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To My Partners:

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

	Hinde Model Account		S&P 500
	Gross	Net	Total Return
2017:			
Q3	9.83%	9.42%	4.48%
Year-to-Date	22.43%	21.07%	14.24%
Since Inception (07/01/15):			
Annualized	17.77%	16.01%	11.65%
Cumulative	44.45%	39.63%	28.10%

Historically benign conditions in U.S. financial markets persisted during the third quarter. The equity market drifted higher, the yield on the 10-year treasury was roughly flat, and the value of the dollar declined slightly. Credit spreads continued to be tight, and measures of equity market volatility remained uncomfortably low. This year is turning out to be one of the least volatile ever for the U.S. equity market.

U.S. financial markets have drawn their resilience from the combination of moderate economic growth and subdued inflation. Excluding the impact of changes in inventory levels, real GDP appears to have grown at just over 2.0% during the third quarter, both at an annualized rate and compared to the same quarter last year. That rate of growth is somewhat faster than most estimates of the economy's long-term potential. Although the degree of slack in our economy has continued to diminish, inflation has remained subdued. Most measures of core inflation have been trending well below the Fed's 2.0% target and have not shown any signs of an imminent pickup.

In the face of moderate growth and muted inflation, the Fed has continued to tighten the reins on the economy ever so gradually. At its September meeting, the Federal Open Market Committee announced that it would begin to steadily reduce the size of its securities holdings and overall balance sheet. Fed officials also indicated that another interest rate hike is possible before the end of the year. Despite the steps the Fed has taken to tighten monetary policy thus far, the current stance of monetary policy remains stimulative.

Our portfolio achieved a solid mark-to-market gain during the third quarter, primarily driven by our positions in Northeast Bancorp voting common stock (NASDAQ: NBN) and Interactive Brokers Group, Inc. Class A common stock (NASDAQ: IBKR). NBN and IBKR gained 28.5% and 20.4%, respectively. The most significant detractor from the portfolio's performance during the quarter was our short position in HSN, Inc. common stock (NASAQ: HSNI), which subtracted 44 basis points. The portfolio's cash position, excluding cash collateral related to short positions, averaged 21.8% for the quarter.

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			
3Q 2017		YTD	
Northeast Bancorp	4.34%	Northeast Bancorp	5.66%
Interactive Brokers Group	3.69%	Interactive Brokers Group	4.98%
Fastenal Company	1.07%	Amazon.com	2.68%
		Waters Corporation	2.32%
		Colfax Corporation	1.54%
		TopBuild	1.27%
		Fastenal Company	1.19%
		HRG Group	1.15%
Other	0.74%	Other	1.64%
Gross Performance	9.83%	Gross Performance	22.43%

Portfolio Composition

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

Portfolio Composition	
Equities - Long	89.1%
Equities - Short	-6.4%
Cash[1]	17.3%

During the quarter, we added new long positions in Fastenal Company common stock (NASDAQ: FAST) and Alphabet Inc. class C capital stock (NASDAQ: GOOG). As discussed in last quarter's partner letter, we exited our short position in HSN, Inc. common stock (NASDAQ: HSNI) shortly after Liberty Interactive Corporation announced an agreement to acquire the company. At the end of the quarter, our portfolio included eight long equity positions, a short equity position that hedges one of our long positions, and cash.

Select Portfolio Updates

The portfolio updates for this quarter cover our two new positions: Fastenal Company common stock and Alphabet Inc. class C capital stock. Both of these investments fall into the compounder category.

Fastenal Company (NASDAQ: FAST)

Bob Kierlin grew up working at his father's auto parts store in Winona, MN. One day in 1951 when he was twelve, Bob came up with an idea that stuck with him: a vending machine that would dispense fasteners, such as screws, nuts, and bolts. More than a decade later in 1967, Bob left his job at IBM to bring his vision to life. The only problem was that it did not work. Fasteners did not fit well into the vending machines available at the time, and the technology necessary to make the idea work did not yet exist. Bob pivoted his company, Fastenal, to selling fasteners to industrial users through branch locations and a direct sales force.

[1] Includes cash collateral related to short positions.

In the four decades since, Fastenal has grown into the leading wholesale distributor of fasteners to the manufacturing and non-residential construction markets in North America. The company began expanding its product assortment into non-fastener industrial and construction supplies in the early 1990's. Non-fastener items, such as power & cutting tools, safety supplies, material handling equipment and welding supplies, now account for almost two-thirds of sales. Over the past decade or so, Fastenal has also expanded beyond branch locations. It now runs dedicated onsite locations for certain large customers as well as industrial vending machines located inside customer facilities, just as Bob Kierlin first envisioned. Fastenal currently operates 2,418 branch locations, 555 onsite locations, and 69,058 industrial vending machines through which it generates more than $4 billion in revenue annually.

Fastenal has created an enormous amount of value for its owners over time. In fact, the top performing publicly-traded company for the 25 years from 1987, the year Fastenal went public, to 2012 was not Apple, Microsoft, Walmart or Berkshire Hathaway, but Fastenal. Fastenal's stock delivered a 38,565% cumulative return over that period. As Willard Oberton, who succeed Bob Kierlin as CEO from 2002 to 2015 put it, "It's pretty boring stuff, but we make a lot of money selling it, and that's not boring."

