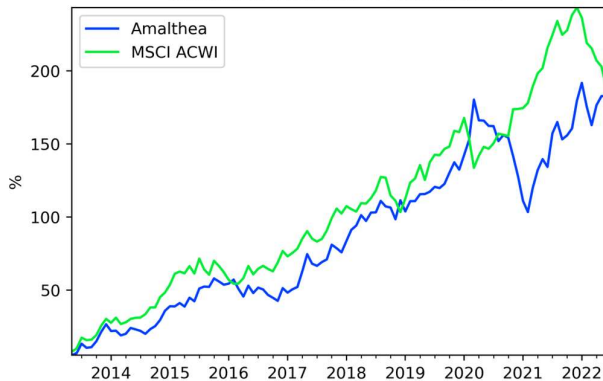


The Bronte Amalthea Fund is a global long/short fund targeting double digit returns over the long term, managed by a performance orientated firm with a process and portfolio that we feel is genuinely different. Objectives include lowering the risk of permanent loss of capital and providing global diversification without the market/drawdown risks typical of long-only funds. 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%

Amalthea Cumulative Performance



The Bronte Amalthea Fund returned 0.1% in June and +7.5% for the 2Q against a volatile market backdrop.

Attached is our quarterly letter with some extended commentary of the drivers of return and developments within the portfolio. There is also a post-script on our views on AUD at the end. (See over)

Fund Features		Portfolio Analytics ¹		
Investment Objective	Maximise risk-adjusted returns with high double-digit returns over 3-year periods.	Metric	Amalthea	MSCI ACWI (in AUD)
Min. initial investment	\$100,000 (for qualifying investors)	Sharpe Ratio ²	0.84	1.03
Min additional investment	\$50,000	Sortino Ratio	1.53	1.78
Applications/redemptions	Monthly	Annualised Standard Deviation	12.6%	10.7%
Distribution	Annual	Largest Monthly Loss	-7.3%	-8.0%
Management fee	1.5%	Largest Drawdown	-30.0%	-16.0%
Performance allocation	20%	Winning Month Ratio	0.59	0.64
Administrator	Citco Fund Services	Cumulative return ³	172.2%	188.5%
Auditor	Ernst & Young	1-year annualised return	20.7%	-8.6%
Custodians/PBs	Fidelity, Morgan Stanley, JP Morgan	3-year annualised return	7.9%	6.7%
		5-year annualised return	10.2%	9.3%
		Annual return since inception	11.5%	12.3%

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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End of Financial Year

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 up for the year at this stage but does retain tax losses from previous years and so a distribution is not certain.

However, if 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 2022 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 2022 after allowing for the distribution from the fund.

Bronte Quarterly Commentary

Another quarter has passed, and our results are roughly flat (+1.6% in USD assisted by AUD moves). You could be forgiven – looking at the totals – to think that not much has happened. That could not be further from the truth. Global markets have been weak, and many fund managers – including some we admire – have been found wanting.

Alas our long book has also been found wanting and underperformed the market. Fortunately, we have outperformed on our short book to an astonishing extent. Midnight struck and a surprising number of shorts have turned into rotting pumpkins, down 80 plus percent. Moreover, often we added to the shorts on the way down, confident in the knowledge that the stocks in question were approximately worthless.

Alas – and in summary – our long book is roughly twice the size of our short book. The net effect of mild underperformance in our longs and astonishing outperformance in our shorts is that we are roughly flat.

The general market weakness

Other than energy (especially coal), some very large cap healthcare (US Hospitals and some big cap pharmaceutical companies), and a handful of value stocks, markets have been generally weak.

Alas we do not own any energy stocks and have only trivial positions in some big cap pharma. We had only one long up hard during the quarter, and that was Swedish Match, a large manufacturer and marketer of alternative (oral) tobacco products. We are not even thrilled with the gains in Swedish Match as they came from what we believe is an underpriced takeover offer.

Our long book, in summary, has not been great.

Moreover with a few exceptions we discuss below, we do not believe our long book is especially cheap. Stocks are down a long way, but they are still expensive by historic standards. We would love to say that we have deployed our (considerable) profits from shorts well, but in truth with a few exceptions, what we have been buying is not salivatingly attractive. We are deeply skeptical of fund managers who, being down 40 percent or more, are now telling you that their stocks are bargains.

