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To My Partners:

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

	Hinde Model Account		S&P 500
	Gross	Net	Total Return
2019:			
Q2	2.56%	2.18%	4.30%
Year-to-Date	19.12%	18.23%	18.54%
Since Inception (07/01/15):			
Annualized	14.98%	13.26%	11.57%
Cumulative	74.60%	64.41%	54.83%

Early in the second quarter, it seemed as though a trade deal between the U.S. and China was imminent. Riding on those hopes, the equity market extended its first quarter rally through April. Then, on the first Sunday in May, Trump took out his smartphone and opened up Twitter. With Chinese officials due to arrive in Washington later that week, Trump posted a tweet announcing an increase in tariffs on $200 billion worth of Chinese imports from 10% to 25% and plans to slap 25% tariffs on an additional $325 billion of previously untaxed Chinese imports. The negotiations disintegrated. So too did the equity market rally.

Apparently unsatisfied with the damage he had done, Trump later in May threatened Mexico – party to a free trade agreement with the U.S. – with sweeping tariffs in response to the flow of asylum-seeking Central Americans to the U.S.'s southern border. Although those tariffs were narrowly avoided, the threat further undermined sentiment.

Only increasingly dovish communications from Fed officials ultimately restored a modicum of confidence. The equity market rebounded in June to end the quarter with a modest gain.

The U.S. equity market's resilience notwithstanding, Trump's ill-considered trade wars are clearly taking their toll. Although the U.S. economy appears to have grown at a 2.1% annualized pace in the second quarter based on the advance estimate, that growth was entirely reliant on consumer spending. Both fixed investment, which includes things like business equipment, non-residential structures and new homes, and net exports were notably weak. The manufacturing sector of the U.S. economy has slowed down to the point that it is barely growing. Weak spots in the U.S. economy already appear to be sapping the labor market's strength. Financial markets are currently pricing in a notable degree of monetary policy easing over the next year reflecting the expectation of persistent economic weakness. While it still appears the current economic expansion will continue, the risk of the U.S. economy slipping into a recession is the highest it has been in years.

Our portfolio slightly underperformed the S&P 500 during the second quarter on a mark-to-market basis. There were two notable contributors, our positions in Northeast Bank voting common stock (NASDAQ: NBN) and TopBuild Corp. common stock (NYSE: BLD), and two notable detractors, our recently initiated position in

Covetrus, Inc. common stock (NASDAQ: CVET) and our position in Alphabet Inc. class C capital stock (NASAQ: GOOG). NBN and BLD gained 33.4% and 27.7%, respectively.[1] CVET and GOOG declined 23.2% and 7.9%, respectively.

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 2019		YTD	
Northeast Bank	3.99%	Northeast Bank	7.28%
TopBuild	2.06%	Fastenal	4.57%
Alphabet	-1.24%	TopBuild	3.17%
Covetrus	-3.60%	Colfax	3.04%
		Retail Value	2.05%
		Waters Corporation	1.50%
		Amazon.com	1.36%
		Covetrus	-4.19%
Other	1.37%	Other	0.33%
Gross Performance	2.56%	Gross Performance	19.12%

Portfolio Composition

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

Portfolio Composition	
Equities – Long	97.3%
Cash	2.7%

During the quarter, we purchased shares of Covetrus, Inc. common stock (NASDAQ: CVET), a new compounder investment. To fund those purchases, we sold some shares of Amazon.com, Inc. common stock (NASDAQ: AMZN), Fastenal Company common stock (NASDAQ: FAST) and Retail Value Inc. common shares (NYSE: RVI). At the end of the quarter, our portfolio included nine long equity positions and cash.

Select Portfolio Updates

Our new position in Covetrus, Inc. common stock (NASDAQ: CVET), a compounder investment, is the sole portfolio update for the quarter. CVET ended the quarter as Hinde Group's largest position.

[1] NBN's gain for the quarter was primarily due to some errant trades on the last day of the quarter that affected the closing price. Hinde Group had no involvement with those errant trades.

Monarch Veterinary Hospital, a full-service companion animal veterinary practice, opened its doors in a suburb of Cincinnati in 1995.[2] The practice established itself in the community over the ensuing years, especially after moving into a higher profile location in 2008. By 2015, it had grown to $2.1 million in annual revenue, somewhat larger than the average veterinary practice nationwide. Like all veterinary practices, Monarch acted as both doctor and pharmacist for its clients, with sales of pet medications and prescription food accounting for roughly 30% of total revenue.

