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To My Partners:

The performance of our portfolio for the first quarter of 2016 and since inception is summarized below.

	Hinde Model Account		S&P 500
	Gross	Net	Total Return
1Q16	-5.75%	-6.10%	1.35%
Since Inception:			
Cumulative	-1.89%	-3.00%	1.50%

Global financial markets got off to a rough start in 2016. The new year brought with it acute concerns about global economic growth. In financial markets around the world, equity and commodity prices plummeted, risk premiums, such as credit spreads and implied volatility, blew out; and government bond yields tumbled. By mid-February, the S&P 500 was down over 10%, and the yield on the U.S. 10-year Treasury had declined to 1.63% from 2.27%. For much of the first quarter, the U.S. equity market was paced for its worst ever start to a year.

The financial market swoon left many people scratching their heads. While it is easy to observe correlations between asset prices, distilling causation is another matter. A sharp sell-off in Chinese shares seemed to set the tone for the rest of the world. The Shanghai Composite Index dove 6.9% on the first trading day of 2016 and was down around 25% at one point in January. Financial markets have been on tenterhooks regarding the rebalancing of China's economy, and a plunging Chinese stock market certainly did not inspire confidence. At the same time, equity prices exhibited an unusually high correlation to the price of oil during the first quarter. But it is hard to say with confidence whether the decline in the price of oil caused the sell-off in equities – for example, due to concerns that cuts in investment and financial losses would outweigh any stimulus to consumption – or whether the declines in the price of oil and equity prices were correlated simply due to their shared reliance on global economic growth. Although the U.S. economy lost some momentum toward the end of 2015, all signs continued to point to modest, if somewhat flagging, economic growth.

In the absence of a sharp deterioration in the performance of the U.S. economy, the market's highly-stressed state in mid-February could not last. While U.S. economic data received during the first quarter was mixed, it was not nearly bad enough to confirm the market's worst fears. Meanwhile, monetary policymakers responded to the financial market turbulence by applying some salve in the form of dovish statements and a flatter forecast for the future path of the federal funds rate. The U.S. equity market staged a comeback in the second half of the period, ultimately ending in the black.

The mark-to-market performance of our portfolio lagged that of the broader U.S. equity market during the first quarter. Financials were the worst performing sector of the market, and our portfolio's exposure to several such companies weighed on our mark-to-market results. Developments during the first quarter tempered the expected pace at which the Federal Reserve will tighten monetary policy. As the prospects for the boon that many financial companies will enjoy from higher interest rates waned, the shares of those companies took a hit. While the diminished outlook for interest rates has a real impact on some of our

companies, the hits that the shares of those companies took during the first quarter were generally overdone.

Performance Attribution

Positions that had a material impact on the portfolio's mark-to-market performance for the quarter are outlined below.

Performance Attribution	
1Q 2016	
Colfax Corporation[1]	1.40%
Interactive Brokers Group	-1.17%
Amazon.com	-1.26%
NMI Holdings, Inc.	-1.68%
E*TRADE Financial	-1.89%
Other	-1.14%
Gross Performance	-5.75%

Portfolio Composition

The composition of the portfolio at the end of the quarter is depicted below.

Portfolio Composition	
Equities	90.1%
Options	-0.7%
Cash	10.6%

During the quarter, we exited our position in PayPal Holdings, Inc. common stock (NASDAQ: PYPL). At the end of the quarter, our portfolio included nine long equity positions, a short position in out-of-the-money calls related to one of our long equity positions, and cash.

Select Portfolio Updates

The portfolio updates in this letter include two of the financial companies that weighed on our mark-to-market results during the quarter. Interactive Brokers Group, Inc. is a compounder, and NMI Holdings, Inc. is a special situation. There is also an update regarding our investment in the shares of Blount International, Inc., which was discussed in the partner letter for the fourth quarter of 2015.

Interactive Brokers Group, Inc. (NASDAQ: IBKR)

Whenever there is a tumultuous day in financial markets, newspapers inevitably splash across their front pages the familiar image of a forlorn pit trader with his head in his hands. But that image has become an anachronism. There has been a revolution in financial markets. Exchanges are no longer physical locations where traders bump shoulders, flash hand signals and yell in order to execute trades. They are high-tech data centers with rows of powerful servers humming quietly, more likely in New Jersey than in New York.

