Bronte Capital
Amalthea Fund

12 September 2013

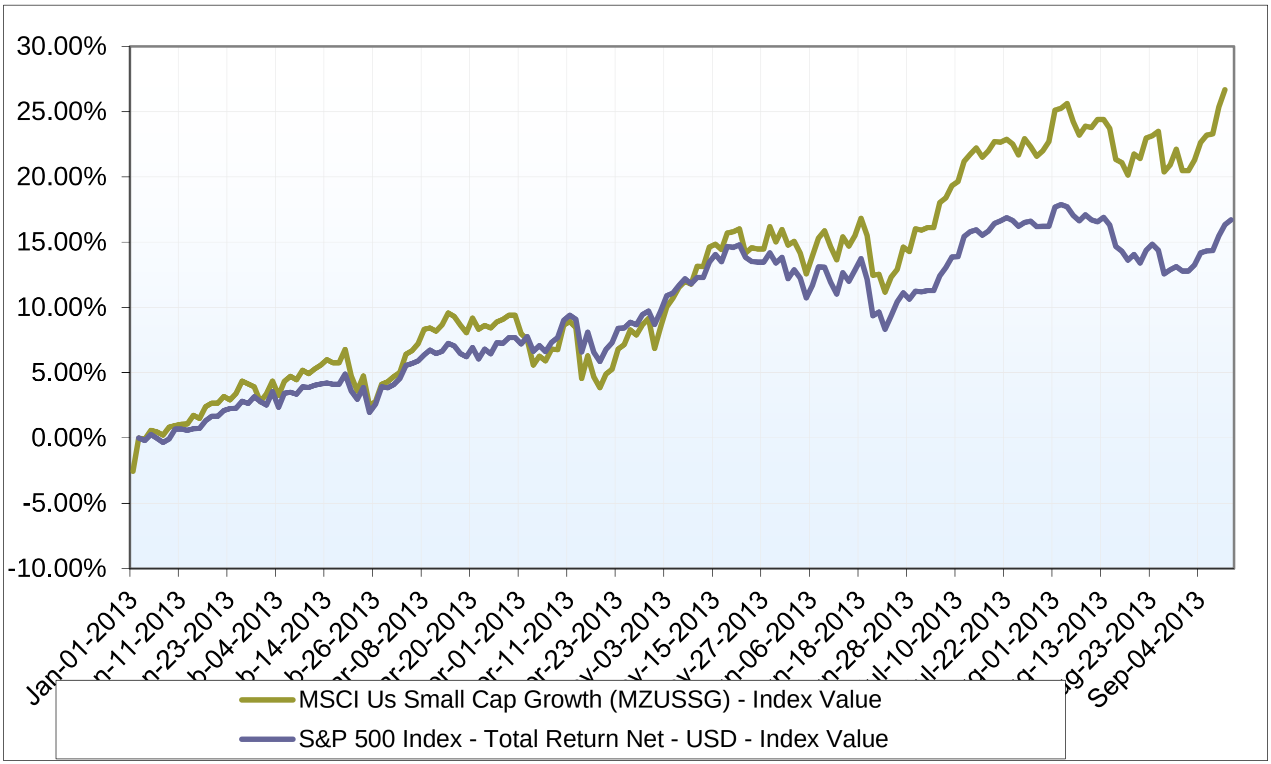
Investors' Letter for August 2013

We were down low single digits during the month – and whilst the number is non-threatening and within the range of expected outcomes – it is a percent or two worse than we would have expected and below what we have positioned the portfolio for.

These are not the numbers we are looking for.

We maintain our positioning of (mostly) long high-quality large-cap stocks and short (mostly) small cap promotions and again this is not working very well. It is very hard for us to generate excess returns if small cap stocks sold on *promise* trade better than large caps offering *stable earnings*.

We have an index of this we have reported for the last few months – which is the S&P vs the MSCI small cap US growth. Here it is for the year to date.



