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To My Partners:

The performance of our portfolio for the first quarter of 2018 and since inception is summarized below.

	Hinde Model Account		S&P 500
	Gross	Net	Total Return
2018:			
Q1	1.71%	1.34%	-0.76%
Since Inception (07/01/15):			
Annualized	19.04%	17.26%	11.72%
Cumulative	61.37%	54.83%	35.57%

After a long quiet spell, volatility returned to the equity market during the first quarter. There were two contributing factors.

The first was the bursting of a mini-bubble in exchange-traded products tied to implied equity volatility, specifically those that allowed traders to bet against volatility. Strong historical returns delivered by products like the now-defunct VelocityShares Daily Inverse VIX Short-Term ETN (formerly NASDAQ: XIV) attracted increasing capital inflows. Accelerating capital inflows put downward pressure on implied volatility as the investment banks that offered those products hedged their growing exposure. Declining implied volatility further bolstered the mark-to-market performance of those products, attracting even more capital inflows and so on in a self-reinforcing, reflexive process. Implied volatility is a key input for many risk models, and the degree to which it was artificially depressed affected other asset classes. For a variety of reasons, that mini-bubble burst on February 5th, now dubbed "Vol-mageddon" by some traders. Implied volatility spiked to its highest level in several years, sharply accelerating a sell-off in global financial markets. While the equity market mostly recovered in the ensuing weeks, implied volatility settled at a more historically normal level, well above the all-time lows it had been plumbing.

A series of reckless tariffs announced by the Trump administration were collectively the second factor that jolted the equity market during the first quarter. On March 8th, Trump announced sweeping tariffs on imports of foreign steel and aluminum. Later that month he proposed a series of tariffs directly targeted at China. Both measures prompted threats of retaliation. The tariffs on steel and aluminum are particularly ill-conceived, because steel and aluminum are intermediate goods used as inputs in manufacturing other, final products. Increasing the cost of steel and aluminum for U.S. manufacturers will make U.S. manufacturers less competitive globally and thereby hurt domestic manufacturing employment and wages. The Federal Reserve Bank of New York estimates that the U.S. steel industry employs about 140,000 workers, a fraction of the 2 million workers it estimates are employed in steel-intensive manufacturing industries in the U.S.[1] Although Trump's tariffs and the retaliations they prompt will adversely affect the U.S. economy at the margin, the impact is unlikely to be severe enough to put the current economic expansion at risk.

[1] Mary Amiti, Sebastian Heise, and Noah Kwicklis, "Will New Steel Tariffs Protect U.S. Jobs?," Federal Reserve Bank of New York Liberty Street Economics (blog), April 19, 2018, http://libertystreeteconomics.newyorkfed.org/2018/04/will-new-steel-tariffs-protect-us-jobs.html.

Our portfolio outperformed the S&P 500 for the quarter. There were two notable contributors, Interactive Brokers Group, Inc. class A common stock (NASDAQ: IBKR) and Amazon.com, Inc. common stock (NASDAQ: AMZN), and two notable detractors, Northeast Bancorp voting common stock (NASDAQ: NBN) and Colfax Corporation common stock (NYSE: CFX). IBKR and AMZN gained 13.6% and 23.8%, respectively, and NBN and CFX lost 11.4% and 19.5%, respectively.

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 2018	
Interactive Brokers Group	3.22%
Amazon.com	2.62%
Northeast Bancorp	-1.63%
Colfax Corporation	-3.04%
Other	0.55%
Gross Performance	1.71%

Portfolio Composition

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

Portfolio Composition	
Equities - Long	97.5%
Cash	2.5%

During the quarter, we added to our position in Alphabet Inc. class C capital stock (NASDAQ: GOOG), and we exited our position in HRG Group, Inc. common stock (NYSE: HRG) as well as the associated short position in Spectrum Brands Holdings, Inc. common stock (NYSE: SPB). At the end of the quarter, our portfolio included seven long equity positions and cash.

