HINDE
GROUP

A One Embarcadero
5th Floor
San Francisco, CA 94111
T (415) 992-8125
W hinde-group.com

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To My Partners:

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

	Hinde Model Account		S&P 500
	Gross	Net	Total Return
2017:			
Q2	5.39%	4.99%	3.09%
Year-to-Date	11.47%	10.64%	9.34%
Since Inception (07/01/15):			
Annualized	14.69%	12.98%	10.73%
Cumulative	31.51%	27.61%	22.60%

Already loose financial market conditions eased further during the second quarter. The U.S. equity market floated higher as measures of realized and implied volatility ebbed to historical lows. Investment grade and high-yield corporate bond spreads decreased to levels well below their long-term medians. Notwithstanding further monetary policy tightening by the Fed, the yield on the 10-Year U.S. Treasury declined slightly, and the trade-weighted U.S. dollar index lost about 2.3%. Steady economic growth, tame inflation trends, and still-accommodative monetary policies around the world have lulled financial markets into tranquility.

The placid conditions provided cover for central banks in developed foreign economies around the world to consider following the Fed's lead by beginning to take away the proverbial punch bowl…or at least not pouring any more liquor into it. In mid-June, several officials from the Bank of Canada suggested that the next move in that central bank's monetary policy would be a rate rise rather than a rate cut. The Bank of Canada put its money where its mouth was shortly after the end of the quarter by hiking its benchmark rate by 25 basis points. Similarly, the European Central Bank hosted a conference in late June at the Portuguese resort town of Sintra at which both Mario Draghi, President of the ECB, and Mark Carney, Governor of the Bank of England, hinted at less accommodative monetary policies on the horizon for both central banks. The currencies of these three economies strengthened against the dollar. Improving growth abroad and a weaker currency should benefit the U.S. economy at the margin over time.

All signs suggest the U.S. economy continued to chug along during the second quarter. After a sluggish start to the year, consumer spending picked up, supported by job gains, increasing household wealth, and positive overall consumer sentiment. Payroll employment grew by 194,000 per month on average during the second quarter, an improvement from the 166,000 pace during the prior quarter and well above the level required to absorb new entrants into the labor force. Fixed investment likely contributed to growth in the second quarter, although at a less torrid rate than it did in the unseasonably warm first quarter. Excluding changes in inventory levels, economic growth for the second quarter probably came in close to the upwardly revised 2.6% rate at which real final sales grew in the first quarter. Although there are certainly soft patches, such as new car sales and retail sector employment, the current economic expansion remains firmly intact.

In light of the economy's continued progress toward its potential, the Federal Open Market Committee ("FOMC") raised its target range for the federal funds rate to 1.00% to 1.25% at its meeting in June. This was the FOMC's third interest rate hike in six months and fourth since it began the current tightening campaign. The FOMC also outlined a plan for reducing the size of the Fed's balance sheet, which after almost a decade remains more than four times its pre-crisis level. Most of the committee seems to be in favor of beginning the balance sheet normalization process at some point later this year.

Our portfolio modestly outperformed the total return of the S&P 500 for both the quarter and year-to-date. This outperformance was achieved despite a cash position (excluding cash collateral related to short positions) that averaged 37% for the quarter and 33% for the year-to-date. All of the positions in our portfolio, including two short positions, made positive contributions to performance for both periods.

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 2017		**YTD**	
Interactive Brokers Group	1.41%	Amazon.com	2.76%
Waters Corporation	1.34%	Waters Corporation	2.55%
Amazon.com	0.98%	TopBuild	1.27%
Northeast Bancorp	0.78%	Colfax Corporation	0.93%
		Interactive Brokers Group	0.87%
		Northeast Bancorp	0.83%
		NMI Holdings	0.82%
Other	0.88%	Other	1.46%
Gross Performance	5.39%	Gross Performance	11.47%

Portfolio Composition

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

Portfolio Composition	
Equities - Long	69.1%
Equities - Short	-10.1%
Cash[1]	41.0%

During the quarter, we added a new long position in Northeast Bancorp voting common stock (NASDAQ: NBN) and a new short position in HSN, Inc. common stock (NASDAQ: HSNI). We also exited our position in Liberty Interactive Corporation Series A QVC Group common stock (NASDAQ: QVCA). At the end of the quarter, our portfolio included six long equity positions, two short equity positions, and cash. Our short position in Spectrum Brands Holdings, Inc. common stock (NYSE: SPB) hedges our long position in HRG Group, Inc. common stock (NYSE: HRG).

[1] Includes cash collateral related to short positions.

Select Portfolio Updates

The portfolio updates for this quarter cover three positions: Northeast Bancorp voting common stock, HRG Group, Inc. common stock, and HSN, Inc. common stock. All three of these positions are special situation investments. NBN and HSNI are new additions to the portfolio.

Northeast Bancorp (NASDAQ: NBN)

In 1988, Rick Wayne and Nick Lazares, two Boston-based tax attorneys, raised $7.5 million in capital to start a small bank. The bank's strategy soon evolved into purchasing "scratch & dent" commercial real estate loans on the secondary market at discounts to unpaid principal balances. The strategy proved enormously successful, allowing the bank to rapidly grow its balance sheet while achieving returns on equity in the high teens to low twenties. The bank sold shares to the public in 1996, changed its name from Atlantic Bank & Trust Company to the more internet-friendly Capital Crossing Bank in 1999, and ultimately sold itself to Lehman Brothers for $210 million in early 2007. Over the eleven years from its IPO to its sale to Lehman, Capital Crossing's shares delivered a nine-fold return.

Put simply, Northeast Bancorp is *Capital Crossing, the Sequel*.

