PARAGON AUSTRALIAN LONG SHORT FUND // JULY 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	-0.2%	+1.5%	-8.2%	-0.2%	-23.7%	+1.6%	+3.0%	+11.4%	+61.1%
ASX All Ordinaries Acc.	+0.2%	-2.1%	+3.9%	+0.2%	+6.6%	+5.3%	+5.3%	+7.2%	+35.8%
RBA Cash Rate	+0.1%	+0.4%	+0.8%	+0.1%	+1.5%	+1.7%	+1.9%	+2.2 %	+9.9%

RISK METRICS

Sharpe Ratio	0.7
Sortino Ratio	1.1
Volatility p.a.	+14.7
% Positive Months	+66%
Up/Down Capture	+68%/+15%

FUND DETAILS

NAV	$1.5165
Entry Price	$1.5187
Exit Price	$1.5142
Fund Size	$71.8m
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.

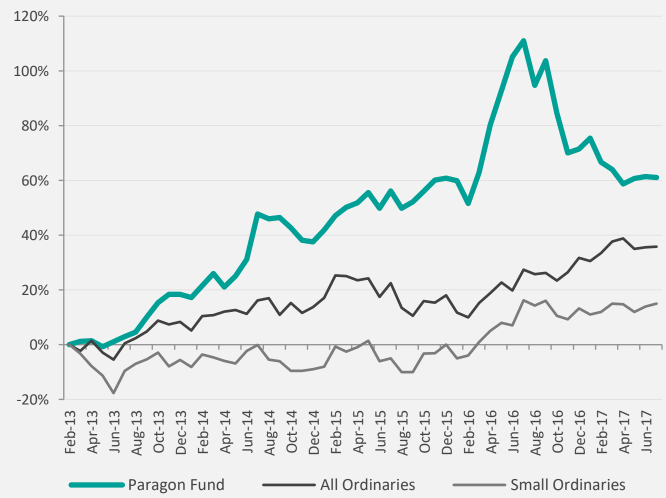
OVERVIEW & POSITIONING

The Fund returned -0.2% after fees for the month of July 2017. Since inception (March 2013) the Fund has returned +61.1% after fees vs. the market (All Ordinaries Accumulation Index) +35.8%.

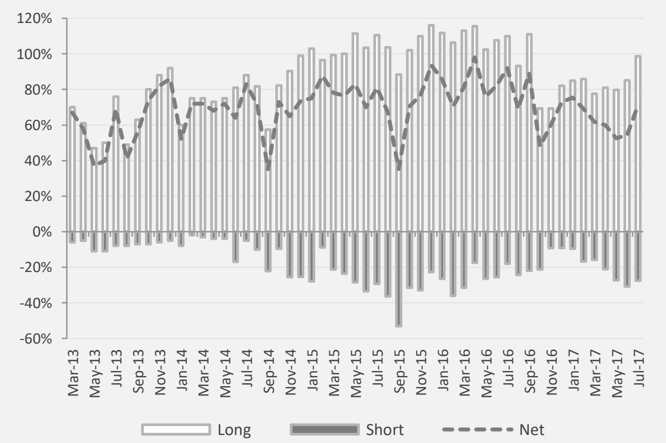
Main contributors for July were gains in Agrimin, Global GeoScience, FastBrick Robotics and Lynas and shorts in Coca Cola and Westgold. These were offset by falls in offshore earners on the back of the rallying AUD. At the end of the month the Fund had 38 long positions and 19 short positions.

INDUSTRY EXPOSURE	Long	Short	Net
Financials	+26.1%	-6.9%	+19.2%
Industrials	+37.0%	-11.3%	+25.7%
Resources	+35.5%	-9.4%	+26.1%
Index Futures		0%	0%
Total	**+98.6%**	**-27.6%**	**+71.0%**
Cash			**+29.0%**

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%	0.4%	-0.2%						**-6.1%**

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.

The Fund's long term structural themes underpin Paragon's conviction to continue to deliver on the medium to long term investment objective of the Fund. In brief, we believe that stocks identified as fundamentally attractive under these themes will offer significantly better long term growth prospects than the average Australian company.

As a reminder, our key themes typically making up 80% of the Fund's exposure today are Offshore Growth, Ageing Population, Electric Vehicles and Mobile Internet.

MOBILE INTERNET THEMATIC - EMERGING TECHNOLOGIES

This month we take the opportunity to provide an overview on some of the portfolio's emerging technology companies.

In each case, the company has the following attributes, adding further weight to Paragon's fundamental investment thesis:

1. A globally unique technology offering with proven capabilities on the world stage; and
2. A high calibre management team that maintain absolute alignment and have established and built the company personally.

Audinate

Audinate is a global leader in professional digital audio networking technology. Dante, its industry leading technology, delivers uncompressed multi-channel low-latency digital audio over a standard Ethernet network. This digital technology protocol is being adopted by global audio equipment firms such as Bosch, Bose and Roland. Audinate has a 75% market share and is 4x its nearest competitor and growing. As a signal of Audinate's technical superiority, 10% of the company is owned by Yamaha, a major Audinate customer since 2009.

