Bristlemoon Global Fund

BRISTLEMOON CAPITAL

Quarterly Report

December 2024

Unit Price: $1.178

The Bristlemoon Global Fund returned 10.4 percent for the December 2024 quarter, with a 3.1 percent return for the month of December 2024, net of fees. For the six month period ending December 31, 2024, the Fund produced a 17.8 percent return, net of fees. We are immensely grateful for the support of our investors and want to extend our deepest thanks for trusting us with your capital. For prospective investors who are interested in the Fund, enquiries can be made at info@bristlemoon.com.

Key contributors to the Fund's performance in the December quarter included AppLovin Corporation (Nasdaq: APP) and PAR Technology Corporation (NYSE: PAR), with their stock prices increasing by 148% and 42% in the quarter, respectively. We detailed our APP investment thesis in our September 2024 quarterly letter, and have previously written a deep dive on PAR in the Bristlemoon newsletter.

This quarter provided an opportunity for us to reflect on an important topic: position sizing. This introspection was prompted by three of our five largest portfolio positions declining by more than ten percent over the December quarter. We run a concentrated, high-conviction portfolio, and having numerous top five positions perform so poorly can have an outsized negative impact on our performance. While our overall performance in the quarter was good, this was only because the rest of our portfolio rallied strongly and was able to pick up the slack. But this is exactly why we felt it

Performance (%) December 2024	
Net return	3.1

Portfolio Exposure (%) (as at 31 December 2024)	% of NAV
Long	90.2
Short	(1.1)
Net exposure	89.1
Number of long positions	16
Number of short positions	1

Top 5 Long Positions (as at 31 December 2024)	(Alphabetical order)
AerCap	
Meta Platforms	
PAR Technology Corporation	
Pinduoduo	
Tencent	

Fund Returns (Net)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
2024							(1.1)	0.6	7.4	6.8	0.2	3.1

Disclaimer

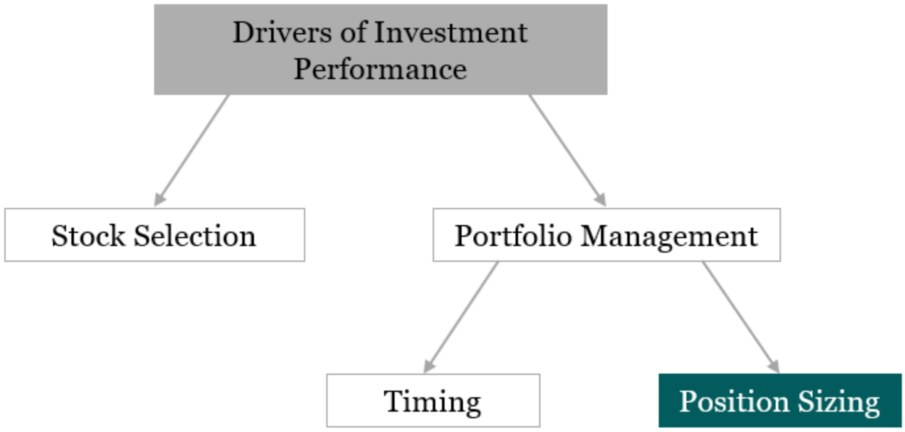
necessary to explore the topic of position sizing: ideally your largest portfolio positions should be your best performing stocks!

We feel that the way we sized some of our stock positions was suboptimal. It might be tempting to conclude that we simply got unlucky. After all, stock prices tend to be volatile. It might also be tempting to conclude that a quarter or two of poor stock price performance is far too short of a period to be concerned about. While this might be true, in retrospect our investment position in Pinterest (Nasdaq: PINS) should not have been sized as aggressively as it was. Often the most powerful insights are gleaned from investing mistakes, so we felt it appropriate to dissect where we believe we went wrong.

We wanted to spend this letter talking about why position sizing is critical, valuable lessons learned from our mistakes, and to provide further details around the position sizing framework we use when managing the Bristlemoon Global Fund.

The importance of position sizing

Much of the investing discourse online focuses on how to identify great stocks to invest in. However, stock selection is only part of the story for investing success. **There are in fact two drivers of investment performance: stock selection and portfolio management**. **Stock selection involves what to buy; portfolio management involves the decisions of when to buy, how much to buy, and how long to hold for**.



