



September 15, 2023

## **A Clarion Call to Macro and Value Investors**

Dear Investors:

I am writing this personal letter to Crescat's clients and followers ahead of our regular monthly research letter to literally pound the table on what I believe is one of the best times to deploy capital to Crescat's strategies in our firm's history. The set-up is the most exciting macro and value combination play on both the long and short sides of the markets that I have seen in my career. It is what I have been calling the Great Rotation.

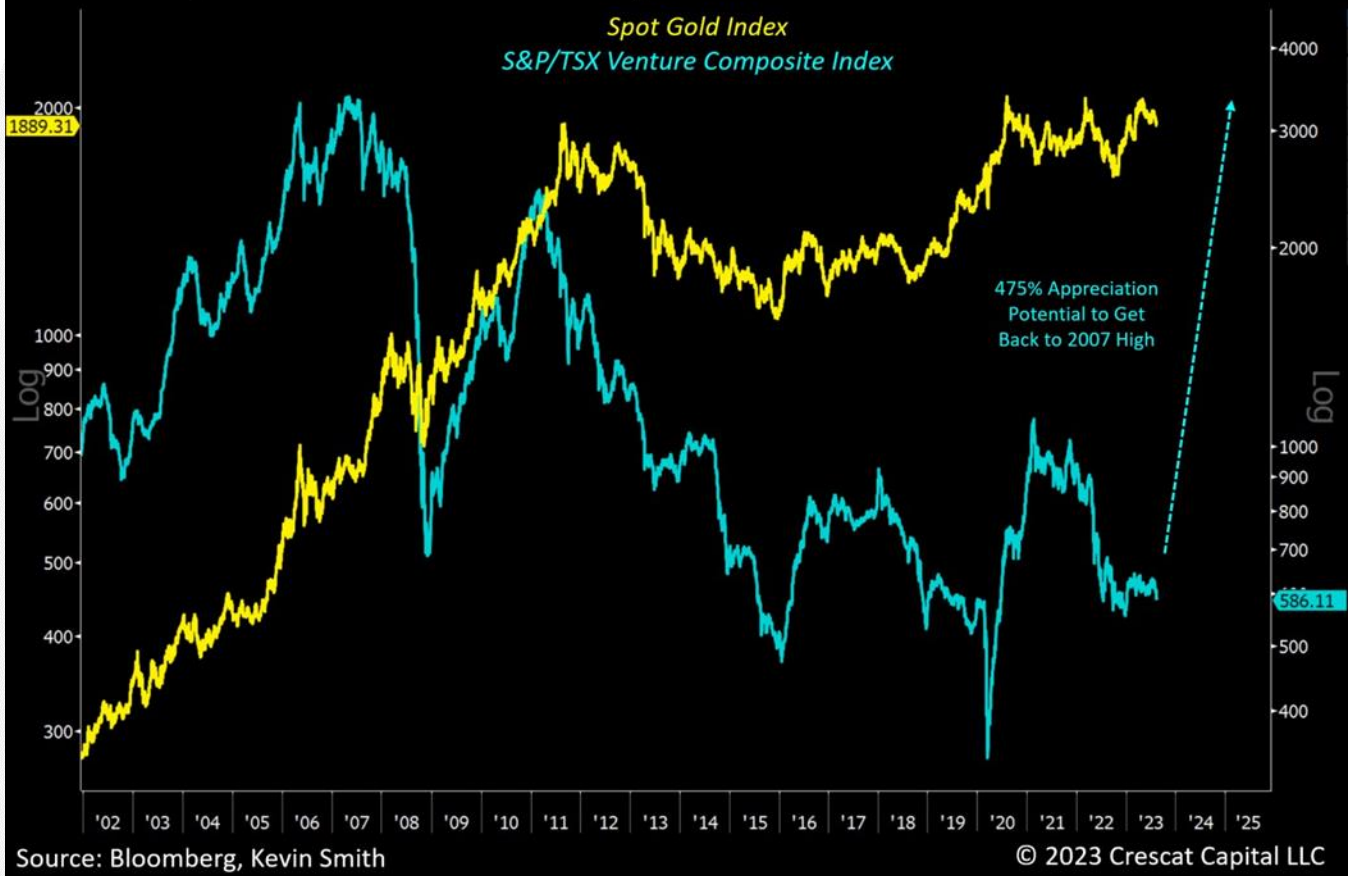
Two factors are conspiring to set this major investor shift into motion:

1. A capitulation selloff in deeply undervalued, high-quality precious metals exploration stocks ahead of a likely new secular breakout and run in gold that presents a generational buying opportunity.
2. A highly speculative double-top fizzling out of hyper-overvalued mega-cap tech stocks that presents a timely selling and/or shorting opportunity ahead of a likely stagflationary profit squeeze and recession.

