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To My Partners:

The performance of our portfolio for the first quarter of 2017 and since inception is summarized below.

	Hinde Model Account		S&P 500
	Gross	Net	Total Return
2017:			
Q1	5.77%	5.38%	6.07%
Since Inception (07/01/15):			
Annualized	13.49%	11.80%	10.42%
Cumulative	24.79%	21.54%	18.93%

For most of the first quarter, financial markets continued to cheer at signs of improving economic trends around the globe and visions of pro-business and pro-growth policies in the U.S. The yield on the 10-Year U.S. Treasury, which is heavily influenced by expectations for future economic growth, hit a peak of 2.62% in mid-March, its highest level since late 2014 and about 125 basis points above the all-time low reached in the wake of the Brexit referendum. The S&P 500 rose like clockwork. There were only two days during the quarter on which it moved by more than 1.00% in either direction. The S&P 500's 6.07% total return during the quarter brought its total return since the end of October 2016 to 12.17%.

The U.S. equity market's effortless ascent came despite a tumultuous start to Donald Trump's presidency. Trump faced his first major legislative test in late March when the Republican-controlled House of Representatives was set to vote on the American Health Care Act, the bill intended to "repeal and replace" Obamacare. It was a debacle. The bill was pulled once it became clear that it would not even pass in the House of Representatives, much less in the Senate. If that were not enough, the FBI announced an investigation into Trump's ties to Russia right around the same time. As Trump approaches the end to his first 100 days in office, he has little of substance to show for it and sports the lowest approval ratings ever recorded at this stage of a presidency. There are incipient signs that the market's confidence in the Trump administration is beginning to waver.

Despite the drama in Washington, D.C., the U.S. economy remained on solid footing during the quarter. America created jobs at a torrid rate in January and February and achieved hardy growth in payrolls for the first quarter overall. The headline unemployment rate ended the quarter at 4.5%. Consumer sentiment hit a post-financial crisis high in January. Surveys of purchasing managers painted a picture of a manufacturing sector gaining steam, and measures of residential and business investment were upbeat. While transitory factors seem to have restrained the headline figure for first quarter GDP growth, the near-term outlook for the economy is bright. The encouraging economic data and outlook led the Federal Reserve to raise its target range for the federal funds rate by 25 basis points to 0.75% – 1.00% at its March meeting, sooner than the market had been expecting at the beginning of the year.

The performance of our portfolio benefitted from a handful of positions that outperformed the market and was somewhat restrained by the drag from our cash position. The cash position in our portfolio grew over the course of the quarter as we exited several special situation investments that had substantially appreciated toward fair value and had achieved long-term capital gains treatment. We did not make any new investments during the quarter.

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 2017	
Amazon.com	1.73%
TopBuild	1.27%
Waters Corporation	1.13%
Colfax Corporation	0.90%
NMI Holdings	0.82%
Other	-0.07%
Gross Performance	5.77%

Portfolio Composition

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

Portfolio Composition	
Equities - Long	62.1%
Equities - Short	-9.8%
Cash[1]	47.6%

During the quarter, we exited our positions in E*TRADE Financial Corporation common stock (NASDAQ: ETFC), TopBuild Corp. common stock (NYSE: BLD), and NMI Holdings, Inc. common stock (NASDAQ: NMIH). We added to our position in Interactive Brokers Group, Inc. class A common stock (NASDAQ: IBKR). At the end of the quarter, our portfolio included six long equity positions, one short equity position that hedges one of our long positions, and cash.

Hinde Group's most recent update on E*TRADE Financial Corporation, which was included in the partner letter for the third quarter of 2016, indicated that there was a good chance that E*TRADE would ultimately put itself up for sale. While that continues to be a likely outcome over the intermediate term, ETFC appreciated substantially in the final months of 2016. The average sale price we realized at the beginning of the first quarter was a little more than 20% higher than where the stock ended the third quarter of 2016. At that higher price, the shares were fully-valued on a stand-alone basis. The risk-adjusted expected return from betting on a sale of the company could not alone justify continuing to hold the shares, so we sold our position.

