PARAGON FUNDS MANAGEMENT

THE PARAGON FUND // DECEMBER 2015

PERFORMANCE SUMMARY *(after fees)*

	1 month	3 month	6 month	1 year	Financial YTD	Net Return p.a.	Total Net Return
Paragon Fund	+0.3%	+5.6%	+7.2%	+16.8%	+7.2%	+18.2%	+60.6%
ASX All Ordinaries Acc.	+2.6%	+6.6%	+0.4%	+3.8%	-2.5%	+6.0%	+18.0%
RBA Cash Rate	+0.2%	+0.5%	+1.0%	+2.2%	+0.8%	+2.4 %	+7.1%

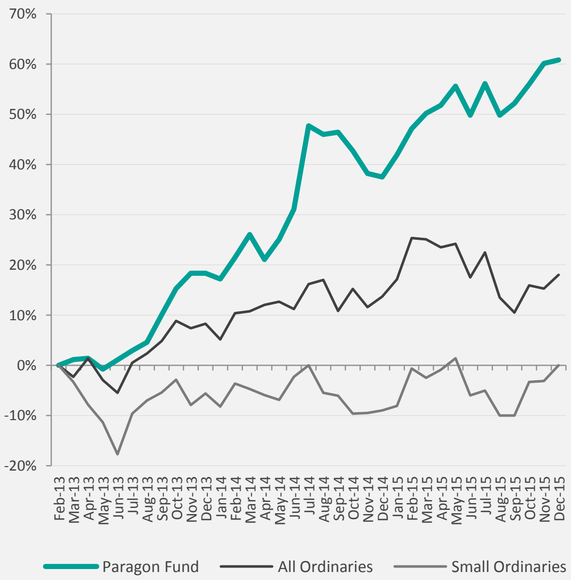
RISK METRICS

Sharp Ratio	1.3
Sortino Ratio	2.8
Volatility p.a.	+11.5%
% Positive Months	+73.5%
Correlation	0.5

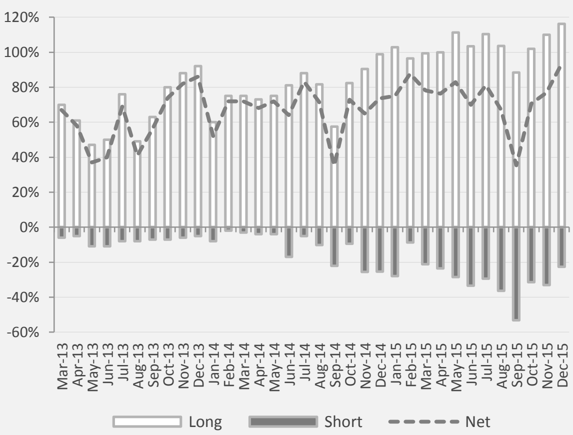
FUND DETAILS

NAV	$1.5115
Entry Price	$1.5138
Exit Price	$1.5092
Fund Size	$36.3m
APIR Code	PGF0001AU

HISTORICAL PERFORMANCE *(after fees)*



HISTORICAL EXPOSURE



FUND STRATEGY

The Paragon Fund is an Australian equities long/short fund established in March 2013. The Fund's strategy is fundamentally driven, concentrated and transparent for investors. The manager's research process and active portfolio management is overlaid with strong risk management and a focus on capital preservation.

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

OVERVIEW & POSITIONING

The Paragon Fund returned +0.3% after fees for the month of December 2015. Since inception the Fund has returned +60.6% after fees vs. the market (All Ordinaries Accumulation Index) +18.0%.

Key positive contributors for December included Longs in our Lithium holdings (Orocobre & General Mining), Mayne Pharma and APN Outdoor, offset by declines in Oil Search, Reward Minerals and a short position in Wesfarmers. At the end of the month the Fund had 34 long positions and 13 short positions.

INDUSTRY EXPOSURE	Long	Short	Net
Resources	+24.0%	-7.4%	16.6%
Industrials	+69.1%	-15.2%	53.9%
Financials	+23.0%	0.0%	23.0%
Total	**+116.1%**	**-22.6%**	**93.5%**
Cash			**6.5%**

MONTHLY PERFORMANCE BY 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%**

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.

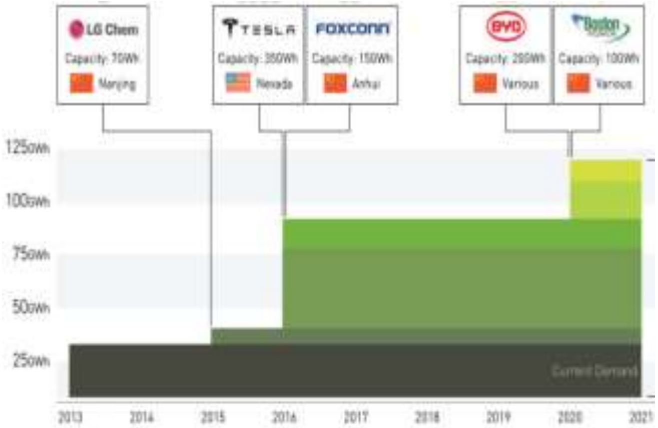
STOCK HIGHLIGHTS

Lithium is in an undisputed bull market

Demand for more efficient energy storage is an ongoing structural thematic we view will continue through the next decade. Lithium-ion batteries for consumer electronics (phones, tablets and PCs), transportation (electric vehicles (EV), E-bikes, E-buses) and Electrical Energy Storage (EES) systems, will see Lithium demand grow at >10% cagr through to the end of decade to 300ktpa+ from ~200ktpa today.