Source: Bristlemoon Capital

Position sizing is a crucial portfolio management consideration. It focuses on how an investment position should be sized, and how that position size should be altered over time. The best investors aggressively size up their most promising investments and keep only small positions for investments they are less sure about, or where the risk/reward of the investment is insufficient to warrant a larger position size. You don't need to be right all the time when investing. In fact, you will almost certainly be wrong on some investments. **The key is sizing up your winners and keeping your losing positions small.**

Position sizing is an often underappreciated lever to generate investment outperformance. A quick example can help bring to life the value-add that position sizing can generate for a portfolio.

Let's consider a five stock portfolio that is equally-weighted – that is, each of the five stocks starts the year as a 20 percent portfolio position.

Equally-Weighted Portfolio

	Start of Year				End of Year			
Stock	**Price**	**Quantity**	**Value**	**Portfolio %**	**Price**	**Value**	**Portfolio %**	**Return %**
Stock 1	100	20	2,000	20%	170	3,400	30%	70%
Stock 2	100	20	2,000	20%	120	2,400	21%	20%
Stock 3	100	20	2,000	20%	120	2,400	21%	20%
Stock 4	100	20	2,000	20%	110	2,200	19%	10%
Stock 5	100	20	2,000	20%	50	1,000	9%	(50%)
Total			10,000	100%		11,400	100%	**14%**

After a year, some of the stocks in the portfolio perform well (e.g., Stock 1), and others perform poorly (e.g., Stock 5). In aggregate, the equal-weighted portfolio produced a 14 percent return for the year. But what if instead the stock weightings were varied to concentrate more capital in the highest conviction ideas?

Let's look at Investor A, who constructs a portfolio with varied position sizes: their favourite stock ideas are sized up, while lower conviction bets are kept smaller. For example, Investor A started the year with a 35% position in Stock 1, which subsequently rallied 70% over the course of the year. Stock 5, on the other hand, was a big loser that halved in value over the year but was purchased at a smaller weighting. Overall, Investor A produced a phenomenal 30 percent portfolio return.

Investor A Portfolio

	Start of Year				End of Year			
Stock	**Price**	**Quantity**	**Value**	**Portfolio %**	**Price**	**Value**	**Portfolio %**	**Return %**
Stock 1	100	35	3,500	35%	170	5,950	46%	70%
Stock 2	100	25	2,500	25%	120	3,000	23%	20%
Stock 3	100	20	2,000	20%	120	2,400	19%	20%
Stock 4	100	10	1,000	10%	110	1,100	8%	10%
Stock 5	100	10	1,000	10%	50	500	4%	(50%)
Total			10,000	100%		12,950	100%	**30%**

So, for a portfolio with the *exact* same five stocks as the equally-weighted portfolio, the variation in position sizes alone generated an additional 16 percentage points of investment performance. By simply changing the position sizes, Investor A was able to more than double the overall return of the portfolio! This demonstrates how astute position sizing decisions can supercharge the investment returns of a portfolio.

However, position sizing is a double-edged sword, and incorrect portfolio management decisions can destroy an immense amount of value. Let's take a look at Investor B.

