14 May 2014

Investors' Letter for April 2014

April was a pretty good month. The portfolio is generally behaving.

We are still a little off-put by how bad January was and what we did (or might have done) wrong. Mostly we cut risk in January – that is we took positions off. With the benefit of hindsight we should have just left them on.

The biotechs that caused us all that pain in the first part of January are continuing to fall. That said – if we were faced with the risk-cutting decision again we would cut the positions again. We don't think we made a mistake even though it is a set of trades that did not cover us in glory.

Since then things have got better.

Our big longs are mostly behaving – a trend that has continued into May with Herbalife coming off recent lows and Royal Bank of Scotland publishing what seem to be decent results. Our shorts are beginning to do well. We think we are adding value.

There was a New York Post article about Bronte Capital and John Hempton in particular which described Bronte as obscure and John as wallowing in self-pity. The other Bronte staff had not noticed the wallowing. Rather we reported results as they happened and if they were not great we tended to analyze – even over-analyze our mistakes. We prefer not to make them – and if we make them we prefer not to make them twice.

The article is reprinted below. The returns quoted are for the foundation USA separately managed account.

We don't usually traffic in large-cap shorts, and we don't usually disclose our shorts whilst they are still live. However we have spent considerable time trying to work out Valeant – a 50 billion dollar North American pharmaceutical roll-up. We find their accounts difficult to comprehend – which is not to say that they are incorrectly stated, just complicated by many acquisitions. We have initiated a short position.

Thanks again...

John and Simon

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The New York Post Piece

An obscure Australian hedge fund manager who last year became a media darling with his acerbic attacks on Bill Ackman's $1 billion Herbalife short is now sobbing to his investors about losing money.
"Things that should work are not working," John Hempton of Bronte Capital moaned to investors in February.

Hempton has been wallowing in self-pity, said sources familiar with the hedgie. Hempton, they said, feels humiliated by Ackman's recent successes given that Hempton — who runs a $46 million fund in the US — spent last year adamantly professing that the activist billionaire was "wrong."

"We are significantly long Herbalife," Bronte recently confessed in what he called his "tradition of self-flagellation." In his March 2014 investor letter, which The Post has obtained, Hempton noted that the stock has reacted "very badly" to recent regulatory news and cost his fund a "few percent" of its portfolio last month. Bronte Capital is down around 2.4 percent through March.

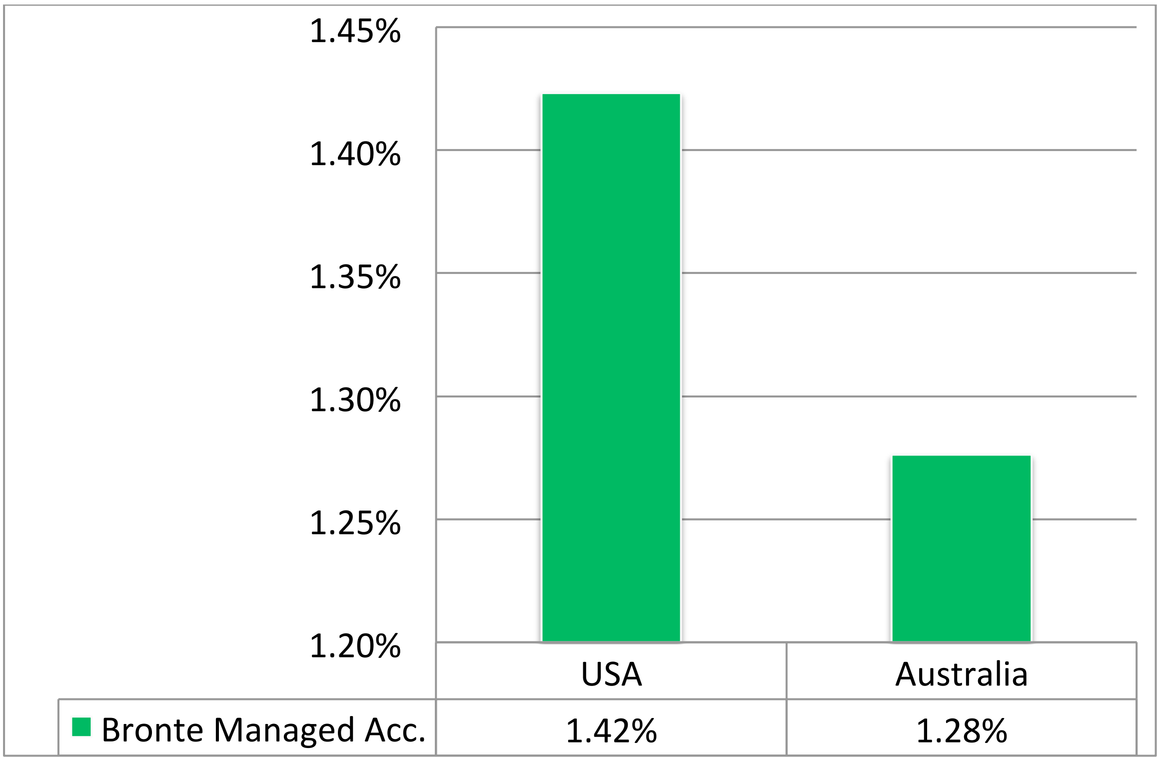
"We have a deep desire to make some serious money for clients. We think it will happen but we can't say when," he wrote on April 14.

