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November 8, 2023

To My Partners:

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

	1578 Partners, LP		S&P 500
	Gross	Net	Total Return
2023:			
Q3	1.77%	1.38%	-3.27%
Year-to-Date	32.17%	30.69%	13.07%
Since Inception (08/01/15):			
Annualized	15.81%	14.07%	11.17%
Cumulative	231.34%	192.86%	137.35%

The Fed seems to be on the verge of victory. By some measures, inflation is already trending back in-line with the Fed's targeted range. At the same time, the U.S. economy remains resilient. The recently published "advance" estimate of GDP growth for the third quarter came in at 4.9%, bringing the annualized growth rate for the first nine months of 2023 to roughly 3.0%. That rate of growth is much faster than what most economists believe the U.S. economy can maintain over the long-term. Despite a historically aggressive campaign of monetary policy tightening over the past 18 months, economic growth in the U.S. has hardly skipped a beat.

Most of the moves in financial markets during the quarter reflected adjustments to the rising probability of a soft landing. Most notably, the yield on the 10-year U.S. treasury security climbed from 3.77% at the beginning of the quarter to 4.58% at the end. The increase reflected both a higher average expected future path for the federal funds rate and an increase in treasury term premiums.

The lively moves in longer-term treasury yields made the equity market wobble. After ending July up a few percent, the S&P 500 hit turbulence in August and September, ending the quarter down a few percent.

Our portfolio added to its outperformance relative to the S&P 500 on a mark-to-market basis for 2023. Four positions – Alphabet Inc. class C capital stock (NASDAQ: GOOG), Interactive Brokers Group, Inc. class A common stock (NASDAQ: IBKR), Uber Technologies, Inc. common stock (NYSE: UBER), and Northeast Bank voting common stock (NASDAQ: NBN) – made notable positive contributions during the quarter. GOOG, IBKR, UBER & NBN each registered gains ranging from 4.2% to 9.0% during the quarter. Our position in Netflix, Inc. common stock (NASDAQ: NFLX) was the only noteworthy detractor. After gaining 49.4% over the first half of 2023, NFLX lost 14.3% during the third quarter.

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			
3Q 2023		YTD 2023	
Alphabet	1.57%	Uber	8.62%
Interactive Brokers Group	1.21%	Alphabet	8.07%
Uber	0.88%	Interactive Brokers Group	6.35%
Northeast Bank	0.73%	Amazon.com	4.33%
Netflix	-2.35%	Netflix	4.02%
Other	-0.26%	Other	0.78%
Gross Performance	1.77%	Gross Performance	32.17%

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%

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

Select Portfolio Updates

This quarter's portfolio update covers our investment in Amazon.com, Inc. common stock (NASDAQ: AMZN), a compounder investment. We have been shareholders of Amazon since the inception of Hinde Group's portfolio, although the size of our position has varied over time.

Amazon.com, Inc. (NASDAQ: AMZN)

Amazon was riding high when the company announced in early February 2021 that Andy Jassy, head of Amazon Web Services at the time, would replace Jeff Bezos as CEO. The pandemic provided a meaningful boost to Amazon's business as people around the world stayed at home and shopped online. Revenue growth for Amazon's core online stores business exploded to 39.7% in 2020, up from growth rates in the teens for the preceding several years. Although Amazon experienced meaningful operational challenges related to the pandemic that added billions of dollars in costs, its profitability nonetheless also lurched higher in 2020. Amazon recorded operating income of $22.9 billion in 2020, up $8.4 billion or 57% over the prior year. On the day of the succession announcement, AMZN closed at $169.00, just a hair off its all-time high at the time.

But by the time Andy Jassy officially took the reins six months later in July 2021, the picture had changed dramatically. Every proper binge comes with a hangover. The pandemic-driven boost to Amazon's business was no exception. Growth in most of Amazon's businesses slowed sharply – and to a much greater extent than expected – over the course of 2021. In the online stores business, revenue growth slowed from 44.3% year-over-year in the first quarter of 2021 to a slight year-over-year decline in the fourth quarter. Amazon had accelerated its expansion plans to meet the extraordinary, pandemic-juiced demand. As revenue growth began to trend significantly below plan over the course of 2021, Amazon found itself way over its skis with respect to its cost structure. Profitability went into a nosedive. Although revenue for Amazon's North American consumer business grew 13.0% on a constant currency basis in 2022 after growing 18.0% in 2021 and 38.0% in 2020, operating profitability in that business fell to a $2.8 billion loss in 2022 from profits of $7.3 billion and $8.7 billion in 2021 and 2020, respectively. The same basic theme played out in Amazon's international consumer business, where operating profitability fell to a $7.7 billion loss in 2022 from a $924 million loss in 2021 and a $717 million profit in 2020.

Amazon's pandemic hangover caused its stock to plummet. AMZN ended 2022 at $84.00, less than half of its price when Andy Jassy was announced as the new CEO.

It was an inauspicious start to Jassy's tenure as CEO. But he and his team have wasted no time in responding to the situation. They moved quickly to both align Amazon's cost structure with demand and implement operational changes to improve the efficiency and profitability of the business. Since late 2022, Amazon has eliminated roughly 27,000 corporate jobs and postponed or canceled planned facility additions. It has entirely exited certain businesses, such as its physical bookstores, 4-star stores, Amazon Fabric, Amazon Care and certain consumer device businesses. It has changed policies or raised prices to improve returns in various parts of its business. The company has also completely restructured its North American fulfillment operations. It went from a single, national fulfillment and transportation network to a system of eight regional networks, a change that has both reduced costs and improved service levels for customers. These are just a few examples of Amazon's initiatives under Jassy to improve profitability.

Although it inevitably takes a while to turn a ship as massive as Amazon, Jassy's initiatives are already bearing fruit. For the third quarter of 2023, Amazon's North American consumer business reported a $4.3 billion operating profit, the highest ever quarterly profit for that business. The 4.9% operating profit margin Amazon's North American consumer business reported in the third quarter was up 542 basis points year-over-year and was back above the level of profitability the company achieved in the second quarter of 2021. Although the international consumer business reported a small operating loss in the third quarter, it showed even more dramatic improvement in profit margins than the North American consumer business. Jassy and his team seem well on their way to not only fully restoring the levels of profitability Amazon hit before the onset of its pandemic hangover, but also taking the company's margins to even greater heights over time.

A key part of the thesis for our investment in Amazon has always been that the company's underlying earning power has been masked by high levels of reinvestment in the business. As a result, most analysts and investors underestimate how profitable the company will ultimately be. Thus far in his tenure, Jassy seems intent on letting more of Amazon's underlying earning power drop to the bottom line than Bezos did. If that continues to be the case, Amazon's profit margins could surprise the market to the upside for quite a while, serving as a powerful catalyst for the stock.

We have had a position in AMZN since the inception of Hinde Group's portfolio. Although we have not traded the stock more actively than any of our other positions, at some times it has been one of our largest positions and at others it has been one of the smallest. On the whole, our investment in AMZN has delivered a 59.6% internal rate of return since inception. The prospects for strong returns in the future from AMZN continue to be bright.

I remain enthusiastic about the investments that comprise our portfolio and optimistic about the returns the portfolio will deliver over time. 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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