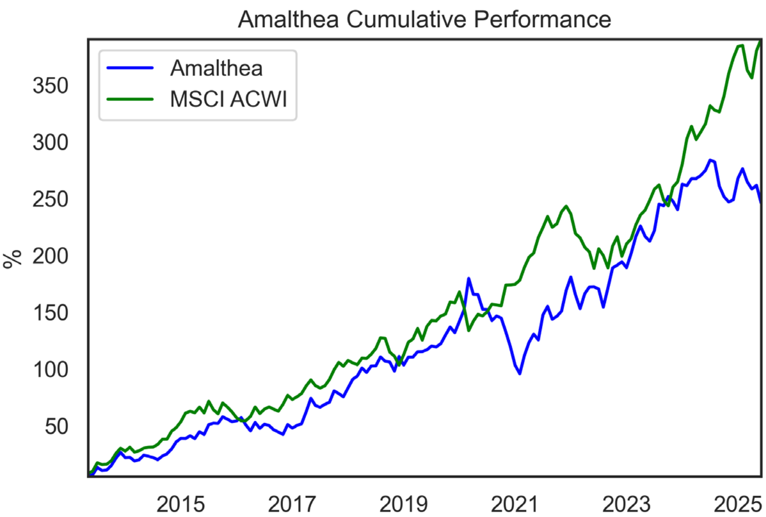
Amalthea Fund – June 2025

The Bronte Amalthea Fund is a global long/short fund targeting attractive risk adjusted 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 while reducing 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

	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%	3.7%	-2.0%	2.9%	20.8%
FY19	0.1%	3.8%	-1.8%	-0.4%	-3.9%	6.5%	-3.6%	3.4%	0.0%	2.2%	0.1%	0.7%	7.1%
FY20	1.5%	-0.4%	1.3%	3.4%	3.1%	-2.1%	4.3%	4.2%	11.0%	-5.1%	-0.1%	-4.8%	16.5%
FY21	-0.1%	-3.9%	1.7%	-0.7%	-5.0%	-5.7%	-7.3%	-3.7%	8.2%	5.5%	3.2%	-2.2%	-10.7%
FY22	9.7%	3.0%	-4.5%	1.1%	1.8%	7.3%	4.4%	-5.6%	-4.6%	5.2%	2.2%	0.1%	20.7%
FY23	-0.7%	-5.9%	6.7%	6.5%	0.8%	1.0%	-1.8%	4.3%	4.9%	2.9%	-2.8%	-1.4%	14.7%
FY24	2.9%	7.3%	-0.4%	2.4%	-1.2%	-2.1%	6.6%	-0.3%	1.7%	-0.0%	0.7%	1.2%	20.0%
FY25	2.4%	-0.4%	-5.6%	-2.6%	-1.3%	0.5%	5.4%	2.3%	-3.0%	-1.7%	0.9%	-4.3%	-7.7%



The Amalthea Fund returned -4.38% in June and -5.14% for the quarter, lagging the MSCI ACWI's +2.14% monthly and +5.89% quarterly advances (in $A).

It being the end of the fund's financial year, following are the arrangements for the annual distribution. The fund's accountant, Ernst & Young, will be calculating the annual distribution the fund will make. (see over)

Fund Features		*Metric*	*Amalthea*	*MSCI ACWI (in AUD)*
Investment Objective	Maximise risk-adjusted returns over 3-years	Sharpe Ratio[1]	0.73	1.10
Min. initial investment	$100,000 (for qualifying investors)	Sortino Ratio	1.30	1.91
Min additional investment	$50,000	Annualised Standard Deviation	12.35%	10.67%
Applications/redemptions	Monthly	Largest Monthly Loss	-7.30%	-8.00%
Distribution	Annual	Largest Drawdown	-30.01%	-15.97%
Management fee	1.5%	Winning Month Ratio	0.58	0.66
Performance allocation	20%	Cumulative return[2]	245.89%	390.18%
Administrator	Citco Fund Services	1-year annualised return	-7.68%	17.95%
Auditor	Ernst & Young	3-year annualised return	8.31%	19.33%
Custodians/PBs	Fidelity, Morgan Stanley, JP Morgan	5-year annualised return	6.50%	14.73%
		Annual return since inception	10.74%	13.96%

[1] *Sharpe and Sortino ratios assume the Australian cash rate as the applicable risk-free rate*
[2] *Returns are net of all fees*

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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 do not anticipate making a distribution.