Audinate's dominant position and early stage penetration of digital audio networks globally is driving revenue growth in excess of 30%. Of the 360 equipment manufacturers who are now Audinate clients, less than half have Dante enabled products today. In our view, this signals ongoing organic growth for the company as these manufacturers bring more products to market. Audinate raised money (via a recent IPO which Paragon participated in) to move into the video vertical of the Audio Visual (AV) market by displacing the HDMI cable with IP networking infrastructure. The prototype is planned for completion by 30 June 2018, which could double their addressable market (currently ~$350m) revenue base. The first quarterly released post its IPO reported revenue ahead of prospectus forecasts, which we believe has the potential to grow at a rate of 20% p.a. over the next decade, with shareholder returns in excess of this given the operating leverage.

FastBrick Robotics

FastBrick Robotics is a Perth based company that has designed a robotic positioning system for the construction industry. Mark Pivac, a mechanical and aeronautical engineer, owns 12% of the company and is the creator of the technology Hadrian X, a robotic bricklayer. The company estimates that it can build a standard brick house in 2 days compared with the average 28 days it currently takes manually, with accuracy to 0.5mm of the CAD design, regardless of weather or surface.

There is enormous potential cost savings in this positioning technology (bricklaying makes up 10% of the total cost of a house to a residential builder in the developed markets) that is also relevant to applications such as glass deployment on skyscrapers instead of man driven cranes and ship to ship goods transfer. It is FastBrick's ability to work in the field that makes it unique. Since initiating our position at 8c, global construction giant Caterpillar, after almost a year of due diligence, has signed an MOU with FastBrick, including a $10m investment in order to fast-track their time to market. While the scope would initially be to deploy their robotic bricklaying technology in Caterpillar branded equipment, we believe the opportunity to develop broader applications is the driver behind Caterpillar's interest, although it is too early to ascribe any value for these other commercial opportunities. The global opportunity for bricklaying machines is estimated by FastBrick at somewhere in excess of 10k machines. With a royalty revenue stream shared with Caterpillar, even a quarter of that number could generate potential revenue to FastBrick in excess of $500m p.a. In our view, such an outcome, which is well below company estimations, would see the stock valued in excess of $2/sh over the next decade.

Updater

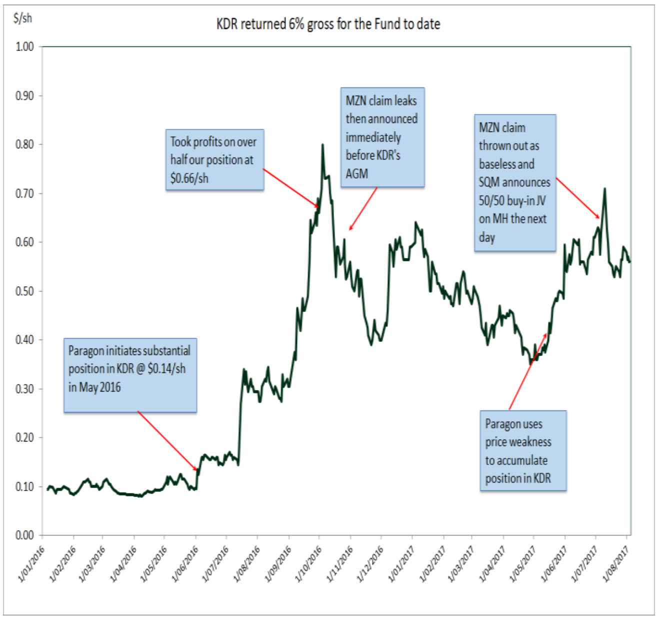
Updater is an American software company that listed in Australia in late 2015. The company, led by founder and 25% shareholder David Greenberg, has over the last 5 years established a strong presence within the real estate agent market, as a software tool provider to make moving house much easier – effectively organising for the house mover their connections to essential items such as insurance, energy, internet and cable. Through their significant alignment with real estate agents in the US, the most recent release shows that Updater is estimated to have processed 11% of all American household moves, on its way to 15% by the end of the year.

The premise behind the model however is the value which is placed on knowing when people are moving house. The companies selling these essential items such as house insurance and internet services, spend billions each year in advertising in order to keep and attract customers who typically make decisions on utility items when they move house. For the advertisers, knowing when a customer may actually be moving, and being able to communicate with them at that point, is where the value in Updater's platform lies. This is evidenced by recent trials with Liberty Mutual, Capital One Financial and AT&T. With successful results from the trial with insurance company Liberty Mutual, Updater forecasts that the Insurance industry alone could net the company some US$100m in revenue. While we make much more conservative assumptions, the opportunity for Updater remains significant given the current valuation suggests a revenue opportunity closer to US$70m. Should Updater be able to deliver outcomes across multiple verticals in line with trial results, we believe the shares could be worth in excess of $4/sh within 5 years.

