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To My Partners:

The performance of our portfolio for the first quarter of 2023 and since inception is summarized below.

	1578 Partners, LP		S&P 500
	Gross	Net	Total Return
2023:			
Q1	11.36%	10.94%	7.50%
Since Inception (08/01/15):			
Annualized	14.34%	12.62%	11.20%
Cumulative	179.17%	148.61%	125.66%

Conventional wisdom on Wall Street is that the Fed keeps tightening monetary policy until something breaks. Since the beginning of 2022, the Fed has ratcheted monetary policy at its most aggressive pace ever. It was only a matter of time before something broke.

Over the course of a week and a half in mid-March, several sizeable regional banks failed in rapid succession and regulators forced a troubled, global systemically important bank into a shotgun wedding with a competitor. On March 9th, Silvergate Bank, a bank with $15 billion of assets that dove head-first into the cryptocurrency industry, announced under pressure from regulators that it would cease operations and liquidate. After the close of business the very next day, the FDIC seized Silicon Valley Bank – a bank that catered to start-ups and venture capitalists and had assets of over $200 billion. Over the ensuing weekend, the FDIC took over Signature Bank, a bank with over $100 billion of assets. The stress that the rapid-fire failure of these sizeable banks introduced into the financial and banking system quickly pushed Credit Suisse over the brink. Swiss investment bank UBS Group agreed to acquire Credit Suisse in an all-stock deal brokered by the Swiss Financial Market Supervisory Authority and the Swiss government on March 19th, just a week after the collapse of Signature Bank.

In each case, the challenges facing the banks were roughly the same. Deposit outflows forced the banks to realize losses accumulated in their securities and loan portfolios as a result of the historic rise in interest rates over the past year. As those losses crystalized, doubts emerged among depositors – especially those with deposits not fully insured by the FDIC – about the solvency of those institutions, leading to even more withdrawals in a vicious downward spiral.

The sudden failures of those financial institutions stressed the banking system and financial markets. Deposits flowed from banks below the “too big to fail” threshold to those above it, as well as to money market funds. In the two weeks following the financial institution failures, U.S. commercial banks outside the top 25 in size lost deposits amounting to $246 billion, or over 4.0% of their collective total deposits. In financial markets, credit spreads widened, implied volatility jumped, and the expected path of the Fed’s benchmark interest rate plummeted. While the equity market as a whole proved relatively resilient, shares of financial institutions broadly took a hit. The KBW Nasdaq Regional Banking Index shed just over 20% of its market value over the course of March. Conditions in the banking system and financial markets steadily eased as time passed since the initial shock of those failures, but the recent seizure of First Republic Bank by the FDIC may delay the healing process.

The impact of the recent financial institution failures on the economy remains to be seen. Although deposit outflows from small banks have stabilized, banks continue to face pressure on funding costs and are highly attuned to liquidity risks. Both of those factors will dampen the flow of credit from banks to some extent. At the same time, it is not entirely clear that problems in the banking system are in the rearview mirror. First Republic's recent demise is case in point.

Our portfolio outperformed the S&P 500 on a mark-to-market basis for the quarter. All our positions except one made positive contributions to our mark-to-market results. The one negative contributor, our position in Northeast Bank voting common stock (NASDAQ: NBN), was caught up in the fear, uncertainty and doubt ignited by the failures of Silvergate, SVB, Signature Bank and Credit Suisse. NBN ended February up 4.7% from where it began the year. It then lost 21.2% over the course of March, roughly in-line with the performance of the KBW Nasdaq Regional Banking Index. The market prices of all our other positions registered gains ranging from 14.1% to 28.2% during the quarter.

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 2023	
Interactive Brokers Group	4.51%
Alphabet	2.86%
Uber	2.83%
Netflix	2.46%
Amazon.com	1.94%
Northeast Bank	-3.26%
Other	0.03%
Gross Performance	11.36%

Portfolio Composition

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

Portfolio Composition	
Equities – Long	97.7%
Cash	2.3%

There were no changes to any positions in the portfolio during the quarter. At the end of the quarter, our portfolio included seven long equity positions and cash.

Select Portfolio Updates

The portfolio updates for this quarter cover the implications of recent stress in the banking system and financial markets for the two financial institutions in our portfolio, Interactive Brokers Group, Inc. and Northeast Bank.

Interactive Brokers Group, Inc. (NASDAQ: IBKR)

Interactive Brokers is a highly automated global securities firm that specializes in routing orders and processing trades in securities, futures, foreign exchange instruments, bonds and mutual funds on more than 150 electronic exchanges and market centers around the world. Interactive Brokers custodies and services accounts for hedge and mutual funds, registered investment advisors, proprietary trading groups, introducing brokers and individual investors.

Thomas Peterffy, the founder and Chairman of Interactive Brokers, holds a stake in Interactive Brokers with a current market value of more than $20 billion. That stake accounts for the lion's share of Peterffy's wealth. Not only that, Interactive Brokers is Peterffy's passion and legacy. For all those reasons, Peterffy has always ensured that Interactive Brokers is prepared for whatever financial markets and the global economy may throw at it. As a result, the current stresses in the banking system and financial markets will have essentially no impact on Interactive Brokers over time.

Interactive Brokers bears very little interest rate risk in its securities portfolio. The duration of IB's securities portfolio on March 31st was just 24 days. In contrast, the duration of Silicon Valley Bank's fixed income portfolio was 5.7 years at the end of 2022. The level of interest rate risk in IB's securities portfolio is so low that it is hard to imagine any plausible scenario in which changes in interest rates would cause Interactive Brokers problems.