In the event that 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 2025 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 2025 after allowing for the distribution from the fund

Quarterly Commentary

The short summary of the last quarter is that nothing can keep the US market down. We started the quarter with "liberation day" – the day Trump announced tariffs at extraordinary rates against a range of trading partners. These were clearly only lightly thought through – as the tariffs included special rates on Antarctic islands populated by penguins but without people.

The US market fell sharply but then recovered entirely – and is now at all-time highs. Many speculative stocks are taking out their all-time highs.

The meaning of President Trump's sloppy tariff announcement should have been clear to us – but we largely missed it. If the tariffs were not well considered that meant that they were not meant to be implemented. They were a starting point for discussion – not the final draft.

What will eventually be implemented is some combination of what can be negotiated and what will not upset the market and Trump's constituency too much. The consensus has become that Trump will not implement *anything* that is sharply market negative. TACO is the slogan: Trump Always Chickens Out.

That consensus we think is too sanguine. Policy on the fly and suiting Trump's peculiar politics is likely to have some negative consequences – though very few are visible so far. And we think the tariffs that will actually be implemented will mostly destroy value. Maybe a lot of value – but the market is not pricing that.

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That said, the sharp rebound in the market has convinced people that the solution is to take more risk. Garbage stocks have risen aggressively. This is an environment like early 2021 when the consensus rapidly became that you should buy frauds because they will squeeze higher. People seriously talked about fraud as an asset class.

We do not think it is that bad yet. But it is extremely frothy by historic standards – and as we tend to be short the worst stocks in the market this level of ebullience is not comfortable for us. We are managing through it – but that is all.

How extreme is the current market?

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Manias in financial markets have been a thing for a very long time. Our bookshelf contains over 100 books where the subject is some financial mania or another. John's favourite (back in print) is a classic description of the 1969 nickel stock mania in Australia (The Money Miners by Trevor Sykes) but there are many more.

With hindsight, all these manias look obvious. Grown men hanging out of the Sydney stock exchange so they can (with binoculars) look at the chalkboards to see the minute-by-minute price that their favourite speculative (possibly fraudulent) nickel exploring stock promote is trading at just seems silly. But it happened. All these books describe behaviours that are so silly you would (falsely) think that the boom you just went through was sui generis.

With the perspective of distance these manias all appear quaint in retrospect. The current mania seems to be bigger. Luke Ryves (at work) tartly said that was because we were not participants in those manias – so the current one seemed crazier. John and Simon however were around for dot-com – and this is crazier than that.

Devil Take the Hindmost by Edward Chancellor is an excellent book on manias – and it demonstrates that many are associated with better methods of communication. The railway and telegraph meant that people throughout America could be connected to New York stock prices and could thus speculate on New York stock. Each technology improvement was associated with a new mania.

The dot-com period was clearly that. A couple of million people opened online trading accounts – and frankly – most of the people who open a new brokerage account without advice are foolish and will lose their money. But a few million of them will produce a spectacular mania before it all turns to dust.

The couple of million who opened accounts in the dot-com period is small-beer compared to the 40 million or so who have opened accounts recently. (25 million of these are at Robinhood.) The mania should be and is bigger. But this mania also comes with social media. If you want to talk about the stock of a collapsing movie exhibition centre all day you can do so in some social media group with a hundred thousand of your best friends (and we are not exaggerating here). This allows a coordination in mania on a scale never known in history.

A crowd of people who are non-coordinated is usually right on average. “Ask the crowd” is the most reliable hint on Who Wants to be a Millionaire.

But a crowd of people who are coordinated can believe the most outrageous and outright stupid things from Jim Jones cult beliefs to coronavirus vaccines inject 5G so Bill Gates can control you to a shadowy group of naked short sellers who manipulate every price move of your nearly bankrupt movie theatre.

We figure this mania is going to end. This time is not different. Alas nobody rings a bell at the top. The bell might have already rung (we have had a few good days in a row now) but then it might not.

We will tell you a year after the mania ends when the bell should-have rung.

Boring longs

We still need to find something to invest in – and it is deeply unfashionable to like Europe. We know why it is unfashionable. It has underperformed for a long time. But with shoe leather (often literally a lot of travel) we find the odd thing.

