HINDE GROUP

A 580 California St.
12th Floor
San Francisco, CA 94104
T (415) 992-8125
W hinde-group.com

May 1, 2021

To My Partners:

The performance of our portfolio for the first quarter of 2021 and since inception is summarized below.

	1578 Partners, LP		S&P 500
	Gross	Net	Total Return
2021:			
Q1	25.21%	24.75%	6.17%
Since Inception (08/01/15):			
Annualized	22.20%	20.37%	14.13%
Cumulative	211.28%	185.86%	111.47%

The outlook for the U.S. economy brightened notably over the course of the first quarter. There were two main reasons.

First, prospects for fiscal support as the economy continues to awaken from its pandemic-induced coma increased meaningfully. On January 5th, Democrats unexpectedly won both runoff elections in Georgia for U.S. Senate seats. Those wins shifted the balance of power in the Senate ever so slightly in favor of Democrats, opening the way for President Biden to pursue his ambitious "Build Back Better" legislative agenda. Build Back Better includes more than $6 trillion of government spending across three plans: the American Rescue Plan, the American Jobs Plan and the American Families Plan. The American Rescue Plan Act ("ARP"), a $1.9 trillion bill focused on disaster relief and economic stimulus, was signed into law on March 11th. The other two plans are still on the drawing board. Of the three plans, the ARP will have the most significant impact on intermediate term growth, because its spending will not be funded by offsetting tax increases and will be concentrated in 2021 and 2022. More government spending is not always the solution, but it is when the economy is depressed and conventional monetary policy is at its effective limits.

Second, the U.S. vaccination campaign advanced at a much better-than-expected pace. President Biden's initial goal was to provide Americans with 100 million vaccination doses in his first 100 days in office. As it turns out, we will achieve more than double that target. The U.S. crossed the 200 million mark several days ahead of the 100-day milestone. The faster the vaccination campaign brings the virus to heel, the faster the U.S. can return to normal life and normal levels of economic activity.

Economists are starting to wear shades to protect their eyes as they update their growth estimates for the U.S. The IMF now expects the U.S. economy to grow 6.4% in 2021, more than double the rate it expected just six months ago. The Fed is in the same ballpark. The median forecast for GDP growth in 2021 among Federal Open Market Committee participants at the March meeting was 6.5%, up from 4.2% in December. Growth at those levels would represent the strongest annual GDP growth the U.S. has achieved in almost 30 years. It's "Morning in America" again.

The improved outlook affected financial markets in a variety of ways. The yield on the 10-year U.S. treasury rose relatively sharply from 0.93% on December 31st to 1.74% on March 31st, reflecting both higher expected inflation and an earlier timeline for the Fed beginning to ease the throttle back on monetary policy. In other markets, the combination of a bright economic outlook, pedal-to-the-metal monetary policy and asset prices that "only go up" has proven to be an intoxicating brew. Swarms of novice retail traders are slinging their life savings into YOLO ("you only live once") trades in so-called "meme stocks," such as GameStop Corp. Class A common stock (NYSE: GME). More experienced financiers are playing a similar game with special purposes acquisition companies ("SPACs"). Raise money through a publicly-traded shell company with a big promote, acquire pretty much any business and watch the stock fly. Even Shaq has a SPAC. Not to be left out, cryptocurrencies, like Bitcoin and Dogecoin, have been on a tear and have spawned an even more speculative invention, non-fungible tokens. Simply put, you don't have to look too hard to see signs of ebullience in financial markets at the moment.

Our portfolio significantly outperformed the S&P 500 during the first quarter. Our position in Sleep Number Corporation common stock (NASDAQ: SNBR) drove the lion's share of our portfolio's mark-to-market return as a result of SNBR's 75.3% gain during the quarter. Even excluding SNBR, our portfolio still would have outperformed the S&P 500 by a couple of percentage points. Our positions in Interactive Brokers Group, Inc. Class A common stock (NASDAQ: IBKR) and Alphabet Inc. Class C capital stock (NASDAQ: GOOG) were the driving factors. IBKR and GOOG gained 19.9% and 18.1%, respectively.

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 2021	
Sleep Number	16.50%
Interactive Brokers Group	3.61%
Alphabet	2.90%
Northeast Bank	1.51%
Covetrus	1.10%
Other	-0.41%
Gross Performance	25.21%

Portfolio Composition

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

Portfolio Composition	
Equities – Long	100.4%
Equities – Short[1]	-8.8%
Cash[2]	9.7%

During the quarter, we made several adjustments to our short exposure, which are briefly discussed in the portfolio updates section of this letter. At the end of the quarter, our portfolio included nine long equity

[1] Reflects the combined delta-adjusted exposure of a short stock position and a long position in out-of-the-money calls that hedges the short stock position.
[2] Includes cash collateral related to short positions.

positions, one short equity position, a long position in out-of-the-money calls that hedges the short equity position and cash.

