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To My Partners:

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

	Hinde Model Account		S&P 500
	Gross	Net	Total Return
2016:			
Q2	3.90%	3.51%	2.46%
Year-to-Date	-2.07%	-2.78%	3.84%
Since Inception (07/01/15):			
Annualized	1.93%	0.41%	3.99%
Cumulative	1.93%	0.41%	3.99%

There were 64 trading days for U.S. financial markets during the second quarter of 2016. The first 59 were relatively unremarkable. Markets continued to rebound from their swoon at the beginning of the year. U.S. economic data pointed to better-than-initially-reported growth during the first quarter and a consumption-led pick-up during the second quarter.

Then, on June 23rd, voters in the United Kingdom shocked the world. In a non-binding referendum on the U.K.'s continued membership in the European Union, 51.9% voted to leave. The result ushered in the prospect of an end to a 40-year era for the U.K. with little clarity around what would come next.

Global financial markets reacted swiftly. The pound sterling fell to a 31-year low against the dollar. Credit spreads and implied volatility spiked. European equities declined sharply, with the stocks of many British banks plunging by more than 20%. Although the direct impact of Brexit on the U.S. economy should be limited, U.S. financial markets were not spared. At one point during the first two trading days after the result, the S&P 500 was down almost 6% from its pre-referendum level. The yield on the U.S. 10-Year Treasury plummeted as global investors flocked to safe havens and as expectations for the pace at which the Fed will tighten monetary policy declined.

Outside of Europe, most financial markets were quick to regain their composure. In the last three trading days of the quarter, the S&P 500 regained virtually all the ground it had given up. It ended the quarter down only 0.7% from its pre-referendum level.

The U.S. Treasury market was a notable exception. The yield on the U.S. 10-Year Treasury ended the quarter at 1.49%, well below its level prior to the referendum, 1.74%. It continued to decline after the end of the quarter, hitting an intra-day low of 1.32% on July 6th. That is the lowest yield at which the U.S. 10-Year Treasury has ever traded in the more than 226 years since the U.S. federal government started issuing debt.

The decline in long-term interest rates – not only in the U.S., but also in other advanced economies – is one of the major stories in financial markets thus far in 2016. The post-referendum decline in the U.S. 10-Year Treasury yield is only its latest step down. It started 2016 at 2.27%. Germany and Japan began 2016 with 10-year government bond yields at 0.63% and 0.27%, respectively. At the end of the second quarter, 10-year government bonds for both of those countries offered negative yields. And Germany and Japan have nothing on Switzerland. In early July, the entire stock of Switzerland's government debt, including a bond that matures in 2064, offered negative yields. Bonds with negative yields were an anomaly as recently as 2014. Estimates now put the value of negative yielding debt around the globe at more than $10 trillion.

Plummeting interest rates have considerably weighed on our portfolio this year. A flatter yield curve puts pressure on the earnings power of many financial institutions. Three of the equity investments in our portfolio, E*TRADE Financial Corporation common stock (NASDAQ: ETFC), Interactive Brokers Group, Inc. class A common stock (NASDAQ: IBKR), and NMI Holdings, Inc. common stock (NASDAQ: NMIH), relate to financial institutions. Those three investments account for around 30% of our portfolio, and they have collectively been a 5.39% drag on our mark-to-market performance for the year-to-date.

While a flatter yield curve is unquestionably a headwind for the financial institutions in our portfolio, the year-to-date market performance of the equities of those companies is not representative of the changes in their intrinsic values. In particular, both Interactive Brokers and NMI Holdings are far less exposed to changes in interest rates than the typical broker-dealer and insurance company, respectively. The sell-offs in their shares have been considerably overdone. Although E*TRADE will experience pressure on its earnings power in the current interest rate environment, ETFC is conservatively worth more than its current trading price, particularly to number of potential strategic acquirers.

Despite losing ground after the Brexit referendum, our portfolio outperformed the S&P 500 on a mark-to-market basis during the second quarter; however, it is trailing the S&P 500 on a mark-to-market basis for the year-to-date due to the aforementioned drag from our investments in those three financial institutions.

