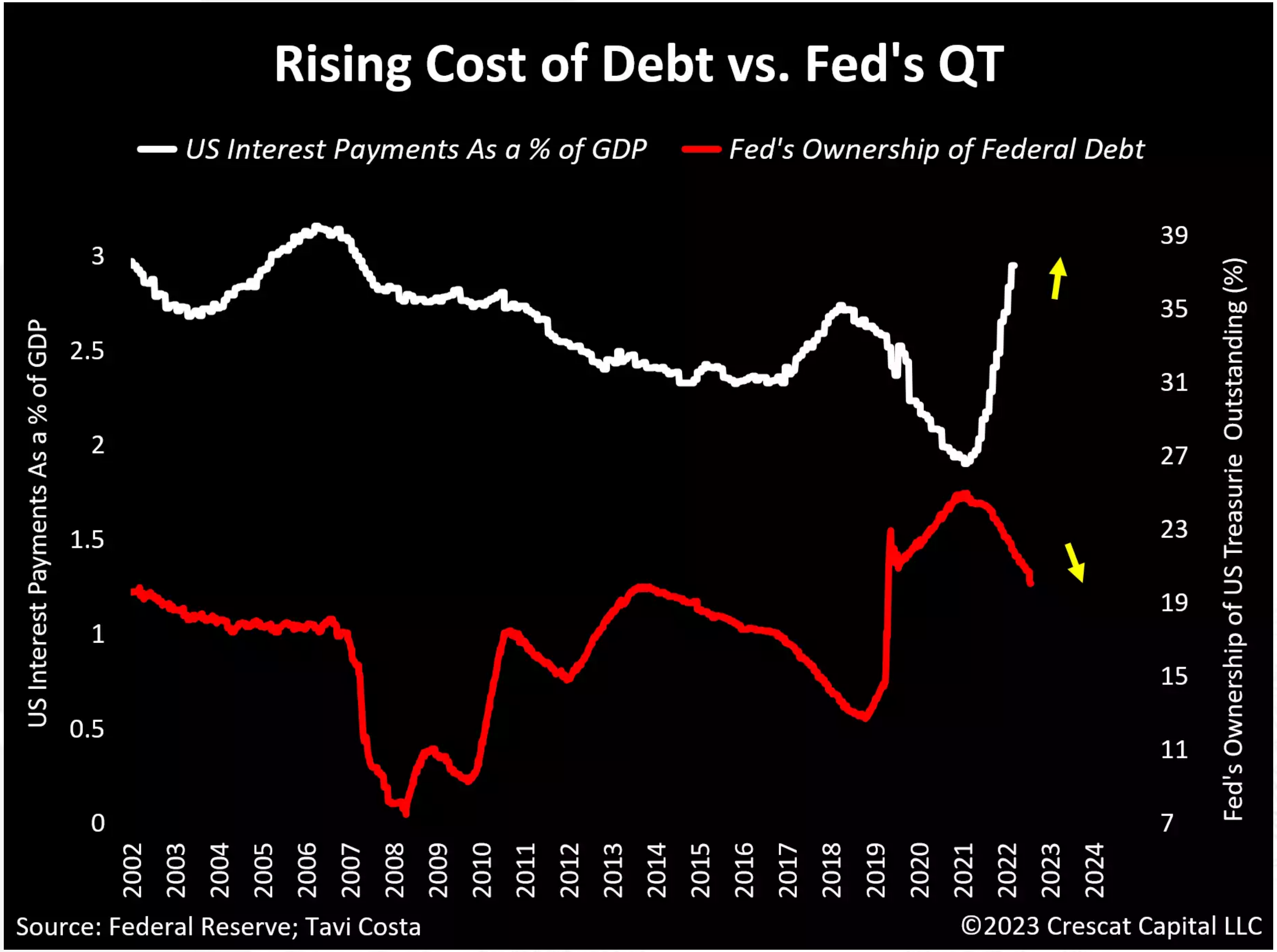
CRESCAT CAPITAL®

THE VALUE OF GLOBAL MACRO INVESTING

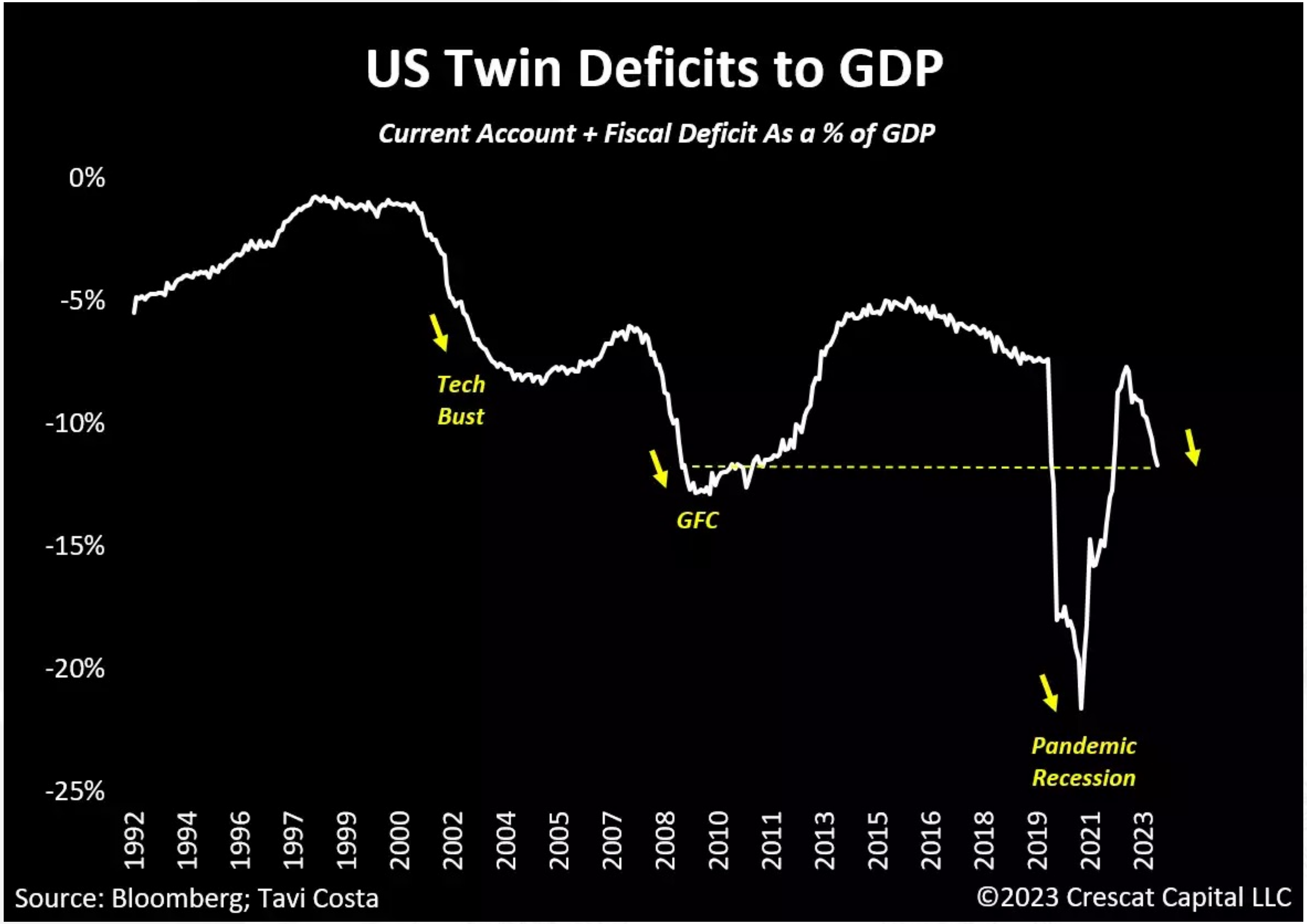
MACRO PRESENTATION

Important Disclosures

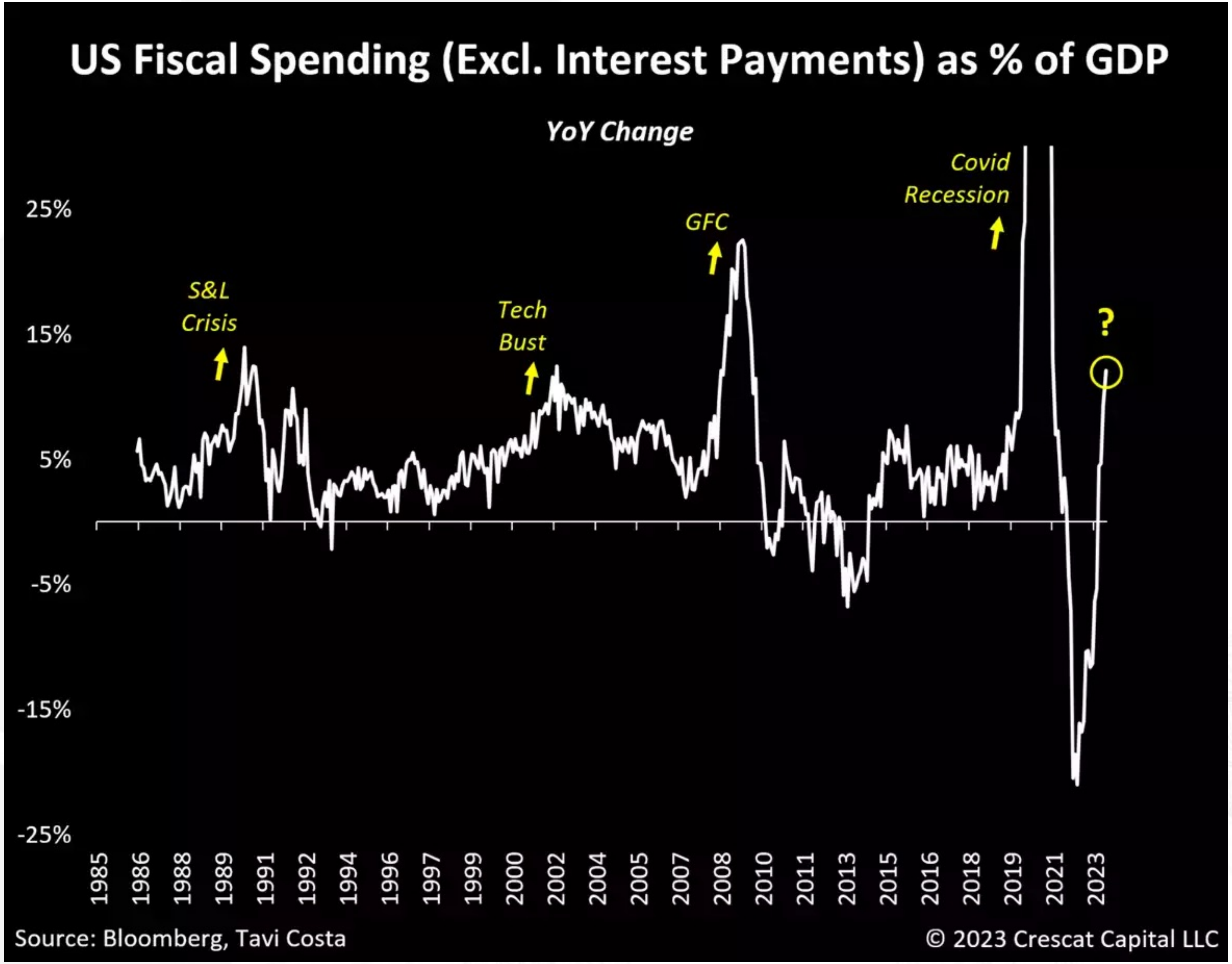
Only accredited investors and qualified clients will be admitted as limited partners to a Crescat fund. For natural persons, investors must meet SEC requirements including minimum annual income or net worth thresholds. Crescat funds are being offered in reliance on an exemption from the registration 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 the Crescat 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 fund with the SEC. Limited partner interests in the Crescat 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 the Crescat funds are not subject to the protections of the Investment Company Act of 1940. Performance data represents past performance, and past performance does not guarantee future results. 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. Crescat is not required by law to follow any standard methodology when calculating and representing performance data. Crescat Portfolio Management claims compliance with Global Investment Performance Standards (GIPS®). Prospective clients can obtain a compliance presentation and the firm's list of composite descriptions by visiting our website at www.crescat.net/resources/due-diligence/. Returns are presented net of management fees and performance fees, except where otherwise indicated. The currency used to express performance is U.S. dollars. The performance of Crescat funds may not be directly comparable to the performance of other private or registered funds. Investors may obtain the most current performance data and private offering memorandum for a Crescat fund by contacting Linda Smith at (303) 228-7371 or by sending a request via email to lsmith@crescat.net. See the private offering memorandum for each Crescat fund for complete information and risk factors.



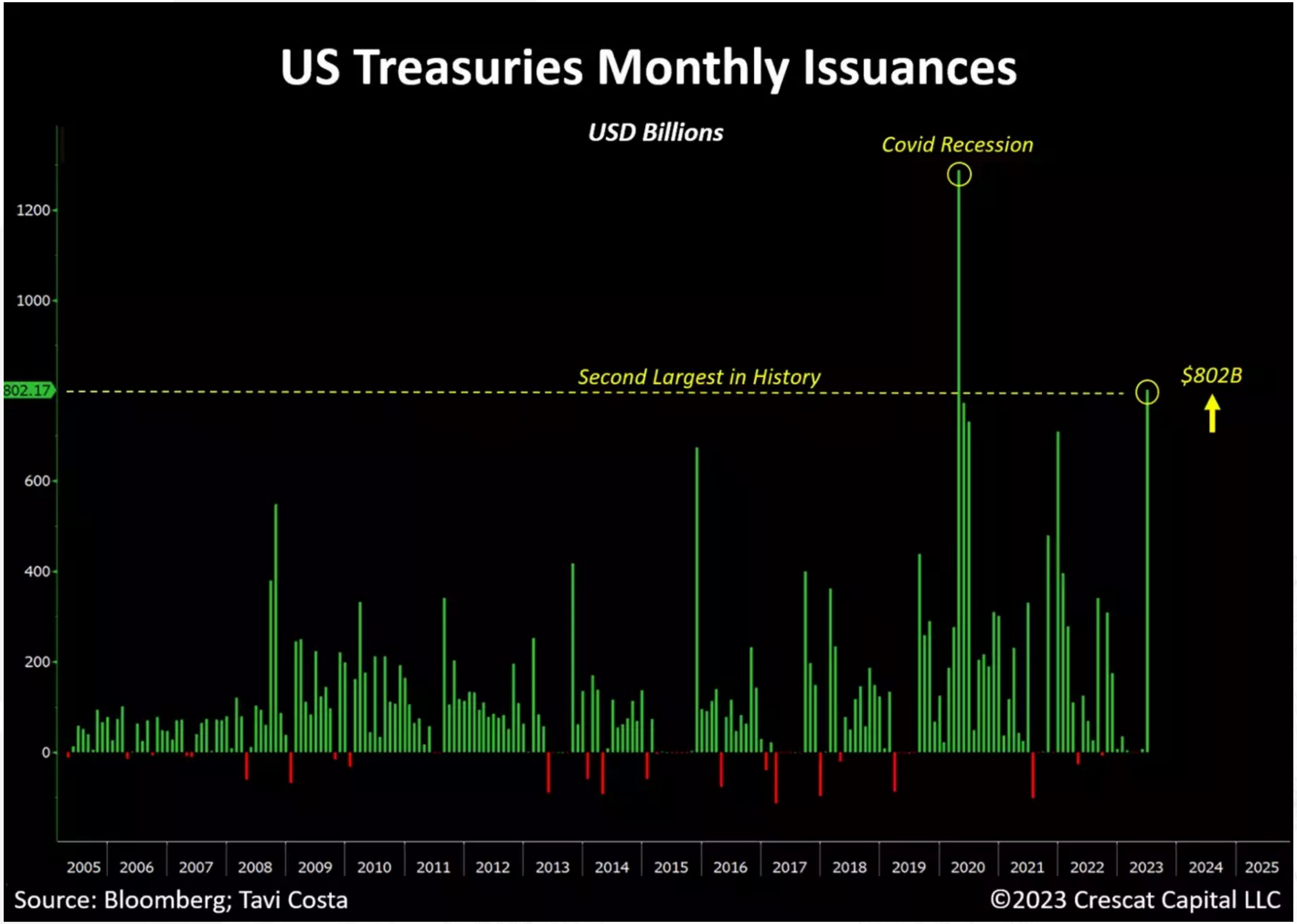
Monetary and fiscal authorities are currently running what we believe are unsustainably divergent policies.



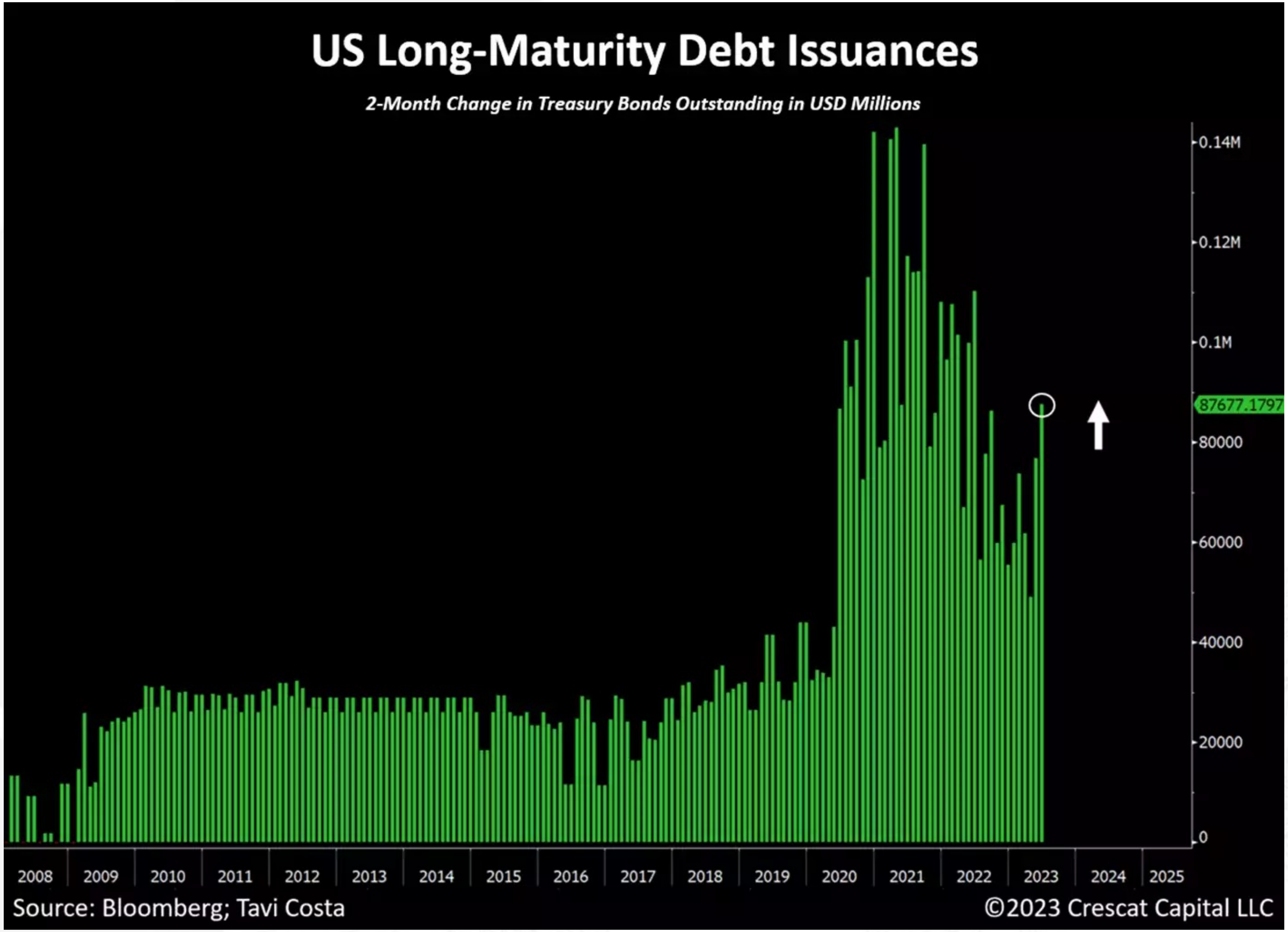
The US is now running twin deficits that are as severe as those experienced during the worst parts of the Global Financial Crisis.



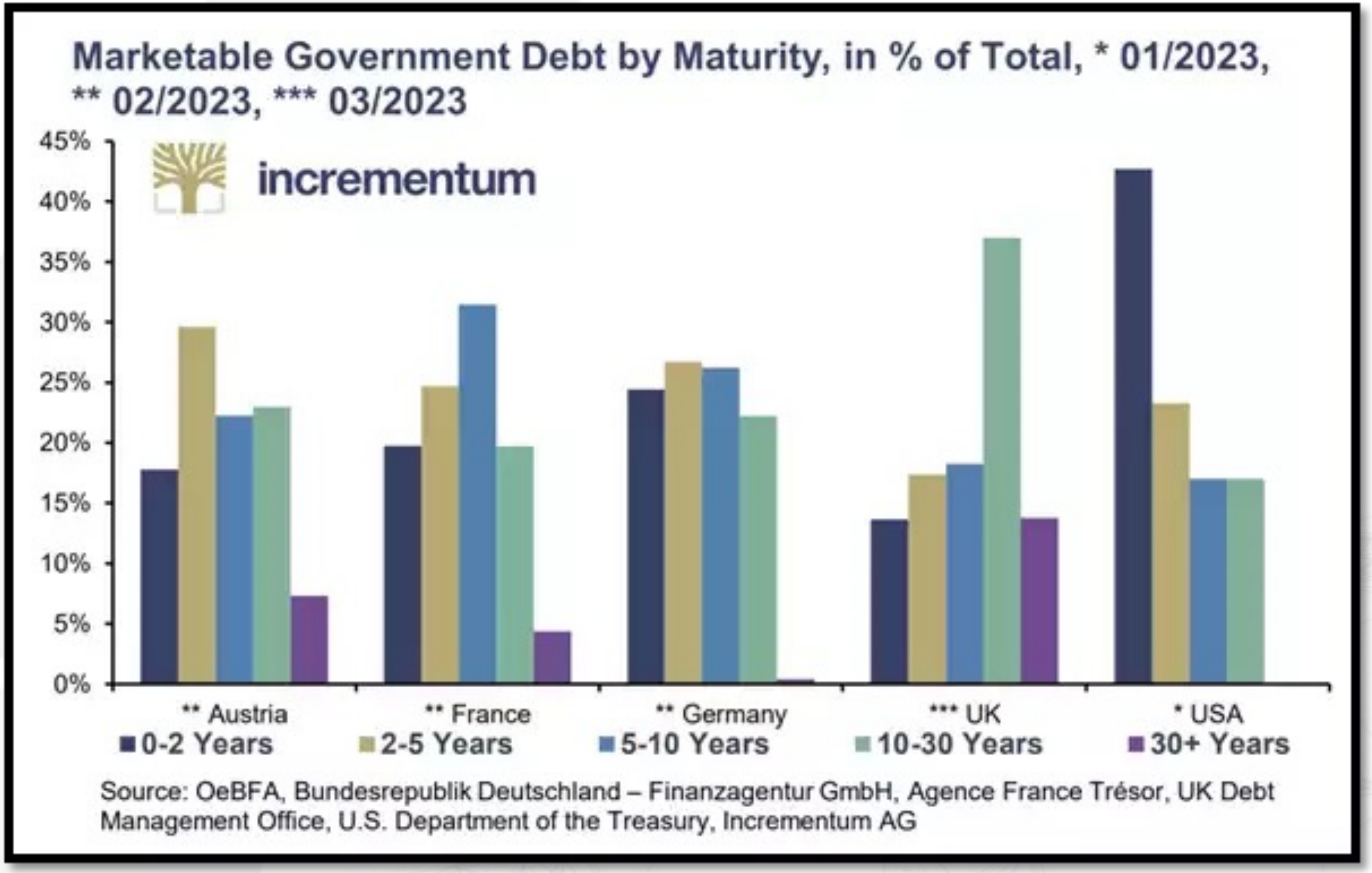
In a healthy economic growth environment tax revenues typically increase while government spending tends to decline. However, today's situation is a complete reversal of this trend.



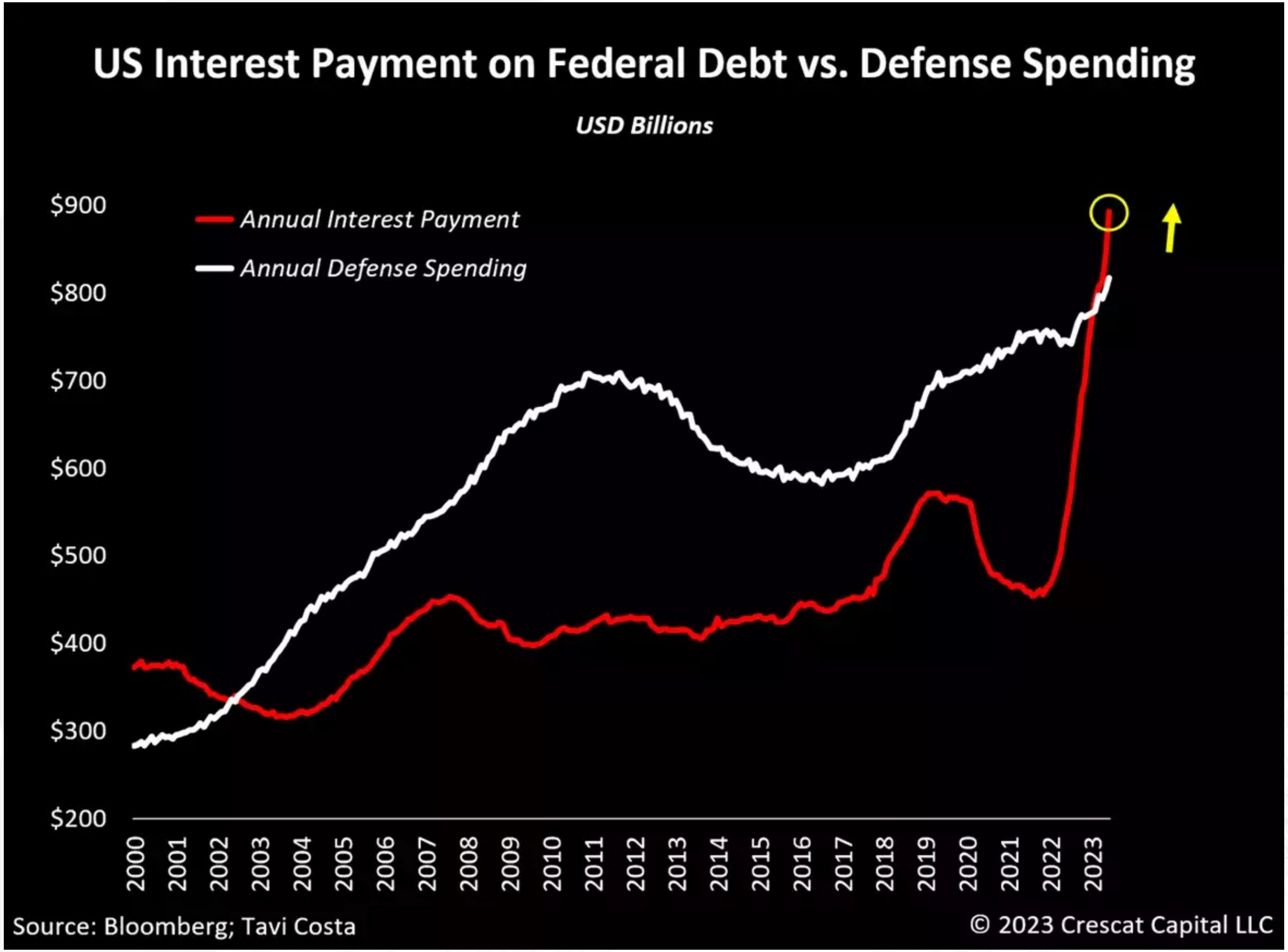
Following the resolution of the debt ceiling agreement, the US government has already issued more than $1 trillion worth of US Treasuries. Notably, the month of June witnessed the second-largest issuance in history.



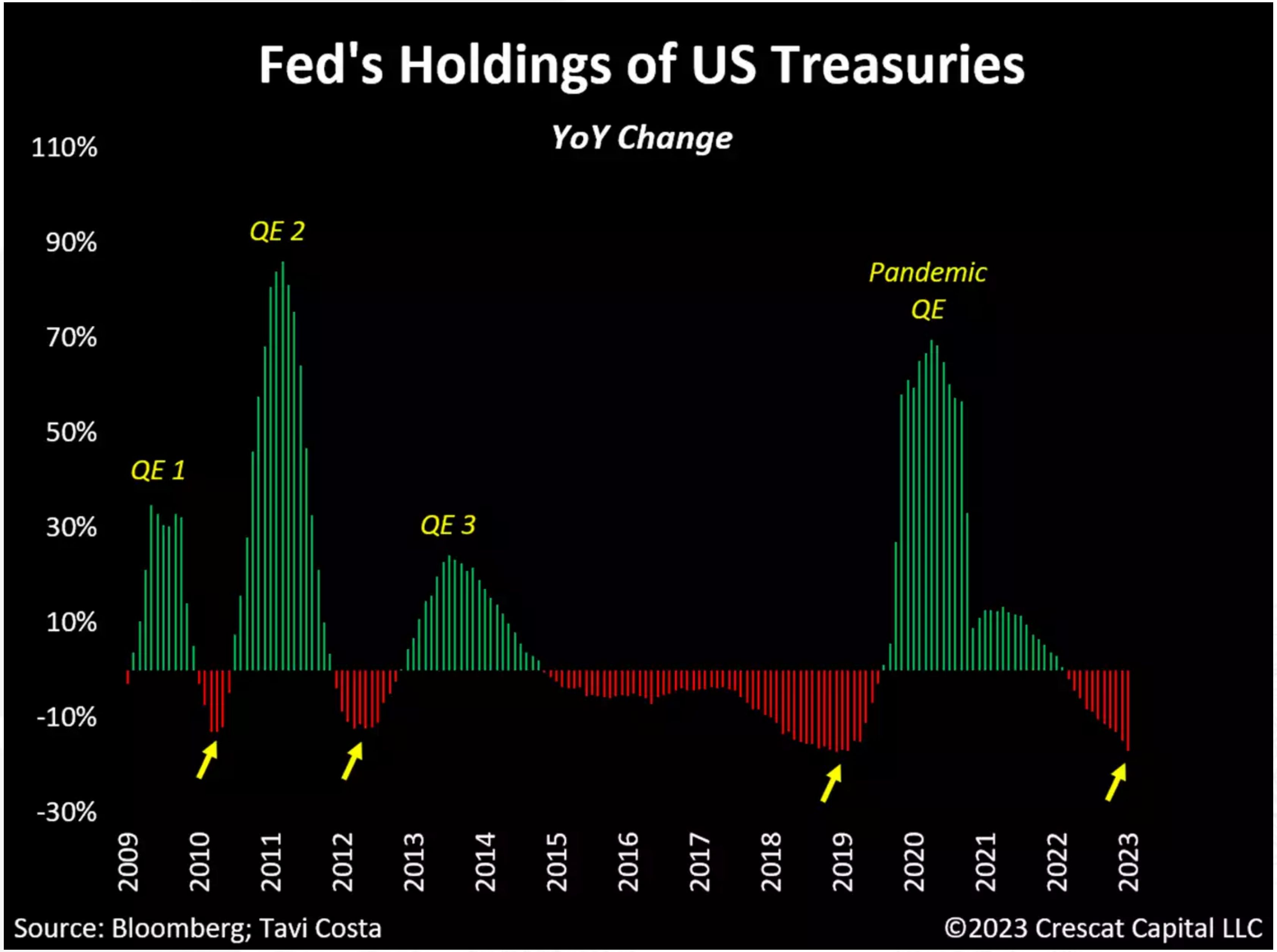
The significant increase in the overall supply of these sovereign instruments is exerting additional pressure on long-term yields, contributing to their ongoing rise.



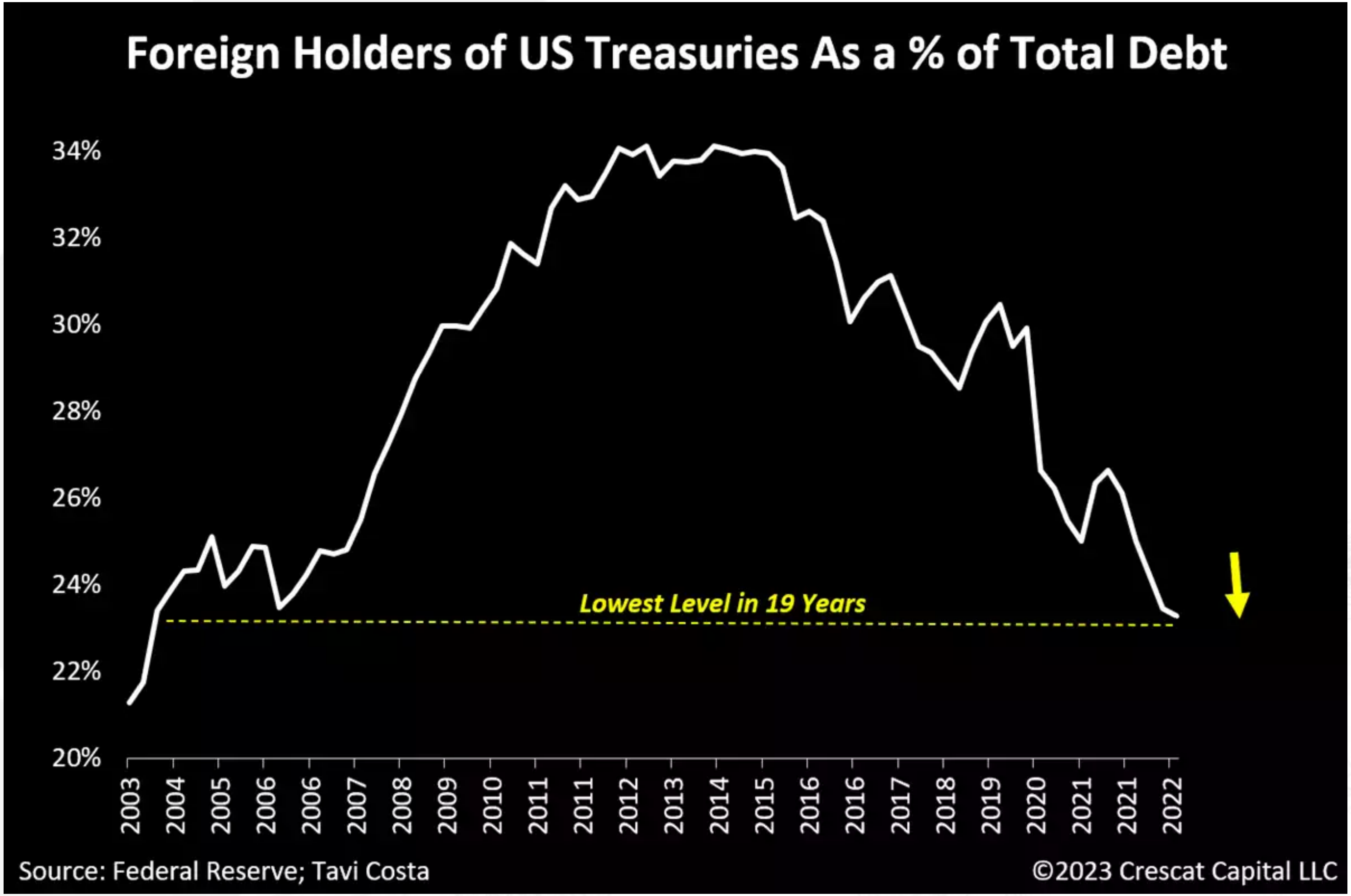
The US will need to refinance almost half of its national debt in less than 2 years. As a reminder, interest rates were at 0% just 15 months ago.