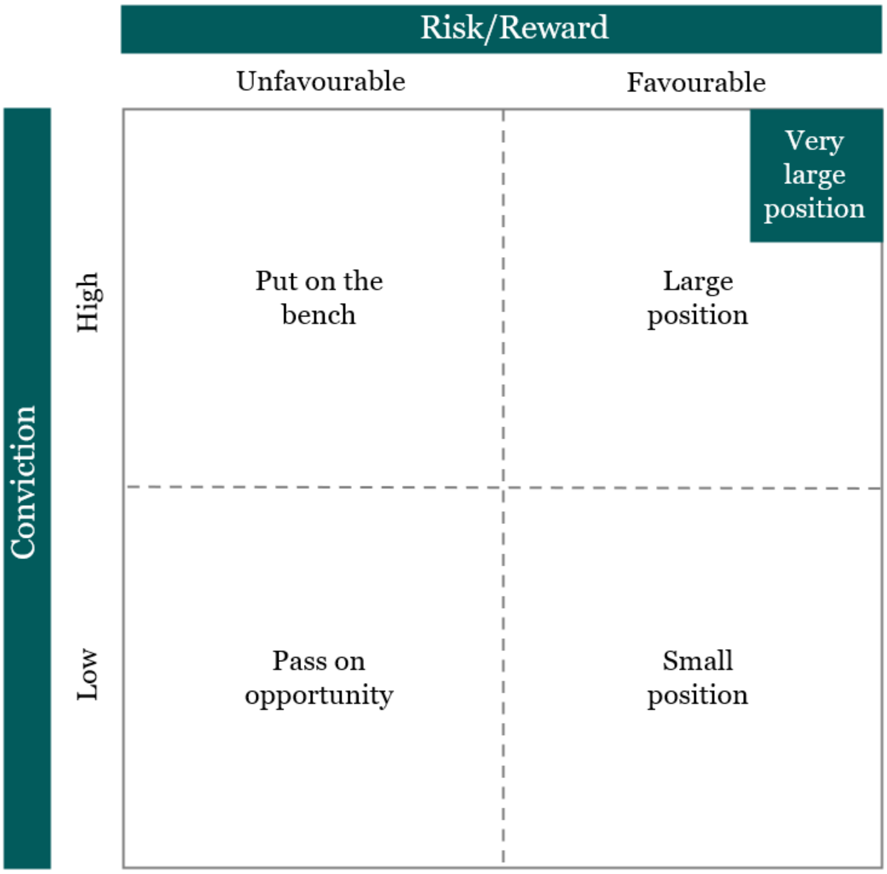
Investor B Portfolio

	Start of Year				End of Year			
Stock	**Price**	**Quantity**	**Value**	**Portfolio %**	**Price**	**Value**	**Portfolio %**	**Return %**
Stock 1	100	10	1,000	10%	170	1,700	17%	70%
Stock 2	100	25	2,500	25%	120	3,000	30%	20%
Stock 3	100	20	2,000	20%	120	2,400	24%	20%
Stock 4	100	10	1,000	10%	110	1,100	11%	10%
Stock 5	100	35	3,500	35%	50	1,750	18%	(50%)
Total			10,000	100%		9,950	100%	**(1%)**

We can see that Investor B took the exact opposite view of Investor A regarding Stock 1 and Stock 5. Investor B weighted Stock 5 heavily and kept Stock 1 as their smallest position. This led to a paltry -1 percent overall portfolio return. That is remarkable. **The decision to flip the weightings of just two of the stocks in the portfolio wiped off 31 percentage points of investment gain!** Position sizing is clearly very important. Below we detail the Bristlemoon framework for weighting our investment positions and discuss why Pinterest should not have been a large portfolio holding under this framework.

<u>The Bristlemoon position sizing matrix</u>

For Bristlemoon, each stock position size is a function of 1) the risk/reward; and 2) our level of conviction around that stock[1]. Below is our position sizing matrix that helps guide our decisions around how much of a given stock we should purchase:



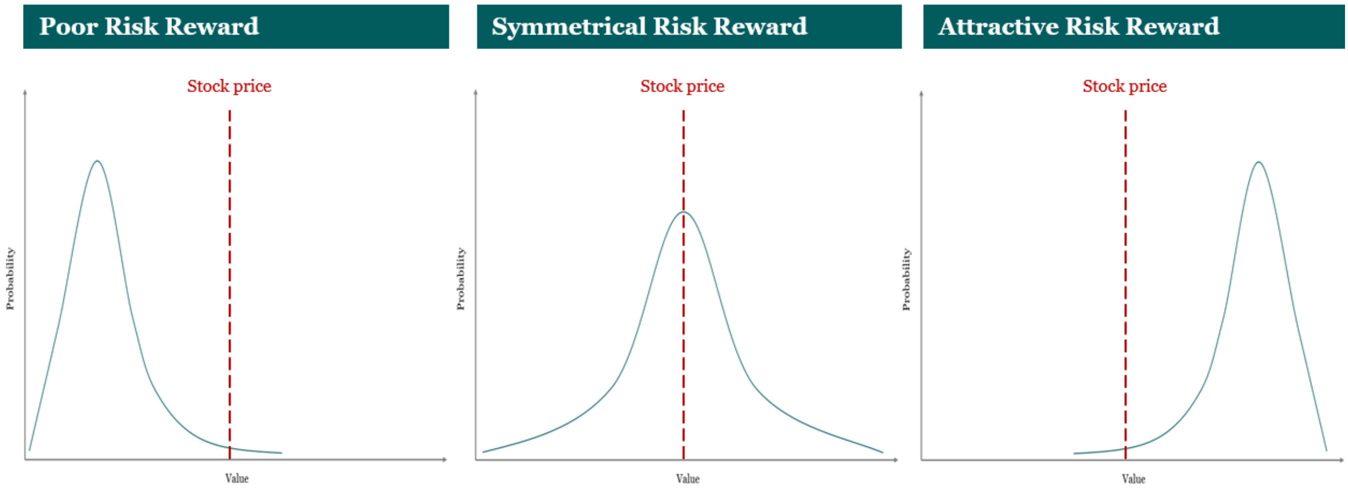
Source: Bristlemoon Capital

[1] While we also consider stock position weightings in the context of the overall portfolio, in this letter we will instead only focus on position sizing considerations for individual stock positions.

