



HEIJIN CAPITAL



HEIJIN CAPITAL BI-WEEKLY INVESTMENT COMMENTARY

January 1st – January 12th, 2020



Commentary Overview

| | |
|-------------------------------------|----------|
| Global Macro | 3 |
| China Embracing The World | 3 |
| Foreign Exchange | 5 |
| Japanese Yen: The Currency For 2020 | 5 |
| Global Macro | 7 |
| Iran - US Tensions | 7 |

Market Snapshot

| INDEX | CLOSE | 2 WEEKS | YTD |
|------------------------------|----------|---------|--------|
| Dow Jones Industrial Average | 28,823 | -0.16% | -0.16% |
| S&P 500 Index | 3,265 | +0.23% | +0.23% |
| NASDAQ | 8,735 | +0.95% | +0.95% |
| 10-yr Treasury Yield | 1.83% | -2.6% | -2.6% |
| Oil (\$/bbl) | \$59.04 | -3.5% | -3.5% |
| Bonds | \$112.98 | +0.27% | +0.27% |

*bonds are represented by the iShares Core U.S. Aggregate Bond ETF (NYSEARCA:AGG)

The economic and market forecasts presented herein are for informational purposes as of the date of this presentation. There can be no assurance that the forecasts will be achieved. Please see disclaimer at the end of this presentation. **Past performance does not guarantee future results, which may vary.**

For internal purposes only - Accredited investors, Heijin Capital Family Investors*, and prospective investors.



Market Outlook & Strategy

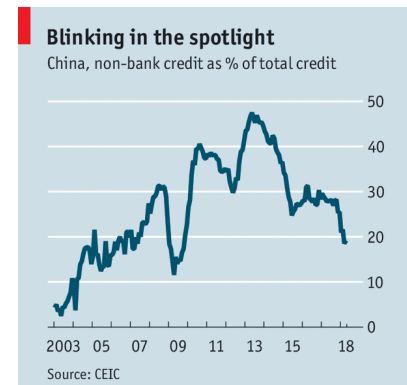
Global Macro

China Embracing The World

The beginning of the decade brought a widely unnoticed change to the global economy: China is opening up its \$45 trillion financial industry to the world. More precisely, with January 1, China allows insurance and future trading companies with full foreign ownership to operate in China. With April, foreigners will be able to set up or buy wholly foreign-owned mutual fund management firms. Lastly, from December 1 onwards, global investment banks will be allowed to operate in China. These new policies are a massive step towards leveling the playfield for global companies in China and could be a result of China's current economic weakness.

Why Right Now?

China is currently facing some of the toughest challenges since it began opening its economy to the world in 1978 after the death of Mao Zedong. Internally, Xi Jinping has put China's economy under pressure by cracking down on shadow banking and cooling down the credit market. Although in the long term, these policies will undoubtedly have a beneficial effect on the economy by preventing a credit bubble, in the short term, they put intense pressure on China's economy. This downward pressure was probably within Xi's models in 2013 when he began cracking down debt in China; however, he made his calculations without the orange man in DC and global public sentiment.



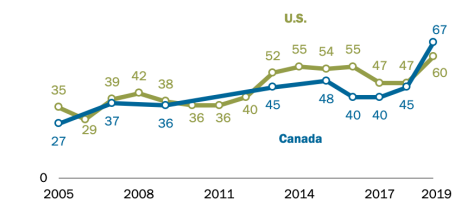
Economist.com

Yes, Trump and his trade wars are a significant concern to Beijing; however, not due to the crazy man in the White House, but because of the general worsening sentiment against China in the world. Especially in the west, where the wealth gap increases and the middle class disappears, the public is increasingly angry about politicians enabling and allowing job outflows to China. In the US, one of the only issues Republicans and Democrats agree upon is the need for a fair trade agreement in China. Similarly, in Europe the public is demanding governments to take back jobs from China.

Negative views of China up sharply in Canada, U.S.

% who have an unfavorable view of China

100%



Source: Spring 2019 Global Attitudes Survey, Q8b.

PEW RESEARCH CENTER

The combination of both economic pressure due to debt crackdown and trade wars, as well as increasing hostility against China in the world, have the potential to slow down China's economy significantly. A severe economic slowdown would not be acceptable for the central government in Beijing, given that the regime gains most of its authority from its economic success. Therefore,

The economic and market forecasts presented herein are for informational purposes as of the date of this presentation. There can be no assurance that the forecasts will be achieved. Please see disclaimer at the end of this presentation. **Past performance does not guarantee future results, which may vary.**

For internal purposes only - Accredited investors, Heijin Capital Family Investors*, and prospective investors.