Two of us (John and David) have just come back from a few weeks visiting companies in Germany and Switzerland. Many of these are global businesses – and their business and jurisdictional mix is roughly the same as their American competitors. But they have often underperformed their American competitors and they are almost always cheaper than their American competitors.

This consistent under-performance is puzzling. Why should a company in an industry (say building materials) which is 40 percent in the Americas, 30 percent in Europe and 30 percent in the rest of the world perform massively differently if it is headquartered in Germany or Switzerland versus the United States. *What was different about US management or tax or regulatory system that it made American global businesses better than European ones*?

Sometimes we decided it was just the ruthlessness of and incentives for the management. We should illustrate with a simple, if dull, example.

The concrete business – a hard example

Concrete is really two adjacent businesses - cement (and its logistics) and gravel (and its logistics).

We believe the gravel business is <u>a much better business than cement</u>. The reason is that gravel is say $10 per tonne – and logistical advantages are everything. Cement may be $100 a tonne and logistics are important, but logistics is not the all-determining factor. [Prices for both commodities differ by location – but the differences are proportionately larger for gravel than cement.]

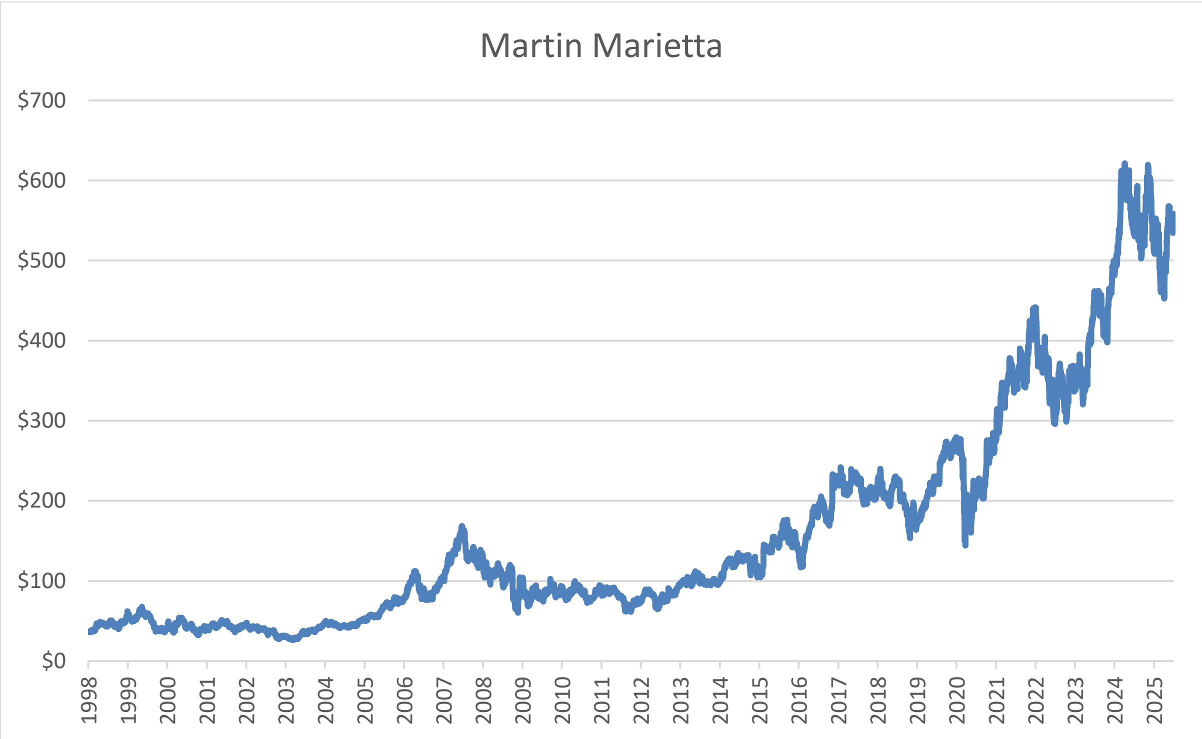
If you own a gravel quarry with good logistics on the outskirts of San Francisco or Paris or Sydney it is a license to print money. It is hard to the point of impossible to get a new quarry approved and if you have a $8 per tonne logistics advantage over your competitors that $8 a tonne becomes your margin. What you have is a lot of overlapping local monopolies. A gravel quarry outside Dallas is less valuable as there are few constraints to getting a new quarry approved in Texas.

