocrat Leisure, Agrimin, and Global Geoscience, plus short positions in Select Harvest and Super Retail Group. At the end of the month the Fund had 34 long positions and 19 short positions.

INDUSTRY EXPOSURE	Long	Short	Net
Financials	+25.5%	-8.8%	+16.7%
Industrials	+23.6%	-10.1%	+13.5%
Resources	+30.7%	-8.4%	+22.3%
Index Futures		0%	0%
Total	**+79.8%**	**-27.3%**	**+52.5%**
Cash			**+47.5%**

HISTORICAL PERFORMANCE *(after fees)*



HISTORICAL EXPOSURE



MONTHLY PERFORMANCE BY CALENDAR YEAR

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

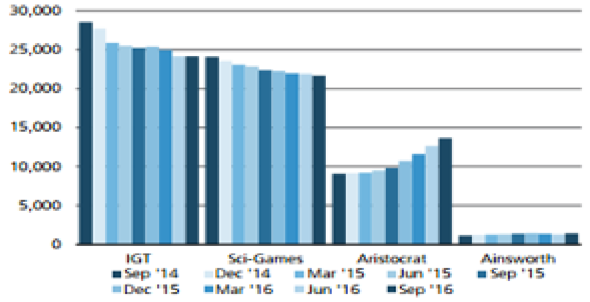
Performance results are presented net of all transaction costs, investment management and performance fees incurred by the Fund. Monthly performance figures are calculated based on the lead series using a monthly unit pricing methodology based on historical data.

Aristocrat Leisure

The manufacture of gaming machines has traditionally been a cyclical product driven industry. Despite competitive and generally flat industry conditions, Aristocrat has been able to deliver significant growth as their business has evolved over time. Unit sales have increased 78% since 2010 through strong product offerings and the $1.3b acquisition of US based Video Gaming Technologies in 2014. Aristocrat now earns 65% of sales offshore, 38% derived from the more volatile outright gaming sales, whilst 50% now from gaming operations and digital, which are both recurring in nature (up from 24% two years ago).

Recent earnings releases from the major competitors highlight the fact that Aristocrat continues to gain market share in North America as can be seen below.

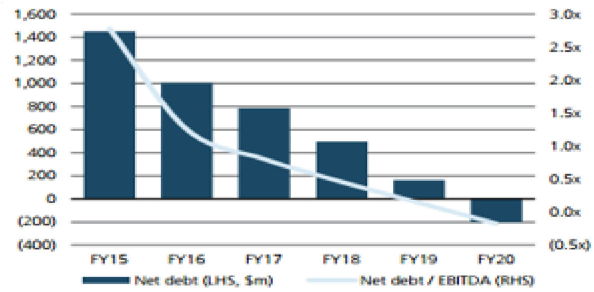
US Installed Base – Class III



Source: UBS

Competitors are to some extent hamstrung by their own weak balance sheets. IGT's Net Debt to EBITDA is over 4x and Scientific Games is over 7x. In comparison, Aristocrat's operating leverage is generating significant free cash and Aristocrat has the potential to be debt free by 2020, which opens up potential for accretive M&A or capital management.

Aristocrat Net Debt / EBITDA



Source: UBS

Aristocrat's digital business continues to grow at an impressive rate and now represents 12% of the company's revenue. Having bought the Product Madness business in 2012 for $25m, the revenues have grown from $50m in 2014 to ~$300m in 2017 (+80% yoy) with an estimated 6% market share. The new release of Cashman Casino in December 2016 has seen over 1m app downloads to date while their previous games, Heart of Vegas, saw 5m downloads in 2 years.

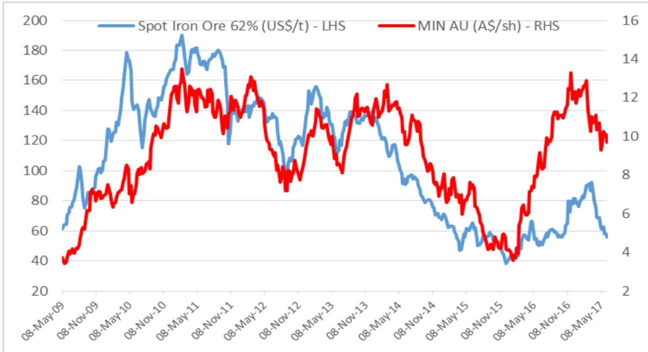
Aristocrat has been a strong performer for the Fund and we continue to own the stock. It is inevitable that at some point competitors will improve their product offering which may moderate Aristocrat's 'ship share' but as noted this is becoming a smaller proportion of Aristocrat's overall business. The strong product line up, weaker competitors, growing digital exposure and its overall business mix having significantly changed for the better, with strong margins and ROIC over 40%, remain attractive attributes.

Mineral Resources – Short

Mineral Resources has long been a market darling, with its well-regarded board and management team building a very successful diversified mining services and commodities business. Mining services includes crushing operations that exhibit solid capacity growth plus engineering construction to the Mining sector. Mineral Resources commodities business includes wholly owned Iron Ore producing assets, along with Wodgina (100% interest) and Mt Marion (43% interest), its Lithium assets – all WA-based.

Utilising its strong net cash position and taking advantage of its 7-yr share price lows of ~$4/sh, Mineral Resources cleverly instigated a $30m buy-back in early 2016. With recovering resources markets since, Mineral Resources share price has more than tripled, recently hitting an all-time high of $13.91/sh. This was driven by the Iron Ore price hitting its current cycle peak of US$95/t and Lithium assets re-rating amid booming Lithium markets.

Spot Iron Ore 62% Fines CFR China vs Mineral Resources



Source: Bloomberg

Despite the company's strong performance in its crushing operations and its engineering and construction business, its pristine track record has been tarnished by its Mt Marion Build-Own-Operate (BOO) works. The project has not yet met specification, budget nor schedule. Under the company's BOO business model, achieving throughput and product specification will come at their own cost. Given Mt Marion's complex mineralogy, achieving its guided 400ktpa of Spodumene at 6% concentrate grade by the end of this year, and an exit of the asset at an implied $1b price (100% basis) are overly optimistic.

Problems with Mt Marion might explain the company's poor Lithium transparency and questionable strategy with Wodgina Lithium. Expectation management has been poor, with extensive delays and a lack of commitment to developing the assets amidst such a strong Lithium market. Instead the company has opted to sell very low-margin direct-shipping ore. Wodgina's mineralogy is not Spodumene-rich, meaning complex metallurgy, likely to require an extensive process flow sheet (several flotation steps), and in turn, to be capital intensive.

Lastly, but not least, not having the benefits of economies of scale (production of 13mtpa vs. for example Fortescue at 170mtpa), Mineral Resources Iron Ore operations are high cost, and its lower relative product grades are also experiencing record discounted prices (-25%) relative to spot Iron Ore 62% Fines. With spot Iron Ore 62% Fines prices materially correcting, margins are being squeezed.

We view Mineral Resources' risk vs reward to the downside. As does the highly regarded Chris Ellison, Mineral Resources MD. When Iron Ore prices and Mineral Resources were both at recent highs earlier this year, Ellison chose to sell down his holding (now down to around half his initial holding). We continue to be short.

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