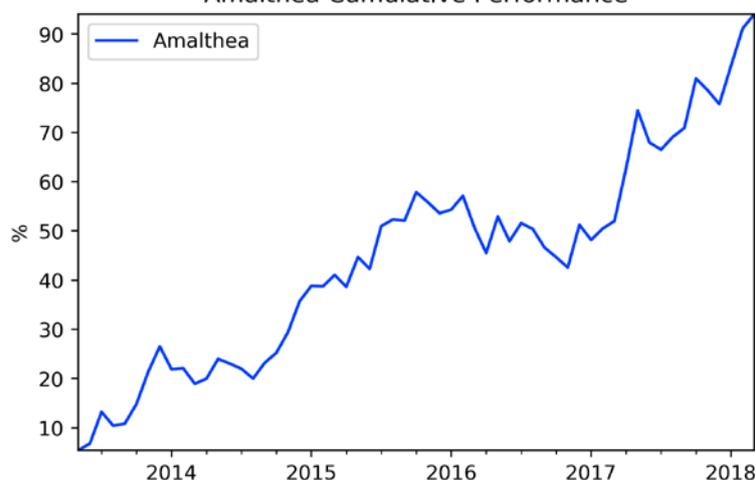


The Bronte Amalthea Fund is a global long/short fund targeting double digit returns over the long term, managed by a performance orientated firm with a process and portfolio that is genuinely different. Objectives include lowering the risk of permanent loss of capital and providing global diversification without the market/drawdown risks typical of long-only funds. A highly diversified short book substantially reduces risk and enables profits to be made in tough markets. The fund is an alternative to equity investing, and complement to most portfolios, and is typically an excellent diversifier which may lower overall portfolio risk.

| | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | FYTD |
|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|-------|-------|
| 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% | 2.3% | -0.1% | 1.7% | -1.7% | 4.4% | -1.7% | 15.6% |
| FY16 | 6.1% | 0.9% | -0.2% | 3.8% | -1.3% | -1.4% | 0.5% | 1.8% | -4.1% | -3.4% | 5.1% | -3.4% | 3.8% |
| FY17 | 2.5% | -0.8% | -2.5% | -1.3% | -1.5% | 6.1% | -2.0% | 1.6% | 1.0% | 7.0% | 7.2% | -3.7% | 13.6% |
| FY18 | -0.9% | 1.5% | 1.1% | 5.9% | -1.3% | -1.6% | 4.4% | 4.1% | 1.5% | | | | 15.5% |

Amalthea Cumulative Performance



Despite another month of falling markets, where the MSCI ACWI global index measured in Australian dollars declined by 0.80%, your Amalthea fund gained 1.53% net of all fees.

Over the quarter the gain has been 10.4% compared to 0.7% for the ACWI (in Australian dollars). It being the end of the quarter we discuss the performance, and some of the positions, in more detail over the page.

| Fund Features | | Portfolio Analytics ¹ | |
|---------------------------|---|----------------------------------|-------|
| Min. initial investment | \$100,000 (for qualifying investors) | Sharpe Ratio ² | 1.1 |
| Min additional investment | \$50,000 | Sortino Ratio | 2.4 |
| Applications/redemptions | Monthly | Annualised Standard Deviation | 10.7% |
| Distribution | Annual | Largest Monthly Loss | -4.1% |
| Management fee | 1.5% | Largest Drawdown | -9.7% |
| Performance allocation | 20% | Winning Month Ratio | 0.6 |
| Administrator | Citco Fund services | Cumulative return ³ | 94.1% |
| Auditor | Ernst & Young | 1 year annualised return | 27.7% |
| Custodian/PB | Fidelity Prime Services, Morgan Stanley | 3 year annualised return | 11.2% |
| | | Annual return since inception | 14.4% |

¹ Performance and analytics are provided only for Amalthea ordinary class units. Actual performance will differ for clients due to timing of their investment and the class of their units in the Amalthea fund

² Sharpe and Sortino ratios assume the Australian cash rate as the applicable risk free rate

³ Returns are net of all fees

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The January to March quarter showed a considerable break in market trends. Over the quarter the indexes (in USD) are off only a smidge (S&P, ACWI) but volatility has returned. Days in which the market moves more than 1 percent have become common, having been exceeding rare in the year up until the end of January.

