



PARAGON AUSTRALIAN LONG SHORT FUND // May 2019

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	+10.4%	+12.9%	+8.3%	-13.6%	-17.7%	+4.5%	-3.1%	+7.0%	+9.4%	+75.7%
ASX All Ordinaries Accum. Index	+1.7%	+5.0%	+15.3%	+7.4%	+10.5%	+10.6%	+10.5%	+8.0%	+8.4%	+65.4%
ASX Small Ords. Accum. Index	-1.3%	+2.7%	+10.9%	+1.0%	+2.1%	+13.1%	+9.8%	+8.8%	+6.0%	+43.7%

RISK METRICS

Sharpe Ratio	0.5
Sortino Ratio	0.9
Correlation	0.4
% Positive Months	60%
Up/Down Capture	77%/44%

UNIT PRICE & FUM

NAV	\$1.6536
Entry Price	\$1.6561
Exit Price	\$1.6512
Fund Size	\$38.4m
APIR Code	PGF0001AU

FUND STRATEGY

An Australian equities long/short fund, with a long-bias, 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 includes active portfolio management and is overlaid with strong risk management. 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 +10.4% after fees for May vs the All Ords. Accumulation Index (AI) of +1.7%, Small Ords. AI -1.3% & US Indices -7%. Positive contributions were from Kidman, iSignthis, Xero, Atrum and shorts in Bluescope and Sandfire. Kidman received a takeover offer from Wesfarmers on 2nd May which became binding later in the month. Paragon anticipated this outcome for KDR, with its world class and undervalued offering. We don't believe it's over yet. Gina Reinhardt raised her bid yet again to secure Riversdale, illustrating considerable upside in neighbouring Atrum. This month we discuss Nearmap and Xero, both reported positive operating updates in May.

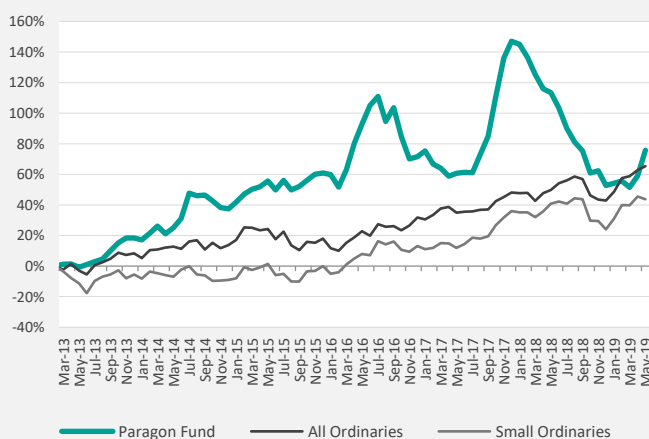
FUND POSITIONING

Number of Longs	21
Number of Shorts	11
Net exposure	98%
Gross exposure	135%
Index futures	0%
Cash	2%

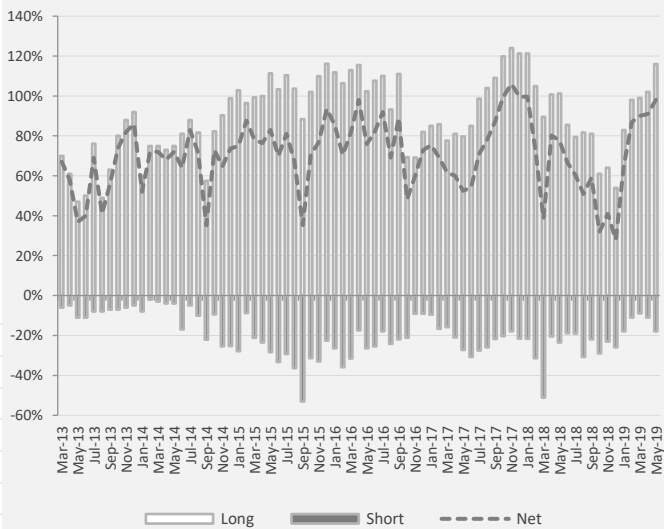
FUND FACTS

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

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%	11.9%	4.7%	44.1%
2018	-1.3%	-3.0%	-4.7%	-4.2%	-1.2%	-4.7%	-6.5%	-4.6%	-3.2%	-8.4%	0.9%	-5.8%	-38.1%
2019	0.8%	1.0%	-2.7%	5.1%	10.4%								15.0%

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 daily unit pricing methodology based on historical data.



Portfolio insights

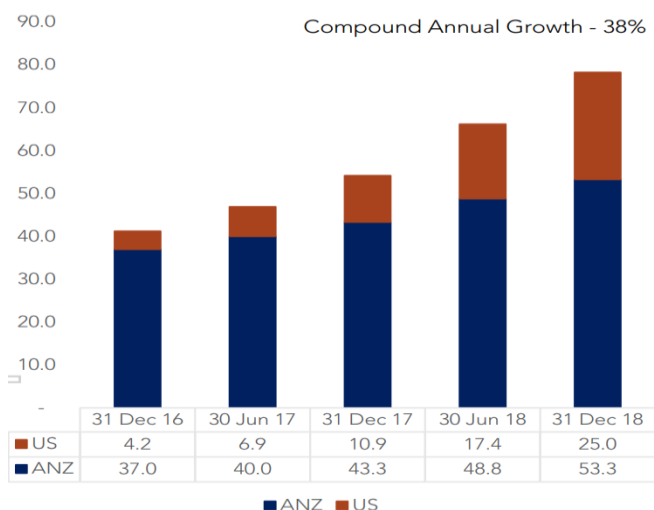
Nearmap – aerial imagery leader going global.

