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To My Partners:

The performance of our portfolio for the first quarter of 2019 and since inception is summarized below.

	Hinde Model Account		S&P 500
	Gross	Net	Total Return
2019:			
Q1	16.14%	15.71%	13.56%
Since Inception (07/01/15):			
Annualized	15.28%	13.55%	11.13%
Cumulative	70.24%	60.90%	48.45%

The first quarter of 2019 turned out to be one big, Fed-induced relief rally. A tumultuous fourth quarter left financial markets in a stressed state coming into the new year. After dovish comments from certain Fed officials in November and a nod to tightened financial conditions in the December FOMC statement, the Fed officially threw in the towel on its monetary policy tightening campaign in January. The dovish pivot eventually did the trick. It arrested the vicious cycle of diminished confidence and lower prices and launched a mirror-image, virtuous one.

Although global financial markets performed well during the first quarter, the same cannot be said unequivocally of the global economy. The slowdown in growth over the course of 2018 continued into 2019. Trade tensions, tightened financial conditions, policy uncertainty, and a variety of country and sector-specific factors all took their tolls. The IMF lowered its outlook for global economic growth in January, and then cut it again shortly after the end of the first quarter. Its estimate for global GDP growth in 2019 now sits at 3.3%, down from 3.7% in October. The IMF expects the U.S. economy to grow 2.2% in 2019, 0.2% lower than what its estimate had been in October and 0.7% below the stimulus-fueled rate at which the U.S. economy grew in 2018.

Our portfolio outperformed the S&P 500 for the quarter. Most of our positions rallied hard and made substantial contributions to our performance. The one that missed the party was our largest position, Interactive Brokers Group, Inc. class A common stock (IEX: IBKR). IBKR fell 5.1% over the course of the quarter.

A variety of factors weighed on IBKR, including a fall in interest rates, subdued financial market volatility, and a lack of any apparent easing in capital controls in China. Although Interactive Brokers has far less exposure to interest rates than other brokers, it tends to trade with the brokerage group in the short term in response to changes in interest rates. Nothing that occurred during the quarter changes the thesis supporting our investment in IBKR. Our prospects for earning terrific returns on IBKR over time remain bright.

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 2019	
Fastenal Company	4.20%
Colfax Corporation	3.74%
Northeast Bancorp	2.65%
Alphabet	2.15%
Retail Value	1.54%
Waters Corporation	1.50%
Interactive Brokers Group	-1.10%
Other	1.45%
Gross Performance	16.14%

Portfolio Composition

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

Portfolio Composition	
Equities - Long	94.7%
Cash	5.3%

During the quarter, we exited our position in Waters Corporation common stock (NYSE: WAT), an investment that delivered a 26.7% compound annual return over our multi-year holding period. We also added a new position in TopBuild Corp. common stock (NYSE: BLD), a special situation investment. At the end of the quarter, our portfolio included eight long equity positions and cash.

Select Portfolio Updates

There are two portfolio updates this quarter. The first is our new special situation investment, TopBuild Corp. common stock (NYSE: BLD). The second is another special situation investment, Northeast Bancorp common stock (NASDAQ: NBN).

TopBuild Corp.
(NYSE: BLD)

TopBuild is a holding company for two primary operating businesses, TruTeam and Service Partners. Masco Corporation built what is now TopBuild through a series of acquisitions in the late 90's and early 00's, and then spun it off as an independent, publicly-traded company in mid-2015. TruTeam and Service Partners are the largest installer and distributor, respectively, of insulation in the U.S. construction industry. Between its two businesses, TopBuild sells the insulation that goes into more than 40% of newly built residential homes in the U.S. While TopBuild has a dominant and relatively mature share in the residential construction end market, it is still in the process of consolidating the commercial construction end market. In that end market, which accounts for around 20% of TopBuild's revenue, the company has only a high single digit share. For a variety of reasons, TopBuild enjoys a decisive competitive advantage in the cost of purchasing insulation as a result of its preeminent scale. The cost of purchasing insulation accounts for roughly half of TopBuild's total cost structure.

The name TopBuild may ring a bell if you have been a Hinde Group partner for a while. Hinde Group purchased shares of BLD in mid-2015. The company was misunderstood and underappreciated by the investment community in the wake of its spin-off from Masco Corporation. It was a special situation investment that we held for approximately 20 months and on which we ultimately earned a 26.6% compound annual return.

The opportunity to reload BLD during the first quarter of 2019 came about because of the dramatic deterioration in financial market sentiment toward anything and everything housing-related in the second half of 2018. To be sure, housing market activity faltered in 2018. Rising home prices, increasing mortgage rates, and the implementation of new tax laws that substantially reduced housing-related tax deductions all combined to pressure affordability and sap demand. At the same time, homebuilders struggled with an extremely tight market for construction workers, sharp increases in the costs of certain materials, and a shortage of buildable lots. The market prices of housing-related stocks clearly deserved to decline to some degree. What occurred was a massive overshooting. Given Hinde Group's familiarity with TopBuild and the company's relatively attractive characteristics, purchasing BLD seemed to be a good way to exploit the sector-wide dislocation.