HEIJIN CAPITAL

Beijing is now opening up its economy to allow new money to flow into the country and to avoid that more countries punish China's unfair competition and trade practices.

Consequences

Banks are accepting the new regulations with open arms and relief. In the last summer, Wall Street and European Banks laid off over 30,000 workers. According to business intelligence firm Coalition, everything looks terrible for banks at the moment. Fixed income, currencies, commodities, equities, investment banking, M&A advisory, and capital markets all declined. Therefore, being allowed to enter the Chinese market is a gift from God for most banks since it enables them to mitigate some of the decreasing revenues from existing markets.

Moreover, opening up the financial sector will be a good indicator of Chinese companies' competitiveness against global companies. If local companies manage to compete against multinationals, Beijing might consider opening up other sectors to the world. On the other side, if local companies get crushed by international competition, Chinese lawmakers will maintain entry barriers in different industries to protect the local economy.

Heijin's Take

Although the new regulations going into effect will not have significant effects on the markets, it is a historic event that will have a lasting impact on the global economy. In the short-term, the regulations will almost only benefit companies that want to expand in China, but in the long term, it is a big step towards making Chinese markets accessible to the world.



Foreign Exchange

Japanese Yen: The Currency For 2020

If you have been reading our commentaries over the past two years, you may have noticed that we like to write about the Japanese Yen in times of financial conflict and geopolitical volatility. Well, this time it's no different. Our passion for the world-renowned safe haven currency extends into the early months of 2020, with persisting market volatility, trade tensions & slowing global growth, all explaining why the yen has strengthened over the dollar over the last few weeks. In this commentary, we will explain to you how the JPY earned its status and why we believe it will be a great value-add to one's portfolio in 2020.

Throughout uncertain times, such as the prelude to the Brexit vote or the brink of a full-blown war between Iran and the US, investors tend to gravitate toward the Japanese yen. This influx of interest causes the yen to appreciate and has crowned the currency with the perception of a safe-haven currency. But why is it that global investors flock to this currency of the world's most indebted nation whenever trouble arises? The strengthening of the Japanese currency during periods of risk aversion has become so repetitive and ingrained that it is rarely questioned - but should it be?

During the financial crisis of '08 and especially its aftermath, the yen appreciated by more than 20%. Later, in 2010, concerns over European debt led to a 10 percent appreciation against the euro. A similar phenomenon occurred again in 2013 when uncertainty around Italian elections caused the yen to rise over 5% against the euro and 4% against the dollar - all in a single day. Even when Japan was shaken by the Great East Japan

earthquake in 2011, the currency somehow managed to rise. If this happened to any other country, the currency would be destined to depreciate in value - but not the yen. Although the reasons for this are multifaceted, we will delve into some of the main reasons as to why the JPY is considered to be such a stable currency and why it is a great addition to your portfolio in 2020.



Japan has always been a vital global exporter and has continually exported significantly more goods and services than it imports. The result has been decades of current account surpluses that have positioned Japan as a net creditor to the global markets. This is a distinction shared by the Swiss franc, often considered another haven currency.

The economic and market forecasts presented herein are for informational purposes as of the date of this presentation. There can be no assurance that the forecasts will be achieved. Please see disclaimer at the end of this presentation. **Past performance does not guarantee future results, which may vary.**

For internal purposes only - Accredited investors, Heijin Capital Family Investors*, and prospective investors.



HEIJIN CAPITAL

The value of foreign assets held by Japanese investors is substantially higher than the value of Japanese assets owned by foreign investors. These so-called “net foreign assets” priced in at 339 trillion yen at the end of 2015, based on data from the Japanese Finance Ministry. This places Japan as the largest creditor nation, a title it’s held for the last 25 years. When markets become risk-averse, that money tends to move back home. This repatriation of capital coincides with a flow out of other currencies and (such as the US dollar or Euro) into the Japanese yen, causing it to strengthen. It may sound odd that the world’s most indebted nation (based on debt-to-GDP) is also the world’s largest creditor nation; however, this is all possible as most of the Japanese debt is actually held by the Japanese public.

In addition to sky-high debt-to-GDP ratios, Japan has also been a leader in terms of low-interest rates. Attempting to hinder deflation and spur economic growth, Japan has held interest rates at rock-bottom levels for nearly 20 years. These record-low, stable interest rates have given birth to a prevalent type of trade, known as a carry trade, where investors will borrow money in a low-interest-rate environment and then invest that money in higher-yielding assets from other countries. Japan’s long-standing policy of near-zero interest rates has caused it to become a significant source of capital for these types of trades.

