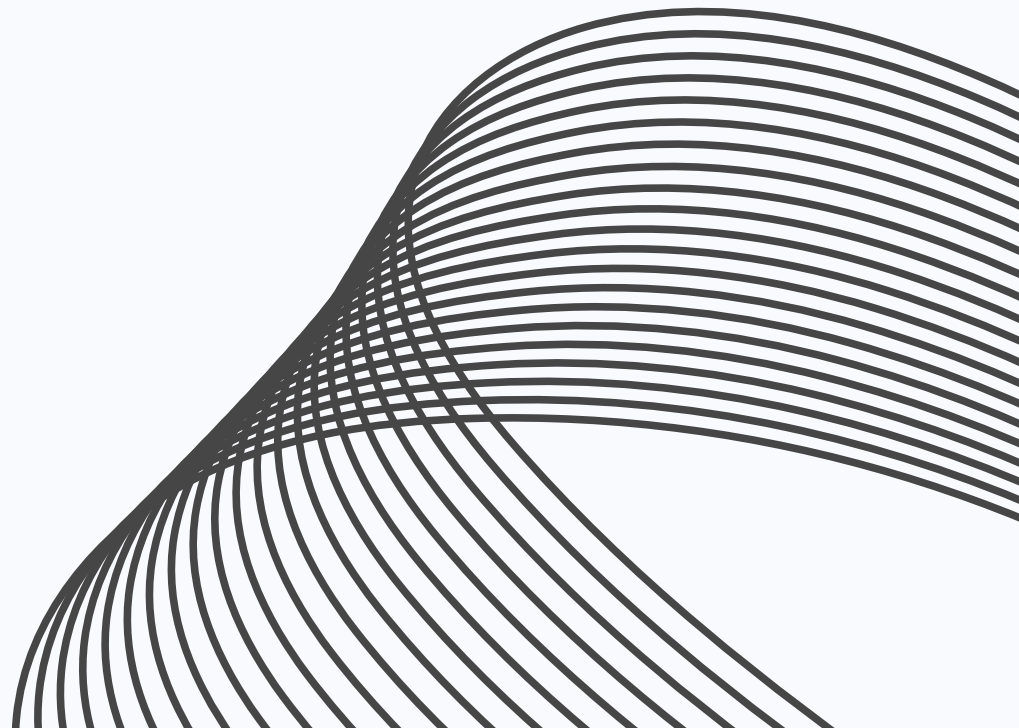




Hingham Institution for Savings

(NASDAQ:HIFS)
January 2024
Market cap: \$418MM
\$194.40 at writing

GWEN HOFMEYR



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Introduction

Since the collapse of Silicon Valley Bank in March 2023, US regional banks have been largely dismissed as uninvestable.

Through interview, common responses for sector avoidance have included:

- “There are too many regional banks in the US to analyze. There are a lot fewer in Canada.”
- “I do not look at banks because I cannot understand them.”
- “I feel the US banking sector is weak following the Silicon Valley Bank Crisis and therefore I am not interested.”

The commentary builds on sentiment held since the Great Financial Crisis (GFC) that banks are black boxes riddled with complexity and moral hazard; that the work required to discern between financial flowers and weeds is not worth the effort. With over 300 regional banks listed on senior US exchanges, the naysayers are somewhat right: Comparative analysis of the sector is cumbersome. But for what bank critics gain in apathy, they lose in understanding.

To comprehend the significance of a business, an investor must understand it in relation to competitors. This involves the time consuming but necessary process of conducting industry-wide, comparative analysis to identify businesses with unique economic and behavioral characteristics. Through the discovery of businesses with enduring qualities, an investor attains vital knowledge to effectively navigate and capitalize on challenging market conditions when they arise.

To narrow this report’s scope, the comparative dataset comprises 138 banks contained within the SDPR S&P Regional Banking Index (KRE), which is the primary index used to measure US regional bank performance. Notably, due to screening issues with S&P CapIQ, such as loan category and balance sheet conflation, as well as missing and erroneous data, the dataset was mostly manually derived and calculated for accuracy assurance. At completion, the dataset included over 3,600 data points.

The motivation behind dataset construction was to highlight the economic significance of a non-KRE bank, Hingham Institution for savings (NASDAQ:HIFS), and to identify informative industry correlations. Through dataset analysis, Hingham’s economic prowess was confirmed. Results show significant outperformance versus KRE incumbents across operational, managerial, and profitability metrics on a cross-cycle basis. Additionally, Hingham’s structural simplicity, corroborated by several KRE banks, contradicts investor sentiment that denigrates banks as wholly indecipherable. Research further uncovered notable correlations associated with bank management tenure, derivative exposure, and insider ownership, which will be discussed throughout this report.

Although this report provides perfunctory insight into the industry, general investor apathy towards US regional banks, in tandem with analytical complexity, suggests they are ripe for further analysis. After all, opportunity is often found where others are unwilling to look.

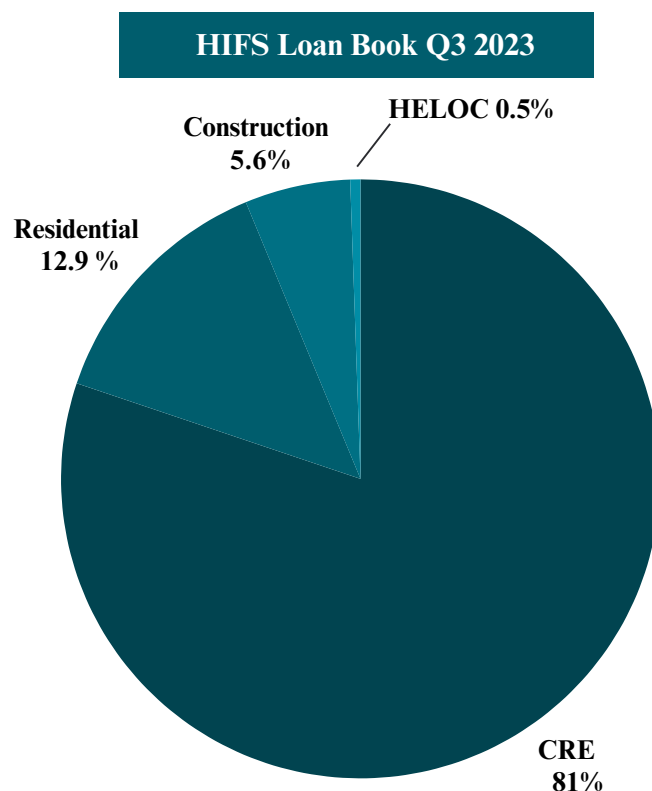
Hingham Institution for Savings

Business Overview

Hingham Institution for Savings is a US regional bank located in Hingham, Massachusetts, that is run by CEO Robert H. Gaughen and COO Patrick R. Gaughen. The bank specializes in commercial real estate (CRE) lending, with most of its \$3.81 billion loan book allocated to multifamily apartment buildings, 1-4 family residences, and mixed-use properties. Loan book allocations focus on three markets: Massachusetts (67%), Washington D.C. (30%), and San Francisco (3%), with operations conducted online and through six Massachusetts-based branches. The bank was wrested by Robert in 1993 through proxy contest, where he successfully replaced the board after years of poor business results. You may access his proxy fight letters [here](#) and [here](#).

Comparative Loan Book Breakdowns

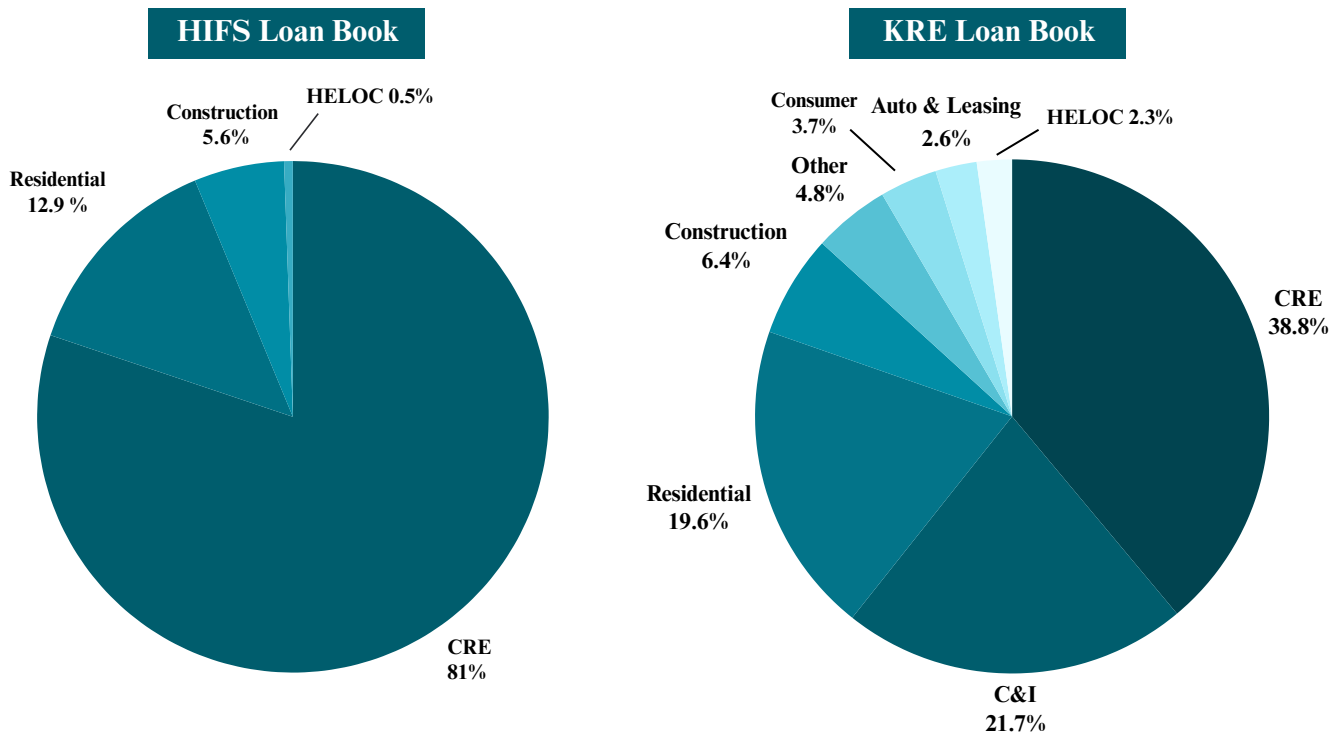
Hingham has the second highest weighting to CRE relative to the KRE, comprising 81% of loans versus 38.8% for the average. Columbia Financial leads the pack for total CRE exposure at 84.5% of loans, with a comparably large 54% weighting in multifamily and 1-4 family mortgages. In terms of commercial multifamily, 1-4 family, and mixed-use real estate, Hingham has the highest concentration of any KRE bank, at 66% of loans. Hingham also underwrites residential mortgages and construction loans, comprising 12.9% and 5.6% of loans, respectively.



Regarding Hingham's \$508.4MM office exposure, 15% consists of low-leverage loans underwritten for two national labor unions, which management considers to be its lowest-risk loans. An additional 10% relates to existing client office-to-apartment conversions where Hingham has full balance sheet insight, while the remaining difference lacks any investor-grade commercial office exposure, with multi-tenant, medical, legal and dental offices favored.

Hingham's loan book consists of 99% mortgages, of which 26% are fixed-rate, and 74% are adjustable or variable rate. Adjustable-rate loans are underwritten with an initial fixed period of three-to-ten years, after which they adjust every five years indexed to Prime, FHLB, and treasury rates.

Since Hingham favors residential, 1-4 family, and multifamily properties, its loan book is largely counter-cyclical. Conversely, the average KRE loan book has higher exposure to more traditionally cyclical loans, like commercial and industrial, auto, and consumer loans, which makes Hingham's concentrated business model unique in the dataset.



Most banks structure their loan books to moderate both interest rate and economic sensitivity by underwriting a combination of variable, adjustable, and fixed-rate loans with diversified durations. They also typically hold exposure to derivatives intended to account for short-term risks, such as shifts in interest rates and foreign exchange.

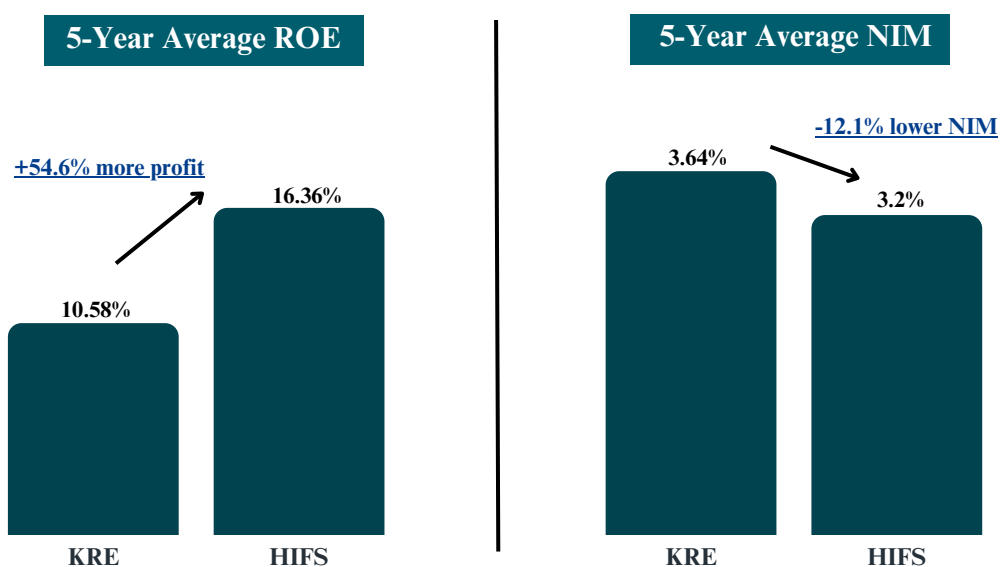
However, practices wrought with moral hazard, like secondary lending and participations, permeate the sector. High relative consumer, auto, C&I, investor-grade CRE, and specialty loans exacerbate loan non-performance during recessions, while poor disclosure and derivative holdings obfuscate credit quality assessment and business understanding.