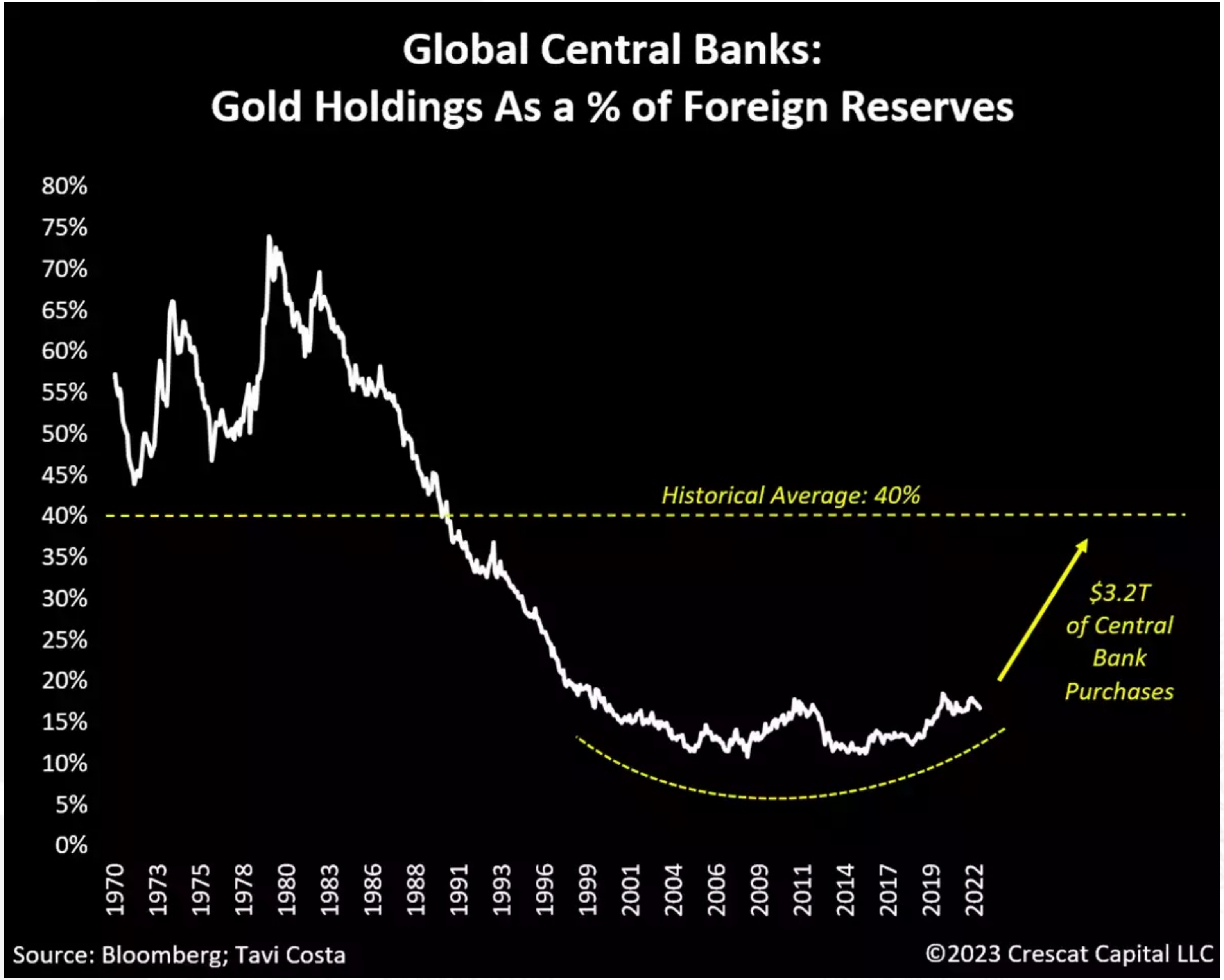
This is likely the initial stages of a trend, and if no solutions are implemented, other components of the fiscal agenda may soon be constrained by the escalating cost of debt.



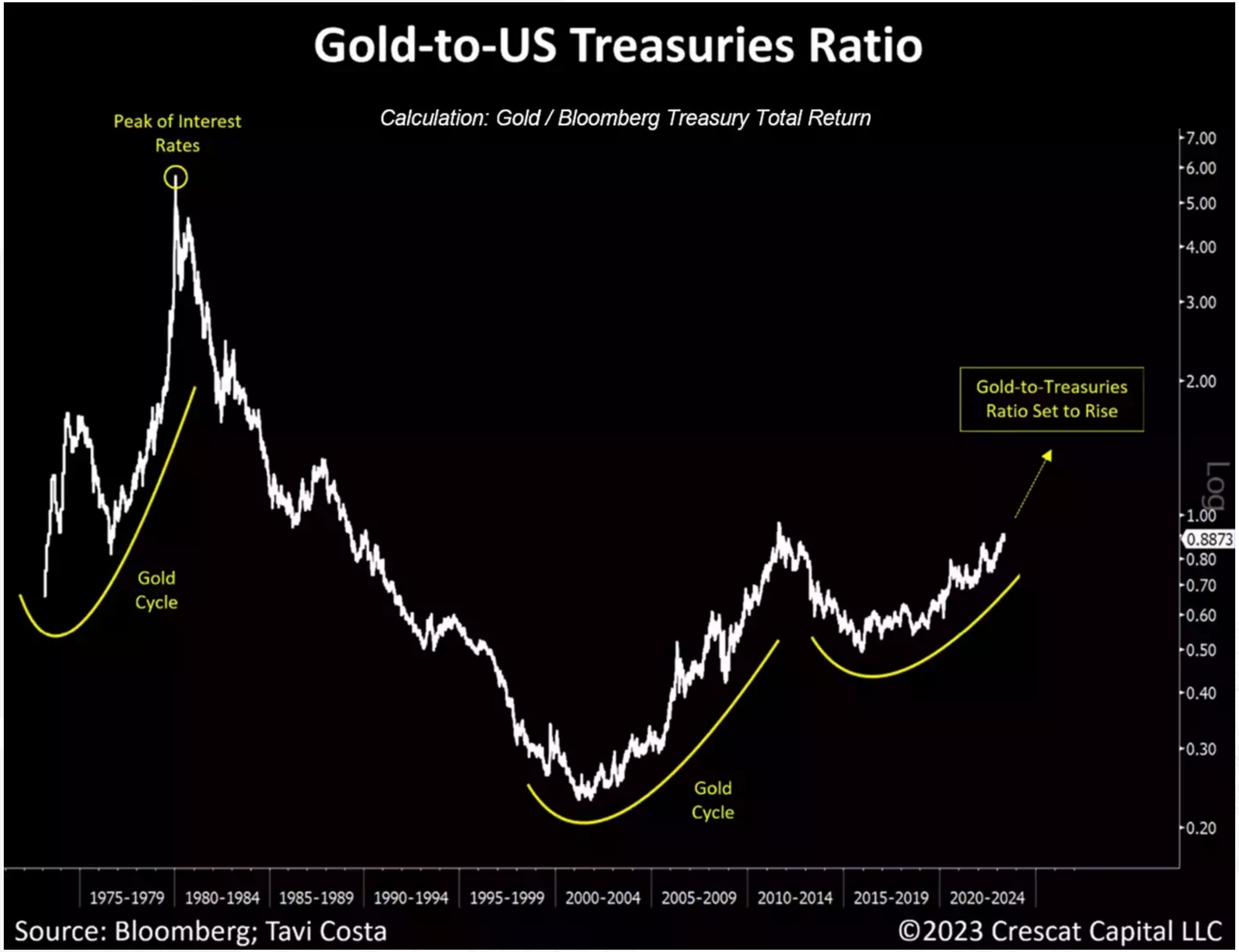
The Fed's inclination to implement such policies may only exist if the economy is in a recession, which we think is the path of least resistance today.



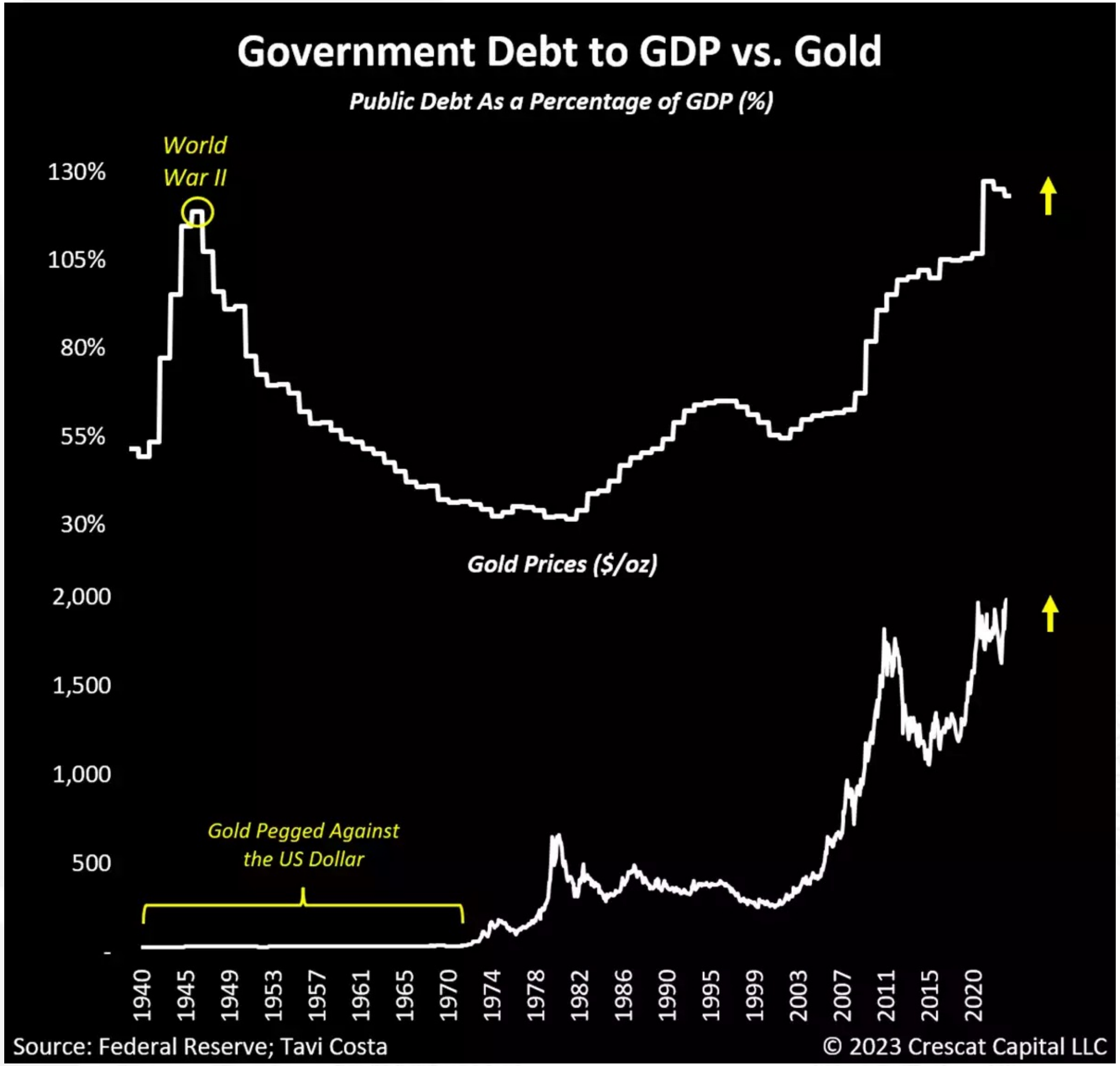
Foreign holders currently own only approximately 20% of all outstanding Treasuries, marking the lowest level in nearly 2 decades.



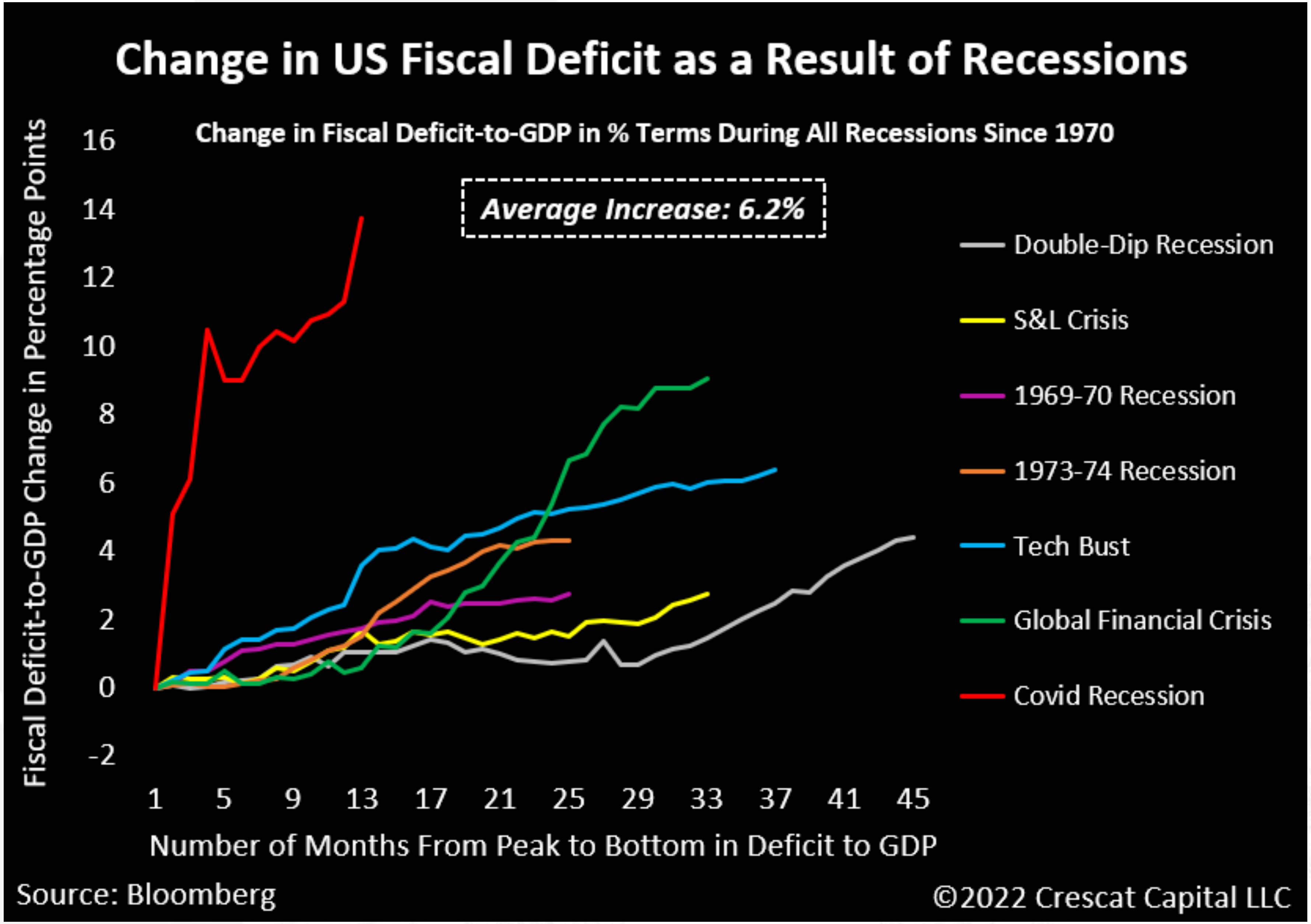
We expect much of this new demand will flow into the mining industry where the deep value is substantially more compelling in this macro environment with multi-fold appreciation potential in companies with big, viable new and incipient discoveries.



If the rationale for owning US Treasuries today is solely based on the premise that the system cannot endure substantially higher interest rates, then gold is a far superior choice. It's a neutral asset with no counterparty risk that also carries centuries of credible history as a haven and monetary alternative.



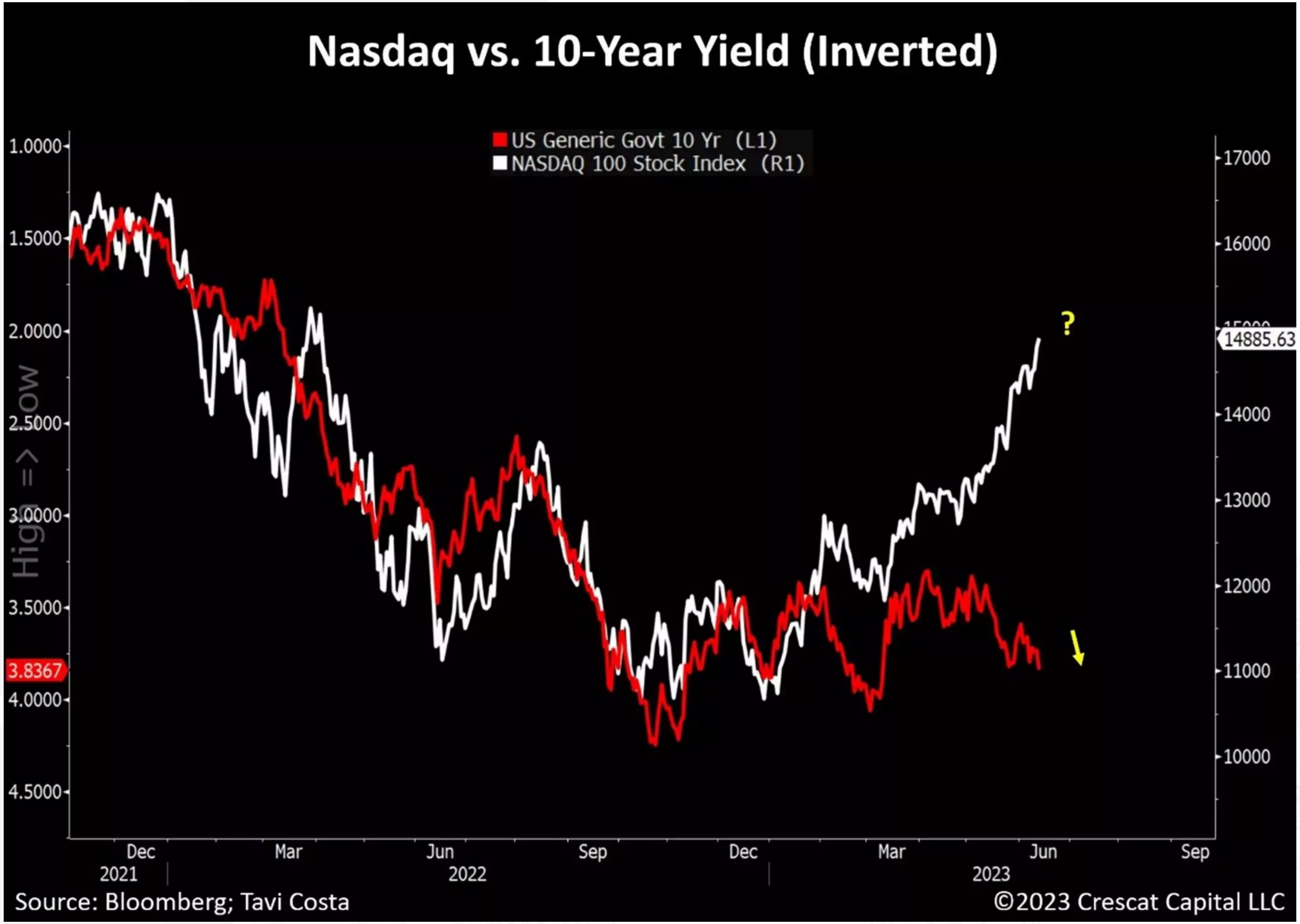
While the 1940s serve as an important historical parallel due to the seriousness of the current debt issue, there is a significant distinction: during that period, gold was effectively tied to the US dollar, rendering it an impractical investment alternative.



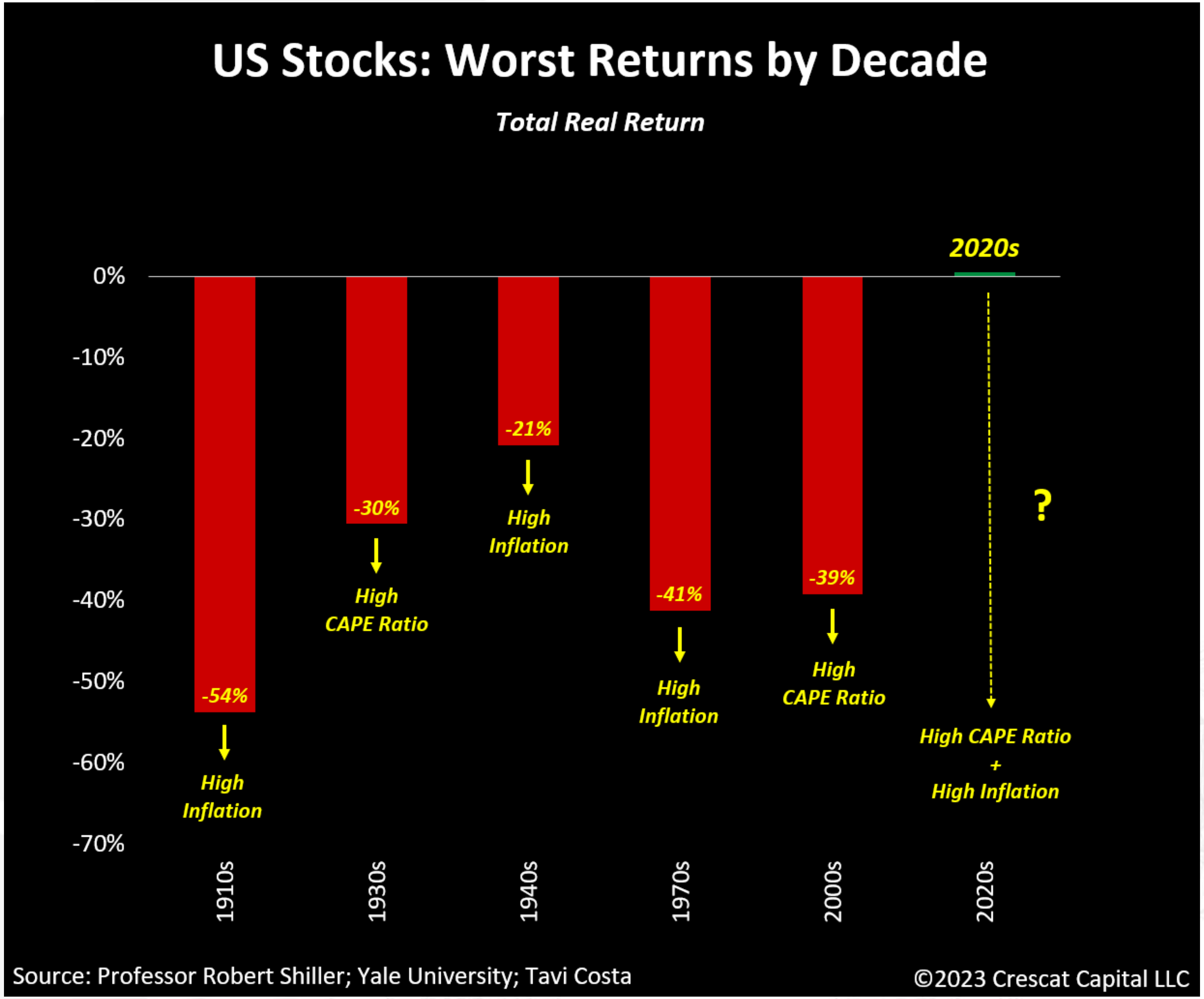
Looking at all recessions since 1970, fiscal deficit-to-GDP worsened by an average of 6.2%.

We think the next downturn will be no different.

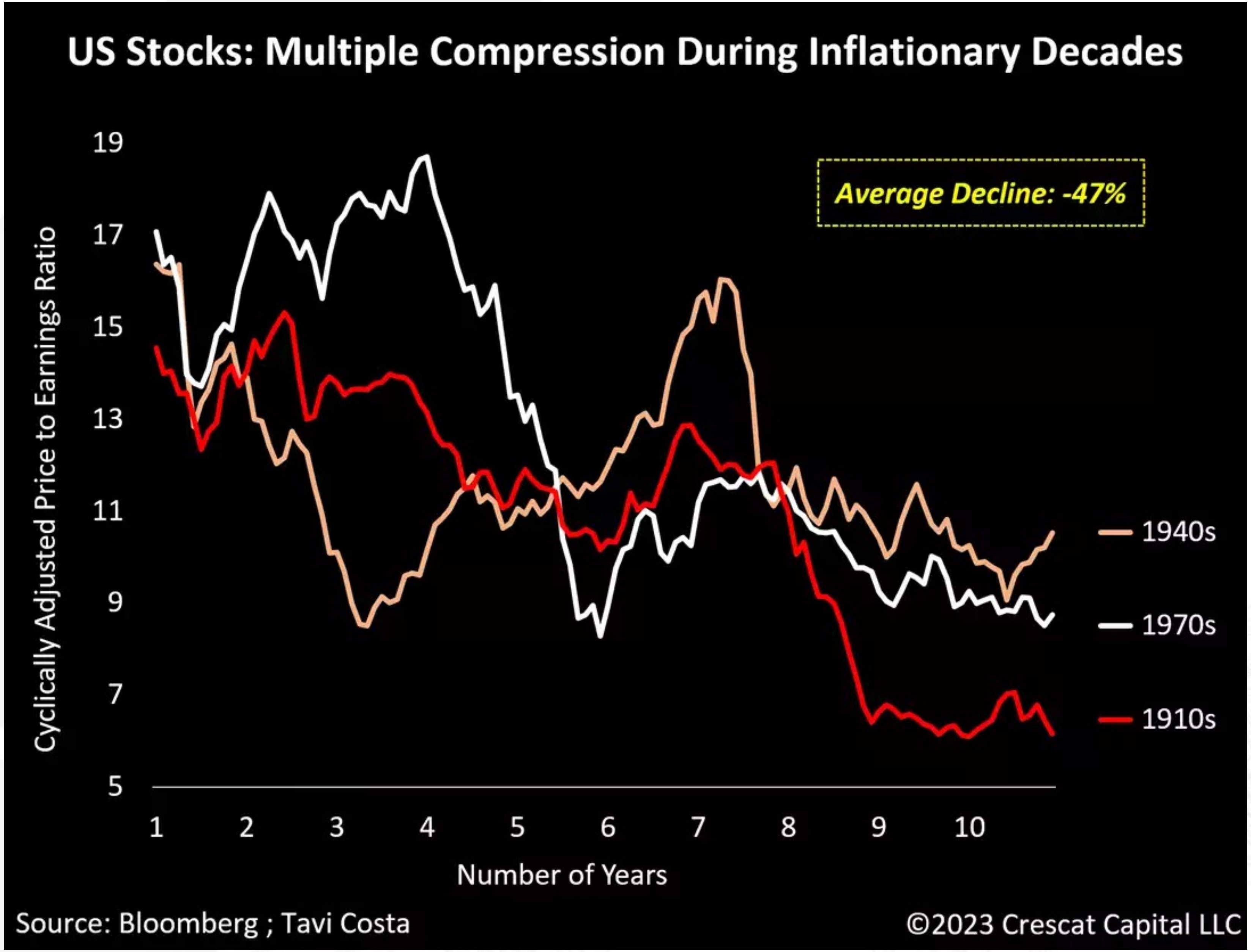
However, government spending will likely be increasing with inflation rates already historically elevated so nominal GDP may also be rising.



This chart is a reminder of the unsustainable divergence between rising yields and the historically inflated valuations of today's equity markets.



Since 1900, there have been only five decades that the total real return for US stocks was negative. In fact, they were all deeply negative. Three of these periods happened during inflationary eras. The other two occurred at a time when valuations of US equity markets were at historical levels. Today, we have both setups at the same time.

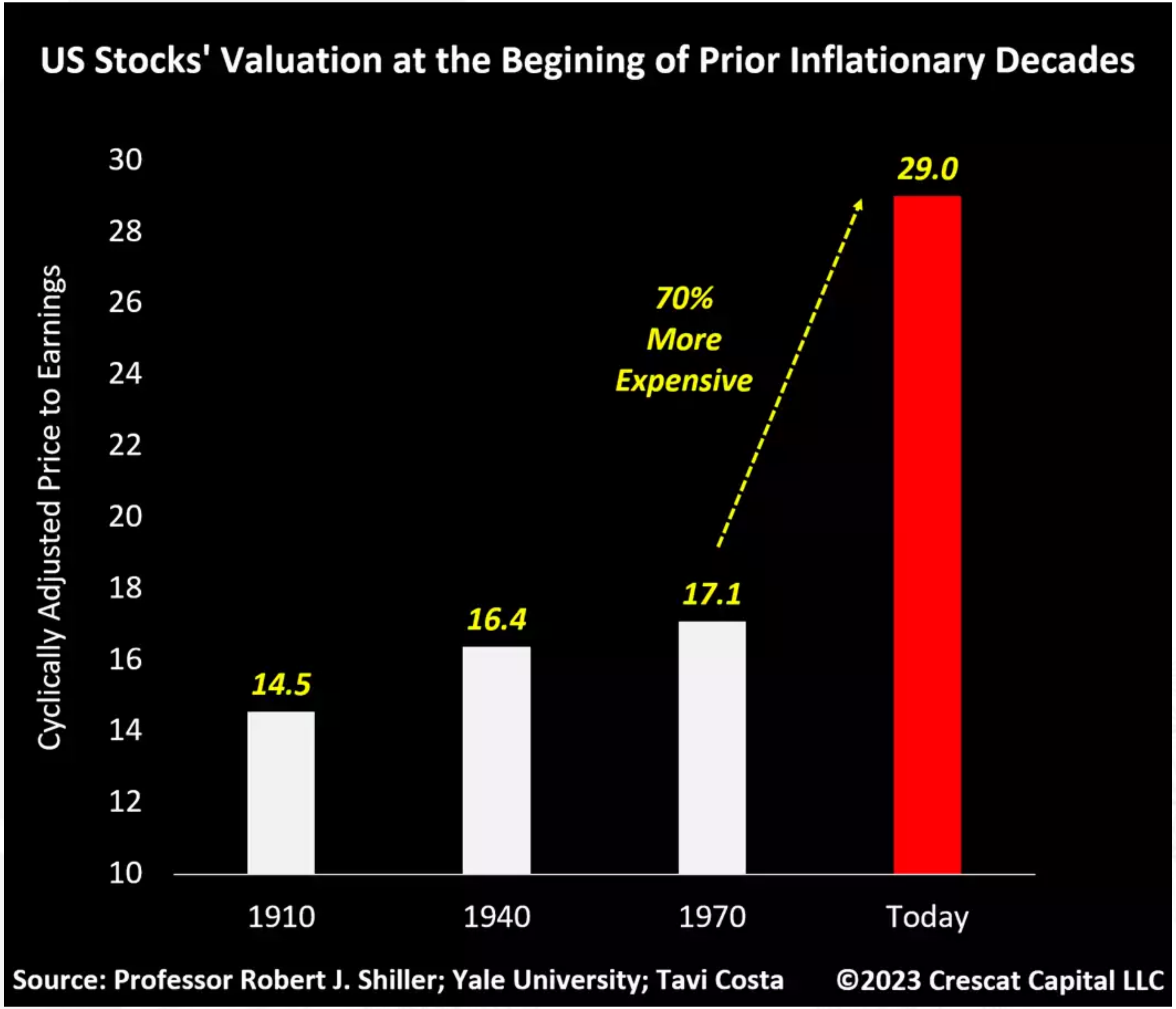


The last time we had a long period of higher-than-average cost of capital was in the 1910s, 1940s, and 1970s.

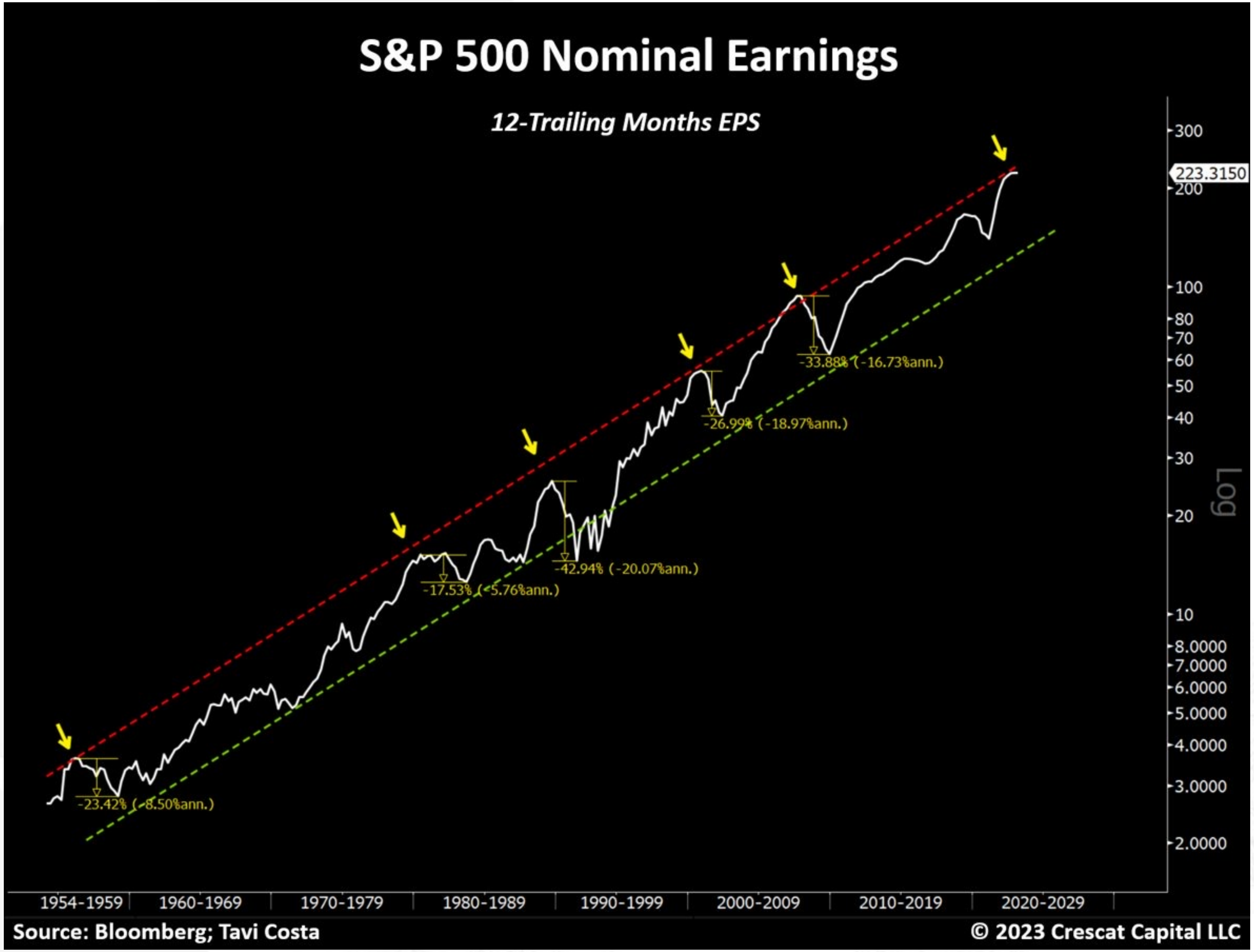
While each had its own unique circumstances, fundamental multiples for stocks significantly contracted over all those decades.

The average decline was nearly 50%.

More importantly, note that CAPE ratios shrunk to single digits at the end of two periods and to just 10.5x in the 1940s.

