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 2018 and since inception is summarized below.

	Hinde Model Account		S&P 500
	Gross	Net	Total Return
2018:			
Q2	1.86%	1.48%	3.43%
Year-to-Date	3.61%	2.84%	2.65%
Since Inception (07/01/15):			
Annualized	18.05%	16.28%	11.95%
Cumulative	64.38%	57.12%	40.23%

Global trade tensions escalated during the second quarter. Many of the U.S.'s most important trading partners, including the European Union, China, Canada, and Mexico, responded to Trump's Section 232 tariffs on steel and aluminum with countervailing tariffs of their own. China also announced retaliatory measures against the tariffs aimed at addressing its trade practices concerning intellectual property. Believing the U.S.'s current account deficit with China makes a trade war "good, and easy to win," Trump threatened to push all-in against China, eyeing tariffs on all $500 billion of its exports to the U.S. In late May, Trump initiated another dubious Section 232 investigation, this one aimed at determining whether imports of automobiles and auto parts undermine national security. These mounting strains weighed on global financial markets over the course of the second quarter.

A few other developments also riled financial markets. The smoldering embers of the euro area financial crisis briefly ignited after a general election in Italy ushered in a euro-skeptic coalition government. Concerns about financial vulnerabilities in several emerging markets, most notably Argentina and Turkey, grew due to country-specific political disruptions occurring against the backdrop of waning quantitative easing by the three major central banks. The outlook for global oil supply dimmed as international relations with Iran deteriorated and production in crisis-ridden Venezuela plummeted. And finally, China's economy showed signs of slowing even before the recent trade ructions as a result of its government's efforts to rein in credit growth.

In spite of all of this, the U.S. equity market and economy made progress. The S&P 500 achieved a moderate total return for the quarter, just pulling into the black for the first half. Initial estimates suggest U.S. consumer spending accelerated in the second quarter. The U.S. economy looks to have grown at a 4.1% annualized rate in the second quarter, up from 2.2% in the first. Although the aforementioned tariffs will be disruptive, reduce economic efficiency and create uncertainty, their prospective impact does not yet appear sufficient to derail the current economic expansion.

For our portfolio, the second quarter was a tale of two halves. Our mark-to-market performance was robust through May 21st, the day before concerns about Italy's new coalition government flared up. Those concerns precipitated a decline in U.S. interest rates, which hit the stocks of interest rate-sensitive financial

institutions. Although Interactive Brokers Group has considerably less interest rate exposure than other brokerage firms, its stock was dragged down with the group. Soon after, escalating trade tensions stoked fear and uncertainty. Certain segments of global financial markets took the brunt of the hit. Shares of industrial firms sold off sharply, including those of Fastenal and Colfax Corporation. Asian equity markets also took a dive. Interactive Brokers Group derives a significant portion of its growth from Asia, and market participants seemed to fear that weakness in Asian equity markets would substantially slow its growth in the region. That fear further sapped Interactive Brokers Group's stock even as interest rates rebounded. From May 21st through the end of the quarter, Interactive Brokers Group, Inc. class A common stock (NASDAQ: IBKR), Fastenal Company common stock (NASDAQ: FAST), and Colfax Corporation common stock (NYSE: CFX) lost 18.5%, 10.5%, and 8.2%, respectively. Although those declines – driven by fear and uncertainty – should reverse once the dust settles, they collectively had a significant impact on our mark-to-market performance for the quarter.

Despite a bumpy ride over the final few weeks of the quarter, our portfolio achieved a positive return and only modestly underperformed the S&P 500 for the second quarter as a whole. For the full quarter, our portfolio had two notable contributors, Amazon.com, Inc. common stock (NASDAQ: AMZN) and Alphabet Inc. Class C capital stock (NASDAQ: GOOG), and one notable detractor, Fastenal Company common stock (NASDAQ: FAST). AMZN and GOOG gained 17.4% and 8.1%, respectively, and FAST declined 11.8%.

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 2018		YTD	
Amazon.com	2.07%	Amazon.com	4.72%
Alphabet	1.19%	Interactive Brokers Group	3.11%
Fastenal Company	-1.42%	Alphabet	1.15%
		Fastenal Company	-1.39%
		Colfax Corporation	-3.53%
Other	0.02%	Other	-0.45%
Gross Performance	1.86%	Gross Performance	3.61%

Portfolio Composition

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

Portfolio Composition	
Equities - Long	90.5%
Cash	9.5%

During the quarter, we trimmed our positions in IBKR and AMZN in order to fund other opportunities and to enhance the portfolio's diversification. Our sales of IBKR occurred prior to the stock's decline in the final weeks of the quarter. We also added to our position in FAST. At the end of the quarter, our portfolio included seven long equity positions and cash.