Although Monarch was a well-run practice overall, it recognized it had a problem with prescription food. Maintaining on-hand the broad assortment of bulky, slow-moving prescription food SKUs that it prescribed was clearly an unattractive proposition. At the same time, fulfilling a client's prescription food purchase through a special order required 40 minutes of labor on average, resulting in a $5 to $7 net loss on each order. Monarch initially tried to resolve its problem by using a home delivery platform offered by a prescription food manufacturer, but that platform proved clunky to use and ineffective overall. Then, in 2015, Monarch met Vets First Choice at an industry trade show.

Owned by Covetrus, Vets First Choice offers a cloud-based prescription management platform that empowers veterinary practices with superior digital marketing and ecommerce capabilities. Enrolled veterinary practices get a branded, online storefront through which they can sell a broad assortment of prescription medications and other products on competitive terms. Vets First Choice fulfills all orders on the platform and ships items directly to clients' homes. Importantly, the platform also provides sophisticated analytical and digital marketing capabilities. There is no upfront fee to enroll on the platform. Practices pay a service fee for each successful transaction and a small markup on product cost.

Monarch decided to give Vets First Choice a shot. At first, Monarch only offered on the platform the prescription food SKUs that it could not handle profitably in-clinic. Offering those products online enabled Monarch to significantly reduce its investment in – and expenses associated with – prescription food inventory. At the same time, Monarch's total sales of prescription food grew. It was able to not only offer a much broader, more competitively priced assortment of prescription food through Vets First Choice, but also benefit from Vets First Choice's sophisticated digital marketing capabilities. Sadly, most pet owners do a notoriously poor job of actually giving their pets the medications prescribed by veterinarians. For even the most routinely prescribed medications, full compliance can be five percent or less. More than two-thirds of pet owners may not give their pet the prescription at all. Through timely, automated notifications, emails and texts to Monarch's clients as well as auto-ship routines, the Vets First Choice platform was able to increase compliance by up to four-fold. Vets First Choice's digital marketing capabilities also helped Monarch recapture sales to clients who had declined to purchase their pet's medication at the time of their appointment.

Monarch's initial success with Vets First Choice encouraged it to expand the products it offered on the platform. Although Monarch had been concerned about cannibalization of its in-clinic product sales by the Vets First Choice platform, those fears proved unfounded. It turned out that most clients were budget constrained during their visit to the clinic. By using the Vets First Choice platform to shift a portion of the client's spend to other times, Monarch freed up budget room for additional diagnostic services and preventative products at the time of the client's appointment. Within a year of launching on Vets First Choice in 2015, Monarch hit a run-rate of $100,000 in revenue on the platform while maintaining a stable trajectory for its in-clinic product sales.

Monarch now carries only select products in-clinic, such as fast-turning products that sell within 30 days, emergency medications and 4-pound starter bags of prescription diets that need to begin immediately.

[2] Monarch Veterinary Hospital is a pseudonym used to maintain the confidentiality of the actual practice, one of many that Hinde Group has had discussions with as part of its due diligence.

Monarch sells everything else online through the Vets First Choice platform, including chronic and preventative medications that are well-suited to auto-ship routines.

Vets First Choice has transformed the financial health of Monarch's practice. Since adopting Vets First Choice, total practice revenue has grown from $2.1 million in 2015 to $3.3 million in 2018. Revenue on the Vet First Choice platform hit $317,000 in 2018, and it is poised to exceed $400,000 this year. Growth in Monarch's in-clinic diagnostic revenue has accelerated due to the "split-invoicing" effect of the Vets First Choice platform. Although Vets First Choice takes a service fee on each sale through the platform, it also meaningfully lowers Monarch's procurement, inventory management, and fulfillment costs. As a result, Monarch's profit margin has increased from 13% to 18%.

Monarch sees no end in sight for growth in its sales on the Vets First Choice platform. Out of its roughly 7,000 clients, only around 2,500 have used the platform. There is also enormous potential to further improve client compliance with prescribed therapeutic regimens. For example, achieving 100% compliance with prescribed heartworm preventative medication would generate $1.5 million in incremental revenue for Monarch through the platform. While it is unlikely that Monarch will ever reach that level of compliance, any meaningful amount of progress toward it represents a significant opportunity. And heartworm preventative medication is just one of the many types of medications that Monarch prescribes. Monarch believes its revenue on the Vets First Choice platform can continue to increase by $100,000 per year for many years.

There is a saying: *the future is already here – it's just not evenly distributed*.[3] It captures a complicated idea – how new technologies and innovations diffuse – in a pithy way. There are always early adopters who are ahead of the curve, and they provide a glimpse into what the overall market may look like in the future. Those early adopters are already living "in the future," so to speak.

Monarch is just such an early adopter with respect to the Vets First Choice platform. Its experience with the Vets First Choice platform provides a glimpse into what the future may hold for all veterinary practices. Other than being slightly larger than average in terms of doctors and revenue, there is nothing about Monarch that should prevent the typical veterinary practice from replicating its success on the Vets First Choice platform.

