FACTSHEET

Performance Returns

The Pegasus UCITS Fund returned +1.3% in January (GBP Institutional share class).

Monthly Review

The best headline monthly total return for European equities in over three years hides elevated cross asset volatility over the period. There were three >3% Eurostoxx moves in the first week of trade alone, compared to only four in 2014, with five-day realised volatility at three year highs. Macro news flow dominated with a focus on weakness in industrial commodities, surprise SNB action, confirmation of ECB QE and the Greek election that followed were destabilising for risk assets. Unhelpfully, it was also another month of net downgrades in the UK.

Against this backdrop, we were pleased the fund delivered absolute returns on both sides of the balance sheet.

Oil and currency tailwinds continue to underpin earnings momentum in IAG, although there were two other developments in the period that, at the margin, helped the equity to outperform. Firstly, there were renewed hopes of an Aer Lingus deal. Despite having had to upsize the offer twice, we feel the latest disclosed terms still allow for good returns. However, despite support from both Boards, there remains political risk around labour agreements and slot use which we await further clarity on.

Separately, Qatar Airways disclosed they had initiated a material shareholding (now the group's largest). Although the announcement wasn't accompanied by a formal codeshare/JV agreement (over and above the existing One World Alliance), closer ties to Middle Eastern carriers is ultimately good for capacity discipline (see Transatlantic routes with American), and we believe it could be mutually beneficial given the complementary network footprint. Validation of strategy from an industry peer is also encouraging, and we are excited to see how the relationship develops.

Our only other holding in the sector, easyJet, also made a good contribution to returns after a better than expected Q1 update. Despite yield headwinds from capacity growth (both competitively, and EZJ's own network expanding with some new and relatively immature slots at Gatwick), the growth in pricing was testament to the quality of the network and management's continued focus on optimising load factors.

Elsewhere in the large caps, we outlined our thinking on Vodafone and Whitbread in the last investor letter, and it was pleasing to see both continue to deliver. Performance in our midcap longs was more muted with a mix of modest returns and below-average capital employed.

Offsetting these moves was a reversal of recent gains in Dixons Carphone. This was, in part, because of a wider hedge fund de-grossing earlier in the month as factors such as the oil price rally squeezed short books, forcing unwinds of outperforming, 'consensual' longs. The situation wasn't helped by a downgrade from a large US bank asserting the group has gone "ex-growth". Concerns that recent consolidation amongst networks could prompt operators to move away from indirect channels also weighed. The former is a temporary rotation in positioning, and the subsequent deal with EE helps refute the latter and proves the value of large-scale indirect retail partners. Perversely, network consolidation may even lead to better pricing. We are relaxed about both variables and have made no changes to the position.

In the short book, the distribution of large cap returns was disappointing, with good contributions from resources and financials shorts offset by squeezes in food retail (particularly Tesco), although we have now closed the position in profit (position inception to date).

It was particularly pleasing to see our longstanding position in Glencore contribute as the mark to market delta turned more negative, renewing concerns on the group's highly levered capital structure. We are, however, mindful in the short term of the rally in some industrial commodities, coupled with favourable FX moves and a growing view that low inflation in China allows policy makers' room to ease, and have covered the position.

Gains also came from other longstanding positions in Tullow and Standard Chartered, where developments helped validate our view that capital structures and earnings expectations are still too aggressive in both cases for this stage in the cycle.

Performance in the short book was also boosted by good returns (ROCE >50%) on two relatively modest weightings where we felt the risk/reward, and recent market conditions, encouraged caution in building too large a position. Of note, Monitise materially re-based expectations (again) on further delays transitioning the business model. Managing investor expectations has always been a focus for the team on both the long and short side, and we've been sceptical for some time on aggressive guidance around ARPU and subscription targets. Although we struggle to see much upside for equity holders from the strategic review, we feel that elevated short interest (>10% FF) and liquidity considerations make for a less compelling thesis, and we have consequently closed it out.

Tesco was the only material outlier on the losing side of the short book. Although we still have structural concerns on competitive GM pressures, industry capacity and capital structure, amongst other things, better than expected current trading and management changes are helping investors see through these issues in the short term.