Select Portfolio Updates

Escalating trade tensions have dominated the attention of market participants recently. Concerns about the impacts of newly proposed, announced and enacted tariffs have particularly weighed on the stocks of the two industrial companies in our portfolio, Colfax Corporation and Fastenal Company. The portfolio updates for this quarter aim to provide an overview of the direct and indirect exposures that these two companies may have to those tariffs.

Trump's trade war is evolving rapidly. So far, Trump has announced or enacted tariffs on $8.5 billion of solar panel imports, $1.8 billion of washing machine imports, $46 billion of imported steel and aluminum products, and $50 billion of various products imported from China. Most of these battle fronts were opened in response to the results of investigations self-initiated by the U.S. government, a heretofore rarely used authority that was last used more than 25 years ago. The tariffs on solar panels and washing machines aim to offer temporary relief from injurious competition under Section 201 of the Trade Act of 1974. Protecting the U.S.'s national security is the pretense for the tariffs on imported steel and aluminum, which fall under Section 232 of the Trade Expansion Act of 1962. The tariffs targeted solely at China under Section 301 of the Trade Act of 1974 aim to address China's unfair trading practices related to technology and intellectual property. Trump has also instructed the U.S. Department of Commerce to investigate whether more than $300 billion of imported automotive vehicles and parts threaten national security and should be subject to Section 232 tariffs.

All of these proposed, announced and enacted tariffs have prompted – or will prompt – retaliation from the affected trading partners. China's retaliation against the Section 301 tariffs led Trump to propose tariffs on an additional $200 billion of Chinese imports and to threaten tariffs on all $500 billion of China's exports to the U.S. if China were to retaliate further.

Although these escalating trade tensions will create winners and losers, the headwind on global and U.S. economic growth should be modest. The conservative-leaning Tax Foundation estimates that if all tariffs announced thus far were enacted, the U.S. economy's output and employment would be reduced by 0.5% and 364,000 jobs, respectively, in the long-run. Recent data on the U.S. manufacturing sector, such as the Institute for Supply Management's Purchasing Manager Index, continue to point to healthy growth, as do certain forward-looking financial market indicators that are particularly sensitive to economic growth.

Colfax Corporation (NYSE: CFX)

Although Colfax's headquarters are in Maryland and its stock is listed on the NYSE, the geographic centers of gravity for its primary operating subsidiaries, Howden and ESAB, are in Europe. Howden's roots are in Scotland and ESAB's are in Sweden. Today, both of those businesses generate roughly half of their revenue from emerging markets. The remaining half is more heavily weighted toward Europe than the United States. Both business segments have global manufacturing footprints. ESAB manufactures welding equipment on a regional basis and welding consumables on a sub-regional basis to optimize for quick delivery times and low shipping costs. In most cases, ESAB manufactures products for North America in North America, for Europe in Europe and for Asia in Asia. Howden generally manufactures the key components of its air and gas handling equipment in its own manufacturing facilities around the globe, subcontracts fabrication of large components to low-cost countries near the final location for the equipment, ships all of the components to the final location, and then assembles them on-site.

The direct impact of recently announced and enacted tariffs on Colfax's operating subsidiaries should be modest and manageable. Most notably, Trump's Section 232 tariffs on imported steel and aluminum will raise input costs for the U.S. operations of ESAB and Howden, which account for around 20% to 30% of each business.

Regarding ESAB, steel is a primary input in the manufacturing of welding consumables. Welding consumables account for a little more than two-thirds of ESAB's overall business, so welding consumables manufactured in the U.S. probably account for around 20% of ESAB's total revenue. While ESAB faces a sharp increase in costs in that part of its business as a result of Trump's tariffs, it should be able to fully offset those higher costs through tariff-specific surcharges, general price increases, and productivity improvements. Colfax's management has repeatedly expressed confidence on this front, and recent pricing and margin data from ESAB's primary competitors support that view.

Steel and aluminum are also important inputs in the manufacturing of Howden's air and gas handling equipment. Howden's products are large, complicated pieces of equipment that generally take 6 to 18 months to deliver to customers. In some cases, the lead time can reach three years. Given that commodity prices will inherently fluctuate over the period between when Howden receives an order and makes a delivery, its contracts with customers typically account for commodity price fluctuations. While Howden's manufacturing operations in the U.S. will face higher costs from Trump's tariffs on steel and aluminum, Howden should be able to fully pass those higher costs on to customers through contractual mechanisms.