[1] Includes short sale proceeds

Select Portfolio Updates

The portfolio updates for this quarter include two of our compounder investments: Interactive Brokers Group, Inc. class A common stock (NASDAQ: IBKR) and Amazon.com, Inc. common stock (NASDAQ: AMZN).

Interactive Brokers Group, Inc. (NASDAQ: IBKR)

Launched shortly after Thomas Peterffy purchased his seat on the American Stock Exchange in 1977, Timber Hill, the market making subsidiary of Interactive Brokers Group, was the foundation on which Interactive Brokers Group was built. Interactive Brokers Group only created its electronic brokerage subsidiary, Interactive Brokers, LLC, in 1993 and only changed its corporate name to Interactive Brokers in 2001.

As recently as 2008, Timber Hill was generating eye-popping returns and gushing cash for Interactive Brokers Group. Timber Hill generated over $1 billion of pre-tax income that year, more than four times the pre-tax income earned by the brokerage business at the time. But in the years since then, changes in market microstructure and new regulations have conspired to undermine the profitability of Timber Hill's market making activities. 2011 is the last year in which Timber Hill achieved a return on equity anywhere near its 10% hurdle rate. In more recent years, the company has struggled to achieve a low single digit return from its market making activities.

Market makers like Timber Hill continuously offer to buy and sell securities at a spread from anyone who wants trade on an exchange. This is known as "making a market" or "providing liquidity." Generally speaking, market makers make money by providing liquidity to uninformed traders and lose money by providing liquidity to informed traders. Think of it like a poker player who makes money playing against unskilled players and loses money playing against skilled players. The poker player is happy to sit down at a table with skilled players as long as there are enough unskilled players at the table to make sitting down at the table profitable overall. The same is true for market makers with respect to providing liquidity on an exchange that includes both informed and uninformed traders. Now imagine that some of the other skilled poker players start paying bus drivers to bring the unskilled poker players to private games instead of to the casino. Our poker player suddenly finds it increasingly difficult to be profitable overall at the casino playing against a higher proportion of skilled poker players. That is essentially what has happened in the market making business over the past several years. Large so-called internalizers, such as Citadel Securities and KCG, have increasingly been purchasing the order flow of retail brokerages like TD Ameritrade and Charles Schwab to trade against themselves. As a consequence, the order flow that makes it to the exchanges where market makers like Timber Hill operate is increasingly composed of orders from informed traders, such as high frequency traders using sophisticated algorithms and big data to guide their trading. It is extremely tough to make money by providing liquidity to these sophisticated counterparties. An executive from a market maker other than Timber Hill described the situation well when he said, "without the benefit of any customer order flow, we have just been fighting in the shark pit."

Recognizing the structural challenges Timber Hill faced, Thomas Peterffy last year announced a project to transform the market making business. Interactive Brokers considered a range of alternatives for making Timber Hill competitive in the new market environment, including joint ventures with high frequency trading groups. Ultimately, none of those alternatives gained traction. On March 8th, Interactive Brokers announced that it would discontinue all of its options market making activities globally, which represent the bulk of Timber Hill's overall market making operations. All of the equity from the market maker – about $1.5 billion – will be transferred to the brokerage business to support the continued growth of that business.

This outcome is no surprise and will benefit Interactive Brokers in a variety of ways over time. First, reallocating $1.5 billion of capital from Timber Hill's low-return market making activities to the brokerage business, which should be able to generate mid-teens or higher returns on that capital over time, is highly value accretive. Second, increasing the capital supporting the brokerage business will enhance its already strong credit profile and make it an even more attractive counterparty to prospective clients. Third,

additional capital will allow Interactive Brokers to extend more margin loans in certain situations. While Interactive Brokers is not capital constrained overall, its risk committee does limit the amount of margin lending to individual customers and individual trades, like a popular merger arbitrage trade, relative to capital. Margin loan growth has already accelerated materially over the past few months. Total outstanding margin loans were up 39.3% year-over-year at the end of March, well ahead of the 14.1% year-over-year growth as of the end of December. Finally, exiting the market making business will remove concerns that prospective clients may have had about potential conflicts of interest and business risk created by Timber Hill's relatively opaque trading activities. Partially offsetting the benefits of shifting capital to the brokerage business will be the costs previously shared between the brokerage business and market maker that will now shift fully onto the brokerage side of the business. Those costs amount to $39 million annually, a portion of which will be offset by a slowdown in hiring in the brokerage business for a period of time.