The weakest bits of the market

The markets have been weak generally though some areas have been weaker than others. In this context there have been some notable areas of weakness

- a. The highest quality hyper-growth stocks (especially SAAS companies) have been very weak. The higher the growth rate the more expensive the stock was and the worse the outcome this year. Fund managers focusing on hyper-growth have been hit very hard.
- b. Stocks with high returns on equity, consistent mid-single digit growth, and highly defensible business (the so-called “compounders”) have been weak. Super-high-quality businesses with high ROEs and consistent mid-single digit growth are down sharply as discount rates changed. Discount rates matter when you buy the longest-dated earning streams. These are sometimes thought of as “bond proxy stocks”.
- c. The absolute-nonsense hyper-promoted scams and the recent stock market promotions (such as SPACS) have cratered.

We do not have much exposure to the hyper-growth stocks. We never got comfortable owning no-earnings SAAS companies growing 50 percent per annum that traded at 60 times revenue, even though we are sure many of these businesses will mature into big and important institutions.

We are long a few bond proxy stocks. We aspire to own stocks with defensible positions which will be bigger and better in five, ten or twenty years. We have owned many for many years and we almost never sell them. That said many of these stocks got very expensive and have since dropped 30-45 percent. They are still not cheap (It was these stocks that helped us roughly match the market in the period until 2020 even though we carried a substantial short book).

We would love to say – after 30-45 percent falls – that these stocks are cheap. But it is not true, they are still way above their average historic valuations and above valuations that we think are highly likely to generate good returns. These stocks remain cheap relative to bonds. But we could have said that thirty percent higher, and the “arb” closed by bonds weakening.

We have been and remain heavily short the highly promoted nonsense. Alas as these stocks have collapsed our short book has become smaller and has begun to migrate to slightly less scummy stocks. It is not problematic to find shorts – but it is certainly less easy than it was six months ago. The demise of SPACs was good for investors but heralded the end of the fish-in-the-barrel phase of our short book.

We used to think all prospective returns were in our short book and that our long book was not especially attractive. Recently, it turned out that way.

We also think that the medium-term future will be similar: great returns from shorts, difficulty with longs, though we think from this market level our longs will be incrementally better and shorts incrementally worse.

What a cheap market looks like, or an expensive market looks like

First, let's state as a proposition that if you look at a wide cross section of large businesses in multiple sectors and jurisdictions then it is unlikely that:

- a. Over the next decade most things will go right for them, or
- b. Over the next decade most things will go wrong for them.

The future is mostly mixed between good stuff and bad stuff and the like.

When we look at a stock and the question is “what do I need to believe to make an adequate return on this stock”? Often the answer comes back: quite a lot.

For instance, many SAAS stocks with about a billion in revenue were recently trading at 50-70 times that revenue. To believe you will get a good return buying that stock and holding it forever, you needed to assume that revenue will increase 15 or more times and at that point the company will have a strong position with fat margins and a lack of competition. It is possible of course. Google's revenue is up 12-fold since 2009, its margins remain enviable, and competing with them is still quite difficult. But it is not likely to happen to each of the dozens and dozens of companies that were priced this way.

One can also reverse the question: “what do I need to believe **not** to get a good return on this stock if I hold it for decades?” You need to find excuses as to why you are not buying the stock.

When large slabs of the market are priced this way, the market is cheap.

The market was cheap in 2011 (even though it had more than doubled off the bottom) when I wrote a letter to a bearish client urging them to buy. [The letter is attached.] It is worth noting that several things we suggested in the letter (for example Tesco) did not work out, but the letter as a whole worked very well. And that was because the market was cheap and to lose money on average, a lot of things had to go wrong on a lot of stocks.

Alas the market today is not priced like that. To justify owning a large slab of the market, a lot of things must go right for a long time in a lot of businesses. Things are not cheap yet.

Some cheap stocks

There are however some cheap looking stocks – and by that we mean companies for whom many things must go wrong for you not to get a good return. We have a handful in our portfolio, and it is possible that many things will go badly and even those stocks will not give us a good return. It is not like 2011 in when the range of opportunities was large.

