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To My Partners:

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

	1578 Partners, LP		S&P 500
	Gross	Net	Total Return
2020:			
Q4	29.47%	28.98%	12.15%
Year	58.32%	55.96%	18.40%
Since Inception (08/01/15):			
Annualized	18.30%	16.54%	13.56%
Cumulative	148.61%	129.16%	99.17%

A beam of light appeared at the end of the dark tunnel during the fourth quarter. Several pharmaceutical consortiums reported promising results from Phase 3 clinical trials of vaccines against COVID-19, and Joe Biden defeated Donald Trump in the U.S. presidential election. A return to some form of normalcy may be on the horizon. Just before the end of the quarter, the U.S. government also passed another economic relief package worth nearly $900 billion. Although surging COVID-19 cases around the globe prompted governments to reinstate intensive social distancing measures, developments during the quarter were on the whole quite bright.

Financial markets cheered the good news. U.S. equity indexes hit new all-time highs, with the biggest gains coming from sectors hit hardest by the pandemic. Similarly, corporate credit spreads extended their easing streak, reaching pre-pandemic levels by the end of the year. The yield on the U.S. 10-year treasury climbed from 0.69%, near its all-time low, to 0.93%, reflecting the brighter outlook.

While the U.S. economy continued to recover from the crushing initial body blow dealt by the pandemic, the rate of recovery clearly lost steam. The Federal Reserve Bank of Atlanta's GDPNow model currently estimates GDP growth will come in at 7.5% for the fourth quarter, well below the 33.4% annualized rate at which the economy grew during the third quarter. After adding an average of 1.3 million jobs per month during the third quarter, job growth slipped to 654,000 in October and 336,000 in November. Current estimates suggest the economy lost 140,000 jobs in December. The petering growth can be chalked up to waning fiscal support for the economy as well as surging COVID-19 cases and the associated interventions to control further spread, among other factors. The prime-age employment-to-population ratio, a timely, high-frequency and fairly comprehensive indicator of the economy's utilization level, ended the year at 76.3%, still well below the 80.4% level at which it ended 2019. In contrast to the near-total recovery that financial markets have experienced, the real economy's recovery still has a long way to go.

During the quarter, our portfolio extended its mark-to-market outperformance for the year. Most of our positions outperformed the S&P 500's total return for both the quarter and the year. For the quarter, Sleep Number Corporation common stock (NASDAQ: SNBR) was the star performer, gaining 67.4%. That brought

SNBR’s total return since we purchased it in June 2020 to 127.6%. Uber Technologies, Inc. common stock (NYSE: UBER) also performed notably during the quarter, rising 39.8%. Most of that gain came after California voters passed Proposition 22. Covetrus, Inc. common stock (NASDAQ: CVET) rose 17.8% during the fourth quarter, bringing its total mark-to-market return for the year to 117.7%. Two of our other large positions, Alphabet Inc. Class C capital stock (NASDAQ: GOOG) and Interactive Brokers Group, Inc. Class A common stock (NASDAQ: IBKR), rose 31.0% and 30.7% for the year, respectively.

Performance Attribution

Positions that had a material impact on the portfolio’s mark-to-market performance for the quarter and year are outlined below.

Performance Attribution			
4Q 2020		2020	
Sleep Number	11.42%	Covetrus	21.22%
Covetrus	5.03%	Sleep Number	19.45%
Interactive Brokers Group	4.83%	Interactive Brokers Group	6.67%
Alphabet	3.34%	Alphabet	6.00%
Uber	2.57%	Uber	3.05%
Northeast Bank	2.09%	Amazon.com	2.37%
Other	0.19%	Other	-0.44%
Gross Performance	29.47%	Gross Performance	58.32%

Portfolio Composition

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

Portfolio Composition	
Equities – Long	99.6%
Equities – Short	-0.9%
Cash[1]	1.3%

The only change we made to the portfolio during the quarter was adding to our position in Interactive Brokers Group, Inc. Class A common stock (NASDAQ: IBKR). At the end of the quarter, our portfolio included nine long equity positions, one short equity position and cash.

