

4 August 2009

Client Letter for Month Ending 31 July 2009

We had another satisfactory month – with the US dollar based clients benefiting from a weak US dollar (or more precisely by a strong Australian dollar) and the Australian based clients being hindered by the same.

Whilst we outperformed the market for both Australian and US dollar denominated accounts we did not do so by the same extent as in June. June was a slightly down month for the MSCI Global index and we outperformed sharply. July was a strongly up month and we only slightly better than kept pace.

Portfolio changes

The portfolio was little changed over the month.

We added one new (5%) holding in Oil Search – the largest company in Papua New Guinea. The company has very large and largely undeveloped gas reserves lacking a route to market. They are planning an LNG facility in partnership with Exxon. There is some skepticism in the Australian market that they will pull this off – as they previously abandoned a PNG to Australia pipeline. We think that Exxon will be reliable on this.

We also slightly increased our holding in Credit Agricole, introduced a small new position in Interactive Brokers and a small new short position (which we would prefer not disclose).

Generally our longs went up (particularly Biota and Bank of America) and our shorts cost us something (but not a great deal). Our speculative defaulted preference share position did well as well though we are less-than-convinced that the profits there are permanent.

Portfolio leverage

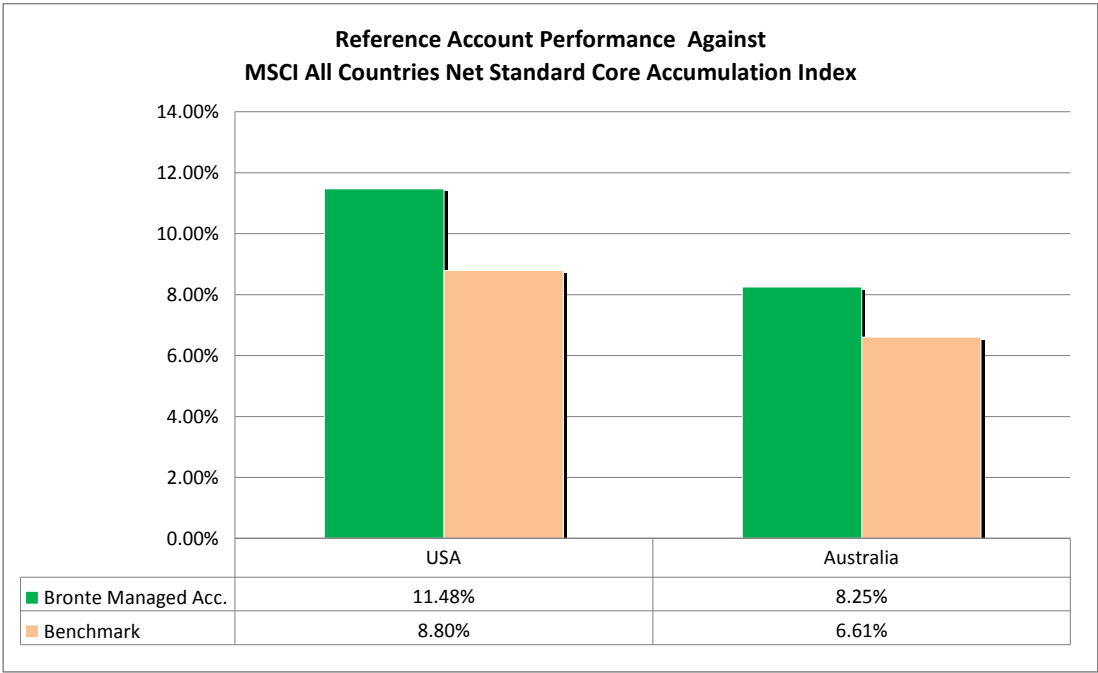
By the end of the month the leverage of the portfolio had grown. The longs had gone up sharply but the shorts had cost us some capital. We wound up slightly over 100 percent gross long even after netting off arbitrage positions. We started August by trimming a few long positions. We had no desire to sell these positions – it was just that we were exceeding our (conservative) leverage guidelines. To put the least favourable spin on it we had to sell small amounts in profitable positions to pay for our losses from short selling.

