Hesiod Financial, LLC

Quarterly Report

Q1 2020

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Quarterly Overview

Highlights

- Due to the COVID-19 pandemic, U.S. stock indices faced severe losses in Q1 – DJIA crashed by -24.08%, S&P 500 Index plummeted by -20.67%, and the NASDAQ Composite which fared better of the three, still fell by -15.31%.
- This pandemic has not only affected the US, but the entire global economy as well.
    - As of April 3, 2020, total cases of Covid-19 has passed one million.
- The Federal Reserve have cut interest rates once by 50 basis points this quarter in response to the coronavirus threat. The Fed Funds rate is now in the range of 1.00%-1.25%. The severity of the cut was not seen since the 2008 financial crash.
- The US government has passed a $2 trillion stimulus bill to aid citizens, small businesses, and large corporations. Many families are expected to get a check from the government.

Hesiod Market Outlook

One of the greatest bull markets in history ended on March 11, 2020. On that day, the World Health Organization declared the coronavirus outbreak a pandemic. This sent markets crashing and wiping out about $8 trillion of U.S. market cap, as well as 20-30% of most retirement accounts. We are currently living in unprecedented times. Investor sentiment is at historic lows and uncertainty/volatility is at all-time highs. Our fund will remain bearish as the COVID-19 pandemic has plunged the world into a recession that is believed to be way worse than the global financial crisis a decade ago. Emerging markets and developing economies are hit the hardest by the crisis with nearly $90 billion in investments flowing out. It is also critical that central banks and finance ministers are taking the necessary steps to mitigate the effects of the pandemic and stabilize markets, especially by keeping liquidity flowing. Despite all of this, there is optimism that global economies will see a recovery in 2021 as long as containment is prioritized and health systems stay resilient. And along the way there will certainly be great opportunities to jump on, at very cheap prices too.

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Sector Outlooks

Communication Services / Information Technology (CSIT)

Q1 of 2020 was not a stellar quarter for CS/IT as we finished in line with the S&P 500 at -18%. Despite entering the year with bullish sentiments due to the de-escalation of the trade war between China and the United States, our opinions were quickly changed due to rising coronavirus concerns. At the end of February, as the coronavirus increased its spread, we chose to exit out Disney positions since we expected their business in both movie ticket sales as well as their parks division to be heavily impacted for several months.

While we expected the global technology market to fall, our sector opened Nvidia Corp (NVDA) and Advanced Micro Devices (AMD) positions. Our thesis behind both investments was the generally positive development and high demand for advanced GPU chips. Nvidia and AMD Radeon are direct competitors in the GPU segment and the only two companies that manufacture commercial gaming chipsets. By holding positions in both these companies, we eliminated inherent company-specific risk. We still expect NVDA and AMD to beat restated market forecasts and outperform for 1Q20 behind a greater demand for the new age Ray-Tracing GPUs and 16-series graphics cards.

At the end of March, our sector opened a position in Momo Inc. (MOMO), a Chinese social media and entertainment company. Momo operates a widely popular mobile social media platform of the same name, as well as Tantan, the Chinese Tinder. The firm derives the majority of its revenue from live video subscriptions and value-added services, capitalizing on single young people looking for connections. As China cautiously resumes economic production with the memory of contagion being green, we expect a sustained momentum of consumer spending in virtual products. Admittedly, China's recuperating economy is anticipating collateral damage from the global recession. But we are optimistic that Momo's business model—the accumulation of small fees that mobile users pay on a subconscious tap of their phone screen—will weather the reverberations of the corona shock. And ultimately, the fundamental human longing of connections should keep the company well hedged from downside risks even if a second/third-wave outbreak occurs in China.

Currently, our sector's portfolio is highly exposed to China, which is designed to capitalize on the short-term recovery Chinese economy thanks to many of their factories resuming production. As we enter the next quarter, we remain bearish about the sectors' overall growth as CS/IT is highly correlated with the general market and we foresee the global "work from home" movement contributing to the looming recession. Despite these concerns, we seek to diversify our holdings using companies that stand to benefit from the pandemic. We're focusing on specifically at companies that will experience minimal supply chain issues, with web-based companies positioned to be least impacted. Evidence of this can be seen in the past month, during which food delivery and health/fitness apps have experienced a huge surge in traffic, while ridesharing services have been pummeled.