Comparative Economics

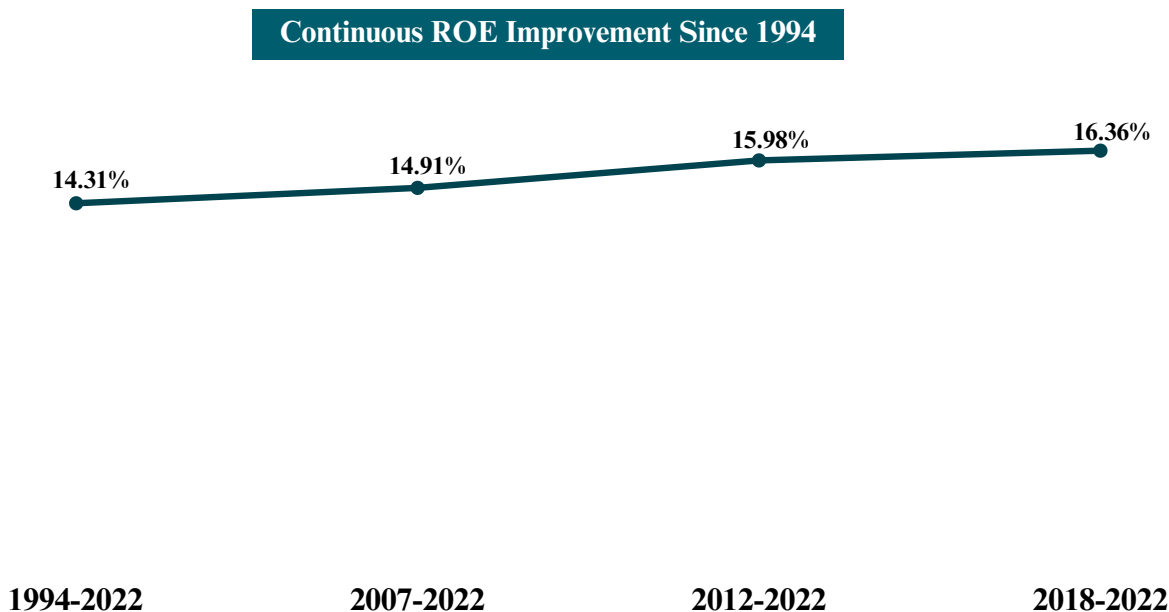
Profitability

As Hingham's management prefers conservative, high-quality loans, an investor might expect the bank to report below-average profitability, but that is not the case.

A key aspect of dataset construction included measuring average KRE-incumbent net interest margin (NIM) and return on equity (ROE) on a five and ten-year basis. Comparative analysis revealed substantial average ROE outperformance by Hingham, yet curious underperformance re five-year average NIM.



Even more interestingly, Hingham's ROE has improved over time.



Upon closer look, the profit disparity between Hingham’s NIM and ROE is explained through unusual operational efficiency and incremental cost improvements.

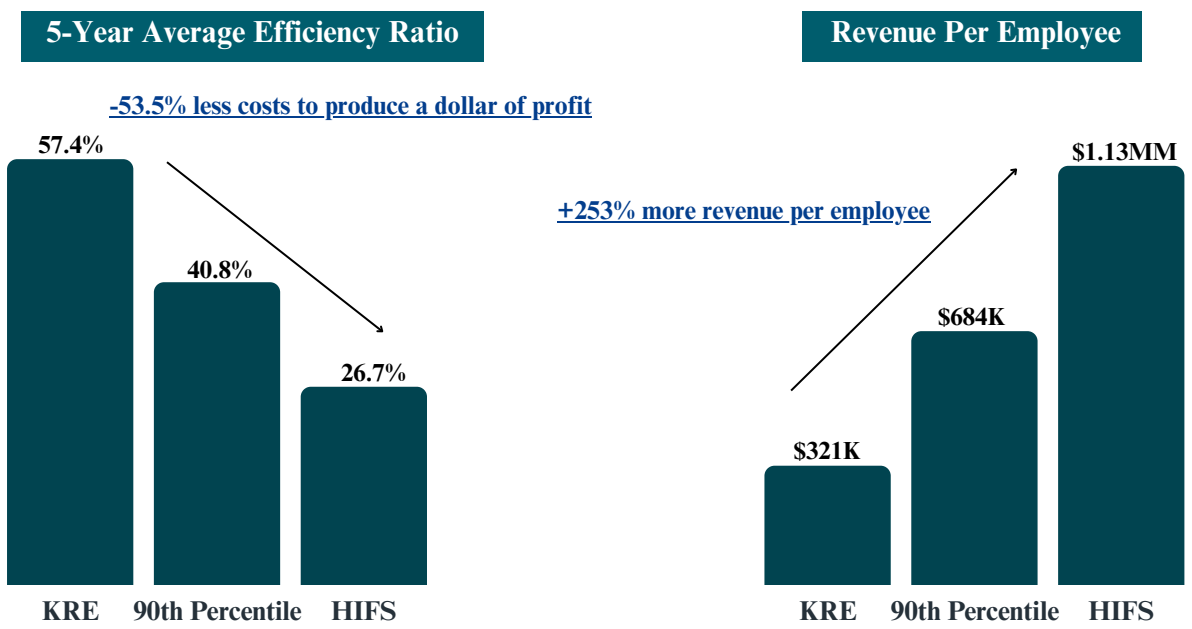
For those unfamiliar with bank analysis, the standard way to gauge a bank’s efficiency is to calculate its efficiency ratio. The purpose of the ratio is to show how efficiently a bank manages its assets as a percentage of operating costs, which is accomplished by dividing a bank’s non-interest expenses by its provision-adjusted, non-interest and interest-income sources. The lower non-interest operating expenses are as a percentage of total provision-adjusted income, the more efficient the bank.

To calculate the efficiency ratio, conduct the following equation:

$$\frac{\text{Non-interest expense} \div}{\text{Net interest income} + \text{Non-interest income} - \text{Provision for loan losses}}$$

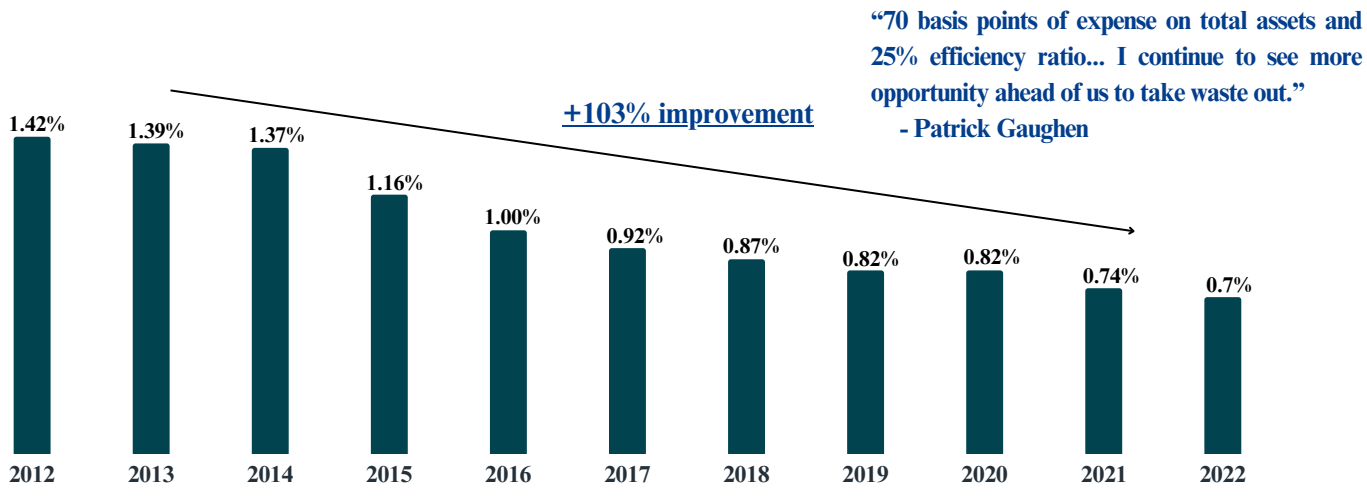
Pre-GFC, Hingham was already the most efficient New England bank, with an average efficiency ratio of 47.7%. Such a ratio would be impressive by today’s standards, with only eighteen KRE banks having an average efficiency ratio of 50% or less on a five-year basis.

Over the past decade, Hingham’s efficiency has further improved, such that no KRE bank exceeds it. In the last five years, Hingham’s efficiency ratio has averaged 26.7% versus 57.4% for the KRE: a spread of 115%. Hingham’s revenue per employee has also vastly exceeded KRE averages, including the 90th percentile.



When the yield curve inverts, the efficiency ratio becomes an unreliable measure, as a bank’s NIM may compress. To confirm a bank’s efficiency, simply divide its non-interest expenses by its tangible assets. Similar to the efficiency ratio, the lower operating expenses are as a percentage of a bank’s tangible assets, the more efficient it is. For Hingham, ten-year application of this measurement adds credence to management’s ceaseless focus on removing operational waste.

Operating Expenses as a Percentage of Tangible Assets 2012-2022

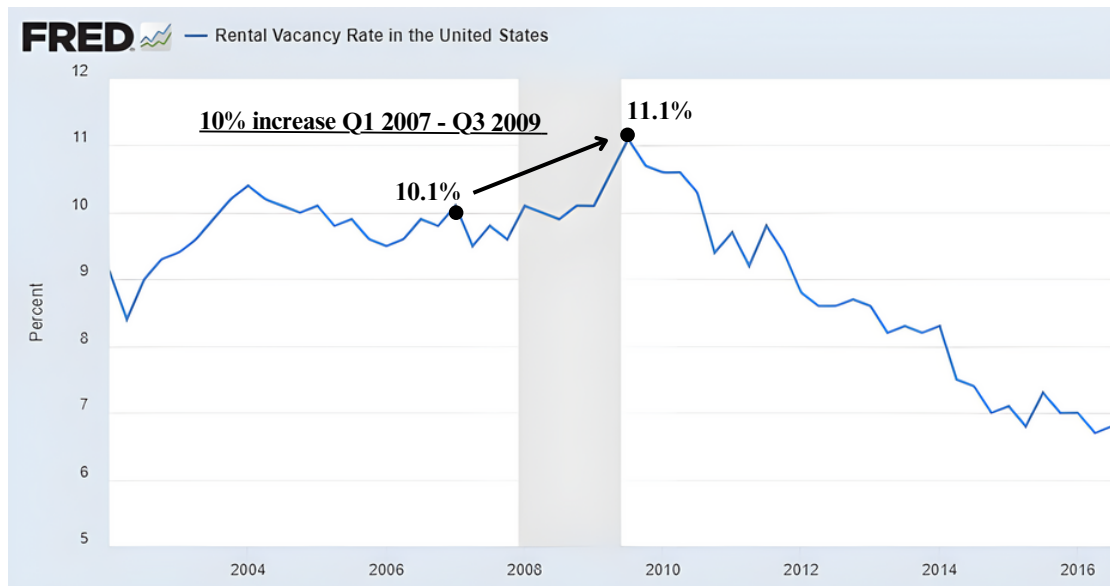


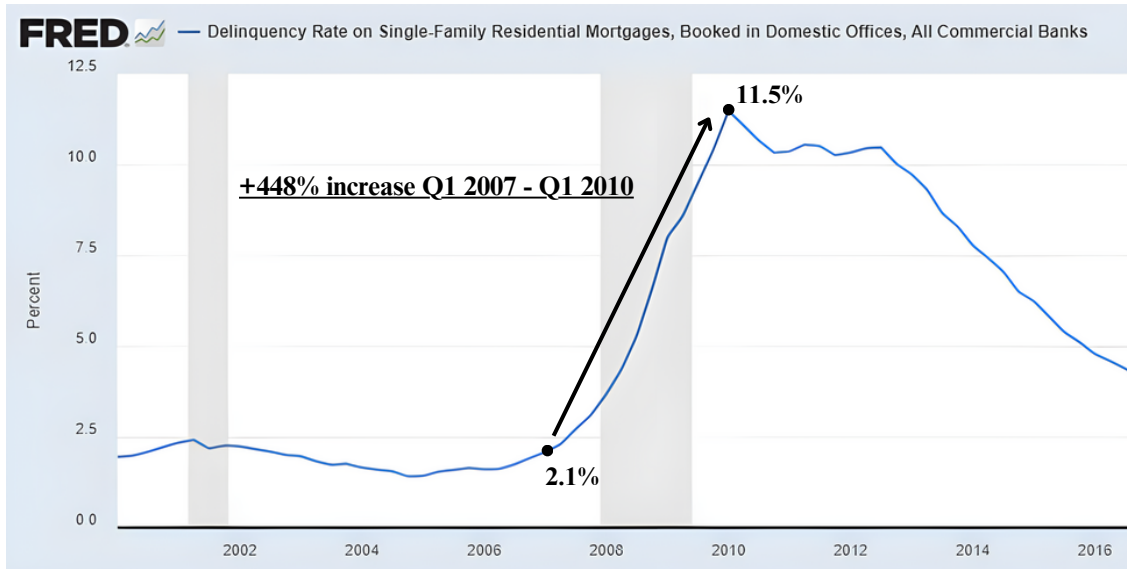
Efficiency Improvements Coincide With Loan Quality improvements

There is a common belief that when a bank focuses on efficiency, it must sacrifice loan quality in exchange. In the 1980s, this bias permeated the auto industry, and mistakenly labeled Toyota as a maker of cheap and unsafe cars; Hingham unfairly suffers the same bias.