## **High Intrinsic-Value Metal Discoveries Hiding Out in Deeply Undervalued Explorers**

The mining industry, and the exploration segment in particular, is so undeservedly beaten down that it is ripe for a major turn. To understand how deeply depressed the exploration industry is, the S&P/TSX Venture Composite Index which is the benchmark for mining explorers, has a 475% appreciation potential just to get back to its peak from 16 years ago. That is quite possible, and I think inevitable with gold price itself getting ready to break out to new all-time highs; creating a long-term, cup-and-handle consolidation pattern for gold in the chart below.

# Explorers Extremely Undervalued to Gold



But now imagine where our premier explorer holdings with their bona fide and incipient high-grade new discoveries are likely to go in a new raging bull market for precious metals. Our portfolio of explorers has been thoroughly vetted by Quinton Hennigh, Ph.D., Crescat's highly experienced geologic and technical director.

## Megacap Tech Headed for Wreck

The short opportunity in overvalued megacap tech stocks and other short themes that we are expressing in our Global Macro and Long/Short Funds is equally compelling. The double-top formation in the NYSE FANG+ index is a bearish technical sign. The historically tight risk premia (low earnings yield relative to Treasuries) for this group of former winners combined with the Fed tightening is the bigger fundamental and macro setup. The trailing aggregate P/E for these ten megacap companies is a historically high 45 times. In this case, analysts' highly questionable year-ahead earnings growth projections fueled by "AI" euphoria are contributing to ludicrous mispricing.





Our research shows these companies' forward 12-month combined earnings are doomed to disappoint while their stock prices should become the subject of a violent repricing. For the roadmap, refer to the performance of large-cap tech stocks during the 2001 recession in the wake of the Internet bubble.

### Stagflationary Hard Landing Looms

***In my strong view, based on my firm's deep macro analysis, the popular notion that the economy is headed for a disinflationary soft landing will be proven completely wrong on both counts over the next year. In other words, we have the macro setup for both the re-emergence of rising inflation and a downturn in inflation-adjusted GDP directly ahead of us.***

Supply-shock vengeance from critical commodities, such as energy, food, and shelter, and the metals at the core of all of these, should trigger the next inflation wave. In turn, inflation will drive the hard landing for both the real economy and overvalued financial assets. Furthermore, we believe the true cost-of-living increase for basic needs is already hitting hard across the broad middle and lower-income classes. It is setting off increased labor strife that will only feed an ongoing wage-price spiral that in our view could be the bane of policymaker existence for years to come.

***For now, because of the likely incorrect macro narrative being spun by Wall Street cheerleaders and the financial media, and the correspondingly lopsided market positioning, there are incredible value-oriented, contrarian investment opportunities that abound on both the long and short side of the market.***

### **Metals Are the Common Denominator**

The long-side opportunities that excite me and our firm the most are the deeply undervalued precious and base metal explorers that control vast, high-grade mineral resources. They can strongly benefit throughout the likely coming business cycle shift that starts with a stagflationary recession favoring precious metals and then morphs into a commodity-driven expansion favoring all metals, particularly of the electrification-oriented variety.

Metals are the common denominator for the macroeconomic climate ahead. In our analysis, they are the most critical resource needed for the green energy movement to reduce the world's economic reliance on hydrocarbons and bring down greenhouse gas emissions. Metals are the key to harnessing electricity. They are the most important raw material for the global power infrastructure, including the electricity grid transmission and storage, i.e., batteries. We need them for renewable energy production through wind and solar. They are also key to the generation and transmission of nuclear power which through small modular reactor technology is the re-emerging energy solution that offers both high energy return on energy invested (EROI) and low greenhouse gas emissions to reduce the world's long-term reliance on oil and gas. In the short run, the world still relies on oil and gas. The cyclical past underinvestment there, in direct opposition to the CAPEX cycle ahead of the GFC, risks near-term commodity supply-shocks and a second wave of long-term structural inflation that will catch the average investor off-guard.

The problem is that due to anti-mining sentiment and underinvestment for more than a decade across the major mining companies in the G7 economies, mine lives and grades have all been declining, not just for gold and silver but for all crucial metals that the world needs to meet the demands of the energy transition. Silver fantastically fits in both the precious and electrification metal buckets. The lack of new supplies of copper, nickel, zinc, cobalt, and manganese is a problem for the future electricity demand. Lithium is one exception where investment has already been strong and supplies are increasing amid apparent high demand, but valuations for these miners are high, and there is the risk of competing new metals for batteries.