Select Portfolio Updates

The portfolio update for this quarter covers our position in Northeast Bank voting common stock (NASDAQ: NBN), which we purchased in May 2017.

[1] Includes cash collateral related to short positions.

Northeast Bank
(NASDAQ: NBN)

So now I see problems differently.
I'm not afraid of them anymore,
Because I know their secret…

Every problem has an opportunity for
something good. You just have to look for it.

– What Do You Do With a Problem, Kobi Yamada

With two young children at home, it would not be *too much* of an exaggeration to say that I've read virtually every children's book ever published at least twenty times over the past several years. Although the stories in those books won't interest adults, the same is not always true for the lessons they contain. *What Do You Do With a Problem* by Kobi Yamada is a great example. Treating problems as opportunities in disguise is a profound lesson that most adults have yet to learn.

Although Rick Wayne, the CEO of Northeast Bank, probably hasn't read *What Do You Do With a Problem*, he has certainly taken its lesson to heart. The pandemic created a problem for everyone involved in the commercial real estate industry, including commercial real estate lenders like Northeast Bank. Many of the businesses that occupy commercial real estate locations, such as hotels, offices, restaurants and retail stores, could no longer generate enough revenue to support their lease payments. The scale of the problem Northeast Bank faced was never so great as to put the financial soundness of the bank or even the conservative assumptions used to underwrite our investment at risk, but it did threaten weigh on the returns we will ultimately realize.

It is becoming increasingly clear that will not be the case though. Our investment in Northeast Bank is almost certain to perform better than it would have in the absence of the pandemic. Although Northeast Bank will experience somewhat higher loan losses than it otherwise would have – it increased its loan loss provision during the first calendar quarter of 2020 to account for this – and will face an environment with lower benchmark interest rates, it has been able to seize several opportunities created by the pandemic, the benefits of which will more than offset the pandemic's negative impacts.

First, Northeast Bank has participated in the Small Business Administration's Paycheck Protection Program, a program established by the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") to provide forgivable loans to small businesses, in a variety of ways. Between April 3rd and September 30th, Northeast Bank originated more than 5,000 PPP loans totaling $510.6 million. It subsequently sold those loans for a pre-tax gain of $10.8 million. Northeast Bank has also developed a correspondent relationship with The Loan Source, Inc. ("Loan Source"), an acquirer and servicer of PPP loans. Under the correspondent relationship, Northeast Bank essentially arranges funding for Loan Source's PPP loan portfolio through the Federal Reserve's Paycheck Protection Program Liquidity Facility ("PPPLF"). In exchange for providing Loan Source with access to low-cost funding through the PPPLF, Northeast Bank earns a fee for each loan that Loan Source acquires and half of the net servicing income from Loan Source's PPP portfolio. Through the end of October, Loan Source had purchased approximately *$4.0 billion* of PPP loans. Northeast Bank's correspondent fee related to those loans is $13.6 million pre-tax, and the quarterly net servicing income it realizes from the portfolio should be around $3.0 million pre-tax until the loans are forgiven or repaid. Between the gains Northeast Bank has realized on the PPP loans it has sold and the income it will earn over time from its correspondent relationship with Loan Source, Northeast Bank's participation in the PPP program should be accretive to its pre-pandemic book value by 10% or more.

Second, Northeast Bank took advantage of the financial market disruption caused by the pandemic to repurchase its shares. It did so not only at incredible prices, but also in meaningful size. From March through June, Northeast Bank repurchased 853,098 shares, or approximately 9.5% of its shares outstanding at the beginning of the year, at an average price of $14.04. The average price the company paid reflects just 77.8% of tangible book value at December 31, 2019. The discount to intrinsic value is far greater. The repurchases arguably increased Northeast Bank's intrinsic value per share by more than 20%.