Interactive Brokers is also well insulated from the liquidity strains currently affecting some banks. Depositors are suddenly much more willing to move cash balances in search of both safety and a competitive yield. If anything, Interactive Brokers may benefit. In addition to being highly profitable, well capitalized and conservatively managed, Interactive Brokers has also always paid some of the highest rates available on client cash balances, up to 4.58% at the moment. Moreover, Interactive Brokers has access to ample excess liquidity, amounting to more than $80 billion at the end of 2022.

The expected path of the federal funds rate shifted lower in the wake of recent bank failures. A slightly lower path for the federal funds rate will result in slightly lower net interest income and earnings for Interactive Brokers in the near-term than otherwise would have been the case. The impact of this change on the value of Interactive Brokers is infinitesimally small though. The level to which the federal funds rate is expected to converge over the long-term – not so much the path for getting there – is what matters for the value of Interactive Brokers, and that has not changed.

Northeast Bank (NASDAQ: NBN)

Northeast Bank is a Maine state-chartered bank with $2.9 billion of assets and $284 million of equity as of March 31st. Led by industry veteran Rick Wayne, Northeast Bank originates and purchases commercial real estate loans nationwide. It is roughly the same strategy Wayne executed for nearly two decades as CEO of Capital Crossing Bank, a bank he founded with a partner in 1988, took public in 1996 and then sold to Lehman Brothers in 2007 for nearly ten times its IPO price.

Although the fears surrounding regional banks at the moment have weighed on Northeast Bank's stock, Northeast Bank is well insulated from the issues behind the spate of recent bank failures.

Unlike most of the banks that have come under stress recently, Northeast Bank has limited interest rate risk on its balance sheet. Northeast Bank's securities portfolio is relatively small and has a short duration. On March 31st, the Bank held $60.6 million of investment securities with a weighted average duration of just 13 months. That represented just 2.1% of the Bank's assets and 21.3% of its CET1 capital. All those securities were classified as "available-for-sale" and carried at fair market value. Due to the short duration of Northeast Bank's securities portfolio, the fair market value of its securities portfolio reflected an unrealized loss relative to amortized cost of just $1.6 million, or less than 1.0% of the Bank's CET1 capital. In contrast, the carrying value of Silicon Valley Bank's investment securities portfolio at the end of 2022 amounted to 57% of its total assets, and the unrealized and unrecognized losses on that portfolio due to the surge in interest rates since the beginning of 2022 were sufficient to effectively wipe out Silicon Valley Bank's capital.

Northeast Bank's loan portfolio has a low level of interest rate risk as well. Northeast Bank's balance sheet is slightly asset sensitive. In other words, it typically makes somewhat more money overall when interest rates go up, largely due to holding a high proportion of floating rate loans and having a deposit beta somewhat below that figure. At June 30, 2022, 76.8% of Northeast Bank's loan portfolio had floating interest rates. While a significant portion of the loans Northeast Bank purchased during the final calendar quarter of 2022 have fixed interest rates at the moment, most of those will adjust to floating rates over the next few years. Northeast Bank also plans to put in place long-term funding that matches the maturity of the recently acquired loans as market conditions permit in the future. Northeast Bank's loan portfolio is further insulated from interest rate-related risks by the relatively short persistence of both its originated and purchased loans, which mitigates the risk of being locked into unfavorable interest rates for an extended period. For a variety of reasons, Northeast Bank's loans have historically been repaid within a few years.

While Northeast Bank's business model has never been centered on the strength of its deposit franchise, its deposit base appears resilient to the types of issues that have recently overwhelmed some other banks. 92% of Northeast Bank's deposits are covered by FDIC insurance and 3% are contractually restricted from being withdrawn. That leaves just 5% of Northeast Bank's deposits uninsured and unrestricted. Northeast Bank also has no exposure to deposits from cryptocurrency firms. In contrast, all the banks that recently failed had distinct risks related to their deposit bases in the form of a high proportion of either uninsured deposits or deposits from cryptocurrency firms. Deposit outflows from regional banks peaked in the immediate wake of the failures of Silvergate, SVB and Signature Bank. Northeast Bank did not experience any change in deposit flows during the most acute period of the recent turmoil in the banking system, and its deposit flows have remained stable since.

Although exposure to commercial real estate loans was not a significant factor behind any of the recent bank failures, it has increasingly become an area of concern. Banks facing liquidity and funding cost pressures may tighten lending standards, and regional banks punch above their weight when it comes to commercial real estate lending. Reduced credit availability could add incremental downward pressure on commercial property values and make refinancing existing loans as they come due more challenging. At the same time, certain types of commercial real estate properties, such as large office buildings, enclosed malls, and single tenant big box retail stores, face structural imbalances between supply and demand in the space market that have led to deteriorating property values.

While commercial real estate loans are Northeast Bank's bread and butter, the bank is well positioned to withstand the headwinds facing the commercial real estate market. Northeast Bank holds loans collateralized by both office and retail properties, but it has very limited exposure to the particular types of properties that are facing significant structural challenges. Most of the office properties Northeast Bank has lent against are smaller footprint, neighborhood offices that serve as the principal physical presence for local, service-oriented businesses. Northeast Bank does not hold loans backed by skyscrapers in central business districts leased to multinational corporations looking to rationalize their real estate footprints. Similarly, Northeast Bank has avoided loans backed by enclosed malls and single-tenant big box retail stores since at least when we first invested in the Bank in 2017. More broadly, Northeast Bank's loan portfolio has substantial collateral coverage sufficient to protect the bank from losses even in highly adverse scenarios. The weighted average loan-to-value ratio of the portfolio was 47% on March 31st, and the values used to calculate that figure are likely understated in most cases. Despite the challenges facing the commercial real estate market, Northeast Bank's management is highly confident in the credit outlook for its loan portfolio due to the Bank's conservative approach to underwriting loan originations and purchases.

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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