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.

<table>
<thead>
<tr>
<th>Fund Features</th>
<th>Investment Objective</th>
<th>Portfolio Analytics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Min. initial investment</td>
<td>Maximise risk-adjusted returns with high double-digit returns over 3-year periods.</td>
<td>Metric</td>
</tr>
<tr>
<td>Min additional investment</td>
<td>$100,000 (for qualifying investors)</td>
<td>Sharpe Ratio*</td>
</tr>
<tr>
<td>Applications/redeemments</td>
<td>Annual</td>
<td>Sortino Ratio</td>
</tr>
<tr>
<td>Distribution fee</td>
<td>Annual</td>
<td>Annualised Standard Deviation</td>
</tr>
<tr>
<td>Management fee</td>
<td>1.5%</td>
<td>Largest Monthly Loss</td>
</tr>
<tr>
<td>Performance allocation</td>
<td>20%</td>
<td>Largest Drawdown</td>
</tr>
<tr>
<td>Administrator</td>
<td>Citco Fund Services</td>
<td>Winning Month Ratio</td>
</tr>
<tr>
<td>Custodians/PBs</td>
<td>Fidelity, Morgan Stanley, JP Morgan</td>
<td>Cumulative return (in AUD)</td>
</tr>
<tr>
<td>Auditor</td>
<td>Ernst &amp; Young</td>
<td>1-year annualised return</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3-year annualised return</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5-year annualised return</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Annual return since inception</td>
</tr>
</tbody>
</table>

The fund was down 2.21% for June and up 6.50% for the quarter. This compares with +4.57% and +9.11% for the diversified ACWI global index (in $A). Across the quarter longs led the ACWI whilst our shorts lagged it. This is the kind of outcome we seek, but it certainly wasn’t smooth sailing as markets jerked savagely back to favoring promotional stocks in the latter half of the quarter. Under the hood, some of our larger longs such as Alphabet and Swedish Match made attractive contributions. We will talk later in this letter of Regeneron, a new entrant to the portfolio, that helped as well. (cont.)
On the short side, biotech and precious metals were our least successful sectors, but we enjoyed some wins as well with over 60 short positions falling by 30% or more over the quarter.

**End of Financial Year**

The fund’s accountant, Ernst & Young, will be calculating the annual distribution the fund will make. The distribution is based on realised gains that are generally taxable whereas the gains that are reported to you each month include unrealised gains. The fund is down for the year and at this stage, we anticipate there will not be a distribution.

However, if there is a distribution you will receive (we anticipate in early August):

- An annual tax statement;
- A distribution statement; and
- If you have elected to re-invest, a contract note detailing the number of additional units issued in the fund

If a cash distribution is determined and you have elected not to re-invest in the fund, then the payment will be made to your previously nominated bank account within approximately 2 business days of these documents being issued.

Once the distribution is determined the fund will also issue a second June 2020 holding statement. But unlike the one sent with this letter this second one will be “ex-dividend” i.e. it will show your holdings at 30 June 2021 after allowing for the distribution from the fund.

**Quarterly Review**

Our December letter detailed just how over-the-top the retail stock boom had become. Millions of Americans (and Australians, though to a much lesser extent Europeans) had opened online trading accounts and were buying shares in companies that they had never heard of, recommended online by people they had never met, and sometimes with money that they did not have.

Worse yet, they were apparently making money by doing so. Seemingly crazy behaviors received positive reinforcement – to the extent that the question became “why aren’t you participating?”

But it got more extreme still. Millions of seemingly sensible adults were buying functionally useless digital tokens with names like Dogecoin endorsed by Twitter personalities. We have no position in crypto – so this is for interest only – but it tells you where in the mania we are.
Dogecoin as a marker
Dogecoin was specifically designed as a joke cryptocurrency, a couple of hours work for a bored programmer, with features that make it deliberately unattractive as an object of speculation.

It became not only an object of speculation. At its peak it was the object of speculation for the masses.

