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To My Partners:

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

	Hinde Model Account		S&P 500
	Gross	Net	Total Return
2016:			
Q4	10.12%	9.70%	3.82%
Year	13.34%	11.65%	11.96%
Since Inception (07/01/15):			
Annualized	11.65%	9.98%	7.93%
Cumulative	17.98%	15.34%	12.13%

The fallout from the U.S. election dominated the fourth quarter. Donald Trump's startling victory combined with the Republican Party's retention of majorities in both chambers of Congress will give Trump and the Republicans far greater ability to implement federal legislation than either party has enjoyed in six years. The consensus among market participants quickly settled on the view that the new government will reform the corporate tax system, cut individual taxes, make large incremental investments in infrastructure, increase spending on defense, and roll back regulations.

After flinching momentarily as the election's result became clear, U.S. financial markets proceeded to price in a more favorable outlook for economic growth and corporate profits. Yields on U.S. Treasury securities spiked, reflecting both higher real yields and an increase in inflation compensation. The dollar strengthened notably against foreign currencies. U.S. equity markets rallied, with the S&P 500 adding around five percent between Election Day and the end of the year. Most surprisingly perhaps, implied volatility remained subdued despite the prospects for a presidency that is certain to be, at best, unconventional.

Whether Trump will ultimately deliver on the market's sanguine outlook remains to be seen. Precise details about the policies on his agenda are elusive, and on many key issues, there seem to be wide gaps to bridge between Trump's preferences and those of congressional Republicans. In particular, there are many reasons to be skeptical that the fiscal policies that the new government will implement will be as stimulative as the market seems to expect.

Economic data released during the quarter pointed to a moderate pace of growth that should continue to reduce the remaining slack in our economy. Real final sales of domestic product, a measure of economic growth that excludes the impact of changes in inventory levels, grew 3.0% in the third quarter. The industrial sector continued to regain its footing after being dazed by the one-two punch of a strong dollar and collapsing commodity prices for much of the year. In December, the Institute for Supply Management's closely watched Purchasing Managers' Index hit its highest level of the year and the Federal Reserve's Industrial Production Index registered growth over the prior year for the first time since August 2015. For 2016 as a whole, it looks like the U.S. economy grew around 1.9% on an inflation-adjusted basis.

On the heels of the election, the Federal Reserve raised its target range for the federal funds rate by 25 basis points, to 0.50% – 0.75%. Many Federal Open Market Committee participants also increased their forecasts for economic growth and the pace at which the FOMC would tighten monetary policy. The median forecast among FOMC participants currently calls for three rate hikes in 2017.

Our portfolio considerably outperformed the S&P 500 during the fourth quarter. Several of our positions delivered double-digit mark-to-market returns. In particular, NMI Holdings, Inc. class A common stock (NASDAQ: NMIH) gained 39.8% during the fourth quarter on top of its 39.1% increase during the third quarter.

Performance Attribution

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

Performance Attribution			
4Q 2016		2016	
NMI Holdings	5.39%	NMI Holdings	8.58%
E*TRADE Financial	1.97%	Colfax Corporation[1]	4.24%
Colfax Corporation	1.33%	E*TRADE Financial	1.84%
HRG Group[2]	0.82%	TopBuild	1.52%
TopBuild	0.73%	Amazon.com	0.92%
		HRG Group[2]	0.84%
		Interactive Brokers Group	-1.62%
		Liberty Interactive QVC Group	-3.04%
Other	-0.13%	Other	0.08%
Gross Performance	10.12%	Gross Performance	13.34%

Portfolio Composition

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

Portfolio Composition	
Equities - Long	94.2%
Equities - Short	-9.1%
Cash[3]	14.9%

During the quarter, we initiated a long position in Waters Corporation common stock (NYSE: WAT). We added to our long position in Amazon.com, Inc. common stock (NASDAQ: AMZN) and also added to our long position in HRG Group, Inc. common stock (NYSE: HRG) and the associated short position in Spectrum Brands Holdings, Inc. common stock (NYSE: SPB). At the end of the quarter, our portfolio included nine long equity positions, one short equity position that hedges one of our long positions, and cash.

[1] Includes both common stock and associated derivative securities
[2] Includes the associated short position in Spectrum Brands Holdings, Inc. common stock (NYSE: SPB)
[3] Includes short sale proceeds

Select Portfolio Updates

Waters Corporation common stock is a new compounder investment that joined the portfolio during the fourth quarter.