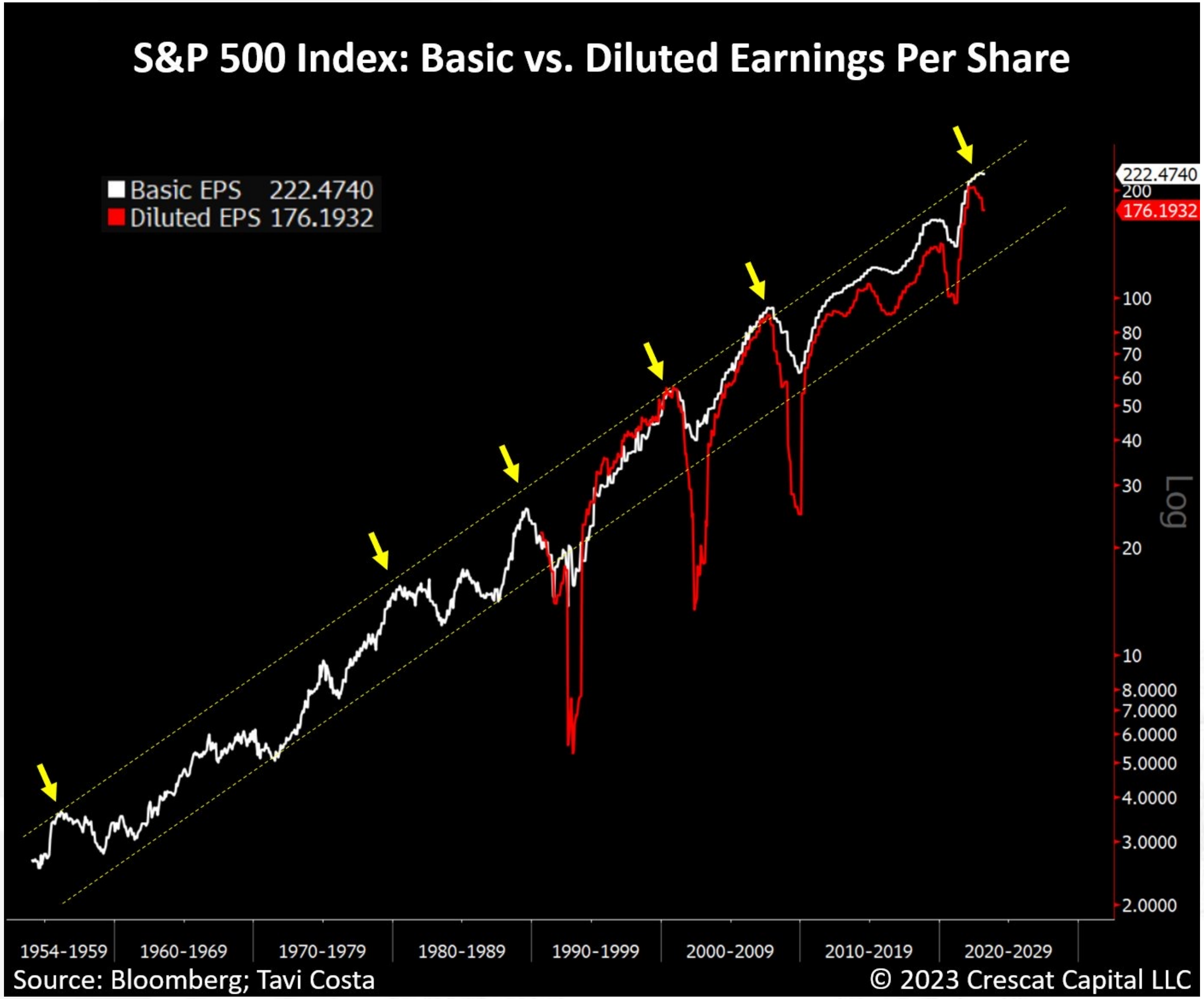


Today's valuations are over 70% more expensive than they were when each of those inflationary decades began.

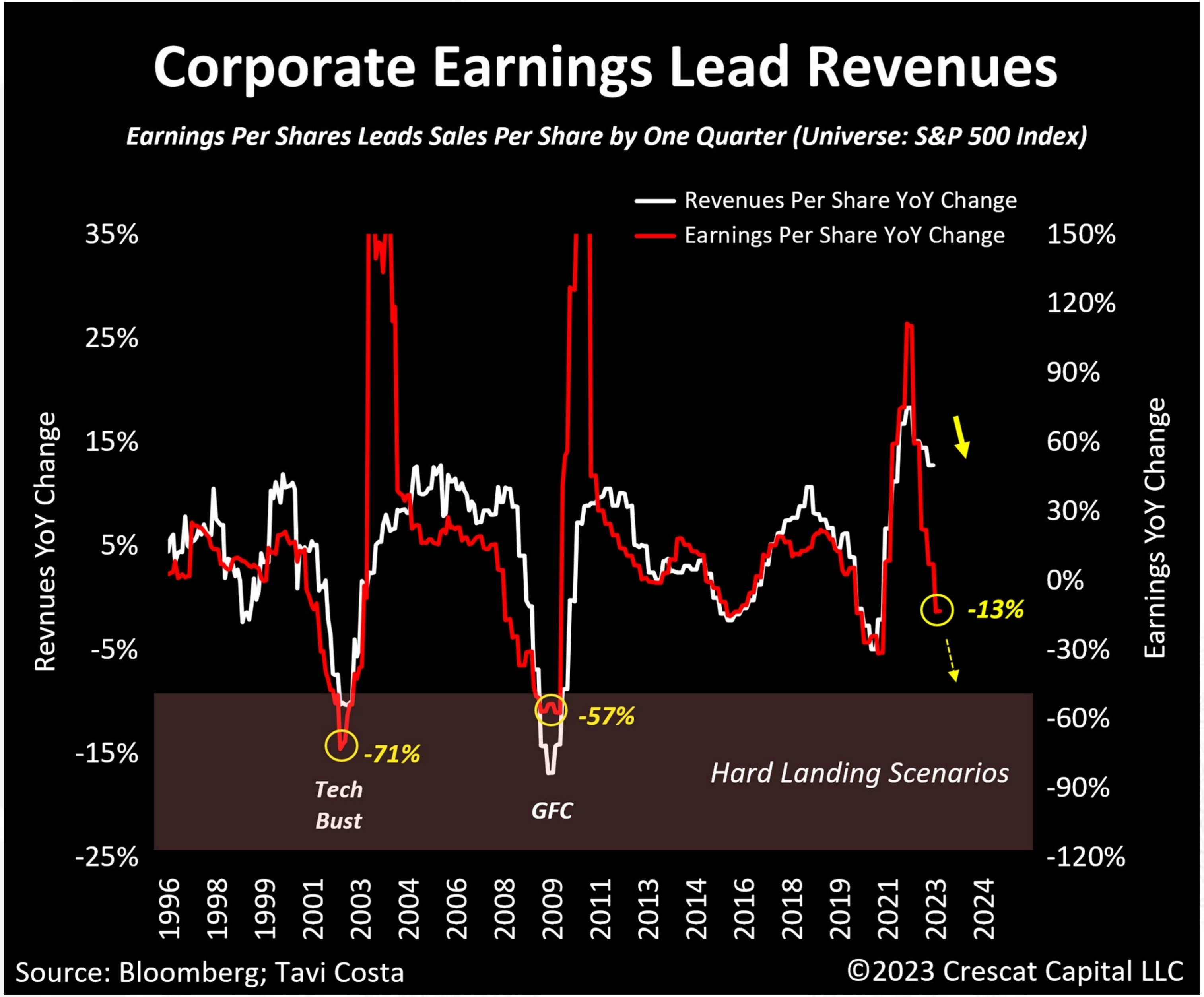


Every time profits reached the upper band of this range, an earnings recession followed.

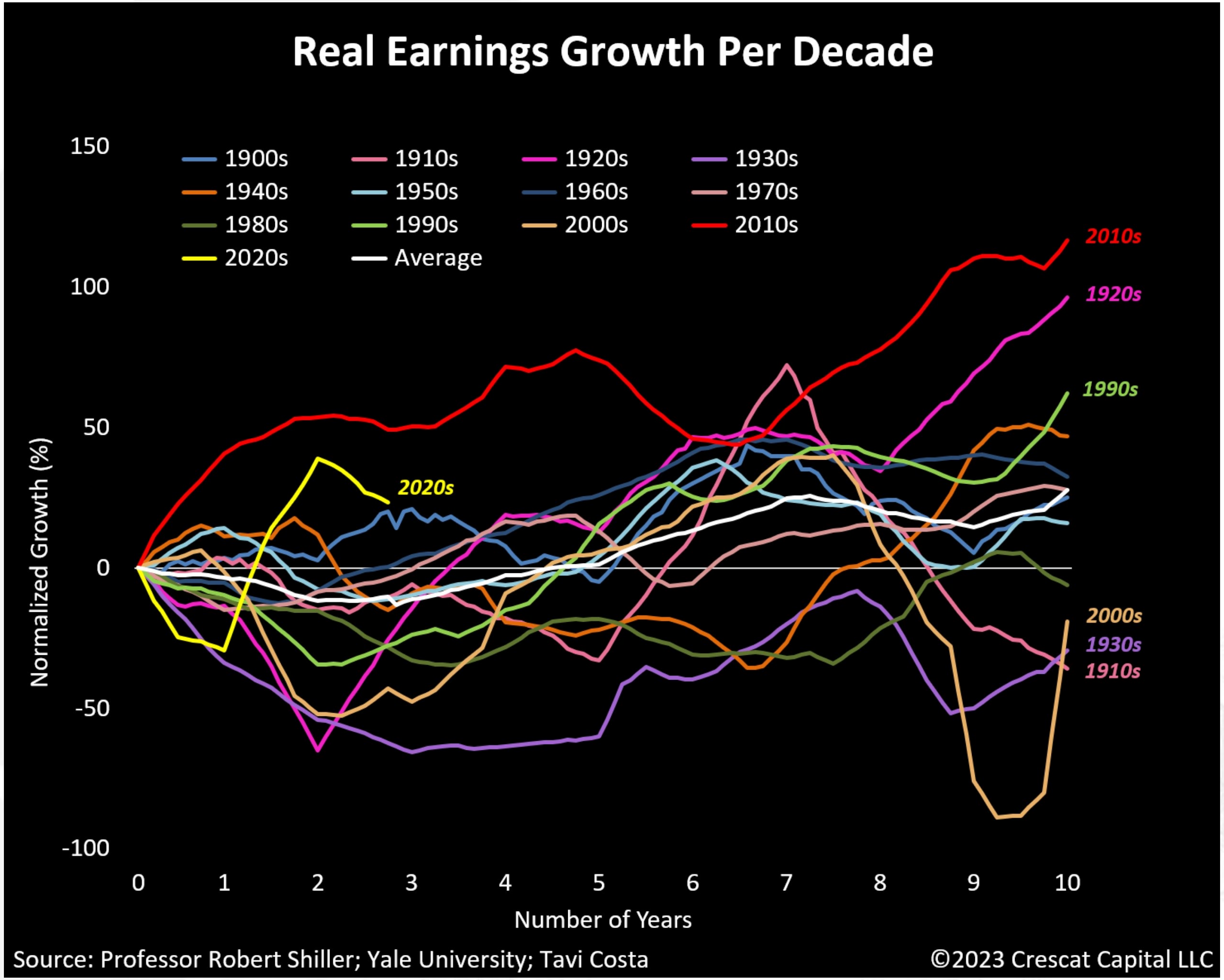
We are at a similar peak-level juncture again today while analysts continue to be overly optimistic.



There has been a significant contraction in diluted earnings, despite basic EPS being near all-time highs.



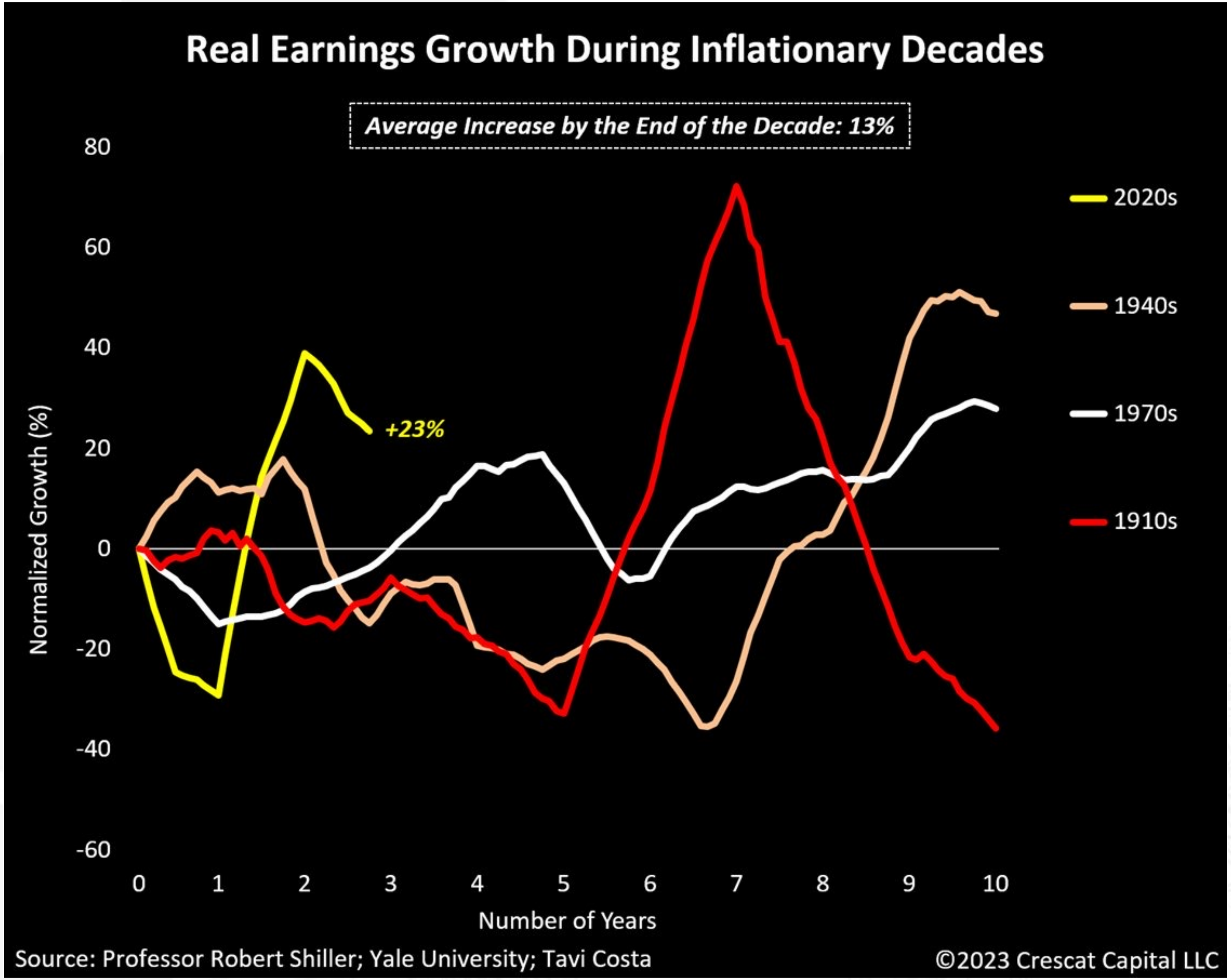
Thus far, one of the key takeaways from this earnings season is that profits have begun to disappoint while revenues have remained resilient. This is a common trend during a business cycle downturn.



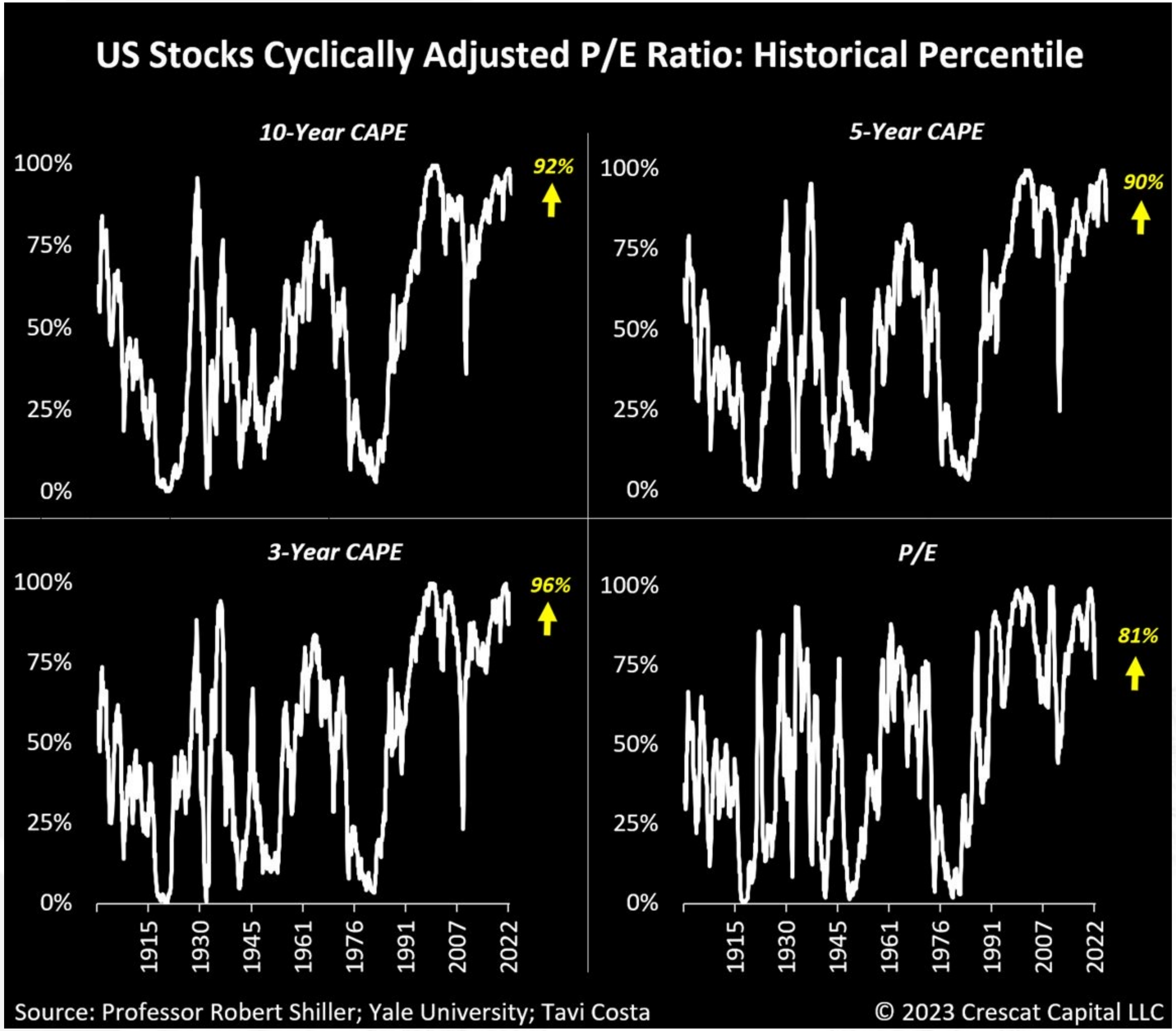
When adjusting corporate fundamentals to inflation levels, the current real growth in earnings for this decade is on pace for being the second largest in history, which is right behind the prior decade's performance.

Note that outside of the 2010s, the other two times we had outstanding long-term increases in profits were in the 1920s and the 1990s.

Both periods preceded severe earnings recessions.

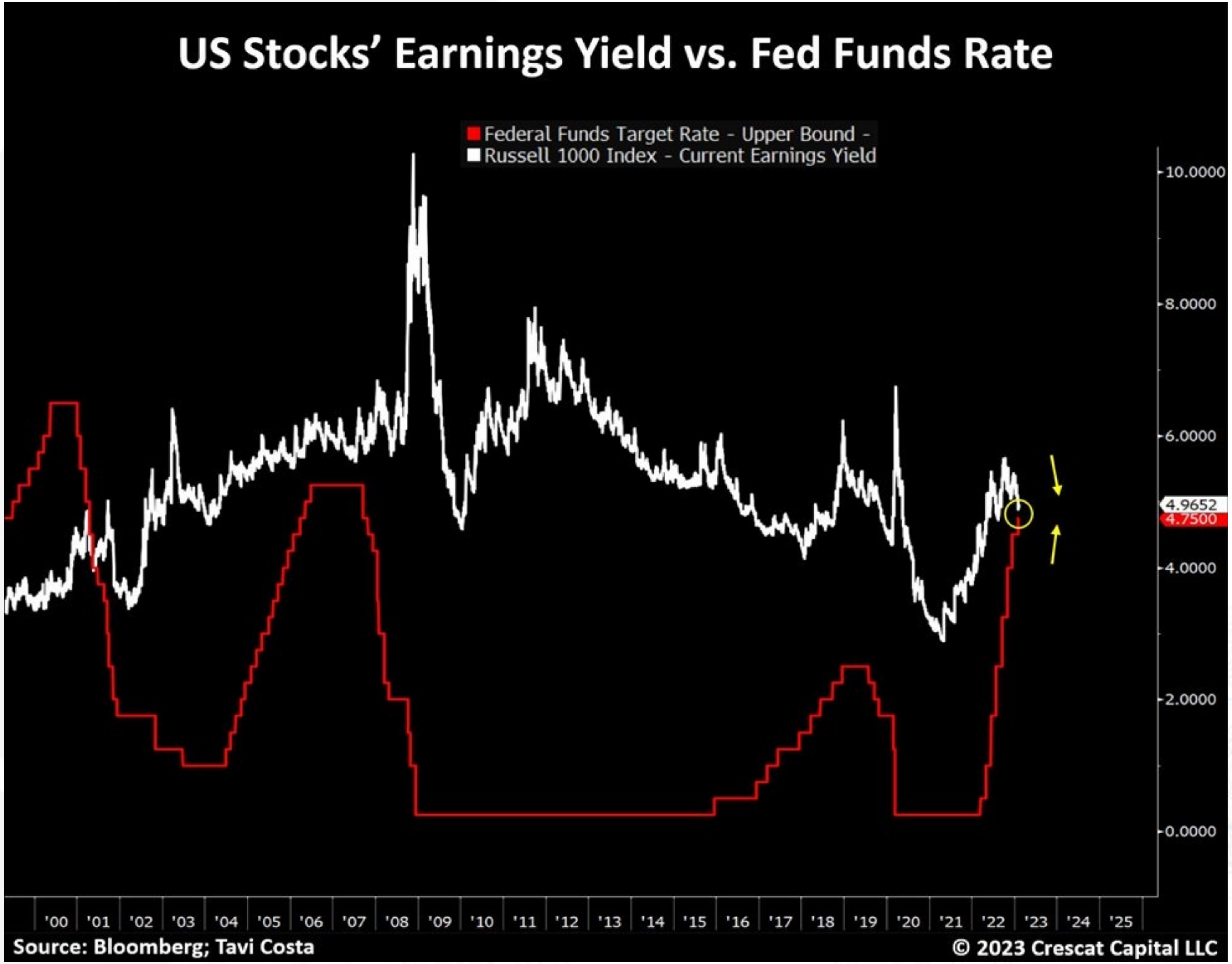


The issue today is that we are two years into the decade where real corporate earnings have already grown by 23% with companies achieving their highest profit margins in history, the lagged product of unprecedented monetary stimulus that has been reversed.

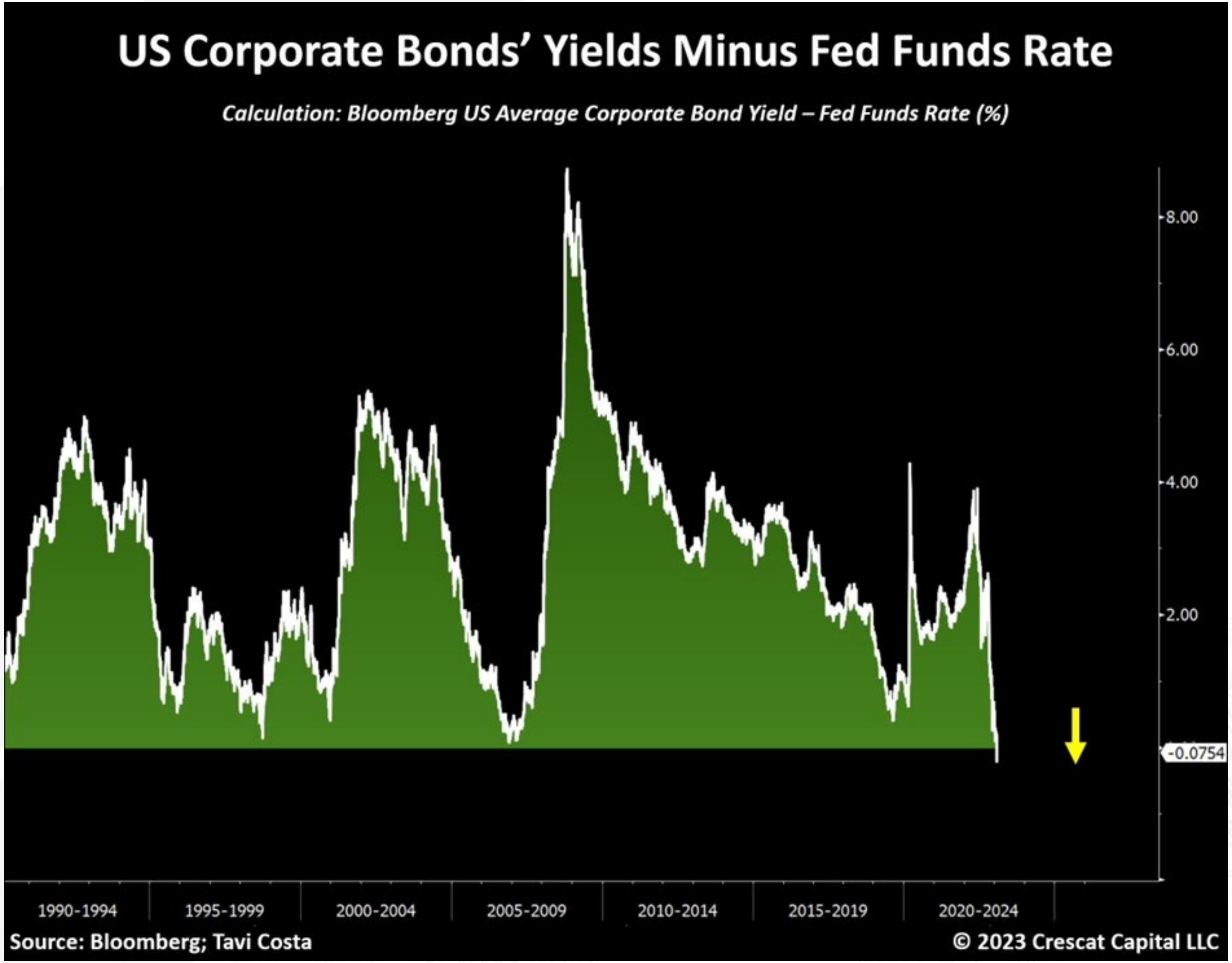


On a CAPE ratio basis, for instance, market prices are near record levels relative to 1, 3, 5, and 10-year cyclically adjusted earnings.

The only plausible way to justify the current multiples in equity markets would be if, for the first time in history, we were to experience a 50% increase in real earnings for back-to-back decades.

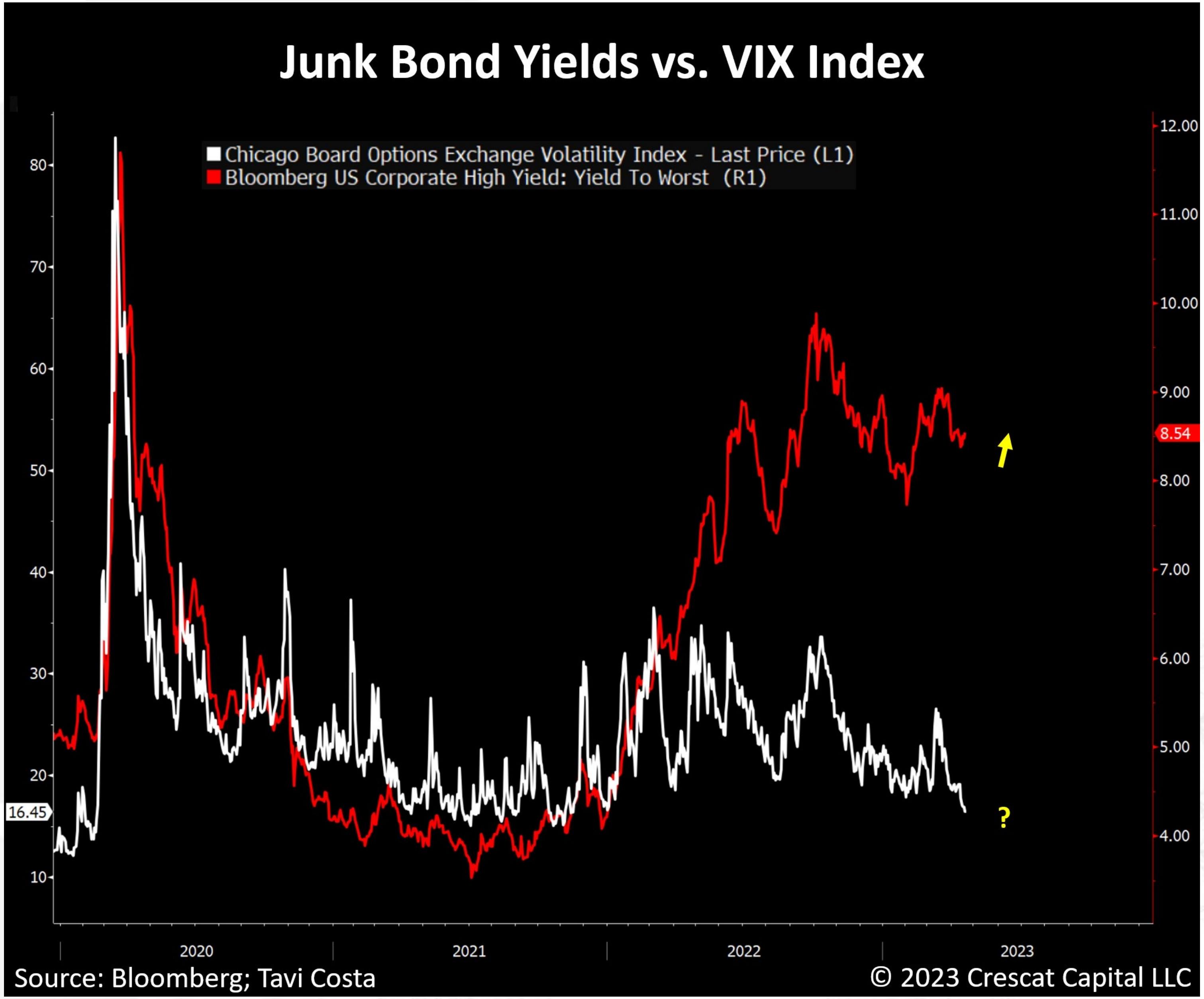


Earnings yield for US stocks is now close to turning negative versus the Fed funds rate for the first time since the tech bust.

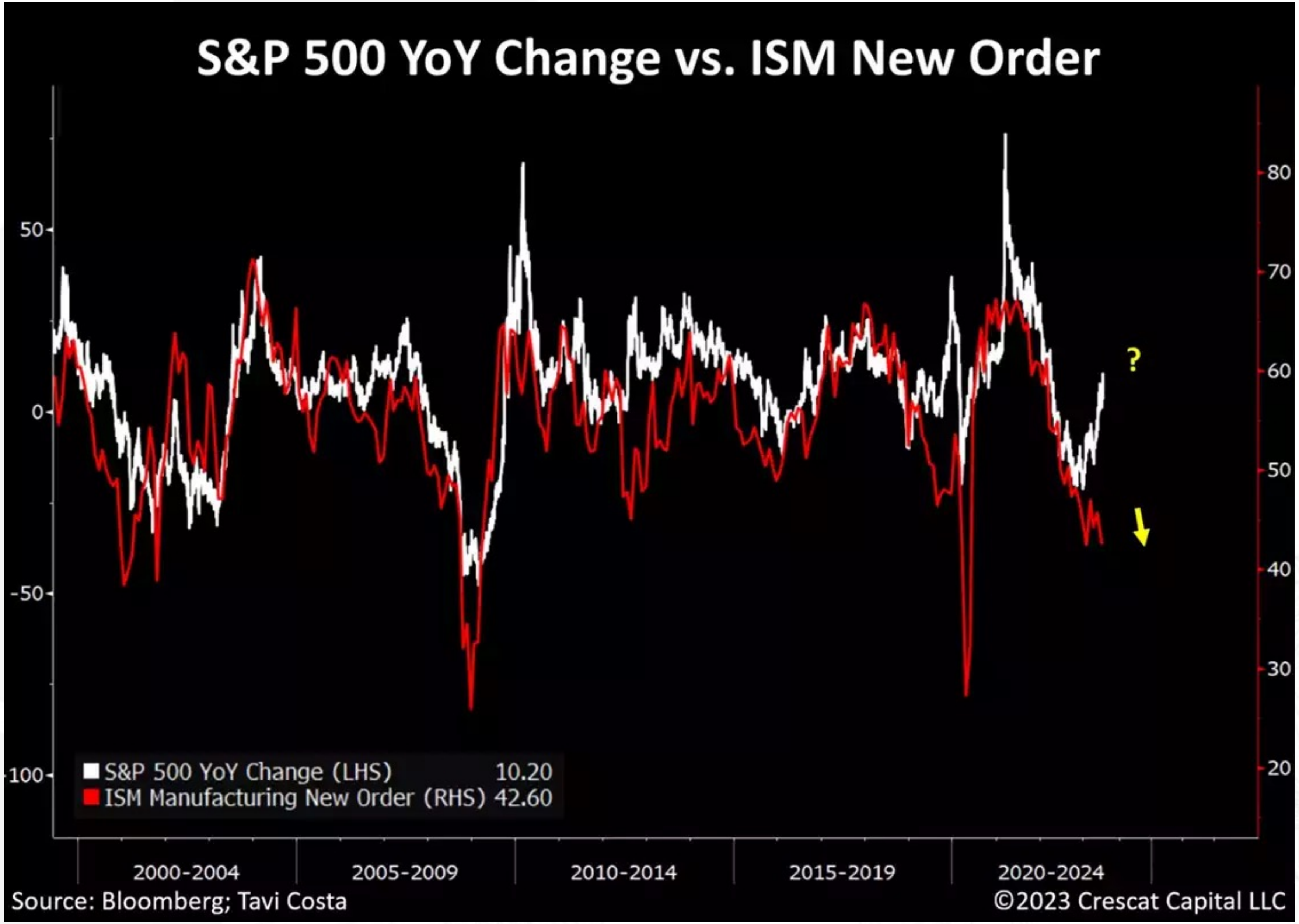


Why would anyone take the extra risk of owning corporate bonds when one can receive over 4.75% yield risk-free?

