Bronte Capital
Amalthea Fund

15 January 2015

Investors' Letter for December 2014

December was a good month to end an ordinary calendar year for Bronte. Performance was of course assisted by the continued decline in the Australian dollar which has provided a very helpful tailwind across 2014 and was evident again over December.

Despite this we are a global fund – and we finished the year below the performance of the MSCI ACWI (the global equity index) when measured in Australian dollars. This is the first time we have underperformed – and it is not comfortable. Against the S&P 500 (the US large cap index) our performance looks worse. But then the S&P is almost the only thing in the world that is working. The S&P was up, the US dollar up further. Measured in USD some markets (such as Australia) are already deep in bear-market territory. The best thing to own last year was American large cap stocks with active buy-backs. Then – and pretty well only then – would you outperform.

We thought most of those companies started a little pricey and we didn't own them. We still don't own them. We know pricey can get pricier – but frankly we want to stick with stuff we understand and where the assumptions baked into price are more modest.

In the history of Bronte we have always had some long investments that have performed and irregularly earned extra returns from our shorts.

In melt-up markets where the shorts haven't worked (like 2013) we have managed to get such good returns from the longs it hasn't mattered anyway. 2014 was different. We did not nail a single decent long for the year and our performance for the year more or less reflects that.

In the latter half of the year our shorts mostly worked – and performance for the last few months has been adequate and in December it was good.

The main thing that worked in December was our oil and gas shorts. We have been short a range of shale stocks with rubbery accounts and suspect people and geology - and until recently we made no money. Indeed we made losses. In December these worked very well indeed, producing good returns.

We removed a lot of these positions at the end of the year because we were scared of a bounce in the New Year. January bounces have hurt us in past years (notably January 2012 and January 2014) and we did not want to repeat the experience.

In fact despite oil prices going a lot lower in the New Year these stocks did not collapse further. We are putting some of the positions back on.

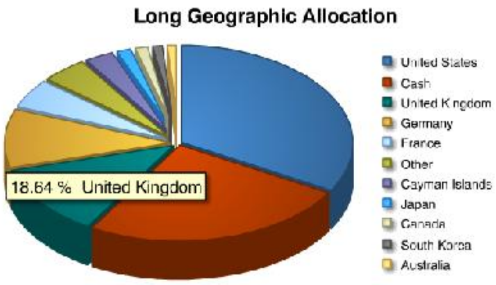
Still, despite the shorts carrying the day, we are a long fund that shorts on the side – and not a short fund. To get large-scale outperformance (as we have had before) we need to nail a few long investments.

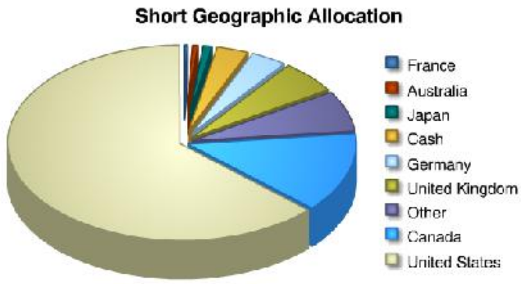
We think we can. We have a few European longs that we like a lot. We think Airbus will sell a very large number of planes – particularly of the A350 – and hence we think that Rolls Royce has a very bright future. We have a few other longs in aerospace which we would prefer not to disclose.

We own a few beaten down retailers on which we are showing gains and may wind up showing decent profits.

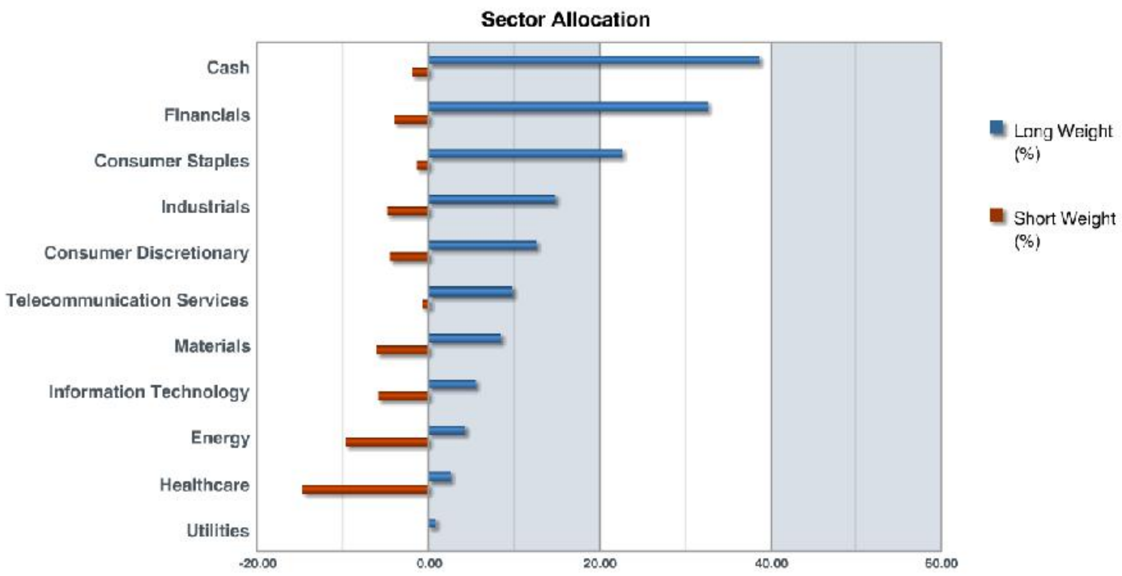
We even have a few American stocks which we think are attractive investments.

As the following chart shows we are alas getting fairly heavily weighted to Europe. Markets are not cheap and American markets (which have performed best) are generally more expensive. Our positioning will prove fruitful if European markets catch up with the USA but we also have some large European exporters in the portfolio which benefit from a weak European currency and exposure to US growth. Nonetheless along with the other research projects identified at the end of this letter we are working on growing our portfolio of European shorts which will improve the balance of the portfolio.





Still we are optimistic about both sides of our book. It would be an unusual market where we make money on both sides of the book but it has happened before and when it did our performance was stellar. Following is a chart showing the sectoral breakdown of our long and short portfolios.



Research programs

We think it is way too early to start buying oil stocks. The more tenuous entities that survived on a lifeline from the heady US capital markets haven't filed bankruptcy yet. [And they will – believe us they will.]

But we know that many major US shale companies were understating their decline rates. Fast decline rates mean that they will have difficulty repaying their debt but it also means that the oil glut may be short lived.

We would love to find the way to play the other side and we are doing a lot of work towards that end.

Updated Information Memorandum

As we indicated last month, we have now amended the liquidity terms of all our funds to provide for monthly redemptions (upon one month's notice). Previously redemptions were only permitted quarterly. The updated information memorandum of the fund can be found at:

http://www.brontecapital.com/files/Bronte_Capital_IM_1_January_2015.pdf

Thanks again

John and Simon

Performance (Net of all fees)

Last 12 months	7.3%
since inception (annualized)	20.1%
Largest Monthly Gain	6.0%
Largest Monthly Loss	(3.7%)
Max. consecutive Gain	14.6%
Max. Drawdown	(6.0%)

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	YTD
FY13											5.4%	1.3%	6.8%
FY14	6.0%	-2.5%	0.4%	3.6%	5.7%	4.3%	-3.7%	0.2%	-2.6%	0.9%	3.4%	-0.8%	15.2%
FY15	-0.9%	-1.6%	2.7%	1.7%	3.4%	4.9%							10.3%