The underperformance of IBKR in the recent past has left the shares trading at a price that offers extremely attractive prospective returns. Interactive Brokers should deliver robust growth in net interest income in the intermediate term as benefits from the Federal Reserve's last two rate hikes along with any future rate hikes drop to the company's bottom line. Over the longer term, continued robust growth in customer accounts, customer equity, customer credits and margin loans – at the end of March up 17.8%, 38.1%, 15.9%, and 39.3% year-over-year, respectively – combined with modest operating leverage should drive at least mid-teens compound growth in brokerage earnings. With that growth outlook – even considering that the company will likely retain as brokerage capital all of the cash it generates – there is substantial scope for IBKR to trade at a lower capitalization rate than its current 4.0% forward earnings yield. The combination of earnings growth and moderate capitalization rate improvement could result in a compound return for more than 20.0% over the next five years. IBKR is our largest position.

Amazon.com, Inc.
(NASDAQ: AMZN)

A revolution in the information technology industry quietly began on March 14, 2006. Amazon Web Services ("AWS"), a virtually unknown subsidiary of online retailer Amazon.com, released its Simple Storage Service. The service turned functionality that once required a long-term investment in expensive, hard-to-manage servers into something anyone with internet access and a credit card could provision on-demand, as-needed and at a cost orders of magnitude lower than existing alternatives. It was a fundamentally new and superior way to deliver information technology infrastructure services, not just for those who could not afford servers and data centers but for virtually every IT user. Since then, AWS has rolled out countless other cloud computing services, added millions of active customers from the smallest startups to the largest enterprises, and grown to a $14 billion revenue run-rate.

Yet it is still early days for AWS and the cloud computing revolution it ignited. Gartner, a leading information technology research and advisory company, estimates worldwide annual IT spending at $3.5 trillion. Depending on whom you speak with, the addressable market for public cloud service providers, of which AWS by far the leading one, ranges from $500 billion to more than $1 trillion of that $3.5 trillion. The IT workloads that underpin that massive annual spend are inexorably moving to the public cloud due to the myriad advantages the cloud offers, including on-demand access to resources, infinite scalability, superior availability, greater resilience, broader geographic reach, and significantly lower costs. Some of the more optimistic industry executives believe that nearly all IT workloads will be in the public cloud over time. One need only look at a company like Netflix to see a glimpse of what the future might look like. Netflix runs most of its IT workloads on AWS and announced the closure of its last company-operated data center in late 2015. At this point, the field of public cloud service providers has been narrowed down to a three horse race with AWS in the lead by a wide margin, followed by Microsoft Azure and Google Cloud Platform. As a former executive of Google Cloud Platform put it in a recent conversation, "[those] three companies can all have multi-hundred billion dollar businesses [in cloud computing over time]."

We originally invested in AMZN based on the premise that the market misunderstood AWS and severely undervalued the overall company as a result. Although the shares have more than doubled from our initial mark, AMZN remains undervalued based on conservative appraisals of its consumer business and AWS. In addition, Amazon is led by one of the greatest CEOs of all time and has a deeply embedded corporate culture centered on innovation and operational excellence. The result is a superlative track record of value creation. It would be surprising if several years from now we were not talking about the substantial value the company had created in areas like video content production and distribution, gaming, logistics, artificial intelligence and others, all of which would be incremental to Hinde Group's current intrinsic value and prospective return estimates.

The equity market's rally over the past several months has elevated most equity prices to levels that seem to offer relatively meager prospective returns. The breadth of the rally has made finding securities that meet Hinde Group's return criteria more difficult, but far from impossible. I continue to work hard to put more of our capital to work, but will only do so when the prospective returns are compelling. Despite a large cash position, our portfolio has enough latent value – the gap between the market prices of the securities we own and their respective intrinsic values – to deliver good returns over the intermediate term.

To paraphrase John Pierpont Morgan, the only sure prediction about financial markets is that they will fluctuate. Those fluctuations – in the market overall and in individual security prices – will inevitably create additional opportunities for us.

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.

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