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To My Partners:

The performance of our portfolio for the second quarter of 2020 and since inception is summarized below.

	1578 Partners, LP		S&P 500
	Gross	Net	Total Return
2020:			
Q2	31.64%	31.15%	20.54%
Year-to-Date	5.20%	4.42%	-3.08%
Since Inception (08/01/15):			
Annualized	10.75%	9.10%	10.46%
Cumulative	65.19%	53.42%	63.04%

The pandemic and the interventions to contain it severely disrupted economic activity around the world during the second quarter. Initial estimates suggest U.S. GDP declined at a 32.9% seasonally adjusted annual rate during the quarter, leaving the economy roughly 10% smaller than it was in the second quarter of 2019. The economic implosion has left the U.S. labor market in tatters. Despite rebounding somewhat in May and June from its collapse in April, the labor market ended the second quarter in worse shape than it was in at any point during the global financial crisis.

As bad as the declines in economic activity and employment have been, they could have been much worse. The U.S.'s aggressive fiscal policies *thus far* have done a tremendous amount to cushion the economy from the full brunt of the pandemic. Despite unprecedented job losses, personal income actually grew robustly during the second quarter. Increased government transfer payments, most notably in the form of enhanced unemployment benefits, more than offset the decline in employee compensation. Brisk personal income growth in turn kept consumer sentiment at much healthier levels than might have otherwise been the case. Although it fell from the heady levels of the past several years, consumer sentiment during the second quarter was roughly where it was in the second half of 2013 and well above the depths it hit during the last recession. Consumer spending still declined sharply during the second quarter, but the decline would have unquestionably been far worse in the absence of the government's fiscal support.

In addition to experiencing sharp declines in the overall levels of spending and employment, the U.S. economy has seen striking changes in the composition of economic activity. Consumer spending has shifted from services, like those provided by restaurants, hotels, gyms, airlines and even healthcare providers, to physical goods, such as groceries, home furnishings and recreational items. Virtually all of the year-over-year decline in consumer spending during the second quarter was attributable to the decline in spending on services. While consumer spending on goods declined slightly year-over-year for the quarter as a whole, the decline was composed of a sharp fall in April followed by an abrupt return to growth in June. This is a very different outcome from what you might expect during a more typical recession, especially one as severe in overall magnitude as the current one. Consumer spending on goods was below the prior year level for seven consecutive quarters during the last recession. Sharp shifts in the *what* of spending have been accompanied by equally dramatic changes in the *where*. Generally speaking, channels that require limited physical contact, such as ecommerce, have experienced a step function increase in share at the expense of those reliant on face-to-face interactions. The sharp shifts in the composition of economic activity that we have seen mean that there are more distinct sets of winners and losers during this crisis than would normally be the case during a recession.

The equity market's reaction to this crisis has also been a surprise. Financial markets were in an extraordinarily stressed state in mid-to-late March as the pandemic began to impact major economies around the world. It was reasonable to expect those extreme conditions to ease as monetary and fiscal responses to the crisis took form. Even considering the aggressiveness of those responses, the magnitude of the U.S. equity market's rebound off its mid-March lows has been startling. The S&P 500 ended the second quarter with only a modest loss on a total return basis for the year-to-date. It is hard to argue that the outlook for corporate profits over the intermediate term is anywhere near as bright as it was before the pandemic hit. Market participants seem to be taking an enormous amount of comfort from the Fed's "no-holds barred" approach to the crisis.

Our portfolio significantly outperformed the S&P 500 during both the second quarter and first half of 2020. Generally speaking, the positions that hurt our portfolio's mark-to-market performance the most during the first quarter led the way with strong recoveries during the second quarter. Covetrus, Inc. common stock (NASDAQ: CVET), Northeast Bank voting common stock (NASDAQ: NBN) and Alphabet, Inc. class C capital stock (NASDAQ: GOOG) rallied 119.8%, 50.5% and 21.6%, respectively. A new position initiated during the quarter in Sleep Number Corporation common stock (NASDAQ: SNBR) also made a noteworthy contribution to our portfolio's performance. SNBR ended the quarter 15.8% above our average cost.

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 2020		YTD	
Covetrus	17.29%	Covetrus	5.84%
Northeast Bank	4.56%	Sleep Number	2.40%
Alphabet	4.54%	Amazon.com	1.58%
Sleep Number	3.01%	Alphabet	1.11%
Amazon.com	1.76%	Interactive Brokers Group	-1.78%
		Northeast Bank	-2.73%
Other	0.48%	Other	-1.23%
Gross Performance	31.64%	Gross Performance	5.20%

Portfolio Composition

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

Portfolio Composition	
Equities – Long	94.3%
Equities – Short	-1.4%
Cash[1]	7.1%

[1] Includes cash collateral related to short positions.

