PARAGON FUNDS MANAGEMENT

PARAGON AUSTRALIAN LONG SHORT FUND // October 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	+14.0%	+30.9%	+32.9%	+30.7%	+14.2%	+16.3%	+13.9%	+17.3%	+111.0%
ASX All Ordinaries Acc.	+4.0%	+4.9%	+2.7%	+5.1%	+15.4%	+10.9%	+7.3%	+7.9%	+42.4%
RBA Cash Rate	+0.1%	+0.4%	+0.8%	+0.5%	+1.5%	+1.7%	+1.8%	+2.1 %	+10.3%

RISK METRICS

Sharpe Ratio	1.0
Sortino Ratio	1.7
Correlation	0.4
% Positive Months	+69%
Up/Down Capture	+94%/+15%

FUND DETAILS

NAV	$1.9855
Entry Price	$1.9885
Exit Price	$1.9825
Fund Size	$72.4m
APIR Code	PGF0001AU

FUND STRATEGY

Established in March 2013 as an Australian equities long/short fund that is fundamentally driven, has a concentrated portfolio of high conviction stocks, managed by a dedicated investment team and offering transparency to investors. Paragon's proprietary research and extensive investment process which includes active portfolio management, is overlaid with a strong risk management function and a focus on capital preservation.

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

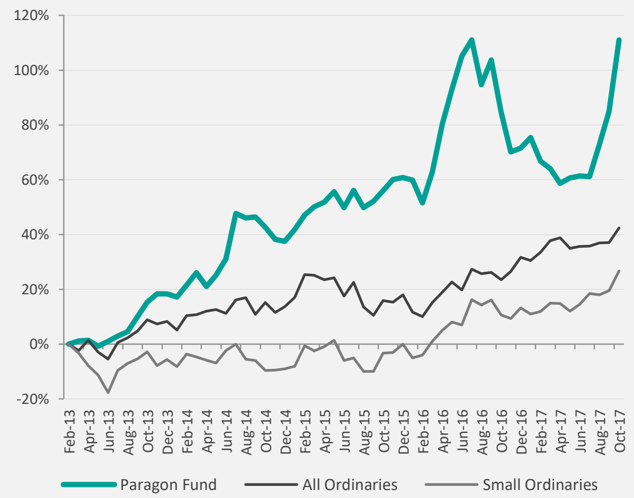
OVERVIEW & POSITIONING

The Fund returned +14.0% after fees for the month of October 2017. Since inception (March 2013) the Fund has returned +111.0% after fees vs. the market (All Ordinaries Accumulation Index) +42.4%.

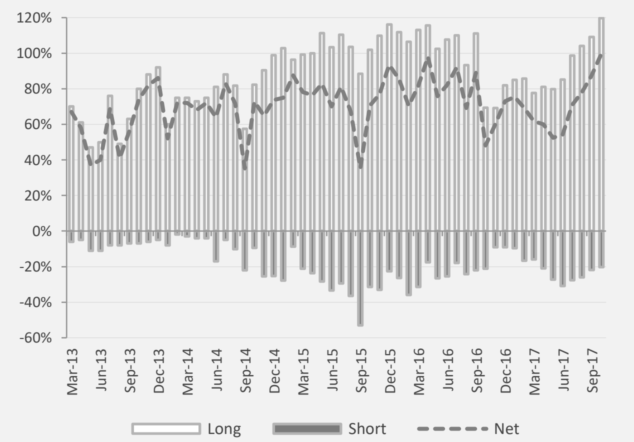
The Fund had another strong month in October driven by solid contributions from Long holdings in our Electric Vehicle theme, along with Aristocrat, Agrimin, Link Financial, Macquarie, New Century Zinc, Cimic, Wattle Health, Cann Group and Global Energy Ventures, offset by declines in Updater, Lend Lease and Lynas. At the end of the month the Fund had 39 long and 15 short positions.

INDUSTRY EXPOSURE	Long	Short	Net
Financials	+24.4%	-8.0%	+16.4%
Industrials	+32.2%	-7.5%	+24.7%
Resources	+63.2%	-4.8%	+58.4%
Index Futures		0%	0%
Total	**+119.8%**	**-20.3%**	**+99.5%**
Cash			**+0.5%**

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%	0.4%	-0.2%	7.3%	7.0%	14.0%			**23.0%**

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.

Performance update

We are pleased to report that we have recovered from the FY17 drawdown and the Fund is now over the high watermark. We would like to thank our investors for their patience over this period.

The Fund is compounding 17.3% CAGR after fees since inception, ~10% pa annum ahead of the market (All Ords Accumulation index) and 7% above our investment objective of 10% p.a. after fees over a 3-5 year horizon.

FY18 has commenced strongly, with performance driven by our thematic-led, high-conviction fundamental stock picks delivering as anticipated. Despite several stocks already rerating, we see attractive risk-reward in these key long positions, along with others yet to rerate boasting near term catalysts and remaining well placed to deliver.

Paragon remains committed to our performance driven investment strategy and excited about the Fund's outlook.