Select Portfolio Updates

If at the start of the year you had asked an experienced investor about the disadvantages of short-selling, you would have gotten a laundry list in response. You have to pay money to borrow shares, sometimes enough to make a loan shark blush. It takes a lot more work to get information because the issuer's management is not on your side. As short positions go against you, they get larger as opposed to smaller. You may get "bought-in" by your broker for a variety of reasons and without notice. At some point, he or she would have inevitably also mentioned that your potential loss is unlimited *at least in theory*. Ask the same investor the same question today and he or she will probably drop that last bit of qualification.

On January 28th, GameStop Corp. Class A common stock (NYSE: GME) hit an intraday high of $483.00 per share. The stock's peak represented a more than 25-fold increase from where it began the year just 18 trading days earlier and almost 200 times the 52-week low it hit in early April 2020. To call GME's rise something like "vertigo-inducing" would do a grave injustice to many of the short sellers who were involved in the stock. It did not just make them ill; it put them in body bags. If you had a conservatively sized short position in GME of just one-half of a percent of your portfolio's value at the beginning of the year and tried to hold your ground, you would have been completely wiped out.

GME's astronomical rise was the result of a campaign by a distributed group of retail traders organized through Reddit and other social media services to engineer a short squeeze. It represents a new phenomenon in financial markets that some people are calling "swarm trading." While there is a substantial amount of overlap between swarm trading and old-fashioned market manipulation, swarm trading presents a variety of new enforcement challenges for regulators. Trading swarms are composed of an enormous number of small retail traders organized in a highly informal and distributed manner. The idea of bringing enforcement actions against tens of thousands of small retail traders – many of whom are silent participants – is challenging from both a practical and political perspective. As a result, there has yet to be any meaningful response by regulators to protect the integrity of financial markets. Although GME is the most high profile security affected by swarm trading so far, it is by no means the only one, and it will not be the last without a meaningful regulatory deterrent in place.

To date, short selling has not been a significant component of Hinde Group's strategy. Coming into this year, our short exposure was composed of one position amounting to less than 1.0% of our portfolio's value.[3] Like many securities with higher than average short interest ratios, the market price of the security we were short increased sharply as the GME saga unfolded. The gain that such stocks experienced at the time was due to a combination of deleveraging by hedge funds adversely affected by GME's rise and a general fear of the new risk posed to short positions by swarm trading. We closed out our short exposure on January 25th. Discretion is the better part of valor when it comes to short selling.

Later in the quarter, several alternative data series began to suggest that our short investment thesis was playing out. It now seems possible that the company-in-question's performance over the coming quarters may disappoint Wall Street's expectations, which could serve as a catalyst for our investment thesis. In early March, we reestablished a much larger short position in the same security, but one that was hedged through a corresponding long position in out-of-the-money calls that effectively sets a cap on the maximum loss we might realize on the combined position. Although the risk of a trading swarm targeting the shares

[3] As a reminder, Hinde Group does not publicly disclose or discuss its standalone short positions. The rationale for this policy is discussed in Hinde Group's partner letter for the fourth quarter of 2019.

we are short over our investment time horizon is remote, Hinde Group is not willing to bear even a remote chance of a catastrophic loss.

Short selling was a tough game to being with. The risk posed by swarm trading makes it much tougher. The cost of hedging a short position in the way that we have for our current exposure is significant. That added cost means far fewer short positions will make the cut unless and until securities regulators take action to curb and prevent manipulation of security prices by trading swarms. Fortunately, this development does not have a meaningful impact on the outlook for our portfolio's long-term risk-adjusted returns. Short selling simply isn't an essential element of our strategy.

> *I will tell you how to become rich. Close the doors. Be fearful when others are greedy. Be greedy when others are fearful. – Warren Buffett*

Some investors feel it has become passé to quote Warren Buffett. Not only am I doing it anyway, but I am using his most oft-cited quote. It is simply the right piece of advice at the moment.

Examples of excess in financial markets abound. You can find a few cited at the beginning of this letter. Greed prevails for the time being. All that means for us is that we need to be especially vigilant in underwriting our investments to ensure that the assumptions we use will stand the test of time. I assure you that is exactly what we will do.

I remain enthusiastic about the positions that comprise our portfolio and optimistic about the performance they will deliver in the coming quarters and years. Even if the market environment means that investments that meet our criteria are fewer and farther between, they always exist and we only need a handful.

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.