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To My Partners:

The performance of our portfolio for the first quarter of 2022 and since inception is summarized below.

	1578 Partners, LP		S&P 500
	Gross	Net	Total Return
2022:			
Q1	-10.01%	-10.34%	-4.60%
Since Inception (08/01/15):			
Annualized	15.61%	13.88%	14.36%
Cumulative	162.87%	137.80%	144.56%

Think of the economy like an engine. In response to the pandemic, we turned it off, took it apart and put it back together again. When we finished, we put the pedal to the metal to try to get it back to running just like it had been. But not all the pieces fit together quite like they did, and we probably stepped on the gas a little bit too hard. With an engine, we would hear the shrill sound of grinding gears. With the economy, we get inflation.

Headline inflation is now running at its highest level in four decades. The headline consumer price index increased 1.2% from February to March. Relative to March 2021, it increased 8.5%. Compound the CPI's month-over-month increase in March over a full year and it would be running up 15.9% over the prior year. Even measures of inflation that aim to strip out the most volatile components are running well above the Fed's 2.0% target. The Dallas Fed's 6-month Trimmed Mean PCE Inflation rate hit 4.4% in March, up from 3.9% in December.

While most of our inflation challenges amount to aftershocks from the initial impact of the pandemic, two developments during the first quarter will exacerbate the situation.

First, waves of Omicron-variant infections around the world further distorted demand and hobbled supply. The impact on most major economies was relatively limited, but in China incipient breakouts of Omicron variant infections have sparked the return of draconian lockdown policies in several major cities and manufacturing hubs. Those lockdowns will be highly disruptive to China's economy, the economies of China's major trading partners and any businesses with supply chains that run through the affected areas.

Second, Russia's invasion of Ukraine toward the end of February – first and foremost a senseless humanitarian tragedy for Ukrainians – will have adverse economic spillovers. The broadest economic impact will come from disruptions to trade flows for oil, natural gas, wheat, corn and other industrial commodities due to interruptions to production in Ukraine and the impact of sanctions on Russia. Reductions in the supply of those commodities will increase their prices and contribute to headline inflation around the world. Any shortages of key commodities that develop could also lead to production shutdowns, reduced demand for complementary inputs and higher prices for downstream intermediate and final goods. Both higher prices for those commodities and any supply chain disruptions from shortages will weigh on real economic growth. Countries with direct trade ties to Ukraine and Russia will also experience reduced demand for exports. Additionally, the overall uncertainty created by the war will weigh on global financial conditions,

and correspondingly, economic growth. Although the economic impact of Russia's invasion of Ukraine will be far greater on Europe than on the U.S., the U.S. will nonetheless experience somewhat higher inflation and slower growth than it otherwise would have.

As the inflation problem we face has become increasingly evident, the outlook for monetary policy in the U.S. has abruptly shifted. The yield on the 2-year U.S. treasury provides a good approximation of the market's expectation for the average federal funds rate, the benchmark overnight interest rate through which the Fed implements monetary policy, over the next two years. It has gone parabolic, increasing from 0.16% at the beginning of June 2021 to 0.73% at the end of last year to 2.28% at the end of March 2022. The market expects the Fed to rapidly remove the accommodative monetary policy it put in place in response to the pandemic. According to the CME Fedwatch Tool, the Fed's targeted range for the federal funds rate is now expected to hit at least 2.25% - 2.50% by the end of this year, up from 0.00% - 0.25% at the beginning.

Although the Fed has only just begun to implement the anticipated rate hikes, what really matters for financial conditions and the economy is what the market expects the Fed to do in the future. For example, two of the main channels through which monetary policy impacts the economy are by increasing mortgage rates and by increasing the foreign exchange value of the dollar. Each of those channels are influenced by both implemented and expected rate hikes. The average fixed rate for a 30-year mortgage in the U.S. hit 4.67% at the end of the first quarter and currently sits at 5.64%, up from a low of just 2.65% at the beginning of 2021. Similarly, the real broad effective exchange rate for the U.S. dollar is up a little more than 8.0% over the same time period. In other words, the full extent of the expected lurch toward sharply tighter monetary policy is already impacting the economy.

The combination of the cost-of-living crunch, geopolitical turmoil and tighter financial conditions will undoubtedly weigh on economic growth. Some economic forecasters are already calling for a recession next year. The Fed certainly does not have a strong track record of reining in above-target inflation without inadvertently sending the economy into a recession. At the same time, the receding impact of the pandemic clouds comparisons to historical episodes of monetary policy tightening. Fixed income markets are not yet pricing in a recession in the U.S. as a foregone conclusion or even the most likely outcome.