Fastenal has been able to deliver such eye-popping returns to long-term shareholders because it is a high quality business with deeply entrenched competitive advantages. Fastenal sells low-priced – but critical – items for everyday use to a diverse and stable customer base, mostly under long-term contracts. The lion's share of the total cost of procuring the supplies Fastenal sells is often in the cost of the associated labor (e.g. ordering, receiving, managing inventory levels, paying invoices, etc.), not in the cost of the items themselves. Fastenal reduces its customers' total cost of procuring MRO supplies by closely integrating its personnel into the operations of its customers and providing a high level of service. That close integration creates sticky relationships with high switching costs. Fastenal's unique distribution and logistics infrastructure – originally optimized for efficiently distributing countless varieties of bulky, low-priced fasteners – allows it provide such high levels of service to its customers more efficiently than competitors can. As Fastenal has gained share over the years, it has also developed various economies of scale, particularly in the purchasing and sourcing of fasteners, and unique capabilities, such as quick turnaround, small batch, custom manufacturing that can save customers from plant shutdowns if they run out of a non-standard part. On top of these tangible competitive advantages, Fastenal has a unique, "cult-like" corporate culture that further differentiates it from the competition. The company's superlative financial performance – 20% operating margins, mid-20% ROIC, 10% 10-year net income CAGR (including the global financial crisis) – is a testament to the quality of Fastenal's business and the degree of its competitive advantages.

Our investment in FAST should deliver attractive returns over a multi-year period. The price we paid for FAST implies a forward earnings yield of around 5.0%. Fastenal should convert 60% or more of its earnings to cash flow, essentially all of which it pays out as dividends. Over the past 10 years, Fastenal has grown its net income at roughly a 10% compound annual rate, and it should conservatively be able to achieve at least a high single digit rate of annual net income growth going forward. Despite being one of the leading industrial distributors in North America, Fastenal still only has a low single digit share of the overall market. It also has compelling growth opportunities through its onsite and industrial vending initiatives, which leverage its unique distribution and logistical capabilities. For the third quarter of 2017, Fastenal's daily sales and net income grew 12.0% (excluding currency and acquisitions) and 12.7%, respectively. The combination of a 3.0% dividend yield and at least high single digit annualized net income growth bring our expected annualized return into the low teens. There is scope for the market to value FAST at a more favorable capitalization rate, and any improvement on that front would further boost our returns.

The opportunity to buy FAST at such a favorable price came about primarily because the market has indiscriminately punished the shares of industrial distributors due to fears about competition from Amazon. Fastenal's business is well insulated from Amazon for a variety of reasons, including: i) its focus on the fastener category, in which it has supply chain advantages and economies of scale, ii) the fact that the vast majority of its sales are done under long-term contracts with highly competitive, negotiated pricing, iii) the high-level of service Fastenal provides (e.g. inventory management, receiving and stocking, same day delivery, custom manufacturing, engineering services, etc.), and iv) the fact that an increasing amount of Fastenal's business is being done through industrial vending machines and onsite locations.

Alphabet Inc.
(NASDAQ: GOOG)

In late 2015, Google announced a restructuring that created Alphabet, a holding company that is now the publicly-traded entity. The restructuring also streamlined Google by moving various companies unrelated to Google's core internet products out from under Google's corporate structure. Alphabet now owns Google as well as a collection of other, smaller companies, such as Access (broadband internet), Calico (life sciences), Capital G (late-stage growth venture capital), GV (venture capital), Nest (Internet of Things), Verily (life sciences), Waymo (autonomous vehicles) and X ("moonshot factory"). Google remains by far the most important part of Alphabet, accounting for 99% of Alphabet's revenue and more than all of its profits. Alphabet's non-Google companies (the "Other Bets") are collectively running at a loss.

To say that Alphabet is a high quality company would be an understatement. Google, the crown jewel of Alphabet, is arguably the preeminent company of our time, and the scope and strength of its business only seem to grow. Google dominates the search advertising business, with roughly 75% share of a global market growing at a mid-teens rate and set to exceed $100 billion over the next few years. Google's position in the search advertising business is fortified by enormous competitive advantages. Google has superior search quality as a result of iterating on its algorithms over a longer period of time, using more data, with better talent and more resources than any other company. This technical advantage is reinforced by the strength of Google's brand. Everybody "knows" Google has the best search engine technology, even though nobody knows anything about search engine technology. And you don't search for something, you "google" it. Google's enormous scale advantage in search traffic means its search ad auctions offer significantly more robust competition than those of its competitors do. That leads to superior monetization. The ability to better monetize search traffic helps Google offer distribution partners, such as Apple and Mozilla, the most compelling deals to make Google the default search engine for the internet access points those partners control. These are just a few aspects of the tremendous competitive moat around Google Search, and that is just one of Google's core products. Underpinning the success of Google and Alphabet's other companies is a unique, mission-driven corporate culture centered on using technology to develop innovative solutions to large problems.

Valuing Alphabet is complicated by a variety of factors, including substantial excess cash and investments on its balance sheet, temporary losses generated by the Other Bets, and a few businesses, such as Google Cloud, that will likely prove very valuable but do not yet contribute materially to earnings. Adjusting for those factors, the average price we paid for GOOG implies a forward earnings yield north of 6.0%. In light of the high rate at which Google converts earnings to cash flow and a growth outlook that continues to be bright, our investment in GOOG should deliver a compound annual return at least in the mid-teens over the next several years. Any additional value that Alphabet creates through Other Bets, artificial intelligence or its relentless innovation efforts more generally would add to our returns.

At the moment, most market participants are being driven by greed and the extrapolation of favorable conditions. In contrast, Hinde Group invariably approaches investing from a position of fear and keeps in mind that the future is always uncertain. It is unquestionably challenging to find securities that meet our criteria in the current environment. In light of that, I am particularly pleased that we added two new investments to the portfolio during the third quarter.

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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