CRESCAT CAPITAL®
VALUE-DRIVEN PERFORMANCE

Crescat Capital LLC
1560 Broadway
Denver, CO 80202
(303) 271-9997
info@crescat.net
www.crescat.net

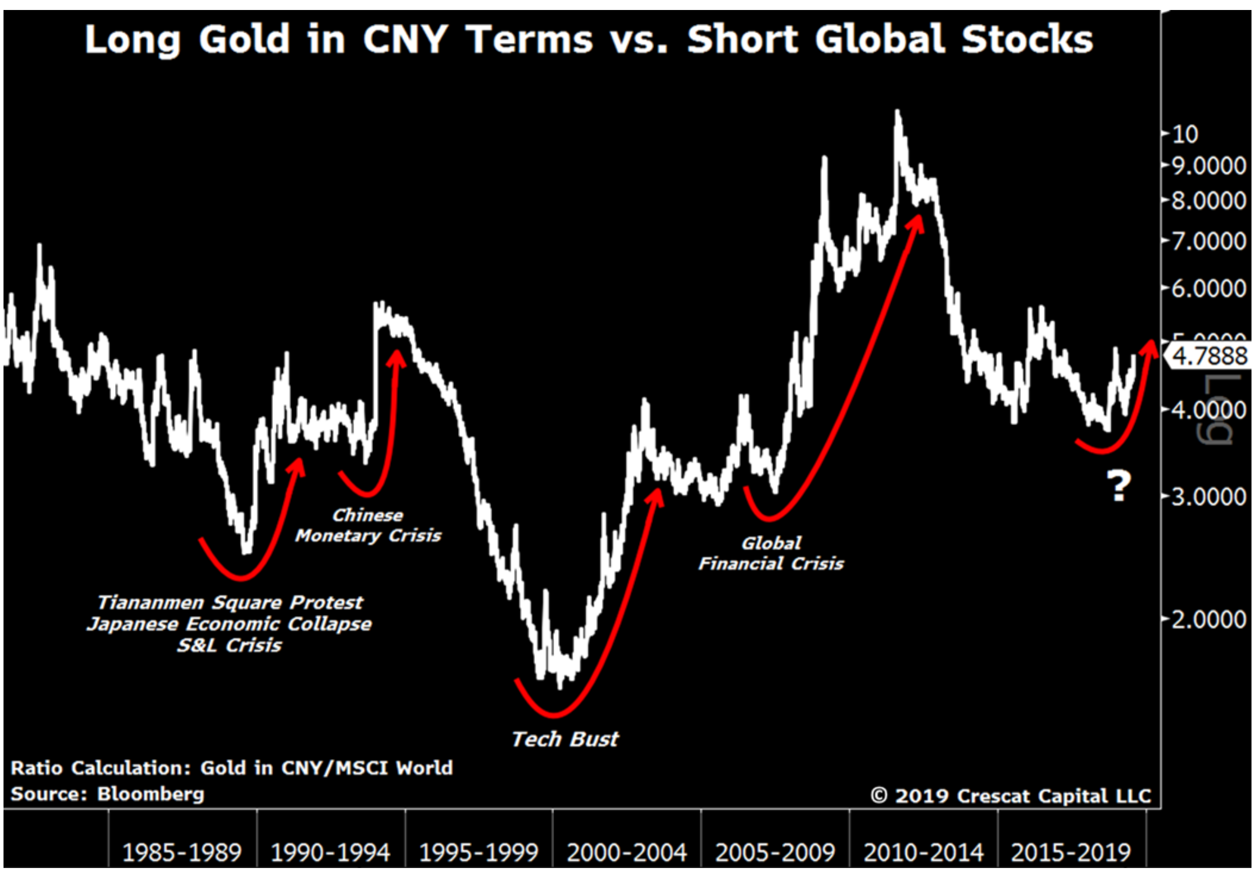
August 5, 2019

Dear Investors:

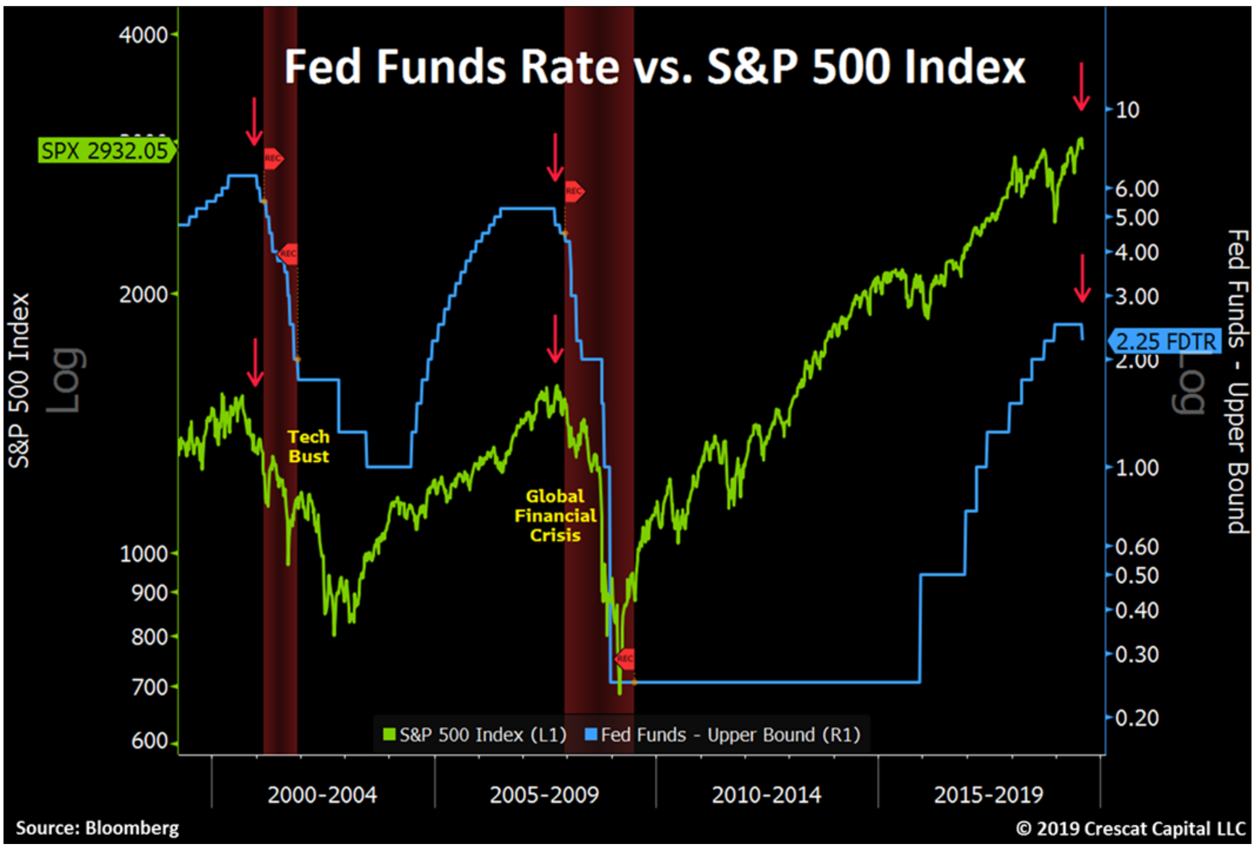
Crescat's "macro trade of the century" has just heated up significantly in August. In just the first two and a half trading days of the month, the Crescat Global Macro fund is up an estimated net 15.6% net MTD while the S&P 500 is down approximately 4.9%. All three legs of our macro trade have been working remarkably well:

1. Long precious metals including gold, silver, and related mining stocks;
2. Short Chinese yuan which just breached the important 7 level, a heretofore policy line in the sand on USDCNY;
3. Short global equities including US stocks which have been trading at their highest valuations in history.

We believe this macro trade is only in its early stages. It represents about 80% of the underlying exposure in our flagship global macro hedge fund. Our Chinese currency short exposure in that fund includes puts on the yuan as well as the Hong Kong dollar. We are seeking alpha above these macro benchmarks through individual security selection based on our equity models.



Inverted yield curves around the world have been signaling major trouble ahead for financial markets as we have been highlighting in our recent letters. In the US, we are now in the longest economic expansion ever, but it has come at the cost of record asset bubbles. As we have shown, US stocks are at historic high valuations relative to underlying fundamentals across eight comprehensive measures. We also see excessive valuations in private equity and corporate credit. These prices are not justified even considering today's historically low interest rates. Last week, the ongoing US yield curve inversion finally forced the Fed's hand into a new easing cycle. Such a move, pressured by the bond market, is anything but bullish, and it's certainly not acting like the "insurance cut" advertised by Chairman Powell. Instead, it's a sign that our central bank is literally behind the curve. More ominously, it's an indication that asset bubbles are poised to burst, just like the Fed's first interest rate cut warned us directly ahead of both the tech bust and global financial crisis.