It should not be surprising that stocks have had a rough start to the year in light of all the tumult. Higher inflation and slower growth dim the outlook for corporate profits, and higher interest rates on long-term treasury securities erode what investors are willing to pay for stocks. More importantly, market participants simply do not like abrupt changes in the investing landscape, whether for economic or geopolitical reasons and certainly not for both at the same time.

Our portfolio underperformed the S&P 500 on a mark-to-market basis during the quarter. The energy sector delivered distinct outperformance during the first quarter due to spikes in the prices of oil and natural gas. In contrast to the S&P 500, our portfolio does not have direct exposure to the energy sector. Our position in Interactive Brokers Group, Inc. Class A common stock (NASDAQ: IBKR), the largest in the portfolio, was the top detractor from our performance. IBKR declined 17.0% over the course of the quarter. Although Interactive Brokers will benefit materially from increases in global benchmark interest rates, especially the federal funds rate, you would not be able to tell that from its stock price performance during the quarter. Our positions in Covetrus, Inc. common stock (NASDAQ: CVET) and Uber Technologies, Inc. common stock (NYSE: UBER) were also notable detractors. CVET and UBER declined 15.9% and 14.9%, 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 2022	
Amazon.com	0.35%
Alphabet	-0.78%
Uber	-1.45%
Covetrus	-2.42%
Interactive Brokers Group	-4.96%
Other	-0.75%
Gross Performance	-10.01%

Portfolio Composition

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

Portfolio Composition	
Equities – Long	98.0%
Cash	2.0%

During the quarter, we closed the remaining portions of long-held positions in Colfax Corporation common stock (formerly NYSE: CFX) and Fastenal Company common stock (NASDAQ: FAST) and further reduced our position in Sleep Number Corporation Corporation common stock (NASDAQ: SNBR). We used the funds generated from those sales to add to our position in Amazon.com, Inc. common stock (NASDAQ: AMZN) and initiate a new position in Netflix, Inc. common stock (NASDAQ: NFLX). At the end of the quarter, our portfolio included eight long equity positions and cash.

Select Portfolio Updates

The lone portfolio update for this quarter covers our new position in Netflix, Inc. common stock (NASDAQ: NFLX), a compounder.

Netflix, Inc.
(NASDAQ: NFLX)

A great investment opportunity occurs when a marvelous business encounters a one-time huge, but solvable problem. – Warren Buffett

I have used that Buffett quote before, and I am sure I will again. Sometimes it hits the bullseye so perfectly that I simply cannot resist referencing it, clichés be damned. So it is with our recent investment in Netflix.

Originally founded as a U.S.-focused DVD-rental-by-mail service in 1997, Netflix has grown into the preeminent streaming entertainment services company in the world serving approximately 222 million members in over 190 countries. Netflix offers its members unlimited engagement with an extensive selection of both original and licensed TV shows, films and mobile games across a wide variety of genres and languages anytime, anywhere on any internet-connected screen.

Netflix is not just a great business; it is one of the very best in the world. Most great businesses are exemplary with respect to many, but not all, of the criteria that form Hinde Group's framework for what makes a business great. Netflix is the rare company that shines across the board.

Netflix should enjoy meaningful and durable market power from its preeminent global scale, the powerful economies of scale inherent on both the supply and demand sides of its business, and the strong and growing awareness and equity of its brand.

It will generate predictable performance over time due to its low-churn, subscription-based revenue model, the diversity of its demand with respect to content, geographies and customer segments; and its increasingly limited dependence on other media firms for content.

Although Netflix has grown tremendously over the past decade to become the preeminent global streaming entertainment service, it still accounts for just 6-7% of television viewing time in its most established market, the U.S., and has penetrated only a small portion of the nearly 1.5 billion households in its serviced markets, approximately 800 million of which pay for television of some sort and 700 million of which have at least a basic level of fixed broadband service. More of Netflix's growth potential is ahead of it than behind it, and that growth will come from steadily increasing the value of the service, capturing more of that growing value through improved pricing effectiveness, including by offering a lower-priced, ad-supported tier and monetizing unauthorized password sharing; benefiting from the global diffusion of enabling technologies, such as high speed internet and connected televisions; launching new products and services, such as mobile games; and allocating burgeoning free cash flow to accretive share repurchases.

