FACTSHEET

Performance Returns

The Pegasus UCITS Fund returned -1.58% in November (EUR Institutional share class).

Monthly Review

November was a disappointing month for the fund with a return of -1.6% vs the FTSE All-Share +2.6%. Equity markets extended their rally from October's lows as risk premiums corrected from the growth slowdown over-reaction at the beginning of the quarter. A combination of a better than expected earnings season, falling oil price (good for GDP and monetary policy) and surprise moves by both Japan and China meant investors could not afford to be short central bank risk coming into December's ECB meeting. This 'fear of missing out' on European QE was seen in a general lack of participation (low volumes) and conviction, with elevated futures/cash levels suggesting that much of the rally was via the index rather than single stocks. Against this risk-on backdrop, the fund failed to participate for several reasons.

Firstly, the continuing un-wind of 'crowded' positioning, particularly at the beginning of the month, contributed to poor returns in the short book as several of our names outperformed the rally. Losses were concentrated in our midcaps, notably Ocado. Despite lacklustre trading updates from traditional food retail peers over the period the shares (like many expensive 'structural growth' UK midcaps) had a relatively high short interest and thus geared to improving risk appetite. What little we did learn, namely further industry margin contraction and the relative superiority of a competitor offering (similar efficiency for less capital intensity) amongst other things, was actually supportive of our position. However, as has been noted in previous letters, we are always mindful of the value at risk in second liners with extremes in positioning bringing with it lots of volatility, and we have revised several of these weightings accordingly. This unwind was also evident in our large cap shorts as our positions in traditional food retail and resources squeezed. However the overall return in this book was skewed by two other positions. We set out our thesis on valuation and NAV contraction at Tullow in the main body of the last investor letter, and further oil price weakness (now the longest drawdown since the GFC) continues to put pressure on the group's highly levered capital structure. Although some oil price hedging arrangements were put in place at much higher levels, the notional value fades over time such that, at spot prices, the group is in danger of breaching leverage covenants in early 2016. Whilst this slight oversimplification ignores any mitigating factors management can take (such as capex cuts), the brutal circularity of cutting investment to pay down a debt pile that continues to rise as the oil price falls is likely to continue to weigh on valuation. The other outlier in this book was a loss in our short position in IHG as a US activist shareholder published an open presentation to management on the potential value creation from industry consolidation. Whilst we agree that the backdrop for M&A is generally supportive, we felt the analysis ignored several other potential stumbling blocks, especially valuation (the assumptions around synergies, financing costs and required leverage were aggressive). We also question investor appetite of the acquirer to fund a rights issue for little earnings accretion. The shares have since reversed these gains to better reflect these issues and we have closed the position.

Secondly, although the performance of our midcap longs was mixed over the period, it has been well documented in recent investor letters that the level of capital employed here remains below average and as such the contribution to fund performance from this book was modest. A combination of ongoing ratings compression, liquidity withdrawal and modest negative revisions to UK economic growth make this a difficult area to allocate capital to, however it is an area of focus for the team and we have been selectively adding exposure here.

Thirdly, although most of our large cap longs outperformed the index, some of our bigger weightings lagged. This, coupled with the continued underperformance of our oil and gas services exposure (which we have been scaling down) led to a poor return for this book overall. Whilst we are mindful of the differences between this unconventional drilling cycle and the last in 2012, the oil price is clearly bad for sentiment (valuation) and indeed top line growth prospects in the short term, and we have reduced our exposure.

There were, however, some encouraging developments in the large cap long book. Dixons Carphone made another solid contribution ahead of an interim update pre-Christmas, as investors look forward to positive macro and product tailwinds over the group's key trading period. We also added to our position in Vodafone where we feel a return to growth will continue to drive the re-rating.

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%		-17.02%

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	$14.8m
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 Vodafone Group Plc	9.9
2 Dixons Carphone Plc	9.7
3 Whitbread Plc	6.7
4 Weir Group Plc	6.0
5 IAG Plc	5.8
6 Howden Joinery Group Plc	2.0
7 Next Plc	2.0
8 Wood Group Plc	1.9
9 Marks & Spencer Group	1.5
10 Booker Group	0.7

Sector Breakdown

	Long (%)	Short (%)
Automobiles and Parts	0.0	0.0
Banks	0.0	-1.5
Basic Resources	0.0	-6.3
Chemicals	0.0	0.0
Construction & Materials	0.0	0.0
Financial Services	0.0	-1.5
Food and Beverage	0.0	0.0
Health Care	0.0	0.0
Industrial Goods & Services	8.0	0.0
Insurance	0.0	0.0
Media	0.0	-2.5
Oil & Gas	1.9	-3.1
Personal & Household Goods	0.0	0.0
Real Estate	0.0	0.0
Retail	14.0	-10.6
Technology	0.0	0.0
Telecommunications	9.9	-2.4
Travel & Leisure	12.5	-3.5
Utilities	0.0	0.0

Top positive stock contributors

	Contribution (%)
1 Vodafone Group Plc	0.92
2 IAG Plc	0.47
3 Dixons Carphone Plc	0.41
4 Tullow Oil Plc	0.31
5 Whitbread Plc	0.26

Top negative stock contributors

	Contribution (%)
1 Weir Group Plc	-1.41
2 Ocado Group Plc	-1.26
3 IHG Plc	-0.55
4 AO World Plc	-0.48
5 Wood Group Plc	-0.27

Exposures

Long	71.9%
Short	-31.3%
Net	40.6%
Gross	103.2%
Total number of long positions	11
Total number of short positions	12

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