You may think that we are exaggerating – but Google reveals the scale of interest. At peak, and in almost any part of the world, if you asked Google “how to...” it filled in the rest of the request as “how to buy Dogecoin”

Dogecoin at peak had a market cap of about the same as BHP or Target Corporation. Put another way, for the same money you could buy all of BHP (a company with operating cash flow of USD17 billion) or all the stock of a functionally useless digital token developed in a couple of hours by a bored programmer.

Please make a sensible choice.

When you thought it could not get any crazier, we had multiple crypto coins with nonsensical use cases notable only for the famous people that endorsed them. This rag-tag crew of crypto-experts included Barcelona football players, Bollywood celebrities and internet famous porn stars.

On the day of writing, Elon Musk, one of the world’s richest men, put out a tweet endorsing a crypto-coin called “Baby Doge” with no use case whatsoever.
Over 200 thousand people “liked” this tweet and the coin went up 400 percent on meaningful volumes traded.

“Baby Doge, doo, doo, doo, doo, doo” is now an investment thesis.

As stated, we have no position in cryptocurrency and so all this behavior just amuses us. In stocks, by contrast, it petrifies us.

We short stocks in questionable companies most people have never heard of recommended by people you might meet online (and where, often times, we believe they have a history of malfeasance). This is usually a pretty good indicator for a short. Rubbery companies recommended by disreputable people normally—eventually—decline in value.

Alas in late 2020 and early and mid 2021 garbage companies recommended by disreputable people go way, way up. And that makes it very hard for us to make money.

**How to look stupid: choose wisely**

This is a bubble. Bubbles make market participants look stupid.

i. If you participate in the bubble you will – like other participants – implode on the way down. You will look stupid in a crowd after the bubble. Being stupid in a crowd has limited career risk, but it is still stupid.

ii. If you do not participate in a bubble you will underperform on the way up, your returns will be lousy, and your clients will leave you. As a money manager your perfectly good business will disappear, and you will look stupid. Moreover, you will look uniquely stupid and thus be the subject of derision.

iii. If you fight the bubble, your shorts will roll you over, you will lose frightening amounts of money and you will look stupid because you are stupid.

The very best option of course would be to participate on the way up but have some foolproof sell signal which told you the bubble was over and thus allow you to avoid the unpleasant but entirely predictable end game.
We do not know how to do this. Maybe some mathematical hedge funds have found sophisticated tells that are good enough, but they are not sharing them with us, and we doubt they will share them with you.

We are contrarian enough to not want to participate in the mania. We are almost contrarian enough to bet hard against the mania, but we are not that stupid. We genuinely believe that our first and foremost duty is investment survival. And betting hard against the mania is a path to investment oblivion.

We are firmly in the second camp. We are not participating. We think that is rational. We ask for your understanding concerning our underwhelming (but not threatening) performance.

But we are trying to be smart about how we do not participate. We want to remain short the most nonsensical stocks we can find – and short in size. And we are doing so. But to avoid being carted off we are doing three things:

a) adding a derivative overlay to hedge some of the excesses of the nonsense we are short;
b) improving our portfolio review processes to better manage such risks; and
c) as always, trying to buy good longs at reasonable prices

Of these, finding new longs is harder. We can find “value” longs, but they are merely okay businesses (rather than the really good businesses we try to find) and they are only “value” on a relative basis. We have added small positions in Glaxo, Sanofi and a few other companies. We have however managed to add a large position in Regeneron, a “growth stock” that we think is very reasonably priced. For us this is rare so at the end of this note we will give that company a write-up.

**The March/April reprieve**

During March and some of April the mania cooled a fraction. The reprieve was only brief – but it did act somewhat as a proof of concept. When the mania cooled, we made good returns. We gave it back on the turn (which was unfortunate but sort of expected). But – if this modest cooling was any demonstration – we are well positioned for a downturn whilst managing to tread water in the middle of this manic market.

As stated, and on the evidence of a few weeks of reprieve in the first part of the second quarter, we are managing the trick of rationally taking option ii above, but leaving us some upside when the market turns down.

**A new big long**

Bronte’s long book turns over very slowly indeed. We believe that in the end holding the biggest pile of stock in high quality companies wins – that capitalism generally is a game of rewarding winners – and we hope to hold the winners.
The usual way of doing this is to sit on cash for considerable periods of time (often seven plus years) hoping to find a time when a high-quality company in your field of expertise drifts into a price that makes sense. Warren Buffett has been the most famous advocate of this method. However, the market has not been “cheap enough for Uncle Warren” for about a decade and his pile of cash has grown obscenely large.