GBP Institutional Share Class (PEFUCGI ID)

	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Y-T-D
2010	-	-	-	-	-	-	-	-	-	0.1%	-2.2%	6.7%	4.5%
2011	-3.6%	3.1%	-1.8%	4.1%	-1.3%	2.4%	-1.5%	-4.9%	-4.7%	4.8%	-0.5%	0.5%	-3.7%
2012	-0.4%	4.4%	-1.7%	2.3%	-2.2%	-2.0%	-0.1%	1.0%	-1.5%	-0.3%	1.4%	-1.1%	-0.4%
2013	7.7%	4.8%	5.3%	0.6%	7.2%	0.5%	5.5%	-3.7%	3.8%	3.7%	1.4%	2.7%	46.8%
2014	-0.7%	5.9%	-1.9%	-9.9%	-2.3%	-4.3%	-1.3%	0.6%	-0.1%	-0.4%	-1.6%	-1.4%	-16.7%
2015	1.3%												1.3%

The performance figures quoted above represent the performance of the Pegasus UCITS Fund (GBP Institutional) since its launch on 1st Oct 2010. These performance figures refer to the past and past performance is not a guarantee of future performance or a reliable guide to future performance.

THE MANAGER

CLAREVILLE CAPITAL

David Yarrow is a Partner and Fund Manager at Clareville Capital. Prior to Clareville, David spent 8 years working as an institutional stockbroker in UK equities, both in London and New York. In 1993 he was appointed a Director of Equities at Natwest Securities where he worked until leaving to launch Clareville.

Angus Donaldson is a Partner and Fund Manager at Clareville Capital, whom he joined in September 2008. Prior to Clareville, Angus was a founding partner and Fund Manager at Corin Capital - a UK long short equity hedge fund. Previously, he was Managing Director and Head of UK Equity Sales at Dresdner Kleinwort Wasserstein.

FUND FACTS

Structure	UCITS Fund
Domicile	Ireland
Liquidity	Daily
AUM	$13.6m
Share Class	**Institutional**
Currency	EUR/GBP/CHF/USD
Mgt. Fee	1.75%
Perf. Fee	20%
Min Initial Subsc.	100,000
Date of Inception	01.10.2010
ISIN Codes	EUR: IE00B3QLJ113
	USD: IE00B3QZNH75
	CHF: IE00B3MBJQ07
	GBP: IE00B68Z1V62
	Pooled GBP: IE00B3RTD232
Share Class	**Retail**
Currency	EUR/GBP/CHF/USD
Mgt. Fee	2%
Perf. Fee	20%
Min Initial Subsc.	1000
ISIN Codes	EUR: IE00B3N9LL24
	USD: IE00B3SGTD66
	CHF: IE00B3SLGP29
	GBP: IE00B3YLLZ14
	Pooled GBP: IE00B4M22S36

COMPOSITION OF FUND

Top long holdings

	%
1 Whitbread Plc	8.7
2 Vodafone Plc	8.7
3 Dixons Carphone Plc	8.4
4 easyJet Plc	5.1
5 IAG Plc	5.0
6 Smith & Nephew Plc	4.4
7 Booker Group Plc	3.0
8 Howden Joinery Plc	2.1
9 Wood Group Plc	1.8
10 Ashtead Plc	1.7

Sector Breakdown

	Long (%)	Short (%)
Automobiles and Parts	0	0
Banks	0	-4.2
Basic Resources	0	-5.5
Chemicals	0	0
Construction & Materials	0	0
Financial Services	0	0
Food and Beverage	0	0
Health Care	0	0
Industrial Goods & Services	3.8	0
Insurance	0	0
Media	0	0
Oil & Gas	1.8	-6
Personal & Household Goods	0	0
Real Estate	0	0
Retail	12.9	-2.8
Technology	0	0
Telecommunications	8.7	-0.4
Travel & Leisure	18.9	0
Utilities	0	0

Top positive stock contributors

	Contribution (%)
1 IAG Plc	0.74
2 Glencore Plc	0.71
3 easyJet Plc	0.49
4 Vodafone Plc	0.48
5 Whitbread Plc	0.44

Top negative stock contributors

	Contribution (%)
1 Dixons Carphone Plc	-0.48
2 Tesco Plc	-0.45
3 Fresnillo Plc	-0.37
4 BG Group Plc	-0.29
5 Booker Plc	-0.24

Exposures

Long	60.7%
Short	-19.0%
Net	41.7%
Gross	79.7%
Total number of long positions	12
Total number of short positions	8

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