The shorts do have an offsetting benefit. If the market falls they should produce profits which we can reinvest at lower prices. Finally the shorts have reduced the volatility of our portfolios. Our returns have been better than market but the portfolio is on a day-to-day basis less volatile than the market.

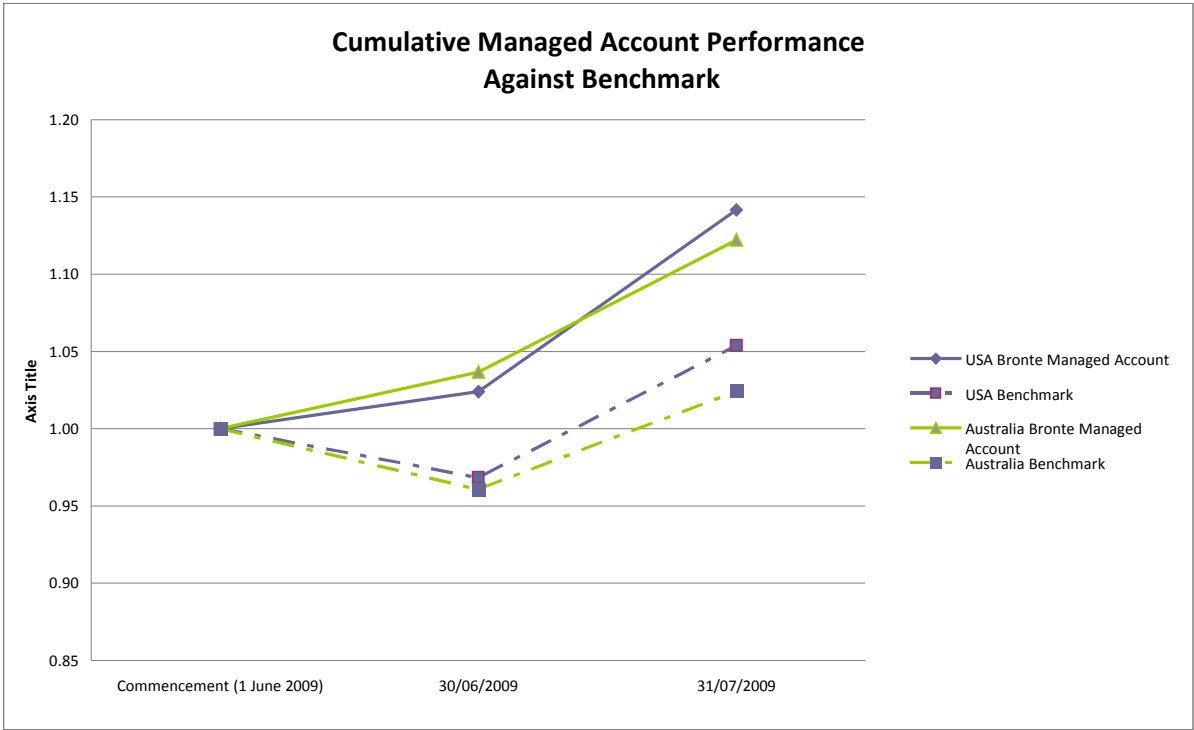
We do however have some large positions (notably Bank of America, News Corp, Conoco Phillips, Biota Holdings and our defaulted preference shares). Given the concentration some volatility is to be expected.

Performance data

Monthly returns



Since inception



The better-than-market returns have continued into the first trading days of August. The excess gains in our defaulted preferred shares appear to have ceased.

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

John Hempton
Simon Maher



Return data

John Hempton
Simon Maher
Bronte Capital Management.