Regarding communication services, our sector believes companies that focus on streaming and online entertainment will see continued expansion in traffic. This is evidenced by recent reports from Virgin Media and Comcast, who saw a 95% increase in daytime upstream traffic and a 32% growth in residential internet traffic, respectively. We also are optimistic about the gaming industry due to so many students home from school. The last week of the quarter was the biggest week in history for mobile game downloads and we predict that this trend will only continue. Our sector also believes that gaming companies will experience long term growth even after the virus subsides due to the upcoming releases of the Xbox series X as well as the PS5. As far as consumer products, we see the resurgence in production from China as a positive sign, but we also expect a decline in global demand as we enter a recession.

There was a heavy focus on 5G at CES in February. While we think that plans for infrastructure and roll out of 5G will experience delays caused by labor shortages, we feel that 5G will cause an explosion in growth in our sector. Currently, HPE and Intel working on their Open Distributed

Infrastructure Management (ODIM) project which they are expected to unveil during Q2. The goal of ODIM is to provide companies behind infrastructure supporting 5G with software to better handle scaling. Our sector believes that coronavirus has had a net positive effect on the 5G movement as it has highlighted the need for efficient and stable data processing, especially with medical technologies that utilize AI, such as temperature detecting infrared cameras.

We predict that information technology companies will experience growth in the second quarter due to the already large demand increase in computing and storage caused by remote work. Our outlook is supported by the recent earnings of companies such as Micron technologies, which announced that they have been boosting production due to the heightened desire for chips. Remote work has also caused demand in laptops to increase, as well as the need for more data centers. Our sector is similarly bullish on cybersecurity due to the increased demand driven by remote work. The FBI recently issued a statement warning that the number of scam reports has exploded since most remote workers are highly vulnerable to cyber-attacks.

Materials / Energy / Industrials (MEI)

Our sector has experienced extreme volatility in the past three months, as the industrials recession was fully upon the economy well before the COVID-19 pandemic.

Looking back, we started the quarter again delivering strong returns with Tesla (TSLA). We then took a long position on the steel industry, which turned out to be a miscalculation on our parts in regard to the severity and duration of the industrials recession. Inventory backlogs were too high to overcome in the 3-4-month timeframe that we initially projected. We then made a strategic decision to hold cash until a promising investment can be found in the face of increasing headwinds, which luckily carried us afloat as the markets crashed mid-March. In our latest position, we went long in the defense sector. We believe the sector carries certain attributes that are especially favorable in this recession. Companies face two major risks in this recession: a lack of demand and credit. The defense sector is well protected against both, as defense contracts are generally insulated from macro-recessions and the US government will certainly bail out major defense contractors if needed. While, we took preliminary losses in this position, we still believe in the long-term thesis.

Looking into next quarter, MEI will continue to be very prudent with its cash, as Hesiod does not project a quick recovery and high correlations continue to outweigh fundamentals. Beyond our defense thesis, we continue to explore other investments in commodities and niche industrials stocks.

Consumer Goods & Healthcare (CGH)

Our sector was especially susceptible to the coronavirus demand shocks, given how many consumer products and services were shut down through quarantine and social distancing measures, like restaurants and clothing stores. Additionally, many people have lost their jobs, and unemployment will likely continue to rise, meaning that many cannot afford goods and services they previously consumed. Stimulus action in late March was a boon for the outlook of many CGH companies, but the long-term and medium-term effects are unclear, given how unprecedented this pandemic is, and the uncertainty about the containment of coronavirus.

The year started off with cautious, but optimistic views of the markets in 2020. Numerous institutions warned that the double-digit growth of 2019 was a once-in-a-decade occurrence. With this, sentiments averaged around a slowed growth in the U.S. and global economy with most citing volatility in interest rates. Overall, it seems that this expected contraction was catapulted by the coronavirus pandemic and markets continue to act erratically. With regards to consumer behavior, there remains a great deal of uncertainty as these markets may be irrationally driven by consumer fears; as such, volatility and increasingly reactionary behavior is expected to continue so long as the pandemic grips the nation and onward.