Colfax does have indirect exposure to rising trade tensions in the sense that it would be adversely affected by a slowdown in global industrial activity. Currently, rising trade tensions do not appear sufficient to derail the current global economic expansion. While Trump's tariffs on imported steel, aluminum and other intermediate goods as well as capital goods will undermine the competitiveness of the U.S. manufacturing sector to a degree, overseas manufacturers will realize a corresponding boost. Given that 70% or more of Colfax's business is located outside the U.S., Colfax could in theory realize a net benefit from a shift in manufacturing activity away from the U.S. as a result of Trump's tariffs.

Fastenal Company
(NASDAQ: CFX)

If you closed your eyes and tried to picture Fastenal's business, you would likely conjure up images of the company's namesake fasteners: things like bolts, nuts, screws, studs, and washers that are often made of steel. You might then draw the conclusion that Fastenal is poised to take a direct hit from Trump's tariffs. But you would be mistaken.

The Section 232 tariffs on imported steel and aluminum products only apply to relatively unprocessed versions of those materials, such as bars, rods, sheets, wires, and tubes. Fastenal imports nearly all of its fasteners from various countries in Asia. Imported fasteners are not directly affected by the Section 232 tariffs on imported steel and aluminum products. Fastenal could even benefit from the tariffs indirectly if the tariffs put downward pressure on metal prices in the Asian countries from which Fastenal sources the bulk of its fasteners. While Fastenal does purchase products affected by the Section 232 tariffs related to some small-batch, quick-turnaround manufacturing it does in the U.S., its domestic manufacturing operations account for less than five percent of its overall business. In short, Fastenal's direct exposure to the Section 232 tariffs on imported steel and aluminum products is quite low.

Fastenal's direct exposure to the Section 301 tariffs aimed solely at China also appears modest. Trump's opening salvo of Section 301 tariffs that covered $50 billion of imports from China only affected about $10 million of Fastenal's annual cost of goods sold, less than five percent of the company's total. Although Trump plans to slap tariffs on another $200 billion of imports from China under Section 301, Fastenal estimates it sources less than ten percent of its total cost of goods sold from China, both directly and indirectly.

To the extent that Fastenal does face higher product costs from Trump's Section 232 and Section 301 tariffs, it has a number of levers it can pull to manage the impact on its business. Most of the products that Fastenal sells are low-priced yet critical to the operations of its customers, and Fastenal provides a uniquely high level of service that is tightly integrated into its customers' workflows. Those factors support Fastenal's

pricing power, and it has a strong track record of being able to pass cost increases like the ones it may face from Trump's tariffs on to its customers over time. Fastenal also has a highly flexible supply chain. It has direct sourcing offices in Asia, including in Shanghai and Taiwan, that provide it with the agility to seamlessly shift its sourcing across different low-cost countries in Asia. By raising prices and shifting its sourcing, Fastenal should be able to offset the direct impact on its business from Trump's tariffs.

The main challenge Fastenal faces from Trump's tariffs is likely from their indirect effects. Although Fastenal does not purchase much imported steel and aluminum products affected by the Section 232 tariffs, many of its customers do. To the extent Fastenal's customers are adversely affected by the tariffs on imported steel and aluminum products, their domestic production volumes could fall, hurting demand for Fastenal's products. Trump's Section 301 tariffs, which cover a significant amount of intermediate and capital goods used by manufacturers in producing final products, may affect Fastenal's customers in a similar way. Retaliatory tariffs initiated by the U.S.'s trading partners could also adversely affect Fastenal's customers. For example, Harley Davidson, a Fastenal customer, recently announced plans to move some of its manufacturing operations to Europe from the U.S. in response to the fallout from Trump's tariffs. To the extent other Fastenal customers reduce their domestic production volumes for similar reasons, demand for Fastenal's products and services would take a hit.

All things considered, Trump's tariffs are likely to have a similar impact on Fastenal as they have on the U.S. economy overall. Their impact will be a modest headwind to growth, but likely insufficient to materially alter the current trajectory.

I am confident that many of the factors that weighed on the market prices of some of our positions as of June 30th will prove transitory. Our portfolio has a considerable amount of latent value that should fuel good returns over our multi-year investment time horizon.

I am also pleased let you know that we added a new special situation investment to the portfolio shortly after the end of the quarter. That investment will be discussed in next quarter's letter.

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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