### **Monetary Metals Likely to Explode Higher**

***The demand for monetary metals, including both gold and silver, should absolutely explode in the inflationary hard landing that we envision. Monetary metals will likely be among the first commodities to break out to the upside in the months ahead. As overvalued financial assets come crashing down, investors will first look for the safest inflationary hedge to round out their portfolios.***

Because of the structural supply-demand imbalances, we believe metal prices have the potential to explode. The companies that stand to benefit the most in this environment are the exploration-focused miners that control the large new high-grade deposits, like the super-undervalued ones in our portfolio. Once metals prices rise, the large mining companies will have little choice but to buy companies like those in our activist exploration bucket to catch up with their past lack of investment, and I am highly confident that they will be paying substantial premiums compared to where the market is valuing our companies today.

The managements of the major mining companies were rightfully accused of poor capital allocation in the last cycle. They spent like drunken sailors, literally buying up everything in the 2000s, including many low-grade uneconomic deposits that would never become mines. They bought them anyway and overpaid because it was a bull market and investment capital was abundant. But because of the shareholder boycott and somewhat rightfully deserved abuse ever since then, managements have gone completely the other way in the last decade-plus and have grossly underinvested. To their defense, they haven't had the capital to invest while policy headwinds have also been fierce.

I believe the policy environment will shift entirely out of necessity in the coming years under expanded fiscal stimulus programs that will benefit mining companies once the stagflationary shocks really start hitting. At that point, existing fiscal programs like the Inflation Reduction, Infrastructure, and CHIPS Acts will likely expand to continue the trend toward manufacturing onshoring, infrastructure rebuilding, and electrification. That will be the government's push to get the economy out of the recession, and it should be a substantial driver of a long-term commodity bull market cycle at the core of the next economic expansion. I envision a long-term commodity bull market emerging just like the one that came out of the tech bust in 2001. But rather than being driven by China's meteoric infrastructure build, as it was at that time, it will likely be driven by a similar effort across G7 economies.

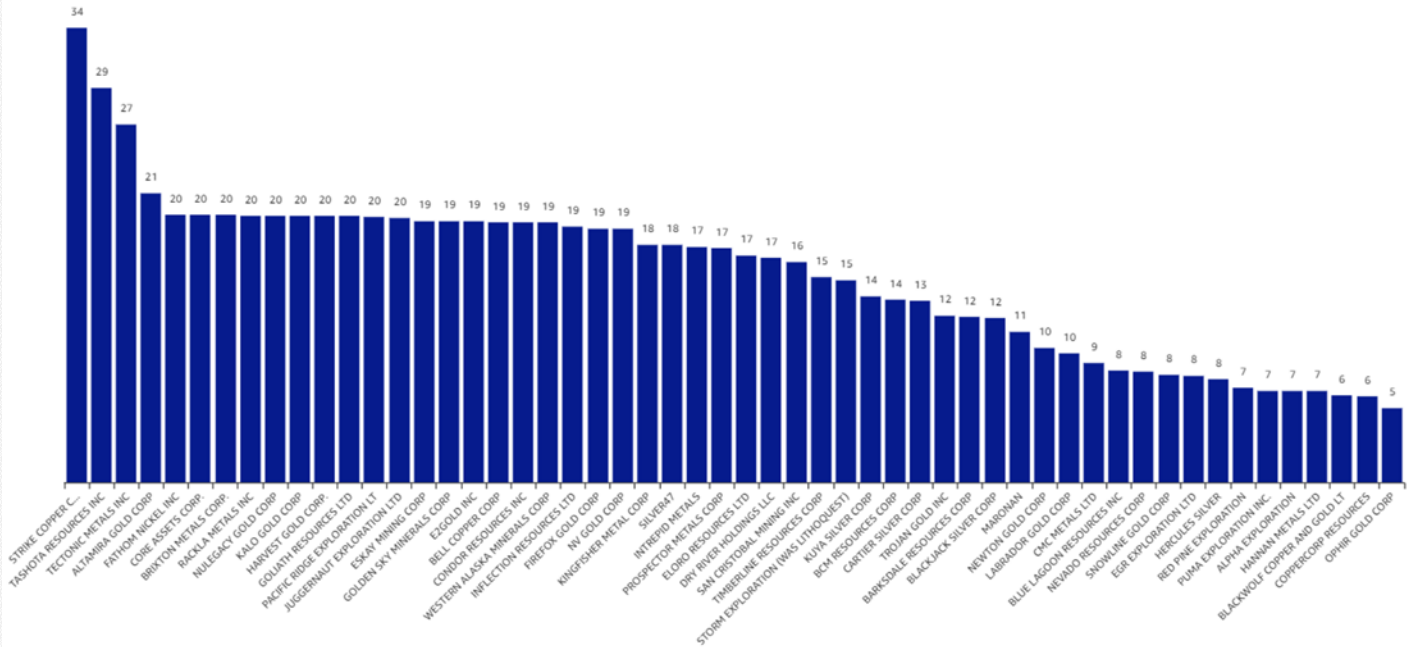
***I believe the negative sentiment from the general investment community toward the mining industry is way overdone. The true problem is that the industry has been starved of the capital it desperately needs to meet critical demand. This risks large upward price shocks in commodity prices. What goes around comes around.***