Cement by contrast is more expensive and the logistics are global. There are only a handful of cement plants in North America – and they produce less than the US consumes. Cement comes from as far afield as Vietnam, China and Algeria. Cement in the Pacific Ocean (coming from Vietnam) is cheaper than cement in the Atlantic Ocean (coming from Algeria).

A cement business in San Francisco is not special. The competition is cheap Pacific Ocean cement. Cement in emerging markets is even worse. There are few environmental standards, and the last mile logistics are awful (and it is unlikely anyone has a competitive advantage in last mile logistics).

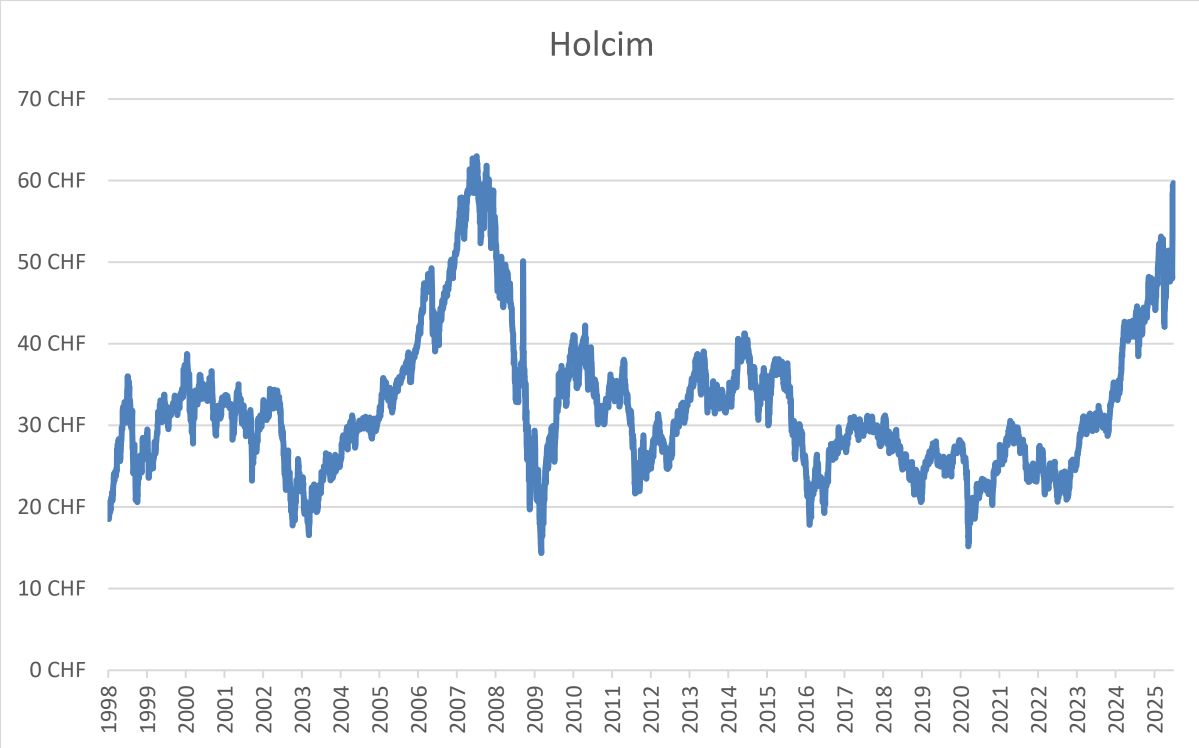
Now consider two companies – Marietta Materials – a US company which is largely a roll-up of gravel quarries and Holcim – a Swiss based roll up of cement factories.

Here is a twenty-five-year chart of Marietta Materials stock



It is a 15 bagger – and it has had a dividend the whole time. This stock has had more than adequate returns to shareholders.

And here is a chart of Holcim – the world's largest cement company.



As you can see – to a first order – Holcim stock is roughly flat but with quite a few unpleasant downs and false-dawn rises.

