



HEIJIN CAPITAL



HEIJIN CAPITAL BI-WEEKLY INVESTMENT COMMENTARY

February 23rd – March 8th, 2020



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Market Snapshot

INDEX	CLOSE	2 WEEKS	YTD
Dow Jones Industrial Average	25,864	-7.50%	-10.41%
S&P 500 Index	2,972	-7.86%	-8.76%
NASDAQ	8,575	-7.00%	-5.68%
10-yr Treasury Yield (% yield)	0.74%	-0.64%	-1.14%
WTI Oil (\$/bbl)	\$41.28	-19.74%	-32.29%
Bonds	\$117.86	+2.25%	+4.60%

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



Market Outlook & Strategy

Investment Commentary 6-Month Position Tracker

This table reflects the returns of all the picks we made in the last half year. Although this table gives a good overview of our picks, it should be taken with caution since some picks were made as recently as 2 weeks ago, so the thesis might not have come true yet. Moreover, benchmarking our picks against the S&P500 was done as a simplification; The S&P500 is limited in its exposure to different countries, asset classes, etc. so it's not ideal for our benchmarking purposes.

L/S	Company	Ticker	IC Date	Beta	Return vs S&P500	Peak Return	Current Alpha	Average Alpha
L	Fitbit Inc	NYSE:FIT	8/9/19	1.53	78.43%	35.64%	74.74%	55.60%
S	Royal Caribbean Cruises Ltd	NYSE:RCL	9/2/20	1.72	53.51%	104.58%	58.91%	18.24%
L	Enphase Energy	NASDAQ:ENPH	9/2/20	0.21	50.17%	38.60%	36.28%	25.38%
S	Wynn Resorts	NASDAQ:WYNN	9/2/20	2.15	39.25%	33.64%	50.14%	13.55%
S	Marriott International	NASDAQ:MAR	9/2/20	1.29	36.84%	19.35%	36.74%	11.58%
S	Melco Resorts & Entertainment Ltd	NASDAQ:MLCO	9/2/20	1.92	34.01%	12.84%	41.96%	14.02%
S	Las Vegas Sands	NYSE:LVS	9/2/20	1.6	32.29%	18.43%	36.15%	11.71%
L	Brookfield Renewable Partners	NYSE:BEP	20/10/2019	0.49	27.59%	33.81%	23.20%	4.92%
L	Oersted A/S	CPH:ORSTED	1/12/19	1	21.55%	23.43%	17.75%	6.35%
S	La Perla Fashion Holding	EPA:ALPER	8/9/19	1	21.26%	8.38%	17.46%	7.71%
L	NextEra Energy Inc	NYSE:NEE	15/12/2019	0.26	20.88%	17.16%	11.63%	3.63%
L	SPDR Gold Trust	NYSEARCA:GLD	12/1/20	1	18.67%	17.60%	14.87%	0.07%
S	USDJPY	CURRENCY:USDJPY	12/1/20	N/A	14.50%	35.66%	0.08%	-3.71%
L	Alteryx Inc	NYSE:AYX	22/09/2019	1	14.15%	47.17%	10.35%	-11.73%
L	Lululemon Athletica	NASDAQ:LULU	8/9/19	0.86	12.63%	20.27%	12.07%	8.58%
S	Yum China	NYSE:YUMC	9/2/20	1.02	12.40%	25.93%	8.85%	-3.60%
L	SK Hynix Inc	KRX:000660	15/12/2019	1	11.89%	18.51%	8.09%	3.96%
L	Guardant Health	NASDAQ:GH	1/12/19	1	10.57%	6.95%	6.77%	0.10%
L	Givaudan S.A.	SWX:GIVN	17/11/2019	1	9.92%	17.85%	6.12%	-0.23%
L	Enel S.p.A.	BIT:ENEL	9/2/20	1	8.99%	-2.20%	5.19%	0.05%
L	BAE Systems plc	LON:BA	12/1/20	1	7.89%	8.04%	4.09%	1.03%
L	Waste Connections	NYSE:WCN	6/10/19	0.12	7.46%	8.96%	4.66%	-3.35%
L	ETFS PALLADIUM	NYSEARCA:PALL	23/02/2020	1	5.23%	11.32%	1.43%	1.16%
L	AAC Technologies	HKG:2018	9/2/20	1	3.39%	0.69%	-0.41%	-3.04%
L	CBRE Group	NYSE:CBRE	3/11/19	1.64	3.09%	5.82%	1.57%	-2.44%
L	Equinix Inc	NASDAQ:EQIX	23/02/2020	0.63	2.91%	4.51%	-4.04%	-4.48%

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.



