Hesiod Financial, LLC

Monthly Report

May 2019

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Monthly Overview

Highlights

- In May, the DJIA fell 6.38%. The S&P 500 fell 6.57%. The NASDAQ 100 fell 8.71%.
- The U.S. increased tariffs on $200 billion of Chinese goods from 10% to 25%. The S&P 500 fell 2.51% the next trading day after this announcement.
- The U.S. announced a 5% tariff on all Mexican goods that will be implemented on June 10, 2019. Trump stated the tariff will gradually increase until the "immigration problem" is remedied.
- The Federal Reserve remained firmly committed to a "patient" policy stance, saying interest rates will likely remain unchanged well into the future.
- Minutes from the May 1-2 Federal Open Market Committee showed that members raised their expectations for full-year economic growth and said that earlier concerns they had about the slowdown had abated.
- Theresa May announced she would step down as leader of the Conservative Party and as Prime Minister. She will continue as a member of Parliament.

Market Sentiment

Market sentiment is currently quite negative. Throughout the month of May, we have seen bond prices rise greatly. Investors are fleeing to bonds for safety, and hence bond yields are at their lowest since late 2017. Furthermore, the futures market is pricing in two rate cuts by the Federal Reserve by year-end. This combined with the heightened trade war with China and the newly-imposed tariffs threats on Mexico, has led to the DJIA having its sixth straight negative week. The month of May was the DJIA's first negative month of the year.

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Sector of the Month

Consumer D&S / Healthcare

This month, Consumer D&S worked with Kratos on a short-term swing trade of Beyond Meat, yielding a gain of 14.81%.

Sector Outlook

Communication Services / Information Technology

CS/IT took big losses after ZUO released their earnings and their stock dropped 24%. This price drop was caused primarily caused by lowered yearly revenue predictions by the company. ZUO attributed much of their lowered predictions to their new revenue recognition rules. The CS/IT sector also entered a position in the ETF iPAY this month and was able to close its PAGS position after reaching its target price for a 9.5% return. While ZUO experienced a large loss, we still believe in the growth potential of DBaaS, SaaS, and cloud-based companies. Significant drivers of this growth are companies attempting to reduce costs by migrating to the cloud and using AI and machine learning to make their business more efficient and productive. The Deloitte Tech Trends 2019 Industry Report states that "among companies that adopt AI technologies, 70% will obtain AI capabilities through cloud-based enterprise software and 65% will create AI applications using cloud-based development services." The CS/IT will continue to research companies with a subscription business model as we feel this will lend to consistent, recurring revenue.

Materials / Energy / Industrials

The MEI sector performed notably given the current market conditions; We lost 3% this month as compared to 5% in the SPY.

The greatest domestic headwinds and tailwinds is the progress of the proposed/possible infrastructure bill. For our positions like ACM, we seek to greatly benefit from this $2 trillion stimulus, especially for a company with an expertise in micro-projects. However, on the flip side of this argument, most construction projects in the short to medium term will be fueled by this infrastructure bill and natural drivers; therefore, we will most likely see a drop in large-scale, entertainment-based projects such as stadiums or concert halls where the higher margins live.

Other domestic signals have indicated an industrial slow down. Looking at US oil and gas rig counts, we are potentially seeing the peek in production with macro factors such as lowering industrial demands hampering oil prices. Additionally, DOE crude oil inventories are at a yearly high, further causing the retreat of oil prices. However, not all is gloom, looking at capex spending of 15 top industrial companies, we notice average and median capex growth to be positive at 7% and 6% respectively.

Internationally, trade wars on multiple fronts make us hesitant on the general global market outlook. In the case with China, the state media recently threatened to embargo the US in terms of rare-earth elements, in which China holds an 80% global market share. Rare-earth commodity prices and supplier stock prices jumped immediately following the news; however, we caution against buying into this trend as historical evidence, specifically China with Japan in 2010, demonstrated that this is not a viable strategy for China nor is longing alternative rare-earth producers a profitable investment thesis. Looking towards Mexico, President Trump announced a tariff against Mexican imports of 5%, raised 5% monthly until 25%, to force Mexico to reduce illegal border crossings. These tariffs will hit American automakers the hardest, as their cars and respective parts sometimes cross the border many times before finally being sold in the US. These trade skirmishes certainly dampen short-term outlook for many industrial and manufacturing companies.

We seek to target MEI companies that will become a safe haven in the increasingly volatile market.