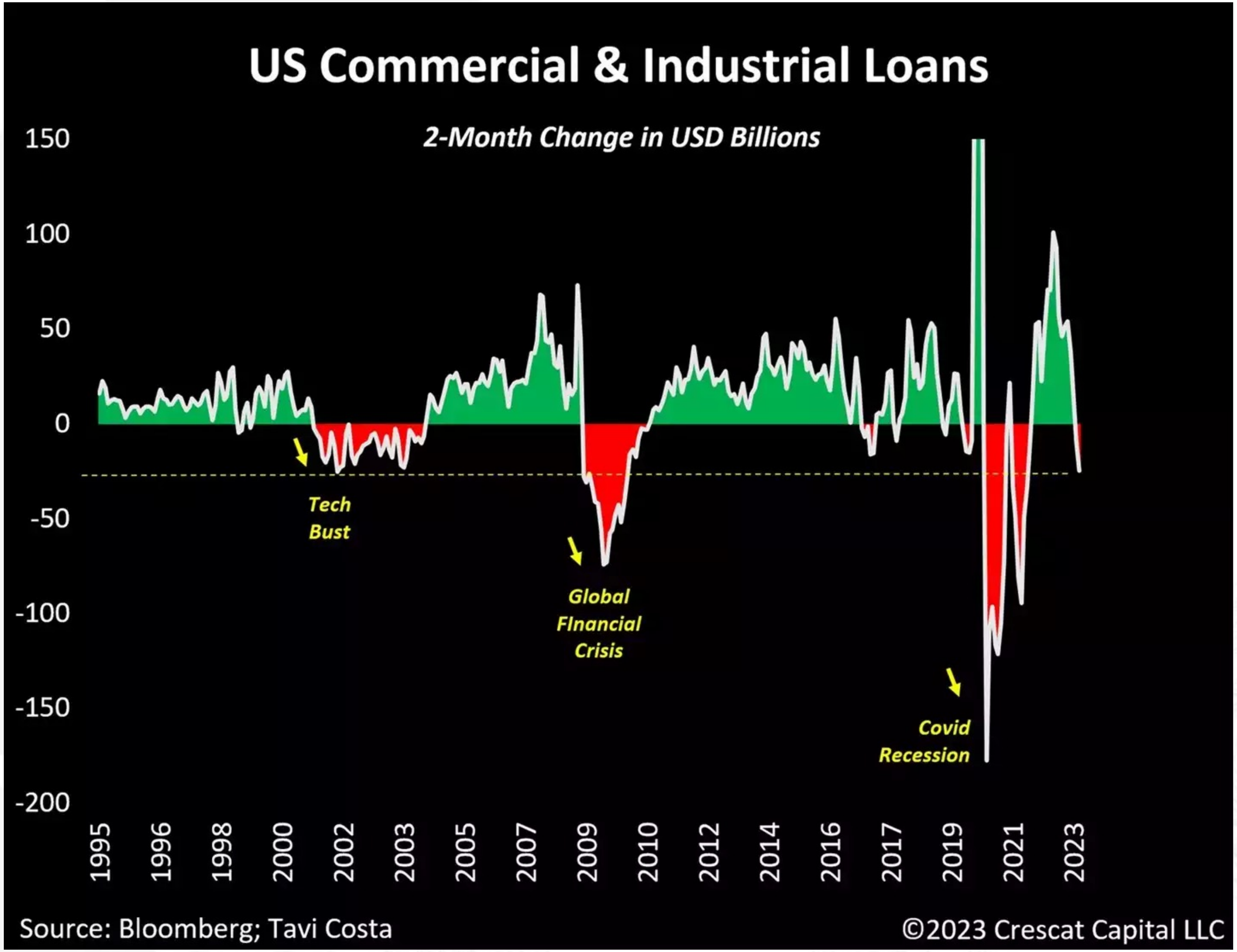
This is arguably the most expensive part of today's market.



Junk bond yields are materially diverging from overall equity volatility, which appears to be unreasonably suppressed.

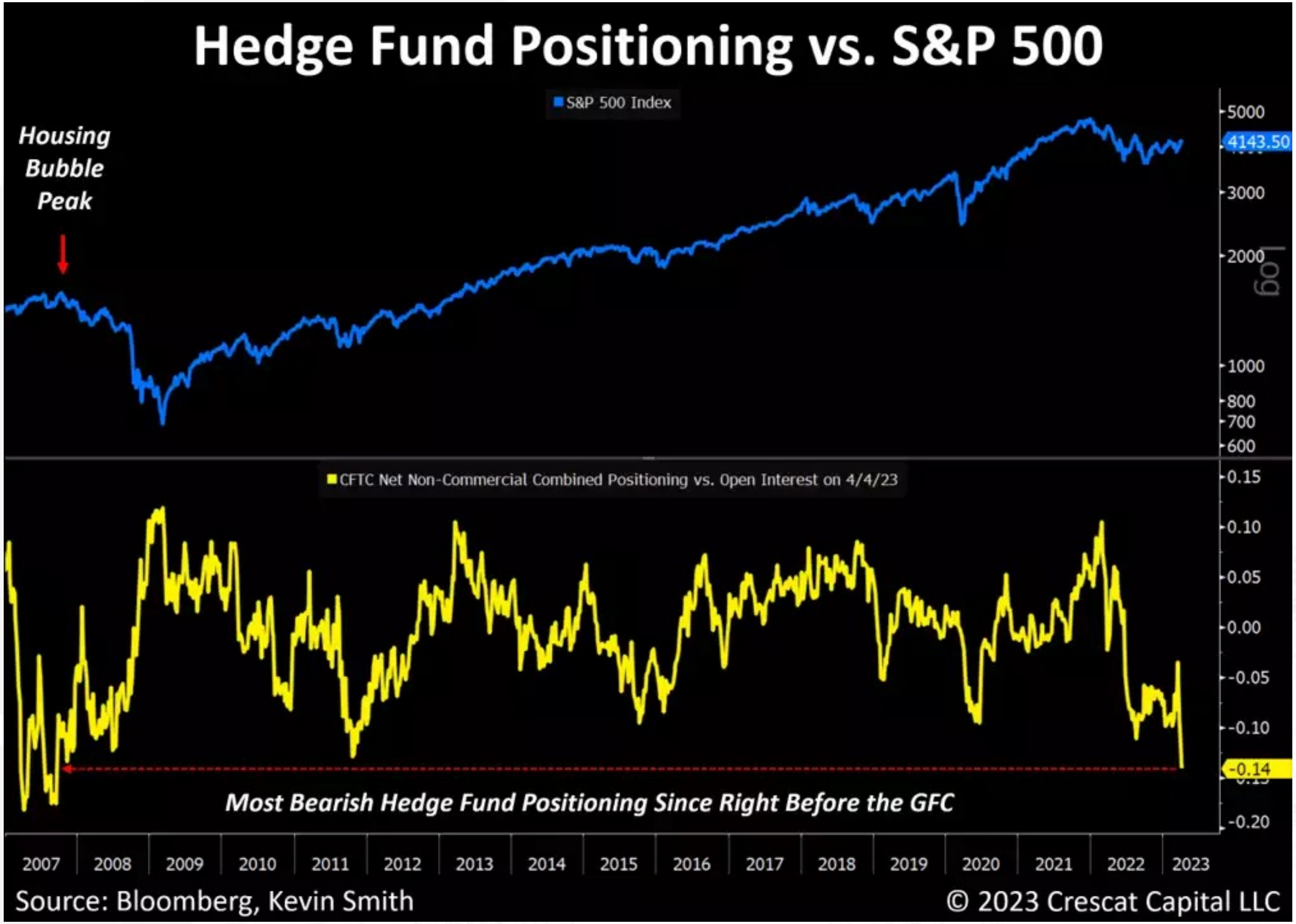


The year-over-year change in the S&P 500 is now diverging from the ISM New Orders index. Note that the last time this happened preceded the volatility event we had during the March 2020 crash and recession.

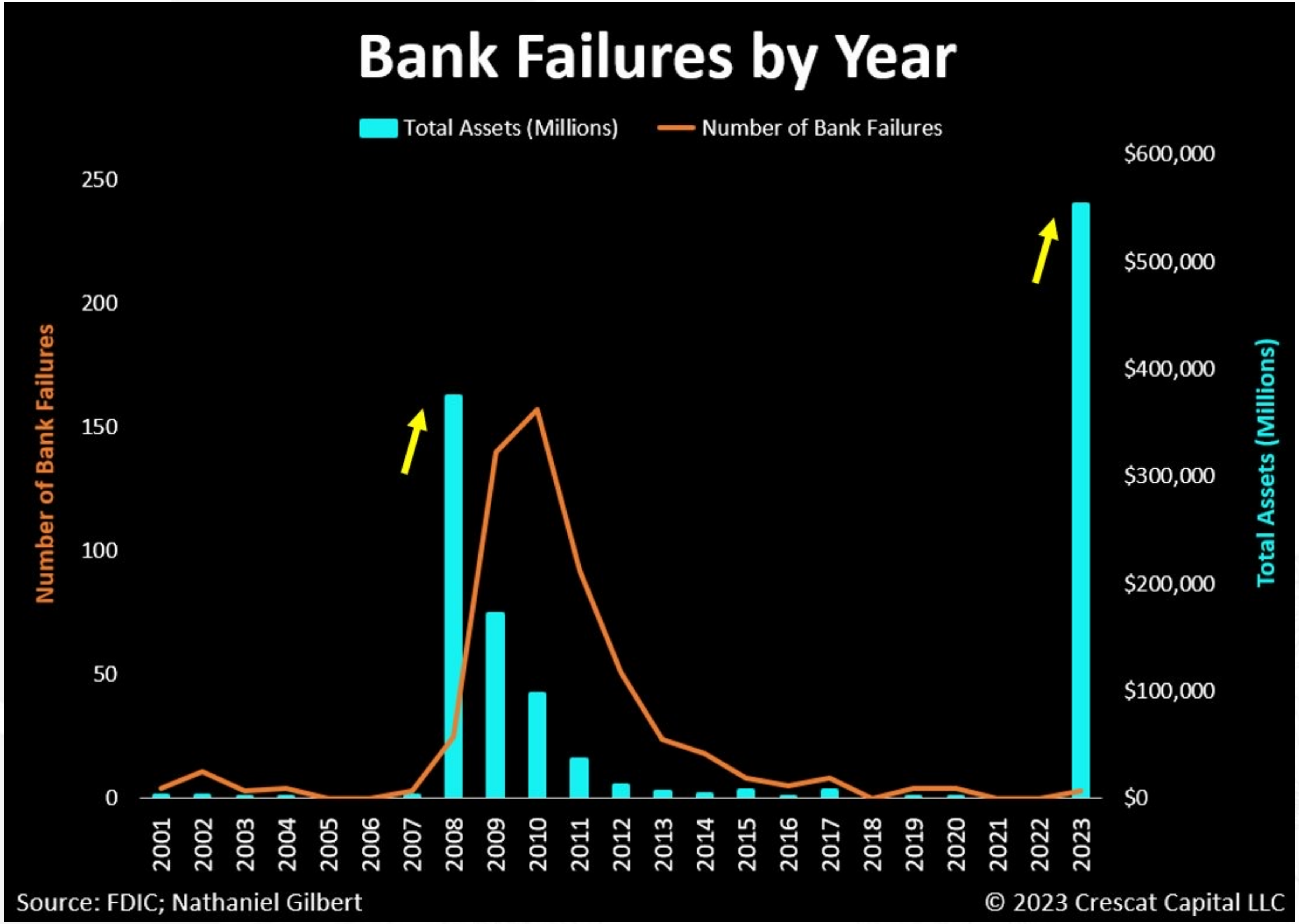


Let us not forget that the yield curve has been warning us all along. In November, more than 70% of the entire Treasury curve inverted, which is a signal that has never failed in forecasting severe economic downturns.

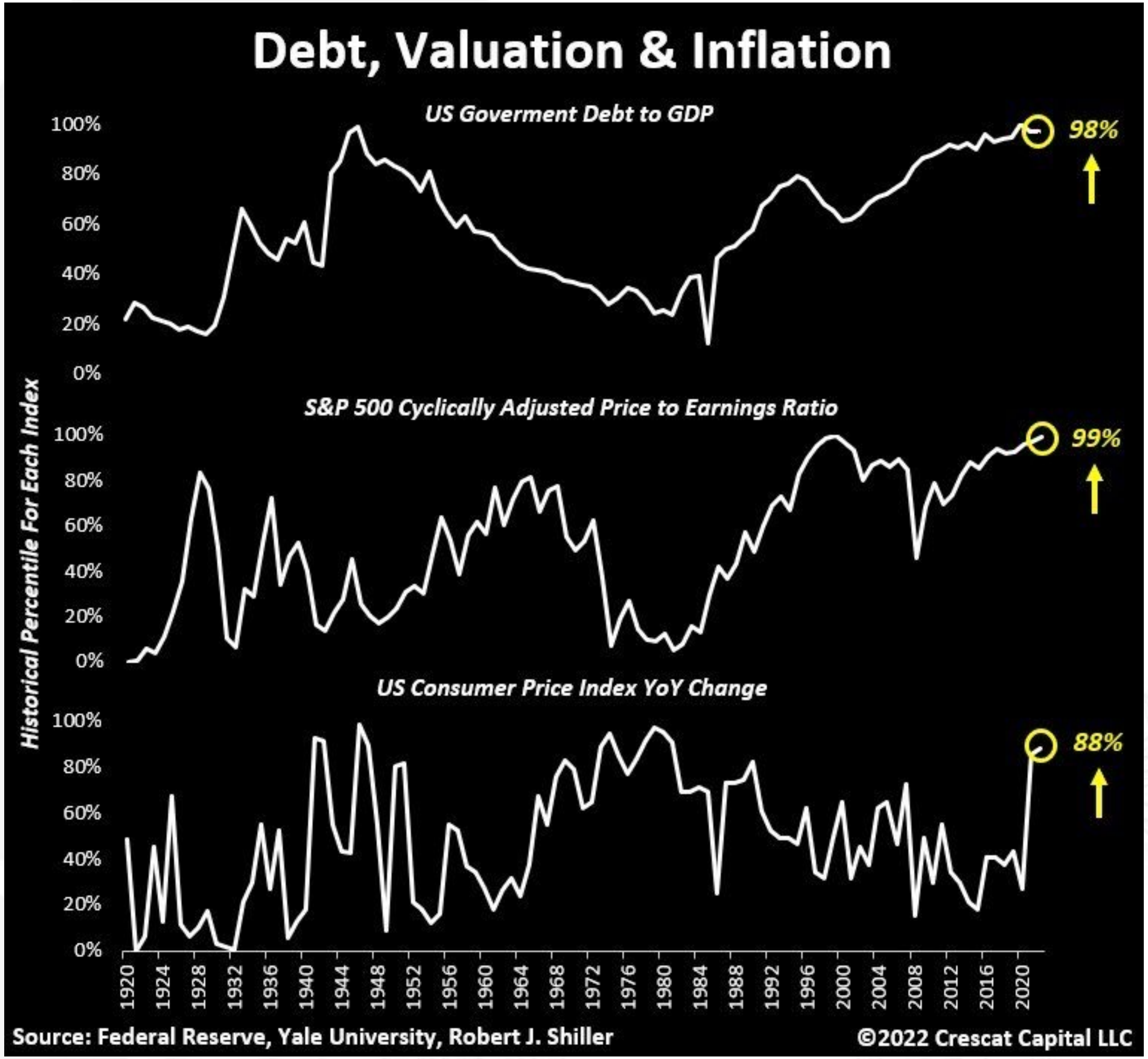
The US total equity market cap relative to its GDP has come down, but it is just re-testing the highs of the peak of the technology bubble in 2000.



Investors should strive to determine the fundamental and macro picture for themselves from a variety of data sources and not get sucked in by Wall Street's sometimes compromised and twisted takes.

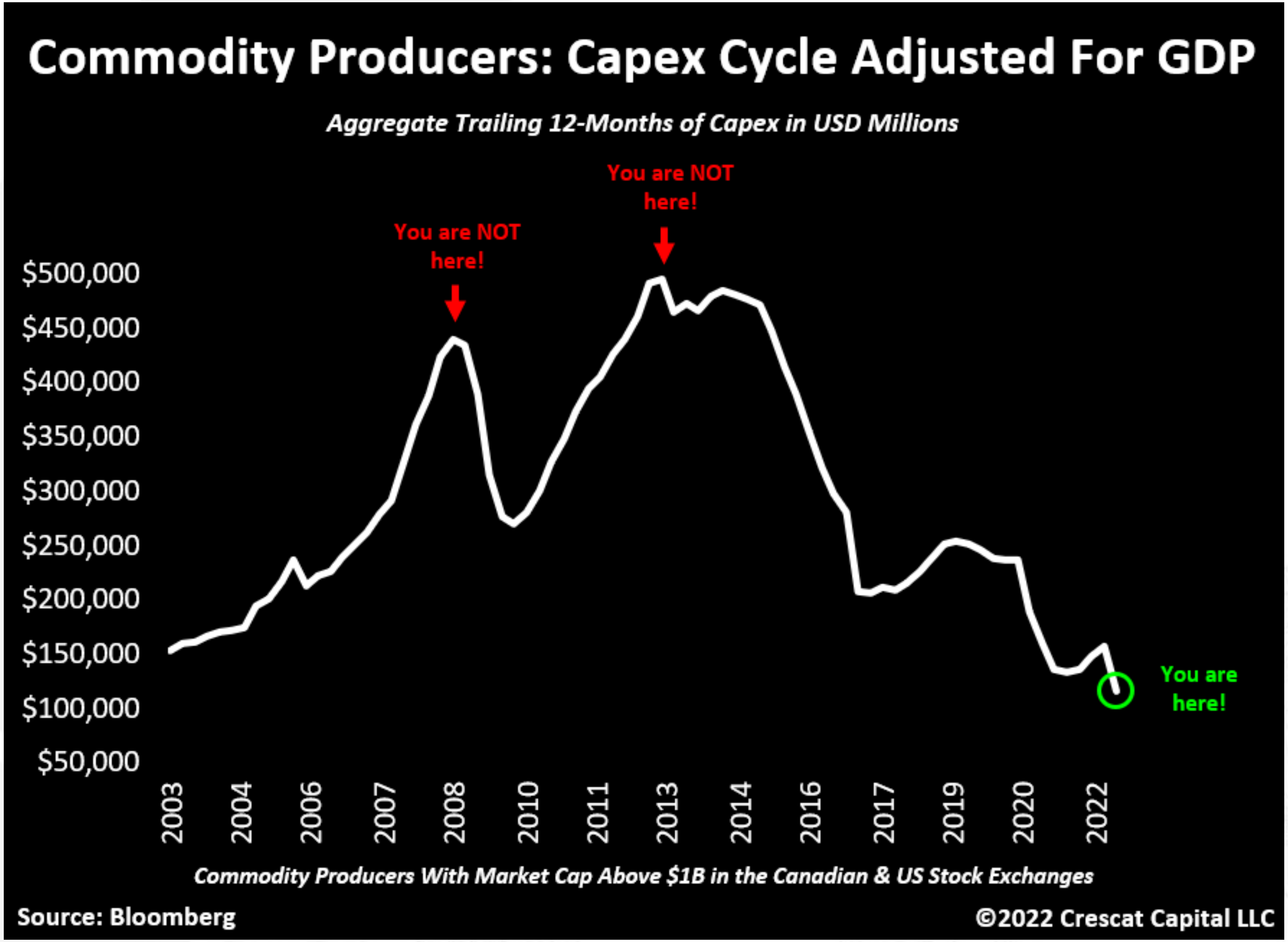


A reminder that back in the Global Financial Crisis over 150 banks went out of business.



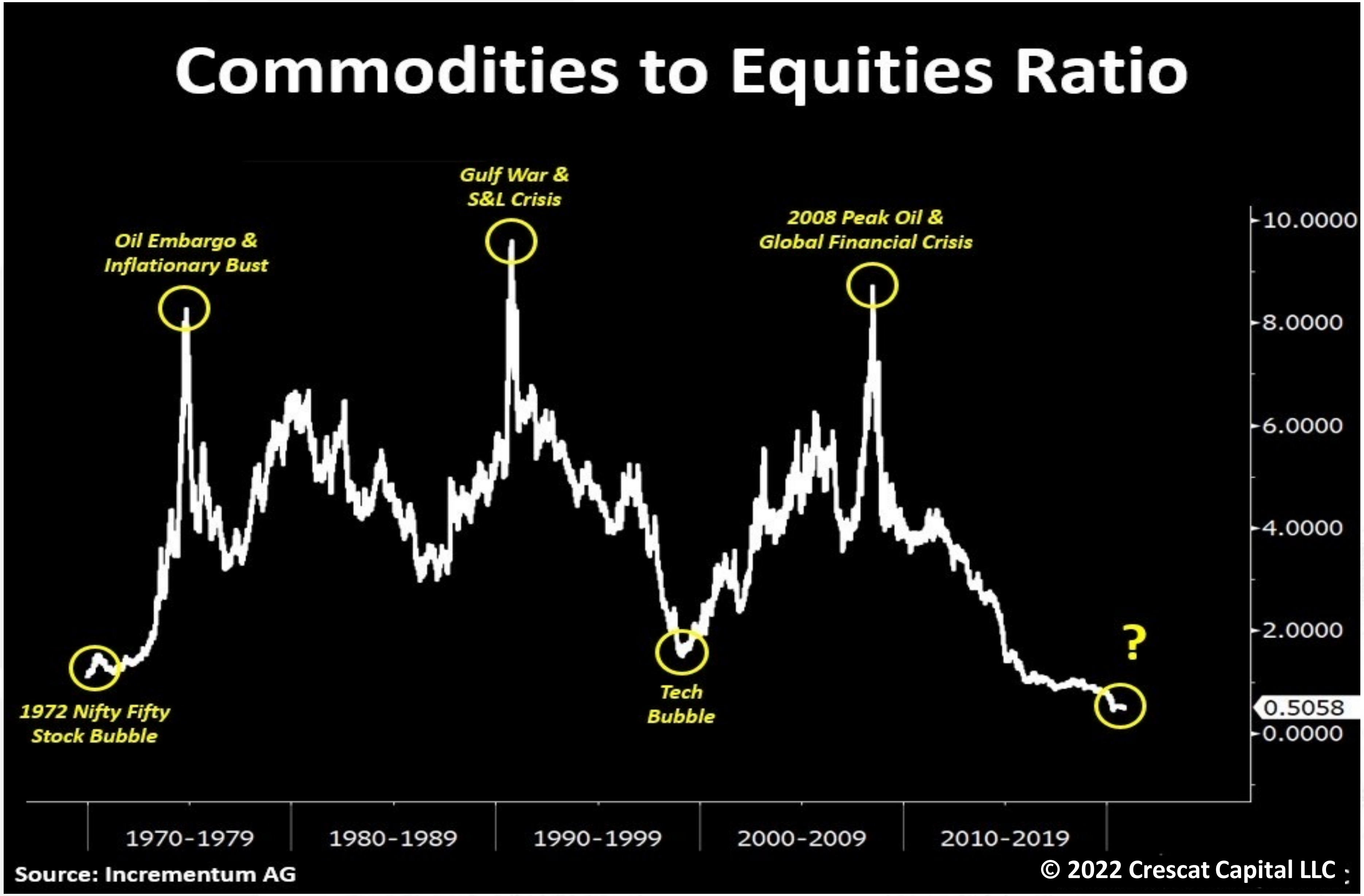
For the first time in history, the US is experiencing a confluence of three macro extremes all at once:

- High government debt to GDP like the post-war 1940s
- Excessive stock market valuation on par with 1929 & 2000 bubbles
- A resource-driven inflationary crisis environment comparable to the 1970s



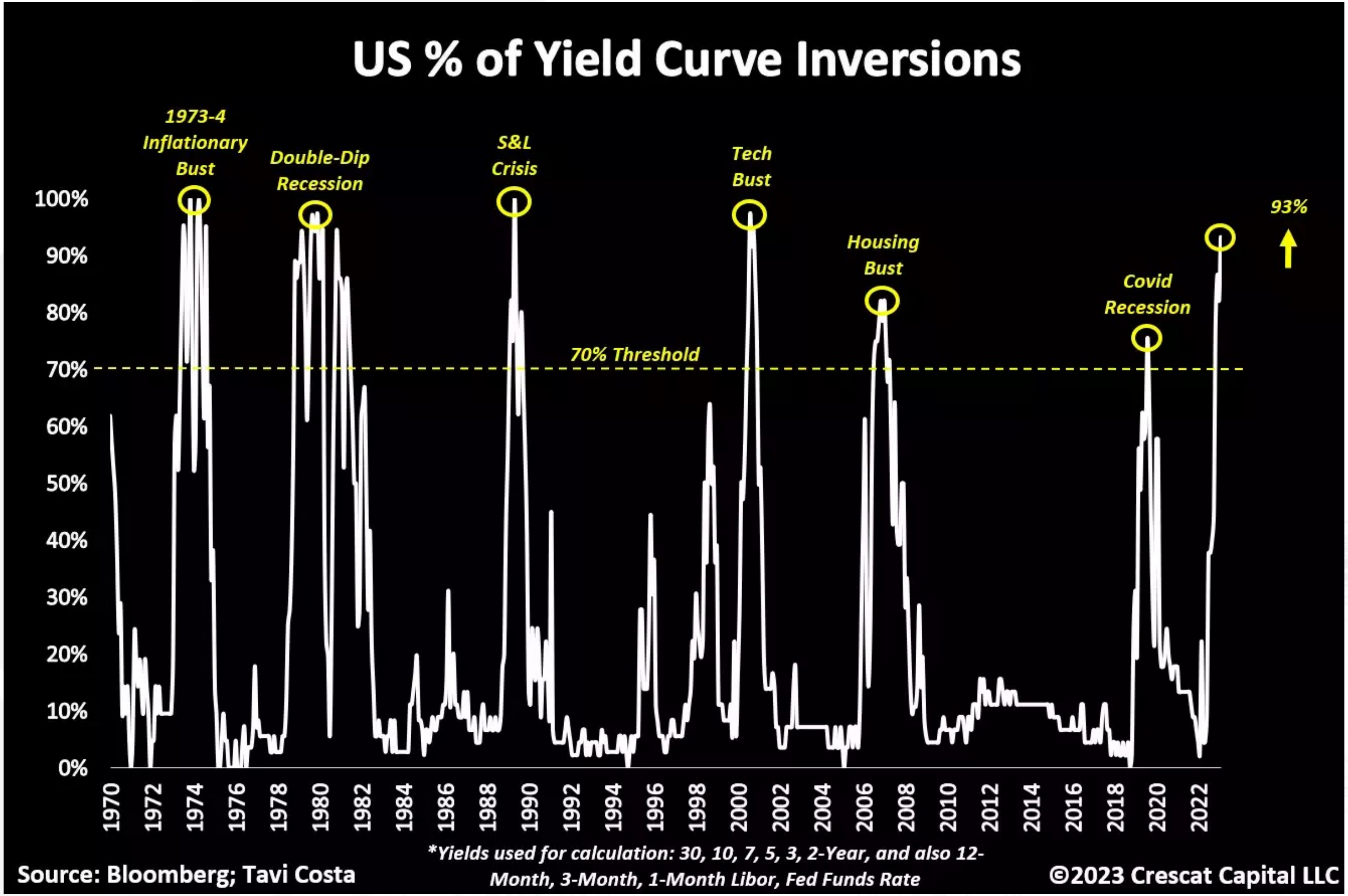
With the Fed tightening financial conditions, the availability of capital to invest in natural resource projects is also drying up.

We believe supply constraints are likely to stay with us for a long time.

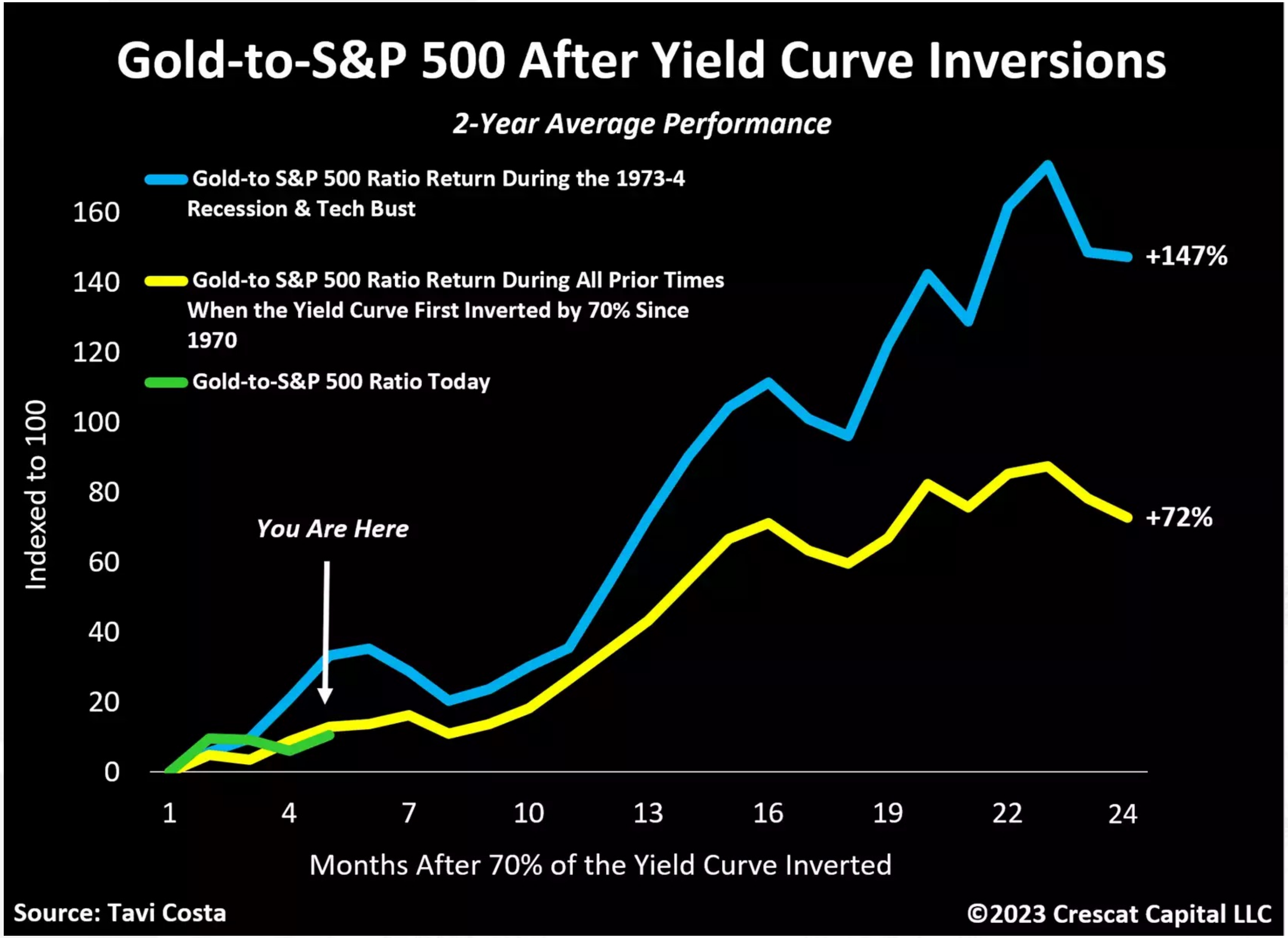


It is still very early, in our analysis, in the rotation cycle out of overvalued growth equities and low-yielding fixed-income securities and into commodities. It is just like early 1973 and early 2001 in our view.

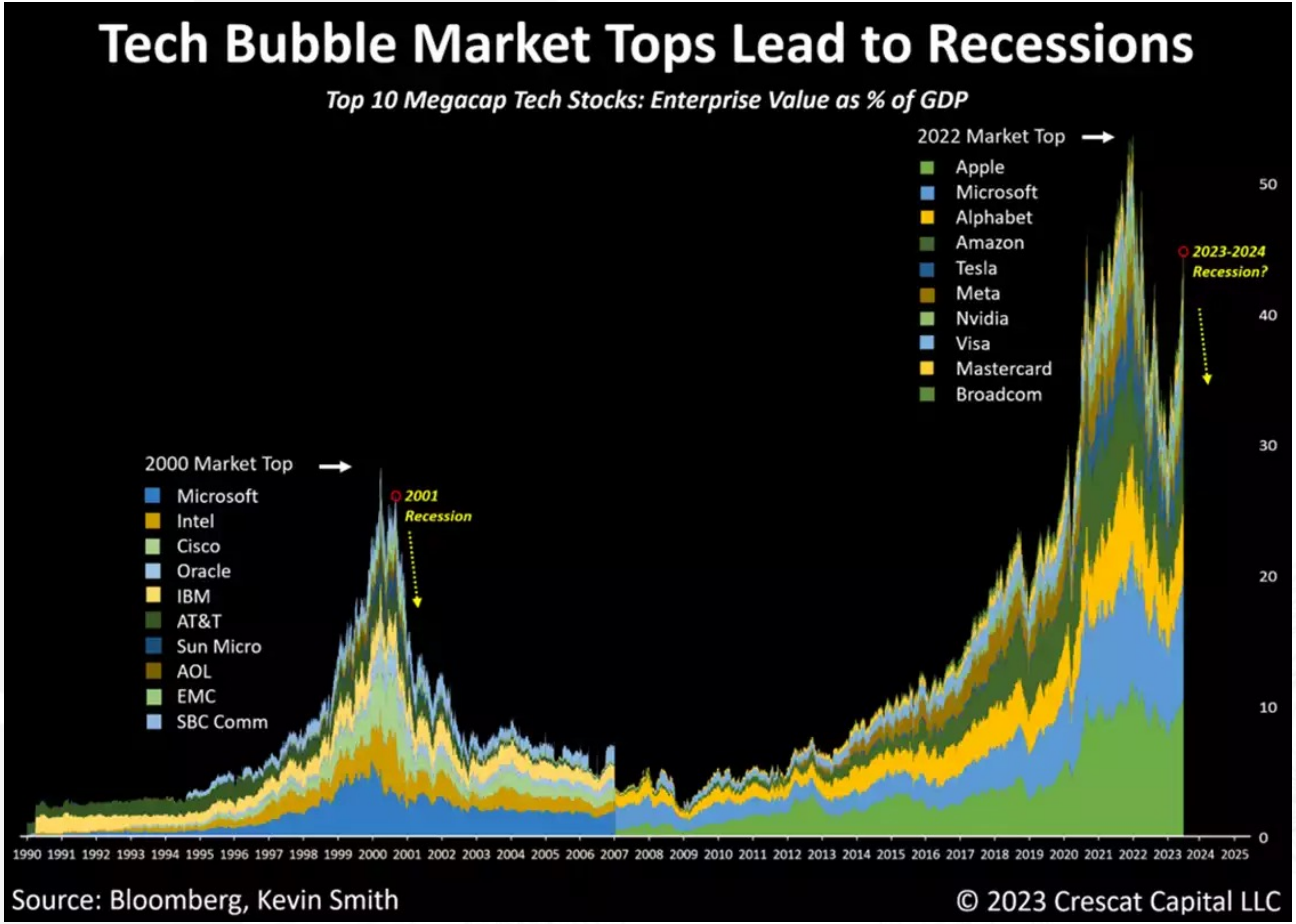
The commodities-to-equity ratio is at a 50-year low.