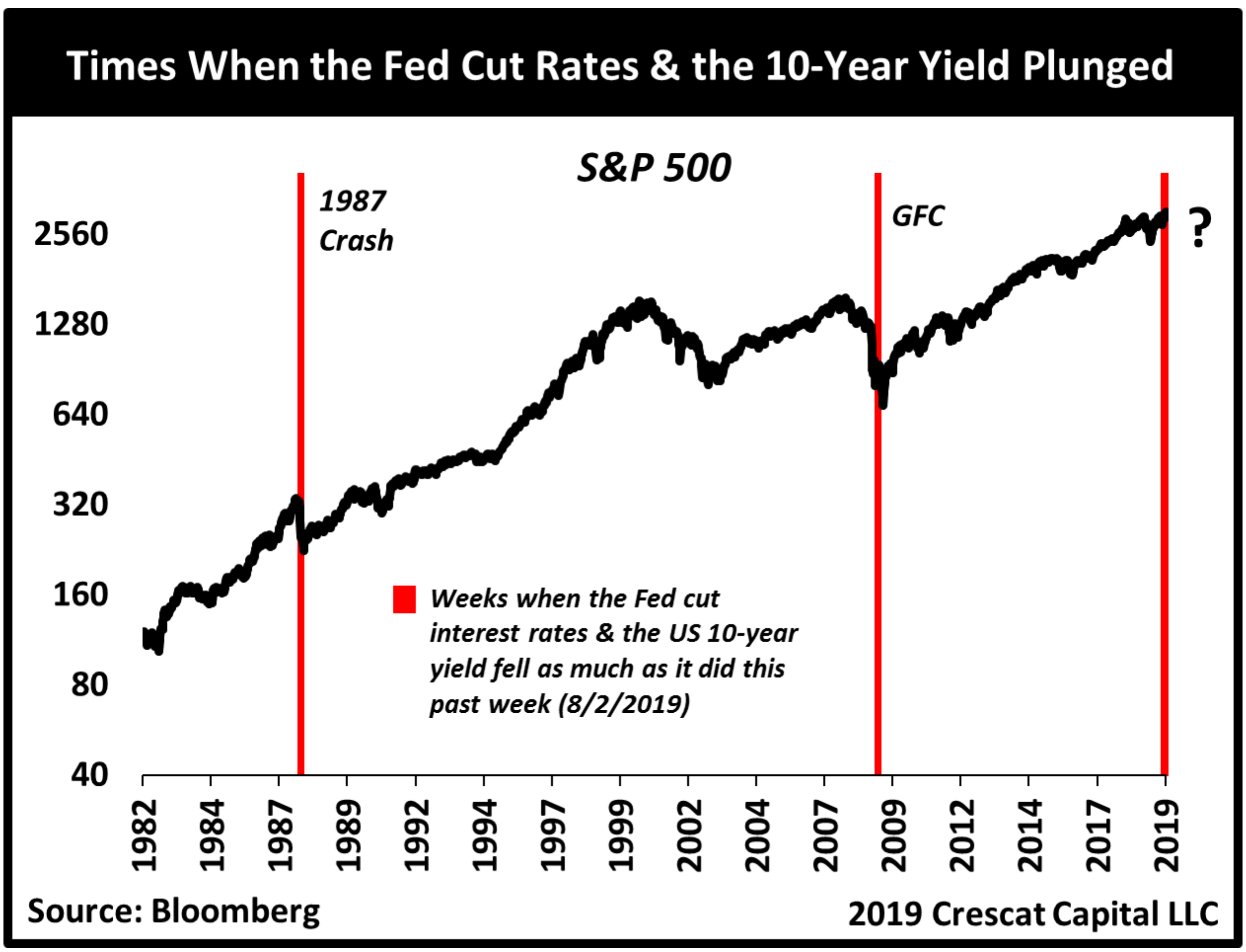


Why do yield curve inversions matter? They matter because, normally, investors demand a term premium to hold long-duration assets like stocks, bonds, private equity, and real estate compared to more liquid, short-term investments. Therefore, most of time the yield curve is positively sloped. In asset bubble markets, by contrast, speculators drive up the prices of long duration assets bringing years of future returns on them into the present.