Consumer D&S / Healthcare

The Consumer D&S sector has performed poorly due to the underperformance of LKQ, losing to the S&P 500 and the SPDR Consumer Discretionary ETF. Consumer has been hit over the past few weeks largely due to rising costs from higher tariffs on imports from China. Recent retail sales data indicates a decline, with retail sales falling 0.2%. This contradicts the consumer confidence index which has again risen from 129.2 in April to 134.1 in May. Lack of Federal Reserve rate hikes are a positive for consumer companies and unemployment remains near historical lows. The outlook for consumer remains solid, but in the latter stages of the business cycle, consumer discretionary tends to remain in line with the rest of the market. With more volatility, consumer staples could be a safe haven.

The Healthcare sector has not opened any new Healthcare positions in May as a result of uncertainty. Healthcare has experienced significant volatility in May again due to political rhetoric with 2020 Democratic candidates pushing for lower costs and "Medicare for all". However, we believe Healthcare is strong in the long-term, regardless of short-term dips. Demand appears to be on the rise partially due to an aging population, and companies remain fundamentally strong. We expect to open new Healthcare positions in June.

Cryptocurrency & Digital Assets

The crypto market has been steadily climbing with Bitcoin finally breaking through $9,000 and Ethereum Classic eclipsing $9.30 for the first time since around the same time last year as cryptocurrencies were falling mightily, but now it is back on the rise. We believe there to be a great deal of potential in crypto based applications if not simply the cryptocurrencies themselves. Many cryptocurrencies are up over 100% with Bitcoin Cash up nearly 300% in the previous three months and have been steadily climbing since the beginning of the year when the cryptos bottomed out. We for see the potential of crypto to begin the realm of regulation and up rise into the popular eye with Facebook coin, JP Morgan's cryptocurrency and other privately created crypto-based systems. We believe a combination of these events will create a favorable environment for crypto-based investments.

REITs / FIGs

Low interest rates have supported dividend-paying equity real estate investment trusts in the recent years. What this does is it enables real estate investors to buy property with relatively cheap money, which provides the potential for greater income. Rates have steadily dropped in the last two quarters, with the 10-year Treasury yields recently dipping below the 2.25% level. We haven't seen rates this low since 2017 and the markets are still pricing in two additional rate cuts by the Federal Reserve in September and January. In terms of market trends, we currently see the demand for apartments reaching an inflection point. We believe that supply will soon start to exceed demand and millennials start to be more attracted to houses. Another opportunity we see is in the senior housing market. In a recent KKR macroeconomic report, they observed a tightening in supply of senior housing and healthcare facilities. We believe the success in the financial services industry is highly dependent on a bank's ability to scale through M&A activity. The bigger banks are in a better position to withstand a potential recession because they have the balance sheet and capabilities to be able to cushion any type of fall. The financial sector continues to trade largely with changes in the slope of the yield curve. As the curve steepened, financials performed better, while the recent flattening has again led to underperformance. We are high on the mobile payments space as we believe this space is being increasingly disrupted and causing big banks to invest heavily into this technology.

Trading Desk (Kratos)

The month of May provided Kratos with high volatility. Kratos' largest trade of the month, which ended in a small loss, was impacted negatively by an escalation in tensions with China. Currently, Kratos is working to hedge the fund's portfolio while capitalizing off the increased volatility in the market heading into June.

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Hesiod Labs (hLabs)

In this month, hLabs has developed a variety of different features to HYPAR which will be beneficial for analysts to begin utilizing in their analyses. Now, along with adding functionality for accessing technical indicators, the team is working on creating a database infrastructure for storing all requisite data for the current and future versions of the platform while also beginning the design of an interface for HYPAR. In terms of organizational changes, the Luca team is happy to welcome Andres Beltran— a rising third-year Computer Science student at Case Western Reserve University who has experience with Software Engineering and Django (an important tool for eventually deploying Luca to the web). In addition, the HYPAR team will be fully transitioning to using Scrum as a daily driver for organizing development. A new Scrum Master will be assigned to manage the team as well as the artifacts of each Agile Sprint. A new Product owner role (which will be taken on by the newly elected CTO) will be created in which this individual will be the voice of the customer (the analyst teams of Hesiod). This new method will ensure that all sectors will be able to get all of the requisite tools needed from hLabs to be able to provide even stronger data-driven analysis for pitches and that the HYPAR team will be able to operate as efficiently as possible while gaining valuable skills and experience prior to entering the industry.

