



## PARAGON AUSTRALIAN LONG SHORT FUND // November 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
<b>Paragon Aust. Long Short Fund</b>	+11.9%	+36.5%	+46.8%	+46.2%	+38.7%	+21.4%	+19.5%	+19.8%	+136.0%
<b>ASX All Ordinaries Acc.</b>	+1.9%	+6.0%	+7.4%	+7.1%	+14.8%	+12.4%	+9.2%	+8.2%	+45.2%
<b>RBA Cash Rate</b>	+0.1%	+0.4%	+0.8%	+0.6%	+1.5%	+1.7%	+1.8%	+2.1 %	+10.4%

### RISK METRICS

<b>Sharpe Ratio</b>	1.1
<b>Sortino Ratio</b>	2.0
<b>Correlation</b>	0.4
<b>% Positive Months</b>	+68%
<b>Up / Down Capture</b>	+104% / +15%

### FUND DETAILS

<b>NAV</b>	\$2.2215
<b>Entry Price</b>	\$2.2249
<b>Exit Price</b>	\$2.2182
<b>Fund Size</b>	\$80.7m
<b>APIR Code</b>	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 +11.9% after fees for the month of November. Since inception (March 2013) the Fund has returned +136.0% after fees vs. the market (All Ordinaries Accumulation Index) +45.2%.

The Fund had another strong month in November driven by solid contributions from Long holdings in our electric vehicle theme, along with Cann Group, Origin, Agrimin, Cimic, Lynas, Dacian Gold and Global Energy. At the end of the month the Fund had 39 long and 15 short positions.

### INDUSTRY EXPOSURE

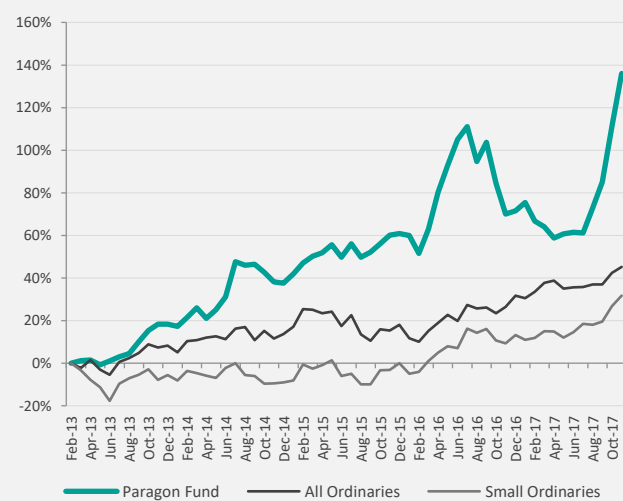
	Long	Short	Net
Financials	+21.9%	-9.0%	+12.9%
Industrials	+34.0%	-6.4%	+27.6%
Resources	+68.1%	-4.3%	+63.8%
Index Futures		0%	0%
<b>Total</b>	<b>+124.0%</b>	<b>-19.7%</b>	<b>+104.3%</b>
<b>Cash</b>			<b>-4.3%</b>

### MONTHLY PERFORMANCE BY CALENDAR YEAR

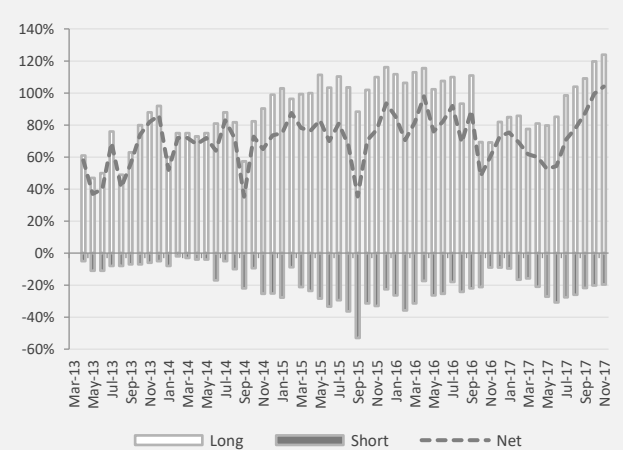
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD
<b>2013</b>			1.1%	0.3%	-2.2%	1.8%	1.8%	1.6%	5.3%	4.9%	2.8%	0.0%	<b>18.7%</b>
<b>2014</b>	-1.1%	3.8%	3.6%	-3.9%	3.2%	4.9%	12.5%	-1.1%	0.3%	-2.5%	-3.1%	-0.5%	<b>15.9%</b>
<b>2015</b>	3.2%	3.6%	2.1%	1.1%	2.4%	-3.8%	4.3%	-4.2%	1.6%	2.5%	2.6%	0.3%	<b>16.8%</b>
<b>2016</b>	-0.5%	-5.2%	7.4%	10.8%	7.0%	6.3%	2.9%	-7.8%	4.3%	-9.0%	-7.9%	0.8%	<b>6.8%</b>
<b>2017</b>	2.3%	-5.0%	-1.6%	-3.2%	1.3%	0.4%	-0.2%	7.3%	7.0%	14.0%	11.9%		<b>37.6%</b>

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 daily unit pricing methodology based on historical data.