Our sector foresaw some of the incredibly negative effects of COVID-19 relatively early, so we looked to capitalize on a spike in demand for face masks towards the beginning of the quarter. We purchased Lakeland Industries (LAKE), a company that had a sizable protective gear segment and exposure to both the US and China.

We also shed about half of our position in the Invesco S&P 500 Equal Weight Consumer Staples ETF (RHS). RHS was heavily correlated with the S&P 500 and we were prepared for the market to crash during the quarter. We still do see the value in owning a consumer staples ETF like RHS to help anchor our portfolio to some extent. But in the short-term, we believe that it is best to hold a smaller position.

Finally, at the end of Q1 we decided to make a play in food delivery services and consumer defensive stores. With many people being forced to go home, we saw an opportunity for growth in these areas. This led to purchasing shares in WAITR Holdings (WTRH), Blue Apron (APRN), Grubhub (GRUB), Costco (COST), and Walmart (WMT). Unfortunately, we were a few days late to the food delivery trend. WTRH and APRN were very volatile, and we subsequently exited the positions with some losses. On the other hand, GRUB, COST, and WMT returned modest gains. We have continued to hold COST and WMT in order to focus more on consumer defensive goods moving forward.

Looking to the next quarter, we expect a continuation of high demand for healthcare products. In addition, there is growing interest in biopharmaceutical companies that are developing potential vaccines to COVID-19, some advancing to trial stages such as Gilead Sciences Inc. (GILD), which commenced Stage 3 testing on patients in the US and Wuhan. We plan to keep a close eye on companies making headway on working vaccines, as they are in high demand now. Our overall outlook on the healthcare sector is promising. Global healthcare spending is expected to rise, which will present new opportunities for the sector.

Given the direct impacts of COVID-19, we will hold a generally bearish outlook in the coming months. As we look to opportunities in healthcare due to the virus, we will also investigate undervalued consumer defensive companies in the case of economic downturn. We believe that these strategies will help CGH succeed in what is likely to be a turbulent few months.

Real Estate Investment Trusts & Financial Institution Groups (REIT/FIG)

The first couple of months in 2020 proved to be very exciting as a two of our holdings had extremely positive earnings reports. We exited Equinix (EQIX), a long-time position of our sector, after receiving a nice boost from earnings. However, we still believed in the growth potential of the underlying industry as the demand for data centers will only increase in the future. This led us to wanting to maintain our exposure to this particular industry through a slightly smaller competitor in Digital Realty (DLR) with better growth prospects. Another big winner for our sector was a real estate brokerage called Redfin (RDFN) as we identified key growth drivers that included historically low mortgage rates and a superior integrated real estate transaction platform. Our success with the residential housing market led us to a red-hot homebuilding company in Taylor Morrison (TMHC) that was coming off of a significant acquisition. We saw a macro landscape that looked positive for U.S. homebuilders (solid labor market, low interest rates, limited supply, strong buyer traffic, etc.), but like all black swan events, the COVID-19 impact took us by surprise. Along with the whole market, the entire homebuilding sector and, of course, TMHC had their stock drop like a rock. At this point in time, our sector was holding another cyclical company in Outfront Media (OUT). Even though we liked the resiliency in outdoor advertising and the acceleration in national advertising spend, the pandemic totally flipped this investment thesis on its head. As a response, our sector looked for REITs that would be relatively insulated from the pandemic induced market volatility. We found a healthcare REIT specializing in medical office buildings called Healthcare Trust of America (HTA), as well as an international cell tower REIT called American Tower Corp (AMT). Our belief is that REITs with high dividend yields and consistent revenue streams will be particularly attractive to yield-craved investors, as well as a safe haven during times of market uncertainty and low interest rates.