Last year he sang a different tune. "The shorts have now been categorically shown to be wrong," he said in January, boasting that Herbalife was his "best stock of the year." The fund gained 37 percent in 2013.

Hempton was one of the first to loudly berate Ackman's Herbalife short. At first, he called the company "scuzzy," but after Herbalife directed him to a Queens nutrition club, Hempton decided it was just like AA — except that people join the group effort to lose weight.

Performance Data[1]

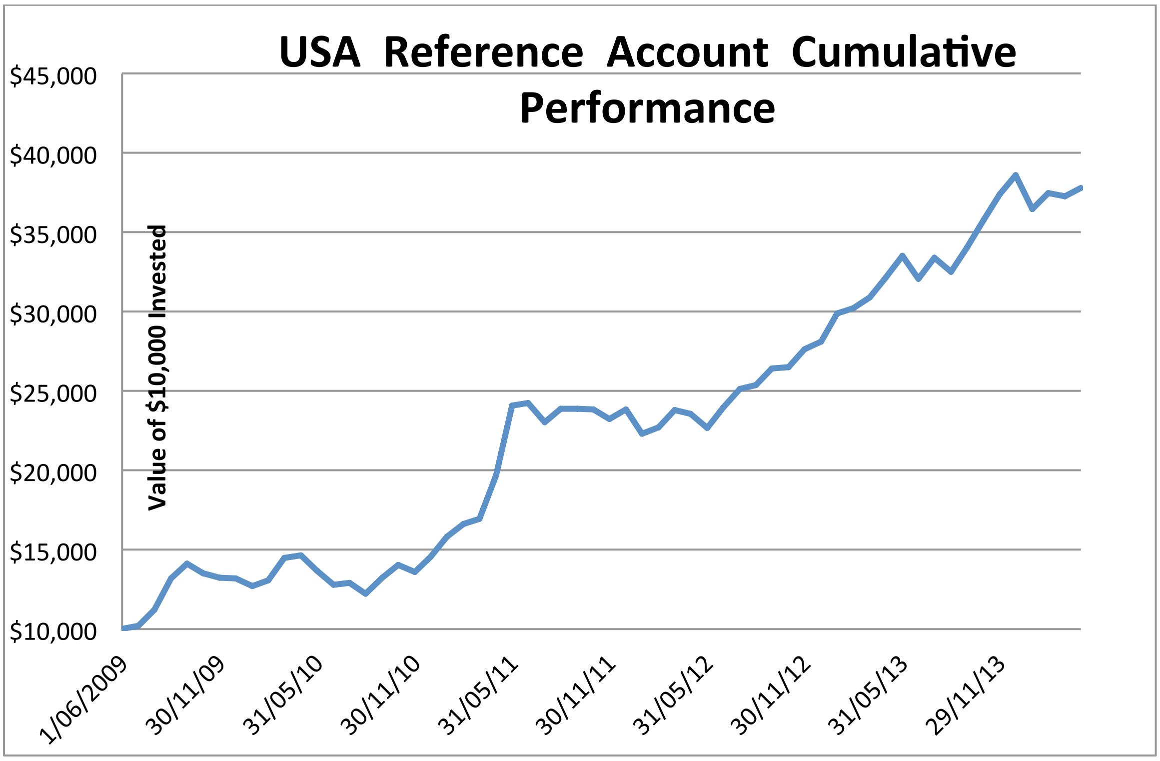
Reference Account Monthly Performance



Reference Account Returns

	USA Reference Account	**Australian Reference Account**
Year to date	-2.1%	-5.4%
12 month return	17.4%	33.1%
3 year annualized return	24.2%	32.3%
Since Inception annualized return	31.0%	29.6%

