BronteCapital

3 March 2010

Client Letter for Month Ending 28 February 2010

In February our performance was a bit better than our benchmarks. Our USA reference account increased by 2.84% and our Australian reference account by 1.65%. Monthly numbers do not drive our thinking – though it feels better to be on the right side of the trade.

We said in our client letter last month that we were most exposed to the unfolding Greek situation through our small holding in Credit Agricole. [We had erred by not selling the stock and we reported that it had hit a value which fully covered its Greek exposure and hence we were not going to sell the position.]

We compounded that error by selling the stock in the last month and we received roughly the lowest price that the stock traded at. To understand why we did this you need some background.

Credit Agricole is exposed to Greece Emporiki. Emporiki is the number 5 bank in Greece and is 89 percent owned by Credit Agricole.

Emporiki – like all Greek banks – has fewer deposits than loans. In this case the difference is about €8 billion. Emporiki funds this difference largely by interbank borrowings from the French Mothership.

We figured the *net exposure* – of about €8 billion – was the upper limit of the damage Greece might cause Credit Agricole. However during the highly stressed month of February it is almost certain that there was a run on the Greek banks with cash being shipped (or driven or wired) to more stable environs. This run would also have to be funded by Credit Agricole thus increasing their exposure. The end loss to the Mothership in the event of Greek failure will – inevitably – be larger than we originally estimated. So we – admittedly in panic – closed the position. *The stock is inexpensive – but not so inexpensive that we are willing to continue to take that risk.*

We are still very impressed by Credit Agricole's French domestic banking business and we retain our positions in French domestic banking.

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New positions

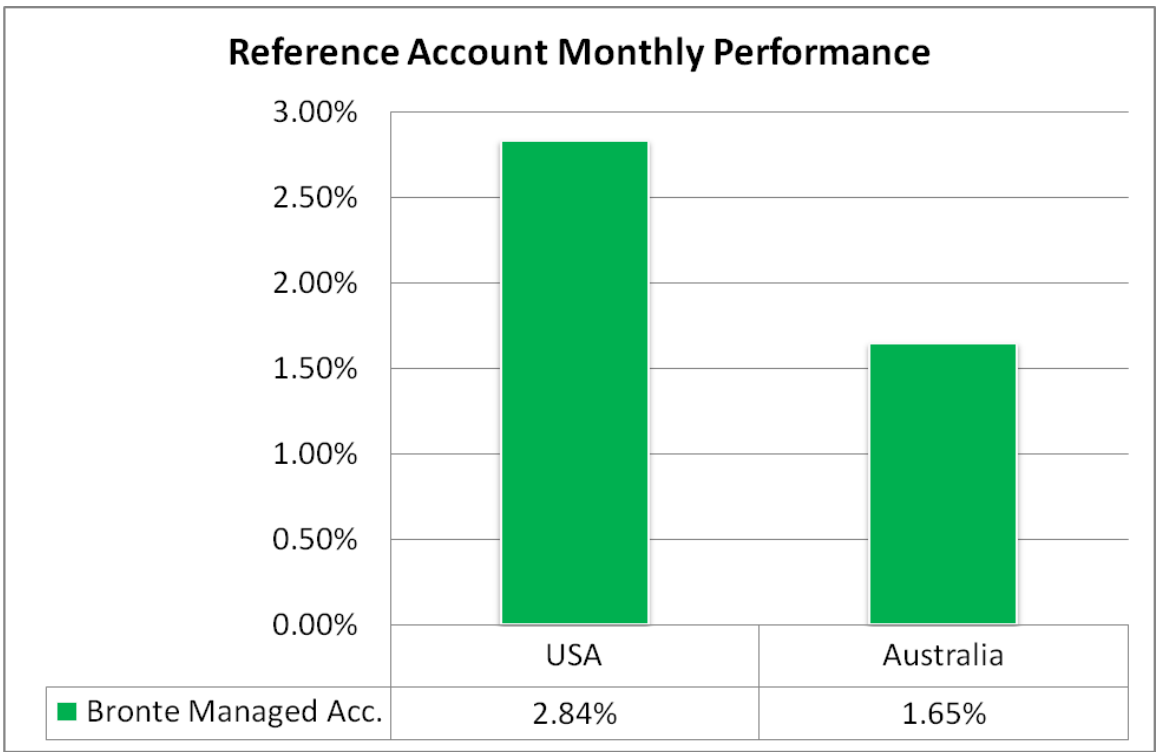
We have added several small and (at least optically) very risky positions in near insolvent regional banks. We have attached to this letter an internal analysis of one of these stocks[1]. We will publish this analysis within the next two years even if the end result is disaster. However we are not wanting this note distributed widely (yet). The stock is small cap (less than $100 million) and (depending on results and the economy) we may wish to buy more or sell our position.