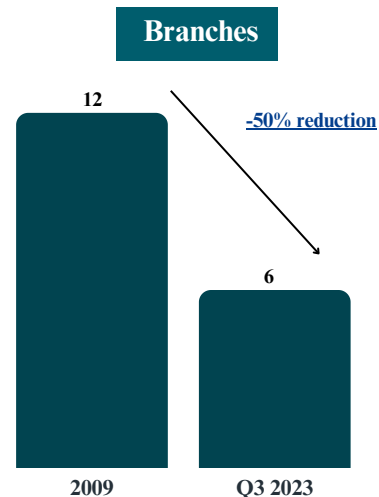
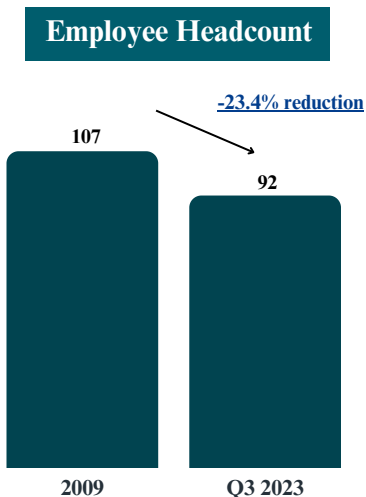
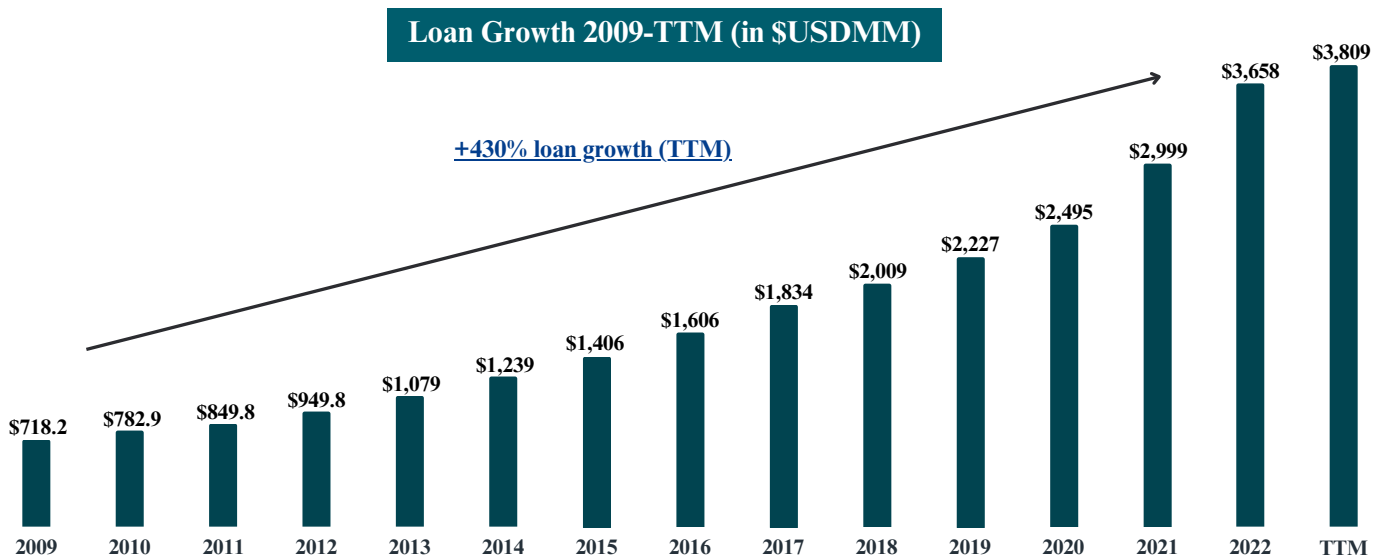
Post-GFC, there has been an intentional -71.3% reduction of Hingham’s residential mortgage book. Residential mortgages are cost-intensive, and require a large employee base to achieve sufficient growth. They are also sensitive to both economic contractions and rising interest rates, which increases the likelihood of cross-cycle loan non-performance.

By comparison, multifamily mortgages are considered among the safest loans to underwrite. Apartment rental property values may vary in recessionary periods, but rental vacancy rates are far less economically sensitive than single-family foreclosure rates, providing multifamily property owners with increased income stability in challenging economic conditions.





Multifamily mortgages are also larger and less cost-intensive to underwrite, with commercial relationships creating potential for lucrative repeat business. As a result, Hingham’s loan book has grown by 430% since 2009, while its employee base and branches have shrunk by -23.4% and -50%, respectively. By favoring multifamily, 1-4 family, and mixed-use CRE, management has made clear that increased efficiency does not necessitate a sacrifice in quality, for Hingham has demonstrated simultaneous improvements in both.

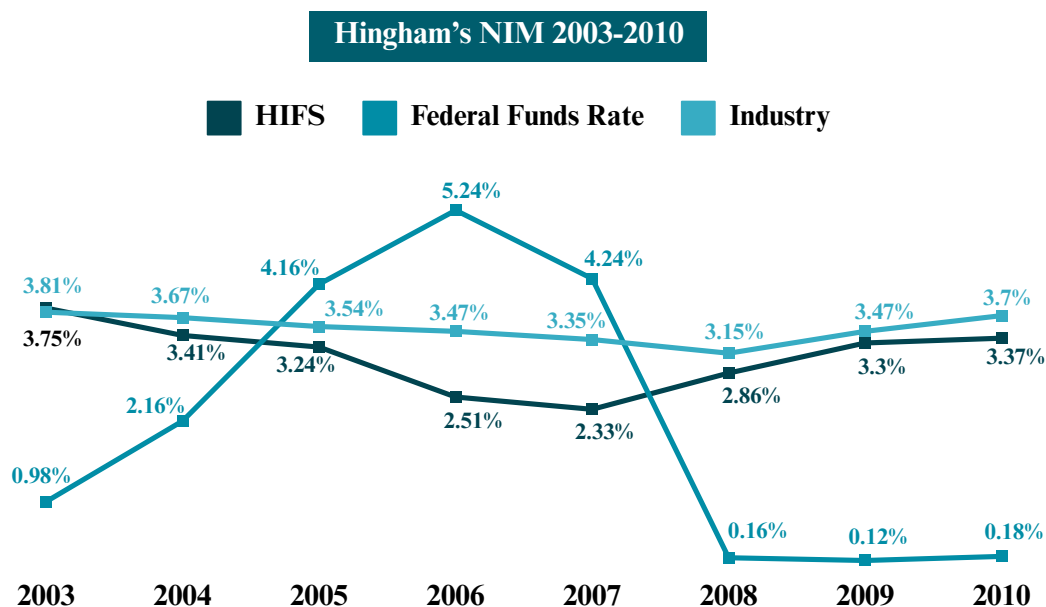


Loan Book Mechanics

Although Hingham's business model is an example for how a bank manager might improve the quality and efficiency of their bank, it is rarely practiced.

Multifamily mortgages are liability sensitive, which means they perform poorly in the late stages of an economic cycle when interest rates rise and spirits are high. Conversely, when the economy tumbles, multifamily loans return to performance; i.e., multifamily sulks when the crowd is euphoric, and parties when the crowd is depressed.

Case and point: Between 2003-2006, US rates rose from 1% to 5.25%, while Hingham's net income fell 25% in response. When rates began to decline in the third quarter of 2007, Hingham's profits recovered, while industry exposure to subprime mortgages and recession-sensitive loans caused disproportionate industry losses.

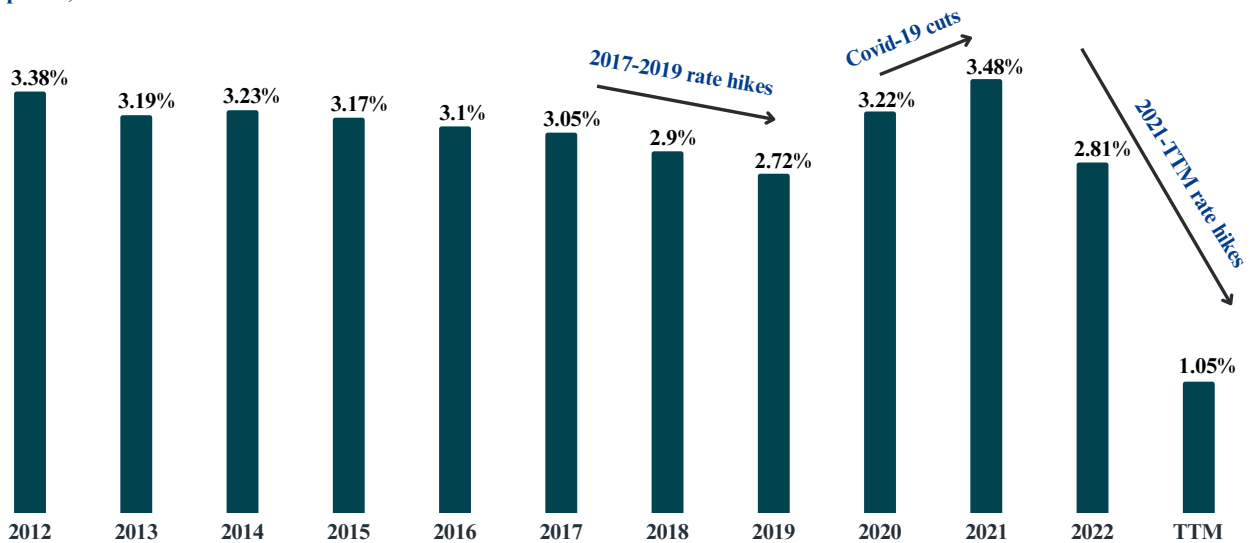


Net profit for US banks fell from an average \$124MM in Q4 2006 to -\$12.4MM by Q4 2009, while Hingham's net profit grew from \$4.64MM to \$8.04MM over the same period. Despite a -145 basis point decline in NIM, Hingham reported no net losses, and began recovery a year earlier than the industry. Comparatively, the industry only saw a -60 basis point decline in average NIM, yet reported stark losses due to extraordinary loan non-performance. The latter is a warning for investors who are presently focused on banks with positive NIM without consideration of the economic sensitivity and credit quality of the loans they buy exposure to.

The yield curve has once more inverted, only this time, the inversion is faster and steeper than any on record. Consequently, the spread between Hingham's interest-earning assets and its cost of funds has collapsed. At Q1 2022, the net spread between Hingham's interest-earning assets and interest-bearing liabilities was 3.24%. As of the third quarter, Hingham's net spread has fallen to 0.39%: well below the 2.56% KRE average.

- Between 2012-2019, NIM fell -66bps, yet ROE improved 175bps over that period, from 15.18% to 16.93%

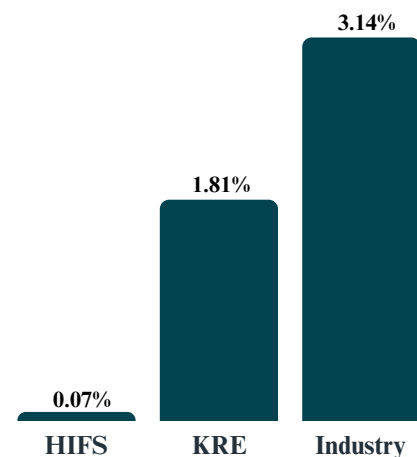
NIM 2012-TTM



When interest rates rise, Hingham's interest-earning assets adjust at a slower pace to its cost of funds. This makes credit quality a top priority for Hingham's management, as loan performance must remain high in recessionary periods to ensure adequate liquidity. One way to assess a bank's credit quality is to measure historical loan performance during recessions, and to ensure the continuation of prudent underwriting standards.

During the GFC, Hingham had the lowest peak net charge-offs of any bank in the dataset at 0.07% of loans, versus 1.81% for the KRE, and 3.14% industry-wide. Hingham's unusually strong loan performance affirms management's conservatism, with it being one of two banks in the dataset with 0% non-performing loans (NPLs) on a TTM basis. Additionally, loan book LTV is a low 54%, with the office portion sub-50%. To add a cherry, a surprising 69% of Hingham's mortgages are collateralized by Massachusetts real estate.

GFC Peak Net Charge-Offs



Underwriting and Yield Curve Safeguards

Underwriting Standards

Concerning Hingham's underwriting standards, they are a dataset anomaly.

Spare for Robert and Patrick, who may underwrite home equity loans up to \$250,000, no lender or officer may underwrite a loan without approval from Hingham's eight-member executive committee. Every collateral property requires an in-person visit from an executive

committee member, and any loan over \$2MM requires full fifteen-member board approval. With an average tenure of 20.5 years (double the KRE’s 10.2), the board has met twice per month to discuss and approve loans for over 20 years.

“If the board isn’t involved in the loan process, then what are they doing?”
 — Robert Gaughen, 2023 Annual General Meeting

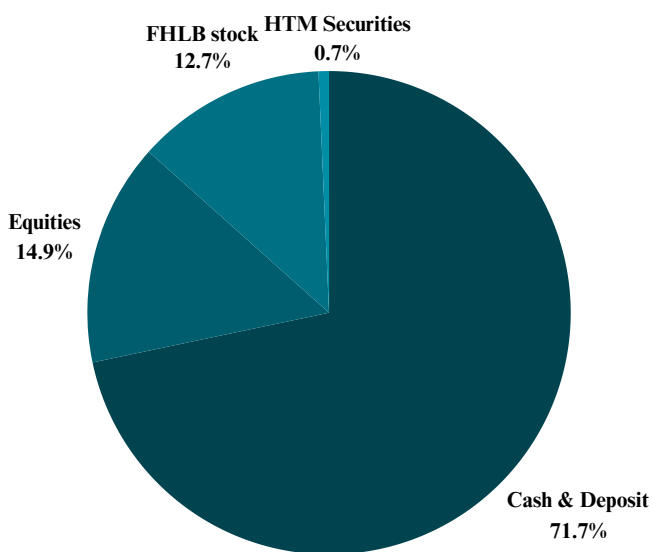
Balance Sheet Strength

As owners of Hingham, Robert and Patrick are acutely aware of the liability sensitive nature of their business, and have intentionally structured Hingham’s balance sheet and loan book to endure rising rate environments.

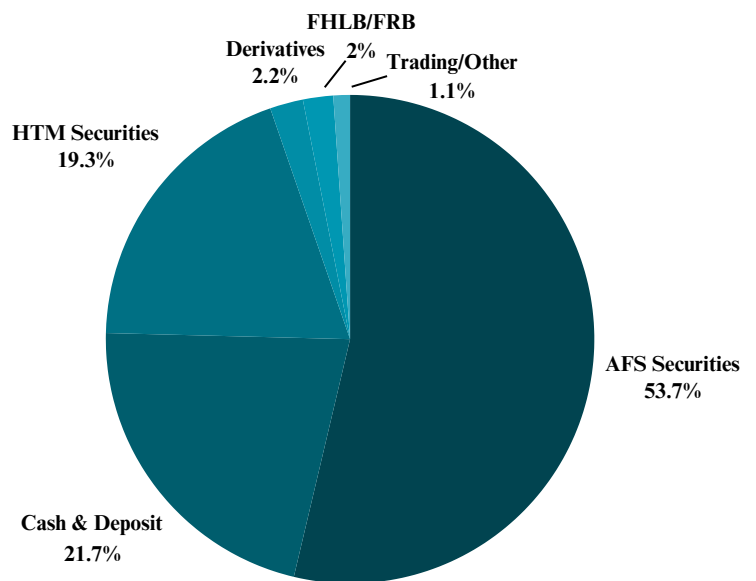
First, depositor comfort is vital in the wake of increased rate sensitivity. To account for the risk that short-term earnings retractions may have on depositor confidence, Hingham’s management have opted to insure deposits 100% through the FDIC and DIF for over twenty years.

Second, Hingham maintains a strong balance sheet with conservative non-loan asset allocations. Cash balance as a percentage of tangible assets is 8.6% versus 5.3% for the KRE, while Hingham’s tangible equity-to-assets is 9.2% versus 8.2% for the KRE. Furthermore, Hingham’s non-loan asset book is disproportionately weighted in cash, with FHLB stock and a conservative portfolio of equities comprising the difference. In contrast, the average KRE bank maintains a higher levered mix of non-loan and derivative assets. In exchange for short-term investor appeal, the average KRE manager endangers economic resilience, simplicity, and higher long-term returns.