[1] Includes both common stock and associated derivative securities

This monumental change in the nature of financial markets has sparked numerous other changes. While human traders are still key players in financial markets, computers running algorithms now account for the majority of trading volume on many exchanges. Trading costs have plummeted. Financial exchanges have become publicly-traded companies, aggressively pursued mergers & acquisitions, and expanded their product offerings and international reach. The lower costs of electronic trading relative to floor-based trading have led to more aggressive competition between execution venues and the fragmentation of liquidity. These tectonic changes have created new winners and losers in the financial services industry, with technology playing an increasingly important role.

Led by its visionary founder, Thomas Peterffy, Interactive Brokers Group ("IBG") has been one of the pioneers of the new era of electronic trading since its earliest days, and it is unquestionably one of the winners in the new landscape of the financial services industry.

Born in the basement of a Budapest hospital during a World War II bombing raid, Thomas Peterffy emigrated from socialist Hungary to the U.S. in 1965, penniless and speaking no English. After teaching himself to program computers, he began developing software for financial modeling and trading applications, first at a consulting firm and then at a commodities trading firm. He inherently grasped the immense potential for technology to revolutionize financial markets. In 1977, he took the $200,000 he had saved up and struck out on his own, paying $36,000 for a seat on the American Stock Exchange and using the rest as capital to start making markets in equity options as an individual trader.

Thomas Peterffy's individual market making activities soon evolved into a firm called Timber Hill. By relentlessly leading the charge to bring cutting edge technology and telecommunications to the trading floor, Timber Hill gained a distinct advantage. What started as computer generated fair value sheets provided to floor traders periodically throughout the day – a revolutionary concept at a time ruled by adrenaline-fueled speculation – ultimately grew into a fully-automated electronic trading platform and communications network directly connected to more than 100 electronic exchanges and trading venues in 24 countries around the world. Timber Hill became the original automated, algorithm-based trading firm. By the mid-2000s, Timber Hill's market making activities accounted for around 16.0% of the volume of exchanged-listed equity options traded worldwide and over 20% of the volume of exchanged-listed equity options traded in the U.S.

In the early 90s, Thomas Peterffy realized that the state-of-the-art trading platform and communications network he had built to support Timber Hill's market making activities could also serve as the foundation for an electronic brokerage. Thomas Peterffy launched Interactive Brokers ("IB"), an electronic broker targeting sophisticated individual and institutional customers, in 1993.

Interactive Brokers Group is the holding company for both Timber Hill, the market making business, and Interactive Brokers, the electronic broker. Although IBG's heritage is in market making, the electronic brokerage business, Interactive Brokers, has become the far more important piece of the company over the past several years. While Timber Hill pioneered automated, algorithm-based market making, its returns have been severely pressured over the past several years by increased competition from high frequency trading firms, among others. Interactive Brokers, on the other hand, is a wonderful business with a massive growth opportunity that is only getting stronger as it exploits economies of scale.

Interactive Brokers has an incredible competitive position because it offers both the best and least expensive brokerage platform for technologically sophisticated individuals and institutions. Barron's has rated Interactive Brokers its lowest cost broker for eleven years straight and its top overall broker for the past four years. IB is able to achieve the powerful combination of best and lowest price as a result of the ultra-efficient, highly-scalable automated trading platform it has built and refined over the past four

decades. The scalability of IB's platform means that the business is only getting more efficient as it continues to grow. The fact that the brokerage business has by far the highest margins among the publicly-traded online brokers despite charging by far the lowest prices is a testament to the efficiency of the Interactive Brokers platform.

IB's powerful offering has resulted in robust market share gains and growth. Since 2004, Interactive Brokers has grown its customer accounts, customer equity, revenue and pre-tax income at compound annual rates of 19.2%, 35.4%, 21.1% and 27.6%, respectively.

Despite this impressive record, Interactive Brokers continues to have a massive opportunity to gain market share. On a recent earnings call, Thomas Peterffy remarked that Interactive Brokers has "so far penetrated less than 1% of our total addressable market, and accordingly, we could easily grow 100 fold and still have room left over." While the assumptions underlying the 100 fold figure are open for debate, the overall point that Interactive Brokers has barely scratched the surface in terms of penetrating some key customer segments is unquestionable. Interactive Brokers serves five key customer segments: sophisticated individuals, proprietary trading groups, hedge & mutual funds, financial advisors and introducing brokers. The only customer segments Interactive Brokers has meaningfully penetrated so far are proprietary trading groups and sophisticated individuals, and those two segments are dwarfed by the sizes of each of the other three. Interactive Brokers has less than 0.2% market share in each of the three remaining customer segments, hedge & mutual funds, financial advisors and introducing brokers.