What we are doing is indeed a distressed industry opportunity and a chance for us to bring institutional capital intelligently into mining exploration to get some of the best early-stage investments ahead of a major new commodity cycle. The market has been so depressed that Crescat's funds have been able to acquire substantial activist stakes of more than 5% ownership across 55 companies already over the past three years. It has been an extraordinary amount of due diligence and steady accumulation over this time.



## Crescat's Activist Ownership

Percent Partially Diluted Ownership Including Warrants



Sam Zell told Quinton, Tavi, and me that we were “ahead of the curve” when we pitched him on our activist metals strategy one year ago. You should have seen his eyes light up, by the way, when we told him about Snowline. Unfortunately, he passed away in May of this year. Sam Zell was a master macro timer. He is the type of investor who I think would be loading the boat right now on a strategy like ours if he were still alive. Those are the types of investors we are seeking to attract and retain now. I believe we indeed are early and ahead of the curve, which is exactly where we want to be. We are doing it in what I think is the most intelligent way possible with Quinton’s expert guidance, and we intend to capitalize on that for our clients in spades. I am confident that other smart, large pools of capital will very soon start to see this industry-wide opportunity and get on board. I am dedicated to going after as much of that money as we can and channeling it through Crescat to further catalyze this opportunity in the best way possible for all our clients.

### Overvalued Financial Assets Offer Ripe Short Opportunities

At the same time, I continue to believe there are incredible short opportunities in the market, and I am determined to exploit them for our clients in our Global Macro and Long/Short funds. The market at large is ripe for a potentially violent repricing of a broad variety of overvalued financial assets. On the equity side, we are currently short megacap tech, private equity sponsors, and a variety of overvalued and highly-levered equities based on our models mostly through put options. In fixed income, we think the setup for shorting the junk bond market ahead of a stagflationary recession is amazing, and we are positioned for that via index puts in the Global Macro fund.

### Confessions of a Die-Hard Value Investor

I have been managing money professionally for clients for 31 years and have been invested alongside them the entire time. As the largest investor across our hedge funds, along with my wife Linda, Crescat’s co-founder and

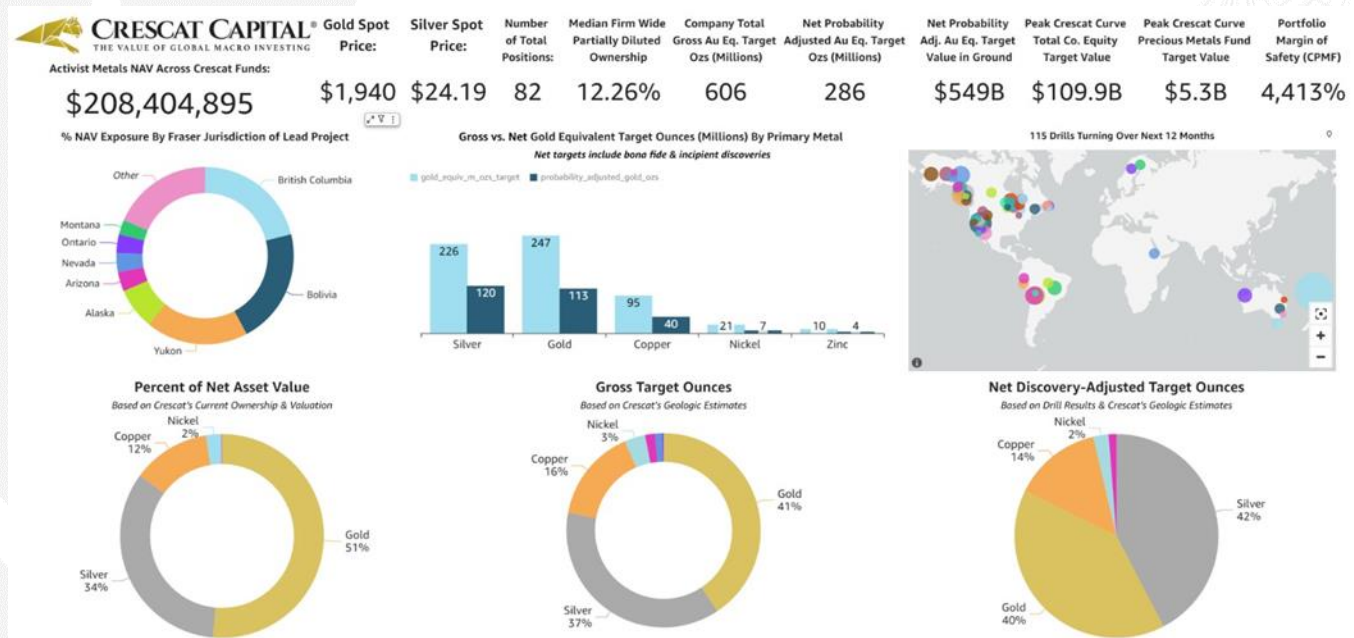
chief operating officer, we have never been more excited than we are today about the opportunities to capitalize on both the long and short sides of the market ahead of a likely critical macro inflection in the business cycle.