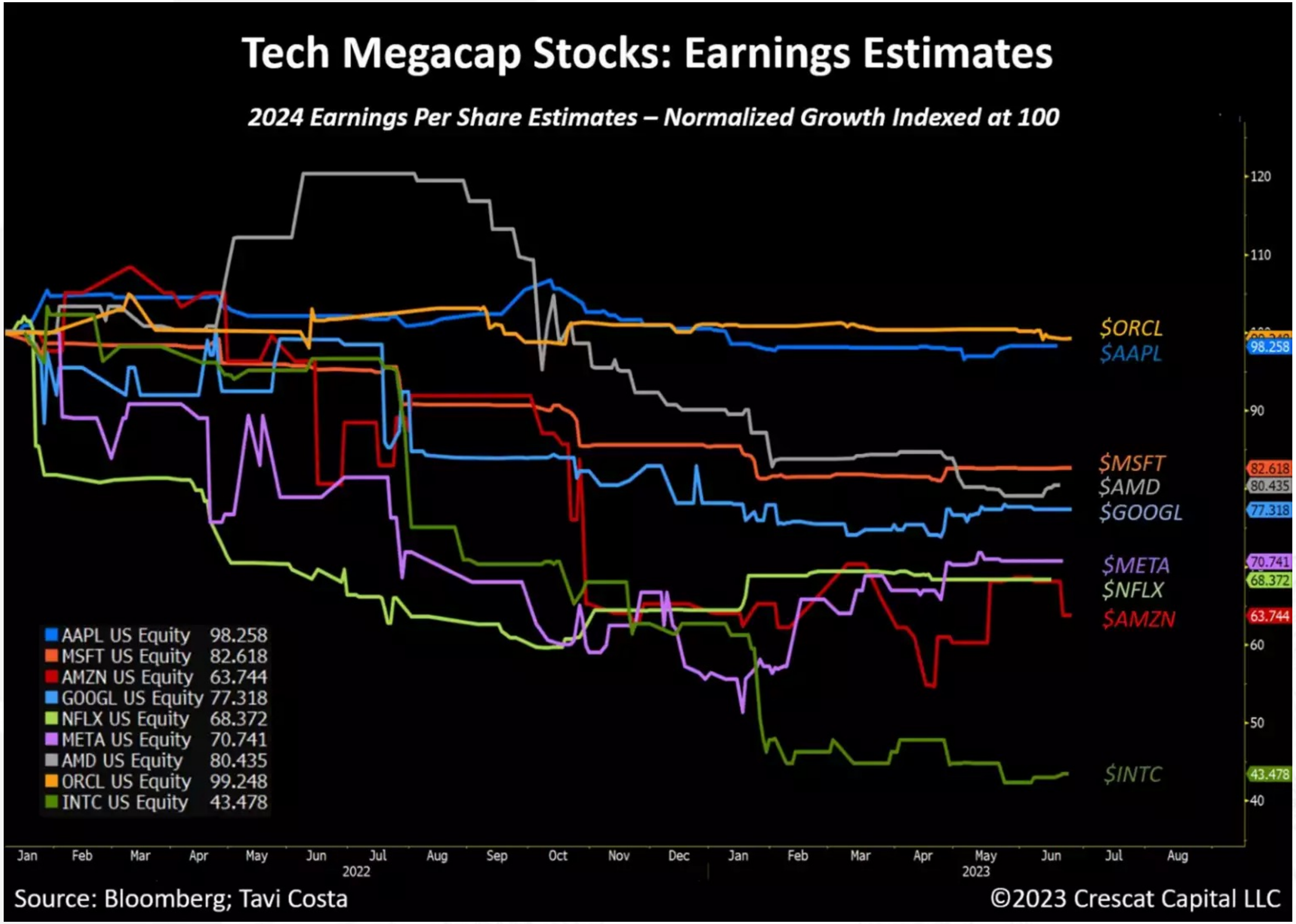
The curve's level of extreme inversion since November 2022, given still-excessive equity and fixed-income security valuations, is a blaring macro warning signal of a pending hard landing.



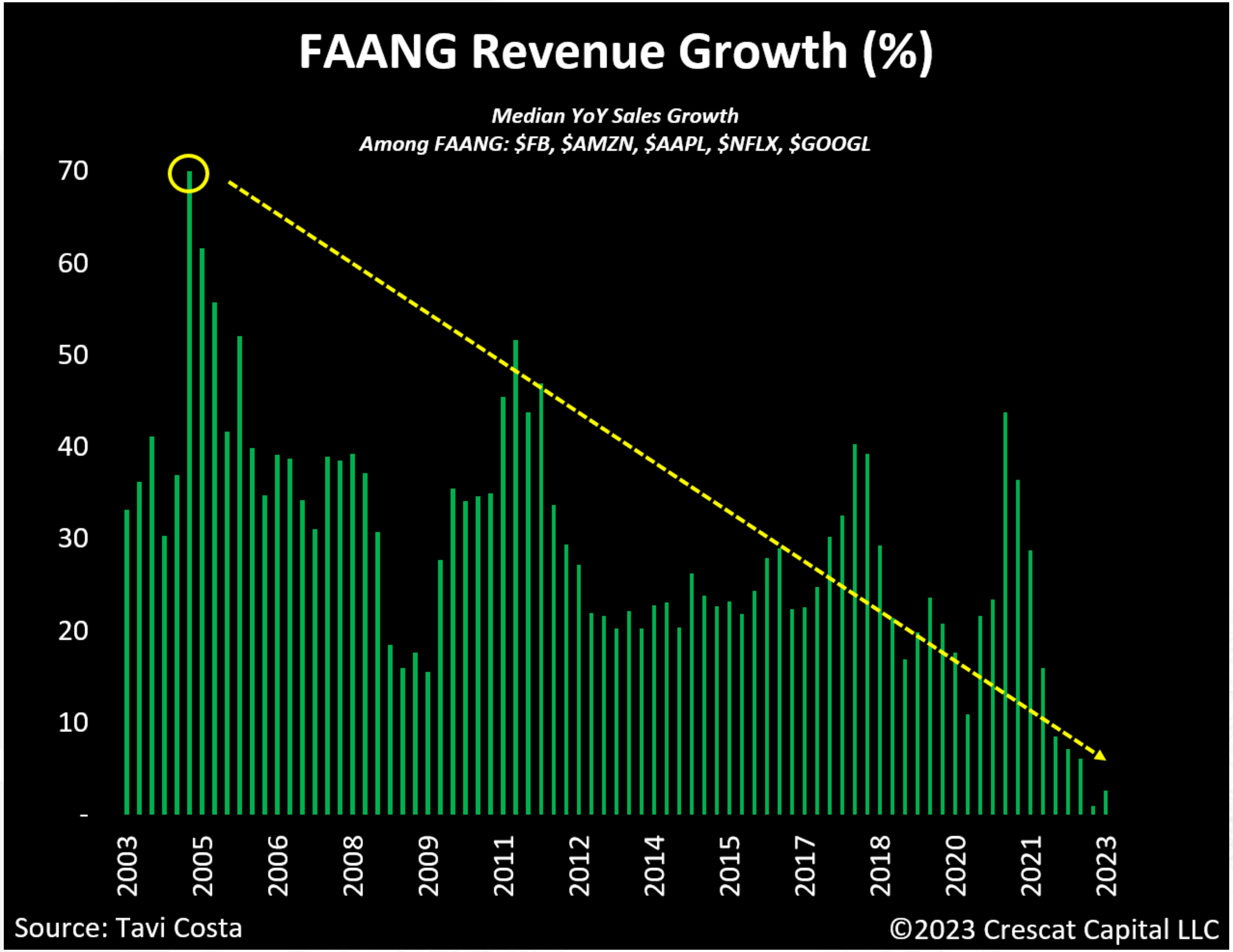
These historical trends suggest the potential for a significant opportunity in precious metals relative to equities given the current market environment.



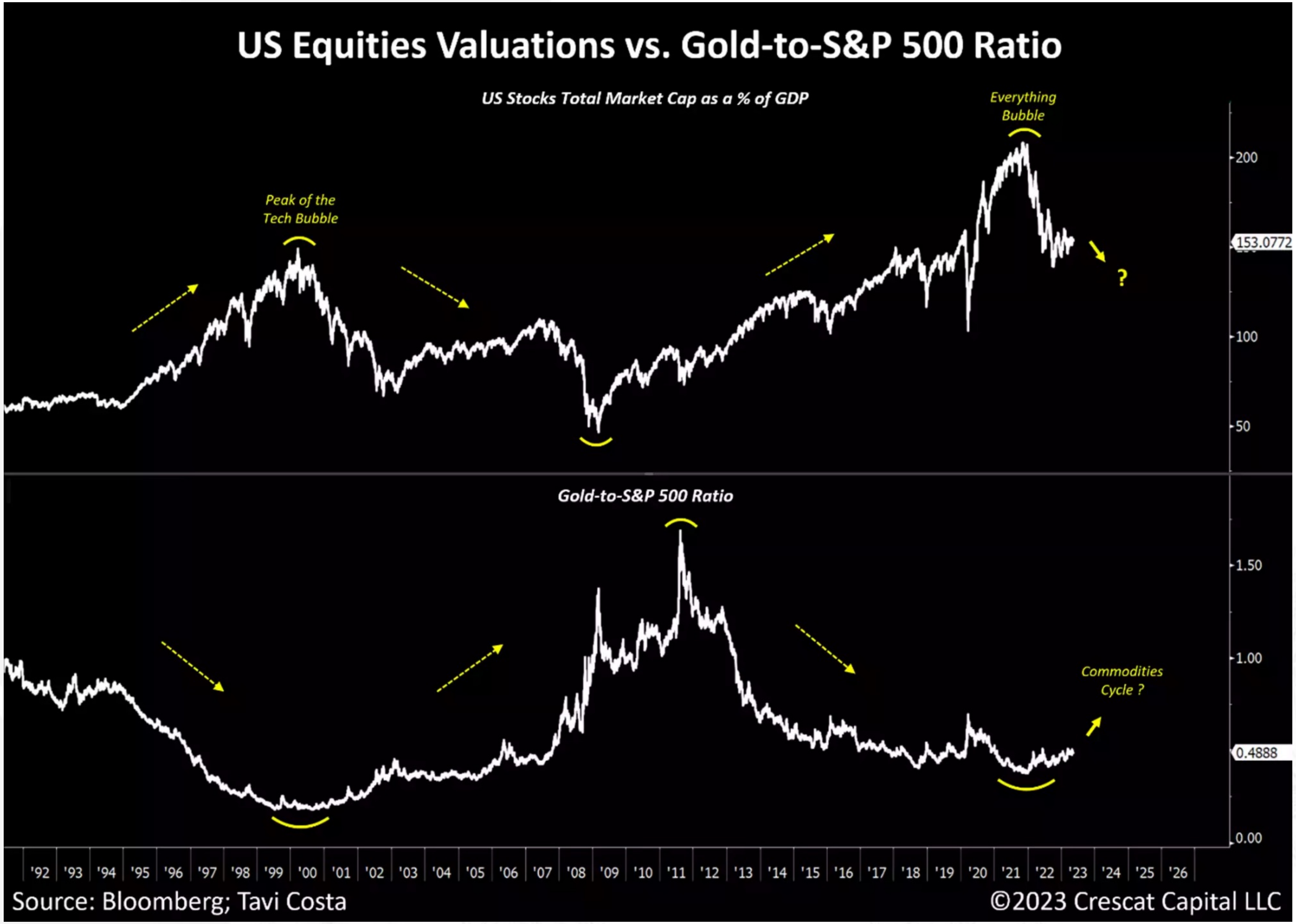
We see highly overvalued long-duration financial assets as ripe for a major leg down due to the rising cost of capital and the deluge of US Treasury issuances now hitting the market.



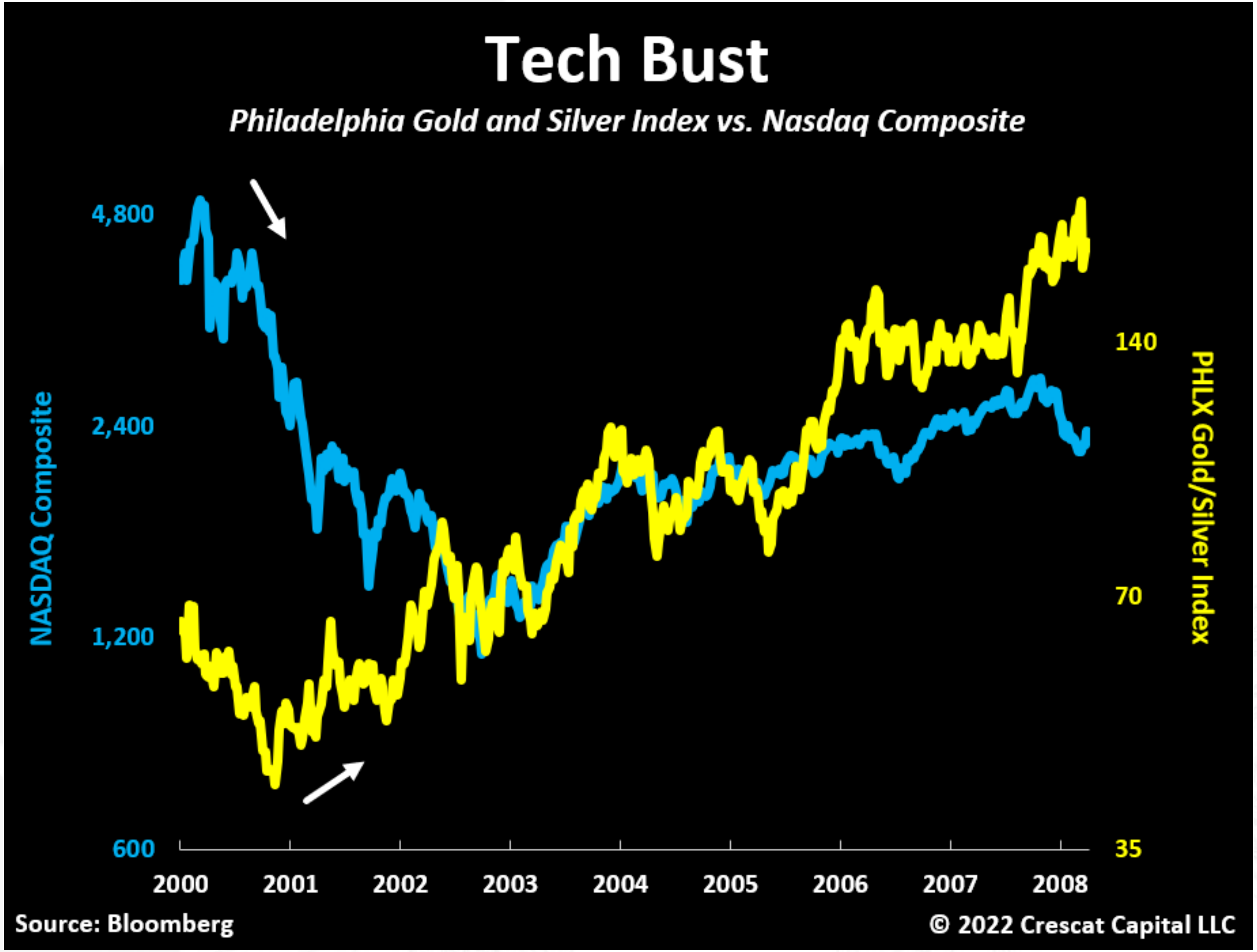
It is intriguing how the recent rise in tech megacap stocks has not been accompanied by a corresponding growth in projected earnings, despite the enthusiasm surrounding AI. In reality, we have seen the opposite of that in some cases.



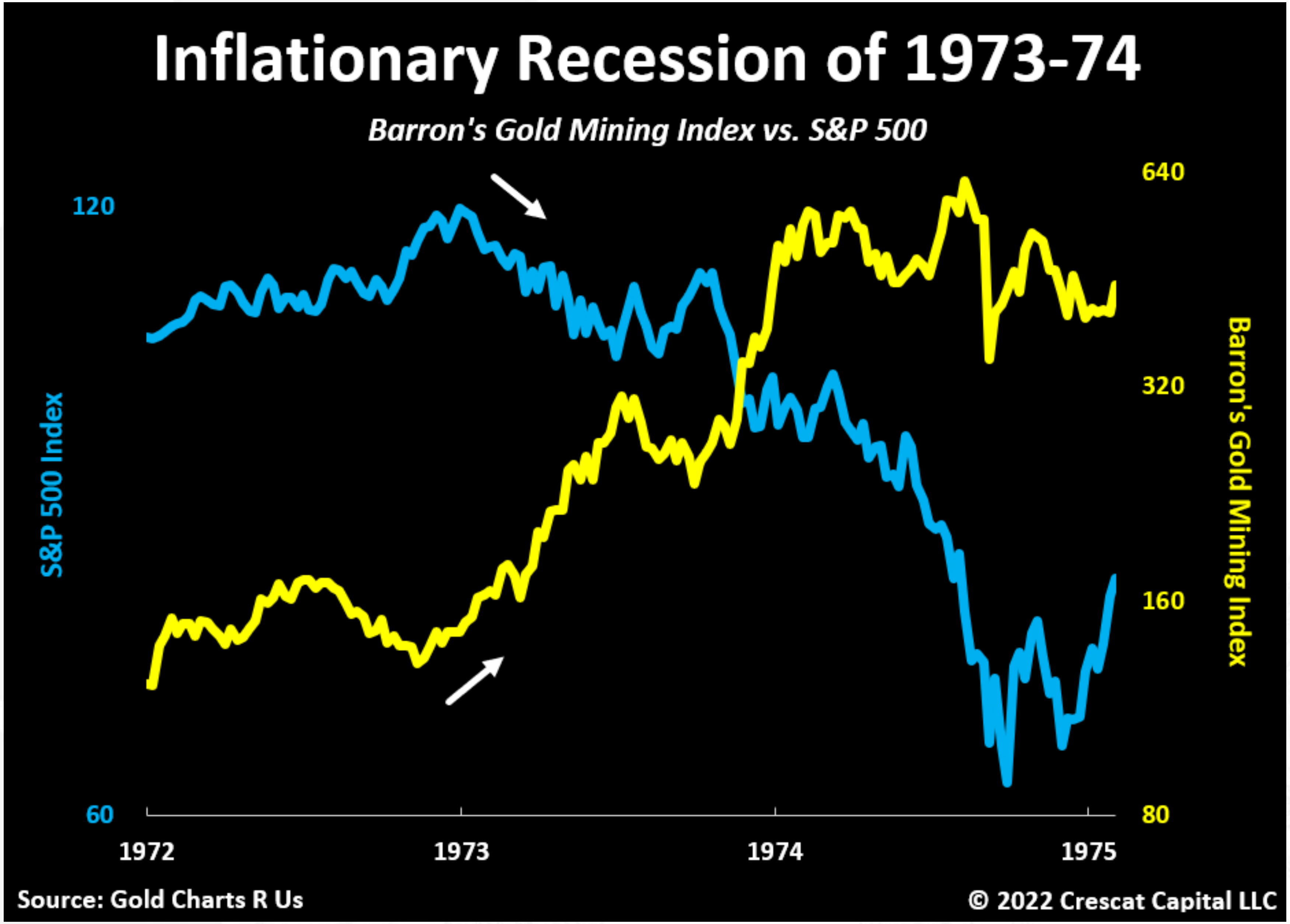
All FAANG stocks have already reported earnings, and median revenue growth confirms the gradual long-term declining trend, which is now approaching negative levels.



Using one of the most traditional ways of assessing the state of the market, also Warren Buffet's favorite indicator, the total market cap of the overall stock market as a percentage of GDP is currently slightly above where it was at the peak of the Technology Bubble in 2000.

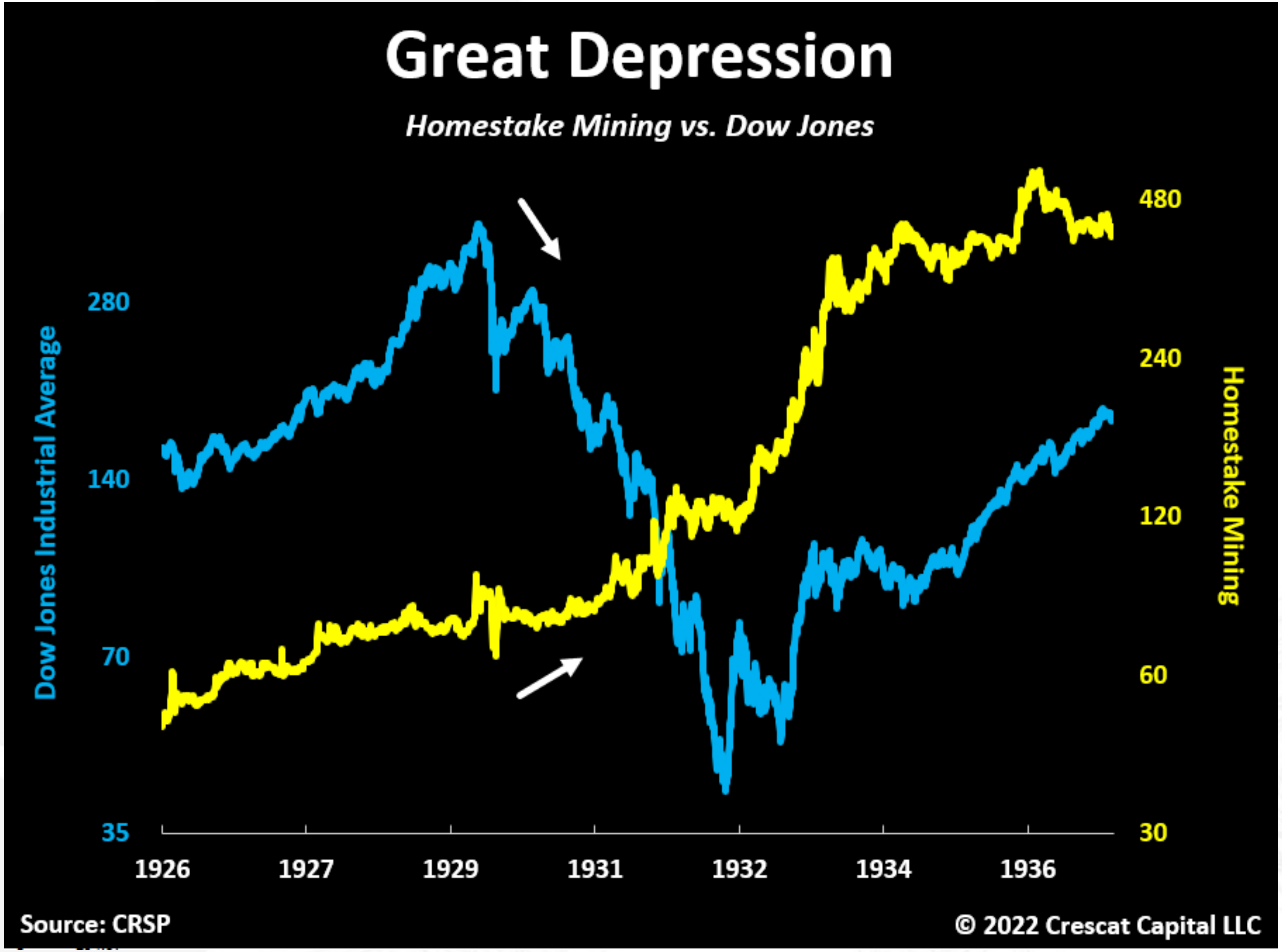


In the early 2000's tech bust, NASDAQ continued to fall all the way to October 2002, but the great buying opportunity for precious metals mining stocks started at the end of 2000.

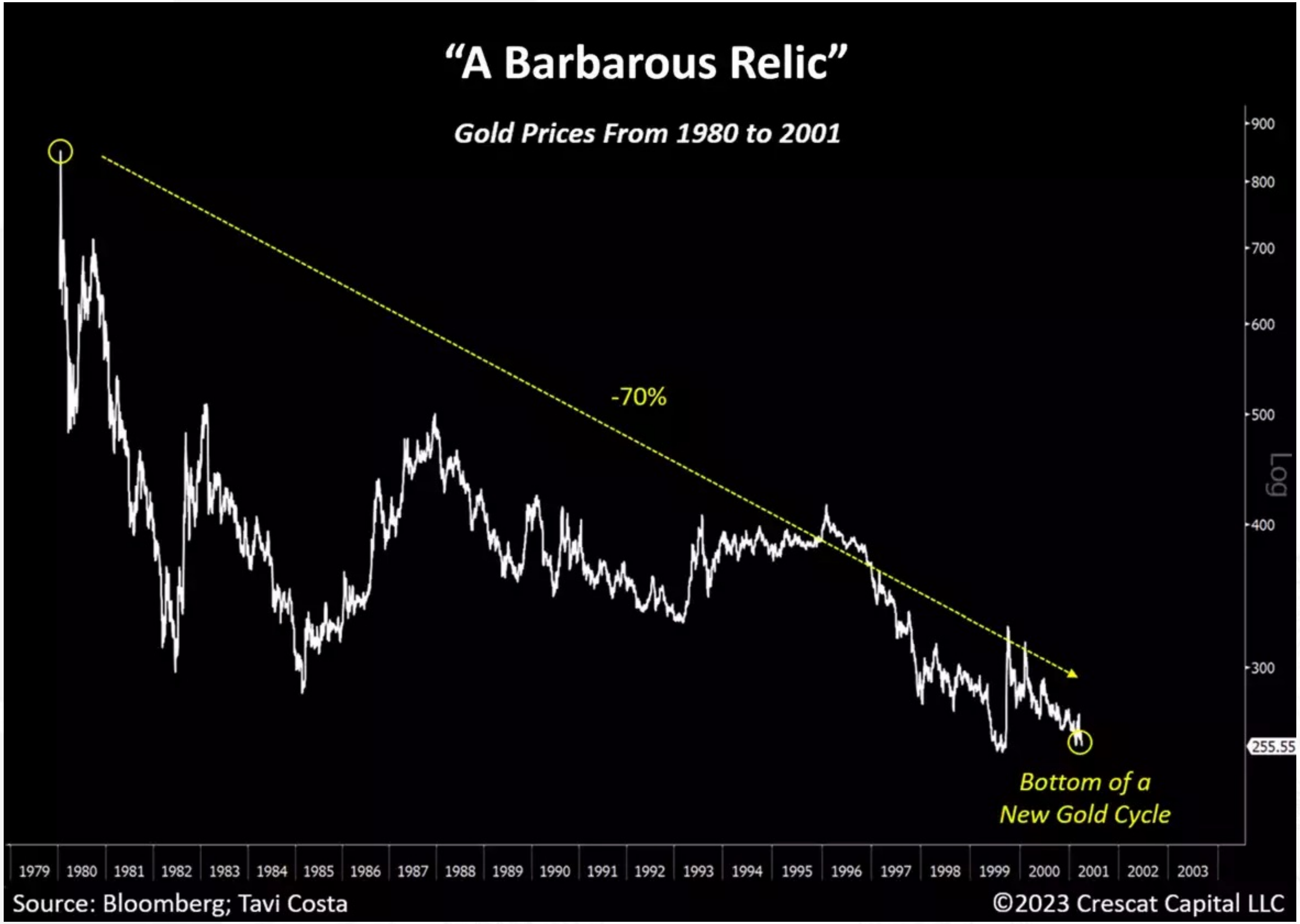


In 1973 to 1974, mining stocks went up 5-fold in just two years while the S&P 500 declined 50%

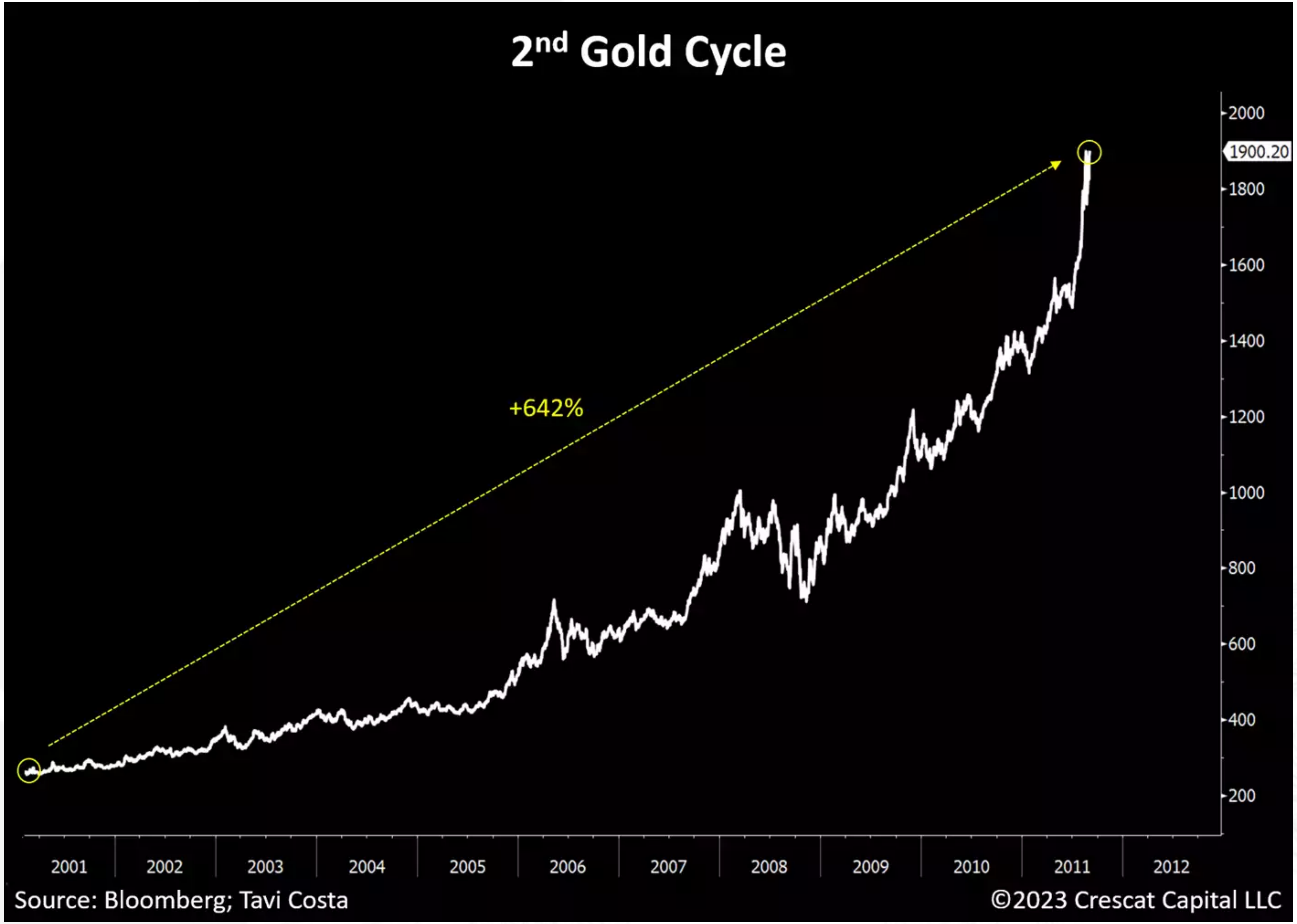
Large-cap growth stocks known as the Nifty Fifty at the time, the mega-caps of their day, went down substantially more.



Even in that deflationary era, the largest gold mining stock appreciated a whopping 7-fold in five years after the 1929 crash while the Dow Jones finished the same period lower.



The current skepticism surrounding gold brings back memories of the late 1990s when equity markets soared due to the excitement surrounding the emergence of the Internet.



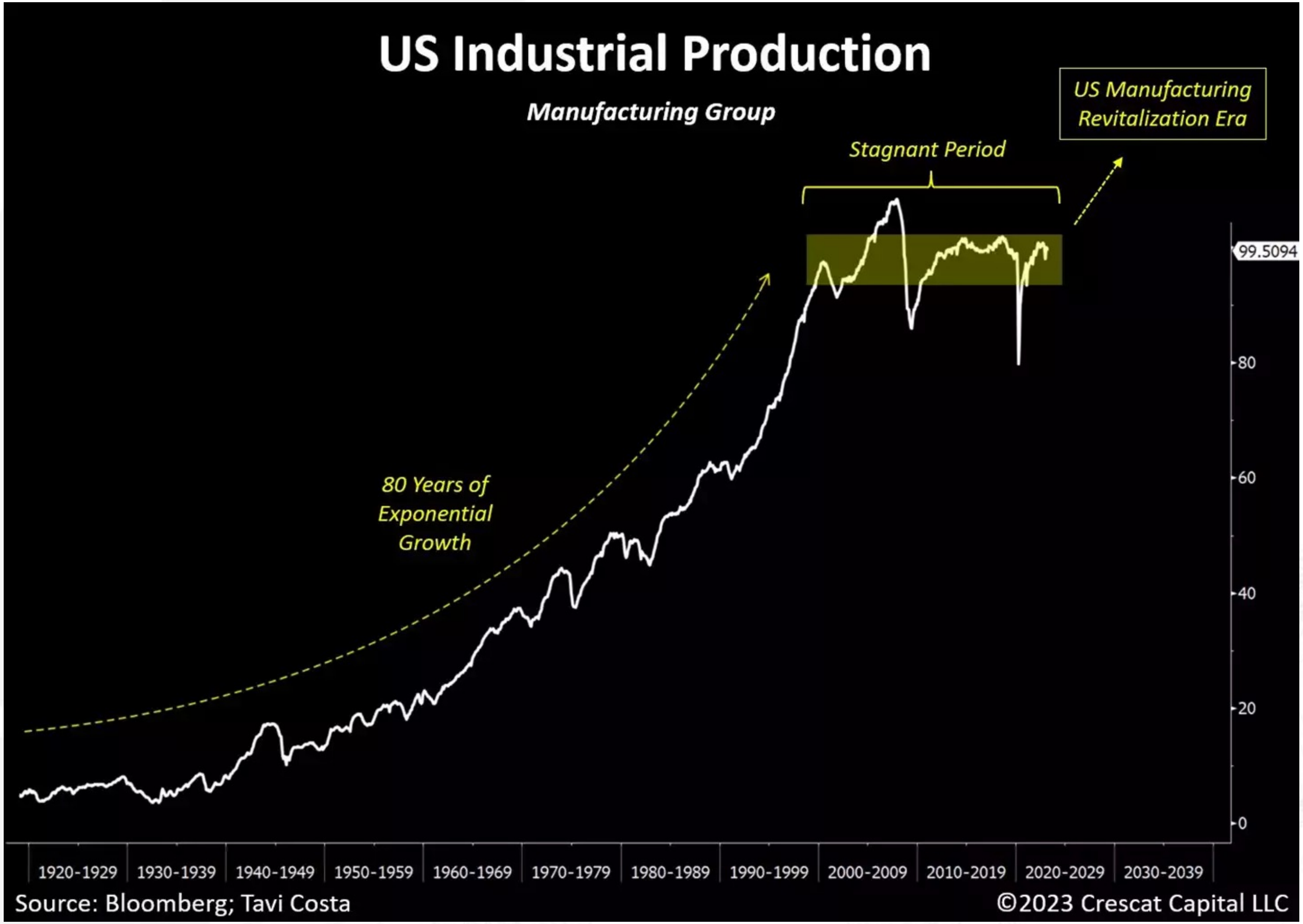
However, markets often defy conventional expectations, and that period marked the bottom for gold prices, initiating a new long-term uptrend, propelling gold into a secular bull market that lasted over a decade.

Despite gold being within 5% of its all-time highs, skepticism towards the metal remains prevalent.

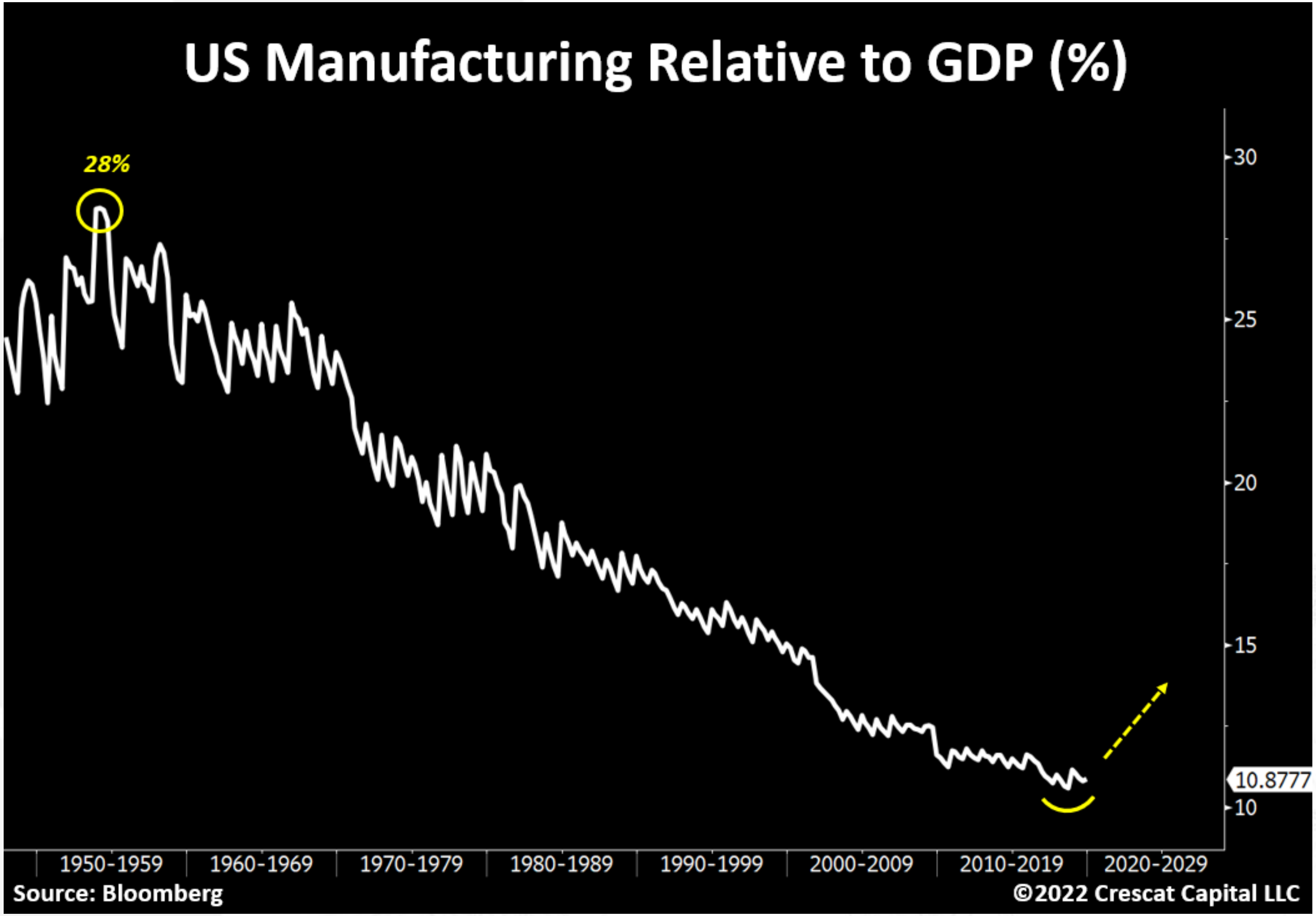
Silver looks ready to break through its decade-long resistance this month. One thing is likely to be true, if this is indeed the onset of a new gold cycle, none of us own enough silver.

