Pegasus UCITS Fund

UK Equity L/S

February 2015

FACTSHEET

Performance Returns

The Pegasus UCITS Fund returned +0.5% in February (GBP Institutional share class).

Monthly Review

Whitbread's Q4 results were well received, with trading and expansion targets continuing to move in-line with our expectations. Although not obviously 'cheap' on conventional valuation metrics, we don't think the rating is demanding for one of the best cyclical and structural roll out stories in the index. We continue to see upside potential throughout the P&L as the portfolio matures.

We were pleased to see another positive revision to group guidance at IAG. Revenue and cost synergies continue to build out across the group, improving return on sales and capital along the way. We gave back some of these sector gains in our LCC exposure against a relatively benign period of news flow, and have made no changes to our holdings here.

We also gave back some recent gains in Vodafone as a combination of FX headwinds (translational), roaming fee cuts and tax regime changes prompted some modest cuts to forecasts. The Indian spectrum auction has also caused some concern, although we'd note the majority of the cost is spread over the licence duration. Whilst recent news flow has been unhelpful, we still expect Vodafone to return to organic growth, which we believe will drive a rerating.

Elsewhere, Dixons Carphone was a positive contributor in what has been a slightly frustrating position for us year-to-date as one of the fund's largest weightings (and the market's worst performing equities).

With scope to double earnings from revenue and cost synergies alone (we are ahead on both NPV as P4U accelerates SWAS, as well as quantum as risk weightings are traded away), investors do not need to buy into a vision of category convergence and capacity withdrawal. Beyond this, little is priced for CWS potential, ARPU uplifts (with better accessory attachment rates) or rationalising store footprint (not the same as going 'ex growth' as one US bank has suggested).

Against the current backdrop of network consolidation, we also feel that renewed concerns around the threat of operators cutting ties and continuing to open their own stores are overstated. We feel this overlooks how mutually beneficial the relationship can be. We are also mindful that Carphone's share of new connections means it is likely now too large to disintermediate in the medium term (the withdrawal and subsequent re-signing of Vodafone three years later is a case in point).

In the mid cap book, after aggressively de-risking the balance sheet into the ratings compression last year it has been well documented that selectively re-allocating capital across second liners has been front of mind, and it is pleasing to see these new positions already contributing to returns. Wood Group is a case in point.

Although our shorts across the resources space over the last few quarters have been accretive (particularly in E&P where operational and financial leverage can be the most acute), unusually for us we've had limited exposure on the other side. However, with sector valuations at absolute and relative all-time lows on some metrics, we saw the growing disconnect between the industry and the equity as an interesting opportunity to re-engage.

It is during times of industry distress that the merits of the Wood model come to the fore. Its' opex-led, cost plus approach give it one of the lowest risk order book's in the sector. Returns on capital are good (asset light), which helps with the often cited industry criticism of cash conversion. It also helps grow the dividend 25%. Modest gearing (ND/EBITDA trending to near zero by year end; also one of the best in the industry) allows them to continue making acquisitions, an area where management has an excellent track record. Although the company (understandably) did not give any quantitative guidance at the FY results presentation in mid-February, it did qualitatively reassure on the resilience of the model, something we believe will reward investors.

These net gains on the long side were offset by some losses across the short book. The drag from our resources shorts has reversed (and some) at the time of writing, with weakness in underlying commodities and various company-specific factors weighing on cash flow estimates, along with capital structure and dividend considerations. We also gave back gains from some of our small cap short positions as market sentiment improved over the month, however we are still firmly 'up' on these positions inception to date.

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%	0.5%											1.9%

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

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

	%
Dixons Carphone Plc	9.4
Whitbread Plc	7.7
BT Group Plc	6.6
Vodafone Group Plc	5.7
Wood Group Plc	5.4
IAG Plc	4.9
Easyjet Plc	4.6
Man Group Plc	4.5
Regus Plc	4.3
Smith & Nephew Plc	3.7

Sector Breakdown

	Long (%)	Short (%)
Automobiles and Parts	0	0
Banks	0	-2.1
Basic Resources	0	-2.7
Chemicals	0	0
Construction & Materials	0	0
Financial Services	0	0
Food and Beverage	0	0
Health Care	0	0
Industrial Goods & Services	5.8	0
Insurance	0	0
Media	0	0
Oil & Gas	2.7	-3.0
Personal & Household Goods	0	0
Real Estate	0	0
Retail	19.6	-1.4
Technology	0	0
Telecommunications	13.2	-0.2
Travel & Leisure	28.6	0
Utilities	0	0

Top positive stock contributors

	Contribution (%)
Whitbread Plc	0.48
Wood Group Plc	0.45
IAG Plc	0.35
Booker Plc	0.25
Howden Joinery Plc	0.24

Top negative stock contributors

	Contribution (%)
Monitise Plc	-0.29
Easyjet Plc	-0.28
Vodafone Plc	-0.27
Glencore Plc	-0.26
BG Group Plc	-0.23

Exposures

Long	86.2%
Short	-8.8%
Net	77.4%
Gross	95.0%
Total number of long positions	21
Total number of short positions	6

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