Please understand that I am a die-hard value investor with a mindset that pullbacks are part of the game and never a permanent loss of capital. At Crescat, we strive to cultivate clients who can have that same frame of mind. It is guided by our firm’s investment principles and models that give us the understanding that the intrinsic value of our portfolios is always substantially greater than the market price. As such, we are confident that pullbacks are great opportunities for both new and existing investors to deploy new capital into our strategies.

I cannot convey how excited I am about the outlook for our exploration-focused activist metals portfolio. I believe it is one of the single best distressed deep value/high appreciation potential plays in the market today. After an unbelievable 16-year bear market, this industry segment has endured insult to injury since the Fed began raising interest rates in March of 2022. The crazy thing is that these rate hikes only make the structural commodity supply problem for the metals worse by starving the industry of the capital it desperately needs to increase supply. The only further ensures a likely brutal stagflationary recession on the horizon.

Our activist metals long side is a finely crafted portfolio with multi-bagger appreciation potential discoveries in great mining jurisdictions. This is the stuff that the world desperately needs. It is in short supply and will soon be in very high demand, not just the electrification metals but the monetary metals too as long-term inflation is setting up to emerge in a big way.

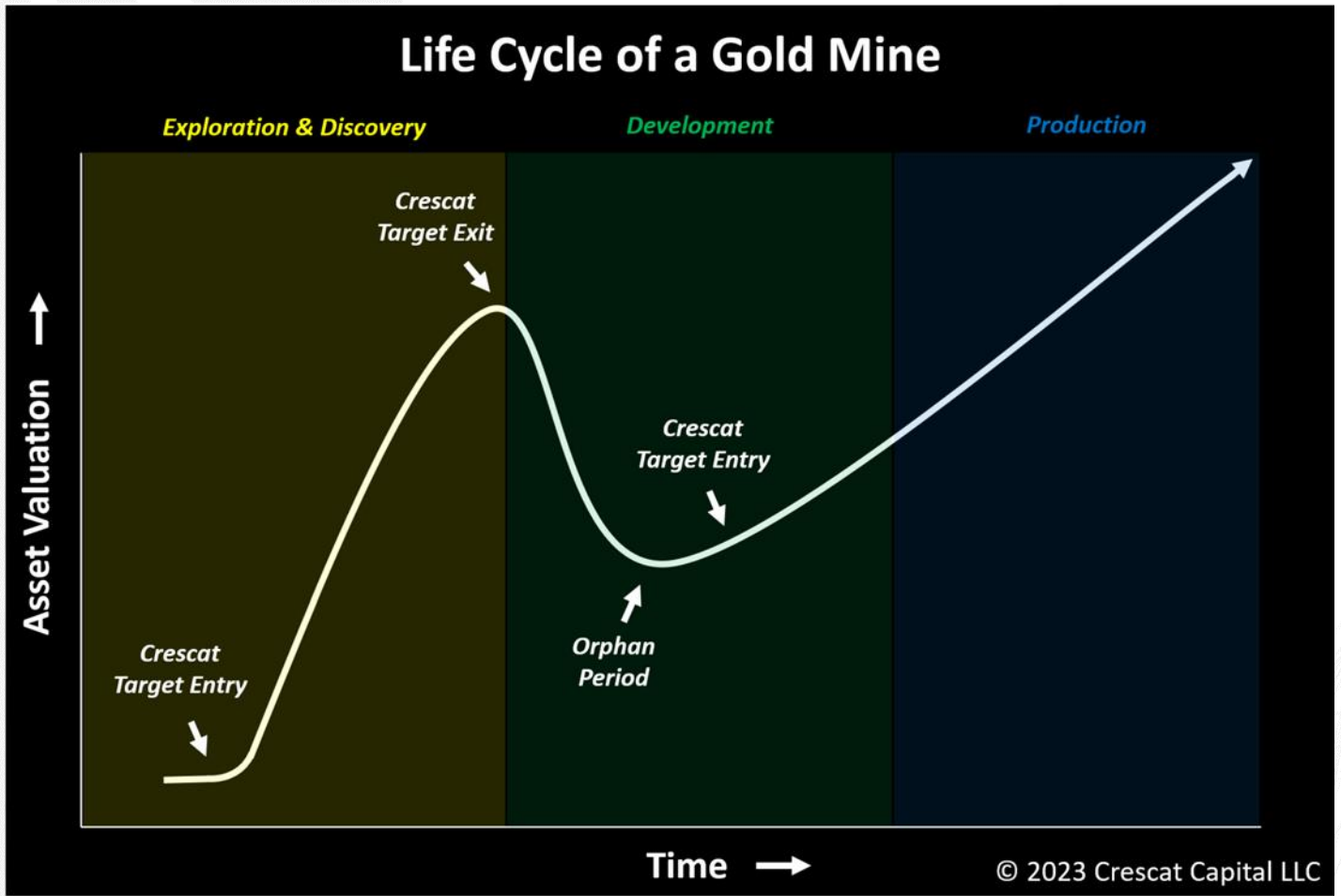
It has been extremely exciting to be involved in making so many great discoveries. Once the world begins to realize the sheer amount of metal that our companies have found, we expect substantial appreciation in their share prices ahead. This dashboard is an attempt to explain that:



