PARAGON
FUNDS MANAGEMENT
5 YEARS 2013 - 2018

PARAGON AUSTRALIAN LONG SHORT FUND // May 2018

PERFORMANCE SUMMARY *(after fees)*

	1 month	3 months	6 months	Financial YTD	1 year	2 year p.a.	3 year p.a.	5 year p.a.	Net Return p.a.	Total Net Return
Paragon Aust. Long Short Fund	-1.2%	-9.8%	-9.6%	+32.2%	+32.7%	+5.1%	+11.1%	+16.6%	+15.5%	+113.4%
ASX All Ordinaries Accum. Index	+1.4%	+1.2%	+3.1%	+10.4%	+10.7%	+10.5%	+6.4%	+9.1%	+8.0%	+49.7%
RBA Cash Rate	+0.1%	+0.4%	+0.8%	+1.4%	+1.5%	+1.5%	+1.7%	+2.0%	+2.0%	+11.3%

RISK METRICS

Sharpe Ratio	0.9
Sortino Ratio	1.7
Correlation	0.4
% Positive Months	+63%
Up/Down Capture	+94% / +24%

UNIT PRICE & FUM

NAV	$2.0082
Entry Price	$2.0112
Exit Price	$2.0052
Fund Size	$67.0m
APIR Code	PGF0001AU

FUND STRATEGY

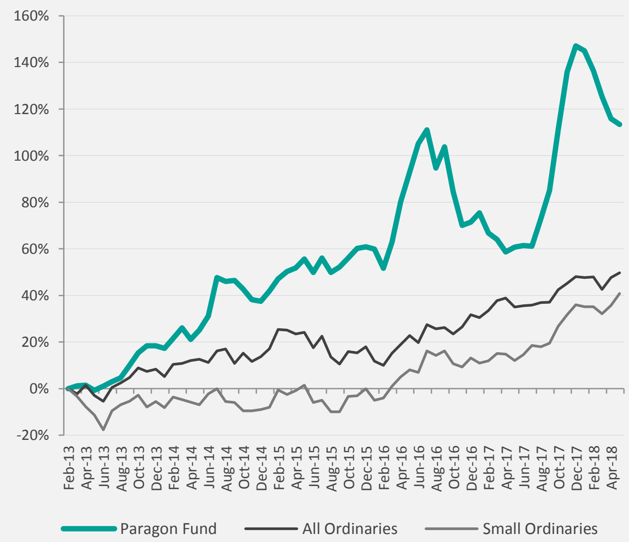
Established in March 2013 as an Australian equities long/short fund that is fundamentally driven with a concentrated portfolio of high conviction stocks, managed by a dedicated investment team and offering transparency to investors. Paragon's proprietary research and extensive investment process which 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 AND POSITIONING

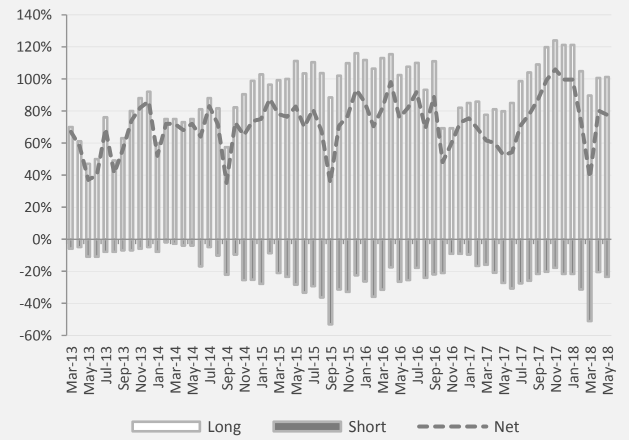
The Fund returned -1.2% after fees for the month of May. Since inception (March 2013) the Fund has returned +113.4% after fees vs. the market +49.7%.

Positive contributions in the month were from Global Geoscience (Phase 1 primary feasibility study upgrade), Seven Group (profit guidance upgrade), Aristocrat (profit guidance upgrade), Kidman (binding offtake with Tesla), Sino Gas (takeover offer) and our Telstra short (profit guidance downgrade). These were offset by declines in Jupiter Mines, Wattle Heath, Cann Group, Global Energy and our Nanosonics short.

HISTORICAL PERFORMANCE *(after fees)*



HISTORICAL EXPOSURE



FUND POSITIONING

Number of Longs	29
Number of Shorts	10
Net exposure	77.7%
Gross exposure	124.9%
Index futures	0%
Cash	22.3%

FUND FACTS

Structure	Unit trust
Domicile	Australia
Applications & Redemptions	Daily
Minimum investment	$25,000
Min. addition/redemptions	$5,000/$10,000
Administrator	Link Fund Solutions
Prime Broker/Custodian	UBS

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%	11.9%	4.7%	**44.1%**
2018	-1.3%	-3.0%	-4.7%	-4.2%	-1.2%								**-13.7%**

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.

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Portfolio insights

The Fund continues to be impacted by short-term volatility, however the long-term outlook of our key stock positions remains strong. We run a concentrated fundamentally-driven all-cap strategy, and being medium to long term investors at heart (not 'momentum-traders') and proudly 'index-unaware', means we will have periods of underperformance. Our goal is to ensure we minimise such occurrences, navigate as best as possible through short-term volatility, and deliver strong outperformance in the medium to long-term.