ELECTRIC VEHICLES THEMATIC - KIDMAN RESOURCES

In May 2016, Kidman Resources made an outstanding hard-rock Lithium discovery at its 100% owned Mt Holland (MH) project in WA. Upon the release of the first drilling assays which confirmed outstanding grade and scale, Paragon established a substantial position in Kidman at $0.14/sh. Kidman's MH discovery had the makings of a world-class orebody – homogenous with scale, width and high-grade, while starting close to surface, offering ideal high-margin mining attributes (minimal pre-strip and very low strip ratios), and in close proximity to existing underutilised infrastructure. Ideally located in Southern WA on existing granted mining leases, and amid a multi-year Lithium bull market, we were excited by the strategic nature of the MH asset and in turn its emerging value. KDR's share price re-rated strongly, and we took profits on over half our position at $0.66/sh.

Kidman then delineated a maiden Lithium resource of 128mt @ 1.44% Li_2O. This is the biggest and best undeveloped hard-rock lithium resource globally that can economically supply a high value-add **local** downstream refinery to produce Lithium Carbonate &/or Lithium Hydroxide, both of these being key products of our Electric Vehicle thematic. (Note: Lithium is currently produced in one of two ways – via lithium brines or via hard rock spodumene mining predominantly from WA then shipped and converted in refineries predominantly in China).



As Kidman's share price continued to re-rate, in November 2016 neighbouring tenement holder Marindi Metals lodged a claim on Kidman's Mt Holland Lithium rights, adversely impacting its share price. Based on our own investigations and in-depth research into both Kidman and Marindi, we were confident that the claim was baseless and used the price weakness to buy back what we had sold previously at a profit.

Kidman held firm and successfully defended their position in WA's supreme court in late May 2017. The judge found the Marindi claim completely baseless.

The day after the Marindi claim was thrown out, global Lithium leader Sociedad Quimica y Minera de Chile (SQM: NYSE; US$10.4b market cap) announced its intention to buy-in to Kidman's MH project by investing US$110m for 50% equity in the MH JV. SQM is a Santiago-based world leader in specialty chemicals including Lithium, solar salts, potassium nitrate and iodine. SQM has an impeccable production and development track record, boasting a strong balance sheet with ample funding capacity (EBITDA of ~US$1b pa; ~50% derived from Lithium production). Importantly for Australian institutional investors, unlike many Chinese competitors, SQM is not a high risk partner carrying counterparty risk.

SQM has confirmed its intention to develop MH as an integrated spodumene-refinery project developing both the upstream mine and concentrator operation (spodumene concentrate production of ~300ktpa 6% Li_2O in 2019; essentially fully funded by SQM) and the downstream refinery (final product lithium carbonate or lithium hydroxide production of ~40ktpa in 2H 2020; funded by both SQM and Kidman to maintain their ongoing 50% ownership).

We view SQM as an enviable project partner and the terms of the deal as solid. The initial market reaction to the JV has been surprising, with pundits misunderstanding the metrics and merits of the deal. However, there was similar price action in 2012 when Orocobre sold 25% of its Lithium project to Toyota and in 2016 when Lithium Americas Corp sold 50% of its Lithium project to SQM. Both of these stocks were initially sold down ~30% before more than doubling and the market realising the benefits of a fully funded solution with a tier 1 project partner.

The MH JV now places Kidman as one of only two **integrated** spodumene-refinery projects based in WA. The other being the 51%/49% JV between Tianqi (US$9.5b market cap) and Albemarle (US$12.8b market cap), who own and operate the Greenbushes spodumene mine in WA, and currently are building a local refinery in Kwinana WA. Every other competitor ship their ~6% lithium concentrates from WA to China to be converted in Chinese refineries into lithium carbonate or lithium hydroxide – logistically sub-optimal and at a higher cost.

The integrated model offers materially higher NPV's than traditional spodumene-only concentrate operations. This is evidenced by the materially higher multiples the integrated players trade on - Tianqi & Ganfeng trade on >25x 1yr fwd EBITDA / Albemarle ~16x 1yr fwd EBITDA vs spodumene-only peers ~6x 1yr fwd EBITDA.

The MH JV spodumene-refinery integrated project boasts NPVs ranging from $2b to $4b on a 100% basis (range subject to our macro and operating assumptions), or $1b to $2b for Kidman's 50% share. This implies that Kidman is currently trading at 10-20% its MH JV integrated NPV. Our experience in these high-quality resource development investments suggests that Kidman should re-rate to at least 50% of its MH JV NPV in the short-term - upon reaching its funding and construction commencement milestone - hence offering strong asymmetric risk-reward to the upside.

As always, we thank our investors for their continued support and are happy to elaborate further on our overall portfolio and outlook. Feel free to call us or send us an email to arrange a meeting.