I think metals exploration could be the biggest investment opportunity on the planet right now. Our portfolio therein is guided by Quinton Hennigh Ph.D., a highly experienced geologist who is a true leader in the industry at creating value through discovery and activist involvement. Quinton has over three decades of mining experience with both major mining companies and junior explorers. He has guided us to what we believe is the best upside



value creation possible in the industry. It is the exploration and discovery side of the industry where the billionaires in this industry have made their fortunes. This is why we are focused here in a diversified way at this incredible macro time.

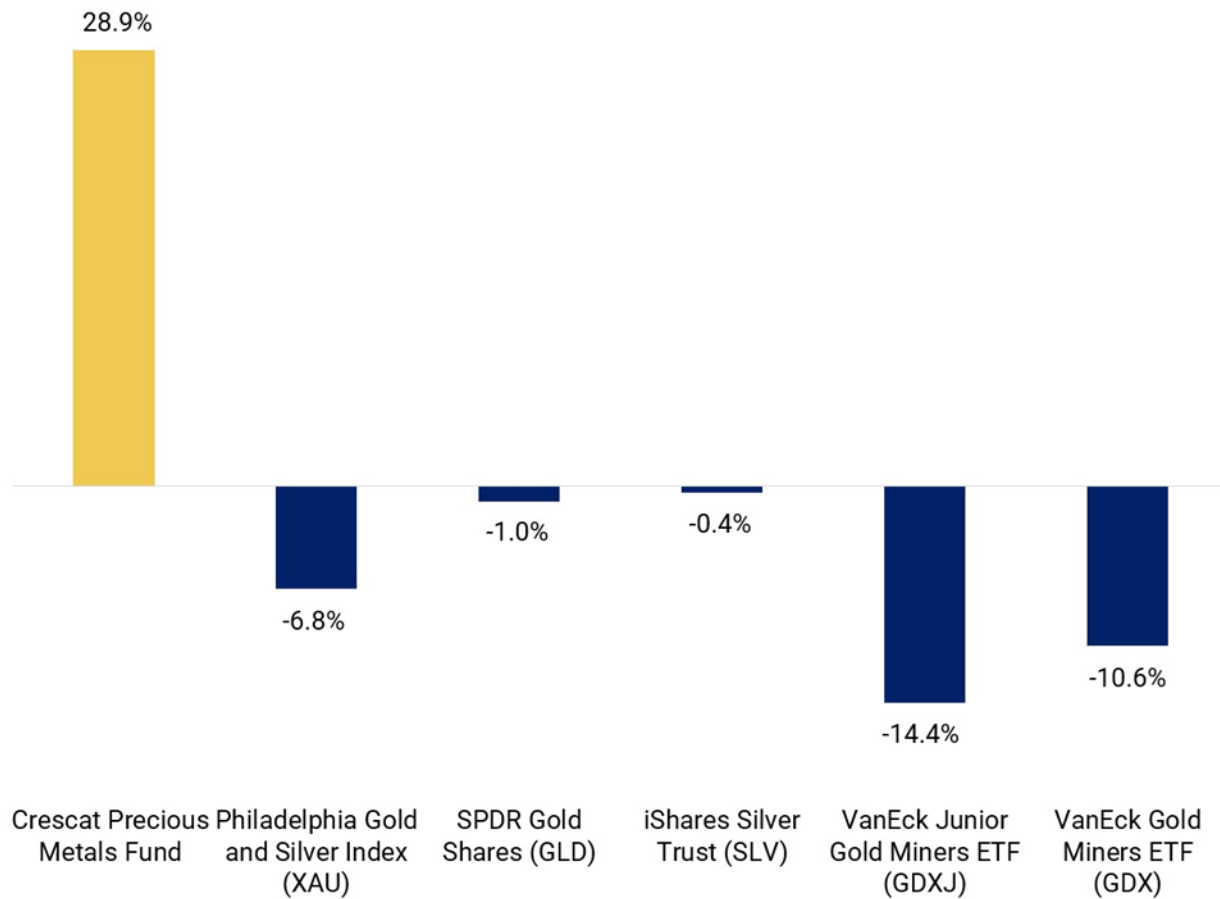


Please keep in mind that even with the pullback in our Precious Metals Fund that has persisted throughout the Fed rate hike campaign of the last 16 months, our fund has substantially outperformed the relevant benchmarks since inception as shown in the chart below. If we can do this in a bear market being invested fully long across the industry, imagine what we will be able to do in what is likely to be a coming raging bull market.



## Annualized Net Performance Since Inception

August 1, 2020 through August 31, 2023



### Crescat Strategies Net Return Estimates Through August 31, 2023

CRESCAT STRATEGIES VS. BENCHMARK (Inception Date)	CUMULATIVE SINCE INCEPTION	August	YTD	2022	ANNUALIZED TRAILING				SINCE INCEPTION	YEARS SINCE INCEPTION
					1-YEAR	3-YEAR	5-YEAR	10-YEAR		
<b>Global Macro Hedge Fund</b> (Jan. 1, 2006)	409.5%	-17.9%	-29.1%	31.6%	-32.8%	-4.5%	5.9%	5.1%	9.7%	17.7
Benchmark: HFRX Global Hedge Fund Index	18.8%	0.3%	1.5%	-4.4%	0.7%	1.8%	1.8%	1.6%	1.0%	
<b>Long/Short Hedge Fund</b> (May 1, 2000)	277.5%	-16.0%	-28.6%	7.4%	-34.9%	-8.2%	4.3%	3.5%	5.9%	23.3
Benchmark: HFRX Equity Hedge Index	82.6%	0.3%	4.0%	-3.2%	3.6%	6.8%	3.3%	3.2%	2.6%	
<b>Precious Metals Hedge Fund</b> (August 1, 2020)	118.5%	-16.0%	-10.2%	-19.5%	-20.9%	5.5%	-	-	28.9%	3.1
Benchmark: Philadelphia Gold and Silver Index	-19.7%	-7.0%	-1.3%	-6.9%	22.6%	-7.0%			-6.8%	