How we think about the risk/reward of an investment

When we talk about risk/reward, we are referring to how much upside we expect from a stock relative to the money we could potentially lose on the investment if we are wrong. An ideal investment will have a positively asymmetric return profile. This means that we stand to make a lot of money if our thesis plays out as expected, but not lose too much (or perhaps not at all) if reality undershoots our estimates of the future.

The more positively skewed the return profile – that is, the greater the probability of there being upside to the current stock price – the more likely it is that we will size up the position. We conceptualise return profiles via probability distributions of our estimates of a stock's valuation outcomes, which can be seen below. This captures both the magnitude of the upside and downside valuation scenarios, as well as the probability of those scenarios transpiring.



Source: Bristlemoon Capital

Notably the risk/reward is not static. It changes every day as the stock price fluctuates. **However, while a declining stock price improves the risk/reward of an investment, it does not automatically warrant an increasingly larger position size**[2]. This is because we need to also consider the level of conviction we can get in these future stock price outcomes eventuating.

Why conviction is an important input

We can think of conviction as the level of confidence we have in something happening. More specifically for investors, conviction refers to how much confidence we can get around how a business will perform in the future. Our conviction level is a function of how well we can answer questions that arise as that business is analysed. **As a rule of thumb, the greater the number of unanswered, or even unanswerable questions, the lower your level of conviction is likely to be**.

[2] We would also note that there are pre-ordained levels of capital we are willing to commit to each stock idea. We will not continue doubling down on an investment if we exhaust the level of capital we are willing to put into that stock, even if it continues to become cheaper. This acknowledges the risk that we might be wrong, and mechanically doubling down on an investment can lead to a material impairment of one's capital. Continually averaging down and then ultimately being wrong on the investment is how a 5 percent position can cause a double digit percentage permanent capital loss.

If you have strong conviction in a stock's upside, based on high quality analysis that you think gives you an edge, you should seek to exploit that edge rather than neuter it. **More conviction should see one's portfolio tend toward more concentration in an effort to maximise the returns from these precious stock insights**. Conversely, lower conviction should naturally result in smaller position sizes.

Our criteria for a large investment position

For us to consider making a stock a large position in the Fund, it must have the following characteristics:

- Ample upside and limited downside (in other words, an exceptional risk/reward);
- Be understandable (you can't build conviction in something if you don't understand it);
- Be a high quality business. We think of business quality as the guardrails that help protect our earnings projections from being eaten away by competitive forces. The more defensible a business's earnings, the more confidence we can have around our earnings estimates for that business; and
- Positively inflecting earnings where there's a good chance that the company will produce earnings beats and surpass investor expectations. This is the catalyst that will cause other investors to put capital towards the stock, helping move the stock higher and avoiding a situation where we have a large chunk of the portfolio tied up in an investment that goes sideways for an extended period. There is an opportunity cost to these "dead money" situations: namely drawing capital away from other ideas that are more prospective.

Pinterest – the Fund's most costly investment mistake

It is worth us talking about **Pinterest (Nasdaq: PINS)**, a stock that we own in the Fund. Pinterest is also the largest performance detractor for the Fund since it launched. While we like the business (we previously published a deep dive report on Pinterest detailing our investment thesis), understand the digital ad space well, and think there's an enormous opportunity ahead of the company, Pinterest did not meet all of our criteria for being a large portfolio position under our revised position sizing framework. In hindsight, it was a mistake to hold Pinterest as a big position due to two reasons:

1) We were not able to build sufficient conviction around how the company's user and advertiser product innovations would translate into a higher growth profile for the business. Rather, we knew there was a great growth opportunity ahead for the company but struggled to properly quantify it. The company appeared to be executing well prior to us initiating our Pinterest investment, with the growth profile healthily accelerating. However, this growth acceleration did not sustain, and we should have required a higher burden of proof around the success of the company's growth initiatives before taking a large position; and
2) The risk/reward, upon reflection, was not outstanding. An acceleration in Pinterest's revenue and earnings growth was necessary just to defend the stock price. Thought of another way, we were relying on solid management execution to translate into sustainably stronger financial performance in order to achieve our return targets on this investment. Banking on a material improvement to the status quo in order to make a good return is clearly far less attractive than needing only the status quo to prevail. This is especially so when you don't have great visibility over how those changes in the business will translate into improved financial performance.