Although Vets First Choice currently accounts for only around five percent of Covetrus's revenue, it will be the main driver of Covetrus's value creation going forward. Covetrus became a publicly-traded company in February 2019 through a Reverse Morris Trust transaction. Henry Schein, Inc. spun-off its animal health business ("Henry Schein Animal Health" or "HSAH") and merged it with Direct Vet Marketing, Inc., a private, venture-backed company doing business as Vets First Choice. Serving over 100,000 veterinary practices in 100 countries, Henry Schein Animal Health is one of the leading distributors of pharmaceuticals, vaccines, nutrition products, diagnostic tests, equipment, surgical products and other supplies to the global animal health market. Henry Schein Animal Health also develops and sells veterinary practice management software and related solutions and services. Despite the disparity in scale between the two businesses, Vets First Choice shareholders received 36% of the combined company, a testament to the potential Henry Schein saw in the business.

Vets First Choice has a truly incredible opportunity for growth. The number of veterinary practices enrolled on the platform can increase to a multiple of its current figure. As of March 31st, there were 8,000 veterinary practices in the U.S. enrolled on Vets First Choice. There are between 28,000 and 32,000 total veterinary practices in the U.S., and HSAH serves around 100,000 veterinary practices around the world.

[3] The quote originates from William Gibson, a science fiction writer.

Even more significant than the opportunity to increase enrollment is the opportunity to increase engagement. The typical veterinary practice enrolled on the platform currently generates only around $30,000 of revenue on the platform. Most enrolled practices are not yet nearly as engaged as an early adopter like Monarch.[4] The current level of revenue per enrolled practices is less than 1/10th of the level achieved by highly engaged practices and the level implied by Covetrus's stated long-term targets. Between growing enrollment and improving engagement, Vets First Choice has the potential to grow its revenue 20-fold or more over time.

The combination of Vets First Choice with Henry Schein Animal Health should meaningfully accelerate Vets First Choice's ability to realize its growth potential. In the U.S., HSAH's salesforce is roughly ten times the size of Vets First Choice's. HSAH's sales representatives have relationships with 90% of veterinary practices in the U.S. For a significant portion of those practices, HSAH serves as primary distributor, a role that typically involves a trusted, long-term relationship between the practice and the sales representative. HSAH's U.S. sales representatives should be able to accelerate enrollment on and engagement with the Vets First Choice platform. As Vets First Choice begins to expand into international markets in 2020, it should realize similar benefits from working with HSAH's international sales force. Vets First Choice will also benefit from tighter integration with HSAH's practice management software offerings, which are used by 60% of the veterinary practices in the U.S.

The merger offers cost synergies as well. In the short term, Covetrus can leverage the combined company's scale to negotiate more favorable contracts with suppliers, such as pet medication manufacturers and delivery companies. It can also eliminate redundant corporate overhead. In the long-term, there is the potential to integrate the distribution infrastructures of the two companies to both lower costs and improve service levels. Vets First Choice's ability to leverage HSAH's existing global distribution infrastructure should also notably accelerate the platform's ability to enter and penetrate international markets.

The upshot of all this is that Covetrus is poised deliver rapid earnings growth for the foreseeable future. Between steady growth at HSAH, realization of targeted merger synergies, and continued explosive growth at Vets First Choice, Covetrus should be able to grow its earnings at a compound rate of 25% or more over the next five years. Even after merger synergies have been harvested, Covetrus's earnings growth should settle in at 20% or more. Vets First Choice's unit-level economics are far superior to those of the legacy HSAH distribution business, and its normalized profit margin should be at least three times higher than that of HSAH. As a result, Vets First Choice will have an outsized impact on Covetrus's earnings growth.

At its current price, CVET offers the most compelling returns of any investment Hinde Group has made thus far. Covetrus should be able to grow its earnings at 25% or more per year over the next five years and 20% or more per year thereafter. Both HSAH and Vets First Choice are capital efficient businesses. Even as it is growing rapidly, Covetrus should be able to convert a high portion of its earnings to free cash flow. As a great business with a robust growth outlook, Covetrus could trade at a much more favorable capitalization rate over time than it is currently. Between earnings growth, cash generation and capitalization rate improvement, CVET is poised to deliver a compound annual return in excess of 40% over the next five years. CVET would be more fairly valued at several times its current stock price.

[4] There is no upfront fee to enroll on the Vets First Choice platform, so "adoption" is best thought of in terms of engagement, not simply enrollment.

The gap between what Hinde Group's portfolio is conservatively worth and where it is currently being valued by the market is the widest it has ever been. Although the mark-to-market performance of our portfolio over the past twelve months has not been inspiring, I am confident that the underlying value of our portfolio will eventually become evident.

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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