Led by co-CEOs Reed Hastings and Ted Sarandos, Netflix's management team is one of the absolute best in the world, with not only all of the characteristics one could hope for but also a multi-decade track record of unparalleled success that includes overcoming several meaningful setbacks. The cult-like corporate culture that Reed and Ted have built at Netflix is renowned for its clarity, the extent to which it permeates the organization, and the degree to which it drives the company's performance. Last but not least, Netflix has exemplary, owner-oriented governance anchored by Reed Hastings's nearly 2% ownership interest and his compensation that is essentially entirely stock-based.

With its stock almost 75% off the all-time high it hit in November 2021, it would be an understatement to say Netflix has fallen out of favor with investors. The "one-time huge, but solvable problem" that the company faces is that its membership growth has slowed, despite clear and substantial opportunity for further growth.

Netflix attributes the slowdown to four main inter-related factors. First, adoption of its service is constrained by the diffusion of enabling technologies, such as affordable, high speed broadband internet service and connected televisions. Second, a meaningful number of prospective members access the service in an unauthorized and unmonetized way by borrowing the login credentials of a paying member. Third, Netflix has not grown its share of television viewing as quickly as it would like over the past few years, possibly due to the launch of several competing streaming services by traditional media companies over the period. Finally, a variety of "macro" factors, such as the continuing aftershocks of the pandemic, the global inflation-driven cost-of-living crunch, and the impact of Russia's invasion of Ukraine, have weighed on Netflix's membership additions.

The slowdown in Netflix's membership growth over the past several months has led investors to conclude that its growth potential is tapped and to reprice the stock accordingly. Nothing could be further from the truth though. Three of the four challenges Netflix highlighted are clearly either temporary or solvable. Penetration of affordable, high speed broadband service and connected televisions and other devices is

certain to increase dramatically around the world over the coming decade. Taking steps to monetize Netflix users who access the service in an unauthorized way is entirely under Netflix's control. It will just take time to test, iterate and implement effective solutions. The "macro" factors weighing on Netflix's membership growth, which may be meaningful drivers of the slowdown in growth it has experienced, will ultimately fade. While the remaining factor, increased competition from other streaming services, will persist to some degree, Netflix is well positioned to compete over time. Moreover, traditional broadcast and cable television still accounts for more than 60% of television viewing – roughly ten times Netflix's current share – in Netflix's most established market, the U.S. Streaming entertainment is unlikely to be a winner-take-all business. Netflix will be wildly successful if it can just maintain its leading position among streaming services and ride the long-term wave of viewing shifting from traditional linear television to on-demand streaming, much of which is inevitable based on existing viewing behaviors across different age demographics.

We initiated our position in NFLX during the first quarter, shortly after the company reported results for the fourth quarter. We were buying at roughly the same time that Reed Hastings, the CEO, purchased $20 million of stock in the open market. As you may be aware, NFLX experienced a meaningful drop recently after the company reported results for the first quarter. Given the nature of Hinde Group's strategy – investing in great businesses that are out-of-favor, misunderstood or underappreciated with a long-term horizon – we will inevitably suffer from what with the benefit of hindsight may prove to be "premature accumulation," as legendary value investor Bruce Berkowitz has called it. In a perfect world, we would buy every stock at the bottom and sell at the top, but even trying to attain that ideal is a fool's errand. I remain confident our initial purchases of NFLX will deliver returns that exceed our 15% annualized return hurdle over time. Moreover, the size of our initial position in NFLX was less than a quarter of what a full position might be, leaving us ample room to add to the position should capital become available from other sources in the portfolio over time.

The concerns that weighed on equity markets during the first quarter have persisted into the second quarter. I follow economic and financial market developments closely. Nothing that has transpired makes me concerned that any of our individual investments, much less our overall portfolio, will fail to deliver returns that you will be happy with over time. The equity market is never discerning during a period of stress. Hinde Group has operated through several comparable periods of tightening financial conditions – for example, early 2016 and late 2018 – in the past. As disconcerting as the unfavorable mark-to-market performance during such periods may be, those periods of stress tend to benefit our portfolio's performance over the long-term through the opportunities they create. I am entirely focused on ensuring the same proves true of the current period of equity market stress.

I remain enthusiastic about the positions that comprise our portfolio and optimistic about the performance they will deliver in the coming quarters and years. 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.

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