We do not think that Holcim is any worse at the nuts-and-bolts management of this business than Marietta. Both are simple businesses, and both management teams are competent.

The explanation for the difference is simply focus. Marietta focused on what was profitable – protected gravel mines. And Holcim decided that what it wanted to be was the world's biggest cement company.

Being the world's biggest cement company meant they went where the growth was – emerging markets- and they discovered that cement in say the Philippines is not a good business at all. It is competitive with cheap Pacific seaborne cement, and nobody has a substantial logistics advantage.

In their quest to be "big" Holcim did low-profit things for decades. And they funded this at least in part by selling gravel operations.

Show me the incentives and I will show you the outcome

Bluntly the management of Holcim decided to focus on less profitable things than the management of (the much smaller) Marietta Materials – and over a couple of decades the resulting difference was obvious.

The question is why?

An economist's first answer is probably right. Incentives. The management of the American company is paid with stock options and optimize to this. At the Swiss company management status probably has more to do with size than profitability. And management probably optimised that. Senior management of Marietta Materials (the far smaller company) have net-worth over USD100 million. Senior management of Holcim could only dream about such dynastic wealth.

And for the shareholders the loot paid has been worth it. Marietta Materials has worked out just fine. And Holcim has not.

This sort of management focus is not the only reason that US stocks have outperformed. But it is an important reason.

Why Holcim now?

Despite all this we went and purchased a small stake in Holcim. It is not a big position, and it never will be. So why now?

Well two reasons
a). the Swiss company has improved and
b). the American division of the Swiss company (now a separately listed company called Amrize) looks fabulous to us.

Let's deal with those in order.

The Swiss Company improvement

The Swiss Company is improving. They have (finally) decided that they do not want to pay in cement markets where they don't make decent returns. So, they are mostly in Europe (which we understand) and Latin America (which is profitable but where we have done no serious examination of the logistics).

Mexico is also extremely profitable – and we think this largely a rigged protected market. [Politically connected Mexican billionaires have made a lot of money in cement.]
Over recent years Holcim sold their positions in many emerging market positions and have completely abandoned the previously stated goal of being the world's largest cement company.

Europe has become more profitable based on environmental standards hurting their competitors more than them. Margins are rising. That will likely continue (with the caveat that we do not know what cement businesses look like in a world truly serious about net-zero carbon emissions).

When a company with an okay business stops doing stuff that is unprofitable it is often a good time to buy the stock.

The last company we wrote up where the company stopped doing stupid things was Brambles. That note was very well timed – and the stock has been the best performed large cap stock in Australia – and the run is roughly timed from when we wrote the note. The Australian Financial Review did a write up. (Link: here.)

That said the Swiss company won't have fast growth. It will just be more profitable than it used to be.

The American business - Amrize

The real attraction of Holcim is that they spun out the American business (during June 2025). The American business has a large cement plant in the US and a bunch of quarries of various profitability. We think that American management with these assets (including some quarries with 50 percent margins) will – driven by incentives – optimise this business for stock price appreciation. Moreover, they will not have to deal with burdensome European environmental reporting standards. Their costs will go down.

There is more though. The competitor is Vietnamese ocean-borne cement. Tariffs will drive up that price – and hence drive up American domestic margins. Future profitability will be considerably higher.

Price

There is a big difference in valuation between the American and Swiss Companies. Marietta Materials trades at 5.9 times trailing revenue. It is fat margin revenue, and yes it has been managed well. But 5.9 times is higher than Alphabet (Google) which trades at 5.8 times trailing revenue. *The market thinks that gravel is either fatter margin or higher growth than Google – an astonishing thought*.

By contrast the Swiss trade at about 2 times revenue. Amrize never has to be as profitable as Marietta to be a good stock. We think there is room for profit improvements and multiple improvements. And there are good reasons to believe it can be much more profitable than it has been.

How good are these businesses

If we compare this to say Brambles (the other recent write-up where the thesis was at least in part the company had stopped doing stuff that was stupid) we do not love it. Brambles is by far the large player in a global duopoly and there are several ways that it can be tweaked over decades to make more money. Amrize and Holcim are more competitive businesses, and they are still dominated by cement rather than gravel – and hence there is a limit to how far they can grow profits.

The stocks are "for sale" when we find a better idea. But they should be good for a while.

We thank you again for the trust you have in us.