HIFS Non-Loan Asset Allocations



KRE Non-Loan Asset Allocations

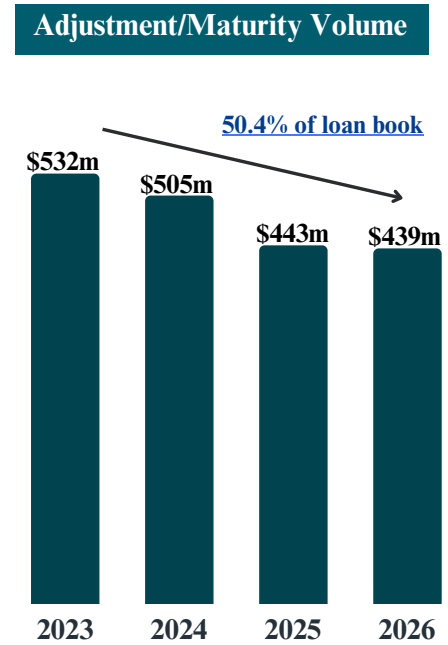


Non-loan Assets at Q3: \$492.7MM

Loan Adjustments

As mentioned, 74% of Hingham’s mortgages are adjustable-rate, but that was not always the case. Pre-GFC, only 48% of Hingham’s loans were adjustable, and management engaged in secondary residential mortgage lending. Following the GFC, management increased adjustable-rate exposure by 54% to reduce interest rate sensitivity, and closed their secondary lending business.

Each year, more than 10% of Hingham’s loan book adjusts or matures, which helps provide funds relief when rates increase. By 2026, roughly half of Hingham’s loan book will have adjusted or matured following the bulk of Fed rate hikes.



In addition to funds relief, adjustments also improve the present fair value of loans. There is no escaping the reality that higher interest rates negatively impact the face value of loans with a fixed-rate component. Even so, Hingham is not in the business of buying and selling loans: Management underwrites simple loans to hold with a high probability of repayment. Eventually, the overwhelming majority of Hingham’s loans will be repaid at par, with present fair value changes a short-term concern cushioned by ample liquidity.

Loan Originations

New loan originations are also an important NIM stabilizer, with Hingham’s TTM loan growth a respectable 6.9%. Sequential loan growth over the next few years will also help provide NIM stabilization should interest rates remain higher.

FHLB Advances

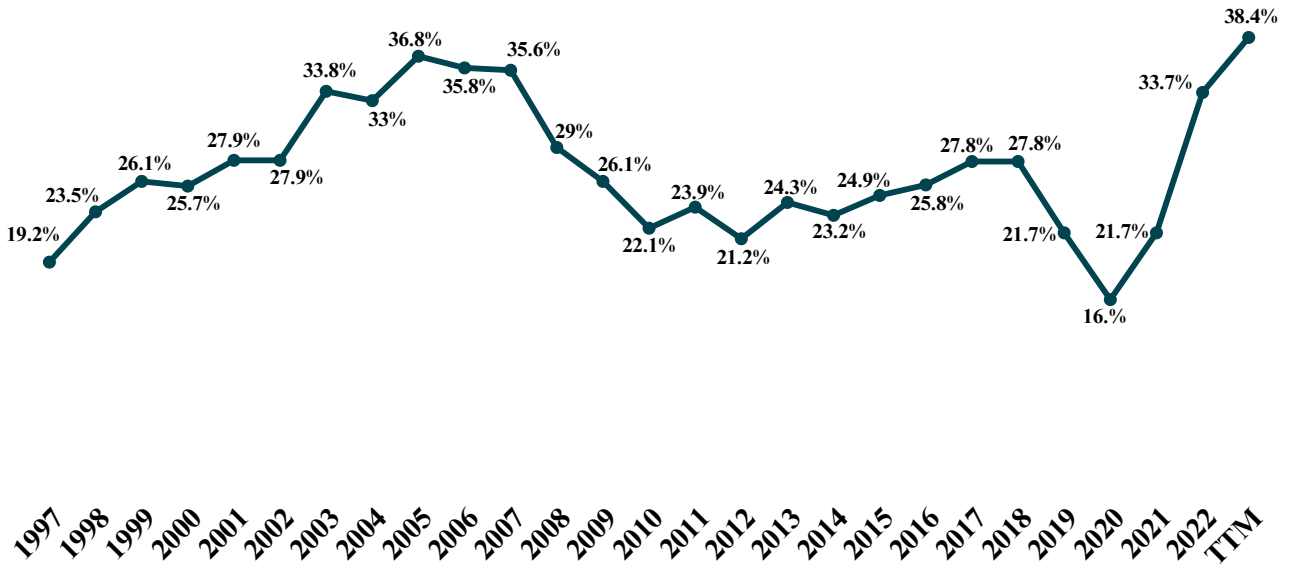
The coup de grâce of Hingham’s defense against yield curve inversions lies in the quality of its loan book, for multifamily loans are prized by Federal Home Loan Banks as sources of collateral. When rates rise, banks like the Federal Home Loan Bank of Boston (FHLB) will accept multifamily mortgages as collateral in exchange for low-cost advances.

Management’s structuring of Hingham’s loan book to take advantage of low-cost advances in rising rate environments has been a part of their operating model for thirty years, and was a crucial source of funds relief pre-GFC.

FHLB Advances as a Percentage of Funds

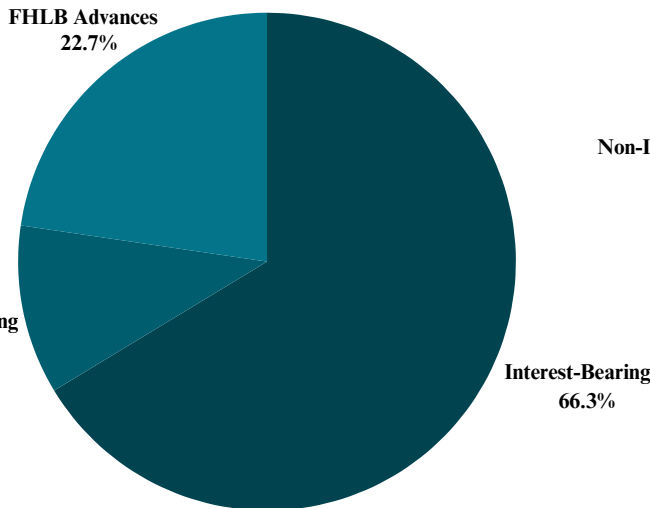
• 35% average allocation to FHLB advances 2003-2007

• \$532MM in unused FHLB loan capacity at Q3

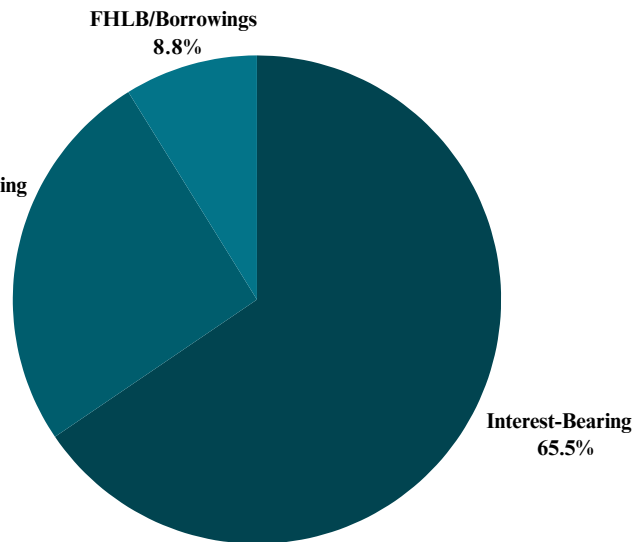


Reliance on FHLB advances and a preference for efficiency-friendly brokered deposits has resulted in Hingham having a traditionally weaker deposit base historically. On a 5-year basis, Hingham’s funding mix materially diverges from the average KRE bank that favors a more deposit-seeking business model.

HIFS 5-Year Average Funding Mix



KRE Funding Mix Q3 2023



HLB-Option Advances

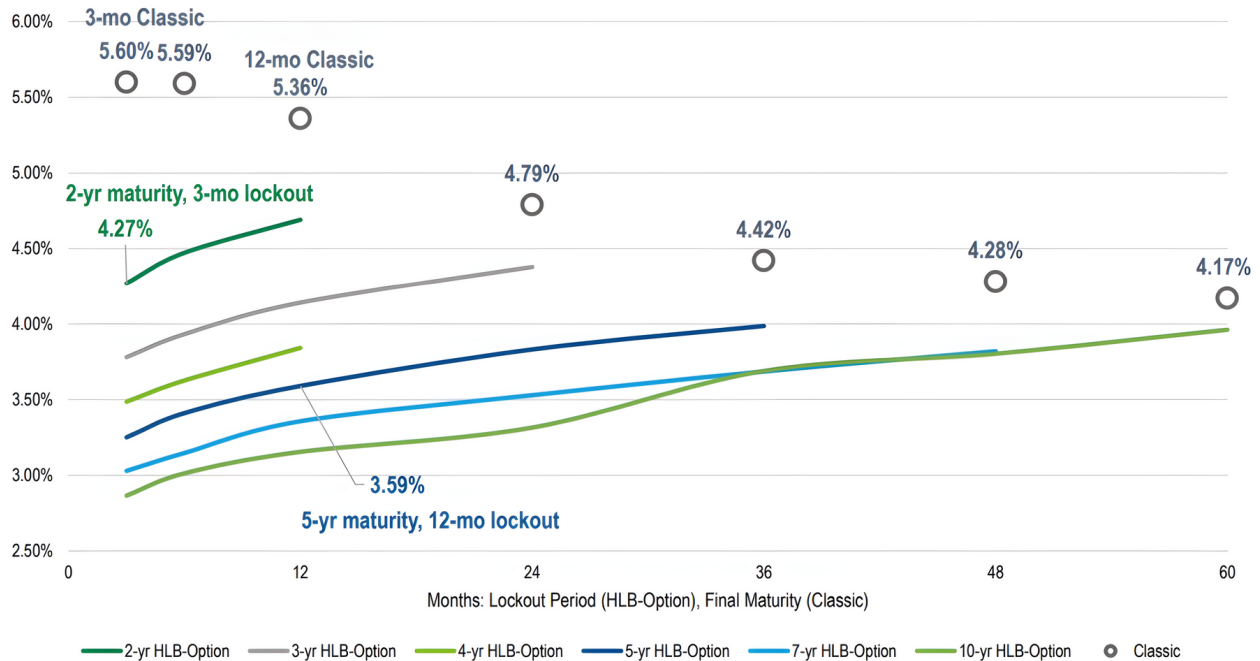
On the specifics of Hingham’s advances, HLB-Option Advances are presently favored. An HLB-Option Advance is simply an advance from the FHLB that is callable after a lockout period, which varies depending on the duration of HLB-Option. After the lockout period, the FHLB has a quarterly option to call an advance, with the primary call/hold motivation a function of interest rate variation.

Each HLB-Option has an initial yield and a maturity yield. The initial yield is the yield a purchaser pays at the onset of an HLB-Option, and the maturity yield is paid at advance maturation.

If interest rates rise, the FHLB will be more inclined to call an HLB-Option to maintain a baseline spread. The borrower of the advance would then have the opportunity to purchase a higher cost HLB-Option to replace it, or to seek alternative funds. Conversely, should rates fall, the FHLB will likely refrain from calling to achieve a higher spread.

Most of Hingham’s HLB-Options have four and five-year durations, with respective starting yields of 3.5% and 3.25%, and maturation yields of roughly 3.8% and 4%. Yield-to-maturity is approximately 3.65% for four-year HLB-Options, and 3.59% for five-year HLB-Options, which is preferential to five-year FHLB Classic Advances yielding 4.57%.

HLB-Option Advance and Classic Advance Curves



*Rates as of 5/31/23- all pricing is subject to change and rates and spreads are not guaranteed

Source: FHLBank Boston

At third quarter-end, HLB-Option Advances constitute 20% of Hingham's funding mix. As management is underwriting loans yielding upwards of 7%, Hingham's ability to fund existing and new business through HLB-Options is an essential tool, not only to capture immediate funds relief, but also to preserve capital.

Recall that loan book growth has been 6.9% year-over-year. Over the same interval, Hingham's deposits have experienced their first decline in thirty years, at a rate of -2.1% of tangible assets.

In a market where higher rates have resulted in increased competition for deposits, a traditional deposit model would offer less funds flexibility for a bank with a heavy fixed base. In turn, Hingham's conservatism has given it a lifeline, for without access to low-cost advances, Hingham's asset-base would falter. Similar to 2003-2006, we are likely to see a period of increased financialization of Hingham's balance sheet until margins begin reversion.

As of the third quarter, Hingham has \$531.7MM in unused FHLB advance capacity, which amounts to 13.96% of gross loans.

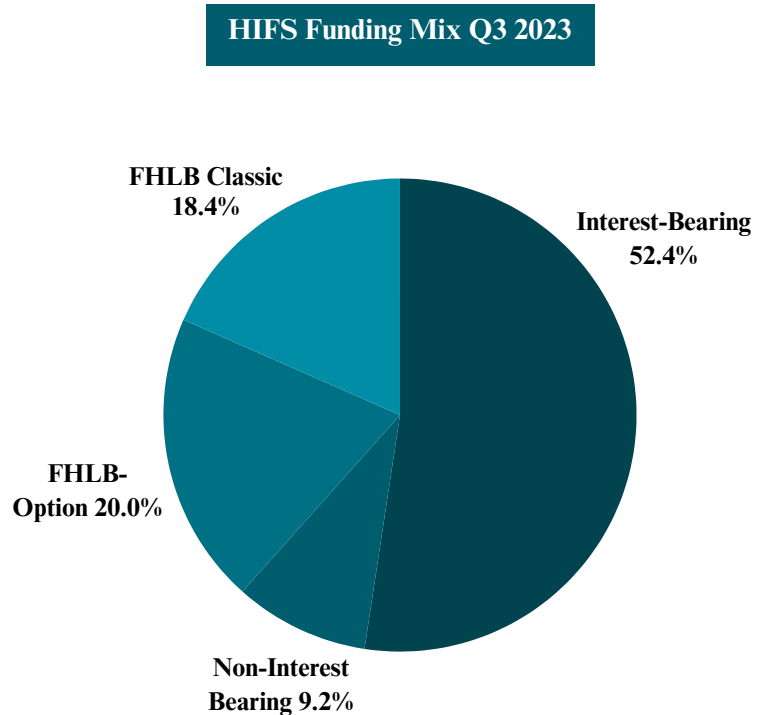
Incentives: KRE Correlations and Hingham's Low-Cost Advantage

KRE Management Tenure and Bank Performance

In banking, incentives strongly influence economic performance and balance sheet composition. Indeed, it was not a lack of intelligence that caused the GFC, but a lack of good behavior.