Stock highlights

October's strong +14.0% after fees result came from a good spread across several long positions performing well, driven by fundamentals and/or positive catalysts. We have been patiently anticipating this positive movement across the portfolio as communicated in prior monthly updates, and are pleased to be delivering strong returns for our investors once again. Below we provide an update on some of the key stock catalysts that occurred in October (in alphabetical order):

Aristocrat (ALL). We wrote about our investment case in Aristocrat in our May update. Aristocrat has since completed its acquisition of Plarium as announced in August. Plarium is a mobile, social and web-based game developer, which produces mobile games for iOS and Android, as well as Facebook and browser-based games. The acquisition increases Aristocrat's exposure to the fast-growing Digital market, with the mobiles games segment set to grow at 14% CAGR over the medium term. Aristocrat boasts strong operating leverage and should see double digit earnings growth through to the end of the decade.

Agrimin (AMN). We wrote about our investment case in Agrimin in our March update. Agrimin continues to de-risk its 100% owned Lake Mackay project parameters, with all aspects of this project going extremely well. Ongoing strong brine flow rates released in October are very supportive of conventional brine extraction via trenching and are in excess of the preliminary (and clearly conservative) scoping study assumptions. This illustrates the upside potential to the current production target and cements the project's scale as world class. The next milestone that we are watching for is a Mining Agreement. Obtaining native title clearance across Australian salt lakes has long been viewed as the largest risk to their development. A Mining Agreement would unquestionably place Lake Mackay as the standout potassium sulphate (SOP) development asset globally.

We have been early on both the thematic and bottom up research for the sector and the stocks, and pleasingly both SOP and AMN are now starting to gain wider market appreciation. Our SOP thematic is going from strength to strength with China shifting to more potassium-intensive crops, particularly in fruit and vegetable crops which require SOP. With its domestic production flat and ongoing land consolidation, we anticipate this will drive Chinese SOP imports to record levels. Global majors across the fertiliser value-chain are undoubtedly taking an increasing interest in Agrimin's Lake Mackay. Agrimin continues to be one of our highest conviction stocks with asymmetric risk-reward to the upside.

Cimic (CIM). CIM (formerly Leighton's), a leading international contractor and contract miner, reported its 3Q17 with strong key financial metrics. Revenue growth was >20% vs pcp, margin improvement continued, and a strong balance sheet was maintained with net cash of $606m. CIM boasts work-in-hand of $35.7b, its tender pipeline is significant and to date has achieved ~50% bid-win rate. CIM is well placed to continue growing earnings at 10% p.a. over the medium term, and remains a key long position for the Fund.

Electric Vehicles (EV) thematic positions. We wrote about our investment case in CleanTeq in our February update. CleanTeq upgraded its cobalt resource, both its contained Cobalt tonnes and grade. This means higher Cobalt production of ~5ktpa in the project's first 10 years, with Cobalt now representing ~50% of project revenues. Cobalt prices remain at highs with risk to the upside as the EV-thematic strengthens. Various catalysts ahead include the DFS due 1Q18 end, securing further offtake agreements and debt funding for its project capex – all of which CleanTeq are well placed to deliver on.

Kidman's Mt Holland JV (MH JV) project in October was granted 'Lead Agency Service' by the WA Government (current examples are Gorgon & Roy Hill), a recognition of the strategic importance and value of the MH JV's integrated-refinery model as highlighted in previous updates.

Orocobre continued to perform well, releasing its 3Q17 production quarterly, importantly showing improving evaporation rates, pond inventory rebalancing and on track to achieve record production in 4Q17. Lithium pricing has improved and is expected to continue into 2018. Should Orocobre achieve targeted production levels in the next 6 months as guided, this will provide the catalyst for financing the capacity expansion to 35ktpa, and for the Japanese Lithium Hydroxide project. We view both of these final investment decisions as achievable and expect and ongoing re-rating of Orocobre.

Link Financial (LNK). Link released a positive update on its operations at its last AGM, tracking ahead of expectations. Link is well placed to deliver double digit earnings growth over the medium term, driven by organic growth in its acquisitions SuperPartners and CAS, once fully integrated.

Macquarie Bank (MQG). Macquarie released a solid 1H18 result, up 19% on pcp driven by higher performance fees, upgrading its FY18 guidance again. Macquarie continues to boast a sound balance sheet with a solid group surplus capital position, announcing a $1b on-market buyback. Earnings momentum is expected to continue, driven by performance fees (as unlisted funds approach maturity and assets are sold) and via its operating leverage (namely cost improvements).