L	Covanta Holding	NYSE:CVA	15/12/2019	1.22	-1.41%	3.70%	-3.59%	-4.61%
L	TransDigm Group	NYSE:TDG	3/11/19	1.07	-2.05%	53.04%	-5.60%	2.58%
L	Biocept	NASDAQ:BIOC	1/12/19	-0.89	-4.67%	40.74%	-17.47%	-35.06%
L	Skyworks Solutions Inc	NASDAQ:SWKS	9/2/20	1.25	-4.92%	26.47%	-5.52%	-3.17%
L	Raytheon Company	NYSE:RTN	3/11/19	0.93	-10.98%	19.51%	-15.03%	-5.63%
L	Cutera, Inc.	NASDAQ:CUTR	26/01/2020	1.24	-13.65%	21.47%	-15.26%	-10.91%
L	Palo Alto Networks	NYSE:PANW	22/09/2019	1.09	-15.34%	24.37%	-19.08%	-0.94%
L	Globus Medical	NYSE:GMED	6/10/19	1.08	-16.02%	0.00%	-19.91%	-4.59%
L	Aimmune Therapeutics	NASDAQ:AIMT	17/11/2019	0.38	-18.49%	0.09%	-25.41%	6.05%
L	Inmode Ltd	NASDAQ:INMD	26/01/2020	1	-18.53%	9.92%	-22.33%	-12.18%
Avg				0.99	12.59%	21.45%	9.32%	2.41%

Footnotes:

1. All alphas are calculated with the S&P500 as benchmark.
2. Betas of 1 were used where the beta was not available.
3. Current Alpha is the alpha if we would have held our picks until today.
4. Peak alpha is the alpha if sold at the highest point.
5. Average alpha is the alpha resulting from the average stock price.

**Global Macro****Economic Realities & Balancing Risks Derived from the Coronavirus – Part 2**

The first time we wrote about the Coronavirus was at the end of January when the world was significantly more stable than today economically and socially speaking. In that early stage analysis on the possible repercussions of the Coronavirus we laid out an equity asset allocation strategy, which turned out to be quite fruitful as shown in the table below — including an internal pick on Tianjin Teda which has activities in the manufacturing of surgical masks.

Equity	Type	Net PnL
Royal Caribbean Cruises Ltd (NYSE:RCL)	Short	+40.74%
Wynn Resorts Limited (NASDAQ:WYNN)	Short	+26.47%
Las Vegas Sands Corp (NYSE:LVS)	Short	+19.51%
Melco Resorts & Entertainment (NASDAQ:MLCO)	Short	+21.23%
Estee Lauder (NYSE:EL)	Short	+8.02%
Marriott International Inc (NASDAQ:MAR)	Short	+24.07%
Yum China Holdings Inc (NYSE:YUMC)	Short	-0.38%
Tianjin Teda Co Ltd (000652.SZ)	Long	+40.02%

For most fund managers the past month has been a sea of red as we saw blood running in the streets of most markets across the globe. Company share prices tumbled 10, 15, 20% within a single market session on various days. The S&P 500 alone is down >11% from the time we wrote about the ripples the Coronavirus could have on financial markets globally. Various desks at the big IBs managing risks issued statements on how the reaction the markets had on the spreading of the Coronavirus would have never been modelled for and many a month ago were against placing “expensive hedges”. Today, those expensive hedges turned out to be cheap when some funds will have to recoup losses in excess of 20-30% in many cases. The popular belief now is that the general market will carry everyone back up in a couple of months, however, we have our doubts about that especially for some industries.

At Heijin, we are looking to play on a lower level of a volatility with the CBOE Volatility Index as markets begin pricing in the full impacts of the Coronavirus when the effects become clearer. In addition to beginning to conduct a full market analysis in the coming weeks to pick up a dozen companies that are bound to head into a period of accelerative growth once the panic fades away.