In regard to the financials sector, the only stock from this industry we had was LendingClub (LC), which we saw little gains from. Before the coronavirus pandemic engulfed the world, we viewed LC as having some potential upside, however, due to an increase in volatility and a litigation case with the Free Trade Commission, we decided to sell all of our positions in LC in February. For the entire sector itself, we see a ton of uncertainty. While a low interest rate environment tends to favor industries like REITs, the fact that long-term rates have seen a dip can potentially hurt many bank's long-term revenues as pointed out by Charles Schwab's analysts. Furthermore, with issues such as liquidity and debt becoming hurdles for this industry, we will become bearish when considering investing in FIGs companies.

Foreign Exchange (FX)

USD: The past few months have been a rollercoaster for the US economy. The last few weeks of March saw the coronavirus pandemic explode within the US, causing extreme social distancing measures to be enacted per WHO's suggestion, along with a $2T government stimulus plan. The US has the most confirmed number of COVID-19 cases of any country, and also faces shortages of masks and testing equipment. 6.6 million Americans filed unemployment claims in the last week of March alone. Despite worsening fundamentals and a grim short- to medium-term outlook, the Dollar retains its 'safe haven' status, as many USD bulls believe investors will prefer the Greenback over most other currencies. Much depends on President Trump's stimulus action and the nation's response to COVID-19, but Hesiod believes that the USD will be slightly bullish in the coming months.

EUR: Similar to INR, current and forecasted economic prospects for the European Union are increasingly dismal, and the Euro will likely be hit hard as the coronavirus continues its rampage through European countries. Italy was hit hard by COVID-19 but is starting to "flatten the curve", while Spain is setting mortality records nearly every day. France is seeing an increase in deaths and shortage of hospital space. Spain also posted 300,000 recent jobless claims. Response to

COVID-19 across the EU has been uncoordinated; some countries are calling for joint European debt, or “coronabills”, but opposition to the idea leaves major stimulus plans in gridlock. Overall, the EUR has lots of room to fall, and even positive news related to slowing the spread of coronavirus might not help its case much. Some technical analysis lends credence to EUR bears as well: the EUR/USD Relative Strength Index is currently above 30 – outside oversold conditions, and is below 50, 100, and 200 Simple Moving Averages. Overall, Hesiod is bearish on the EUR.

GBP: The pound has fallen to its lowest level on record against the currencies of many of UK’s major trading partners, as the effects of the COVID-19 pandemic continues to weigh down the markets. Sterling’s broad effective exchange rate, measured against a basket of currencies corresponding to the UK’s trade flows, hit a low of 72.9 on Tuesday, according to the daily reading compiled by the Bank of England. This is weaker than any time during the Brexit timeline, the 2008/2009 financial crisis, or even UK’s ejection from the European Exchange Rate Mechanism in 1992. The rate regained a little ground recently to 74.4. Along with other major currencies, the pound has been hit by a surging dollar as companies and banks have been hoarding USD to pay their debts and keep business flowing during the crisis. But sterling has been made extra vulnerable by the UK’s departure from the EU, while a new burst of monetary stimulus and the government’s planned relief package have also turned investors more negative on the currency’s prospects. The central bank has cut rates twice already to a record low of 0.1% and relaunched a £200bn bond-buying program to alleviate the effects of the crisis. The government will spend a lot in response to the outbreak and it seems pretty clear that there has to be more quantitative easing in the UK. Hesiod believes investors are pricing this in and will cause the sterling to fall even lower.

CNH: The USD/CNH (offshore Chinese Yuan) rose as high as 7.12 in the first half of March and settles around 7.10, reversing it brief drop to 6.92 in late February. The rate has risen up despite the lockdown in China coming to an end, plausibly because American demand of Chinese goods has been the main driver of the exchange rate. As the US state governments ramp up social distancing measures, the consequential mass layoffs anticipate a significant decline in US demand of Chinese goods. Furthermore, the upcoming global economic downturn would only hinder American investment in Chinese manufacturing all the more, even though the US-China trade war has just concluded. While China's manufacturing sector is reversing part of the decline by shifting to produce much-needed medical supplies, unclear is the monetary volume of such medically-oriented exports. Since China is supplying mainly low profit margin medical products, and since a lot of the transfer of goods happen in the form of humanitarian donations rather than monetary purchase, it is doubtful that "medical diplomacy" is going to strengthen the Yuan per se.

