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To My Partners:

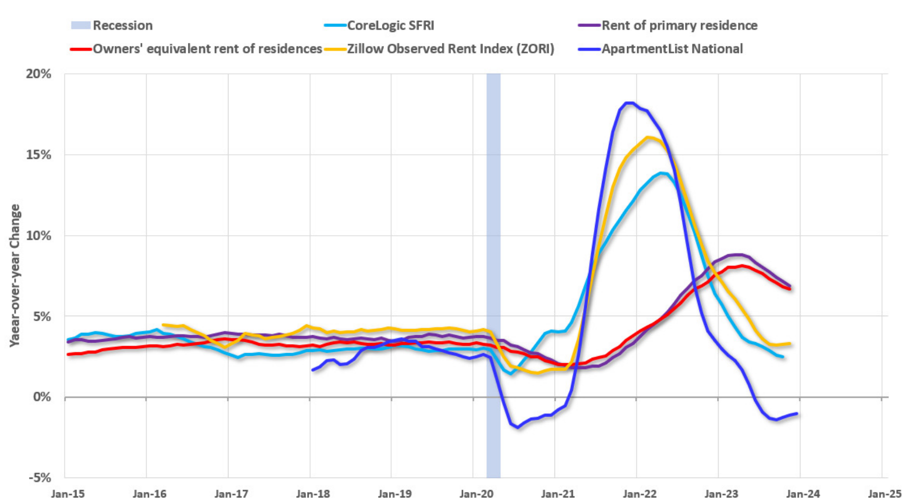
The performance of our portfolio for the fourth quarter of 2023 and since inception is summarized below.

	1578 Partners, LP		S&P 500
	Gross	Net	Total Return
2023:			
Q4	14.00%	13.57%	11.69%
Year	50.66%	48.42%	26.29%
Since Inception (08/01/15):			
Annualized	17.12%	15.36%	12.29%
Cumulative	277.72%	232.58%	165.10%

The battle with post-pandemic inflation is officially over. For both November and December, the annualized 6-month change in the Fed's preferred inflation gauge, the price index for personal consumption expenditures excluding food and energy ("core PCE"), came in at 1.9%. After reaching a peak of 5.9% in March of 2022, that figure is now slightly below the Fed's long-run target of 2.0%.

The picture is even more stark when you remove housing from the equation. The price index for core PCE excluding housing increased at just a 1.0% annualized rate over the second half of 2023, well below the Fed's target. The methods for estimating the price levels for "rent of primary residence" and "owner's equivalent rent of residences," the measures of housing services included in official inflation statistics, inherently lead to lags in how changes in market conditions for housing are reflected in inflation figures.

Exhibit 1: Rent Measures: Year-over-Year Change



(Source: www.calculatedriskblog.com)

Independent measures of rent growth that better capture current market conditions point to moderating pressure from housing on official inflation figures over the coming months. Any such moderation could cause key measures of inflation to slip further below the Fed's target over the course of 2024.

Financial markets let out a cheer as the beast of inflation breathed its last. Over the course of November and December, the yield on the 2-year U.S. treasury fell from 5.07% to 4.23% on the expectation that the Fed would soon pivot from tight monetary policy to a more balanced stance. Credit spreads and measures of implied volatility fell into the bottom quintiles of their historical distributions. The equity market staged a steady rally to close out the year.

Our portfolio outperformed the S&P 500 on a mark-to-market basis for the quarter, extending its lead for the year. For the quarter, our positions in Uber Technologies, Inc. common stock (NYSE: UBER), Netflix, Inc. common stock (NASDAQ: NFLX), Northeast Bank voting common stock (NASDAQ: NBN) and Amazon.com, Inc. common stock (NASDAQ: AMZN) led the way. The market prices of those stocks gained between 19.5% and 33.9%. Our largest position, Interactive Brokers Group, Inc. class A common stock (NASDAQ: IBKR) slipped 4.2% during the quarter.

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 2023		2023	
Uber	4.78%	Uber	14.94%
Netflix	4.02%	Alphabet	9.77%
Northeast Bank	3.25%	Netflix	9.33%
Amazon.com	1.89%	Amazon.com	6.82%
Alphabet	1.29%	Northeast Bank	5.08%
Interactive Brokers Group	-1.18%	Interactive Brokers Group	4.79%
Other	-0.04%	Other	-0.06%
Gross Performance	14.00%	Gross Performance	50.66%

Portfolio Composition

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

Portfolio Composition	
Equities – Long	98.2%
Cash	1.8%

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 position in Interactive Brokers Group, Inc. class A common stock (NASDAQ: IBKR), a compounder investment. We have held IBKR since inception with a few trims and additions along the way. Through the end of 2023, our position in IBKR has delivered a 13.7% internal rate of return.