Nearmap is a cloud-based Software-as-a-Service (SaaS) company offering aerial imagery services in Australia, New Zealand and North America. Nearmap’s high-resolution aerial imagery sets it well ahead of satellite-based competition. Nearmap captures >70% imagery in Australia, New Zealand and America, and is currently expanding into Canada.

Nearmap offers 2D, 3D and oblique imagery under a SaaS model to a diverse customer base, including architecture, construction and engineering (its largest segment), government, insurance and property, solar and utilities, to name a few. Nearmap’s imagery offers compelling customer utility, reducing the need for site visits, enabling remote site inspections and quotations – a large and growing total addressable market (TAM).

Nearmap provided another positive operating update across its key metrics at the Macquarie conference in May. Highlights included customer lifetime value (LTV) of \$A1.4b+ at 31 Mar 2019, up 31% since 31 Dec 2018, and annualised contract value (ACV) compounding at 38%.

Figure 1: Nearmap’s ACV growing strongly across both Australia and the USA



Source: Nearmap

Nearmap continues to invest in its high-growth under-penetrated markets of the USA (10x the size of Australia) and Canada.

Nearmap boasts the attributes of a leading SaaS company including:

- product leader in its aerial imaging segment;
- multiple applications across various end-markets;
- sizeable addressable global market with large runway for growth;
- high recurring revenue with high and expanding margins;
- strong financial fundamentals – a strong balance sheet, cashflow breakeven in its core business, and well-funded for investing in its growth initiatives.

We look forward to upcoming near-term catalysts including operating updates for FY19 reporting in August and the AGM in November. We are expecting strong growth momentum across its key end-markets including the newest roll out in Canada.

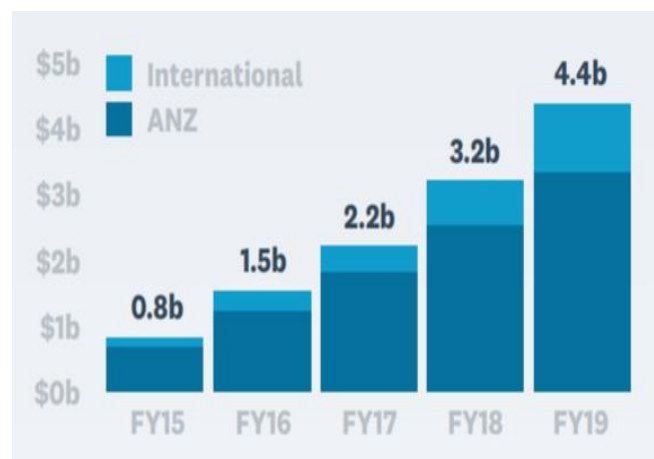
Nearmap is a highly scalable SaaS-based business in a high growth phase, well placed to continue to deliver >30% organic sales growth over the medium to long-term.

Xero – going from strength to strength.

We first wrote about Xero in [October 2013](#) and again in [April 2014](#). Xero is a best-in-class cloud-based accounting software business with a proven track record of disrupting the ageing desktop-based accounting software industry dominated by MYOB, Intuit and Sage. With a dominant position in Australia & New Zealand (ANZ), Xero is expanding rapidly offshore and in turn pursuing a substantially larger TAM.

Xero’s FY19 results released in May showed strong growth rates across ANZ and the UK, where both subscriber and average revenue per user (ARPU) growth were strong. UK subscriber growth accelerated to 463k, up 151k (+48%) in FY19. Overall subscribers as at March 2019 were 1.82m, up 432k (+31%) in FY19. Annualised recurring revenue and LTV growth continues to be strong.

Figure 2: Xero’s LTV has more than quadrupled in last 4 yrs



Source: Xero

Xero achieved its first positive free cashflow milestone in FY19 and has ample liquidity to self-fund its large growth opportunities.

This digitisation of small business compliance presents a great tailwind for Xero and should see the ongoing shift from desktop-based accounting software to cloud-based systems. Key regulatory catalysts which expedited this shift include:

- Single touch payroll – in Australia;
- Making tax digital - in the UK; and
- Payday filing – in New Zealand.

Xero boasts a long runway of growth, noting UK cloud-based accounting SaaS penetration is ~25%, less than half that of ANZ, and the UK’s TAM is estimated at ~\$2.5b, twice that of ANZ. North America remains a challenge with no cloud-based near-term regulatory catalyst and with leading competitor Intuit having an established incumbent market position. Nevertheless, being such a large and underpenetrated market (TAM >10x ANZ) the USA offers the largest medium to long-term growth opportunity for Xero.

Xero boasts strong revenue momentum in its cloud-based accounting SaaS and a substantial growth runway. Other opportunities include monetising its large subscriber base further via add-on services in Xero’s small business platform and ecosystem (eg. Inventory management, payments and payroll). We expect Xero to more than grow into its multiples over the medium term.

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