In 2009, Rick Wayne formed an investor group to identify a bank to acquire amid the turmoil in the industry at the time. Within a few months, Wayne's investor group identified Northeast Bancorp. Although Northeast avoided the worst effects of the financial crisis, it lacked the scale to be competitive and was struggling to earn adequate returns in its over-branched and highly competitive market area. On March 31, 2010, Wayne's investor group signed a definitive agreement to take over Northeast Bancorp, and the deal closed in late December of that year.

Since taking the helm at Northeast, Wayne has been implementing roughly the same playbook as he did at Capital Crossing Bank. Northeast created its Loan Acquisition & Servicing Group ("LASG") to purchase and originate high-yielding commercial real estate loans in June 2011, launched an online savings platform, ableBanking, to gather deposits nationwide in late 2012, and established a division to originate loans under the Small Business Association's 7(a) Loan Program nationwide in November 2014. Although Northeast has made substantial progress in its transformation thus far, the fruits of those efforts are only now starting to blossom.

Northeast is a small company with virtually no analyst coverage, and the market does not yet appreciate the level of earnings and return on equity that Northeast will achieve as it fully leverages its capital and cost structure in the coming years. On a normalized basis, Northeast should deliver return on equity of 15.0% or more. That would translate into $2.00 per share or more in earnings based on the company's current equity.

NBN currently trades at 1.6x tangible book value. A group of 32 publicly-traded banks with 3-year average return on equity between 12.0% and 22.0% trades at a median price-to-tangible book value multiple of 2.5x. At that multiple of tangible book value, NBN would be worth $31 per share, 48% higher than the current stock price. NBN should make progress toward a fair valuation as Northeast continues to grow its balance sheet and the company's earnings power comes more clearly into view.

HRG Group, Inc. (NYSE: HRG)

Fidelity & Guaranty Life, a publicly-traded company in which HRG Group has an 80.4% equity interest, made notable progress in its sale process during the second quarter. After extending its merger agreement with Anbang Insurance Group several times as Anbang struggled to gain regulatory approval, Fidelity & Guaranty Life on April 17th exercised its right to terminate the agreement in order to pursue an alternative transaction. Five weeks later on May 24th, Fidelity & Guaranty Life announced a definitive merger agreement under which CF Corporation, a special purpose acquisition company, would acquire Fidelity & Guaranty Life for $31.10 per share in cash, 16% more than what Anbang had agreed to pay. As part of the transaction, CF Corporation will also acquire Front Street Re, an HRG Group subsidiary that provides reinsurance to Fidelity & Guaranty Life, for $65 million. The transaction with CF Corporation is expected to close in the fourth quarter of 2017.

Completing the sale of Fidelity & Guaranty Life and Front Street Re will be a critical milestone in HRG Group's own strategic alternatives process. It will allow HRG Group to fully monetize all of its primary, non-cash assets other than its stake in Spectrum Brands, namely its stake in Fidelity & Guaranty Life, Front Street Re and the vast majority of HRG Group's tax loss carryforwards. Most likely, HRG Group's strategic alternatives process will conclude with a stock-for-stock merger with Spectrum Brands that could be announced shortly after the closing of the CF Corporation transaction.

Our position in HRG, which includes an associated short position in Spectrum Brands Holdings, Inc. common stock (NYSE: SPB), has performed extremely well thus far. Over a weighted average holding period of less than nine months, the combined position has earned us roughly a 20% return on equity. That is a terrific return by any measure, but it is even more impressive when you consider that it was achieved with a tightly hedged position. Despite the position's strong return thus far, there is still some upside left, particularly if HRG Group negotiates a healthy control premium for its 57.8% interest in Spectrum Brands.

HSN, Inc.
(NASDAQ: HSNI)

HSN, Inc. runs the second largest video shopping network in the U.S., which accounts for the lion's share of the company's value, as well as a collection of home and apparel lifestyle brands sold primarily through catalogs and online.

Over the past two years, it has become increasingly clear that changes in how people consume video content have undermined HSN's ability to acquire new customers for its video shopping network. HSN's revenue has declined for six consecutive quarters. While HSN initially attributed its poor performance to challenging comparisons, competitive pressures, and decisions to exit certain product lines, it has more recently confessed to "customer acquisition challenges." Adapting to a world in which people have an infinite amount of high quality, on-demand content at their fingertips is a formidable dilemma for HSN. Barring some breakthrough that allows HSN to acquire customers as efficiently as it has in the past, the business seems to be on a path of long-term decline.

We initiated a relatively small short position in HSNI during the second quarter on the premise that the price of HSNI, although well off its highs, did not fully discount the severity of the challenges that the business faced.

Unfortunately, this position has already proven to be an unprofitable one. Shortly after the end of the second quarter, Liberty Interactive Corporation, the owner of QVC, announced an agreement to acquire HSN. A merger between QVC and HSN had been rumored literally for decades. There were good reasons to believe a deal was unlikely to happen in the near-term, but they turned out to be insufficient to preclude a deal from happening. While the position contributed about 17 basis points to our performance for the second quarter, it will ultimately subtract about 30 basis points from results for the full year.

The factors behind our short position in HSNI are the same ones that led us to exit our long position in Liberty Interactive Corporation Series A QVC Group common stock (NASDAQ: QVCA) during the quarter.

Slack conditions in financial markets continue to make it difficult to find investments that meet Hinde Group's stringent criteria. Nonetheless, we did put more of our capital to work during the second quarter, most notably through our new position in Northeast Bancorp voting common stock. I believe our portfolio has the potential to deliver attractive returns over the intermediate term despite our relatively large cash position. I am always eager to put more capital to work, but will only do so when the terms are heavily in our favor.

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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