Interactive Brokers is also poised to benefit from higher interest rates. IB earns a spread on cash balances in its customer accounts, in part by paying its customers a small discount relative to benchmark short-term interest rates. Practically speaking, the interest rate IB pays its customers on their cash balances cannot go below zero, so its net interest spread is compressed when short-term benchmark interest rates are at zero. Its net interest spread should materially recover as short-term interest rates – the U.S. Federal Funds Rate in particular – move past 0.50%.

After gaining almost 50% in 2015, the market price of IBKR ended the first quarter down about 10% from where it started. IBKR's underperformance during the first quarter comes down to its interest rate exposure. Expectations for the future path of benchmark short-term interest rates worldwide declined during the first quarter in lockstep with increasing concerns about the outlook for global economic growth.

Although IBG is certainly exposed to changes in interest rates, the sell-off in IBKR during the first quarter was wildly overdone. IBG is far less sensitive to interest rates than other online brokers. Interactive Brokers pays its customers a much tighter discount to benchmark rates than other online brokers and invests in a portfolio with a considerably shorter maturity profile than those of other online brokers. Despite IBG's relatively low interest rate sensitivity, IBKR sold-off just as much as the stocks of other, far more interest rate sensitive brokers during the first quarter. The more subdued outlook for interest rates that set in during the first quarter only modestly delays the timing of a full normalization of IB's net interest spread.

Notwithstanding the diminished outlook for interest rates since the beginning of the year, IBKR continues to be priced to deliver attractive returns, and its intrinsic value at the end of the year should exceed $50 per share.

NMI Holdings, Inc.
(NASDAQ: NMIH)

Near the end of Stanley Kubrick's *Dr. Strangelove*, there is a famous scene in which B-52 pilot Major Kong rides on top of a nuclear bomb all the way to its target, hootin' and hollerin' while he whips his Stetson hat in the air. That scene pretty well sums up the position the private mortgage insurance industry was in leading up to the implosion of the housing bubble and ensuing financial crisis. Private mortgage insurers

provide default protection on residential mortgages on a first-loss basis up to a specified coverage percentage. As the housing boom went bust, default rates on insured mortgages soared from the low single digits to nearly 20%, and the private mortgage insurance industry faced a tsunami of claims. The industry ended up paying out over $50 billion. Mortgage insurers also denied or rescinded coverage on more than $10 billion of claims. Only four of the eight primary private mortgage insurers in operation at the beginning of 2007 made it through the crisis intact.

The wreckage of the private mortgage insurance industry in the aftermath of the housing crash and financial crisis created a clear opening for new entrants. The few legacy mortgage insurance companies that were still writing new business not only had impaired financial positions, but also had tarnished reputations as a result of their aggressive campaigns to deny and rescind coverage. NMI Holdings, Inc. is one of two companies – the other being Essent Group Ltd. – that was able to take advantage of this opportunity to launch a new private mortgage insurance company.

NMI raised $550 million from institutional investors through a Rule 144A offering in April 2012. It then gained approval from both Fannie Mae and Freddie Mac as a qualified mortgage insurance provider in January 2013, a critical milestone for the company. The primary underlying purpose of the private mortgage insurance industry is to enable Fannie Mae and Freddie Mac to purchase high loan-to-value mortgages, which the GSEs are prohibited by their federal charters from purchasing without some form of credit enhancement. By mid-2013, NMI had also received insurance licenses from all except two states, and the two laggards, Florida and Wyoming, came through in November 2013 and April 2014, respectively. NMI began writing business in April 2013 and went public in November 2013.