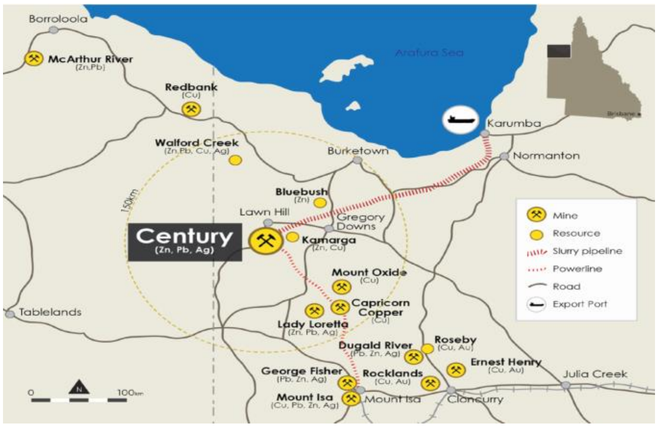
Company site visits

As highlighted below, a key element of Paragon's research focus sees us dedicate time to meet with company management on site to gain deep insights for our key investments.

New Century Zinc

In September, John Deniz visited New Century Zinc's site in far NW QLD, including the mine site and plant infrastructure ~250kms north of Mt Isa, plus the port facilities and infrastructure in Karumba in the gulf of Carpentaria. Previous owners MMG placed Century on care and maintenance in 2015 after producing zinc of ~500ktpa for 16 years.

New Century Resources mine and infrastructure location



Finding quality exposure to this long-awaited Zinc bull market hasn't been easy, with most zinc stocks on the ASX having sub-par, small scale and low mine-life assets. New Century Zinc however offers a unique opportunity, having acquired the dormant Century assets from MMG. Assets acquired include ~$1.5b of substantial high quality proven infrastructure, mine camp, concentrate pipeline, and export port facilities, all acquired for $1, however assuming the existing $194m environmental bond payable within 10 years.

New Century Zinc is actively working towards restarting Century operations, by reprocessing tailings for an initial 7+ years, with additional mine life to come from mining three other local zinc resources.

Standing in front of New Century Resources tailings

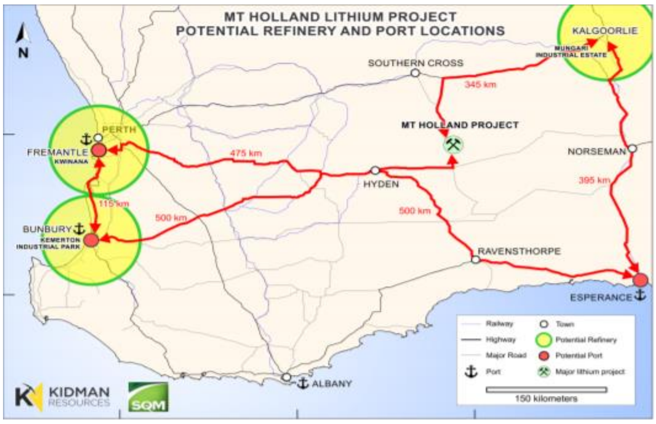
Brownfield-restart investments require assessment of the usual timeline, capex and funding risks, with New Century Zinc having additional unique project risk factors including: 1) tailings re-slurrying via hydraulic mining of the tailings resource; 2) process metallurgy and achieving desired zinc recoveries of >60%; 3) the assumed environmental bond; and 4) what Century's supply might do to the current deficit zinc market (@250ktpa contained zinc, Century would represent ~2% of the global zinc market).

We are comfortable with the above risks, where our due diligence has included talking to several technical professionals including those who have previously worked at Century. Further, we view these identified risks as already catered for in our entry price of 75cps, implying a proforma 1xEV/Cashflow. Despite the stock increasing 50% on our entry price, we anticipate considerable further upside. New Century Zinc have since secured debt funding on good terms and an underwritten $53m equity capital raising at $1.20/sh. This covers and in fact exceeds New Century Zinc's start-up costs and working capital needs to first cashflows. If NCZ get their brownfield restart right, they could be producing zinc from tailings at 250ktpa+ run rate by this time next year, implying $350m annual cashflows at spot zinc prices. This puts the stock on a very undemanding (proforma and fully diluted) EV/Cashflow of ~1.5x - very cheap indeed. We see New Century Zinc's share price doubling from here before its 'truth telling' production milestone and remain long in the stock.

Kidman Resources

In October, John visited Kidman's site at MH JV in WA, visiting both the mine site and infrastructure. Mt Holland boasts existing infrastructure and is on granted mining leases which is a big positive.

Mt Holland mine and infrastructure location



JV partner SQM's senior Lithium executives also attended the site trip and were firm on their project development timeline, and project design to readily cater for phase 2 expansion to 80ktpa (our upside case parameter). SQM are testing bulk samples of Mt Holland's metallurgy in Chile and are seeing recoveries of >80%, which will be a positive surprise, and further strengthen the MH JV project economics. (SQM expect to patent their metallurgical processing technology).

Mt Holland mine and infrastructure aerial view

Kidman has re-rated strongly as anticipated. We also expect their refinery funding solution with a major auto manufacturer to be announced in the near term. Kidman have been inundated with interest globally for their project's share of product offtake from major auto and battery manufacturers looking to secure lithium supply for their own electric vehicle growth aspirations. Kidman is in the box seat to secure funding on favourable terms (given limited high-quality offtake opportunities), which will be a strong upside catalyst for the stock.