The Bronte Amalthea Fund is a global long/short fund targeting double digit returns over the long term, managed by a performance orientated firm with a process and portfolio that we feel is genuinely different. Objectives include lowering the risk of permanent loss of capital and providing global diversification without the market/drawdown risks typical of long-only funds. We believe a highly diversified short book substantially reduces risk and enables profits to be made in tough markets.

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The fund was up 8.17% (6.7% in USD) in March. March was a very good month for our strategy after several very tough months. Our returns for the past year are not what we would expect or hope for, but we think we are on the right path. About half of the returns in March came from our short book. This was the first month (in many) when shorting was profitable.
In our December letter we discussed the wild mania gripping markets, particularly in:

a) US growth stocks, US speculative stocks and above all US speculative growth stocks;
b) European (and indeed global) ESG stocks, of which those that were “promotes” (as opposed to real and viable businesses) had performed best;
c) China ADRs listed in the US, especially ones with a whiff of fraud about them; and
d) The speculative end of certain other English-language markets.

We could have added to that list an irrational desire to buy European stocks considered to be debt alternatives without regard to the quality of the underlying assets. This was a very difficult market for us. We tend to be long high-quality, stable businesses that underperform euphoric markets while we short stocks often promoted to retail investors. It was these promotes, purchased most avidly by the most unsophisticated of newbie investors, that caused us most trouble in our short book.

One could look at the averages and conclude nothing has changed. Markets are at all-time highs, including both the US S&P 500 and broader global indices. Our short book should still be suffering, but fortunately lately it has not. At the risk of jinxing ourselves, it appears as if the wild retail mania that we saw from November to February (and which we wrote about extensively in our December letter) has eased off a bit. Newbie retail investors betting on speculative stocks tipped by friends or internet chat boards are now doing relatively poorly—which tends to mean we are doing relatively well.

What has surprised us however is how much the insanity has infected the “top end” of town. There are Wall Street blow-ups of levered long investors at all time market highs. Warren Buffett famously said that “It’s only when the tide goes out that you learn who’s been swimming naked”. He was wrong. The tide isn’t out at all. Markets are at all-time highs and levered long funds are already blowing up.

**Archegos Capital**

The debacle at Archegos Capital is extraordinary. Archegos is (or was) a family office of the former manager of Tiger Asia, a large hedge fund. Tiger Asia was progeny of the Tiger Fund complex, and the manager Bill Hwang was a protégé of Julian Robertson, one of the grandfathers of the hedge fund industry. This fund had pedigree. Yet it imploded, leaving multi-billion-dollar losses for certain counterparties, namely Nomura and Credit Suisse. The predecessor fund Tiger Asia closed after the firm (not the manager) pled guilty to criminal fraud. Bill Hwang (the manager) was rich, super rich. Press accounts have estimated his personal wealth to be in the range of US$8 billion. And yet somehow he felt it rational to lever that amount five to seven times, risking everything to buy more equities at ever-higher prices. And he did it in a lightly diversified portfolio, often in controversial names. The Wall Street Journal reports “[Hwang] liked to focus on stocks that were heavily ‘shorted,’ or had a high level of bearish positions, according to someone familiar with the trades...”.

A highly-levered, lightly-diversified portfolio of controversial names will kill you in the end. You are inevitably going to get one wrong one day—a position will fall 25 percent or more
suddenly—and the leverage and margin calls will do the rest. It is simply extraordinary to us that someone with as much market experience would gamble in a fashion reminiscent of the hordes of retail investors buying garbage stocks on phone apps from Robinhood or other retail focused brokers.

But if the reports are to be believed, it wasn’t a garbage stock that triggered the rout. It was Viacom, a global media giant owning the American CBS Network, Paramount Pictures, MTV and many other media assets. Sure, Viacom is a controversial stock: old media is decaying and the young watch far less network TV. But it is a real business even though the price chart looks like that of a penny stock fraud.

![VIACOMCBS (VIAC US)](image)

The management of Viacom looked at the stock chart, did the math, and decided to issue shares. Viacom did a large and unexpected placement near the highs and the stock rapidly fell 25 percent. That was enough to trigger sequential margin calls over the whole Archegos portfolio.

The eagle-eyed will observe that Viacom is still trading above where it was at the end of 2020. You might ask how a stock falling back to levels last seen a few months ago can trigger a multibillion-dollar rout. The answer: degenerate gambling. The manager just levered up those profits and bought more shares in even more controversial stocks (some of which we were alas short and were squeezed on, though such positions were deliberately even tinier than usual).

**It is still a bull market though**

Even though we have started to make money on our shorts (and at the risk of cursing ourselves think we will continue to do so), this is a bull market and it is still a hostile environment for people as bearish as us.

The case in point is the debacle at Greensill. Greensill is (or rather was) a supply chain financier, legally domiciled in the Australian town of Bundaberg but operated out of London.
It was, it seemed obvious to us, a last-resort financier to some sketchy credits, even before the recent fuller account of its risk-taking had come to light. Losses on these credits are likely to be in the US$5-10 billion range. A large amount of those losses sit in a small captive German bank and are causing the German banking regulator grief. But far more sit in funds marketed by Credit Suisse to their high-net-worth clients.

Credit Suisse told their clients that these funds were low risk because the underlying credits were insured by a double-A rated insurer. They have told the market that the fund will have only minimal losses, as they expect to collect from insurers.

The insurer turned out to be Insurance Australia Group. Insurance Australia Group says that either the policies are not effective, or they are reinsured anyway, so they will have no losses. The reinsurer (Tokio Marine) says they will have minimal losses.

We genuinely have only guesses as to where the losses will sit. But they will sit somewhere. In a bear market, all of these stocks would be heavily discounted because they face large potential losses. In a bull market, none of the stocks are discounted because all the holders believe that the losses sit elsewhere.

On that measure, it is most certainly still a bull market. Shareholders do not seem worried that any of these companies will be left holding the bag.

**Where to from here?**

Our December letter compared the then-current market to the end of the 1960s bull market that John Brooks’ excellent book so brilliantly portrayed. That may be wishful thinking on our part. In that period the broad indexes fell, but only by a typical bear-market amount. The playthings of retail investors, the go-go growth stocks and the frauds, fell by 90-100 percent.

This would be a good outcome for us. We hope our view of the parallels to that period is correct. And so far—with minor exceptions—it has looked that way since the garbage stock turn in late February.

But we could see outcomes worse than that for our strategy. The last day of March, and to a lesser extent the first day of April, looked like they were ripped straight out of January or early February. The garbage stocks rallied, and our short book had many names we think worthless that rose more than ten percent. There may be many such reversals on the way. We hope they are not large. But even if they are large, we think we will manage okay, and we try to construct our short portfolio to endure such moves. Implied volatility on upside options, the best protection we have found for our short book, is getting cheaper. Such options protect us from at least some of the risks we face. And we are pretty careful to try to recognize (and to avoid) the rest.

Thanks again for the trust you put in us.