### HISTORICAL PERFORMANCE *(after fees)*



### HISTORICAL EXPOSURE





## The rise and rise of Medicinal Cannabis

Following cannabis' notoriety and political-driven prohibition for almost a century, its cultivation and use is now progressively being legalised for medicinal use across the globe. Currently, over 30 countries (including Germany, France, Spain, Israel, Canada and Australia) as well as 29 states in the US have some form of legislation in place allowing patients to use cannabis for medical purposes. Thirteen of these countries have put in place legislation in the past two years, demonstrating the increasing acceptance and recognition of the medicinal benefits of cannabis.

The significant increase in momentum behind the use of medical cannabis is expected to continue due to its:

- 1) wider acceptance of therapeutic benefits;
- 2) improved safety profile over existing therapeutics; and
- 3) regulation providing material tax revenues.

Medical cannabis generally refers to a range of products, from purified cannabinoid compounds (including CBD and THC) to those using the whole, unprocessed marijuana plant. Products are often presented in oil, balms, gel or capsule forms. The amounts of key cannabinoid chemicals need to be known for appropriate dosing, in order to treat symptoms of illness and other medical conditions. A recent analysis of over 10,000 published, peer-reviewed clinical studies conducted by US National Academies of Science, Engineering and Medicine, concluded that there is strong evidence supporting the use of medical cannabis to treat chronic pain, muscle spasticity, and chemotherapy-induced nausea and vomiting. In addition, this study reported that the existing published studies supported its use for treating sleep disorders, anxiety, post-traumatic stress disorder and provide relief from many of the consequences of infection with the HIV/AIDS virus. With the legalisation of medical cannabis in numerous countries, the body of data from properly conducted and controlled clinical studies is expected to grow considerably over the next few years. However, even without these studies, the anecdotal reports from literally millions of patients who have successfully used cannabis for medical purposes (either treatment or symptomatic relief) is extremely compelling and supports a major role for cannabis in Western medical practice. Such factors have led to overwhelming support to legalise medicinal cannabis for medical purposes.

The Canadian cannabis market is the global leader in regards to regulation, production, manufacturing & distribution. Their recreational use market opens in July 2018 (Canada aims to stop illegal cannabis and convert to regulated supply) and is expected to be ~3x their medicinal market. Canadian medicinal and recreational cannabis demand combined is likely to exceed 750,000kg/yr within 5-7 years. Currently there are over 79 licensed producers (LPs) of cannabis in Canada with the two largest TSX-listed players being Aurora and Canopy. These companies are actively investing in large-scale growing operations (>100,000kg/yr) to meet the large increase in demand that is expected with the opening up of the recreations market. Despite the Canadian industry supply response, deficits are expected.

By allowing recreational use, Canada will formally be in breach of its obligations as a signatory of the UN's Convention on drug control (the 1961 Single Convention on Narcotic Drugs) which requires very strict government controls on the production of cannabis and only permits it to be used for research and medical purposes. At this stage, it is not clear if this will limit the ability of Canadian producers to export to other countries, such as Australia, that remain abiding signatories to this Convention. Given Australia has a long history of producing controlled, medical-grade, plant derived pharmaceutical actives (Australia produces >40% of the pharmaceutical opioids from poppies), Australian producers should be well placed to

achieve export status, giving them both a local and a much larger global market opportunity.

The momentum and increasing acceptance of medicinal cannabis offers exceptional investment opportunities to a select list of high-calibre, well-funded, early-movers. The Australian medical cannabis market alone is likely to be ~\$1b p.a. to ~\$2b p.a. by 2025 (~\$1b p.a. for cannabis flowers only or ~\$2b p.a. for cannabis flowers & extracts). However, the potential of the export market (Germany, Canada, USA) will dwarf this by many multiples (cumulative \$20b+ p.a. to \$30b+ p.a.). The opening of the export market and the ongoing opening of recreational use markets is likely to result in deficit cannabis markets globally for the medium to long term.