[1] All performance data is adjusted to allow for an accrual of the annual performance fee. All dividends received and earnings are retained and reinvested in the account. The volatility of the account may differ materially from comparable indices. The comparison index used by the advisor increased by 1% in USD and by 0.2% in AUD during the month and since inception of the account has increased by 86% in USD and 59% in AUD. Past results are not indicative of future returns. Fees charged on the separately managed accounts are 1.5% management fee and 15% annual performance allocation (with no high water mark) and differ from the standard terms for Bronte pooled funds which are 1.5% management fee and 20% annual performance allocation (with a high water mark). Moreover the separately managed accounts do not have incoming or outgoing flows which would incur trading costs.


USA Reference Account Cumulative Performance
$45,000
$40,000
$35,000
$30,000
$25,000
$20,000
$15,000
$10,000
Value of $10,000 Invested
1/06/2009
30/11/09
31/05/10
30/11/10
31/05/11
30/11/11
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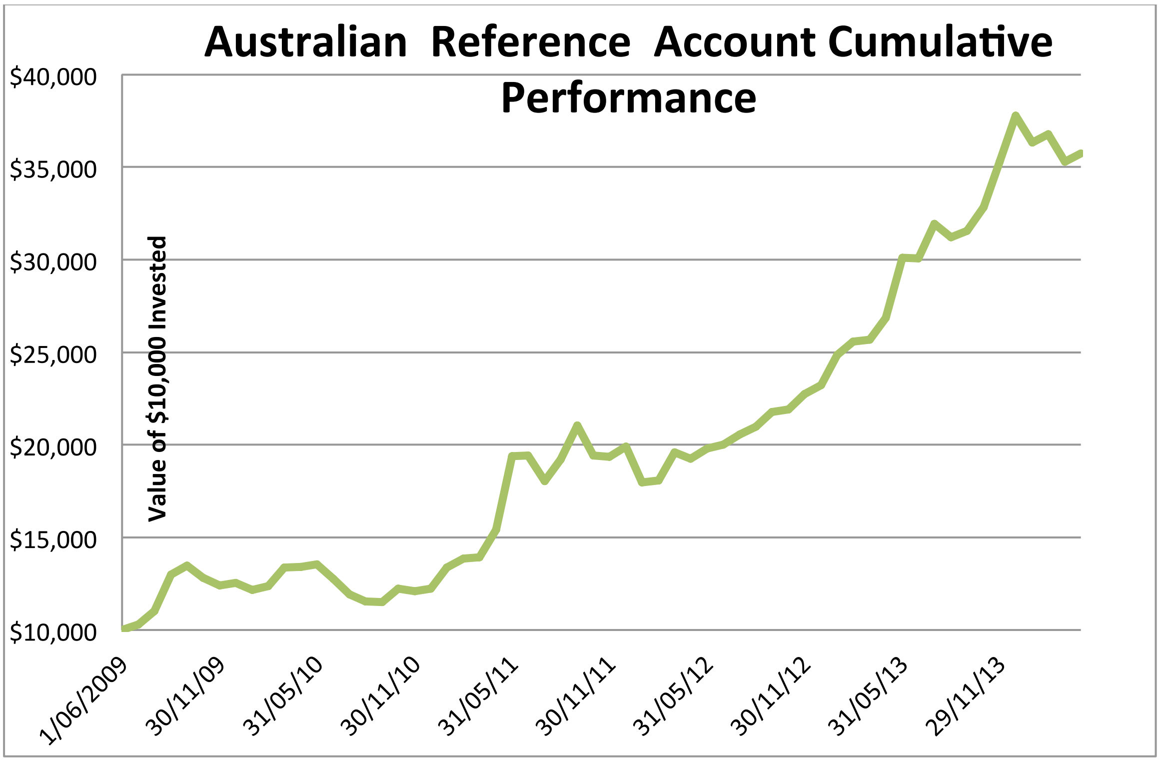
31/05/13
29/11/13


Australian Reference Account Cumulative Performance
$40,000
$35,000
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Value of $10,000 Invested
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30/11/09
31/05/10
30/11/10
31/05/11
30/11/11
31/05/12
30/11/12
31/05/13
29/11/13