Select Portfolio Updates

The portfolio updates for this quarter cover our positions in HRG Group, Inc. common stock (NYSE: HRG), a highly successful special situation investment that we exited during the quarter, and Interactive Brokers Group, Inc. class A common stock (NASDAQ: IBKR), a compounder that has been the top-performing position in the portfolio over the past several quarters.

HRG Group, Inc.
(NYSE: HRG)

On February 26th, HRG Group and Spectrum Brands Holdings, Inc. announced a long-anticipated stock-for-stock merger. The merger represents the culmination of HRG Group's multi-year effort to monetize the diverse set of assets it had accumulated as a publicly-traded acquisition and investment vehicle for Harbinger Capital Partners, a once high-flying hedge fund manager that is in the process of winding down. As of late last year, HRG Group had one primary remaining asset, a 62% interest in Spectrum Brands Holdings, Inc. common stock (NYSE: SPB). It seems HRG Group was able to successfully bring its leverage as the controlling shareholder of Spectrum Brands to bear during the merger negotiations, because the final terms of the agreement were essentially in-line with the proposal HRG Group publicly disclosed in December.

On the day of the announcement, HRG gained about 4.7% compared to a 0.4% gain for SPB, and the remaining discount between the market price of HRG and its value on a sum-of-the-parts basis – primarily driven by the value of its stake in SPB – diminished to nominal levels. We exited our position, which included a long position in HRG hedged by a short position in SPB, the day after the announcement of the merger.

The combined position delivered a 27.9% IRR over our 17 month holding period, a terrific return that is particularly impressive given the degree to which the position was hedged.

Interactive Brokers Group, Inc. (NASDAQ: IBKR)

Our investment in IBKR is based on the belief that Interactive Brokers Group offers the best and least expensive brokerage platform for a significant portion of sophisticated investors and that the company currently serves only a small slice of its addressable market. Operating results over the past year certainly support that view.

Although Interactive Brokers Group has been steadily gaining share in the global market for electronic brokerage services since it entered the business in 1993, it has done so hand over fist more recently. At the end of March, Interactive Brokers Group's total accounts, customer equity and customer margin loans were up 27.5%, 33.5% and 40.2%, respectively, over the prior year. The strength in the company's business has been broad-based, with key metrics for each of the company's five customer segments growing at double digit rates. Interactive Brokers Group has achieved particularly strong growth in its introducing broker segment, which grew accounts, customer equity and commissions by 64%, 69% and 48%, respectively, during the first quarter.

More favorable financial markets conditions have also been a tailwind for the company. Higher interest rates have bolstered net interest income and the recent return of more normal levels of volatility to the equity market has helped trading volumes and commissions. The electronic brokerage segment's net interest income and commission revenue grew 56% and 43%, respectively, during the first quarter.

In light of the highly scalable nature of its business, Interactive Brokers Group has enjoyed operating leverage along with its robust topline growth. The electronic brokerage segment's adjusted pre-tax margin expanded by about 100 basis points in 2017 despite bearing the full burden of costs that had previously been shared with Interactive Brokers Group's market making business. Interactive Brokers Group sold most of its market making business to Two Sigma Securities, a high frequency trading firm, in the third quarter of 2017. During the first quarter, the pre-tax margin of the electronic brokerage segment expanded by 400 basis points, to 63% from 59%, leading pre-tax income to grow by 57%.

Interactive Brokers Group's strong operating results have supported a monstrous rally in the shares. IBKR's 13.6% gain during the first quarter brought its gain for the past year to 93.7%. Although IBKR now trades at a notably lower forward earnings yield than it did a year ago, the shares still offer attractive prospective returns based on the company's considerable opportunity to continue to gain market share around the world. IBKR was our largest position at the end of the first quarter.

Our portfolio has sufficient latent value that it should do well on both an absolute and relative basis over the intermediate term, and I am working tirelessly to identify new investments that will further increase that value. Thank you for your 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.