The most notable cheap stock is Meta Platforms (née Facebook). Meta is priced at 3.5 times run-rate revenue, 12 times earnings and under 8 times EBITDA. The earnings are suppressed by large expenditures on a future 3-D world (the “metaverse”) which presumably has lots of revenue opportunities (but which strains our sense of credulity). Whatever – the traditional business has had revenue growth for over a decade and the revenue growth has never gone under 20 percent. Realistically it will now though. Competition from TikTok is a threat, as is increased regulation. Finally, the original Facebook platform (but not Instagram) has declining appeal to young people. In the twelve months ending 31 March 2022, the company repurchased over US\$50 billion in common stock mostly funded by cash generated, but also by running down cash balances somewhat.

To not make money in this stock, the future has to be far worse than the past or present. That is certainly possible. Facebook has behaved very badly, never letting privacy concerns or ethics stand between them and a pile of dollars. The Cambridge Analytica scandal happened to Facebook, not to Google. The European Union in particular has passed privacy regulations that are extremely hostile to Facebook’s business. The future could go very wrong. We think we will make money in this stock, but we are not sure.

Our other super-cheap stocks have had very fast-growing earnings which people perceive as having been driven by Covid-19 and we perceive as partly correlated to rather than driven by Covid. Our view is that earnings will not decline anything like as fast or far as the market is anticipating. Only time will tell.

We are sure that if we had 25 stocks that looked this cheap in 15 diverse sectors and in five different jurisdictions, overall, the portfolio would work out extremely well. Alas we do not. Such cheapness among quality businesses is not common in the market.

So how many ultra-cheap stocks do we own?

Very few stocks in total and only about ten percent of the portfolio is so cheap we have to look hard to find reasons not to own it.

Most of what we own is just not that screamingly attractive. And it is a pity.

Travels

We run a diverse global equities portfolio from Australia with a staff of ten. There is an arrogance involved in that – presuming that sitting on our remote island we think we understand a lot about the world. We have not travelled at all for work for a couple of years. That has increased our isolation – somewhat offset by very regular zoom calls (hundreds over the past two years) with an extraordinarily diverse range of companies. Still, it is not the same as travelling. You can visit companies at their factories or visit Eastern

Europe and actually work out on the ground what stresses their banks face. On almost every overseas trip in years past, we had at least one serendipitous discovery of a company that occasionally became a nice long position.

We just did our first post-COVID trip. In it we found some potential longs, we accidentally found what we are fairly sure is a large fraud, and we found some interesting companies deserving a further look. We are not revealing names until we have positions, and we are probably not revealing the name of the fraud ever.

We also got to “mark” our preconceptions to reality. For instance, we are short a few frauds targeting European ESG investors. By visiting Total and Air Liquide, we confirmed our analysis of the cost structures and the players in many of these ESG spaces. The confirm makes it easier to size up positions on the short side.

More importantly we rejected some of our preconceptions about minerals processing cost structures, and this led us to cover a couple of shorts on the basis we were wrong.

We will be doing more travelling from now on, again with two real goals:

- a. Finding some more longs
- b. Confirming or rejecting out preconceptions about industry structures and cost bases which will help us assess our short book.

We will never deliberately visit companies we are short or with the intention of finding shorts. We mostly short companies we think are run by liars – and it is just not worth the effort to go out of our way to talk to liars.

For example, we were short Wirecard from 2009 all the way until the fraud was exposed. We never once spoke to them. And we think that is the right way to run our short book. We think however travel will help keep our portfolio fresh.

Thanks again

John and the Bronte Team

Post-Script: The Australian Dollar

A post-script mainly for the Australian clients.

The thing we find most difficult to do is manage our fund for Australian clients. Most of our clients are offshore, as are most of the assets. For better or worse we think in US Dollars.

We are glad to have a fair few Australian clients, however, and they see the results in Australian dollars.

We have sometimes got the Australian dollar exposure very right, sometimes very wrong. But by-and-large we are not believers in hedging Australian dollar exposure. The Australian dollar is very correlated global growth (Australia largely being a metals exporter), and the last thing we want to do is be very long the Australian dollar going into a recession.

That said, the present situation is interesting. Commodity prices are high and that is generally bullish for the Australian dollar. It has been for many the consensus trade to be long the Aussie.

We generally have a contrary view. Central banks have – for the first time in nearly 40 years – become concerned with inflation. They will raise interest rates until they control inflation. We have no idea whether that means 2 percent rises or 6 percent rises.

But we do have one strong view. Australia is a land of variable rate mortgages. Central bank interest rates flow directly through to mortgages and household budgets. That makes consumer spending very sensitive to interest rates in Australia.