Portfolio Analysis

Performance

	Monthly (%)	YTD (%)	Inception[1] (%)
Hesiod Financial	-11.68%	-9.23%	-9.23%
S&P 500 Index	-6.57%	+9.78%	+7.20%

[1]Inception at 1/8/2019

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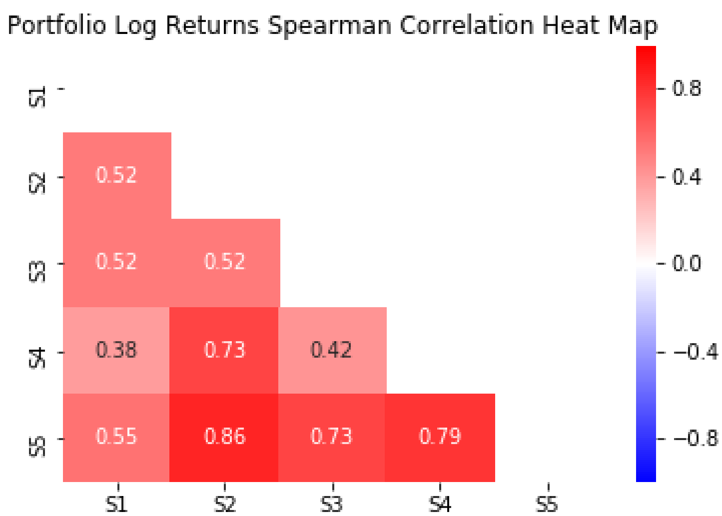
Key Statistics

Sharpe Ratio	-2.33
Standard Deviation of Monthly Returns	1.34%
Weighted Avg. Beta	1.12
Weighted Avg. Market Cap	14 B
Weighted Avg. P/E	51.51
Gross Exposure	72.64%

Asset Correlations

	S1	S2	S3	S4	S5
Avg	0.492	0.582	0.574	0.591	0.629
				Unweighted Portfolio Correlation[1]	0.576 ± 0.04
				Weighted Portfolio Correlation[2]	0.574 ± 0.05

[1]Average of each asset correlation without regard to volume of shares owned by Hesiod Financial.
[2]Weighted by the volume of shares owned at the end of the month of May 2019.



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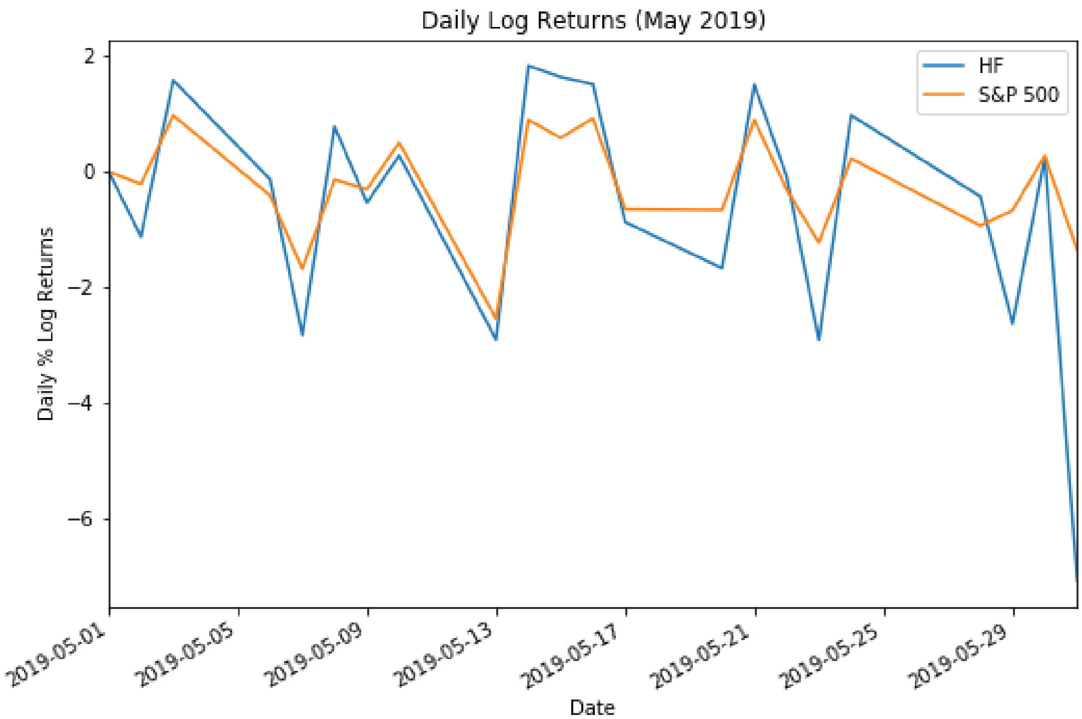

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