Various market pundits who have been slow to research the sector are reacting as expected – talking down the emerging industry's opportunity and making ill-informed remarks about the re-rating of various cannabis stocks globally. We've experienced the same dynamic in the early stages of various other emerging bull markets where we have been ahead of the curve and subsequently done very well in. As the great Sir John Templeton said, "Bull markets are born on pessimism, grow on scepticism, mature on optimism, and die on euphoria." We view the cannabis sector globally within the "grow on scepticism" stage and are excited about the outlook for Cann Group (CAN), our key long exposure to this theme.

**Cann Group (CAN).** Cann is Australia's leading medical cannabis producer, committed and funded to expand its operations for Australian and export markets. Over the last three years, Cann has built a strong business base in Victoria, Australia's leading state for medicinal cannabis growth and trialling. Cann is focused on medical cannabis only, including breeding and cultivation (first permits secured on 30 May 2017), and is the only company in Australia to date that has been issued with a permit to grow a commercial cannabis crop. The first crop was harvested in August 2017 and the company is now growing its third. Cann secured its complete breeding to packaging supply chain, has a high-calibre and experienced executive team and agribusiness board, who are well aligned with strong equity ownership.

We expect Cann to continue being the medical cannabis leader in Australia, using local partners (AgVic, La Trobe University & CSIRO) and leading international partners to develop plant breeder ownership of specialty cannabis for a range of disease treatments. Cann is aiming to obtain licences for manufacturing medical cannabis products from cultivated plants by 2019. In the interim, Cann has an off-take supply agreement with the Victorian Government for most of its production capacity. However, under these contracts it can choose to export its medical cannabis as an alternative when it is ready and Government regulations allow.

Cann's production capabilities & well-funded expansion plans comprise of: 1) Phase 1 Established Southern facility with 300kg/yr of cannabis growing capacity; 2) Phase 2 Northern facility under development with 2,000kg/yr of cannabis growing capacity due 1Q18; and 3) Phase 3 Northern facility expansion increasing to produce up to ~25,000kg/yr of cannabis flower.

The company has just completed a \$70m+ capital raise at \$2.50/sh, with its largest shareholder and Canadian partner Aurora taking ~\$26m (increasing its interest in Cann to 23%), and Cann directors taking \$1.3m. Cann's 16,000m<sup>2</sup> phase 3 project will make it a meaningful player on a global scale, and compares favourably to Aurora's three facilities totalling 83,000m<sup>2</sup> (~5x Cann's). Note Aurora boasts a C\$3.2b market capitalisation, ~10x Cann's.

Cann's phase 3 potential cashflows are \$100m+ pa, implying its trading on a modest forward cashflow of ~3x. Paragon initiated its position in Cann at \$1.15/sh in August 2017. Whilst it is up >2x since, we view the risk-reward to the upside and remain long the stock.



## Paragon's new appointments

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Paragon is pleased to announce the following two additions to our team:

**Joshua Baker** joins Paragon's investment team as an Investment Analyst from this month. Joshua has six years of experience in financial markets, most recently as an Investment Analyst with Zenith Investment Partners, where he conducted fund manager research across multiple asset classes. Prior roles include an Investment Analyst at an independent financial advisory firm Whittle & Skok and a Research Assistant at Wilson HTM.

Joshua is a passionate investor who has successfully managed his own portfolio of Australian Industrials and Resources equities for several years. He boasts a strong fundamental research ethic and is an independent thinker. Joshua is a Certified Investment Management Analyst and holds a Bachelor of Business majoring in Economics and Finance from RMIT University.

We are excited about Joshua joining our team and look forward to his strong contribution to the Fund over the coming years.

**Sam Lanyon** was appointed in October as a non-executive director of Paragon's board, joining executive directors John Deniz and Hillier Deniz.

As an innovative business leader, Sam is recognised for his significant experience in strategy, sales, and operations with a successful track record of commercialising technology-rich products globally. Sam is currently Co-CEO and co-founder of Planet Innovation, Australia's preeminent health-tech innovation and commercialisation company. Sam is also a Director of Zen Ecosystems Pty Ltd, a leading provider of intelligent energy management solutions.

Sam was one of the key individuals behind Vison Systems Limited success, a micro-cap ASX-listed Industrial delivering substantial growth before a 3-way bidding war in 2007 saw Vison ultimately being taken over by Danaher (DHR: NYSE) for \$800m.

Sam has a Bachelor in Mechanical Engineering with honours from the University of Melbourne, a Post-Graduate Diploma in Management from Melbourne Business School and has completed strategy training with London Business School.

We are very pleased to have Sam join our board and look forward to Sam's strategic insights and his contribution to strong corporate governance of Paragon.