CRESCAT CAPITAL®
THE VALUE OF GLOBAL MACRO INVESTING

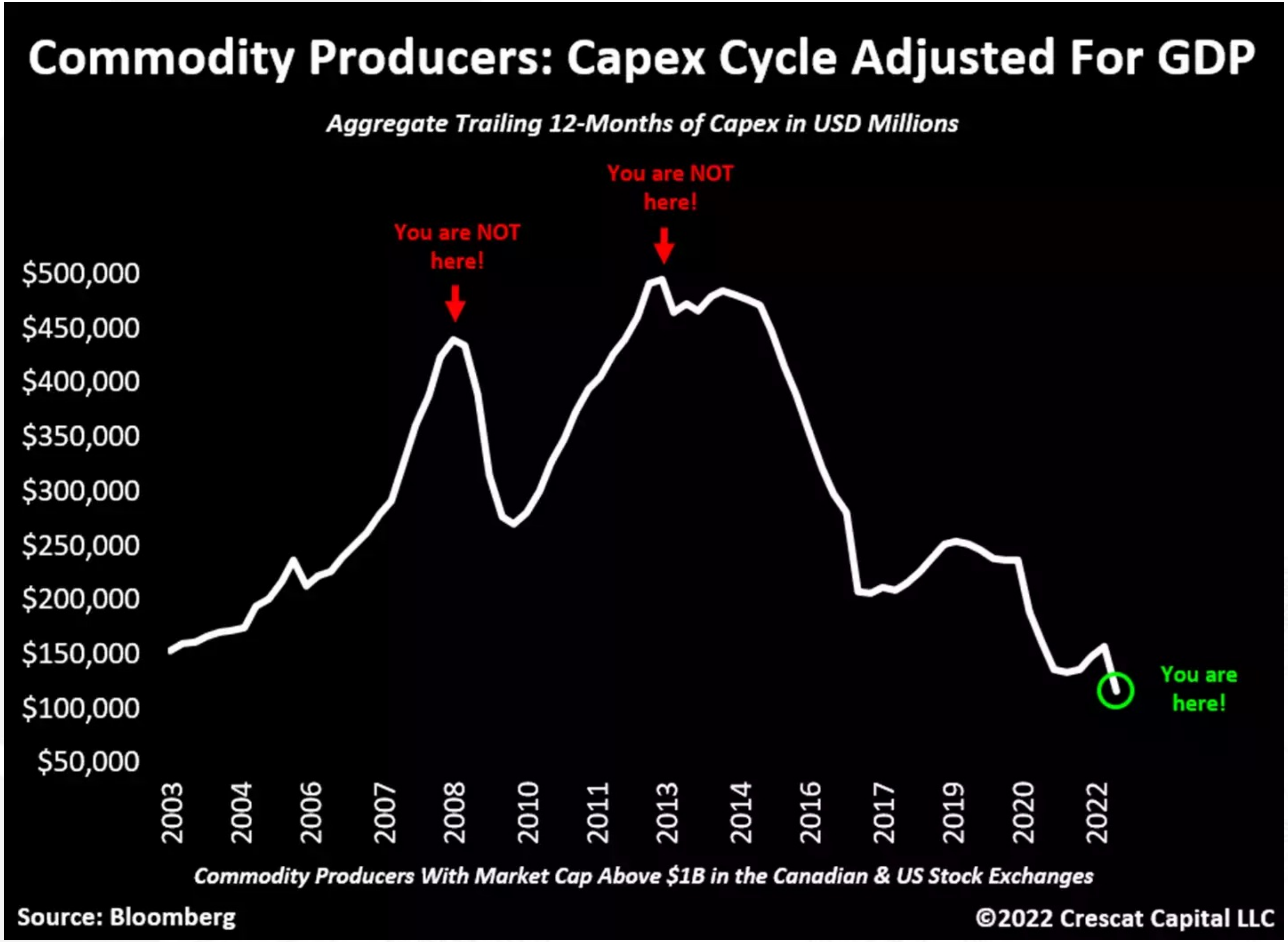
RESOURCE UNDERINVESTMENT



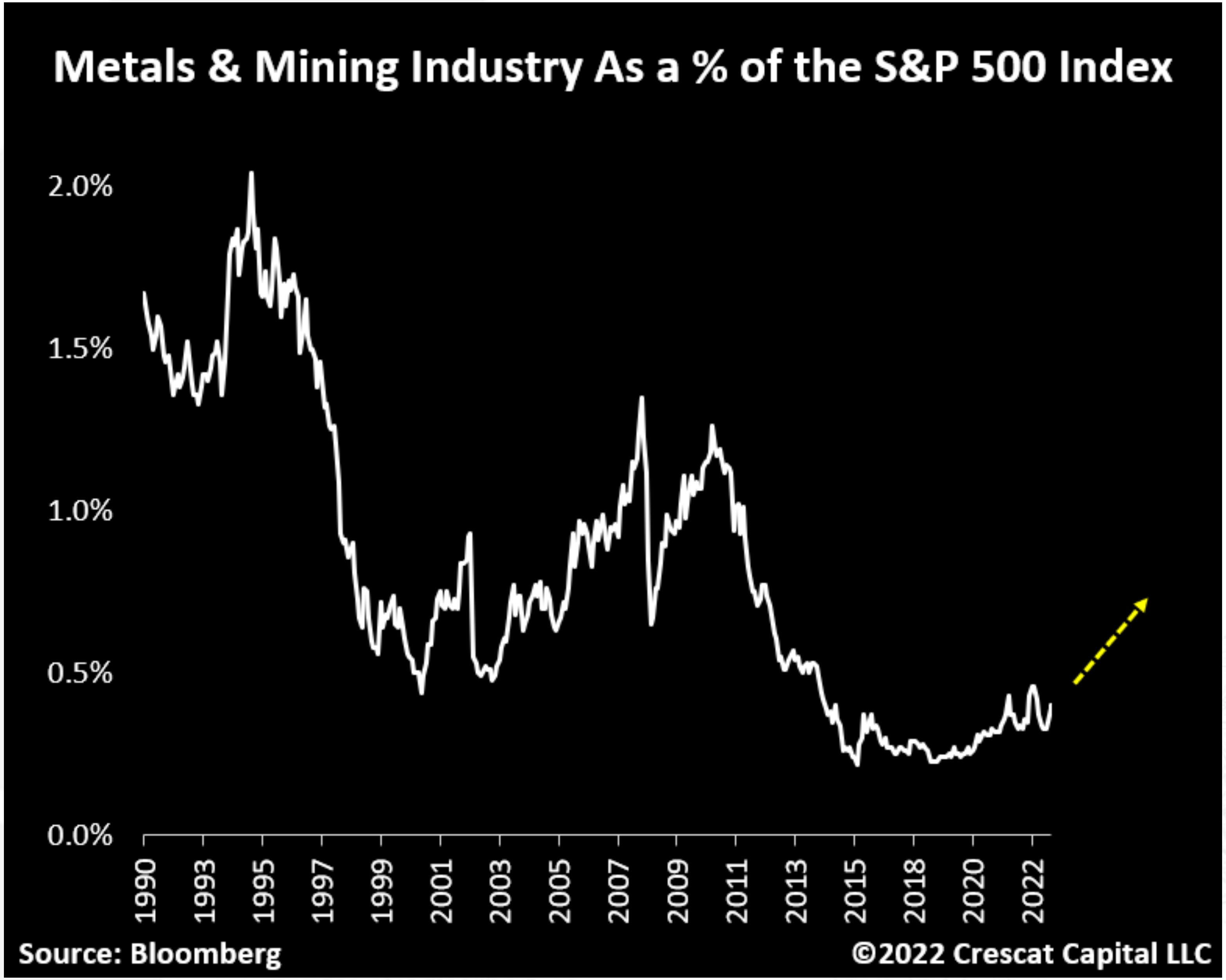
The current situation presents a unique opportunity for natural resource industries to perform exceptionally well, particularly at a time when these companies remain a fraction of the overall global equity market.



This white line is very likely headed higher and should be one of the main investment cases for the long-term commodities bull market that we have just entered.

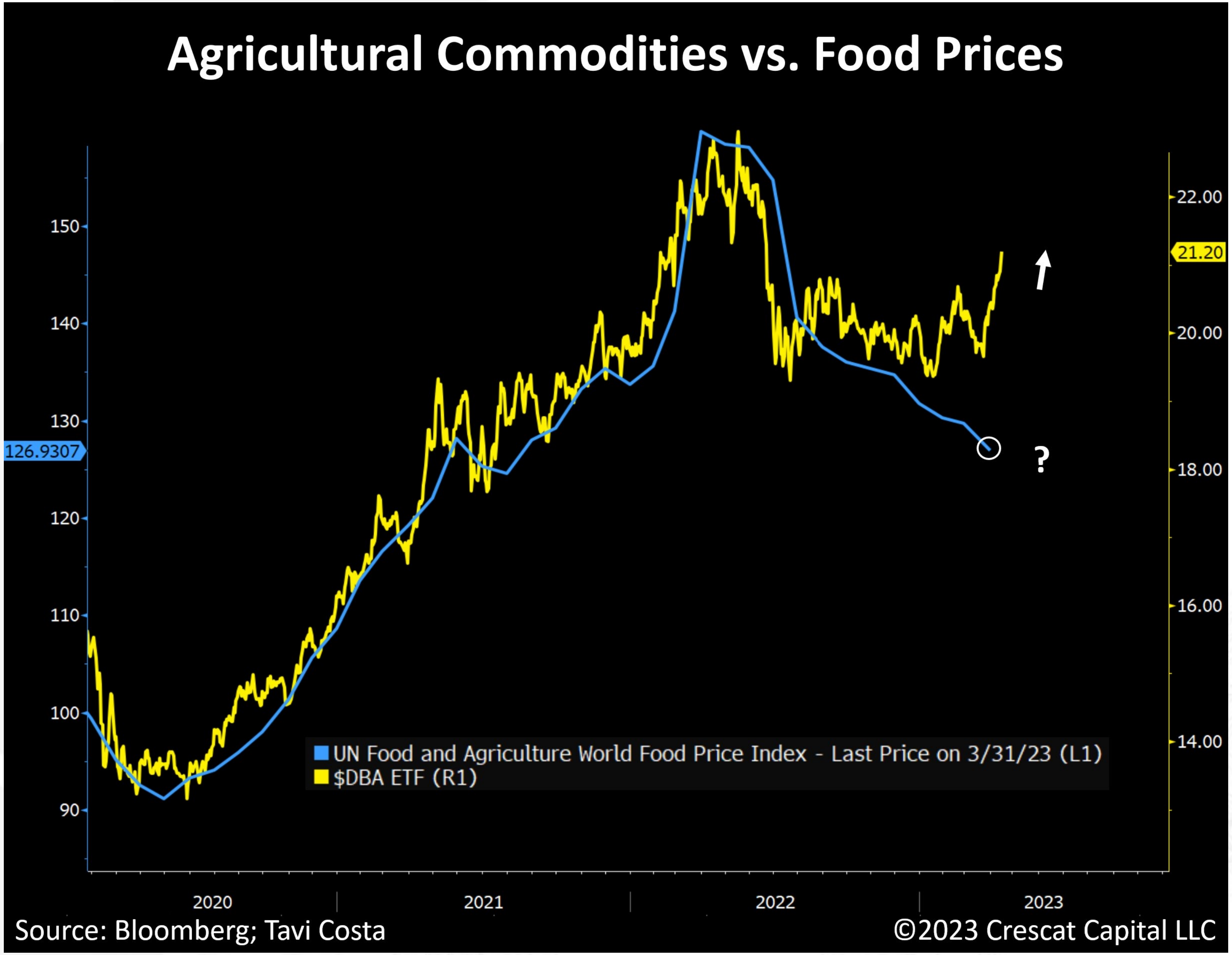


It's important to consider the cross-asset correlations during the stagflationary crisis of 1973-4. Back then, tangible assets and resource businesses rallied drastically despite the collapse in stocks and bonds.

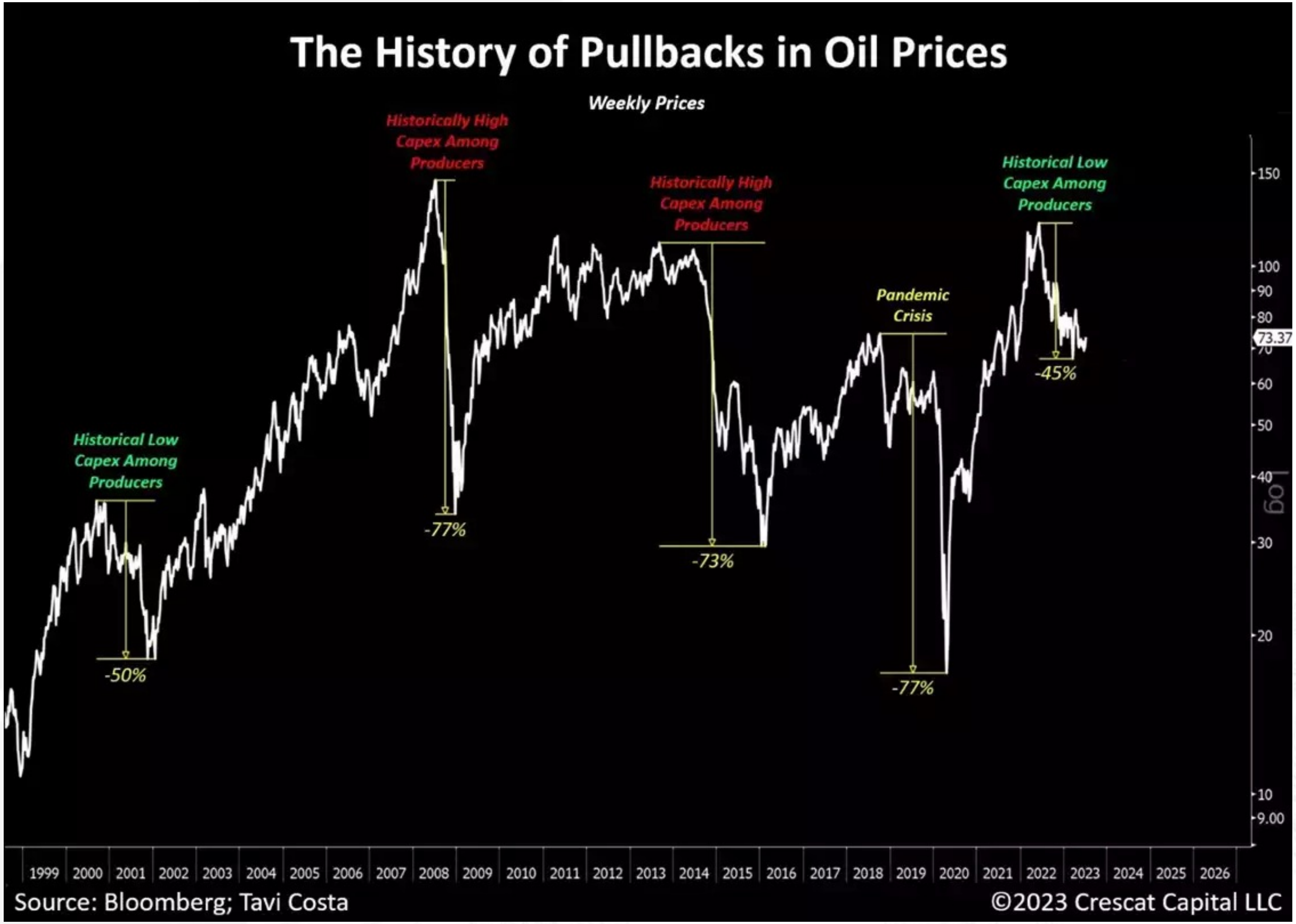


The metals and mining industry as part of the overall stock market is almost a rounding error.

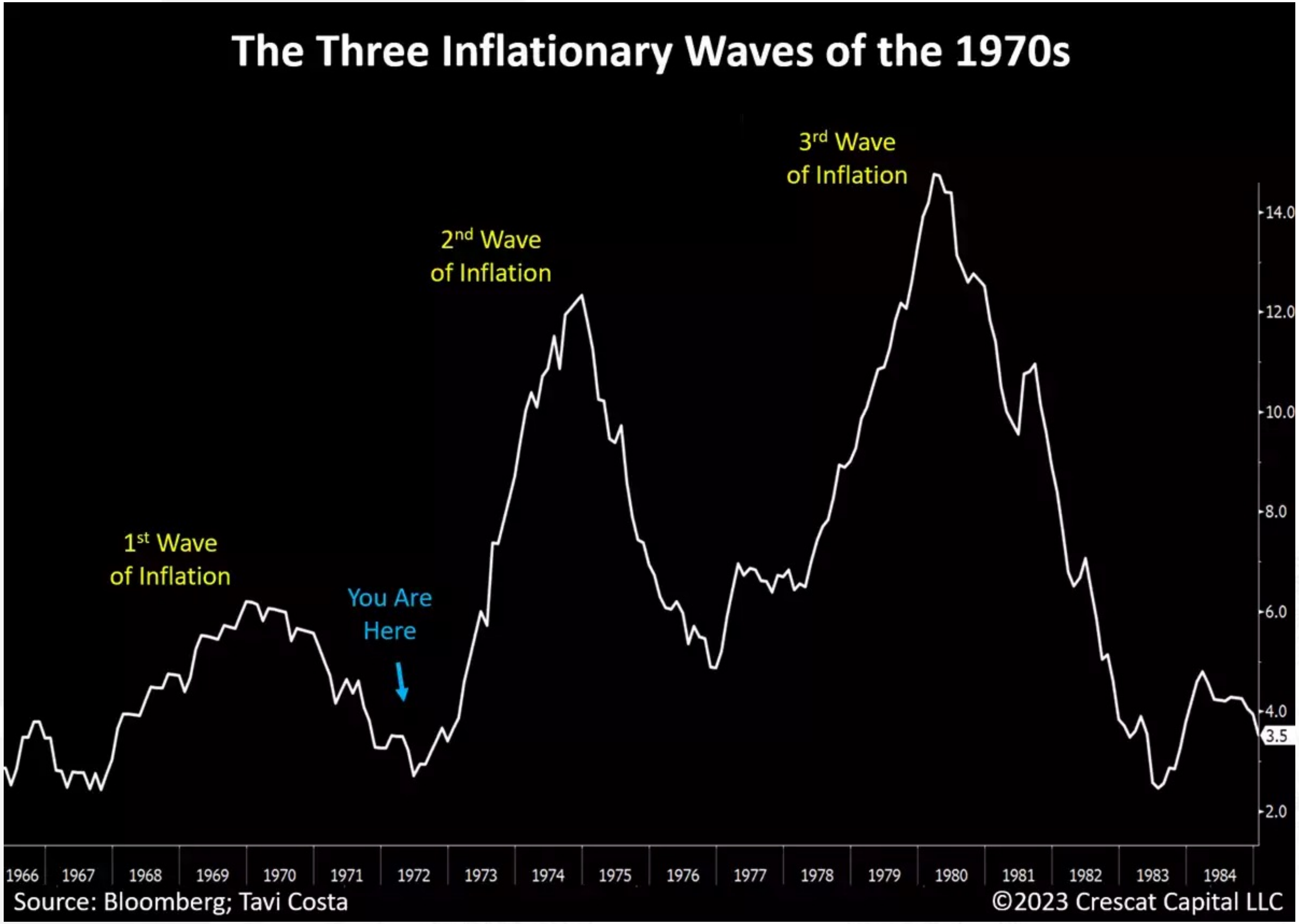
We believe this chart will look completely different by the end of this decade.



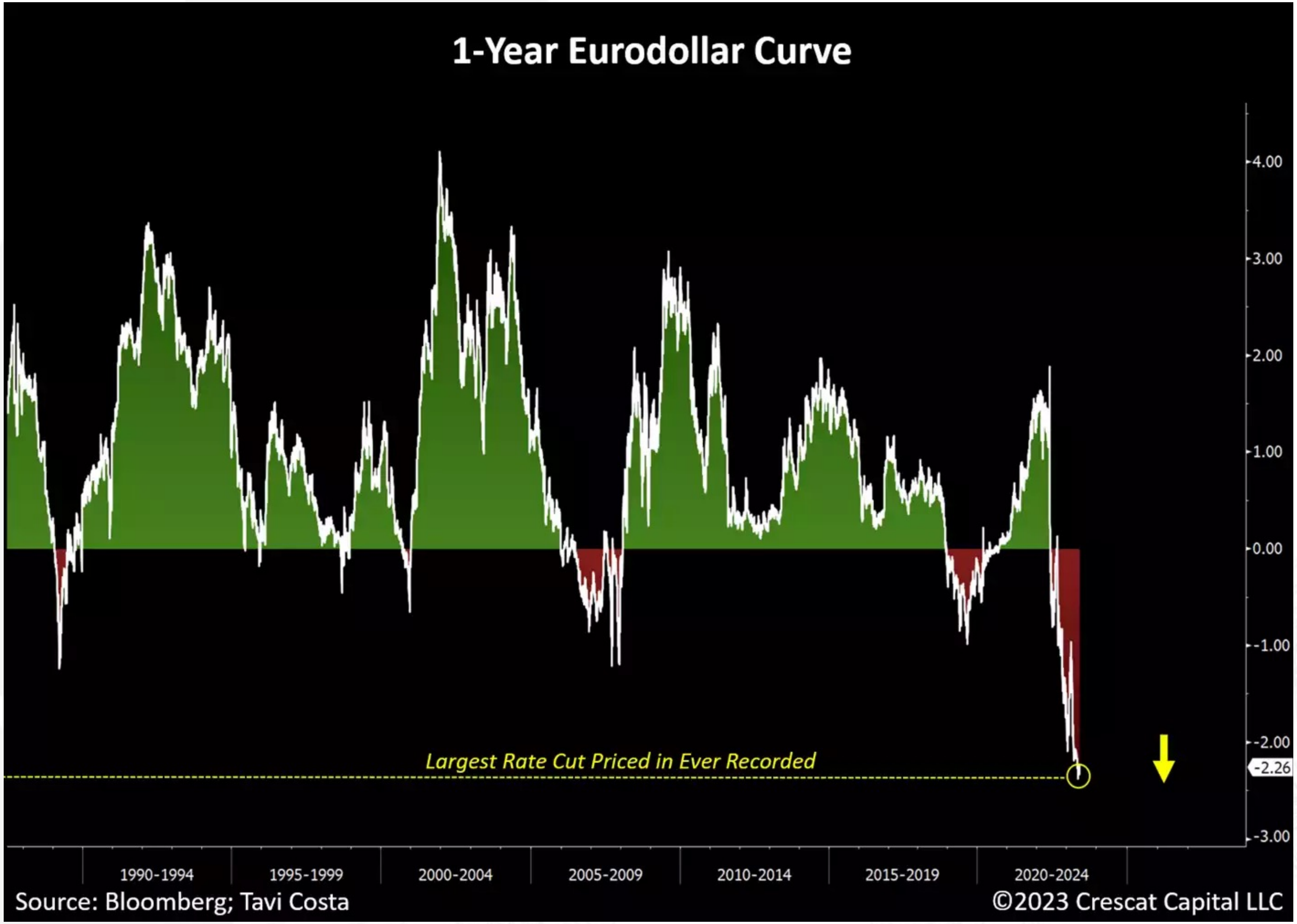
Agricultural commodities just had another significant move today, which indicates that food prices are poised to rise considerably from their current levels.



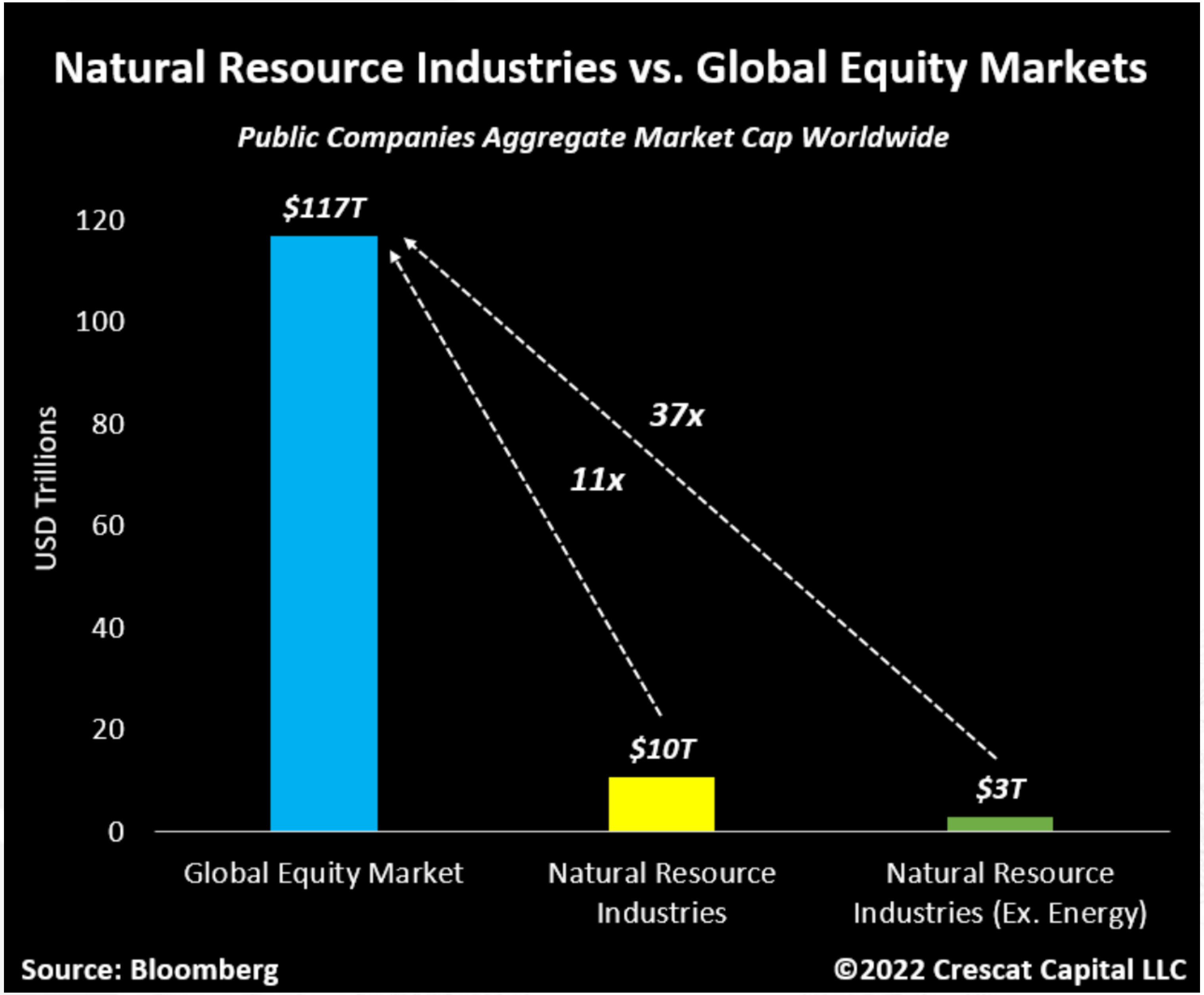
In the current environment, we believe there are strong similarities to the early 2000s period, particularly in terms of historically depressed capital spending. Despite the risk of a demand shock, which is already largely reflected in the current prices, in our view, oil supply remains incredibly tight with production still below pre-pandemic levels.



The deceleration of inflation from peak levels has been rather slow when compared to other periods in history. To put it into perspective, we just had 10 consecutive monthly declines in CPI year-over-year and the index is still standing at 4.9%.

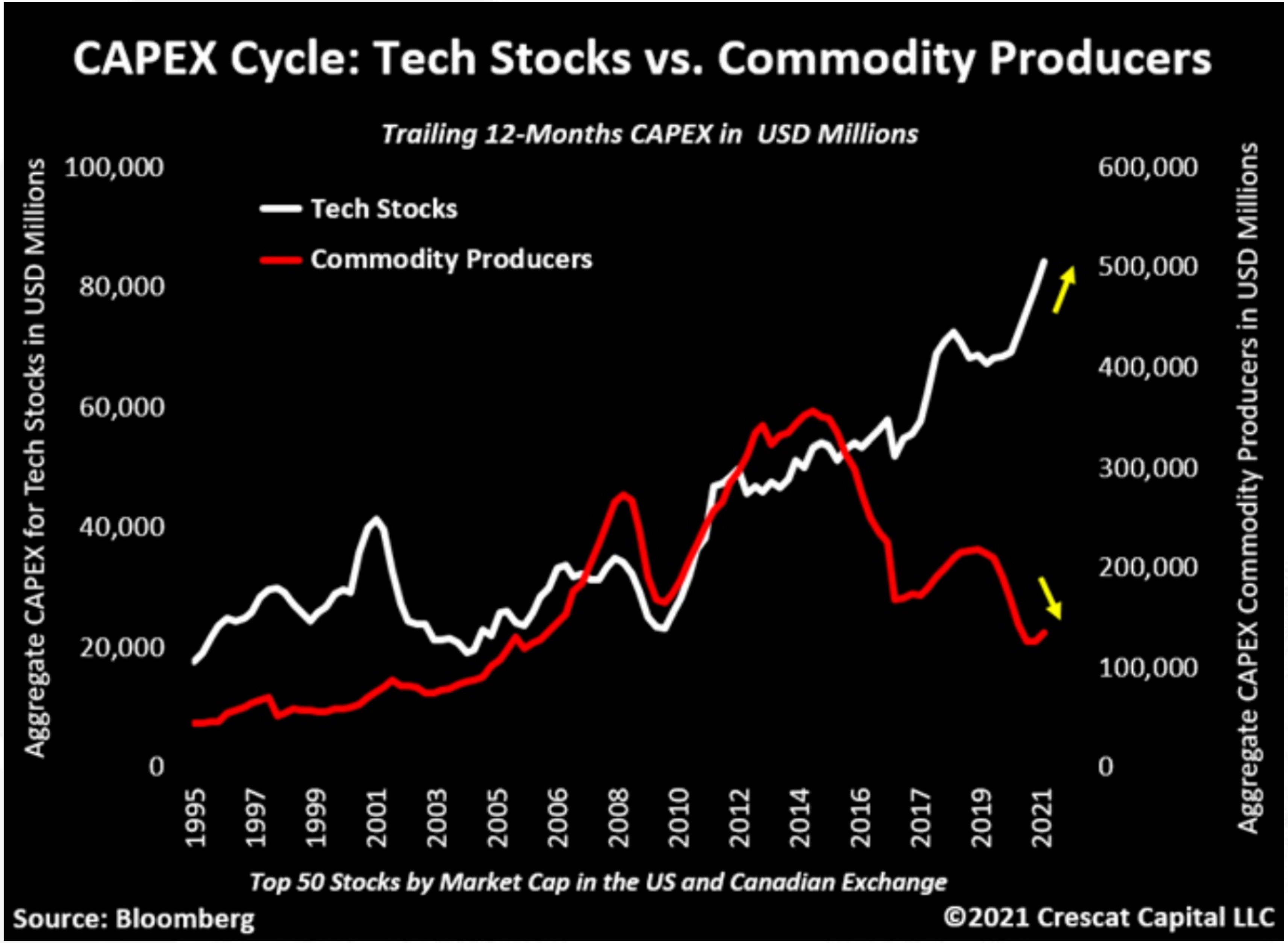


Investors are highly likely to be caught off guard as CPI starts to accelerate again, leading the US monetary authorities to maintain higher Fed funds rates for longer and even engage in additional rate hikes in the short turn until its recessionary goals can be more clearly accomplished.



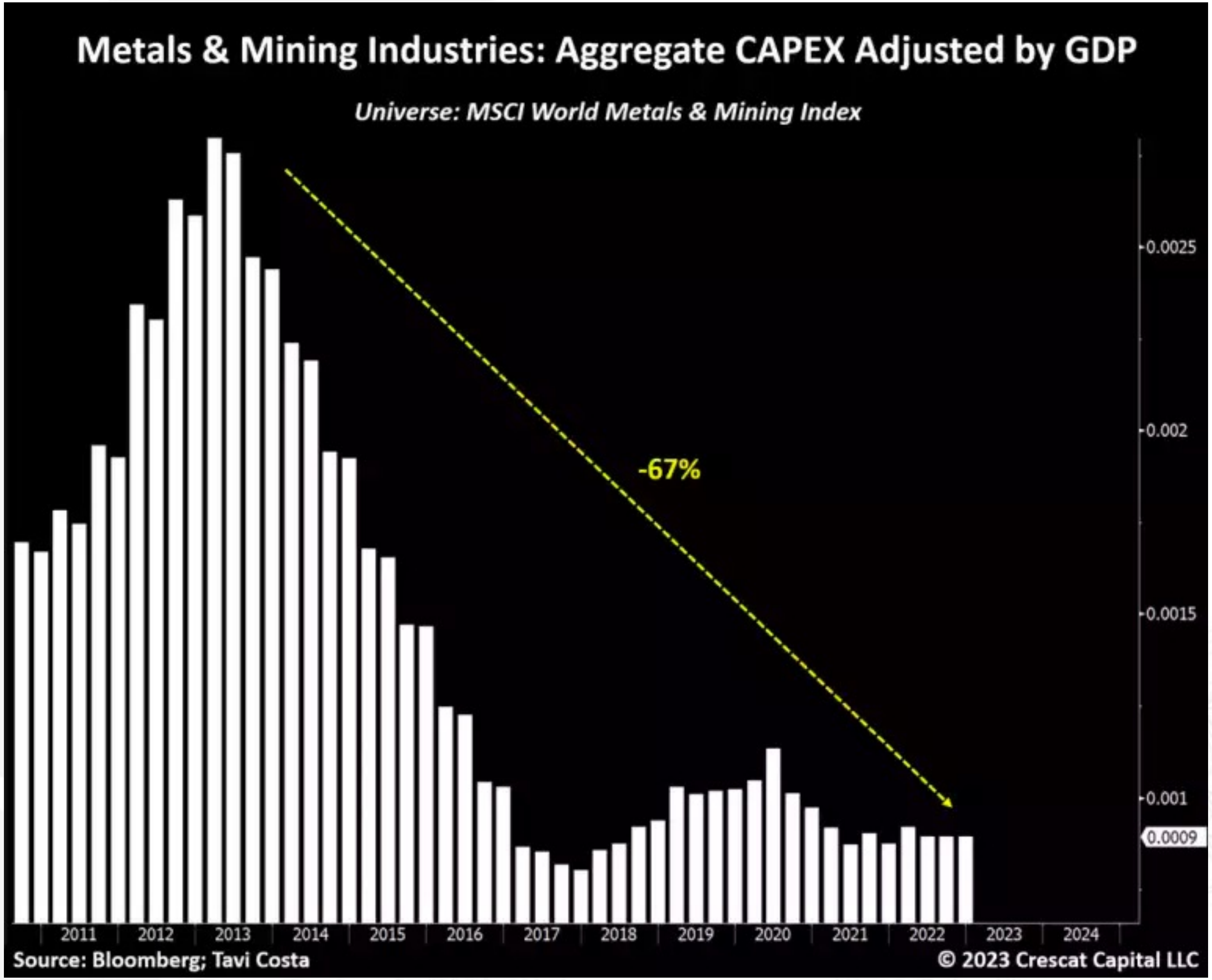
The aggregate market cap for global equity markets is 11x larger than the current size of natural resource industries.