So why did we hold Pinterest as a large position? We will briefly recap our reasons for purchasing the stock and then discuss the errors we made in sizing our Pinterest position. To be clear, we don't think Pinterest is a bad investment. We still own it. Rather, we think that it was inappropriately sized and was not suitable for being a top five portfolio position, based on the facts at the time and it then trading at a mid-$40 share price. Our assessment of Pinterest could, of course, change, in which case we can readily change our position size. The aim of reflecting on Pinterest, and rubbing our noses in this mistake, is to sharpen our position sizing methodology and to avoid unforced errors in the future.

A recap of our Pinterest investment thesis

Pinterest is a visual search and discovery platform; it is a high quality multisided network business with differentiated supply in the form of user-generated content. The company has 85% of the top 200 advertisers, and the majority of the top 500 internet retailers actively spending on its platform. Pinterest users have very high purchase intent: 50% of them go to Pinterest to shop. Previously the company didn't have the capabilities to capitalise on its users' commercial intent. Under the leadership of CEO Bill Ready, this has been changing with the company's push towards lower-funnel ad products and more sophisticated ad measurement solutions.

Our thesis was that the development of the company's lower-funnel solutions would help change the historical advertiser perceptions of Pinterest as being just a brand-awareness tool, and in the process would allow Pinterest to unlock larger pools of ad budget dollars. Advertisers typically segment ad budget dollars into two buckets: core and experimental. While Pinterest was historically pigeonholed into the experimental ad bucket (one that is smaller in nature), the strong returns on ad spend that advertisers are now achieving is causing advertisers to shift Pinterest into the core ad bucket. This is hugely significant as advertisers typically spend many multiples with a core advertiser than they will with one that is considered experimental. However, progress with this has been slow.

Our expectation was that these initiatives would combine to accelerate revenue growth into the mid-20 percent range, and perhaps beyond that in a "blue sky" scenario. However, the opposite has occurred, with revenue growth decelerating in recent quarters. In Q1 and Q2 of 2024, Pinterest was growing revenues at north of 20 percent year-over-year. That growth rate slowed to 18 percent in Q3 2024, and then has been guided to grow at just 15-17 percent in Q4 2024. The deceleration, in our opinion, has not been well explained by the Pinterest management team. CEO Bill Ready has talked a lot about various product improvements (with respect to both users and advertisers) but has not tied this back (or enabled investors to tie this back) to the potential revenue growth acceleration, or the lack thereof.

Pinterest management have referred to ongoing softness in the food and beverage category since Q4 2023. They quantified this as a one percentage point revenue growth headwind in Q4 2023, and we estimate that it was a circa 3 percentage point headwind in Q3 of 2024. We would have expected the benefit from Pinterest's growth initiatives to have overwhelmed this weakness in the food and beverage category. The fact that we are unsure of why these initiatives are not translating into stronger revenue growth leaves us feeling less certain that our investment thesis will play out. In other words, we now have a lower level of conviction in the Pinterest growth story.

For any given stock we can plot our conviction level along a spectrum:

Low Conviction	High Conviction
• Weak, lackadaisical analysis of business • High business complexity and/or opacity • Many unanswered questions	• Strong, comprehensive analysis of business • Less business complexity and/or opacity • Few unanswered questions