"Banking is a very good business, unless you do dumb things."
— Warren E. Buffett

To explore the relationship between incentives and economic outcomes, my analysis measured the performance of banks by their degree of executive ownership-to-total-compensation (OTC). Theoretically, the more meaningful a banker's ownership of their business, the more likely they will behave in ways accretive to their bank's long-term wellbeing.



However, in the course of OTC analysis, an interesting discovery was made regarding management tenure and loan performance. Segregation of banks based on average management tenure duration shows that long-tenured managers lag KRE averages on profitability, but excel in loan performance during recessions. The longer average management tenure of named executives and directors, the lower GFC net charge-offs were as a percentage of loans.

Management Tenure and GFC Net Charge-Offs		
Tenure	# of Banks	Peak Net Charge-Off
>15 Years	14	1.07%
>12 Years	34	1.25%
>10 Years	61	1.80%
<9 Years	44	2.28%

Interestingly, the >15 tenure group also features lower average risk exposure to HTM securities, lower NPLs, and higher OTC.

5-Year Economic Characteristics for >15Y Management Teams				
KRE		>15Y Management Teams		Difference
OTC X	6	OTC X	8.5	41.67%
ROE	10.57%	ROE	10.25%	-3.03%
NIM	3.64%	NIM	3.36%	-7.69%
NPLs	0.33%	NPLs	0.24%	-27.27%
HTM securities	19.30%	HTM securities*	14.80%	-23.32%

HTM securities 9.9% ex Prosperity Bank, for an adjusted differential of -42.4%

The findings imply that long-tenured management teams may be willing to accept lower returns in exchange for minimizing career risk, which is corroborated by relative risk-averse loan book construction.

Loan Book Characteristics for >15Y Management Teams				
KRE		>15Y Management Teams		Difference
CRE	38.80%	CRE	40.40%	4.12%
C&I	21.70%	C&I	14.60%	-32.72%
Residential RE	19.40%	Residential RE	27.60%	42.27%
Construction	6.10%	Construction	5.30%	-13.11%
Consumer	3.50%	Consumer	3.20%	-8.57%
HELOC	2.20%	HELOC	2.00%	-9.09%
Auto	1.90%	Auto	1.40%	-26.32%
Agricultural	0.90%	Agricultural	1.10%	22.22%

More research is needed to scrutinize the credit risk of long-tenured loan book composition based on floating, adjustable, and fixed-rate allocations, but first-level analysis

identifies conservative attributes not shared by KRE averages. While these banks generally do not have differentiated characteristics that may be considered interesting on a single-name basis, the relationship between management tenure and conservatism may be worth added exploration. In the interim, gauging management tenure as a means to identify banks for holding personal or commercial deposits may prove a prudent exercise.

KRE Executive Ownership and Bank Performance

To analyze the relationship between insider ownership and bank performance, I isolated and measured the performance of seventeen KRE banks where annual executive OTC met or exceeded a multiple of seven times. Findings revealed profitability outperformance to be more muted than anticipated, but in the context of less relative leverage and increased risk-consciousness in balance sheet construction, adjusting to match KRE averages would reveal higher profitability than featured. Unadjusted, >7x OTC bankers appear to strike a balance between performance and resilience.

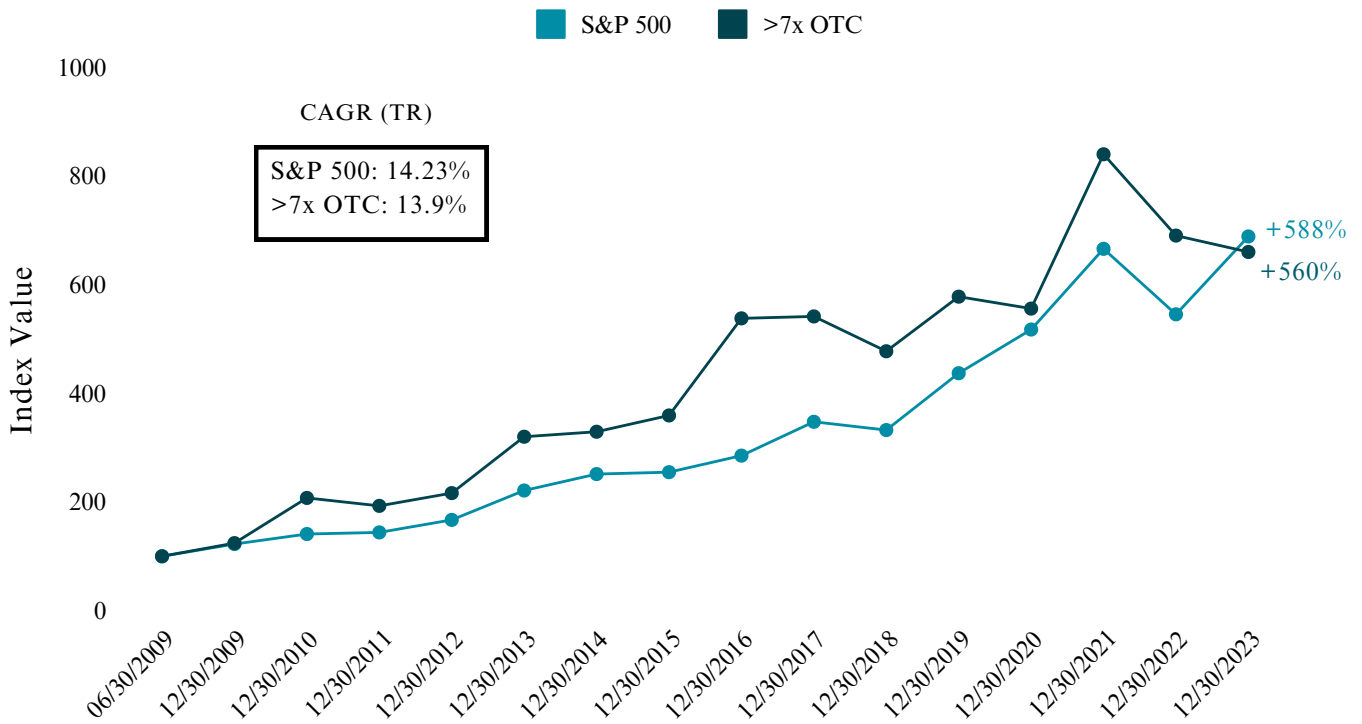
For example, >7x OTC banks, like >15 tenure banks, were found to hold less HTM securities and sport strong loan performance. In addition, they maintain low derivatives exposure and preserve high cash holdings. Less derivatives exposure implies a decreased inclination among owner-operators to sacrifice long-term profits for short-term comfort, while high cash holdings reflect an increased desire for balance sheet resilience.

5-Year Economic Characteristics for >7 OTC Banks				
KRE		>7 OTC		Difference
OTC X	6	OTC X	30.7	411.67%
ROE	10.57%	ROE	10.76%	1.80%
NIM	3.64%	NIM	3.82%	4.95%
NPLs	0.33%	NPLs	0.34%	3.03%
HTM securities	19.30%	HTM securities	13.50%	-30.05%
Equity-tangible assets	8.17%	Equity-tangible assets	8.89%	8.81%
Cash/non-loan assets	21.70%	Cash/non-loan assets	27.60%	27.19%
No derivatives	12.30%	No derivatives	47.10%	282.93%
Efficiency Ratio	57.40%	Efficiency Ratio	51.26%	-10.70%
GFC net charge-offs	1.81%	GFC net charge-offs	1.13%	-37.57%

Backtest: >7 OTC

To expand investigation of incentives and their influence on economic outcomes, a backtest was constructed to measure >7x OTC stock performance. A total of thirteen >7x OTC names existed pre-GFC, which comprised the dataset. The backtest start point is Q2-end, 2009, following large price stabilization in the stock prices of US regional banks.

> 7X OTC PERFORMANCE



The backtest validated an assumed correlation between strong incentives and positive stock performance. Data reveals comparative outperformance over the S&P 500 for most of the 14.5-year test, with cumulative underperformance in 2023 due to aggregate sequential declines of -19.45% and -6.21% for >7x OTC banks in 2022 and 2023. Subtracting 2023, the >7x OTC basket produced outperformance equal to 2% annualized in excess of the S&P 500 over a 13.5-year period.

With the opportunity to apply the approach at materially lower prices during the GFC, >7x OTC as a factor is a conservative way for investors to obtain high performance in financials without selection bias risk, with current S&P inversion a reason to explore present application.

Additionally, two alternative backtests were conducted to assess the relative strength of >7x OTC and the incentive-outcome relationship. The backtests measured the historical stock performance of derivative-free banks, as well as >15 tenure banks. Annual performance of both strategies, circa Q2 2009, lagged >7x OTC banks by -2.24% and -2.54%, respectively.

A hope to discover alternative strategies to an ownership-centric one failed to materialize. That said, the derivative-free and >15 tenure backtests were not exhaustive of possible alternative strategies, with further research needed to identify possible actionable strategies.

Hingham's Management

Bearing in mind the role incentives played in producing the GFC, it is important when analyzing a bank to understand who manages it, and what incentives drive their behavior.

Robert H. Gaughen, CEO, Age 71



Robert H. Gaughen has been with Hingham for over thirty years, and has a long track record of underwriting creditworthy loans with impressive cross-cycle performance. When Robert took control of Hingham in 1993, its credit quality and loan book reflected the speculative underwriting practices that bore the 1986-1995 Savings and Loan Crisis. The bank was rife with non-performing loans, and was weighted some 40% in variable-rate residential mortgages. It was barely profitable, its

deposits had not grown in five years, and its efficiency ratio flirted near-100%. To make matters worse, Hingham's loan book had declined by a staggering 40.4% since 1988. Through heroic restructuring efforts aimed at improving efficiency, profitability, and credit quality, by the end of 1994, Robert had grown Hingham's loans by almost 25%, improved the bank's efficiency ratio to 62.7%, stabilized deposits, and achieved a 16% ROE for the year.

Patrick R. Gaughen, President, COO, Age 42



When management is so vital to company performance, the greatest risk to long-term economic prosperity is a loss of key personnel. Fortunately for shareholders, COO Patrick Gaughen, Robert's son, is just forty-two years old to Robert's seventy-one. Patrick has been with the company for twelve years, and is already apprenticing to replace Robert. Patrick oversees Hingham's operations, co-authors annual remarks, and is the primary speaker at annual general meetings. Importantly, Patrick has learned from his

father well, and is a vocal supporter of Hingham's low-cost operating philosophy. Influenced by Toyota's Production System, Patrick prizes a continuous focus on simultaneous efficiency, process, and product quality improvements.

"If you want to be competitive in a commodity business, you need to be a low-cost producer."
— Patrick Gaughen, 2023 Annual General Meeting

Hingham's Low-Cost Competitive Advantage

Recall that Hingham's NIM is lower than KRE averages, and yet management has ever-expanded business returns and efficiency in excess of peers. If a bank can operate at half the cost of its competitors, then it can afford to underwrite higher quality loans at lower rates.

The motivation behind Hingham's low-cost operation is a 30.3% stake held by executives and directors. The Gaughen family owns 15.4% of the company, which has remained little changed since 1999. Robert's ownership translates to a high multiple of his compensation,

at 33.4 times, which helps explain Robert and Patrick's combined owner-operator behavior.

Advantageously, owner-operator incentive structures are costly to replicate, with just 12.3% of KRE executives owning more than seven times their annual total compensation in stock. Accordingly, the production of owner-like incentives requires either material dilution of shareholders, or large insider investment in company stock. With a total of 4,001 US regional banks and high aggregate demand (KRE loans total \$2.8 trillion in value), there is little incentive for regional bank executives to produce above average results. Even the CEOs of banks with mere \$300MM-\$650MM loan books average seven-figure annual compensation packages. What is in it for them that offers more than the lofty compensation they already receive?

Ode to Hingham's Advantage, for Robert and Patrick's successful operation of Hingham is beyond the mere collection of a paycheck: Hingham is the product of their life's work. The results of their combined dedication has produced a business so unique, and yet so simple. In fact, Hingham is the only bank in the dataset where there is, in concert, no material M&A, no derivatives exposure, no secondary lending business, no material HTM securities holdings, and, most interestingly, no regular stock-based compensation paid to executives. The Gaughen's believe ownership is incentive enough.

There is no product innovation department at Hingham, and no peddling of emergent asset classes. Management has but one goal: to underwrite simple loans that are highly likely to be repaid, with the aim of maximizing personal and shareholder wealth over time. Even Hingham's dividend payout ratio speaks to a fixation on compounding internal business value, for it has averaged just 11% over the last ten years, and 8.9% over the past five.

Incentives Drive Competitiveness: Columbia Financial (NASDAQ:CLBK)

During dataset analysis, investigating banks with similar operating models to Hingham was important for comparative purposes. Was Hingham's business model responsible for its success, or were incentives a necessary additional component? If it were the former, there would be nothing stopping other banks from cloning Hingham's model, but if it were the latter, then Hingham's competitiveness would be difficult to reproduce. Through analysis of Columbia financial, I got my answer.

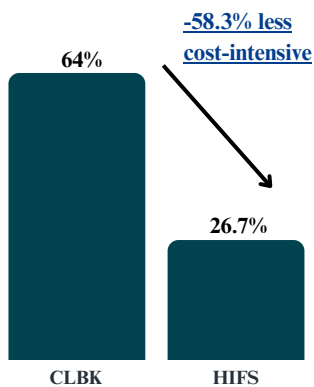
Columbia Financial, like Hingham, is focused on multifamily CRE and 1-4 family residential mortgages. The bank also posts its multifamily loans as collateral to access FHLB advances when interest rates rise, of which Columbia's advances presently exceed KRE averages by 85%, at 14.6% of liabilities.

With Columbia's attributes, it would be reasonable to assume similar operating results to Hingham, but the opposite is true. Columbia's cross-cycle loan performance and conservatism is reputable, but its efficiency and profitability substantially lag the average.