INR: India's economy is starting to show signs of weakness and slowdown, indicating a bearish pressure on the INR. Several indexes put India's GDP growth around 2-2.5% for 2020-21, the lowest measure since its economy was liberalized 30 years ago. The SENSEX, a stock index for major companies on the Bombay stock exchange, also took a major hit recently. According to analysts polled by Reuters, the Rupee is expected to stay weak versus the US Dollar until the coronavirus pandemic eases. However, the exact path of the Rupee will depend on how successful the Indian government is at slowing and containing the spread of coronavirus. India has been on a 21-day lockdown since March 21st, but it's likely the lockdown might be extended. India currently has 2300 cases of coronavirus among its 1.3 billion population, and could see many more depending on government response. Hesiod believes that in the coming months, the INR will continue its bear run against major indexes.

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Trading Desk (Kratos)

We performed exceptionally well throughout the first quarter. Our disciplined, flexible hedging strategy kept the fund positive this quarter, while we saw the S&P 500 down 20%. Kratos' gains were mostly realized by establishing long volatility positions. Prior to the coronavirus (COVID-19) outbreak in the United States, we believed that the virus would reach America, and that this had not yet been priced into the market. Therefore, we entered these long positions prior to the VIX's enormous spike. We currently believe that volatility will revert back toward its mean in the coming weeks, and have hence closed our long volatility position. We have entered into new long positions in inverse S&P500 index funds, which we plan to hold for the foreseeable future until global conditions improve. We remain vigilant in keeping a flexible and adaptive mindset for each new piece of news that comes out regarding coronavirus.

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Portfolio Analysis

Performance

	Quarterly (%)	YTD	Since Inception (1/8/2019)
Hesiod Financial	7.0%	7.0%	10.9%
S&P 500 Index	-20.7%	-20.7%	0.4%

Key Statistics

	1st Quarter
Sharpe Ratio	1.19
Standard Deviation	5.67%
Weighted Avg. Beta	1.19
Weighted Avg. Market Cap	43 B
Weighted Avg. P/E	60.6
Gross Exposure	79.8%

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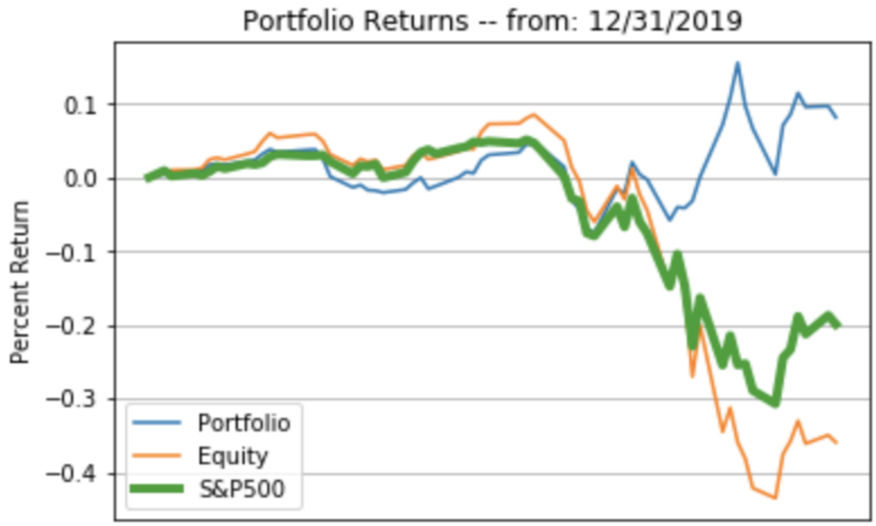
Return Visualizations



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Commentary Credits

Sung Kim: Highlights; FIG

Victor Xie: Market Sentiment; REIT; Performance & Key Statistics

Daniel Soares: CSIT

Justin Luo: CGH

Tiger Chen: MEI; Return Visualization

Alex Szabo: Foreign Exchange

Zain Khawaja: Trading Desk (Kratos)

Contact

Website: www.hesiodfinancial.com

Email: contact@hesiod.com

Telephone: (314) 504-5347

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