Bronte Capital
Amalthea Fund

14 May 2014

Investors' Letter for April 2014

April was a pretty good month. May has started better. The portfolio is generally behaving.

We are still a little off-put by how bad January was and what we did (or might have done) wrong. Mostly we cut risk in January – that is we took positions off. With the benefit of hindsight we should have just left them on.

The biotechs that caused us all that pain in the first part of January are continuing to fall. That said – if we were faced with the risk-cutting decision again we would cut the positions again. We don't think we made a mistake even though it is a set of trades that did not cover ourselves in glory.

Since then things have got better.

Our big longs are mostly behaving – a trend that has continued into May with Herbalife coming off recent lows and Royal Bank of Scotland publishing what seem to be decent results. Our shorts are beginning to do well. We think we are adding value.

There was a New York Post article about Bronte Capital and John Hempton in particular which described Bronte as obscure and John as wallowing in self-pity. The other Bronte staff had not noticed the wallowing. Rather we reported results as they happened and if they were not great we tended to analyze – even over-analyze our mistakes. We prefer not to make them – and if we make them we prefer not to make them twice.

The article is reprinted below. The returns quoted are for the foundation separately managed account. They did considerably better than the fund because they contained a large historic position in Fannie Mae and Freddie Mac preference shares. We wish we bought more of them and wish we bought them for all clients – but they sharply appreciated before the fund was founded.

We don't usually traffic in large-cap shorts, and we don't usually disclose our shorts whilst they are still live. However we have spent considerable time trying to work out Valeant – a 50 billion dollar North American pharmaceutical roll-up. We find their accounts difficult to comprehend – which is not to say that they are incorrectly stated, just complicated by many acquisitions. We have initiated a short position.

Thanks again...

John and Simon

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From the New York Post

An obscure Australian hedge fund manager who last year became a media darling with his acerbic attacks on Bill Ackman's $1 billion Herbalife short is now sobbing to his investors about losing money.

"Things that should work are not working," John Hempton of Bronte Capital moaned to investors in February.

Hempton has been wallowing in self-pity, said sources familiar with the hedgie. Hempton, they said, feels humiliated by Ackman's recent successes given that Hempton — who runs a $46 million fund in the US — spent last year adamantly professing that the activist billionaire was "wrong."

"We are significantly long Herbalife," Bronte recently confessed in what he called his "tradition of self-flagellation." In his March 2014 investor letter, which The Post has obtained, Hempton noted that the stock has reacted "very badly" to recent regulatory news and cost his fund a "few percent" of its portfolio last month. Bronte Capital is down around 2.4 percent through March.

"We have a deep desire to make some serious money for clients. We think it will happen but we can't say when," he wrote on April 14.

Last year he sang a different tune. "The shorts have now been categorically shown to be wrong," he said in January, boasting that Herbalife was his "best stock of the year." The fund gained 37 percent in 2013. Hempton was one of the first to loudly berate Ackman's Herbalife short. At first, he called the company "scuzzy," but after Herbalife directed him to a Queens nutrition club, Hempton decided it was just like AA — except that people join the group effort to lose weight.

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%		1.6%
FY14	6.0%	-2.5%	0.4%	3.6%	5.7%	4.3%	-3.7%	0.2%	-2.6%	0.9%			12.3%	

Additional Data	
Last 12 months return	20.0%
Last 12 months annualized standard deviation	11.8%