Economic Realities

As we mentioned in the commentary at the beginning of February, China’s sensational economic rise has been the biggest driver to the prosperous 10-15 years we have lived. Of course, for



some, notably in Europe and in certain areas in the US, the rise of China has put pressure on the middle class and the working class as a whole. Simply because monetarily speaking the >400m people that China has lifted out of poverty have had a wealth transfer that the majority of the US and European middle class missed out on due to losing market share across countless industries. And on that note, no matter how much some may dislike President Donald Trump due to his less politically correct approach to running the U.S., his fight against China with the trade war was the first time any Western nation stood up to negotiate a fairer way of doing business. Of course the trade war is slowing down the global economy already but in the long run it will rebalance some trade deficits with China that Western nations have – U.S. trade deficit with China went from –US\$419.2bn in 2018 to –US\$345.6bn in 2019. No matter how much European politicians enjoy criticizing Trump or pointing fingers at him for being “rash” or “politically incorrect” in his ways of doing they should instead begin recognizing that his stance on China will help them in the long run as they were not doing anything about it.

The blunt and sad truth is that Europe is too busy dealing with a disgruntled population because of a changing economic landscape that they are not willing to face (e.g. Pension Reforms in France) along with a broken mindset on always wanting more “rights” without actually carrying out their social and economic duties. Highlighting the weak spot of having democracies that can become systems that cannot sustain themselves in the long run because of pressure from the population that the politicians always give in to no matter how socially or economically irrational the demands are. Europeans can be proud of what they accomplished but now we’re entering a new age and if they don’t learn to adapt or realize what is going on around them then they really will become the museum of the world. That is why to some extent, in the very long run (which in the end is what really matters) the UK may be better off out of the EU as most of the politicians in the EU are living with horse blinders on right now. In the EU some of the most important nations are Spain, France, Germany, Belgium, and Italy. Now, just reflect on the political situation in those countries today. A possible secession with Catalonia, a broken government, Merkel succession crisis, not even a formed government, and a government that falls apart every week respectively. Maybe not all is well... Apart from Poland the rising star there is little positivity just higher taxes ahead.

In relation to the Coronavirus, the response from many European nations was lackluster especially in terms of preparations when the situation was already starting to go out of control. Even when the WHO had issued a statement that suggested that the “window” to keep the spread contained had gone. There are many reforms to be made in the coming years if Europe wants to come out on top.

This year is going to be a tough one as the first quarter has been obliterated due to the impacts of the Coronavirus. But alas we have to play with the hand we are dealt with as best we can. China will most likely not grow economically speaking in 2020 as their economy as a whole was



hit from all directions. China's annual c. 5-6% growth is imperative to the global economy's expansion despite even the U.S. growing at 2-3%. As we previously mentioned, China's growth alone is the equivalent of an additional Swiss economy and by losing that along with significant economic repercussions in European nations due to a more difficult year for the Chinese it is going to be a sluggish year.

With regards to the next decade everything is not as bright as some may say. The numbers always tell the true story and are often the best way to rationalize a situation. China's economic boom simply is not replicable in terms of scale so let's not begin to kid ourselves that the next decade is going to have more sunshine and rainbows than the previous. The only way we could generate the amount of wealth China has generated is if India fixes up its productivity problem. India is a nation with huge potential but its massive inefficiency in terms of resource allocation (in labor markets) and such means despite its >1.3bn population it would take monumental reforms for it to be as agile as China economically speaking. Another way would be for the economies in South East Asia to experience a significant expansion in synchronization, but even then the likelihood of that occurring is low. Then there's the possibility with some economies in South America that can generate huge wealth from their vast natural resources, but in this case the possibility of it occurring in synch is even lower as most political systems are broken or not in favor of free markets (E.g. Venezuela, Argentina, etc.). Of course this does not suggest that the next decade will be sluggish but it just means the next decade will be relatively calmer even with the incremental improvements in productivity being made across more developed economies.

So all in all, with the help of some of the above aligning favorably we should be in for a prosperous decade but with more controlled growth, which is by no means negative - it may in fact be much healthier.



Global Macro

Can Mining Benefit From The Shift Away From The Carbon Economy?

It is clear the mining industry, and the commodities markets as a whole, have had a tumultuous few years, to put it mildly. Increased levels of environmental activism, greater regulations, geopolitical tensions, a slowdown in China's once ravenous appetite for commodities and an increase in growth sapping trade wars. It is clear that commodity prices have taken a beating, however as we look forward into the next 5, 10 even 50 years and our transition from carbon dependency to 'greener' alternatives, it is clear that demand for key minerals is set to skyrocket in order to fuel this energy transition.