Source: Bristlemoon Capital

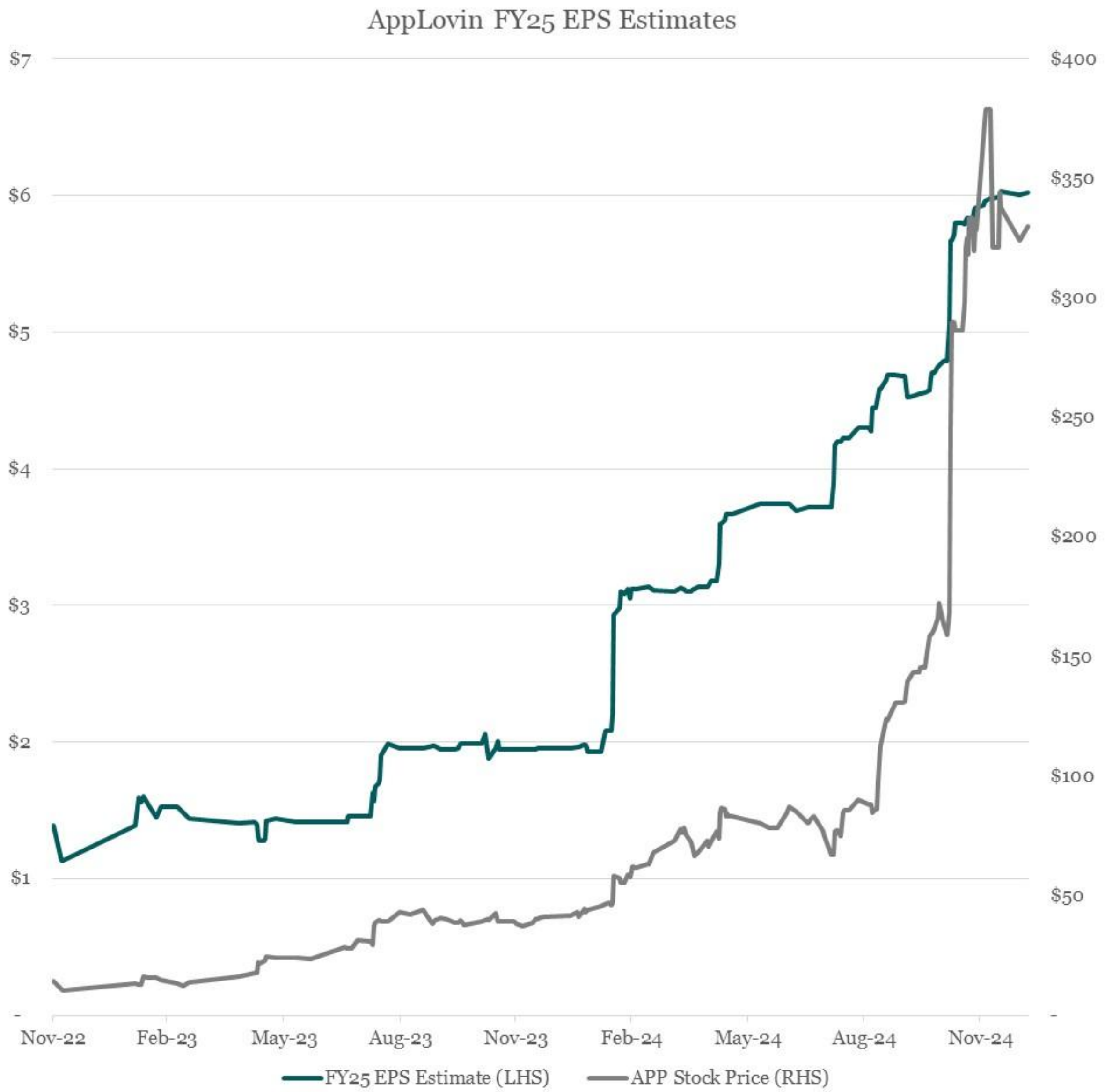
It is notable that hard work and sharp analysis does not perfectly map to higher levels of conviction. For certain businesses, such as those that are particularly complex or opaque, the growth in the amount of conviction we hold might asymptote at a low level. Basically, no matter how much work we do, we would still be unable to get confidence in the distribution of future value outcomes for that highly complex and opaque business. These sorts of situations are an easy "no" for us, even if the risk/reward appears enticing.

We do not believe our investment in Pinterest is a total crapshoot, and the significant amount of work we have done on the business has yielded insights into what the future could hold for Pinterest. However, Pinterest is a business in transition, and transition creates uncertainty. The more uncertain the future of a business is, the less conviction we will be able to build for that stock. Furthermore, the lower our level of conviction, the more we would want to be compensated by a better risk/reward.

<u>Uncertainty isn't always bad</u>

Investors, however, should not seek to entirely shun uncertainty. **In fact, the stocks that are the least predictable are the ones most susceptible to earnings beats**. Predictable earnings streams are nice, but if investors are able to accurately predict a company's earnings, they are likely to pay a higher multiple for those earnings. This can neutralise the investment gains on offer from the stock.

Uncertainty is desirable to the extent that it can unlock "right-tail" outcomes – that is, a future business state that no one could reasonably have conceived *a priori*. And a future that is difficult to conceive has a lower chance of being accurately reflected in a stock's price. AppLovin, one of the holdings in the Bristlemoon Global Fund, is a good example of this dynamic. At the beginning of 2023, the sell side was forecasting AppLovin to produce $1.14 per share of earnings in FY25. Fast forward to today, and in just two years, those same analysts are expecting $6 per share of earnings for FY25. In other words, in the short span of two years, there has been a 5.3x increase in the forecast earnings power of this business. This has helped drive AppLovin's stock up more than 5x since our initial investment in July 2024.



Source: Bristlemoon Capital; Bloomberg

Often, when an uncertain investment becomes more certain, the stock can re-rate significantly. The key is paying a sensible price that reflects the level of uncertainty and provides a margin of safety in the event that things go awry.