We send this note to our clients though so that they can understand the risks that we are taking on their behalf and why we take them. The stock is – as the note details – a breathtaking scary thing to buy – and if the bank eventually fails we will look like idiots. Our position is small (though we debate whether we should increase it). When (hopefully) the idea works we will wish we purchased by the bucket rather than thimble full.

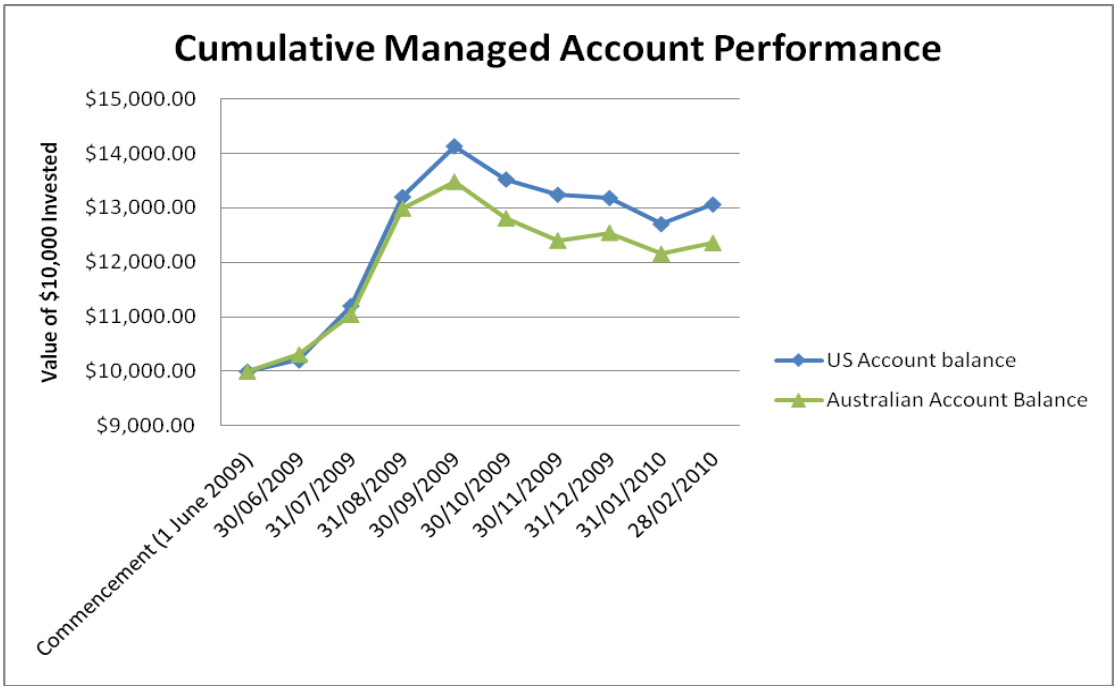
Portfolio Management

	Long	Short	Net Long
USA Reference Account	106.4%	28.5%	77.9%
Australian Reference Account	106.7%	27.8%	78.9%

Performance Data [2]



[1] We are only circulating this to clients and are not posting it to our website.
[2] All performance data is adjusted to allow for an accrual of the annual performance fee.



Thank you for placing your trust in us.

John
Simon