Waters Corporation (NYSE: WAT)

Founded in 1958 by James L. Waters, Waters Corporation is a leading provider of laboratory instruments, consumables and services to companies operating in the life sciences, food & beverage, and industrial markets as well as to academic and government institutions. The company operates through two divisions, Waters and TA Instruments. The Waters division, which represents almost 90% of the business, focuses on molecular and biochemical analysis using liquid chromatography and mass spectrometry techniques. Around 60% of the division's revenue comes from the pharmaceutical industry, and the most common application for Waters instruments is quality control/quality assurance. Basically, pharmaceutical companies use Waters instruments to demonstrate to regulators and themselves that the drugs being manufactured actually contain the compounds they are supposed to contain. TA Instruments, which accounts for 10% of the business, focuses on materials testing using thermal analysis, rheology, microcalorimetry and mechanical analysis techniques. Most of TA's products are sold into industrial end markets.

Waters Corporation is a phenomenal business. Cutting edge technology and best-in-class service have earned the company a leading, mid-20% share of the markets it serves and the highest profit margins among its competitors. Approximately half of Waters Corporation's revenue comes from high margin, recurring sources, such as consumables and services related to its installed base of instruments. Waters enjoys a highly sticky customer base and a fair degree of pricing power. The company's instruments provide an essential service to its customers, represent a de minimis cost relative to the revenue streams they support for customers, and come with considerable switching costs once integrated into a customer's workflows and validated for regulatory purposes. Picture a laboratory filled with 15 to 20 Waters instruments that plays an essential role in meeting regulatory requirements related to a drug that generates hundreds of millions to a few billion dollars in annual revenue. Finally, Waters has an excellent management team, a strong corporate culture, and owner-oriented corporate governance.

Additionally, the markets that Waters serves are attractive. Growth in demand for Waters Corporation's instruments, consumables and services from the pharmaceutical industry, the most important end market for Waters, is primarily driven by pharmaceutical unit volume growth. Think pills, not dollars. With aging populations around the world, expanding access to healthcare, increasing incidence of chronic diseases, continued development of new molecules, including complex biologics; and growing availability of low-cost generic drugs, the outlook for global pharmaceutical unit volumes is bright. At the same time, regulatory requirements for pharmaceutical companies in emerging markets are increasingly converging toward those in developed markets, further adding to demand for Waters Corporation's products. Demand from the pharmaceutical industry is also increasingly becoming less concentrated among multinational, integrated pharmaceutical companies as generic pharmaceutical manufacturers, biotechnology companies, specialty pharmaceutical companies, and companies based in developing markets gain prominence. In aggregate, the markets that Waters serves should grow at a mid-single digit rate for the foreseeable future.

Waters Corporation is not only a terrific business with industry tailwinds at its back, it is also well positioned to benefit from reform of the U.S. corporate tax system. The company's business is roughly evenly split between the U.S., Asia and Europe, so approximately two-thirds of its business is international. Waters holds about $2.7 billion, or nearly $33 per share, in cash and investments overseas because it would incur a large tax bill if it were to repatriate those funds. It currently faces a high degree of uncertainty about how it will return that capital as well as future cash generated by the earnings of foreign subsidiaries to shareholders over time. In recent years, the company has borrowed domestically to fund return of capital to shareholders, but that strategy will ultimately hit a limit at some point. Waters would benefit considerably from any reform of the corporate tax system that eliminates incentives for companies to park cash generated by foreign subsidiaries overseas, a top priority among advocates of corporate tax reform. The company's reported tax rate would likely increase from its current, mid-teens level, but the tax rate it would face to distribute all of its earnings to shareholders would likely decline considerably.

Our investment in the shares of Waters Corporation should deliver at least a mid-teens compound annual return over time. Backing out the cash and investments on the company's balance sheet, the price we paid for our shares implies about a 6.0% forward earnings yield assuming a 20.0% normalized tax rate. Waters converts nearly all of its earnings to free cash flow. With end markets growing at a mid-single digit rate and a mix that is gradually shifting toward high margin consumables and services, the company should conservatively be able to grow its revenue by 5.0% per year and operating income by closer to 6.0%. The combination of cash generation and organic growth should contribute a low teens amount to our annualized return. Returns could be further bolstered by continued share repurchases at attractive prices – particularly a large program funded by repatriated cash – and capitalization rate improvement. Any favorable developments on the corporate tax reform front should be positive catalysts for the stock.

Our portfolio has more latent value – the difference between Hinde Group's estimate of the intrinsic value of the portfolio and the portfolio's mark-to-market value – than it did at this time last year. Although most financial assets are currently priced to deliver meager returns, our portfolio should do well on both an absolute and relative basis.

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, but not limited to, cost basis differentials, the timing of account inflows, and tax considerations. 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.