NMI has made considerable progress since it began writing business. It has built a nationwide salesforce, integrated with key mortgage servicing systems, including those of Black Knight Financial Services, FiServ, and certain large lenders with proprietary systems; signed master policies with over 1,000 lenders, including the top players in the correspondent channel; and generated new insurance policies from over 500 lenders. In 2015, NMI wrote $12.4 billion of new primary mortgage insurance, representing 6% market share and 260% growth from the prior year. NMI ended 2015 with $14.8 billion of primary insurance-in-force. The company aims to become profitable on a GAAP basis once it reaches between $21 billion and $23 billion of primary insurance-in-force, a milestone the company looks set to hit in the second half of 2016.

Despite the progress that NMI has made, its stock has performed abysmally. NMI raised money at $10.00 per share in the April 2012 Rule 144A offering and at $13.00 per share in its November 2013 IPO. After hitting a high of just over $14.00 per share shortly after its IPO, the stock has since declined more than 60% to $5.05 per share at the end of the first quarter.

Several factors account for the poor performance of NMIH. First, NMI has used price discounts in order to grow its volume of insurance written and gain scale. There are concerns in the market about the implications of NMI's pricing tactics for the returns on capital it will be able to generate and for the overall pricing environment for the industry. Second, the severe downturn in the oil & gas industry has ignited fears of losses for mortgage insurers on policies written in energy-dependent areas, such as Houston. Finally, NMI will need additional capital in the foreseeable future to continue to grow its insurance-in-force and scale the business toward acceptable levels of profitability and returns. In a self-reinforcing vicious cycle, the lower the price of NMIH goes, the more expensive and less attractive an equity offering becomes, and the more the prospects for a dilutive equity offering weigh on the stock. The combination of these concerns has left NMIH trading at a large discount to adjusted tangible book value, well below the valuation range of its publicly-traded peers.

The bargain price at which NMIH currently trades presents a compelling investment opportunity because each of the aforementioned concerns is overblown.

The price discounts NMI has utilized were opportunistic in nature and are not reflective of the company's longer-term pricing strategy. NMI has used discounts in two ways.

First, it has executed aggressively-priced bulk transactions for lender-paid mortgage insurance with Quicken Loans. These bulk transactions offered an efficient way for NMI to gain scale as it was putting in place the sales organization and infrastructure required to generate better-priced, higher-return borrower-paid mortgage insurance. While the discounted bulk transactions with Quicken represented 46% of NMI's new insurance written in 2014, that figure declined to 20% in 2015, was at 14% in Q4 2015, and should continue to decline going forward.

Second, NMI has offered targeted discounts on lender-paid mortgage insurance to certain lenders for a limited period of time in order to get a foot in the door. Although NMI has master policies signed with over 1,000 lenders, only about half of those master policyholders are actually doing business with NMI. The targeted discounts that NMI offered on lender paid mortgage insurance started to become meaningful in Q2 2015 and continued to increase in Q3 and Q4. NMI's volume of flow (as opposed to bulk) lender-paid mortgage insurance increased almost 800% in 2015 as a result of these targeted discounts. But NMI's aggressive use of targeted discounts on LPMI was solely intended to exploit a closing window of opportunity related to the implementation of new requirements for being considered an "approved insurer" by Fannie Mae and Freddie Mac. Those new requirements, the Private Mortgage Insurer Eligibility Requirements ("PMIERs"), went into effect on January 1, 2016 and implemented a new capital surcharge on lender-paid mortgage insurance. Since PMIERs went into effect, NMI has stopped aggressively discounting lender-paid mortgage insurance, and its business mix has materially shifted toward rack-rate, borrower-paid mortgage insurance.

Concerns about NMI's exposure to losses in the oil patch are similarly misplaced. Since the private mortgage insurance industry restarted in 1957, there have been two periods of elevated losses, the recent housing/financial crisis and the 1980s & early 1990s. The downturn in the oil & gas industry in the mid-80s played an important role in the losses the mortgage insurance industry incurred during that period, so it is no surprise that there are some concerns about what the current crisis in the oil & gas industry will mean for mortgage insurers. While energy-dependent MSAs will certainly experience both direct and indirect job losses and may experience home price declines as well, losses in the private mortgage insurance industry are unlikely to be nearly as bad as they were in the mid-1980s. The downturn in the oil & gas industry was a significant factor behind the industry's losses in the mid-1980s, but it was not the only factor. Lax underwriting standards also played an important role. This time around, the downturn in the oil & gas industry is happening in the context of pristine underwriting in the wake of the financial crisis. Major metropolitan areas that are exposed to the oil & gas industry, such as Houston, are also more economically diversified now than they were back in the mid-1980s.