If we exclude the energy sector, it is close to 37x.

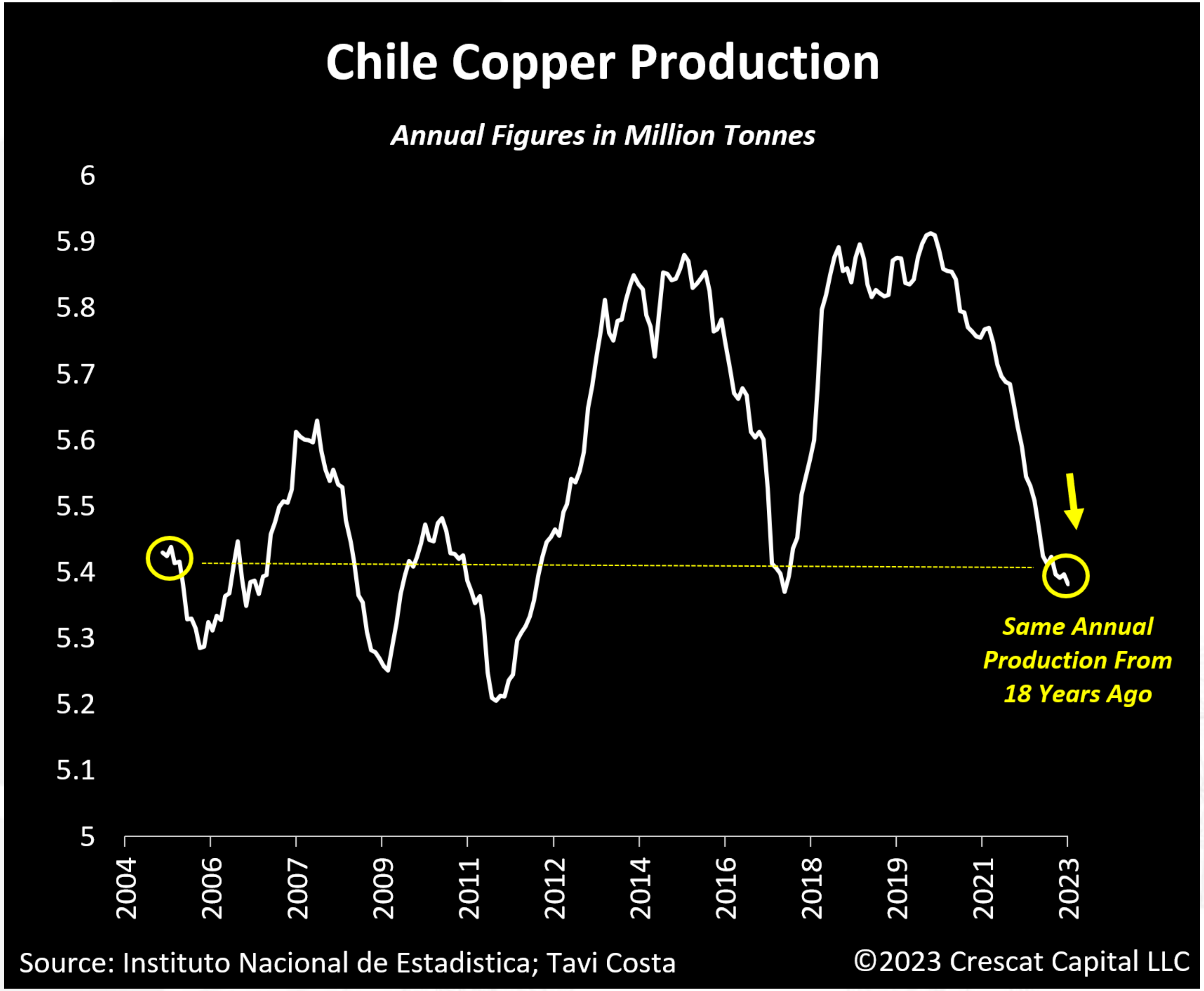


There has been a major divergence between the long-term capex of technology companies versus commodity producers.

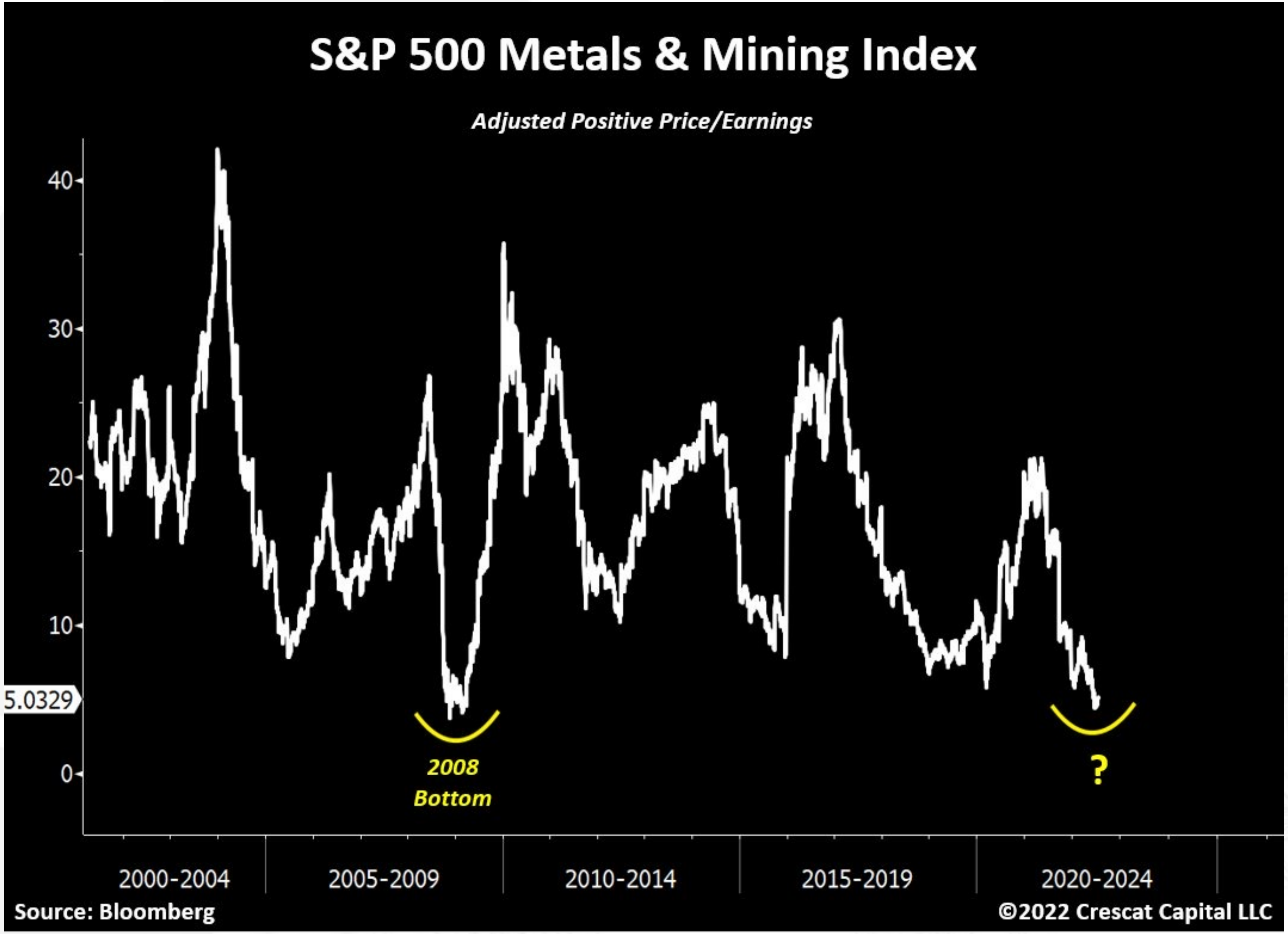
This disconnection began in 2015, long before the Covid Recession.



This worldwide index of metals and mining companies also shows a nearly 70% decline in capital spending from 2013 levels.



Chile's overall copper production is currently as low as it was 18 years ago, nearly down 10% from its recent peak.

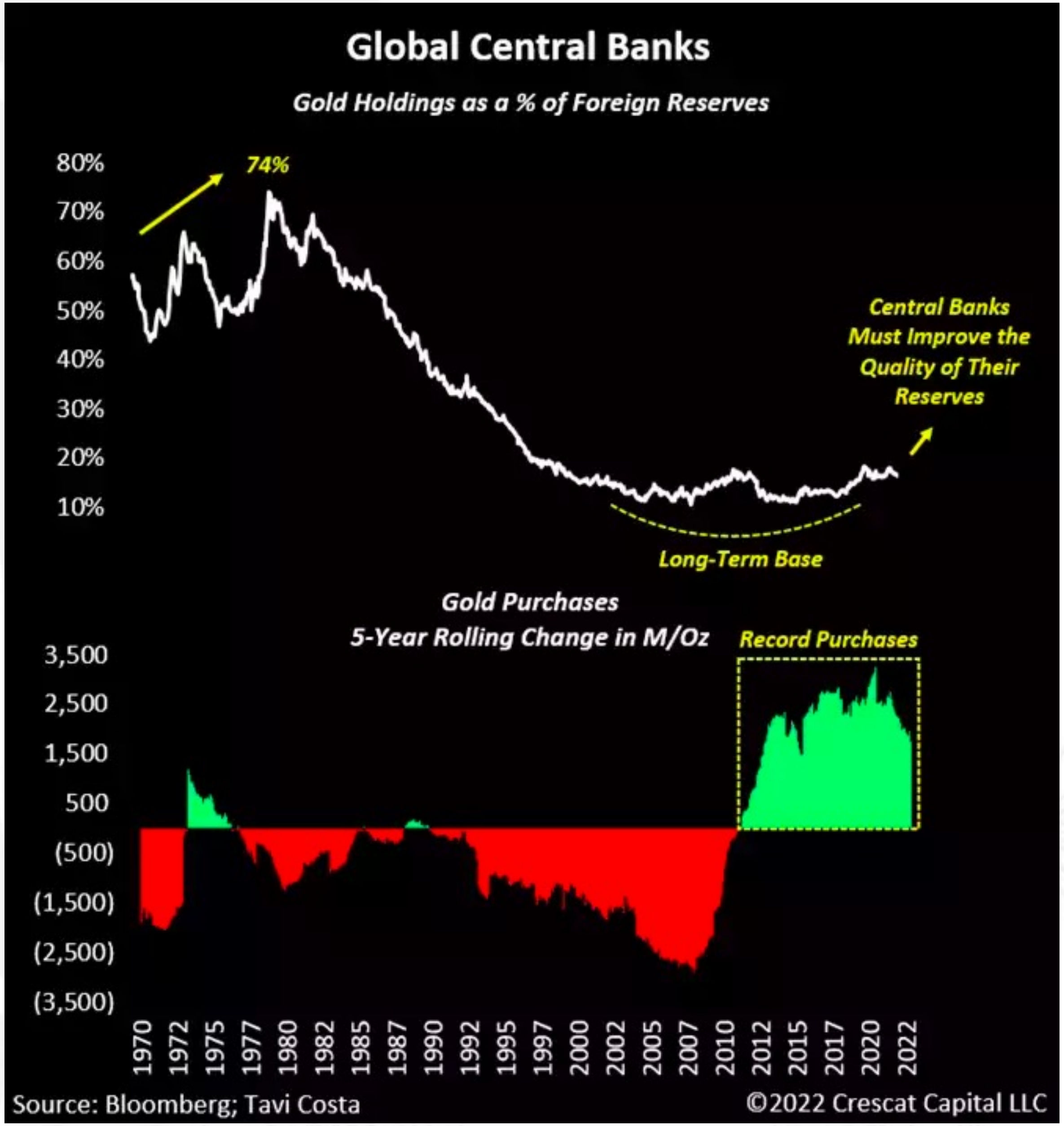


The case for owning mining companies has never been more compelling.

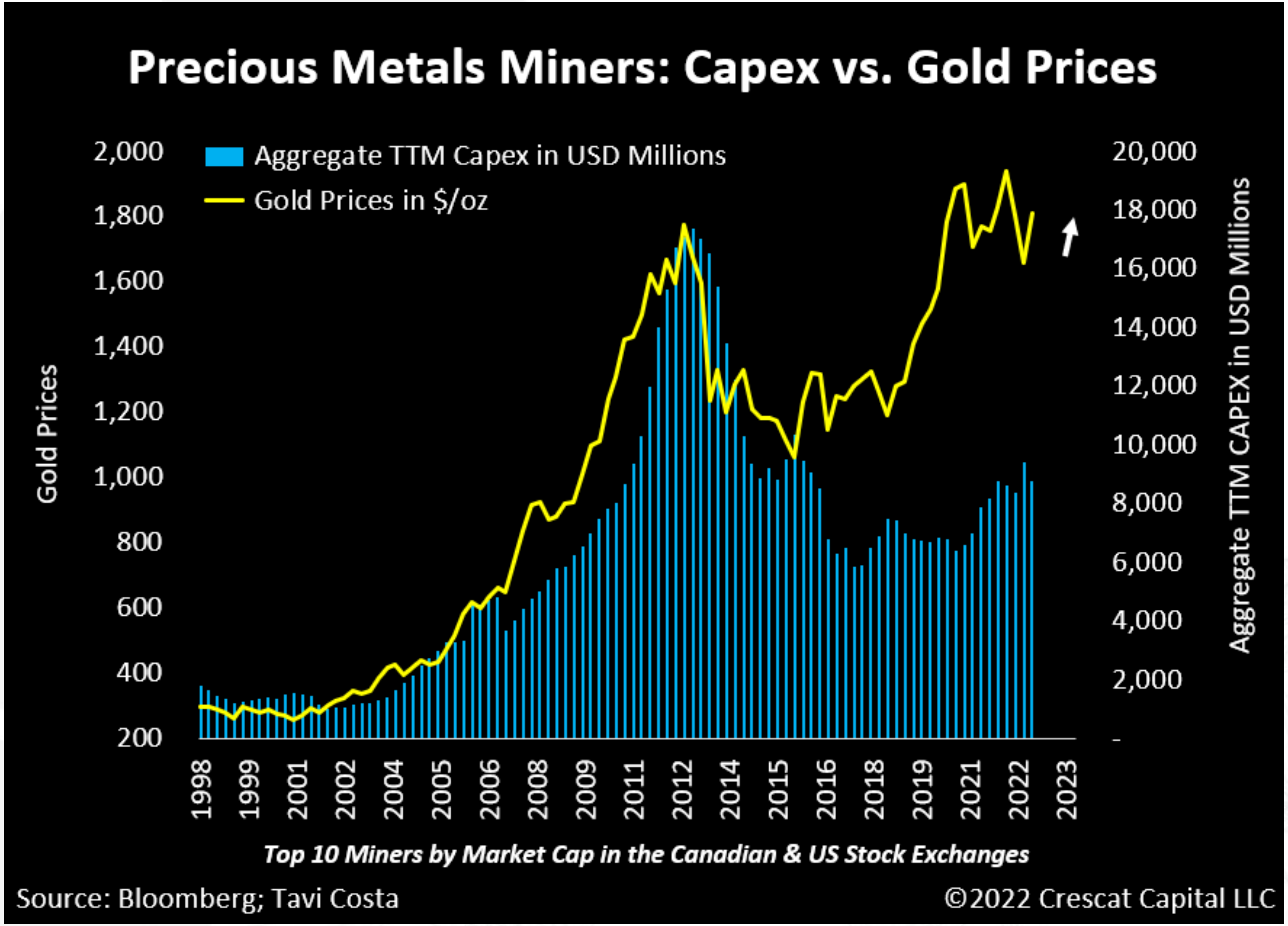
While we have seen general fundamental improvements across the industry, today's profitable mining companies are also trading at their lowest-ever P/E ratio, one that is currently matching their 2008 bottom.

CRESCAT CAPITAL®
THE VALUE OF GLOBAL MACRO INVESTING

GLOBAL FIAT CURRENCY DEBASEMENT

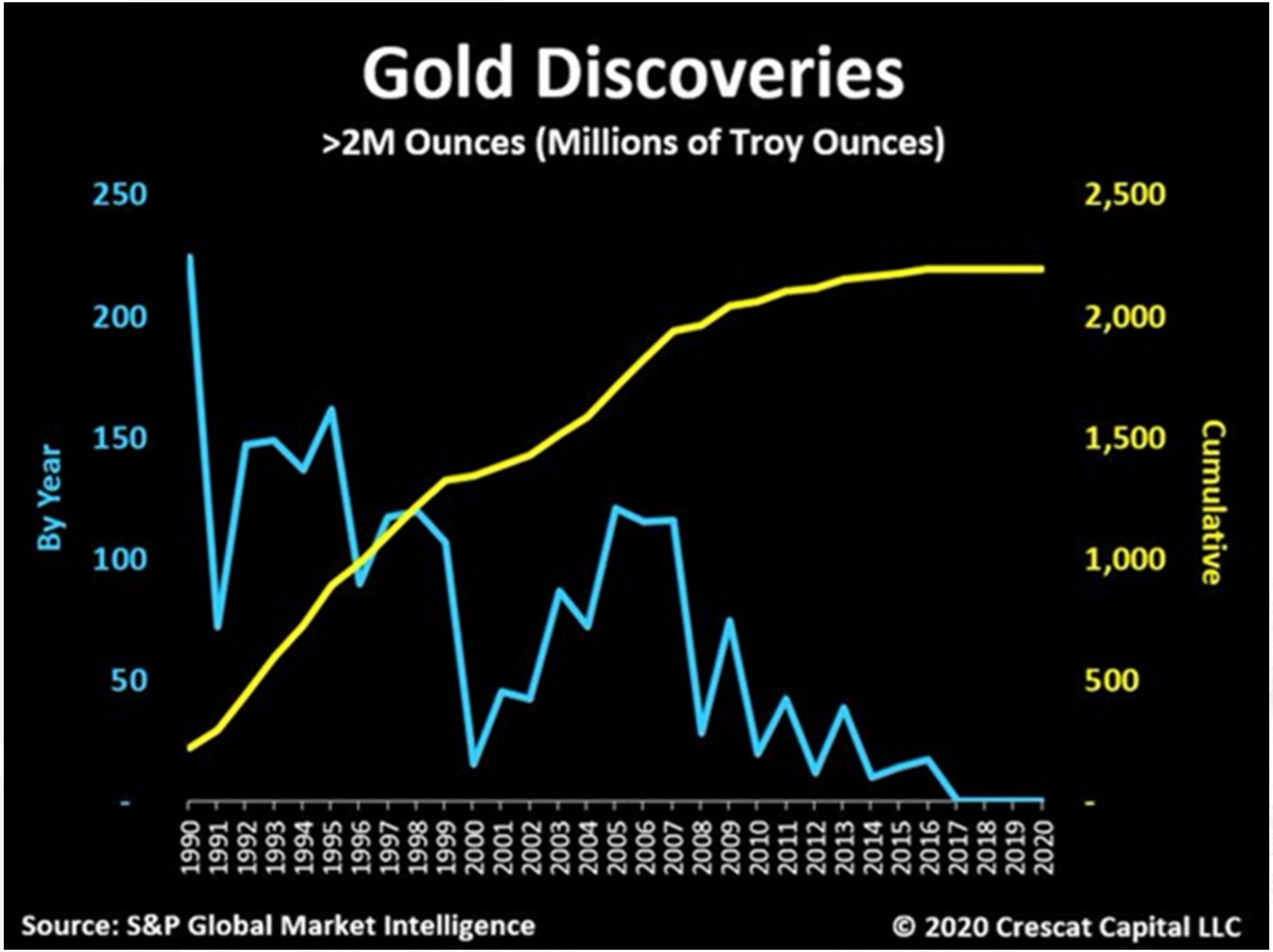


This is setting the stage for gold to reemerge as a key asset in improving the credibility of central banks' balance sheets. Rising geopolitical tensions only add to this thesis with gold being the perfect neutral alternative.

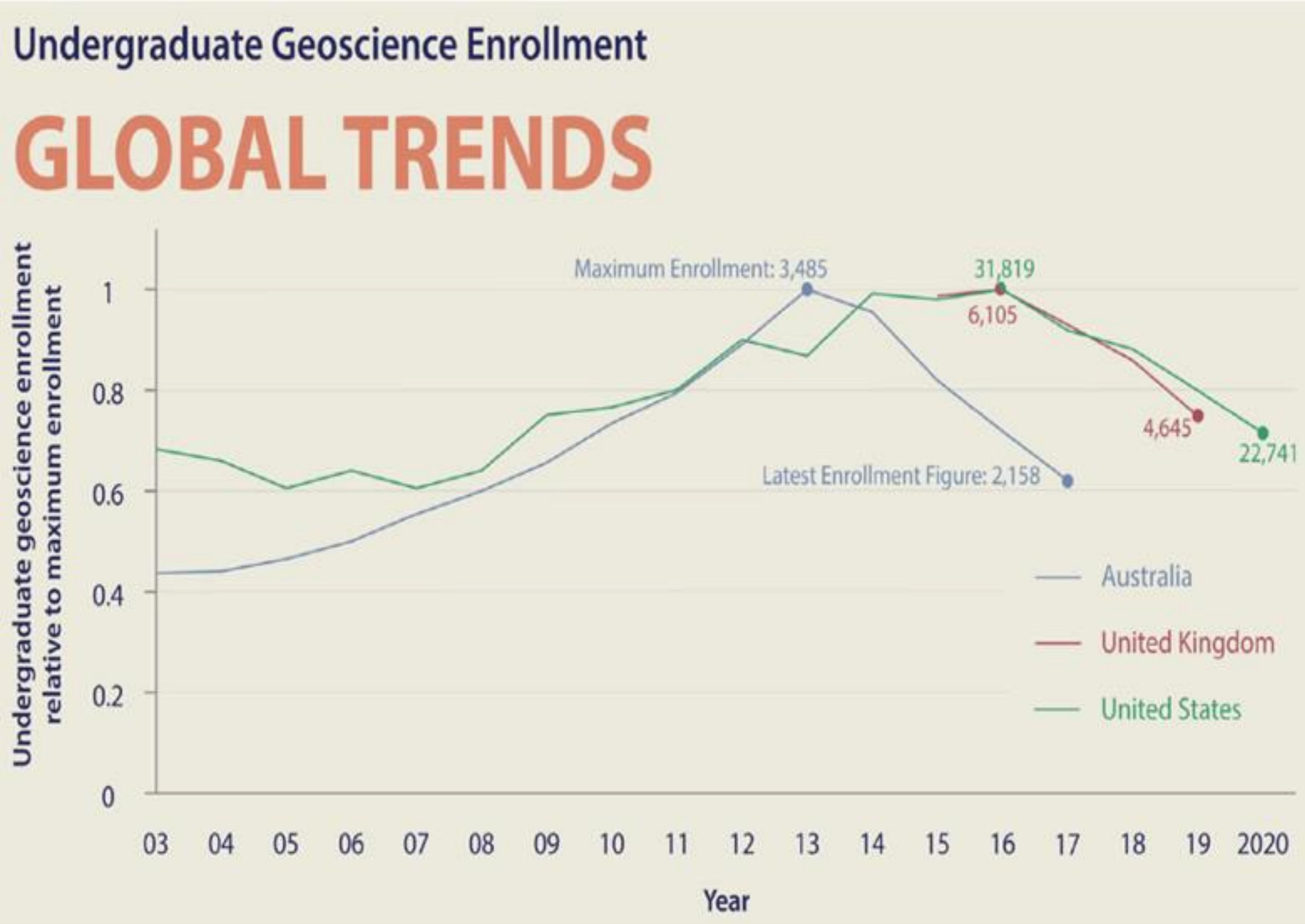


Today, while gold is currently near its 2011 highs, aggregate capital spending for the miners remains at historically depressed levels.

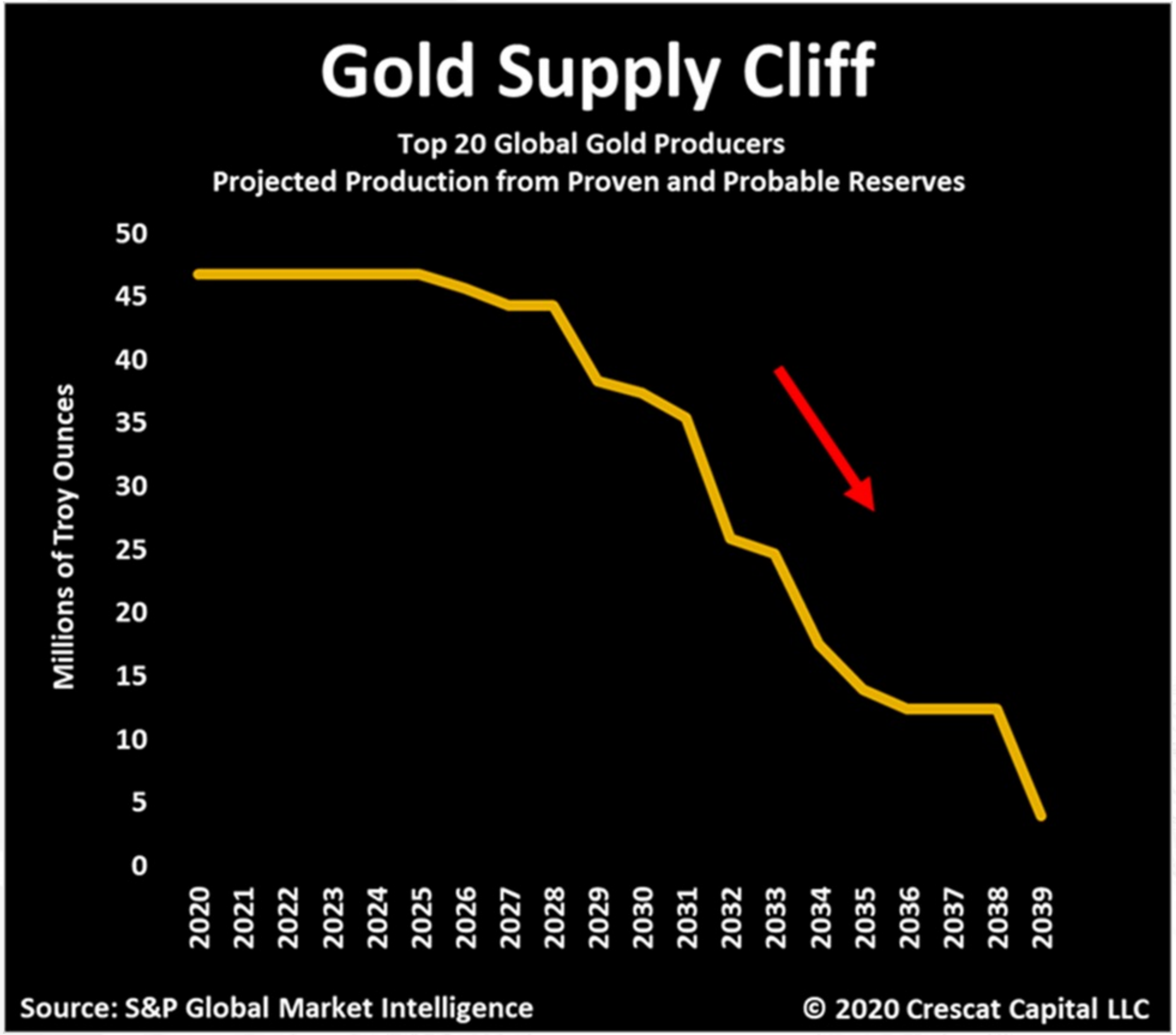
This goes to show again how management teams are excessively conservative despite a firming gold market.



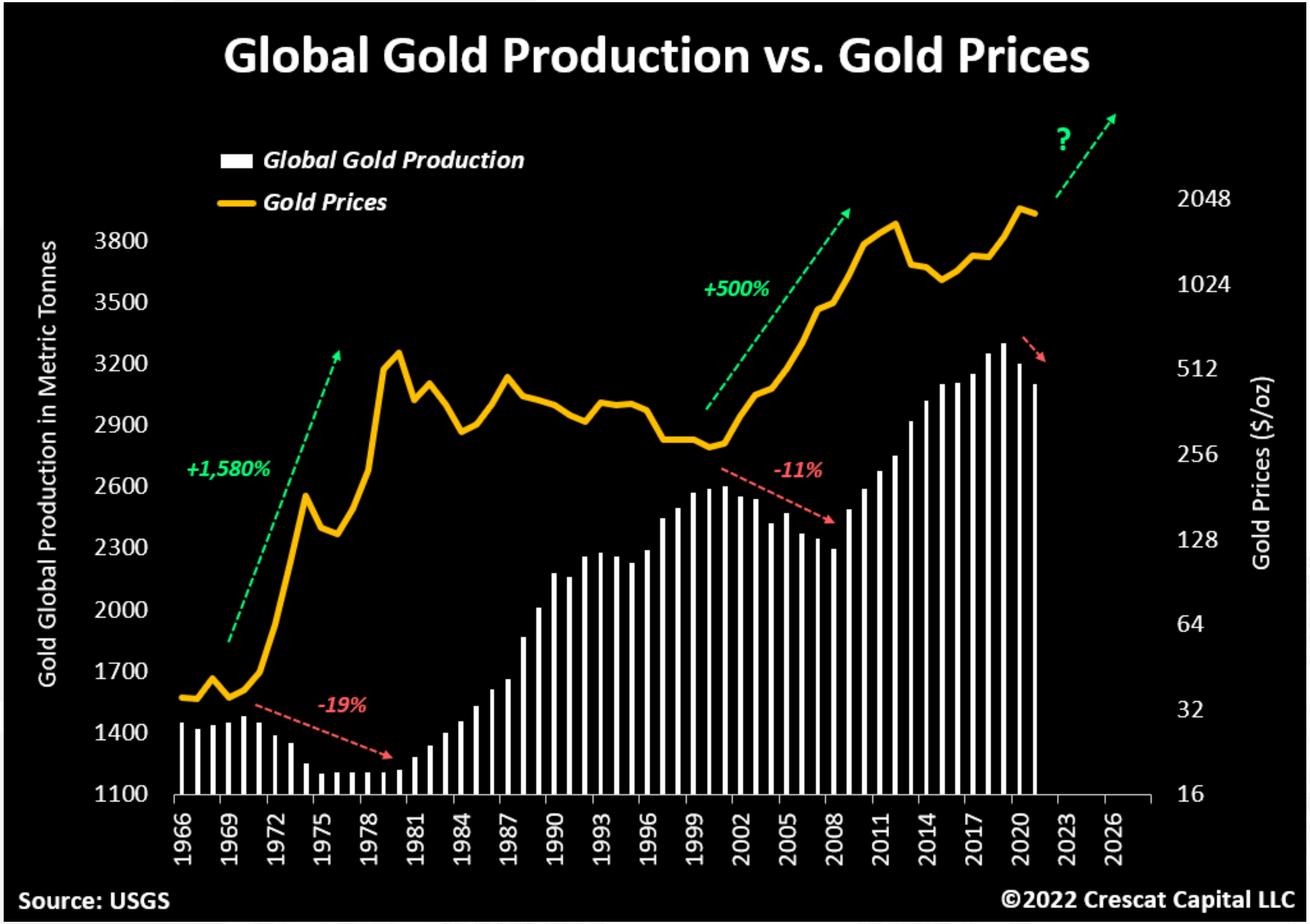
Contributing to the supply shortage, the number of major new gold discoveries by year, i.e., greater than 2 million Troy ounces, has been in a declining secular trend for 30 years including the cyclical boost between 2000 and 2007.



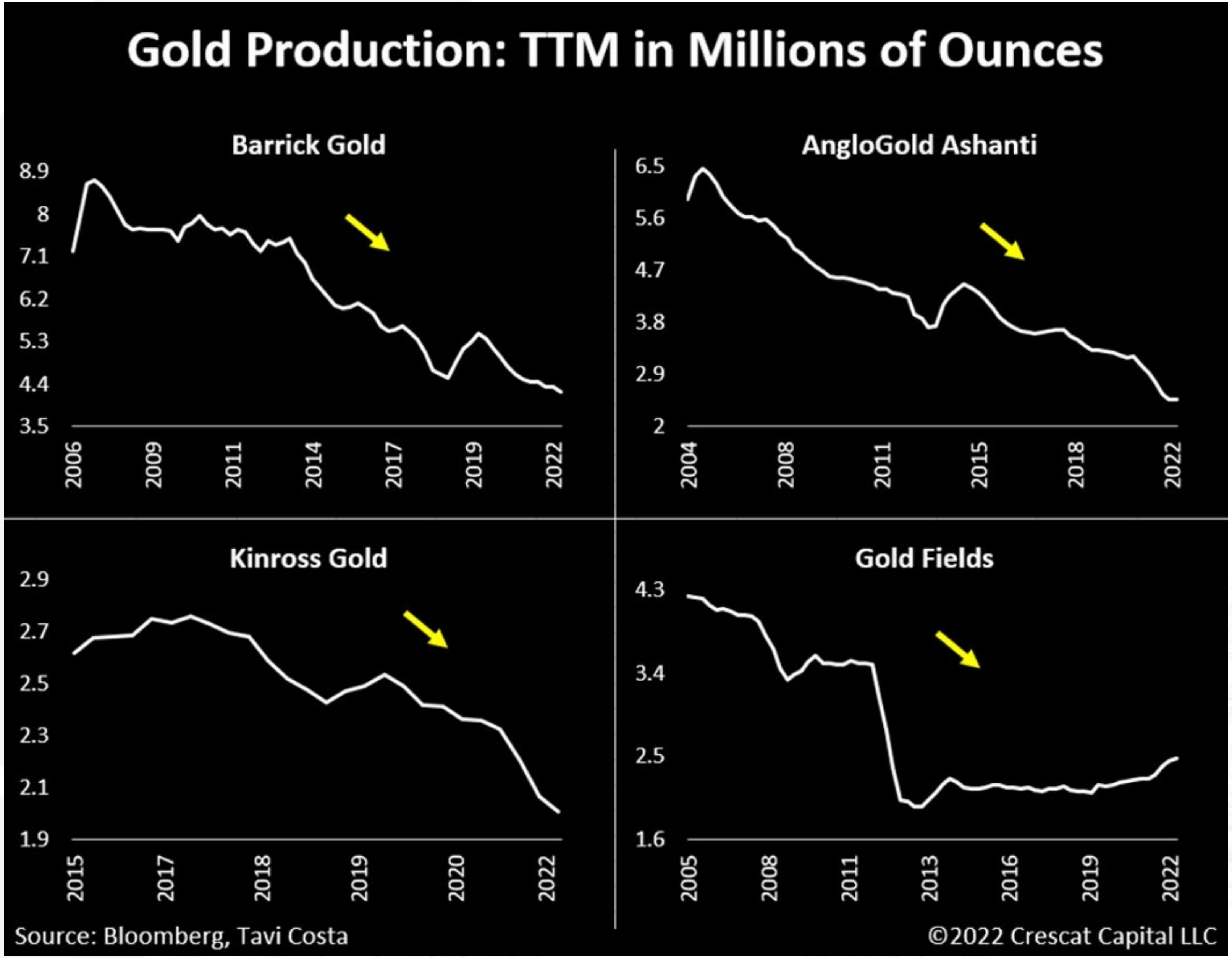
While demand continues to increase for the raw materials produced by these industries, companies are having difficulty filling jobs with qualified management and technical professionals to produce them efficiently. A decade of declining college enrollment in geosciences worldwide is one of the long-term structural imbalances affecting the oil and gas and mining industries.