Bronte, by contrast, tries to short the most diverse pile of crappy companies that we can. One day when the market falls those shorts will turn into cash. That cash we use to buy a few high-quality companies that we plan never to sell.

Over a few market cycles we think this will turn into a large pile of winners.

It is very rare that we add a new substantial long position. Given we have added a new full-sized position this year – mostly during the March/April reprieve – we should explain it to you.

**Regeneron: a winner in mouse genetics**

Regeneron is a large and successful biotech company whose revenue is largely dependent on one drug (Eylea) whose exclusivity runs out in 2024-25.

Eylea is a treatment for wet macular degeneration, the most common cause of blindness in old people. It cannot cure blindness, but it can, with monthly injections, stop eyesight deteriorating. These monthly injections are alas in the eye which sounds worse than it is. (There are no nerve endings, so it is frightening but painless.)

Blindness has very nasty social and economic consequences. Large avoided-costs (the cost of looking after blind old people) allows Regeneron to charge a lot for Eylea. Eylea is – for example – the biggest single draw on the Australian Pharmaceutical Benefits Scheme. The relatively short-dated patent for Eylea is the reason Regeneron trades at a low earnings multiple. (It is roughly 10-12 times earnings at the price we bought it.)

But it is not for Eylea you own Regeneron. The real reason for owning the stock is the platform that Regeneron has in mouse genetics.

Regeneron has a process for rapidly and accurately genetically modifying mice. They have mice that have, for instance, largely human immune systems. Humanized mice sound like science fiction, but we assure you that they are commonplace now and there are thousands of different variants.

Humanized mice are profoundly useful in drug development. For instance, you can give humanized mice COVID-19 and you can find the mice that are preferentially good at fighting the disease. What this means is that the mice develop antibodies which are key to fighting disease. And as these are humanized mice they are (with minor caveats) effectively human antibodies.
The company then has to find the cells that produce those antibodies, clone those cells into Chinese hamster ovary cells (a standard stem cell line) and mass produce the antibodies as drugs.

These drugs – on the evidence so far – work pretty well. The “experimental” COVID drug that was given to Donald Trump when he was very sick was developed this way. When the former President received the drug, it was not yet able to be mass produced, as it now can be. And it works, though it is far more effective in reducing the length of hospital stays than in reducing actual deaths. [The average reduction in hospital stays is about 4 days, the reduction in mortality amongst hospitalized patients is about 10 percent.]

The tell here though is that they were so confident that the drug worked and was likely to be safe that they gave an experimental drug to the President of the United States. That reflects amazing confidence in the platform.

The platform can be used to develop treatments for a wide range of human diseases.

Regeneron operate a highly automated genetics facility which has sequenced and linked the electronic health records of more than 1.5 million people across the Geisinger Health System and the UK Biobank.

In a project that redefines what is meant by “big data” they are correlating genetics to disease prevalence. They will then modify mice to predispose the mice to human diseases and hopefully mass produce fully human antibodies to those diseases. This platform may generate dozens of drugs for a very wide range of currently difficult to treat diseases.

Regeneron will prove an attractive holding if:

- Eylea has a long post-patent life (a distinct possibility as doctors will be conservative about switching to a biosimilar drug injected into the eyes); and
- Dupixent – a modest blockbuster drug partly owned by Sanofi – produces sales at the low end of estimated ranges.

It will be a multi-bagger stock from here if, additionally, they develop half a dozen new drugs from the mouse platform.

This is a growth stock and an important one, but it is rare that one of these comes into a price range we consider worthy of a full-sized position.

The future

Overall, this quarter has proven successful, and far more so than the recent past, but the mania revived towards its end and again hurt our short portfolio of promotional stocks. We have taken steps to mitigate the risks, but do not expect us to participate in a continued mania: it is not us, and we do not think it is rational. Meanwhile, as with Regeneron, we will try to buy good quality stocks for the very long run.

Thanks again for the trust you show in us