This month we provide an update on some of the key stock catalysts that occurred in May (in alphabetical order), supporting our overall outlook:

Aristocrat (ALL) – Long

Since we last wrote about Aristocrat in May 2017, the company has continued to expand its exposure to digital/social gaming via the acquisitions of Big Fish and Plarium, whilst earnings growth has continued to surprise to the upside.

Aristocrat reported its half year result in May, which demonstrated continued strong momentum across all key divisions of the business. In addition, the result shows a transition towards higher quality and diversified recurring revenue streams (digital now 34% of revenue, up from 14% pcp). US gaming operations, led by Class II and III participation market products, continued to grow market share and daily revenue rates. This has driven strong revenue, margin and earnings outcomes that has all but drowned out the more cyclical influence of the outright unit sales segment.

We believe Aristocrat is in a position to generate strong top line and bottom line growth over the next 2 to 3 years, at a rate in excess of 15% p.a. earnings growth, well above the Australian market (ASX100 ~7.8%, Industrials ex-Fins ~13.9%). Aristocrat remains a key long position in the Fund.

Global Geoscience (GSC) – Long

We previously wrote about Global Geoscience ('Global') in August 2017 and February 2018. Global's 100%-owned Rhyolite Ridge (RR) is a hard-rock sedimentary lithium-boron deposit where lithium carbonate and boric acid can be produced at the mine site. No off-site third-party processing or conversion is required. Global's RR has proven to have a dream sedimentary type orebody with excellent metallurgy - containing highly economic lithium and boron concentrations which both liberate with ease. Clay-based sedimentary deposits are typically the opposite – with complex metallurgy requiring capital and energy intensive infrastructure and processing, including expensive autoclaves (typically a capex killer) and excessive sulphuric acid (a key input cost that can blow-out opex) – often rendering projects uneconomic.

Technical milestones continue to surprise to the upside. In May, Global announced the first phase of its PFS which confirms the project's ability to utilise the preferred VAT leaching process and build its own on-site acid plant - both of which are very significant. This sees both capex and opex materially lower, and in turn, stronger project economics yet again. To put this into perspective, this will result in the lowest lithium costs globally (net of RR's boron by-product credits) and almost at half the cost of the current lowest cost producer. The boron, previously perceived by some to be an issue, is now becoming evident as a major value-adding asset.

We expect Global's high-quality PFS, due for release next quarter, will prove the project's status as a highly strategic world-class asset. Global's management team and Board are first class and continue to be well aligned with strong insider ownership.

We first invested in Global as an emerging micro-cap, and it has since re-rated through to small-cap and now mid-cap status. Our fully-diluted and conservatively fully-funded base-case valuation is currently \$0.85/sh vs Global's current share price of \$0.46/sh. Global remains a key long position in the Fund.

Kidman (KDR) – Long

We last wrote about Kidman in October 2017. In May, the company announced its first binding lithium offtake deal with Tesla. Whilst the terms of the initial 3-yr deal (with 2 x 3yr extensions) for ~25% of Mt Holland's stage 1 output are confidential, they are expected to be at strong fixed pricing. Being effectively five years out, this reinforces the quality of the project and strength in medium to long term lithium markets. Tesla is yet another downstream player aggressively moving to secure lithium supply – a critical ingredient to its own growth plans. We expect similar offtake deals and favourable 'plain-vanilla' funding to be secured, therefore fully funding Kidman's share of the JV's capex.

We first invested in Kidman as a substantial shareholder when it was an emerging micro-cap and it has since re-rated to a mid-cap stock. Management have continued to deliver exceptional results and are also well aligned with strong insider ownership. Kidman has been an outstanding performer for the Fund and we have taken profits through its re-rating to manage its position size in the overall portfolio. We continue to maintain a position in Kidman, with upside premised on its stage 2 valuation upside.

Telstra (TLS) – Short

In February 2018, we stated that the core risk to Telstra was continued challenges in its mobile business. We increased our short position post release of its HY results, believing there was an increased likelihood of a downgrade.

In May, Telstra downgraded its FY18 forecast, with the mobile operating business deteriorating further. The May update reported a worsening of mobile average revenue per user (ARPU), down -3.6% pcp over the 3Q18 period (reported in February as down -2.9% pcp for half year), firming our view that mobile earnings for Telstra are in a period of sustained decline. In addition, the company expects difficult trading conditions to extend into FY19.

We believe that factors including maturation of the Australian mobile market, improvements in competitor network quality and price deflation brought about from the recent entrance of TPG and the rapid growth in mobile virtual network operators (MVNO), along with the focus on the Belong brand (which aims to provide lower cost services to consumers), will continue to put pressure on Telstra's ARPU.

The future of Telstra is likely to play out in one of two ways. The US experience (best case for TLS) where the two major incumbents saw subscriber numbers remain broadly flat during a period of competitive tension, however this still drove an extended period of APRU declines. The French experience (worst case for TLS), where the incumbent, Orange S.A.'s (French Telecom) mobile business was devastated when Iliad launched Free Mobile in early 2012. Within three years, Iliad took over 10% of the market (zero to 10m subscribers) and helped drive pricing declines of over 30% (we note incumbents started price cutting prior to Iliad's launch). In this scenario, the only winner was the consumer.

The current dynamics of the Australian mobile market still presents a material challenge for Telstra, with competition in mobile a key driver in near-term outcomes. Despite the de-rating in Telstra's share price, we remain short as we believe there is further material downside risk.

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