Initially Pinterest was a circa 12 percent position in the Bristlemoon Global Fund. While we did eventually cut the position to 4.5 percent, it was too late, and much of the damage on the portfolio had already been done.

At the current low-$30s share price, we still like Pinterest as an investment. The company's partnership with Amazon should continue to ramp up and help increase Pinterest's auction density and put upward pressure on CPMs. In addition, there's still a veritable opportunity to improve monetisation of the non-U.S. user base. Nearer term, the company's Performance Plus product should help ease advertiser pain points with ad campaign creation, potentially leading to more ad dollars flowing to Pinterest over time.

Why might we not size up an investment position?

Rather than asking when we would size up an investment, it is instructive to invert the question and explore under what conditions would we avoid sizing up an investment position. Below are some reasons that would keep us from sizing up an investment position:

- The risk, even if remote, of catastrophic downside. This could be from leverage, regulatory risk, obsolescence risk, or anything else that might precipitate a severe left-tail event.
- An inability to get sufficient conviction around our estimates of value for the business. For example, an early stage biotech company that has an idea to develop an experimental cancer drug but currently has zero revenue would go straight into our "too hard" basket.
- The presence of other risks that we would want to manage via a smaller position size, such as geopolitical risk, for example.
- Broader portfolio considerations such as managing our factor exposure, as well as our overall geographic and sector concentrations.
- A lack of catalysts to move the stock higher, even if the stock is ostensibly very cheap.

It should be noted that the downside of a concentrated portfolio is higher volatility. This is okay provided that a fund's investors are accepting of this. The real downside, however, is that you might simply be wrong on an investment. And the larger an investment, the more damage it can inflict on your portfolio if it doesn't work out. **Position sizing is a delicate balance between wanting to exploit your insights for maximum financial gain, and not wanting to risk greater levels of damage to your portfolio from a larger-sized position if you're wrong**.

Is cheapness alone a reason to take a large position?

A low-growth business, even if it is considerably cheap, is not a good candidate for being sized up unless there is a strong near-term catalyst for the stock to re-rate higher. **The problem with a cheap business is that it can remain cheap, sometimes for extended periods**. **It's an even poorer proposition if the business is declining; time is not on your side if the value of the business is eroding**.

We make these comments with a business like **Match Group (Nasdaq: MTCH)** in mind. We wrote our first newsletter deep dive on Match Group, and subsequently appeared on the Business Breakdowns podcast to discuss the stock and dating app market. We don't think Match Group is the best business in the world. However, we also don't think it's as bad of a business as others think, and that the cheap stock price derisks the investment for us.

We hold the view that the window for a new dating app to emerge and reach significant scale has firmly shut; it is now simply too hard to reach sufficient user liquidity in an economic way. First movers that pioneered the mobile dating app category such as Tinder, which is owned by Match Group, benefitted from irreplicable circumstances: the newness and novelty of mobile dating apps which underpinned low-cost, viral user growth. Mobile dating apps, due to their convenience and ability to widen the pool of dating prospects, have also irreversibly shifted user behaviours away from offline dating channels. We don't subscribe to the view that early morning run clubs will be the new way to meet people for the masses. For these reasons, we don't think that a company such as Tinder is disappearing anytime soon.

However, Tinder has had issues in recent years, both in terms of top-of-funnel user growth, as well as converting free Tinder users to paying users. While Gen Z users are a core cohort for Tinder, representing 50 percent of Tinder's monthly active users, the product has grown stale and is not adequately meeting the needs of these younger users who approach dating differently to Millennials. We believe that for the stock to really work, management needs to get traction with its Tinder product refresh initiatives amongst these younger users. This is likely what is needed to stymie the bleeding of Tinder payers, which have experienced year-over-year declines for the past seven consecutive quarters.

<u>Match Group is very cheap</u>

While this doesn't sound very enticing as an investment, the stock is very cheap which we believe limits our downside. The stock trades on a 9% free cash flow yield (and this is after stripping out share based compensation expense). Match Group has also committed to using more than 75 percent of its free cash flow to repurchase shares.

New disclosures by the company in Q3 2024 suggest a $200 million adjusted EBITDA run rate for Hinge. This asset, which is the crown jewel of Match Group's stable of dating apps and growing at 36 percent year-over-year, would probably fetch a 30x multiple if it traded as a standalone business. This implies $6 billion of value for Hinge. This is notable given that the entire Match Group business has a circa $11 billion enterprise value. **Hinge, which comprises just 15 percent of Match Group's total adjusted EBITDA, could be worth around 55 percent of Match Group's entire valuation**.