Performance Attribution

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

Performance Attribution			
2Q 2016		**YTD**	
TopBuild	2.15%	TopBuild	1.70%
Amazon.com	1.97%	Colfax Corporation[1]	1.18%
NMI Holdings	0.84%	NMI Holdings	-0.90%
Interactive Brokers Group	-1.14%	Interactive Brokers Group	-2.24%
		E*TRADE Financial	-2.25%
Other	0.07%	Other	0.43%
Gross Performance	3.90%	Gross Performance	-2.07%

Portfolio Composition

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

Portfolio Composition	
Equities	67.6%
Options	-0.2%
Cash	32.6%

[1] Includes both common stock and associated derivative securities

During the quarter, we exited our positions in American Express Company common shares (NYSE: AXP) and Blount International, Inc. common stock. We also reduced our position in Amazon.com, Inc. common stock (NASDAQ: AMZN), and added to our position in Liberty Interactive Corporation Series A QVC Group common stock (NASDAQ: QVCA). At the end of the quarter, our portfolio included seven 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

Hinde Group recently published and distributed a detailed memorandum on its investment in Liberty Interactive Corporation Series A QVC Group common stock (NASDAQ: QVCA). That memorandum serves as the primary portfolio update for this quarter. Below is an additional update on the most significant positive contributor to our portfolio for both the quarter and the year-to-date, TopBuild Corp. common stock (NYSE: BLD). TopBuild Corp., which was spun-off by Masco Corporation last year, is the leading distributor and installer of insulation in the U.S. construction industry. Hinde Group previously discussed its position in BLD in its partner letter for the third quarter of 2015.

TopBuild Corp.
(NYSE: BLD)

New residential construction continues to recover from the bursting of the housing bubble, and an important transition is underway. From 2009 to 2015, the majority of the recovery in new residential construction in terms of units was driven by the multi-family sector (e.g. apartment buildings). In 2015, construction started on nearly three times as many multi-family housing units as in 2009, reaching the highest level since 1987. But there is only so far that the multi-family sector could take the overall recovery in new residential construction. The multi-family sector has historically accounted for just one quarter of total housing starts on average. A full recovery in new residential construction requires the single-family sector, historically making up around 70% of total housing starts on average, to lead the charge. That is precisely what is happening. Through the first six months of 2016, single-family housing starts are up 13.2% year-over-year, representing an acceleration from 10.3% growth in 2015 and 4.9% growth in 2014.

This transition in the recovery of new residential construction activity is unambiguously good news for TopBuild. A single-family housing unit requires around three times as much insulation as a multi-family one, because single-family housing units have far more exterior-facing surfaces and are typically larger than multi-family units. TopBuild will benefit as the number of housing units built recovers to levels more consistent with demographic-based demand projections and as the mix of housing units built is increasingly composed of single-family units.

TopBuild’s recent results have been strong, reflecting the beneficial trends in new residential construction activity. In the first quarter, revenue grew 15.5%, and adjusted operating profit increased 212.6% to $20.8 million from $6.6 million. For a single-family home, insulation is typically installed around 90 days after construction starts. For a multi-family home, the lag between a housing start and the installation of insulation is longer, typically between four and eight months. As a result, data on housing starts provides a good indicator of where TopBuild’s job volumes are likely headed. The most recent data on housing starts bodes well for TopBuild’s results in the near-term.

Although BLD gained 17.6% in the first six months of 2016 and ended the second quarter up almost 30% from our average cost, it remains undervalued using conservative assumptions for a continued recovery in new residential construction activity.

It is always important to keep in mind the limitations of using short-term mark-to-market performance to evaluate an investment approach designed to deliver results over a multi-year period. Over a short period of time, the picture mark-to-market performance presents will be heavily influenced by beginning and ending points that are inherently arbitrary. The picture can be particularly distorted by a market disruption like the Brexit referendum. Furthermore, Hinde Group's strategy focuses on significantly misunderstood and mispriced securities. It generally takes time for the underlying factors that create misunderstandings and mispricings to be resolved. During periods when not much progress is made resolving the mispricings related to the securities in our portfolio, the value being created by Hinde Group's investment approach will not be plainly evident in mark-to-market performance. The noise created by these factors decreases the longer the measurement period.

Evidence of the value that Hinde Group has been creating through the disciplined execution of its investment approach should be more clear as time goes on. Thank you for your continued confidence and support.

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.

Past performance is not necessarily indicative of future results. All investments involve risk including the loss of principal. The views expressed herein are those of Hinde Group as of the date indicated and may change without notice. Hinde Group may buy or sell any security at any time and is under no obligation to provide updates to the information contained herein. This is not a recommendation to buy or sell any security.