By contrast the US is largely a land of fixed rate mortgages. Central bank interest changes flow through to mortgages only with a new mortgage and affect consumer spending only on the margin.

This means that the Reserve Bank of Australia needs to raise interest rates far less than the Federal Reserve to control spending and hence inflation. In an environment where central banks are raising rates to control inflation, Australia will wind up with structurally lower interest rates than the US. This seems to indicate that the Australian dollar will be weak. We are not normally people given to pronouncements on exchange rates. We are – at best – macro “tourists”. So, take this view with a strong grain of salt. But we are positioned this way.

Letter to a client: May 2011

Mike*, our foundation client and a dear friend, sent us a really bearish broker note as if John Hempton - a shortseller by inclination - needed to get more bearish. He was adjusting his portfolio accordingly. We won't be.

Here - with a few corrections and expansions - is my reply:

Dear Mike

The bear case always sounds intellectually more convincing than the bull case. And it is in this broker note too. Intellectual sounding and convincing.

But America is still an amazingly innovative country, humans are ingenious and most of the imbalances will sort themselves out. Big cap equities are cheap relative to almost all other assets (especially relative to small cap equities, cash and bonds and to many assets such as commercial property that require leverage). Cash yields almost minus 3 percent after inflation and less post tax. Bonds are scary as hell and yield minus 1% after tax and inflation.

Big though difficult-to-run companies are at low teens multiples. Great franchises are at mid-teens multiples. Tesco (UK) which is a truly great franchise - is at a 14 PE ratio. And the Pound is historically cheap. WalMart and Target - both slightly less good franchises - are at 12 times. The difficult parts of Silicon Valley (e.g. HP) are well under 10 times PE ratios (and we feel no need to own that one). The less difficult parts of Silicon Valley (Google for instance) are at a high teens PE ratio once you take out the excess cash. We own that.

Own equities. Don't kid yourself. Mega-cap equities are generationally cheap compared to other assets - and certainly compared to the cash/bond/levered asset complex.

Just don't be blind about it. The places that there have been high returns (Asia, small caps, smaller resource companies) are riddled with fraud. Twenty-five years of deregulation and the high levels of innovation mean we have high and rising levels of stock fraud. Fortunately, there is much less fraud risk in mega-caps.

Don't own Australia or the iron-ore-coal-steel complex. It has run too far and has been too easy to make money. Too many stupid/aggressive/greedy people are doing too much expansion. Some of these people are stupid - but they have made much more money than you or me so they must be right!

I can find dozens of reasons to be bearish - but I look at it dispassionately and I am bullish on big caps, and bullish on America. The problems will sort themselves out and the American exceptionalism (decent institutions, free enough markets and a willingness to take risks) will work their magic again.

Anything that takes you out of real assets (businesses and property that generate real cash flow) and puts you into nominal assets is - with a ten-year time-frame - a bad idea. (And why is your personal account any shorter dated than that?)

Just don't get greedy by buying things you do not understand: you will be ripped off. The underlying fraud level is as high as I have ever seen it.

Oh, and we are also bullish on France and Germany. Old Europe has manufacturing and production power of enormous levels. (Remember what they produced to fight wars? Their productive capacity is very high, and Americans have forgotten that. They do engineering as well as anybody. And Germany no longer has a restrictive monetary policy to crush its consumer market.)

Also, the French are in that lovely position of having convinced newly rich Asians that they are the arbiters of good taste. There are few higher ROE businesses. France has played Asia better than America.

We can see plenty of reasons to be bearish - but just the frauds make our portfolio short enough. Indeed, we are plenty short and likely to remain so until I can't find frauds with ease.

Beyond that, there is a lot of pessimism around. It has got to be time to be bullish. We certainly do not desire being 125 percent net long or hyper-aggressive like that - but we will take steps to become incrementally longer. We are if anything too short.

*Mike is not his real name.

PS. I want to stress again that my cheap mega-cap equities are relative to other things a rich guy might own - such as small cap equities, bonds, cash, commercial property or gold. There are ways cash could be a better investment - hard deflation. Long bonds are probably the best investment in that environment. I do not see that happening (though I did think it a possibility 18 months ago). Equities were generationally cheap in absolute terms in March 2009. I was buying but nowhere near enough - and indeed we carried some losing shorts through the second six months of 2009.