When a central bank raises interest rates, it theoretically entices investors to move money from long-duration assets into safer, more liquid, short-duration assets. But monetary tightening works with a lag, so rates need to be hiked early enough in an economic expansion for central banks to prevent asset bubbles from forming in the first place. If the tightening comes too late, when speculation in long duration assets is already excessive, the yield curve will invert warning of an impending financial market crash and recession.

In the US, we have already had more than three years of monetary tightening late in the expansion, but asset bubbles in long-duration financial assets have only become more extreme, at least up until the first rate cut last week. The Fed's tightening cycle meanwhile has already had a cooling effect on the global economy as well as US corporate earnings. The US consumer and the jobs market have remained strong, but such has been the case immediately ahead of every major business cycle downturn. High consumer confidence and low unemployment go hand in hand with asset bubbles. They are contrarian indicators at major market tops just ahead of recessions. That is how we treat them in Crescat's macro model. When these measures turn from cyclical extremes, they deteriorate quickly.

Last week, the bond market acted like an equity crash has already been unfolding on the heels of the Fed rate cut. We say this because the only other two times when the Fed cut interest rates and the 10-year yield plunged as much as it did last week was during the 1987 crash and the global financial crisis. A major crash like those hasn't happened yet, but stocks have been slipping, and with the yield curve as inverted as it is today, the bond market is clearly signaling that a bear market could be close at hand. Last week, stocks sold off for three straight days starting the day of the Fed cut. Stocks are down again today through mid-day on the news of the China yuan breach. We think the Wall Street adage, "buy the rumor, sell the news", applies. We believe the smart money has already been selling stocks for a while now. It's the big dumb money that we need to worry as it inevitably tries to crowd out of its over-weighted, illiquid, long-term, bubble-priced investments into a liquidity vacuum. Such is how markets crash and why we want to be fully positioned ahead of the crowd.



Asset bubbles lead to busts that turn into economic recessions. In the last two decades, investors should have learned this lesson after the tech and housing busts, but people have short memories. Yield curve inversions are warning signs. Crescat has identified and been writing about three major manifestations of them around the world:

1. Inversions within the US where we have the most over-valued stock market ever. Crescat has substantial net short positions in US equities in both of its hedge funds.
2. Inversions in other asset price bubble countries, including Hong Kong, Canada, and Australia, (banking, housing, and consumer debt imbalances). Crescat has been expressing this trade in our hedge funds with short positions in banks in these countries and a short position in the Hong Kong dollar in our global macro fund.
3. Global yield curve inversion between the US that controls the world reserve currency and the long duration bonds of a record 17 countries around the world. This cross-country rate distortion is representative of a global sovereign debt bubble. It is coincident with record levels of global debt to GDP and a historic $14 trillion of negative yielding global debt! Crescat is currently expressing this trade in our global macro fund with a spread trade between long 10-year US Treasures notes and short 10-year German bunds.

In all our strategies, Crescat is long precious metals and/or precious metals mining stocks which we believe are substantially under-valued relative to the global fiat monetary base. We believe precious metals are now entering a new secular bull market. The world is now in a globally coordinated interest rate easing environment, some might say a global currency war. As a result, real interest rates are plunging which is a substantial new catalyst for gold and silver, even before an inflationary cycle.

Estimate Net Performance through July

Net Return Estimates Through July 31, 2019								
Crescat Strategies vs. Benchmark	Strategy Inception Date	July 2019 Est.	2019 YTD Est.	2018	3 Year Annualized	5 Year Annualized	Annualized Since Inception	Cumulative Since Inception
Global Macro Hedge Fund	1/1/2006	**1.2%**	**-25.0%**	**40.8%**	**-6.5%**	**1.8%**	**10.1%**	**269.4%**
-Benchmark: HFRX Global Hedge Fund Index		0.8%	5.0%	-6.7%	1.9%	0.2%	0.5%	7.0%
Long/Short Hedge Fund	5/1/2000	**3.7%**	**-20.9%**	**32.3%**	**-5.1%**	**1.4%**	**6.2%**	**218.0%**
-Benchmark: HFRX Equity Hedge Index		1.1%	7.1%	-9.4%	2.9%	1.2%	2.1%	49.6%
Large Cap SMA	1/1/1999	**1.6%**	**6.3%**	**1.3%**	**6.5%**	**8.0%**	**10.2%**	**644.3%**
-Benchmark: S&P 500 Index		1.4%	20.2%	-4.4%	13.4%	3.0%	6.4%	258.9%
Precious Metals SMA	6/1/2019	**10.8%**	**27.7%**	**N/A**	**N/A**	**N/A**	**N/A**	**27.7%**
-Benchmark: Philadelphia Stock Exchange Gold and Silver Index		4.2%	25.3%	N/A	N/A	N/A	N/A	25.3%