Part of the reason the yen continues to act as a safe-haven currency is simply because everyone acknowledges that it is. Investors around the world have come to embrace the yen as a reliable place to go for safety, and by attempting to take advantage of this, they actually create the intended effect. After all, the stock market is one of the world's largest psychological puzzles. If you know that whenever the world panics, the yen is going to rise, then it makes it a no-brainer to buy the yen even if you’re unsure exactly why everyone else is - although we hope that now you know.

We anticipate the yen to slide even further in 2020, with these being the most critical moments for investors to watch:

- The continuation of trade war between the US and China
- Brexit uncertainties
- The situation in Iran
- Ongoing slow growth in China, Europe and Japan
- The US election uncertainty (notably the implications for taxes, regulation and capex spending)
- Increasing negative-yielding debt sending investors for on the hunt for riskier, higher-yielding alternatives



Global Macro

Iran - US Tensions

Only a matter of days into 2020, the global political scene has been shaken to its core by the death of Iranian, Maj.Gen. Qassem Suleimani, the head of the Quds, an elite branch of the Islamic Revolutionary Guard Corps. Suleimani was widely considered to be the second most powerful man in Iran and was killed on 3rd January following a drone strike on his convoy orchestrated by the US Government.

His forces have instigated frequent attacks against coalition troops in Afghanistan. He funded terror cells in Europe and personally plotted an unsuccessful bombing in Washington, D.C. He armed the terrorist group Hezbollah to help them in their goal to destroy the state of Israel. Moreover in the hours leading up to his death, he shockingly met up with one of the conspirators of the US embassy bombing in Kuwait in 1983. Despite the justifications for the termination of such a deplorable character, killing a terrorist is one thing. Killing another country's general, despite his actions being that of a terrorist, is a completely different kettle of fish. Only hours after the assassination, Iran's Supreme Leader Ayatollah Khamenei announced, "harsh revenge awaits the criminal killers". This message was reiterated by Iran's supreme national security council, "the US regime will be responsible for all the consequences". It is clear that his death has destroyed Iranian/American relations, made an already hostile nation even more hostile to the west and further increased instability in a region that can ill afford to be so.

Thus it was no surprise that Iran launched a counter-strike on the 8th, with more than 20 missiles on two large military bases housing both American and Iraqi troops. The timing of such attacks, 01:00 is a clear nod to Suleimani who was killed around the same time on the 3rd. While the world waits for America's next move, both political commentators and Heijin agree that it is unlikely that a large scale war will ensue as Iran looks to be stepping back. Unlike other countries that could be deemed a military threat to the US, Russia for example, Iran knows it has no chance of beating the well-oiled war machine that is the American army. Thus, we expect the Iranian response (if any) to be cyberwarfare, in addition to increasing its presence and funding into proxy wars against America, in a similar fashion to its assistance of Hezbollah against the state of Israel.

So how can one protect or even bolster one's portfolio in such a crisis?

Gold - Of course as the original safe haven, Gold will certainly continue to jump if the crisis escalates further. Heijin would recommend holding actual bullion if possible or getting exposure to the precious metal via the **SPDR Gold Shares ETF**.



HEIJIN CAPITAL

BAE Systems (LSE: BA) - BAE Systems plc provides defence, aerospace, and security solutions worldwide. In the event of war, it is obvious that defence stocks are the go-to addition for your portfolio. Of the sector Heijin believes BAE to be the best choice. They have a history of doing sizable business with both American and UK governments and even if war between America and Iran never happens, the Middle East will still be a hotbed for armed conflict and instability. BAE is already a leading player in Saudi Arabia where defence spending is expected to grow “substantially” says the firm.

From a financial standpoint, the company is not only a geopolitical play, but it is also brilliant from a growth and dividend angle too. The company is currently grossly undervalued from its fair price of £11.79, by 49.7%. They have had consistent, high-quality earnings for the past 5 years, and are expected to make earnings growth of over 12% per annum. Moreover, the management is effectively utilising their assets with return on equity sitting at almost 25%. They also offer a stable and growing dividend of 3.81%.