During the quarter, we added a new long equity position in Sleep Number Corporation common stock (NASDAQ: SNBR). At the end of the quarter, our portfolio included eight long equity positions, one short equity position and cash.

Select Portfolio Updates

The sole portfolio update for this quarter covers our new special situation investment, Sleep Number Corporation common stock (NASDAQ: SNBR).

Sleep Number Corporation (NASDAQ: SNBR)

Sleep Number designs, manufactures and sells a range of premium, air chamber-based mattresses under the Sleep Number brand. Due to the unique nature of its mattresses, the company has developed a vertically integrated business model focused on direct-to-consumer sales through approximately 600 company-operated stores, an ecommerce website and a toll-free phone number. J.D. Power has ranked Sleep Number #1 in the J.D. Power Mattress Satisfaction Report for three out of the six years the report has been published. According to Furniture/Today, a furniture industry trade publication, Sleep Number generated 8% of mattress industry retail revenue in the U.S. in 2018, a figure that has been steadily increasing over time.

Sleep Number's stock took a severe beating as the coronavirus pandemic landed in the U.S. SNBR declined from a high of $61.00 in late February to a low of $15.27 on April 3rd, just six weeks later.

The rationale for the decline was pretty clear. Sleep Number sells a premium-priced, durable and discretionary product. Demand for Sleep Number's mattresses has historically declined sharply during periods of economic weakness. Sleep Number's brick and mortar retail locations also play an important role in its sales process by providing prospective customers the opportunity to try the beds before writing a big check. The prospect of diminished retail foot traffic and government-mandated store closures in response to the pandemic threatened to further weigh on demand. Moreover, the impact of any decline in demand on Sleep Number's earnings would be exacerbated by the high degree of fixed costs inherent in the company's vertically integrated business model. The pandemic seemed to turn Sleep Number from a profitable, market-share gaining business into one struggling for its very survival, virtually overnight.

But if there is one big takeaway about the economic impact of the pandemic thus far, it is that many things have played out differently than one might have expected viewing the situation through the lens of past recessions. While aggregate measures of economic activity, such as GDP and personal consumption expenditures, have declined sharply – even more so than in any recent recession – there have also been extreme shifts in spending across categories and channels.

Data from the U.S. Department of Commerce on retail sales provide some examples. Sales at grocery stores increased 30.9% year-over-year in March and were still running up 11.7% year-over-year in June. Sales at building material and garden equipment & supplies dealers, a category that includes home improvement retailers such as Home Depot and Lowe's, grew 18.0% in May and 17.3% in June. During a more typical recession, sales growth for both of those categories might be expected to dip into negative territory for several months. Growth in sales at non-store retailers accelerated from 8.6% in February to 23.5% in June. The main takeaway is that people who are stuck at home are spending in and on their home. Discretionary income that would have otherwise been spent dining out, shopping at the mall, enjoying live entertainment or going on a vacation is being spent preparing meals at home, updating the home and shopping online.

The benefits of these changes in consumer behavior are more than offsetting the negative impact of reduced economic activity on Sleep Number's business. Sleep Number did see an acute decline in its performance immediately after the pandemic hit the U.S. in earnest in mid-March. 80% of the company's stores were closed at one point, and its sales were down 48% year-over-year in April. But then came an unprecedented whiplash in demand. Sleep Number's sales grew year-over-year in May, and that growth accelerated further in June and July. Sales growth in July will likely end up in the teens, and it remains to be seen where the acceleration in demand will ultimately settle out. As long as people are unable or unwilling to go back to their prior patterns of spending on restaurants, live entertainment and travel, Sleep Number should continue to benefit.

Notwithstanding the strong and accelerating demand for its mattresses, Sleep Number is managing its expenses tightly in light of the pandemic. The combination of strong sales growth, inherent operating leverage in the business model and tight expense control bodes well for the company's intermediate term earnings. EPS over the next 12 months could substantially exceed the company's original EPS guidance for 2020 of $3.10, in which case the stock should exceed its prior high of $61.00 per share.

Our investment in SNBR was informed by several sources of "alternative data" that provided a good picture of real-time demand trends in Sleep Number's business. These data sources gave Hinde Group insight ahead of most other market participants and should continue to provide an advantage going forward.

Hinde Group's focus is on delivering attractive returns over the long term. The second quarter of 2020 is no more a great quarter for Hinde Group than the first quarter of 2020 was a terrible one. Our portfolio's mark-to-market performance for the first half of 2020 simply demonstrates some progress toward our goal. Notwithstanding a dreary and uncertain outlook for the economy due to the pandemic, I remain confident our portfolio is well positioned to deliver returns over time that we will all be happy with.

Thank you for your continued confidence and support.

Regards,

Marc Werres
Managing Partner

Important Disclosures

The performance figures depicted herein relate to 1578 Partners, LP. 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. 1578 Partners, LP'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).

1578 Partners, LP's inception date is August 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.