<b>Large Cap SMA</b> (Jan. 1, 1999)	855.4%	-1.9%	6.5%	-3.5%	10.1%	-0.3%	6.2%	8.1%	9.6%	24.7
Benchmark: S&P 500 Index	481.4%	-1.6%	18.7%	-18.2%	15.9%	10.5%	11.1%	13.3%	7.4%	
<b>Precious Metals SMA</b> (June 1, 2019)	58.6%	-16.8%	-19.4%	-31.0%	-31.8%	-14.9%	-	-	11.5%	4.3
Benchmark: Philadelphia Gold and Silver Index	78.9%	-7.0%	-1.3%	-6.9%	22.6%	-7.0%			14.7%	

Performance data represents past performance, and past performance does not guarantee future results. Performance data is subject to revision following each monthly reconciliation and/or annual audit. Historical net returns reflect the performance of an investor who invested from inception and is eligible to participate in new

*issues. Net returns reflect the reinvestment of dividends and earnings and the deduction of all fees and expenses (including a management fee and incentive allocation, where applicable). Individual performance may be lower or higher than the performance data presented. The performance of Crescat's private funds may not be directly comparable to the performance of other private or registered funds. The currency used to express performance is U.S. dollars. Investors may obtain the most current performance data and private offering memorandum for Crescat's private funds by emailing a request to [info@crescat.net](mailto:info@crescat.net).*

If you are interested in delving deeper firsthand with me, I would love to have a Teams video conference with you to take you through our portfolios and walk you through the timely opportunities we see in the market today across our funds and SMA strategies. Please reach just reach out to me or Marek to set that up. Our contact information is directly below.

Kevin C. Smith, CFA  
Founder & Chief Investment Officer  
[ksmith@crescat.net](mailto:ksmith@crescat.net)  
(303) 228-7374

Marek Iwahashi  
Investor Relations Coordinator  
[miwahashi@crescat.net](mailto:miwahashi@crescat.net)  
(720) 323-2995

Please also feel free to reach out to anyone on our senior operations and investment team. Their contact information is below.