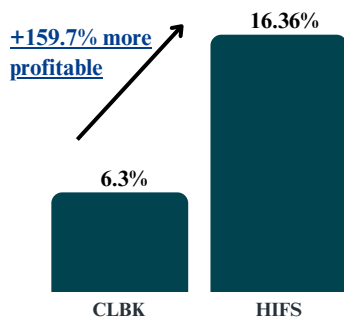
Columbia Financial (NASDAQ:CLBK)

Hingham Vs Columbia

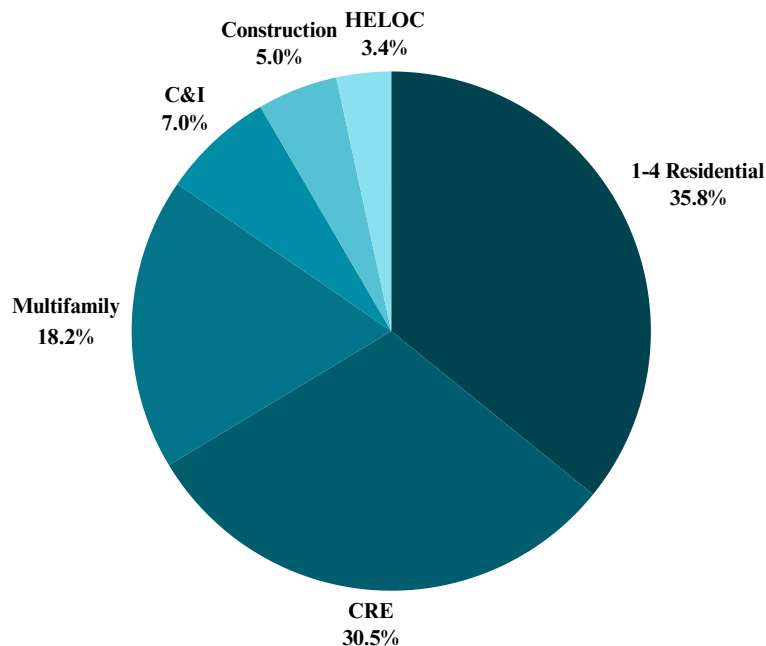
5-Year Average Efficiency Ratio



5-Year Average ROE



CLBK Loan Book



The crux that prevents Columbia from excellence is an inefficient deposit-seeking model run by poorly incentivized management. The bank has 67 branches and 747 employees overseeing a modest \$7.79bn loan book, which generated just \$331.9MM in revenue per employee on a TTM basis.

There is no demonstrable reason for why CLBK's lackluster performance cannot be remedied, but such mediocre results would be expected from a CEO whose ownership exceeds total annual compensation by just 2.2 times. In just five years, cumulative total compensation for Columbia's CEO, Thomas J. Kemly, has amounted to \$18.8MM.

The disparities between Hingham and Columbia speak to a trend in banking that is at the heart of this report's findings; that incentives have a larger impact on a bank's results than its business model.

To provide another example, BancFirst (NASDAQ:BNF) is an Oklahoma-based bank with over 50% of its loans allocated to construction, C&I, consumer, and oil and gas loans. The economic sensitivity of BancFirst's book is palpable, but under the watch of Chairman David E. Rainbolt's 33% ownership, the quality of loans underwritten perform above average (peak GFC net charge-offs were a surprisingly low 0.3%), and the bank maintains a cash balance equal to 19% of tangible assets. The cherry on top is BancFirst's ROE, which has averaged 13.92% over the past five years.

To build a competitive advantage in regional banking, one must first start with incentives.

Interest Rates and Management's Resistance to the Institutional Imperative

The institutional imperative is the phenomenon where business activity tends to be replicative. Companies often make business decisions that are thoughtlessly similar to competitors, even if the activity is counterproductive to optimal results. For instance, although we are likely on the forward end of the yield curve, interest rate swaps continue to be broadly maintained and repurchased by US regional bank executives.

Fear of a 70s-80s hyper-inflation repeat is the driver of the phenomenon, which begs the question: Why have Robert and Patrick abstained from purchasing swaps?

“To the extent that we are looking at swaps... The opportunity to do something like that has probably already passed.”

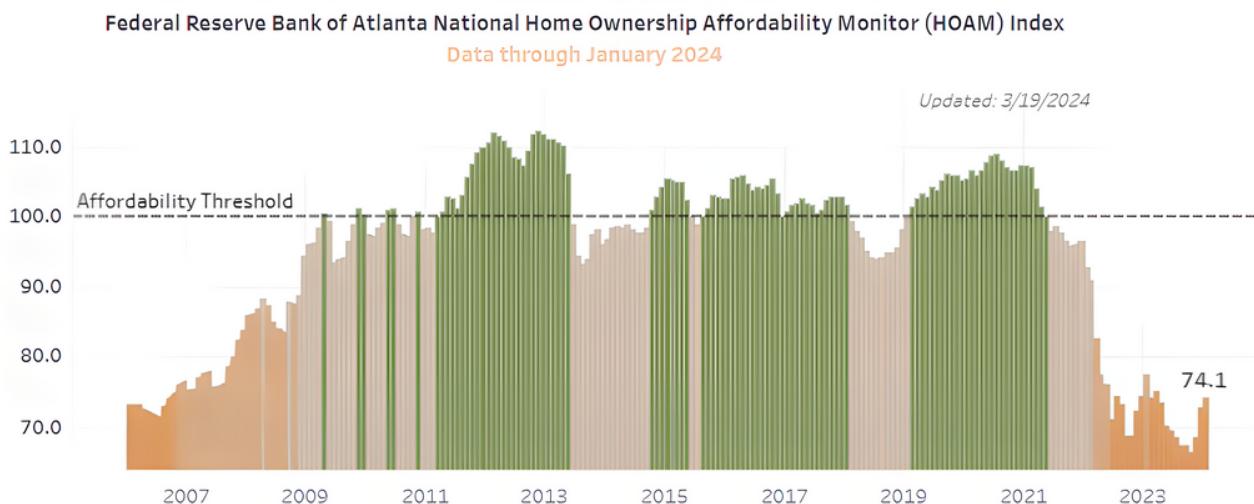
— Patrick Gaughen, 2023 Annual General Meeting

Once a trade is popular on Wall Street, whatever easily capturable arbitrage that existed prior has likely closed. To buy after the fact is to hope that a trade that has worked in the recent past will continue to work. What then must be the case for swaps to be worthwhile at present?

Interest rates must go higher.

If rates rise from present levels, it means a return to inflation above expectations. With a lot of the factors that caused inflation during the Covid-19 Pandemic now resolved, to be an inflation bull is to be creative, especially in the face of median housing affordability woes.

Take the National Home Ownership Affordability Monitor (HOAM), for example. The HOAM is used as a measurement to gauge US median housing affordability, where the minimum threshold required for median housing affordability is marked by a score of 100. While a score above 100 indicates relative affordability, a score below 100 indicates low affordability. As of writing, the HOAM is at its lowest since the GFC.



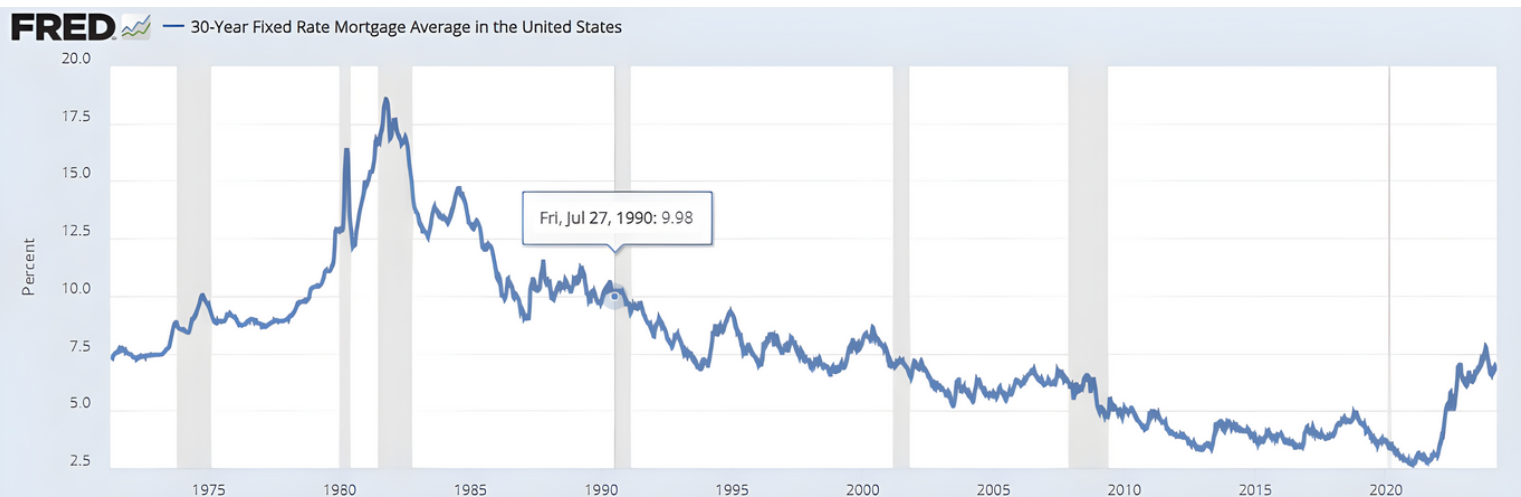
Higher interest rates have also severely impacted first-time homebuyer rates in the US, with affordability for the category the lowest since the start of the data.



Whenever housing affordability regresses in the US, it typically precedes a financial crisis. This was the case prior to the Savings and Loan Crisis, as well as pre-GFC. Considering national median affordability has been maintained since the GFC on behalf of ultra-low interest rates, significant deflation, wage inflation, and/or lower interest rates must occur to restore median affordability. Otherwise, there is a risk that half of the US population, as well as first-time homebuyers, will be left behind.

Asset deflation would hurt existing owners and may result in the proliferation of underwater mortgages, while wage inflation, which has returned to mean annual levels, would challenge the Fed's inflation reduction efforts. A decrease in interest rates could similarly heighten the risk of inflation regaining upward momentum, but it is hard to ignore that, even in the wake of a -12.7% decline in median home prices since Q4 2022, affordability remains constrained due to higher borrowing costs.

Median households are more sensitive to debt than they were in the past, as US household debt levels are 47% higher today than they were in 1981. Adjusting for the increase, the cost of a 6.79% 30-year fixed rate mortgage today is comparable to 10% in 1981: a rate not seen since 1990.



Even though rates are pointing towards moderation, the behavioral significance of Robert and Patrick's avoidance of swaps should not be ignored. Hingham is one of the most liability sensitive banks in the dataset. So, not only is management's declination of swaps a vote of confidence in the strength and structure of Hingham's balance sheet, but their behavior is in stark contrast to the status quo.

Imagine that the bulk of your wealth is invested in a rate-sensitive bank that you run. Think about the strength and conviction it would take not to hedge away short-term discomfort in the midst of the longest yield curve inversion in history.

Quaintly, Robert and Patrick's steadfast courage reflects an old-timely desire to maintain a successful lending practice focused on simple and honest underwriting without undue complexity.

"[Our philosophy] is 'simple banking, honest value.' A business philosophy that prods us to remain focused on the basics to avoid the cluttered groupthink of competitors and the panicked 'sky is falling' cackling of the consultants."

— Robert Gaughen, 2015 annual remarks

Stress Test and Valuation

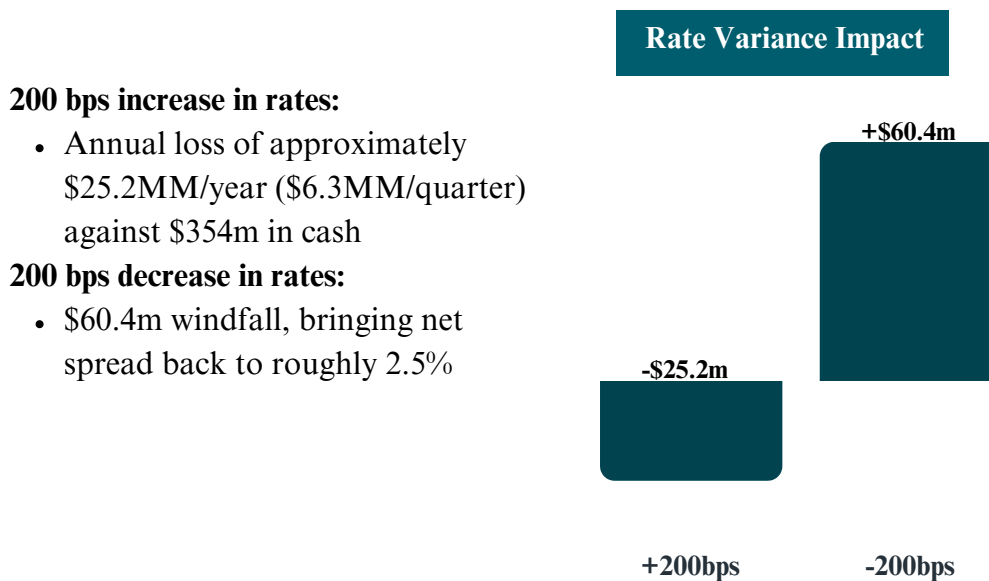
Stress Test

On a year-over-year basis, the cost of Hingham's liabilities has expanded 280 basis points, from 1.13% to 3.93%, while its yield on interest-earnings assets has increased 64 basis points, from 3.68% to 4.32%. The extent of this mismatch is due to rate increases outpacing loan adjustments and originations at a greater tempo than historically.

If interest rates experience another rapid ascension, it is probable that Hingham may undergo a period of losses before conditions improve. Were this to occur, mortgage originations for multifamily properties would further slow as borrowers curtail new investment, while Hingham's loan and cash adjustments would offer only modest funds relief.

To unfairly appraise the extent of Hingham's survivability, I orchestrated a stress test that assumes a 2% increase in the Fed Funds Rate to 7.25-7.5%, without any change in Hingham's earning-assets. Were such conditions to transpire, Hingham would incur losses of roughly \$25.2MM annually, or \$6.3MM per quarter, against \$354MM in cash.

Encouragingly, even in the midst of significant added stress, prospective losses should be tolerable thanks to Hingham's balance sheet strength.



As a caveat, Hingham's long-term wellbeing is not necessarily contingent on low or high interest rates, but on yield curve stabilization. Should rates remain where they are, Hingham's primary hurdle to achieve economic normalization will be time. Eventually, Hingham's loan book will fully turnover, with patient shareholders rewarded for their dedication.