We are pleased with our performance through this more turbulent period. On some days the portfolio has not behaved according to model (sometimes falling as much as two thirds of the market on big down-days). But overall, performance has been good.

In the up month (January) our shorts did not hurt us much. In the down months our shorts helped and our longs in aggregate were okay. We have had two longs (Herbalife, Interactive Brokers) perform particularly well. In both cases we have had to trim.

Trimming is against the grain

Our long book is very low turnover and we aspire to reduce the turnover even further.

We aim to buy very high-quality businesses on decade-long views and just hold the stock. We will sell a position in its entirety if our “thesis” is broken – that is if we have evidence that falsifies our decade-long thesis. But otherwise our inclination is to let positions run. We have at least one major position which we purchased when Bronte first took external money (in 2009). We hope we still own the stock in 2039.

That said, if a stock runs very hard and becomes too large a % of the portfolio we must trim it. When it is a good company at what we think is a reasonable valuation this goes against the grain. We do not believe in that Wall Street adage that you can’t go broke taking a profit – it becomes akin to cutting flowers to water the weeds. Intellectually we are far closer to the view expressed in Phil Fisher’s classic book “Common Stocks and Uncommon Profits”. Fisher observes the really big profits come from superior businesses held for decades.

Herbalife

We own Herbalife on a variant thesis that it is a high quality business with decades of growth ahead. Weight loss is “easy” if you replace six meals a week with low calorie replacement meals per week and walk about ten extra kilometers a week.

But that is not really easy.

Herbalife has found a solution to getting this to happen on a grand scale (that is for millions of people) by offering free weight-loss support groups attached to seemingly overpriced protein shakes.

We believe it is a wonderful business with fantastic demographics.

Our thesis on Herbalife is subject to the same broken thesis tests of all our long positions. Sales have been weak in the USA following regulatory action. If those weak sales continue then we are likely wrong on the business and we will sell the position in its entirety. If we are right on the business volume growth resumes this year and should continue – albeit unevenly – for many years.

Herbalife is still one of our largest positions.

Interactive Brokers

We own Interactive Brokers stock on a multi-year view that they have the lowest cost structure in online brokerage and will pass most of the benefit of that cost structure to their clients. They will eventually develop truly global scale and it will be very difficult to compete with them.

Fortunately, the last five years has seen the stock run from the teens to the 70s and now Interactive Brokers is a financial stock trading at a big multiple of book. Moreover, most of the book is simply excess capital so the company is trading at a huge multiple of required capital. Almost no financial institutions sustainably trade at a multiple of book this high.

We trimmed several points out of our Interactive Brokers holding. We still held a high-single digit percentage as the stock fell over ten percent from highs. If the stock falls enough we may buy back the original position.

But that leaves us with a problem

We have a high-quality problem. Some of our longs have worked well. Moreover, our short book has generated profits during the past couple of months and these gains also have to be invested.

We need more longs. Quality ones where we can put capital to work for extended periods and generate proper (Phil Fisher like) returns.

We added a few percentage points in total to existing positions (including the position we have held since 2009). But we do not have anything new we are comfortable putting seven to ten percent of your money in.

This has left us less long than we would want to be. We are at the low-end of our range of historic market exposures for Bronte.

We found some attractive things to buy when we last went to Europe (in November and December last year) so John and Luke are getting on a plane again in April. We are likely to do so multiple times this year. Much can be achieved at our office in Sydney by close examination of company filings and calls with the companies, their suppliers and competitors but there is no better substitute than eyeballing a business and its managers. And despite all our preparatory work we are often surprised by what we discover. Kissing frogs sometimes yields a Prince. It has worked in the past.

Thanks again

The Bronte team