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. More than two-thirds of IB's customers are based in Europe and Asia and an even greater share of its new customers come from those regions.

Conditions in financial markets affect the financial results Interactive Brokers delivers in any given year. Generally speaking, Interactive Brokers generates more net interest income and commission revenue when interest rates and equity market volatility are high and less when those variables are low.

The interest rate environment was a tailwind for IB's results in 2023. Due to the Fed's historically aggressive tightening campaign from early 2022 through mid-2023, the daily average effective federal funds rate increased from 1.69% in 2022 to 5.03% in 2023. That helped IB's net interest margin expand from 1.53% in 2022 to 2.36% in 2023. Combined with 8.2% growth in IB's average interest-earning assets in 2023, that increase in net interest margin helped IB's net interest income grow a whopping 67.5% to $2.8 billion in 2023 from $1.7 billion the prior year.

In contrast, trading conditions were a headwind. Notwithstanding the equity market volatility ignited by the collapse of Silicon Valley Bank at the beginning of 2023, equity market volatility in 2023 was not only far more subdued than it was in 2022, but also somewhat below its historical average. The CBOE S&P 500 Volatility Index ("VIX") averaged 16.83 in 2023, down from 25.59 in 2022. Since 1990, the VIX has averaged 19.57. The low level of equity market volatility weighed on the trading activity of IB's customers over the course of 2023, leading commission revenue to grow only 2.9%.

The impact of changes in financial market conditions on IB's revenue and earnings in a given year can obscure the degree to which Interactive Brokers is making progress growing its normalized earning power and intrinsic value. A helpful way to cut through that noise is to focus on growth in IB's total customer equity. Total customer equity captures both growth in the number of customer accounts and changes in the sizes of new and existing customer accounts. Those figures — along with prevailing financial market conditions — drive customer trading activity, margin loan utilization and cash balances, which in turn drive IB's two primary revenue streams, commissions and net interest income.

Using the lens of growth in total customer equity, IB's performance in 2023 was clearly excellent. IB's total customer equity ended 2023 at $426.0 billion, up 38.9% from $306.7 billion at the end of 2022. That growth came from the combination of a 22.5% increase in the number of customer accounts and an increase in the average value of customer accounts due to the rebound in global equity markets over the course of 2023. Nearly half of the increase in IB's total customer equity came in the final months of 2023. IB's monthly average total customer equity for 2023 was up 12.0% from the corresponding figure for 2022. As a result, most of the benefit to earnings growth from the growth in total customer equity over the course of 2023 will show up this year.

Focusing on growth in total customer equity also brings clarity to IB’s performance over the past few years. Larger-than-normal fluctuations in financial market conditions due to the pandemic and its reverberations have added a greater degree of noise to IB’s financial results over the past few years than is typical. From the end of 2019 to the end of 2023, IB’s total customer equity grew nearly 150%, or just over 25% annualized. That is almost exactly the same annualized growth in customer equity that Interactive Brokers achieved for the five years from the end of 2014 to the end of 2019. In other words, despite the huge disruption from the pandemic and its after-effects to the global economy and financial markets, IB’s long-term growth trajectory has hardly skipped a beat.

Although Interactive Brokers has delivered strong operating results over the past several years — including in 2023 in particular — IBKR has only slightly outperformed the S&P 500 since the end of 2019. The increase in the market price of IBKR since the end of 2019 has not even kept up with the increase in the company’s intrinsic value. You could make the argument that IBKR is a better investment now than it was on the eve of the pandemic.

Two main factors have weighed on market sentiment toward Interactive Brokers and held back its stock price. First, the unusual fluctuations in financial market conditions over the past few years have undermined confidence in IB’s normalized earning power and growth trajectory. Second, many market participants face fear, uncertainty and doubt about how the looming normalization of U.S. monetary policy will affect Interactive Brokers and whether IBKR “will work” while the Fed is cutting rates.

The good news is that both of these concerns should fade over the next few years as the economy, financial markets and monetary policy settle into a new, post-pandemic normal. As those clouds dissipate, the light of Interactive Brokers rapidly growing intrinsic value should increasingly shine through to its stock price.

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.

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.