Valuation

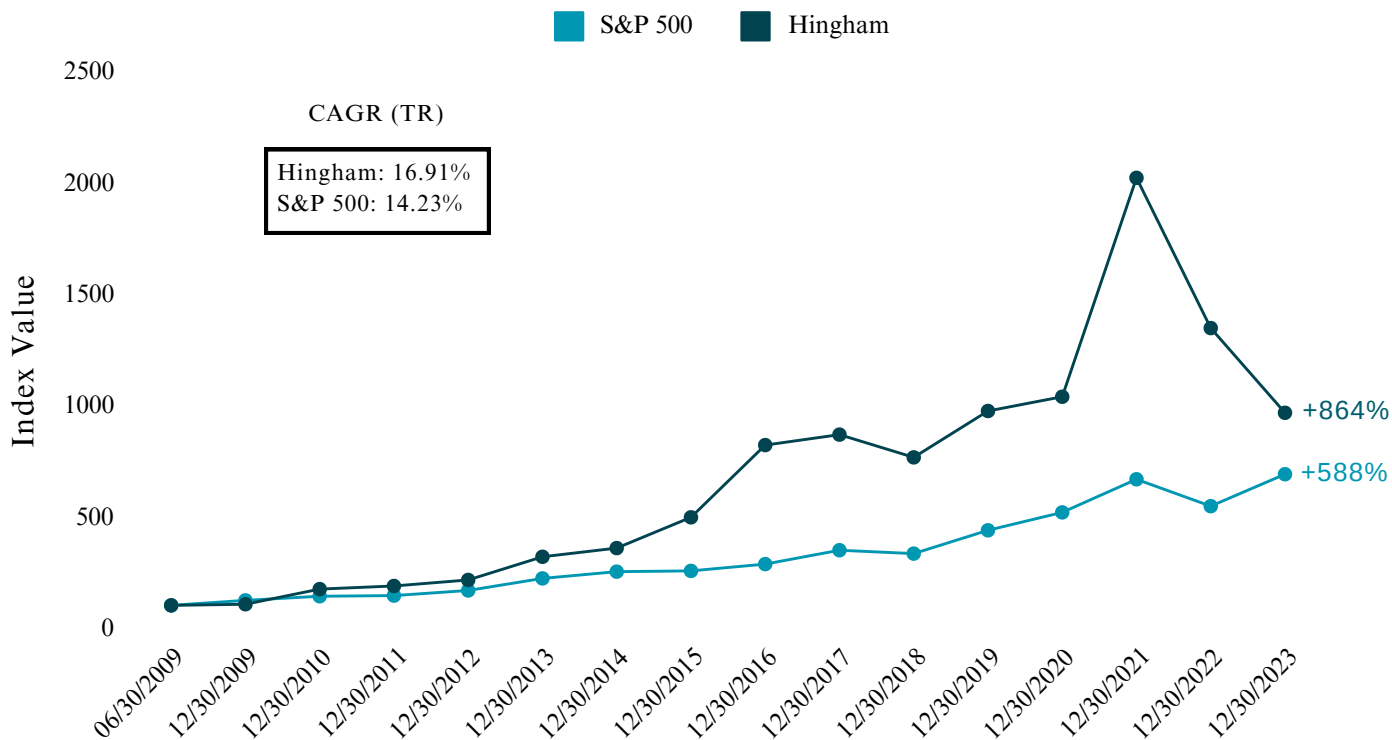
When thinking about the prospective returns of a business, an investor must understand the economic and behavioral structures responsible for past and present results. While cost is a barrier in the production of incentives that inform Hingham's operational prowess, the bank is home to an industry that sells commodified services with little pricing power. As a result, Hingham enjoys no autonomic attributes that businesses of systemic necessity enjoy, like US rail transportation companies, to protect against managerial folly.

With the prior in mind, any projection of Hingham's future economics must be made in tandem with a commitment to monitor the Gaughen's ownership, as owner-operator incentives are likely to be a more accurate predictor of long-term economic success than a cursory glance at its historical figures.

Hingham is GFC Cheap

The last time Hingham's shares traded at 1.04x book value was in June 2009. In light of Hingham's economic superiority, total shareholder returns have been 16.9% since that period, despite Hingham's stock being 54% off its prior highs.

HIFS PERFORMANCE



Hingham is also currently in a period where the business is under-earning, so returns for those who purchased shares in 2009 are likely to average higher as business conditions improve. For comparison, when Hingham was over-earning in 2021, annual returns for 2009 purchasers had been 27.2%, *compounded*.

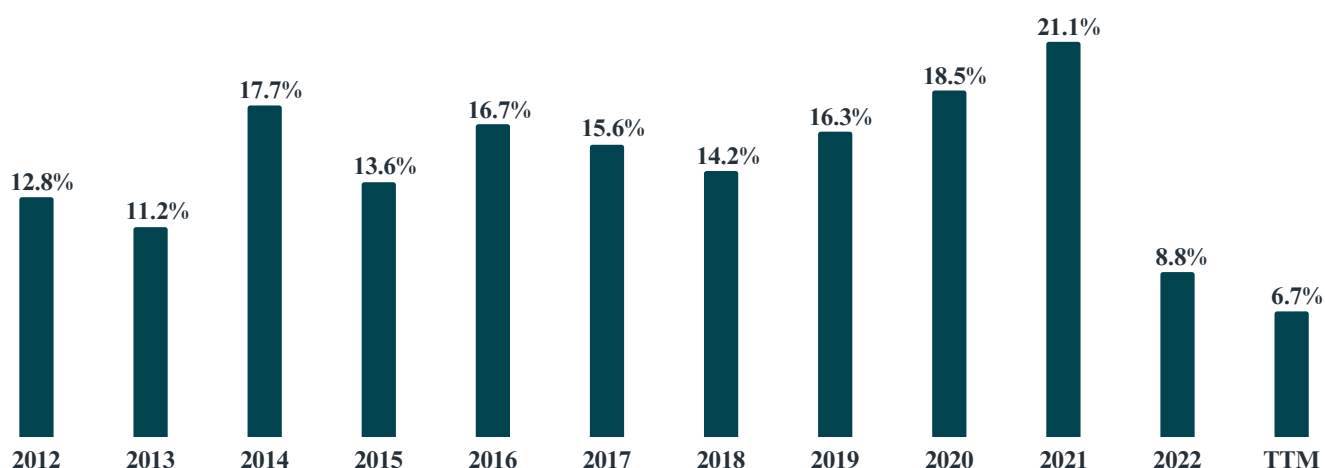
Growth Value Model Analysis

To value Hingham, I conducted a growth value model analysis (GVM) versus a standard discounted cash flow analysis (DCF). While a DCF encourages more granular assumptions about a company's future cash flows, a GVM inspires engagement with the likely future growth and returns of a company's equity. Because a bank's equity performance is a crucial driver of bank valuation by the market, a GVM was preferred over a DCF for Hingham's valuation.

With that said, before sharing my model and its assumptions, it is important to provide context through added discussion of Hingham's past performance.

Regarding book value growth, Hingham has posted a steady rate of 12% per annum over the past twenty years, 15.3% per year in the most recent ten, and 15.7% in the last five.

Hingham's Book Value Growth 2012-TTM



For loan growth, management has compounded Hingham's loan book by 14.4% over the last ten years, and 14.8% over the past five. Meanwhile, ten-year ROA has averaged 1.4%, and lifetime core ROE (ROE ex gains on sales of securities and fixed assets) has averaged 13.53%.

Because of Hingham's small loan book and competitive stature, the business is positioned to continue to compound book value between 12% and 15% over the next decade, while simultaneously driving ROE improvements through efficiency initiatives. However, predicting the future economics of a business based on historical performance is difficult. If rates remain unchanged, it will take time for Hingham's operations to normalize.

But, even if we apply conservative expectations about Hingham's economic future, forward returns from its present \$417.47MM market capitalization are impressive.

For my model, I conducted five and ten-year projections. On a five-year basis, I assume average book value growth of 10.43%, and 9.83% average asset growth. In addition, I assume average ROE of just 9.23%, with ROA recovering to Hingham's 27-year average of 1.16% by 2027. Re valuation multiple, I assume Hingham's 27-year average 12.4 times price-to-earnings ratio (P/E), and 27-year average 1.6 times price-to-book (P/B).

On a ten-year basis, I assume 10.65% average book value growth: a -30.4% reduction compared to Hingham's prior decade, as well as 10.4% average asset growth. I also input 2033 ROE of 11.93%, and 10.96% on a ten-year basis, which is -19% below lifetime average core ROE. Lastly, I keep ROA fixed at 1.16%.

Based on the prior assumptions, we get the following results:

HIFS GVM 2024-2028 (in \$USDMM)					
Year	2024	2025	2026	2027	2028
Cash & Equiv.	\$391.37	\$433.25	\$479.60	\$530.92	\$587.73
Equities	\$80.52	\$88.57	\$97.43	\$107.17	\$117.89
Corporate HTM	\$3.50	\$3.50	\$3.50	\$3.50	\$3.50
FHLB Stock	\$69.33	\$76.96	\$85.42	\$94.82	\$105.25
Net Loans	\$4,075.20	\$4,441.97	\$4,930.59	\$5,472.95	\$6,074.98
Other	\$58.37	\$61.46	\$64.72	\$68.15	\$71.76
Total Assets	\$4,678.29	\$5,105.71	\$5,661.26	\$6,277.51	\$6,961.10
ROA	0.60%	0.78%	1.03%	1.16%	1.16%
NIM	1.59%	2.00%	2.52%	3.10%	3.10%
Liabilities	\$4,262.46	\$4,636.71	\$5,136.54	\$5,690.26	\$6,303.67
Net Income	\$28.07	\$39.82	\$58.31	\$72.82	\$80.75
Equity	\$415.83	\$469.00	\$524.72	\$587.25	\$657.43
ROE	6.75%	8.49%	11.11%	12.40%	12.28%
P/E 12.4x	\$348.06	\$493.82	\$723.06	\$902.96	\$1,001.29
P/B 1.6x	\$665.32	\$750.40	\$839.55	\$939.60	\$1,051.89
Dividends	\$2.70	\$2.89	\$3.09	\$3.30	\$3.53
Reinvest. Rate 10%	\$2.77	\$2.97	\$3.17	\$3.40	\$3.63
Total Adj Price	\$1,017.23				
Total Adj Equity	\$1,067.83				
Total 5Y Return	19.50%-20.66%				

HIFS GVM 2024-2033 (in \$USDMM)					
Year	2029	2030	2031	2032	2033
Cash & Equiv.	\$650.62	\$720.23	\$797.30	\$882.61	\$977.05
Equities	\$129.68	\$142.65	\$0.00	\$0.00	\$0.00
Corporate HTM	\$3.50	\$146.15	\$152.43	\$158.98	\$165.82
FHLB Stock	\$116.83	\$129.68	\$143.94	\$159.77	\$177.35
Net Loans	\$6,743.22	\$7,484.98	\$8,308.33	\$9,222.24	\$10,236.69
Other	\$75.56	\$79.57	\$83.79	\$88.23	\$92.90
Total Assets	\$7,719.41	\$8,703.25	\$9,485.78	\$10,511.83	\$11,649.81
ROA	1.16%	1.16%	1.16%	1.16%	1.16%
NIM	3.10%	3.10%	3.10%	3.10%	3.10%
Liabilities	\$6,983.21	\$7,736.00	\$8,569.94	\$9,493.78	\$10,517.21
Net Income	\$89.55	\$100.96	\$110.04	\$121.94	\$135.14
Equity	\$736.20	\$967.25	\$915.84	\$1,018.06	\$1,132.60
ROE	12.16%	10.44%	12.01%	11.98%	11.93%
P/E 12.4x	\$1,110.36	\$1,251.88	\$1,364.43	\$1,512.02	\$1,675.71
P/B 1.6x	\$1,177.92	\$1,547.60	\$1,465.34	\$1,628.89	\$1,812.16
Dividends	\$3.78	\$4.05	\$4.33	\$4.63	\$4.96
Reinvest. Rate 10%	\$3.89	\$4.16	\$4.45	\$4.76	\$5.10
Total Adj Price	\$1,714.01				
Total Adj Equity	\$1,850.46				
Total 10Y Return	15.17%-16.06%				

Should my model's expectations materialize, by 2028, Hingham will have a market capitalization between \$1,017.2MM-\$1,067.8MM, which would produce a five-year compound annual growth rate (CAGR) between 19.50-20.66%. By 2033, the model implies a market capitalization between \$1,714MM-\$1,850.5MM, which would produce a 10-year CAGR between 15.17-16.06%.

Discussion

In the course of valuing an owner-operated business, there is a margin of safety in imagining future results that are likely to disappoint management. The logic is simple: The poorer an owner-operator's performance, the less personal wealth they will accumulate.

If Robert and Patrick meet the projections of my GVM over the next decade, Hingham's economics will mark a notable departure from past performance. Take book value growth: A ten-year average growth rate of 10.65% would not necessarily be worst-case given the extent of Hingham's current challenges, but it would be surprising with respect to the company's economic position.

Even more notable, to average a 10-year ROE of 10.96% would not only lag Hingham's 30-year average GAAP ROE, but it would also underperform lifetime average core ROE. The decline would be a thorn in management's efficiency efforts, and would produce uncharacteristically low earnings growth. Supposing my model's ROE expectations run true, by 2033, Hingham will have grown 2021 peak-cycle earnings of \$67.46MM by just 6% per year, to \$135.14MM. This would compare unfavorably to Hingham's 11.7% earnings growth rate of the prior decade (dilution has been non-material).

With such conservative assumptions, a prospective forward return between 15.17-20.66% is a return profile double S&P 500 total forward returns of 8%, and that is assuming no multiple or margin fade for the index, and no potential tax hikes.

Hingham is also a unique opportunity because it offers investors with uncorrelated protection as a recession-resistant asset. For an investor looking to gain exposure to assets that perform well during economic turmoil, a purchase of Hingham stock may be a suitable fit.

During the GFC, the bulk of Hingham's share price declines occurred prior to the crisis. When the market began to decline in October 2007, Hingham shares had already fallen -31.5% over the prior two years due to rate hikes. While Hingham's share price would decline by another -16.6% to a low of \$17.83 in March 2009, the S&P 500 would lose roughly 50% of its value over the same period. By the second quarter of 2010, Hingham's share price had fully recovered to 2005 highs, while the S&P 500 would not see full recovery until the third quarter of 2013. Today, Hingham is a demonstrably better business run by an even more experienced management team, and it is up for grabs at GFC prices.

Risks

Although two of Hingham's primary risks, key personnel and interest rate risk, have been discussed throughout this report, there is one more risk that deserves attention prior to report conclusion.

Multifamily Supply

When making the decision to underwrite a multifamily mortgage, a responsible underwriter must not merely seek a reasonable LTV and adequate income to satisfy security of principal; a responsible underwriter must also assess the economic and geographic qualities of their chosen market to ensure a high likelihood of multifamily price stability over time.