Linda Carleu Smith, CPA  
Co-Founder & Chief Operating Officer  
[lsmith@crescat.net](mailto:lsmith@crescat.net)  
(303) 228-7371

Tavi Costa  
Member & Macro Strategist  
[tcosta@crescat.net](mailto:tcosta@crescat.net)  
(303) 228-7375

Quinton T. Hennigh, Ph.D.  
Member & Geologic and Technical Director  
[qhennigh@crescat.net](mailto:qhennigh@crescat.net)  
(720) 938-1945

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**Important Disclosures**



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## **Benchmarks**

**HFRX GLOBAL HEDGE FUND INDEX.** The HFRX Global Hedge Fund Index represents a broad universe of hedge funds with the capability to trade a range of asset classes and investment strategies across the global securities markets. The index is weighted based on the distribution of assets in the global hedge fund industry. It is a tradeable index of actual hedge funds. It is a suitable benchmark for the Crescat Global Macro private fund which has also traded in multiple asset classes and applied a multi-disciplinary investment process since inception.

**HFRX EQUITY HEDGE INDEX.** The HFRX Equity Hedge Index represents an investable index of hedge funds that trade both long and short in global equity securities. Managers of funds in the index employ a wide variety of investment processes. They may be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of net exposure, leverage employed, holding periods, concentrations of market capitalizations and valuation ranges of typical portfolios. It is a suitable benchmark for the Crescat Long/Short private fund, which has also been predominantly composed of long and short global equities since inception.

**PHILADELPHIA STOCK EXCHANGE GOLD AND SILVER INDEX.** The Philadelphia Stock Exchange Gold and Silver Index is the longest running index of global precious metals mining stocks. It is a diversified, capitalization-weighted index of the leading companies involved in gold and silver mining. It is a suitable benchmark for the Crescat Precious Metals private fund and the Crescat Precious Metals SMA strategy, which have also been predominately composed of precious metals mining companies involved in gold and silver mining since inception.

**RUSSELL 1000 INDEX.** The Russell 1000 Index is a market-cap weighted index of the 1,000 largest companies in US equity markets. It represents a broad scope of companies across all sectors of the economy. It is a commonly followed index among institutions. This index contains many of the same securities as the S&P 500 but is broader and includes some mid-cap companies. It is a suitable benchmark for the Crescat Large Cap SMA strategy, which has predominantly held and traded similar securities since inception.

**S&P 500 INDEX.** The S&P 500 Index is perhaps the most followed stock market index. It is considered representative of the U.S. stock market at large. It is a market cap-weighted index of the 500 largest and most liquid companies listed on the NYSE and NASDAQ exchanges. While the companies are U.S. based, most of them have broad global operations. Therefore, the index is representative of the broad global economy. It is a suitable benchmark for the Crescat Global Macro and Crescat Long/Short private funds, and the Large Cap and Precious Metals SMA strategies, which have also traded extensively in large, highly liquid global equities through U.S.-listed



securities, and in companies Crescat believes are on track to achieve that status. The S&P 500 Index is also used as a supplemental benchmark for the Crescat Precious Metals private fund and Precious Metals SMA strategy because one of the long-term goals of the precious metals strategy is low correlation to the S&P 500.

References to indices, benchmarks or other measures of relative market performance over a specified period of time are provided for your information only. Reference to an index does not imply that the fund or separately managed account will achieve returns, volatility or other results similar to that index. The composition of an index may not reflect the manner in which a portfolio is constructed in relation to expected or achieved returns, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility or tracking.

**Separately Managed Account (SMA) disclosures:** The Crescat Large Cap Composite and Crescat Precious Metals Composite include all accounts that are managed according to those respective strategies over which the manager has full discretion. SMA composite performance results are time-weighted net of all investment management fees and trading costs including commissions and non-recoverable withholding taxes. Investment management fees are described in Crescat's Form ADV 2A. The manager for the **Crescat Large Cap** strategy invests predominantly in equities of the top 1,000 U.S. listed stocks weighted by market capitalization. The manager for the **Crescat Precious Metals** strategy invests predominantly in a global all-cap universe of precious metals mining stocks.

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Investors may obtain the most current performance data, private offering memoranda for Crescat's hedge funds, and information on Crescat's SMA strategies, including Form ADV Part II, by contacting Linda Smith at (303) 271-9997 or by sending a request via email to [lsmith@crescat.net](mailto:lsmith@crescat.net). See the private offering memorandum for each Crescat hedge fund for complete information and risk factors.