Even assuming the downturn in the oil patch this time around leads to a similar level of defaults as the downturn in the mid-1980s, the impact on NMI should be only modest. According to the Department of Housing and Urban Development, fixed-rate, 30-year, first-lien mortgages on owner-occupied single family properties originated in the oil patch in 1983 and 1984 had a 10-year cumulative default rate of 14.9%. NMI's exposure to energy-dependent MSAs is around 4% of its risk-in-force, including about 40 bps in the Bakken Shale, 100 bps in the Permian Basin, less than 100 bps in the Marcellus Shale (excluding Pittsburgh), and just over 2% in the whole Houston metropolitan area. Assuming 15% of this exposure defaults at 100% severity, NMI would experience oil & gas-related losses equal to about 60 bps of its risk-in-force. That translates into $22 million of losses, just 5% of NMI's book value. Unless NMI's exposure to the oil patch grows in a material way, it should represent only a modest hit to the business in a worst-case scenario.

Finally, fears about a looming, dilutive equity offering underestimate the flexibility that a reinsurance transaction could provide NMI. Terms available in the reinsurance market are quite favorable right now.

Based on reinsurance transactions that some of NMI's competitors have recently done, NMI should be able to execute a reinsurance transaction covering 20% to 40% of its new and/or existing insurance at an after-tax cost of capital in the mid-single digits or lower. Radian Group recently announced a quota share reinsurance transaction along the lines of what NMI may pursue that has an expected after-tax cost of capital over the term of the transaction of less than 2.0%. NMI currently has sufficient capital to get the company past breakeven. By tapping the reinsurance market to fund as much as 40% of its primary insurance at a wide spread, NMI should be able to move solidly into the realm of profitability and internal capital generation through reinsurance alone. The company may still ultimately pursue a non-dilutive equity offering in order to scale the business more quickly, but it will not be forced to raise equity on punitive terms.

As concerns about pricing, exposure to losses in the oil patch, and the possibility of a dilutive equity offering wane and as NMI continues to make progress toward a normal level of profitability, the market valuation of NMIH should improve materially. NMI's publicly-traded peers current trade in a range of 1.0x to 1.7x adjusted tangible book value, and the group's current valuation range is somewhat depressed relative to its long-term history. NMIH itself has historically traded at as high as 1.5x adjusted tangible book value. Based on the mid-teens unlevered returns NMI targets through its underwriting, NMIH should merit a premium to adjusted tangible book value over time. With NMI's adjusted tangible book value currently at $7.73 per share, NMIH is conservatively worth more than $8.00 per share.

Over the past 18 months, insiders have purchased over $17 million worth of stock in the open market at an average price of $8.23 per share.

Blount International, Inc. (NYSE: BLT)

On April 12th, shortly after the end of the first quarter, American Securities and P2 Capital Partners completed their acquisition of Blount International, Inc. Although the go-shop process run by Goldman Sachs and Greenhill resulted in 13 parties executing confidentiality agreements, no alternative acquisition proposals emerged during the go-shop process or otherwise. We received $10.00 per share in cash in exchange for our shares of BLT after the merger closed. The position generated a small profit.

I have a high degree of confidence that our portfolio will deliver attractive returns over time, notwithstanding its mark-to-market performance during the first quarter of 2016. As always, I am honored by your continued confidence and support. Please feel free to contact me if you have any questions or if there is anything you would like to discuss.

Regards,

Marc Werres
Managing Partner

Important Disclosures

The performance figures depicted herein relate to the Hinde Model Account. This account serves as the model account for the taxable accounts Hinde Group manages. The performance of investor partner accounts may differ from the figures depicted herein for several reasons, including cost basis differentials, the timing of account inflows, tax considerations, or other reasons. The Hinde Model Account's gross results reflect the deduction of trading commissions and other fees charged by Hinde Group's broker. Net results reflect the hypothetical deduction of management fees (1.5% of AUM per annum billed quarterly in advance).

The Hinde Model Account's inception date is July 1, 2015.

The statistical data regarding the performance of the S&P 500 was obtained from the website of S&P Dow Jones Indices. The S&P 500 returns shown do not represent the results of actual trading of investible assets/securities.

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