Market features that favor multifamily price stability are:

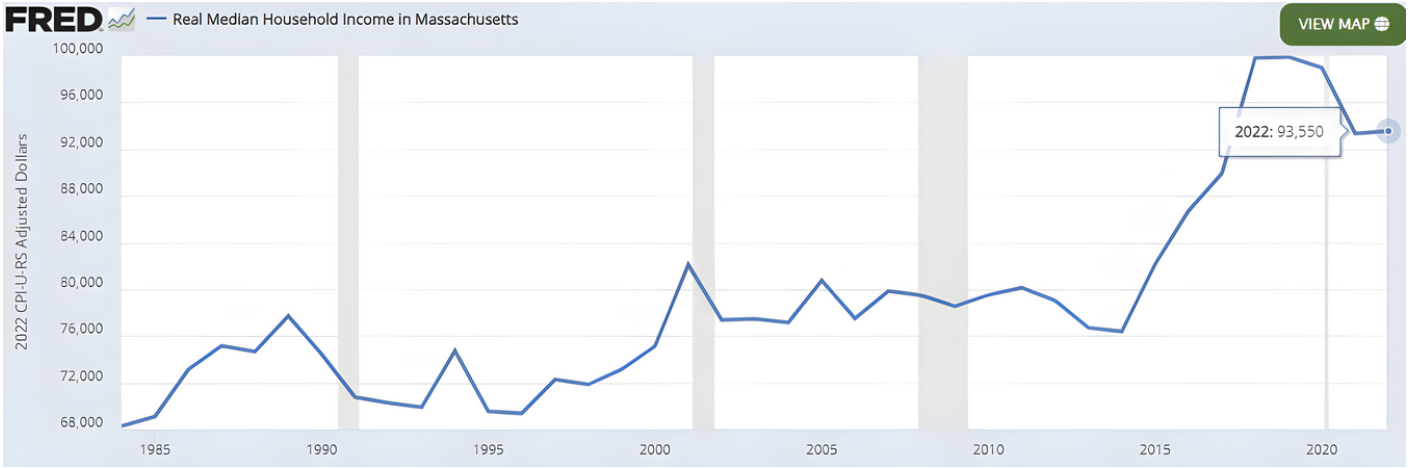
- High density
- Urban infill development policies
- Land scarcity
- High wage growth
- Commerce

A densely populated urban center that is characterized by land scarcity, typically due to vertical build or land restrictions, tends to produce long-term stability in home prices, as limited space begets limited housing opportunities and low vacancy rates. These dynamics benefit most from public policy that favors infill land development versus suburban development, which aims to transform unused urban property into multifamily housing. Such policies also encourage the development of strong transit systems that make urban living attractive for residents.

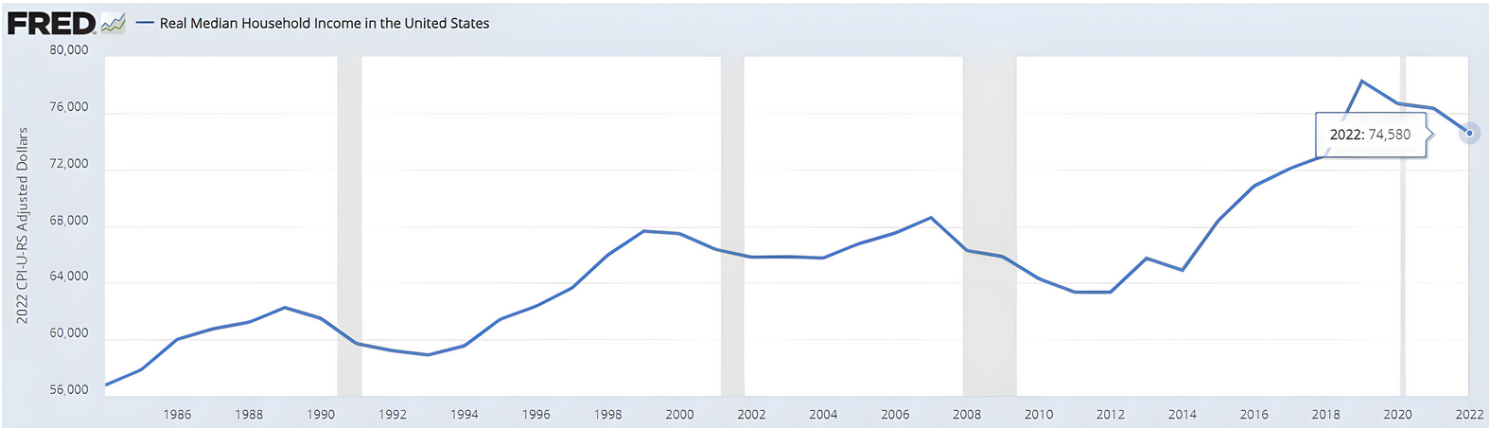
Commerce also plays an important role in long-term, upward price mobility. Port cities like Boston, which is Hingham's largest urban market, attracts sizeable investment and seaborne trade. In addition, the city is home to Ivy League heavy hitters MIT and Harvard, and is a major finance hub. It should come as no surprise then, that median household wealth in Massachusetts is significantly above the national median.

Data provided by the St. Louis Fed shows that real median household income in Massachusetts has grown by 3.32% per year since 1984, versus 0.72% nation-wide. The disparity has translated to \$18,970 more annual income per median Massachusetts household than the national median.

Real Median Household Income in Massachusetts

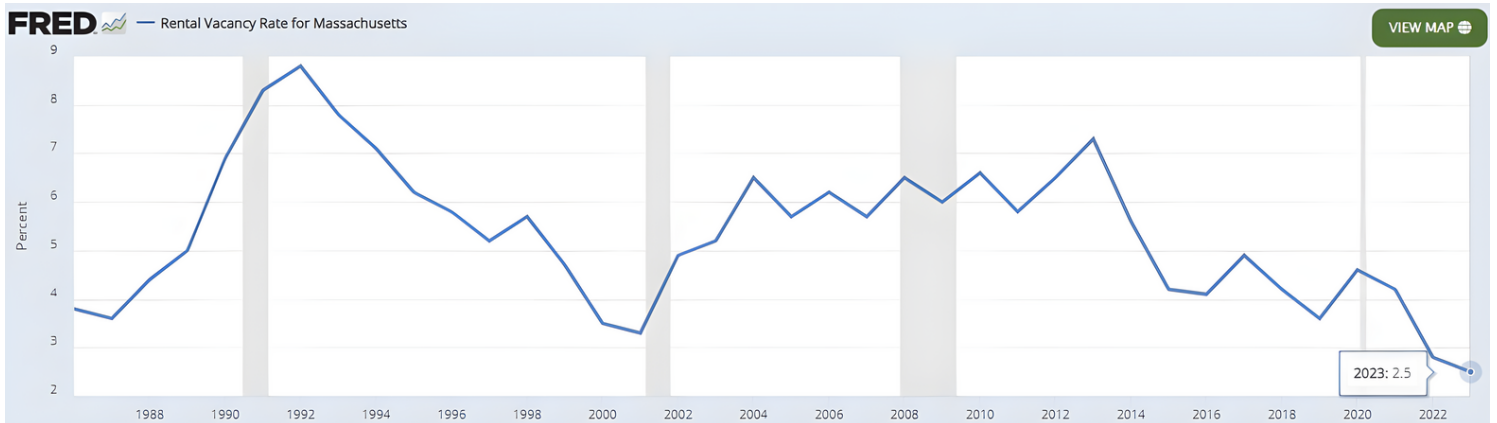


Real Median Household Income in the United States

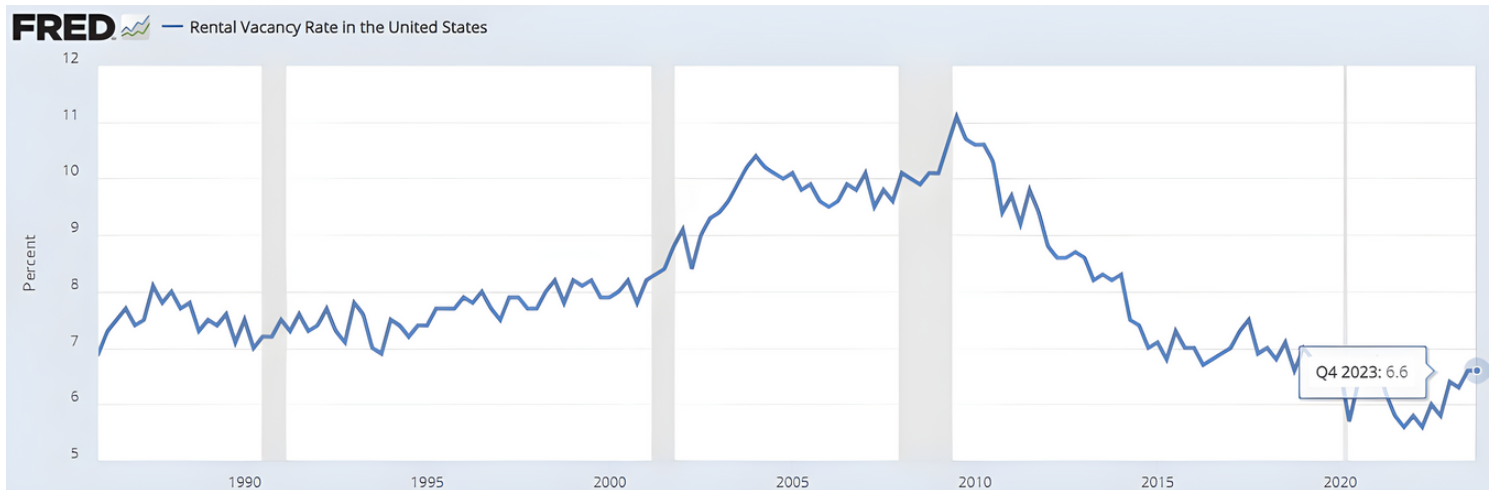


Moreover, Massachusetts vacancy rates are a low 2.5%, versus 6.6% for the national average: a 62% difference. Massachusetts rental properties also fared much better during the GFC, with vacancy rates flat throughout the crisis.

Rental Vacancy Rate in Massachusetts



Rental Vacancy Rate in the United States



It takes upwards of four years to build an apartment in Boston, and mere build plan approval takes over 600 days in San Francisco. The dynamics of Boston and San Francisco do not have to be as extreme to maintain price stability, as sustained low affordability risks a city's long-term health and vibrancy. The latter has been apparent in San Francisco post Covid-19, where pandemic population outflows due to remote work trends and tech industry job cuts have pressured multifamily housing prices. Luckily for Hingham shareholders, management entered the San Francisco Bay Area (SFBA) in 2021, following sizeable declines in multifamily prices. Management remains cautious in their entrance, and plans to scale SFBA operations as conditions settle.

Taking into account factors important for multifamily price stability, the biggest risk to long-term multifamily prices in Boston and San Francisco is not a loss of their geographic and economic importance over time. The risk is that continued unaffordability may incite legislation favorable to sustained increases in multifamily housing supply. In response, long-term multifamily values may be less resolute, which could result in a decrease of Hingham's credit quality re LTV contraction, and negatively impact Hingham's FHLB advance capacity.

Trading Strategy and Position Sizing

"If a stock goes from bad to okay, it goes north. If it goes from okay to good, it goes north. If it goes from good to great, it goes north."

— Peter Lynch, 1994 Fidelity Investor Conference

Trading Strategy

When Hingham enters a period where it over-earns, its share price tends to trade at or above a P/B multiple of 2.2 times, which has historically been a sell signal. Conversely, a P/B ratio of 1.2x or less has been a buy signal. In the event that ROE recovers to mid-teens, it is likely that Hingham will once more be valued at its upper historical range in the next economic

cycle.

As a result, late-cycle conditions, plus a P/B multiple of 2.1x, should provoke a stop-sell trade order priced at a ten percent discount for a minimum sell multiple of 1.9x. The stop-sell should be adjusted upwards at a 10% discount to market if Hingham's stock continue to rise, with a P/B ratio of 2.5x marking an immediate closure of a position. When a new minimum sell multiple is set, it should not be adjusted downward if Hingham's stock price sequentially declines.

This strategy is intended to guarantee attractive baseline profits, while offering concurrent protection against super deprival reaction syndrome risk. To further reduce the risk of eliciting market panic, a stop-sell order should not exceed two percent of a stock's daily average trading volume.

The stop-sell strategy also automates the beginnings of a position's exit to counter anchoring and recency bias, that is based on a multiple indicative of unusually high earnings and profitability. Investing in a liability sensitive business like Hingham requires a disciplined exit window based on business fundamentals, as high multiples coupled with above-average profitability tend to be an ephemeral phenomenon.

Were the prior strategy implemented, a purchase of Hingham stock at \$21.70 on June 1st, 2009, would have been sold in December 2016 at a multiple of 2.5x book, for a 6.5 year CAGR of 36.16%. The proceeding years produced moot returns for Hingham shareholders, until a buy multiple of 1.2x P/B was hit in the Covid-19 Pandemic Crash.

Position Sizing

An investment in Hingham is to assume duration risk, as it could be a few years before Hingham's business normalizes. Consequently, investment in Hingham is likely unsuitable for anyone with a time horizon of fewer than three years. Moreover, Hingham's sensitivity to higher interest rates may make it difficult to justify to retail clients who currently fear investment in liability sensitive businesses.

In order to minimize the risk of client redemptions, a maximum weighting of 12% in Hingham stock may be prudent for a firm that manages accredited investor wealth. For retail-facing firms, given the importance of maintaining client behavioral comfort, a maximum weighting of 4-6% may be more advisable.

Conclusion

I undertook the painstaking job of analyzing the US regional banking industry on a hunch that Hingham was unique. While other banks of interest were uncovered during dataset analysis (which I selfishly omitted for personal and professional use), my work made clear the competitive prowess of Hingham.

Hingham takes the crown for having the best average cross-cycle performance of any bank in the dataset. There are few banks that have bested Hingham's ROE across the economic cycle, and its loan performance and efficiency are unmatched. Should its trajectory resume, I believe that Hingham's top-tier ranking as a regional bank will become broadly known in my lifetime. As an investor who cares deeply about partnering with managers who run their businesses with care and dedication, I feel fortunate to have found such a wonderful business.

On a more personal note, when I first analyzed Hingham, I was one of those investors who thought themselves incapable of understanding banks, and was therefore unsuited for bank ownership. Thanks to Robert and Patrick Gaughen's insistence on running a simplified operation, I was inspired to challenge my biases and to test the limits of my understanding.

In the process, I received the honor of presenting Hingham at MOI Global's Best Ideas Conference in January, and discovered that there are knowable banks worth uncovering for those so willing.

"There is no substitute for hard work."

— Patrick Gaughen, 2023 Annual General Meeting

Signed,
Gwen Hofmeyr

A handwritten signature in black ink, appearing to read 'Gwen Hofmeyr', with a stylized flourish at the end.