This transition phase provides a brilliant opportunity for the mining sector. As nations decarbonize and enact legislation tightening the use of fossil fuels, low emission energy devices such as electric cars, solar panels etc. will take center stage and it's the mining industry who will take profit from supplying the raw materials to these mineral intensive systems. The potential upside for the fast-moving firms is colossal with production estimates of critical minerals used in low-carbon technologies projected to rise by 965% for lithium, 585% for cobalt, 383% for graphite, 241% for indium, 173% for vanadium by 2050. Another important factor is also abundantly clear; the mining sector itself needs to become greener. Although it is of course mining which will provide these vital minerals, it's a catch 22 as currently the process to excavate these minerals from the earth is very carbon-intensive. Therefore, it'll be the companies with the forward outlook to begin making serious operational changes now that will reap the rewards in years to come, as it is these firms fueled by renewable energy that will be positioned the best in the market to sell low-carbon footprint minerals. So which firm is best positioned to take advantage of this transitioning market?

Rio Tinto (LSE: RIO) - The Anglo-Australian multinational and one of the world's largest metals and mining corporations has had its fair share of hardships in the past decade, with commodity prices as considerable lows. However, the future looks bright for the industry behemoth who's CEO Jean-Sébastien Jacques pledged earlier this month that the firm would reduce its greenhouse gas emissions to zero as well as invest over \$1BN into climate-related projects. The firm is currently working hard on its promises, through its opening of a solar power farm in Australia thereby allowing their iron mine to greatly reduce its carbon footprint, in addition to working in partnership with Apple (NASDAQ: AAPL) to produce carbon-neutral aluminum. In terms of valuation, Heijin believes that Rio Tinto is currently undervalued by around 27% from its fair value of £48.30. The firm has a history of high-quality earnings which have a trend growth of 35.3% per year over the past 5 years. It also boasts a stellar dividend profile, with a current yield of 9.8%. Its foothold in the industry, coupled with its forward outlook gives Heijin confidence in Rio Tinto's future.



It is with no doubt that this is an incredibly long play that will not see its fruition for many years, however the importance of this carbon transition cannot be understated. Nobody ever regrets making fast and decisive adjustments to changing circumstances. In some ways, business mirrors biology.

As Darwin surmised, those who survive are not the strongest or the most intelligent, but the most adaptable to change. And it is within this that Heijin's confidence in the carbon friendly mining industry comes from.

FX

The Japanese Yen Makes A Comeback

At the beginning of the year, we wrote about how the JPY could be a beneficial addition to your portfolio. A continuing trade war, the coronavirus, and an overall market sell-off have once again reflected positively on the safe-haven currency, netting us a 4% return since January.

The Japanese yen hit a seven-week high against the U.S. dollar and almost beat its record for its biggest daily gain since May 2017. Hopes that the outbreak can be contained in China have been superseded this week by worries that infections are spreading around the globe (mainly in Italy & the United States). Measures to contain the virus have wreaked havoc on supply chains, the world's economy, and global financial markets. The VIX index, which is known as Wall Street's "fear index" is at record highs since the global financial crisis in 2008. Equity markets have also tumbled, with the S&P 500 on course for the worst performance in a week since the 2008 financial crisis, as investors unloaded riskier assets and piled into safe-haven currencies. That sent the Japanese yen to a seven-week high of 105.32 versus the dollar.

Besides the Yen, traders were also offloading currencies closely associated with a possible recession, pushing the Australian dollar (AUD), much reliant on China and global economic growth, 1.07% lower to \$0.650, its lowest point in 11 years. Apart from entering into safe-haven assets, investors also tend to reverse out of so-called "carry trades" in tumultuous times (we wrote about the fundamentals of carry trades a few commentaries back). In short, carry trades work by investors borrowing in low-yielding currencies like the euro - where interest rates are below zero - to invest in higher-yielding ones. With investors pulling out of higher-yielding and riskier currencies, that has helped the euro soar to a month high of \$1.105. It was last roughly flat at \$1.100. Not a considerable appreciation, but it could be the start of something more prominent.

We will be tracking the JPY for the next couple of months as the situation unfolds and will be providing you with updates along the way.



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