

FACTSHEET

Performance Returns

The Pegasus UCITS Fund returned -1.42% in December (EUR Institutional share class).

Monthly Review

UK equities continued to underperform most developed and emerging market indices in December. Similar to the shape we saw in October, the month began with significant de-risking with some indices again making fresh year-to-date lows before rallying aggressively into month end. We noted in the last letter that single stock participation continued to be poor. It was a combination of this low conviction 'travel and arrive' rally into December's QE-less ECB meeting, heightened geopolitical risks (Greece) and the continued destabilising effect of the falling oil price that helped catalyse the sell-off. Extreme levels were tested across several 'overbought/oversold' market risk indicators, helping fuel a moderate year end squeeze.

Against this risk off/on backdrop the fund saw relative outperformance in the long book where we made small gains, however this was more than offset by the volatility in food retail equity and some other single stock moves on the short side. Taking each book in turn, we have written in previous investor letters about our enthusiasm for product cycle and macro tailwinds at Dixons Carphone, and it was clear from December's trading update that the group had momentum coming into the key Christmas trading period. In particular, we were pleased to see upgrades to both the amount and present value of group synergies coming through earlier than we had anticipated. Although not core to our thesis, we also feel that little is priced in for growth in CWS or indeed post pay ARPU (amongst other things), despite the progress being made.

Elsewhere the net effect of lower fuel prices and a stronger dollar continues to help earnings momentum in IAG, although the phasing of hedging means this is largely a 2016 story. Confirmation of a failed bid for Aer Lingus in an attempt to further consolidate Heathrow (#1 and #4 market share respectfully) also helped the shares to rally. Although valuation and commitment considerations to labour agreements and slot use in particular are front of mind (the Irish government owns 25%), there is clearly scope to improve Aer Lingus's relatively poor return on sales (and capital) towards IAG's own.

Whitbread's Q3 results were well received in what has been a slightly frustrating position for us to date. Although investment into product and technology has tempered the upgrade cycle slightly, a combination of muted supply growth, lack of competitor investment through the cycle, improving consumer trends and modest yields (relative to peak) amongst other factors are supportive of both roll out stories.

In the midcap area, we recently commented that we had been selectively adding exposure on the long side, although the amount of capital employed is still below where we would like it to be. These changes have already started contributing to fund returns, and we will continue to look for opportunities here.

We gave back some of the performance in the long book in our Vodafone holding due to concerns over the potential need to issue equity to fund a deal. Whilst industry consolidation is accelerating, and a deal would help with some deflationary convergence issues, a recent meeting with management convinced us that it wasn't imminent, and we made no changes to the position.

Offsetting the alpha in the long book was our exposure to Tesco and Ocado as part of a wider squeeze in food retail, despite a material profit rebase from the former early in the period. Whilst trading at Tesco improved over Christmas, and capital discipline is getting better with capex and cost cuts, we question the sustainability of underlying trading trends (lack of meaningful price investment, capex now sub depreciation) and still have concerns over the group's capital structure. Ocado continued to extend its valuation premium to online retail peers in December despite a lack of earnings momentum. The slightly better than expected retail sales growth number reported early in the month was well received, although trends in basket size and product range are interesting for the bear case. The equity value has seemingly priced in international monetisation and an extension to the current Waitrose sourcing agreement, both of which we remain cautious of.

Euro Institutional Share Class

	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Y-T-D
2010	-	-	-	-	-	-	-	-	-	-0.30%	-2.18%	6.59%	3.95%
2011	-3.55%	3.20%	-1.68%	4.06%	-1.34%	2.46%	-1.39%	-4.69%	-4.76%	4.99%	-0.55%	0.39%	-3.43%
2012	-0.37%	4.34%	-1.76%	2.25%	-2.31%	-1.98%	-0.10%	0.93%	-1.54%	-0.16%	1.37%	-1.11%	-0.65%
2013	7.52%	4.68%	5.43%	0.57%	6.88%	0.51%	5.38%	-3.71%	3.75%	3.57%	1.35%	2.68%	45.49%
2014	-0.80%	5.91%	-2.05%	-10.11%	-2.45%	-4.44%	-1.44%	0.55%	-0.46%	-0.88%	-1.58%	-1.42%	-18.20%

The performance figures quoted above represent the performance of the Pegasus UCITS Fund (EUR 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	\$13.7m
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: IE00B3QLL113
	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	9.7
2 Dixons Carphone Plc	9.7
3 Vodafone Plc	9.6
4 IAG Plc	8.6
5 Weir Group Plc	3.3
6 easyJet Plc	2.7
7 Booker Group Plc	2.6
8 Howden Joinery Plc	2.1
9 Next Plc	2.1
10 Marks & Spencer Group Plc	1.5

Sector Breakdown

	Long (%)	Short (%)
Automobiles and Parts	0.0	0.0
Banks	0.0	-4.8
Basic Resources	0.0	-5.6
Chemicals	0.0	0.0
Construction & Materials	0.0	0.0
Financial Services	0.0	0.0
Food and Beverage	0.0	0.0
Health Care	0.0	0.0
Industrial Goods & Services	5.4	0.0
Insurance	0.0	0.0
Media	0.0	0.0
Oil & Gas	0.0	-3.7
Personal & Household Goods	0.0	0.0
Real Estate	0.0	0.0
Retail	15.9	-9.8
Technology	0.0	0.0
Telecommunications	9.6	-0.8
Travel & Leisure	21.1	0.0
Utilities	0.0	0.0

Top positive stock contributors

	Contribution (%)
1 Dixons Carphone Plc	0.87
2 Whitbread Plc	0.50
3 Monitise Plc	0.39
4 Glencore Plc	0.35
5 Booker Group Plc	0.32

Top negative stock contributors

	Contribution (%)
1 Ocado Group Plc	-0.80
2 Vodafone Group Plc	-0.49
3 Tesco Plc	-0.36
4 Weir World Plc	-0.25
5 Standard Chartered Plc	-0.23

Exposures

Long	73.0%
Short	-24.7%
Net	48.3%
Gross	97.7%
Total number of long positions	11
Total number of short positions	9

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