The major demand swing factor is from EV for whom the outlook continues to brighten. This is evidenced by the major car manufacturer's commitment to rolling out EV's and by the multi-billion dollar investment in Lithium-ion battery mega-factories by Tesla, Warren Buffett's BYD and others. Tesla's 50GWh Gigafactory (35GWh for EV production capacity; 15GWh for EES) will alone require ~25ktpa of Lithium at full capacity.

The Lithium-ion battery megafactories are coming



Note: Production capacity expected to triple in ~5yrs.
Source: Benchmark Minerals Intelligence

We wrote about the Lithium market comprehensively in our August 2013 monthly. Global average Lithium Carbonate contract prices have risen yoy to US$6,000/t+ and more recently the domestic spot prices in China have risen to ~US$14,000/t due to changing industry supply dynamics. Most of the world's Spodumene (a hard rock mineral) supply is coming from Greenbushes in WA. Its new Chinese (Tianqi Lithium) and US (Albemarle – acquirer of Rockwood) owners are now predominantly supplying their own downstream operations leading to restricted third party sales and a considerably tighter market. Whilst these domestic conditions are not (yet) indicative levels for main contract (global-average) prices, this nevertheless bodes well for the global market at large. As long as the market outside of China (namely Japanese and Korean cathode producers) depends almost exclusively on Chinese converters (converting mineral concentrates to Lithium chemicals), price risk remains to the upside. We would not be surprised to see medium-term Lithium Carbonate contract prices at US$9,000/t+ on a global average basis.

Undersupplied lithium markets should persist over the medium-term given the inability for any significant supply side response globally and the usual resource project development challenges. (We see ~100ktpa / only 5 genuine projects on a global basis that will be required to enter the market). Security of timely, stable, large-scale Lithium supply is a growing issue for end users across the globe.

Like most commodity producers and emerging projects, we desire assets at the lowest end of the cost curve and with strong economics. However in a strong and sustained rising price environment - well in excess of the marginal cost of production - select hard-rock mined, high-cost leverage stocks can continue to perform very well. As such we have invested in one brine-based, low-cost producer, Orocobre, and one hard-rock, high-cost leveraged producer, General Mining.

Orocobre

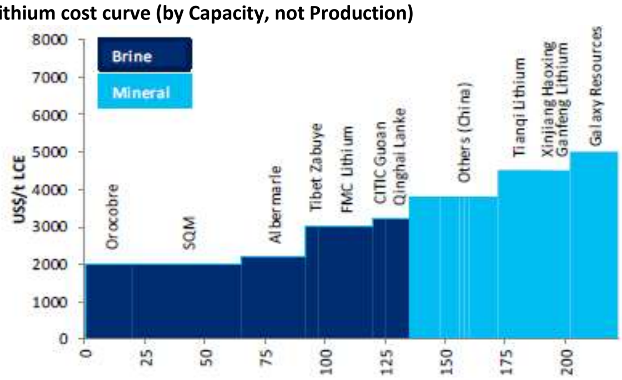
We have discussed our investment in Orocobre previously in February 2015, April 2014 & in August 2013 monthlies, detailing how the company has constructed its world-class, Lithium brine-based Olaroz project – the first of its kind to be built in the last 20 years.

Commissioning and plant design issues / bottlenecks saw the company experience delays in ramp up through 2015, where we took some profits and reduced our position. The resulting working capital shortfall saw the company need to raise equity twice, with the stock recently bottoming at $1.33/sh. Whilst not ideal, we viewed its issues as mechanical in nature - and importantly not hydrogeological (potentially fatal) - and addressable with time and money! Our research saw a downside case based on a working capital shortfall needing to possibly raise $30m @ ~$1.20/sh vs. an upside case of >$4/sh based on a 30ktpa expansion case. With this risk vs reward, we took the significant price weakness as an opportunity to substantially increase our position.

Orocobre is now ramping up with month on month increases in Lithium Carbonate production towards nameplate capacity and targeting to be free cashflow positive in 2Q CY16. We expect the stock to continue to perform well as the company achieves 17.5ktpa nameplate production and then looks towards expansion of production to of 30-40ktpa – of which the company is in active discussions with end consumers and financiers.

Orocobre's Olaroz is the only Lithium-brine project that has capacity to meet rising demand over the long-term in a timely manner and with modest capital intensity. When achieving nameplate production, ORE's Olaroz is likely to be the lowest cost producer in the world. In our opinion, Orocobre continues to be the best pure-play to the Lithium market and the Lithium-ion battery revolution.

Lithium cost curve (by Capacity, not Production)



Notes: Orocobre is not yet at nameplate. Galaxy not yet in production. Greenbushes not included.
Source: Citi Research, Company Reports, Roskill.

General Mining

Lithium converters finished inventories are depleting, driving a growing pursuit for new and secure Spodumene concentrate supply. This was evidenced General Mining's recent execution of a binding offtake with Mitsubishi Corp for all of its production.

Mt Cattlin in WA – owned 50% by Galaxy Resources and 50% (earn in) by General Mining and will in turn be the sole operator - is a highly attractive turnaround Spodumene asset which has substantial capex already sunk ($100m+) and is only a few months away from production start-up. The Mt Cattlin operation is forecast to produce ~120ktpa of Spodumene concentrate (or ~20kt of Lithium carbonate equivalent) and has scope to double its production into rising demand.

General Mining is fully funded and Mt Cattlin will be a large-scale, high-margin, imminent producer, with long mine life and exploration upside. General Mining and its 50/50 JV partners Galaxy Resources both boast well-aligned, competent management with a strong track record of successful execution.