Pegasus UCITS Fund
UK Equity L/S

October 2014

FACTSHEET

Performance Returns

The Pegasus UCITS Fund returned -0.88% in October (EUR Institutional share class).

Monthly Review

The fund was down 88bp in October (FTSE All-Share TR -2.8%) in another volatile month for risk assets. The period began with significant de-risking across equity and credit markets with some indices making fresh year-to-date lows before rallying aggressively into month end. The market struggled to price downgraded global (including UK, and in particular, German) growth expectations against the withdrawal of US monetary stimulus. We felt these fears were overdone and made no material changes to our exposures, with leading activity indicators not yet consistent with any major slow-down. Whilst we are mindful of the 'Japanisation' of developed markets (largely Europe), moves in oil, FX (USD strength) and interest rate expectations should actually provide a growth tailwind.

We commented in September on the increasing level of capital employed in the short book, and despite the unwind towards month-end, our large cap positions helped the book deliver good alpha over the period. A disappointing trading update from Standard Chartered was a key contributor (shares -20%). Asset quality has been a focus for the team for some time given evolving impairment trends, and we have been scaling up the position since Q2 to a full weighting as the operating environment deteriorated. We continue to believe that increased investor (and indeed regulator) focus on improving capital ratios will solve for a further tempering of asset and ultimately revenue growth which is not fully captured in consensus expectations. Concerns over EM growth are compounding the issue with RWA pro-cyclicality (rising risk weights) meaning that RWA growth is likely to grow faster than asset growth. This also undermines future dividend prospects, removing yield support to the equity story.

Our thinking on selected resource names also continues to mature. A confluence of factors has helped develop our thesis on Tullow (shares -25% in October). When we initiated the position last year, Tullow's track record with the drill bit had encouraged the market to ascribe similarly high levels of success to future exploration activity, and the equity traded at a material premium to asset value. A run of unsuccessful well results has helped erode this premium and the asset value itself. The relative importance of these dry wells has also been increasing, for several reasons. The re-emergence of Majors competing for exploration rights has helped inflate drilling costs and asset prices, which is unhelpful for the relative attractiveness of the risk and reward, all things equal. However, not only is exploration ROCI falling, but the investment budget itself has halved, putting further pressure on campaigns to deliver the same absolute returns as they have done historically.

This budget has fallen partly for circular reasons (as the EV has fallen, the reinvestment ratio has solved to hold the equity gearing to exploration, assuming of course the risk of drilling is constant), and partly because of an increasingly capital intensive development budget (which has also contributed to the de-rating). The current, heavily indebted capital structure isn't helping, particularly at a time when renewed focus on capital discipline is taking liquidity out of the asset market (clearly the current oil price doesn't help here either) restricting Tullow's ability to dispose of assets in part or in full. The oil price is also unhelpful for debt covenants and indeed the sustainability of the dividend.

Elsewhere our midcap short book was more volatile, with several positions reversing material intra-month gains against a sharp unwind in positioning. In one instance the lack of incremental negatives in a trading update was enough for the equity to rally 50%. Whilst clearly this example is frustrating in the context of the structural impediments to reach the return on sales that the market expects, we have always been mindful of the short term optimism in the aftermath of a material re-base of expectations, and adjusted the weighting accordingly.

The negative return on the other side of the balance sheet was again skewed by our oil and gas services exposure. Despite inline trading updates and positive peer commentary, as well as continued momentum in most activity data points, the fall in the oil price has renewed concerns on capex discipline in the sector. Whilst a weak oil price is clearly a risk were it to sustain itself for a prolonged period, we feel our investments in this space are better placed to mitigate any slowdown relative to the last cycle in 2012. Against this risk on/off backdrop, the resilience of our other long positions was pleasing.

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%			-15.68%

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: 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 Weir Group Plc	9.5
2 Dixons Carphone Plc	6.5
3 Wood Group Plc	5.5
4 Vodafone Plc	4.7
5 Whitbread Plc	4.7
6 IAG Plc	3.4
7 Next Plc	2.1
8 Howden Joinery Plc	2.0

Top positive stock contributors

	Contribution (%)
1 Standard Chartered Plc	0.82
2 Dixons Carphone Plc	0.48
3 Whitbread Plc	0.29
4 Balfour Beatty Plc	0.24
5 Glencore Plc	0.20

Top negative stock contributors

	Contribution (%)
1 Weir Group Plc	-0.81
2 Wood Group Plc	-0.73
3 ASOS Plc	-0.64
4 Schroders Plc	-0.25
5 Monitise Plc	-0.24

Sector Breakdown

	Long (%)	Short (%)
Automobiles and Parts	0.0	0.0
Banks	0.0	-4.7
Basic Resources	0.0	-7.3
Chemicals	0.0	0.0
Construction & Materials	0.0	0.0
Financial Services	0.0	-2.0
Food and Beverage	0.0	0.0
Health Care	0.0	0.0
Industrial Goods & Services	11.4	0.0
Insurance	0.0	0.0
Media	0.0	-3.3
Oil & Gas	5.5	-2.4
Personal & Household Goods	0.0	-0.9
Real Estate	0.0	0.0
Retail	8.7	-24.4
Technology	0.0	0.0
Telecommunications	4.7	-2.7
Travel & Leisure	8.1	-4.7
Utilities	0.0	0.0

Exposures

Long	71.5%
Short	-53.6%
Net	17.9%
Gross	125.1%
Total number of long positions	9
Total number of short positions	16

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