Oil - We couldn't talk about rising tensions in the Middle East, without talking about the effect it will have on the price of crude. US crude oil prices shot higher following the killing of Qassem Suleimani, however, compared to the risk of further escalation between the nations, the gains were relatively small. The smaller swings in price in a situation of this magnitude compared to the volatility we saw in 2018/19 may highlight the Middle East's reduced presence in the Oil market. Despite the tensions, tensions alone cannot sustain a sizable rally, especially as Iran looks to be stepping down, for now. For any serious long term price gains something serious will need to occur, for example, the closure of the Strait of Hormuz, a channel which 21 million barrels of oil pass through each day. If tensions were to rise again we would advise investment in industry giants such as BP. Moreover, the world has changed since the days when the Middle East controlled the price of oil. Due to the boom in shale the margin producer is now the United States. The Middle East's share in global oil exports fell to about 35% in 2018, down from over 50% in 1980. This reduction in vulnerability of the oil market from tensions in the Gulf is shown by the Brent crude benchmark falling 4% to \$65.54 a barrel, a significant reversal after at first climbing more than 4% immediately after news of the attack. The initial surge in response to news of the attack sent Brent up to its highest point since September at \$71.75 per barrel. This highlights that investors are confident that war will not occur, as well as the reduced importance of the Middle East in the sector.



HEIJIN CAPITAL

Contact Details

Gregory Laurent Josi

Founder, Managing Director & CIO

gregory.laurentjosi@heijincapital.com

Moriz Martiner

Research Analyst

moriz.martiner@heijincapital.com

Pasha Tinkov

Executive Director & COO

pasha.tinkov@heijincapital.com

James Schofield

Director

james.schofield@heijincapital.com



DISCLAIMER

Persons who access the information made available on the Heijin Capital S.A. and its affiliates (collectively, “Heijin”) website (the “website”) agree to the following:

While the material on this website is often about investments, none of it is offered as investment advice. For members of the public, this means that neither the receipt nor the distribution of information through this website constitutes the formation of an investment advisory relationship or any similar client relationship. The materials on this website are for informational purposes only and may not be relied on by any person for any purpose and are not, and should not be construed as investment, financial, legal, tax or other advice, recommendation or research.

The information contained herein does not constitute a distribution, an offer to sell or the solicitation of an offer to buy any securities in any jurisdiction in which such distribution or offer is not authorized.

This website may contain forward-looking statements on our current expectations and projections about future events. Statements that are predictive in nature, that depend upon or refer to future events or conditions or that include words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “estimates,” “thinks,” “seeks,” “targets,” “forecasts,” “could” or the negative of such terms or other variations on such terms or comparable terminology. Similarly, statements that describe Heijin's objectives, plans or goals are forward-looking. Any forward-looking statements are based on Heijin's current intent, belief, expectations, estimates and projections. These statements are not guarantees of future performance and involve risks, uncertainties, assumptions and other factors that are difficult to predict and that could cause actual results to differ materially.

These factors include, among other things, (1) general economic and business conditions; (2) new governmental regulations and changes in, or the failure to comply with existing governmental regulation, (3) legislative proposals that impact our industry or the way we do business, (4) competition, and (5) our ability to attract and retain qualified personnel. Accordingly, you should not rely upon forward-looking statements as a prediction of actual results and actual results may vary materially from what is expressed in or indicated by the forward-looking statements.

No representation or warranty is given in respect of the correctness of the information contained herein as at any future date. Certain information included in this communication is based on information obtained from third-party sources considered to be reliable. Any projections or analysis provided to assist the recipient of this communication in evaluating the matters described herein may be based on subjective assessments and assumptions and may use one among alternative methodologies that produce different results. Accordingly, any projections or analysis should not be viewed as factual and should not be relied upon as an accurate prediction of future results. In addition, this website may contain performance and other data. Past performance is not indicative of future performance.

This website contains hyperlinks to websites operated by Heijin and other parties. Heijin does not control the content or accuracy of information on third-party websites and does not otherwise endorse the material placed on such sites.

All information and content on this website is furnished “AS IS,” without warranty of any kind, express or implied. Heijin will not assume any liability for any loss or damage of any kind arising, whether direct or indirect, caused by the use of any part of the information provided. Heijin and its licensors do not warrant that the content is accurate, reliable or correct; that the website will be available at any particular time or location; that any defects or errors will be corrected; that unauthorized access to or misappropriation of the content will not occur; or that the content is free of viruses or other harmful components. Your use of the website is solely at your risk.

The entire website is subject to copyright with all rights reserved. No permission is granted to copy, distribute, modify, post or frame any text, graphics, video, audio, software code, or user interface design or logos. The information contained in shall not be published, rewritten for broadcast or publication or redistributed in any medium without prior written permission from Heijin.

Thank you for your understanding,
Heijin Capital Management

***Past performance does not guarantee future results, which may vary. The value of investments and the income derived from investments will fluctuate and can go down as well as up. A loss of principal may occur.**

The economic and market forecasts presented herein are for informational purposes as of the date of this presentation. There can be no assurance that the forecasts will be achieved. Please see disclaimer at the end of this presentation. **Past performance does not guarantee future results, which may vary.**

For internal purposes only - Accredited investors, Heijin Capital Family Investors*, and prospective investors.