And below is for August. Again this spread widened by about a percent. **We find it very difficult to outperform whilst this spread is widening...**

The "hope index" has been widening since mid-May and our performance has been weaker than we would like since then too. That is the story of our year…

During the last month the spread only widened after the middle of the month as per the following chart. We were very happy with our results mid-month. After that not so much…

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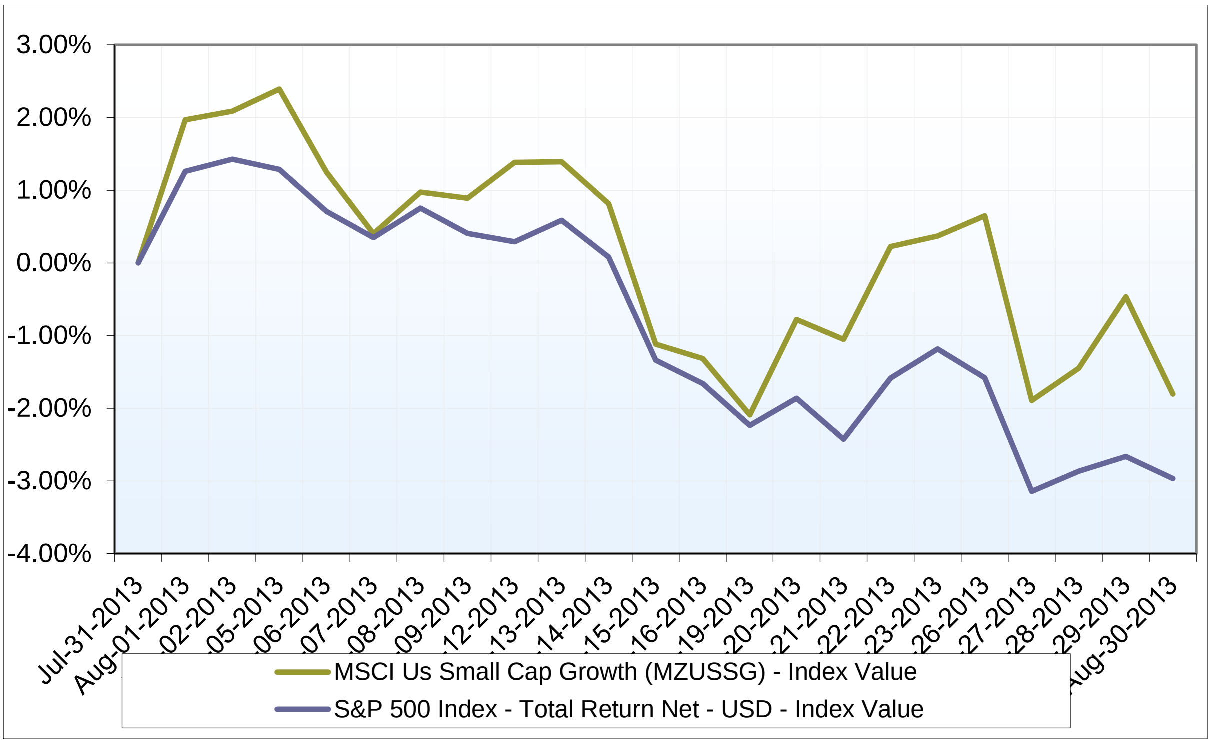

We wish that were the end of the story. However we had a few (minor) stock specific issues and Herbalife (a big long through appreciation) declined roughly 7% during the month.

This month is working a little better – we have had some shorts deliver us some profits. Shorting for most of this year has been an exercise in regret and risk management.

That said we can find many stocks with obviously rubbery accounts or obviously rubbery businesses trading at very high levels and with borrow costs that have dropped below 1 percent. The dramatic decline in borrow costs on even the shorts popular on Twitter[1] suggest widespread capitulation amongst hedge funds and short sellers with less risk management skill than us. We are modestly increasing our short positions. I know this sounds more optimistic than normal but our time will come.

Garbage stocks can levitated for a long time – but they do not levitate forever. When it stops we should put up the numbers we are looking for.

[1] Note: we generally have no position on shorts so well publicized that they are popular on Twitter. Twitter shorts have been the best longs this year. We think even that will end (indeed is ending as evidenced by the borrow cost). However we still think that risk management requires doing original research and getting into less crowded names. That hasn't protected us this year – but it's meant our regrets are less than some other players.

On the long side our portfolio continues to be okay without being spectacular. This is in line with expectations[2]. We are extremely bullish about the long-term prospects of several stocks in the long book – but these are slow-burn stories – the good news will play out over a decade and out performance in any period should be slight (though cumulative).

Thanks again

John and Simon

Performance

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Fin Year to Date Return	Average Monthly Return
FY13											5.4%	1.3%		2.6%
FY14	6.0%	-2.5%											3.4%	

[2] Herbalife has been our most spectacular long, but then it was a "Twitter short".