There's another maybe $230 million of adjusted EBITDA from the Match Group Asia and Evergreen & Emerging segments. While there's value in those segments, let's just write it off and turn our focus to Tinder. Once fully burdened with corporate and unallocated costs, Tinder is producing around $900 million of adjusted EBITDA. The remaining $5 billion of Match Group value (i.e., after Hinge is excluded) implies a 5.6x adjusted EBITDA multiple for Tinder.

Tinder is priced as if it's in terminal decline. However, Tinder has average 12 percent revenue growth over the last 19 quarters (albeit this was boosted by the pandemic) and 4.6 percent over the past eight quarters. We do not think it's unreasonable that Tinder could achieve flat to low-single-digit revenue growth going forward, with the possibility of that growth rate accelerating if the company's product initiatives get traction. **But even if we were to wipe off 5 percent of Tinder's earnings per year, at a 5.6x multiple you'd still recoup your money within seven years**. On top of this, the company's significant buyback program will increase the torque on earnings per share growth in the event that Match Group's earnings do positively inflect.

Our rationale for previously holding Match Group as a top five portfolio holding was that 1) there was large stock price upside to the extent that Tinder payers stabilised and started growing again; 2) we were playing for a more contained investment gain from the stock's multiple expanding, as opposed to a multi-year compounding story; and 3) other market participants (i.e., the pods) would front run us if and when Tinder payers did start to inflect positively, which to us made it reasonable to be positioned heavily in MTCH ahead of this. Thought of another way, waiting for more evidence of our thesis to play out might cause us to miss a significant portion of the investment gains we're playing for.

While we have made money from Match Group since the Fund's inception, under our revised position sizing framework Match would not have been made a very large portfolio holding, despite its cheapness. Playing for multiple expansion alone is probably not enough of a reason to size up an investment. Rather, we seek to reserve our largest portfolio holdings for stocks where we have both multiple expansion *and* the compounding of earnings working in our favour.

Position sizing and risk management for shorts

We would note that our position sizing framework applies only to our long investments; it does not apply to our short book. We approach shorting *very* differently to how we invest in our longs. When shorting, conviction is more likely to hurt you than help you. Risk management should always reign supreme when shorting, as opposed to digging in one's heels because of a high conviction, fundamental short thesis. Being dogmatic is how you get blown up when shorting.

Shorting is not a big focus of the Fund. Our time is finite and must be spent prospecting in areas where we can make the largest investment gains. Shorting falls outside of this category. For a great long, we can size that position up and let it compound (hopefully for many years). The insights and intellectual property we build on that stock have longevity, and will grow over time as we follow the various business developments. Shorting, on the other hand, has finite upside. The most you can make on any short is 100% in theory. In practice it is often far less. There is also a limited shelf life for the insights built up on shorts. And when the short works, the position size shrinks, meaning that new shorts must be found if the intention is to maintain a certain net exposure.

We do not target a low net exposure, and we have no standing short book. Instead, we use shorts as an opportunistic way to make money. When there are no opportunities that are easy for us to underwrite, we don't short. When the short opportunities are plentiful and those shorts are working, we will put on those trades.

Framing shorts as trades, as opposed to investments, is intentional. There is no such thing as a "short investment". We treat our short portfolio as a book of trades where we have a fundamental view that the odds of making money on any given short position are stacked in our favour. Our short book is naturally lower conviction than our long book. There are two reasons for this: 1) building strong conviction on a short is costly from an investment resourcing standpoint; and 2) conviction when shorting should always be subjugated to tight risk controls, given that losses when shorting are uncapped, and a short position will increase as the stock moves against you.

Risk management is crucial when shorting, which we discussed in our research piece *The Perils of Short Selling*. Our risk protocols were put to the test in November 2024. We entered November 2024 with 18 short positions. Many of these shorts were U.S. retailers trading on 20-30x P/Es which had asymmetric downside risk to the extent that Trump introduces tariffs on Chinese imports into the U.S. However, as November unfolded, these stocks rallied off the back of broader market ebullience. Most of these shorts hit our tight risk limits and we exited the positions.

Being stubborn and sticking to our fundamental short thesis would have cost us a substantial amount of performance. We have a healthy respect for the market when shorting. Unlike how we invest in our longs, the price of the stock is an input into our decision making when managing the short portfolio, forming an integral part of our risk management approach.

We are very grateful for the opportunity to be able to manage capital on behalf of our clients. While we're early in our journey, building Bristlemoon Capital has been an absolute blast thus far. Thank you again for all the support.

Kind regards,

Bristlemoon Capital