Crescat Global Macro Fund July Estimated Net Profit Attribution

Crescat Global Macro Fund July 2019 Net Performance by Theme Estimate (Basis Points)	
Global Fiat Currency Debasement	425
Reefer Madness	54
China Credit Bust	32
Security and Defense	29
Canadian Housing Bubble	12
Genomic Revolution	10
Twilight in Utilities	10
Asian Contagion	1
Opportunistic	-7
Aussie Debt Crisis	-9
US Corporate Credit Deterioration	-29
Yuan Devaluation	-80
10-Year UST-Bund Spread	-128
Maturing Expansion	-197
Total (Net)	**123**

After the pullback year to date through June in our hedge funds, we believe our recent surge in August is only the beginning of a new run for all Crescat's strategies that should play out for bigger gains and a strong finish through year end and into 2020. That is our goal. We believe the fundamental underpinnings of the recent market moves are strongly backed by Crescat's well-developed macro themes and models. We have been writing about many of our current themes in our letters for the last several years. We have stayed committed to most of them because our models have been telling us to. We believe they will bear much fruit as we complete a bearish cyclical downturn in the global economy.

Crescat's new Precious Metals separately managed account strategy which we launched in June has been off to the races by the way. That SMA composite was up 20.2% net in its first two months as we show in the table above. It is up another estimated 8.8% net so far in August. It's an official Crescat strategy and is open to non-accredited as well as accredited investors.

We encourage you to inquire about any or all our strategies by contacting Linda Carleu Smith, lsmith@crescat.net.

Sincerely,

Kevin C. Smith, CFA
Chief Investment Officer

Tavi Costa
Global Macro Analyst

For more Information please contact Linda Smith at lsmith@crescat.net or (303) 228-7371

Important Disclosures

Case studies are included for informational purposes only and are provided as a general overview of our general investment process, and not as indicative of any investment experience. There is no guarantee that the case studies discussed here are completely representative of our strategies or of the entirety of our investments, and we reserve the right to use or modify some or all of the methodologies mentioned herein. Performance data represents past performance, and past performance does not guarantee future results. Only accredited investors and qualified clients will be admitted as limited partners to a Crescat hedge fund. For natural persons, investors must meet SEC requirements including minimum annual income or net worth thresholds. The Crescat Large Cap Composite and Crescat Precious Metals Composite are separately managed account ("SMA") strategies that are open to both accredited and non-accredited investors. Crescat's SMA composites include all accounts that are managed according to those respective strategies over which the manager has full discretion. See composite descriptions for further strategy definitions. Investment results for Crescat's SMA composites shown are for taxable and tax-exempt accounts and include the reinvestment of dividends and other earnings. Any possible tax liabilities incurred by the taxable accounts have not been reflected in the net performance. SMA composite performance results are time weighted net of trading commissions, management fees, and other transaction costs including non-recoverable withholding taxes. An individual investor's results may vary due to the timing of capital transactions. Crescat's hedge funds are being offered in reliance on an exemption from the registration requirements of the Securities Act of 1933 and are not required to comply with specific disclosure requirements that apply to registration under the Securities Act. The SEC has not passed upon the merits of or given its approval to Crescat's hedge funds, the terms of the offering, or the accuracy or completeness of any offering materials. A registration statement has not been filed for any Crescat hedge fund with the SEC. Limited partner interests in the Crescat hedge funds are subject to legal restrictions on transfer and resale. Investors should not assume they will be able to resell their securities. Investing in securities involves risk. Investors should be able to bear the loss of their investment. Investments in Crescat's hedge funds are not subject to the protections of the Investment Company Act of 1940. Performance data is subject to revision following each monthly reconciliation and annual audit. Current performance may be lower or higher than the performance data presented. The performance of Crescat's hedge funds may not be directly comparable to the performance of other private or registered funds. Investors may obtain the most current performance data, private offering memoranda for a 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. See the private offering memorandum for each Crescat hedge fund for complete information and risk factors.