Finally, Northeast Bank is poised to benefit from more attractive opportunities to purchase loans as a result of the pandemic. Northeast Bank's yield on purchased loans hit an eye-watering 16% in 2012 and 2013 as the company reaped the benefits of loans purchased on lucrative terms in the wake of the global financial crisis. As the economy, financial markets and the banking system healed, the landscape for loan purchases became less fertile. Although Northeast Bank was able to grow its loan purchase volume modestly over time, its yield on purchased loans gradually declined to just over 10% for the fiscal year ended June 30, 2019. The pandemic has once again brought rain to the land of loan purchases, and the stage is set for a bountiful harvest in the years to come. Ever-prudent, Northeast Bank only began to ramp up its loan purchase volumes in October, but it did so with alacrity. In the month of October alone, the company purchased $80 million worth of loans, or nearly 60% of the volume of loans it purchased for all of fiscal 2019. Loan purchase volumes are inherently lumpy, but it is fair to say that Northeast Bank is off to a great start. The opportunity to purchase a greater volume of loans on more attractive terms than would have been the case without the pandemic could reasonably add $10 million or more to Northeast Bank's annual net interest income over the next few years.

The benefit of each of these opportunities individually will more than outweigh the negative effects of the pandemic on Northeast Bank. Collectively, they could lead the company's earnings for the current fiscal year ending in June to exceed $4.00 per share, well above the $2.23 per share it earned on an adjusted basis in fiscal 2019. While near-term earnings will include one-time benefits from the pandemic that will wane going forward, Northeast Bank should be able to hold an elevated level of earnings over the intermediate term and ultimately grow off of it. Favorable conditions in the loan purchase market will provide a longer lasting boost to earnings, capital generated from one-time benefits will allow the company to expand its balance sheet, and Northeast Bank should continue to make progress in unlocking its full earning power, which exceeded $4.00 per share prior to the pandemic.

NBN has been weighed down by abysmal sentiment among investors toward banks in general. Investors have been concerned about pandemic-related loan losses and the headwind to bank earnings from the historically low interest rate environment. Investor sentiment towards NBN should improve in the near-to-intermediate term as the benefits Northeast Bank has realized from the pandemic become more evident. In the intermediate-to-long term, sentiment should improve further as a period of more normal interest rates increasingly comes into view. Over time, NBN deserves a capitalization multiple of *at least* 15.0x earnings, which would put the stock north of $60 at some point over the next few years.

If I am going to encourage you to focus on the long-term when our portfolio's short-term mark-to-market performance ebbs, I would feel silly, at best, changing my tune when it flows. That is especially true regarding our performance this year, which benefitted from a strong rebound in the market price of CVET. Our position in CVET created a significant drag on our performance in 2019. It just doesn't make sense to draw conclusions from analyzing performance for either period in isolation. The performance of our portfolio in 2020 brings its compound annual net return since inception and since the beginning of 2018 to 16.5% and 14.9%, respectively, both of which are ahead of the total return of the S&P 500 over the comparable periods.

Even those figures do not present a comprehensive and fair judgment on how Hinde Group has performed though. Despite the mark-to-market gain our portfolio realized in 2020, it still ended the year with a very large gap between its mark-to-market value and its intrinsic value. To use a metaphor I've employed in the past, our portfolio ended the year with a lot of "potential energy" that has yet to be released. Putting a somewhat finer point on it, the market value of our portfolio would have to more than double today for me to consider it fairly valued. A good chunk of that potential energy relates to positions initiated prior to 2018, such as IBKR, GOOG and NBN, and the vast majority of it relates to positions purchased prior to 2020. While mark-to-market returns over a three year period can serve as a guidepost for whether we are on track, the definitive results on how Hinde Group has performed for any given period will only come in once the portfolio has fully turned over.

I'm pleased with the mark-to-market performance our portfolio has delivered over the past few years, but I am also optimistic about what may be in store for 2021. A lot of potential energy remains to be unleashed, and I see a strong set of catalysts across the positions in our portfolio for doing so.

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.