We purchased BLD in early March at an average price of just under $60 per share. Barring a severe recession, the stock is conservatively worth $85 per share. If the housing market regains steam over the course of 2019, BLD could reach $100 per share or more.

Northeast Bancorp (NASDAQ: NBN)

Northeast Bancorp is the publicly-traded bank holding company for Northeast Bank, a state-chartered bank organized in 1872 and based in Lewiston, ME. In 2010, Northeast Bancorp was taken over by an investor group led by Rick Wayne. Wayne had founded and led another bank, Capital Crossing Bank, prior to taking over Northeast Bancorp. He took Capital Crossing public in 1996 and sold it to Lehman Brothers in 2007, delivering a nine-fold return from Capital Crossing's IPO price. Since taking over Northeast Bancorp, Wayne has been implementing roughly the same strategy at Northeast Bancorp as he did at Capital Crossing Bank. He has established a Boston-based Loan Acquisition & Servicing Group to purchase and originate commercial real estate loans, developed an SBA division to focus on originating and selling loans under the Small Business Association's 7(a) loan program, and created an online platform for gathering deposits nationwide. We have been shareholders of Northeast Bancorp since May 2017.

During the first quarter, Northeast Bancorp announced a corporate reorganization. The company plans to collapse its holding company structure by merging the bank holding company into the bank. The bank, Northeast Bank, as opposed to the holding company, Northeast Bancorp, will be the surviving, publicly-traded entity.

While collapsing the corporate structure will result in some cost savings, the most significant implication of the transaction is how it changes regulatory oversight of the company. The Federal Reserve is the primary regulator of all bank holding companies, including Northeast Bancorp. In contrast, state regulatory agencies and the Federal Deposit Insurance Corporation regulate state-chartered banks. The Maine Bureau of Financial Institutions and the FDIC are Northeast Bank's primary regulators. This reorganization will eliminate the company's bank holding company entity, Northeast Bancorp, and will correspondingly remove the Federal Reserve as one of its regulators. This change is significant because the Federal Reserve placed relatively onerous restrictions on the company as part of agreeing to the bank's takeover and shift in strategy in 2010. Removing these onerous restrictions will allow the company to manage its balance sheet more efficiently, generate higher earnings and return-on-equity, more easily pay dividends, and potentially face fewer impediments to a sale.

Aside from the beneficial corporate restructuring, Northeast Bancorp continues to perform well. Loans purchased and originated by its Loan Acquisition and Servicing Group were up 29.7% year-over-year at the end of 2018. Growth in these higher-yielding loans drove total loan growth of 21.1% and an increase in the company's net interest margin. Notwithstanding some headwinds facing Northeast Bancorp's SBA Division, the company continues to improve its efficiency ratio. Pre-tax income grew 52.1% year-over-year in the calendar fourth quarter. Relative to Northeast Bancorp's current, small size, the company's opportunity to continue to grow the amount of high-yielding loans it originates through its LASG is essentially unlimited.

In light of all the progress Northeast Bancorp is making, its stock is starkly undervalued. Northeast Bancorp earned $1.93 in the last calendar year. The sole sell-side analyst covering the company expects it to earn $2.59 (+34.3%) this calendar year and $3.03 (+17.0%) the year after that. And those earnings estimates don't even reflect the company's full potential. EPS of $2.59 for this calendar year would represent a return-on-equity of around 15%. Considering the additional flexibility the company will gain as a result of its planned reorganization, it should be able to deliver a return-on-equity in excess of 20% once it fully leverages its capital base and cost structure. Applying a normalized return-on-equity to Northeast Bancorp's equity base at the end of 2018 implies earning power of nearly $4.00 per share. Northeast Bancorp should conservatively trade at a mid-teens forward earnings multiple over time given its high normalized return-on-equity and attractive growth potential.

Most likely, the price of NBN will move toward its (growing) intrinsic value as the company continues to progress toward fully leveraging its capital base and cost structure. There is also some chance that the company could be sold before then, although the pool of potential buyers may be thin considering the company's niche strategy.

Our portfolio's mark-to-market gain during the first quarter of 2019 was set up by its mark-to-market decline during the fourth quarter of 2018. As always, I encourage you to evaluate the performance of our portfolio over a period of at least three years and ideally five. In December 2020, I want to be able to look back at the annualized return of our portfolio since December 2017 and be thrilled with the result. I am confident the investments currently in the portfolio can deliver that outcome.

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.

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.