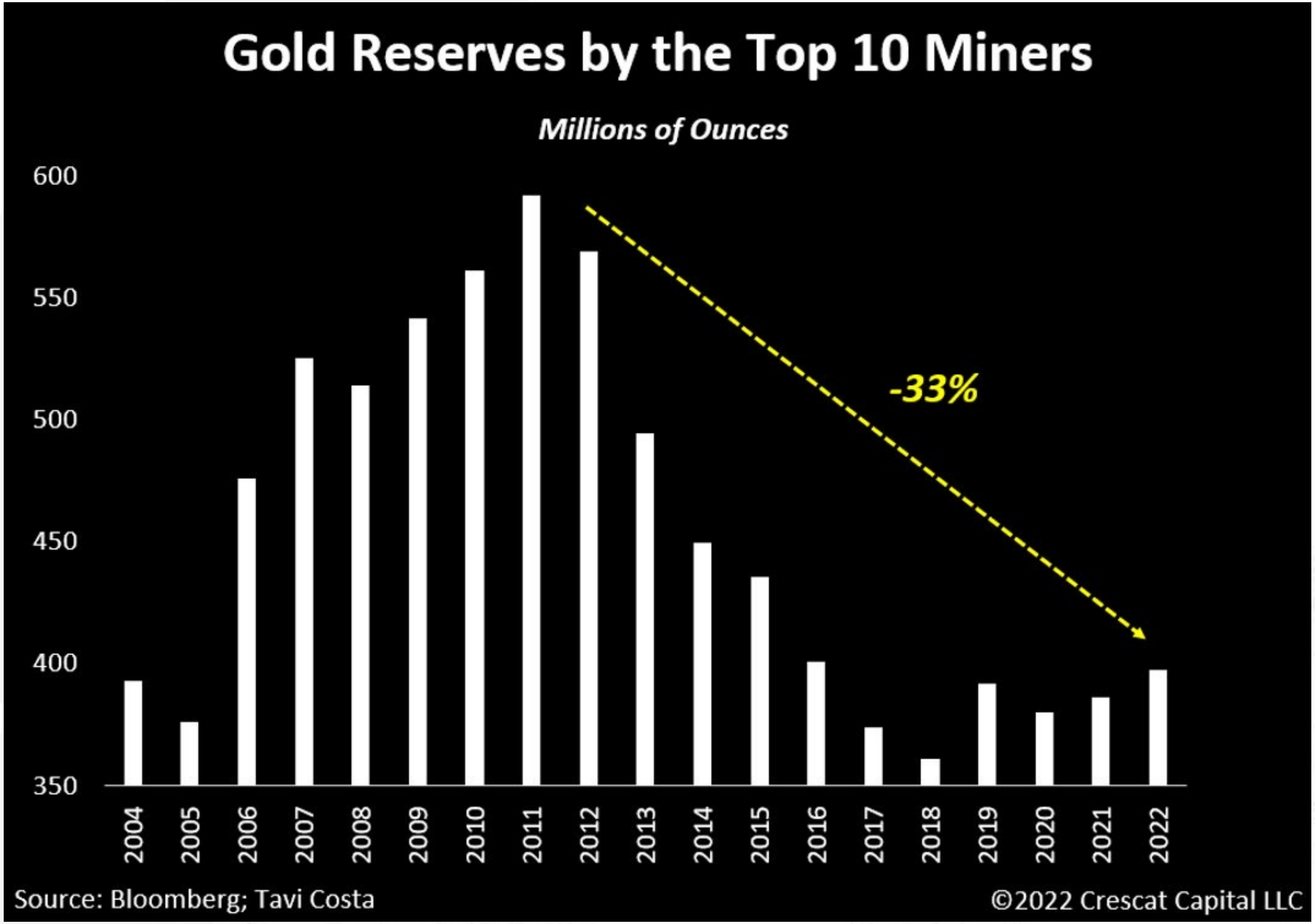
Major miners are now facing a gold supply cliff due to a chronic period of under investments in the industry.



The scarce metal is supplanting US Treasuries as the preferred allocation among global central banks looking to improve the quality of their international reserves.

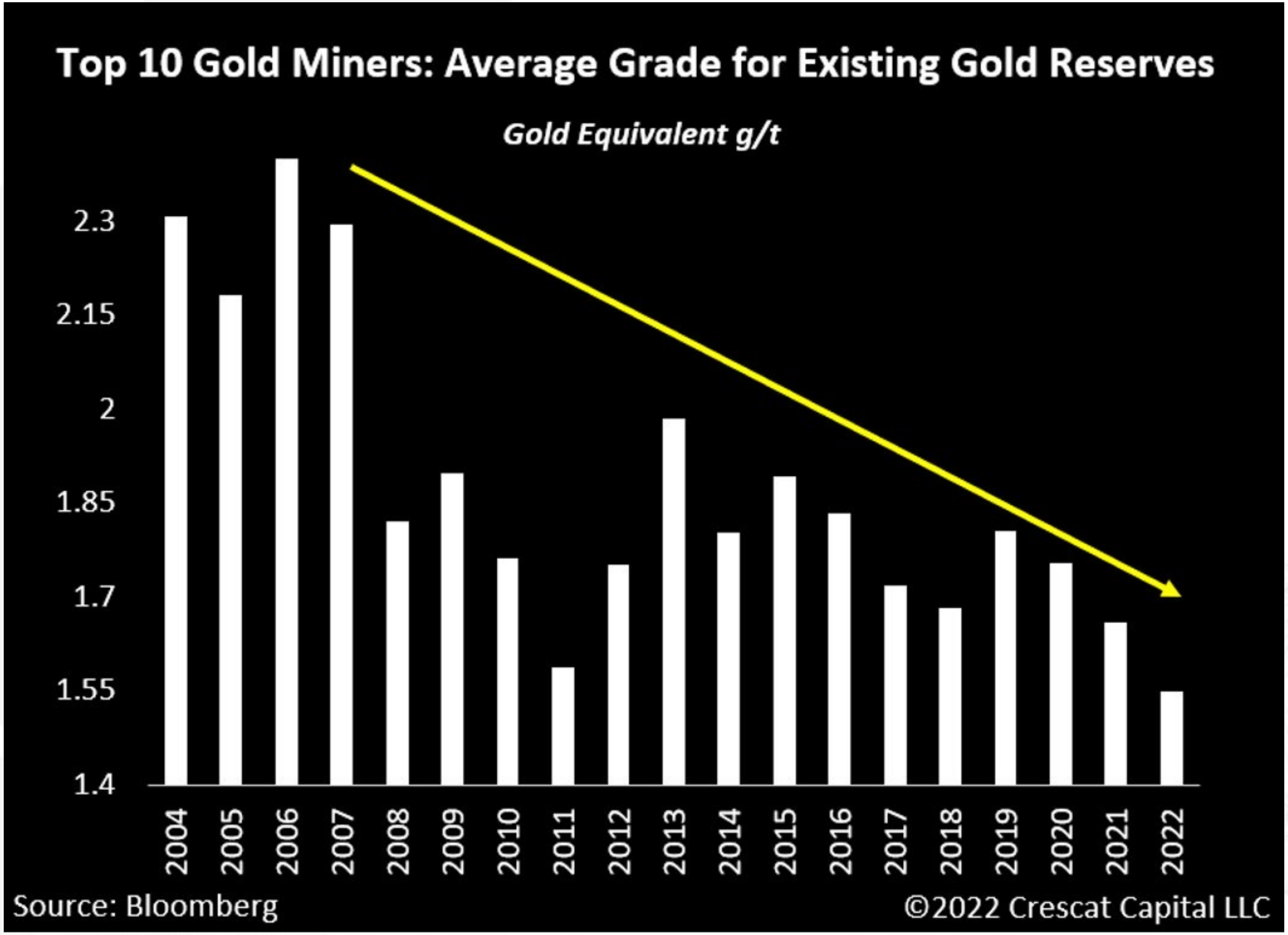


Many traditionally gold-focused miners have significantly shrunk their production while increasing investment in other metals.



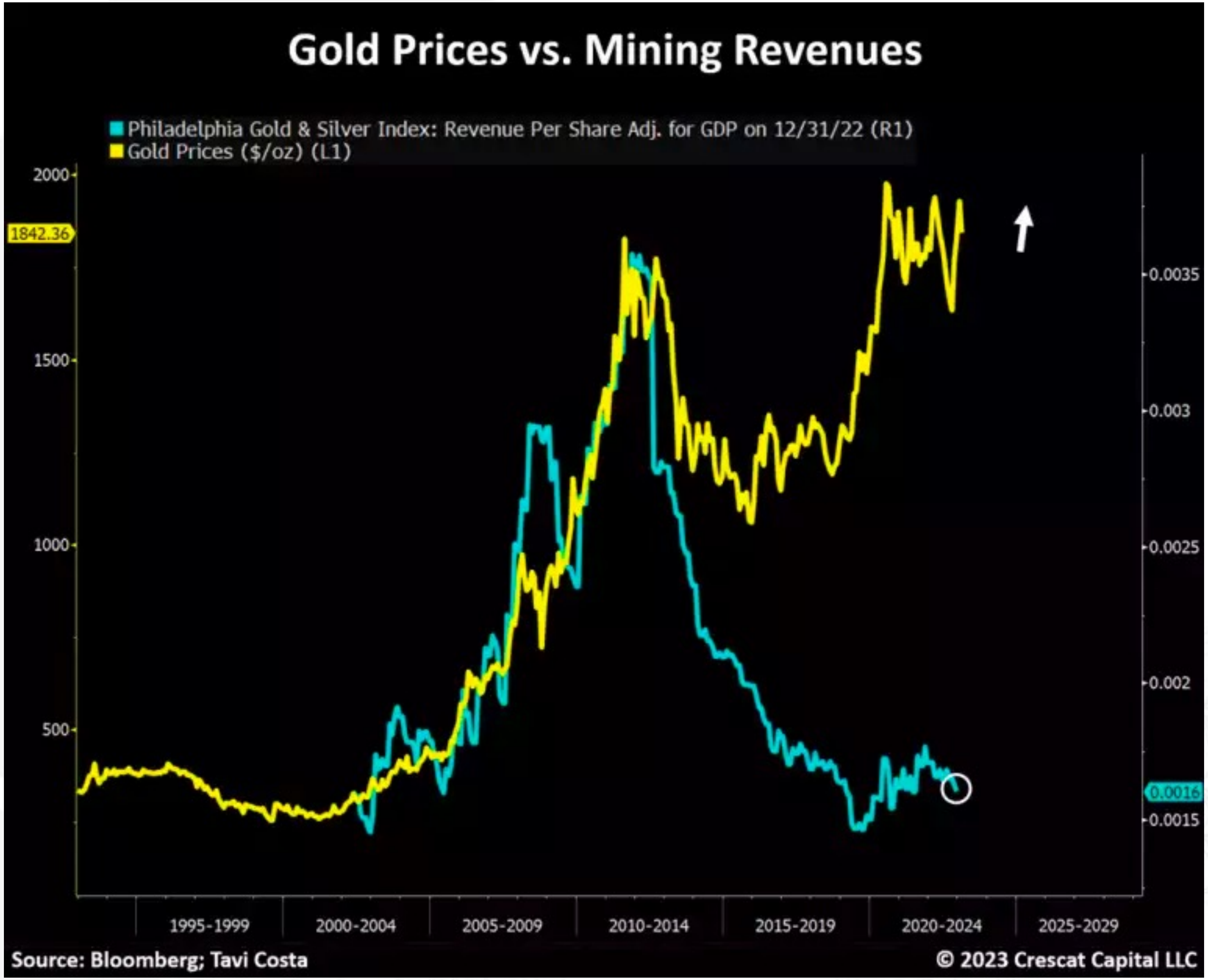
It is becoming increasingly challenging to find precious metals. As a result, the reserves of the top 10 mining companies are down 33% over the last 15 years.

We have not seen a new precious metals project become a significant producing mine in a very long time.

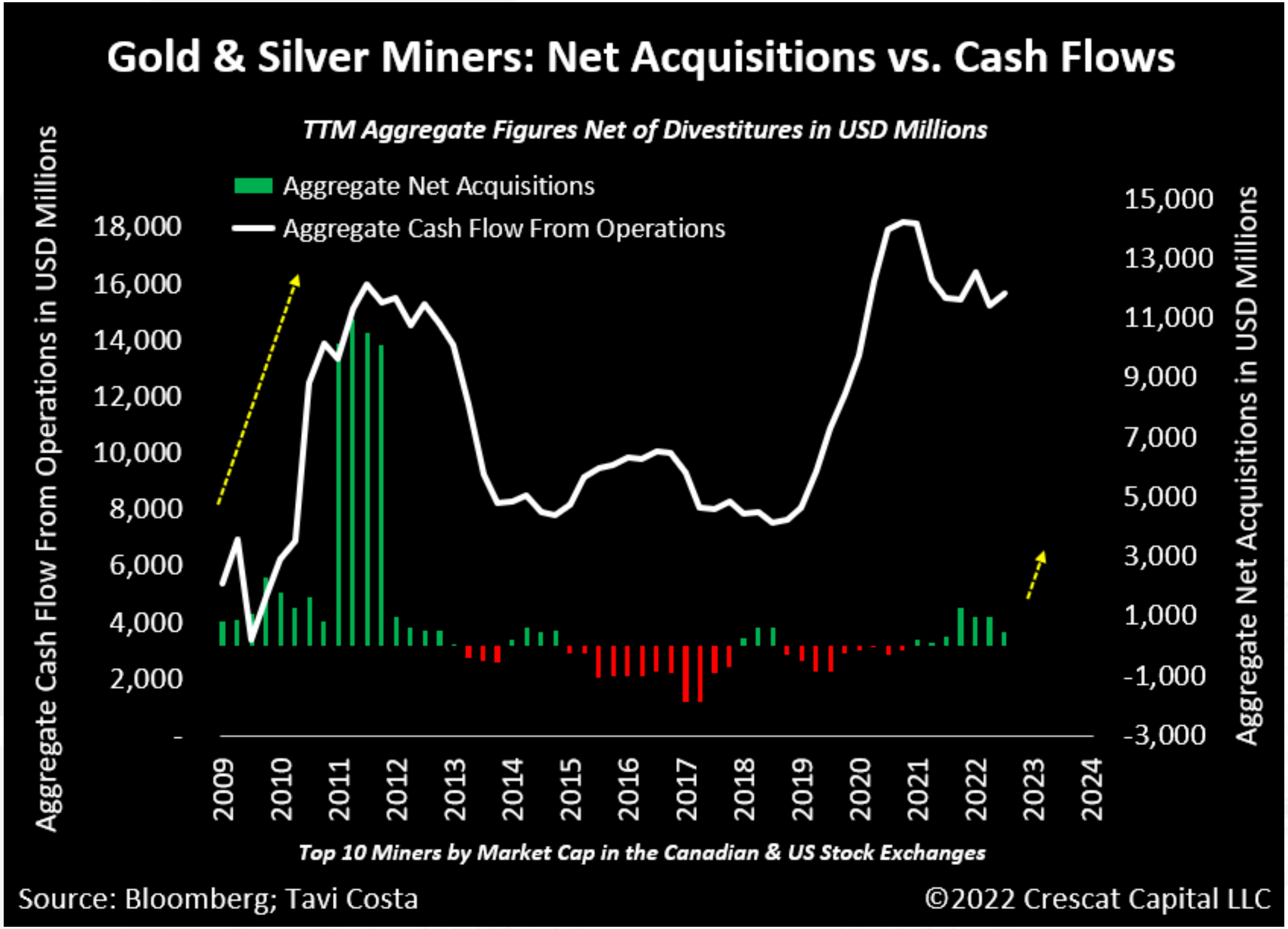


Not only do mining companies continue to deplete their existing reserves, but the quality of their remaining assets is drastically deteriorating.

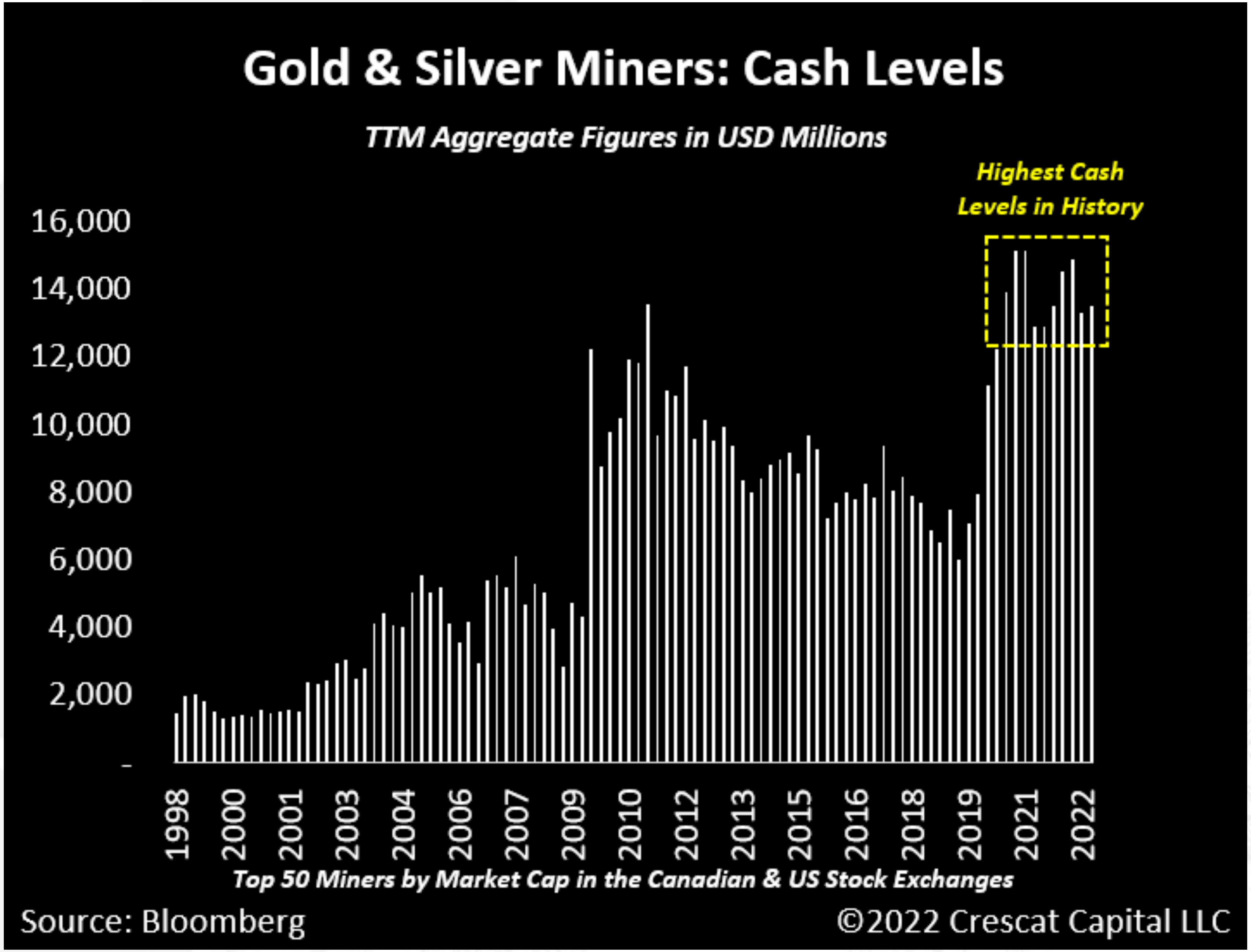
The average grade for gold reserves by the top 10 miners in the world has been in a secular decline.



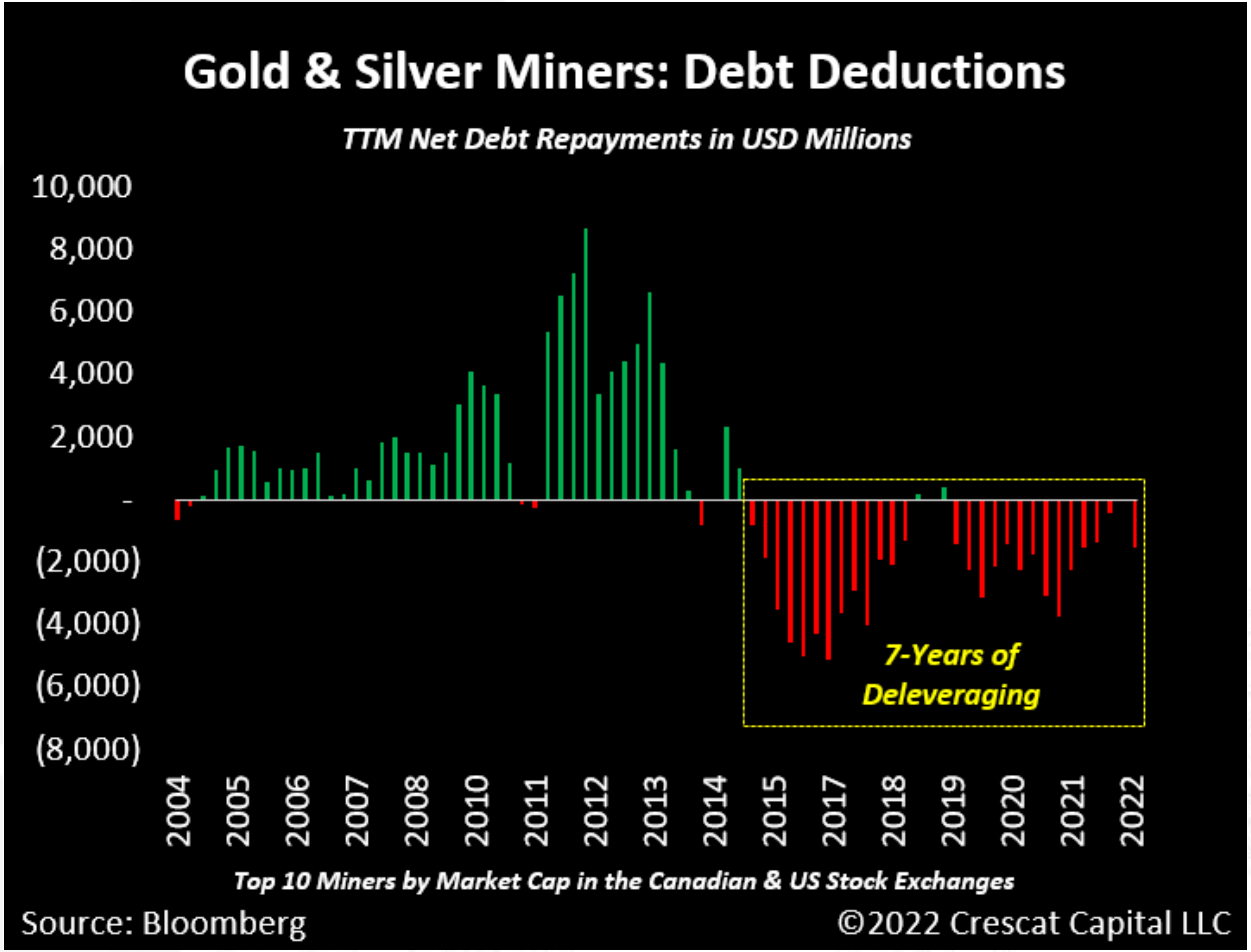
The large and mid-tier mining companies have underinvested in exploration as well as M&A, so both the quantity and quality of their reserves have deteriorated over the last decade.



It is important to note how miners continue to generate near-record levels of cash flows today.

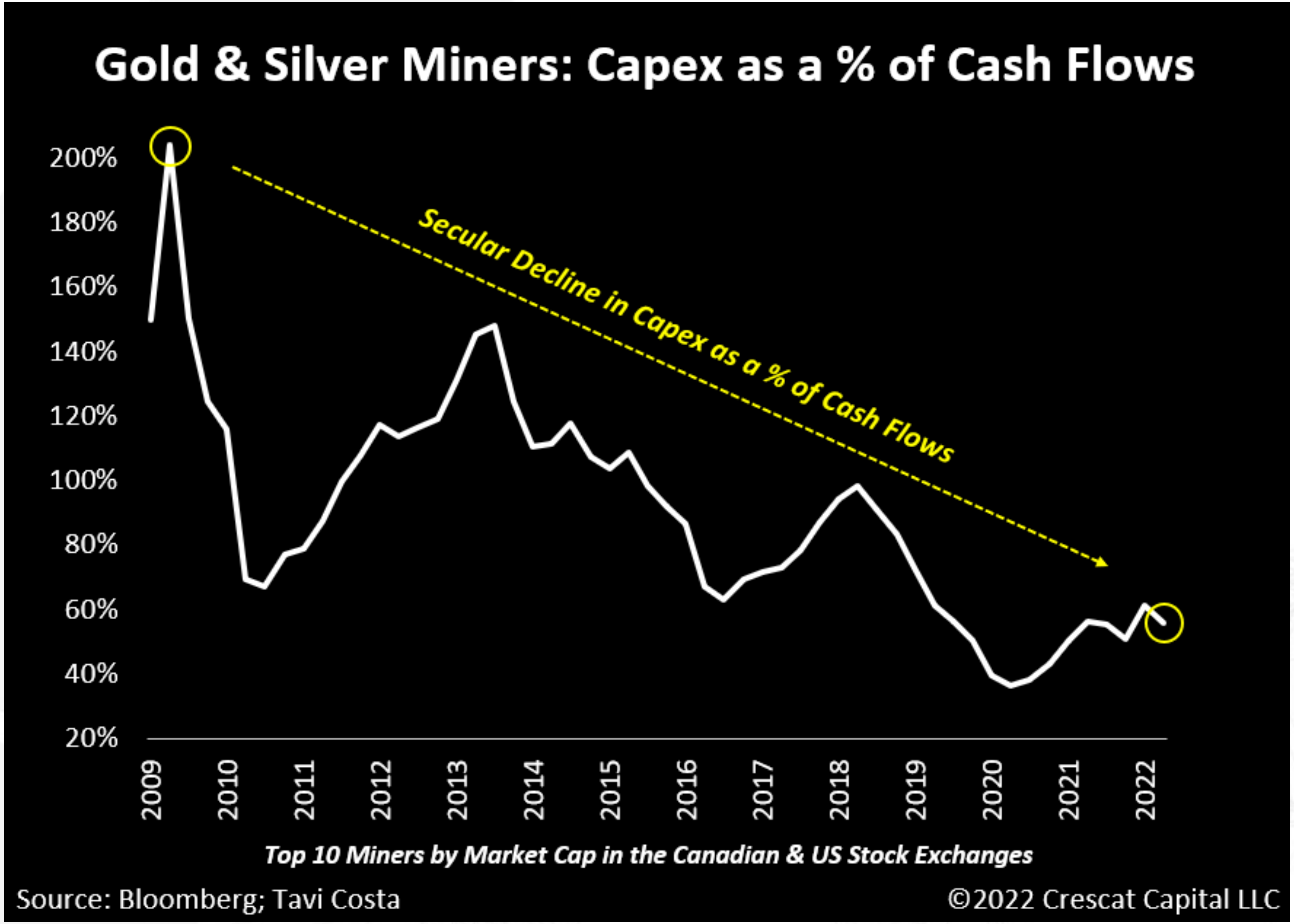


The strength of the balance sheets of mining companies is an important factor that tends to precede healthy M&A cycles. As shown in the chart below, the largest gold and silver companies have the highest cash levels that we have seen in decades.

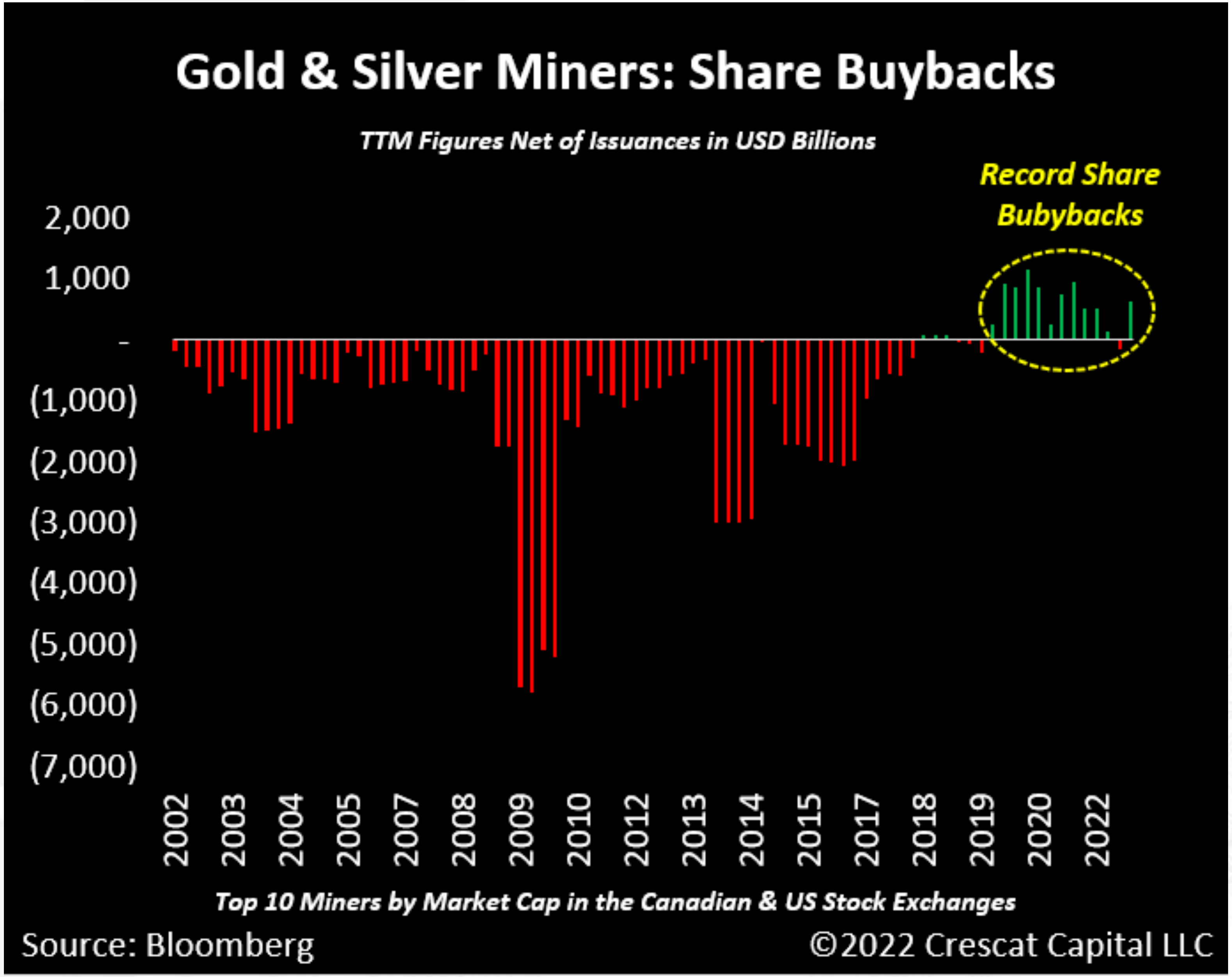


Precious metals mining companies just went through a long deleveraging process.

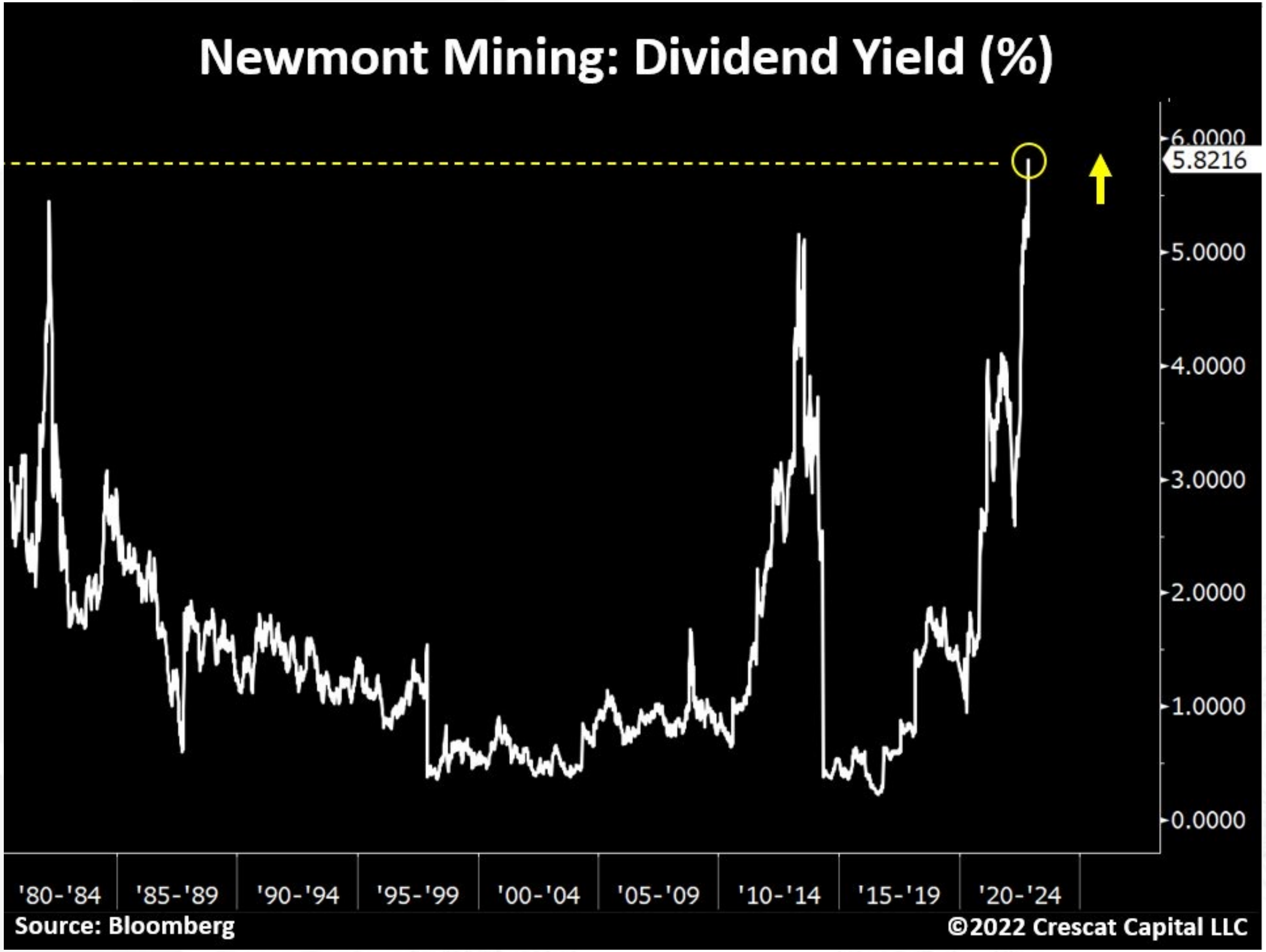
In other words, the industry had seven years of continuous debt repayment, net of new issuances. This is a very healthy development for miners overall.



These stocks can still be acquired in the market today for cheap ahead of a new gold bull market.



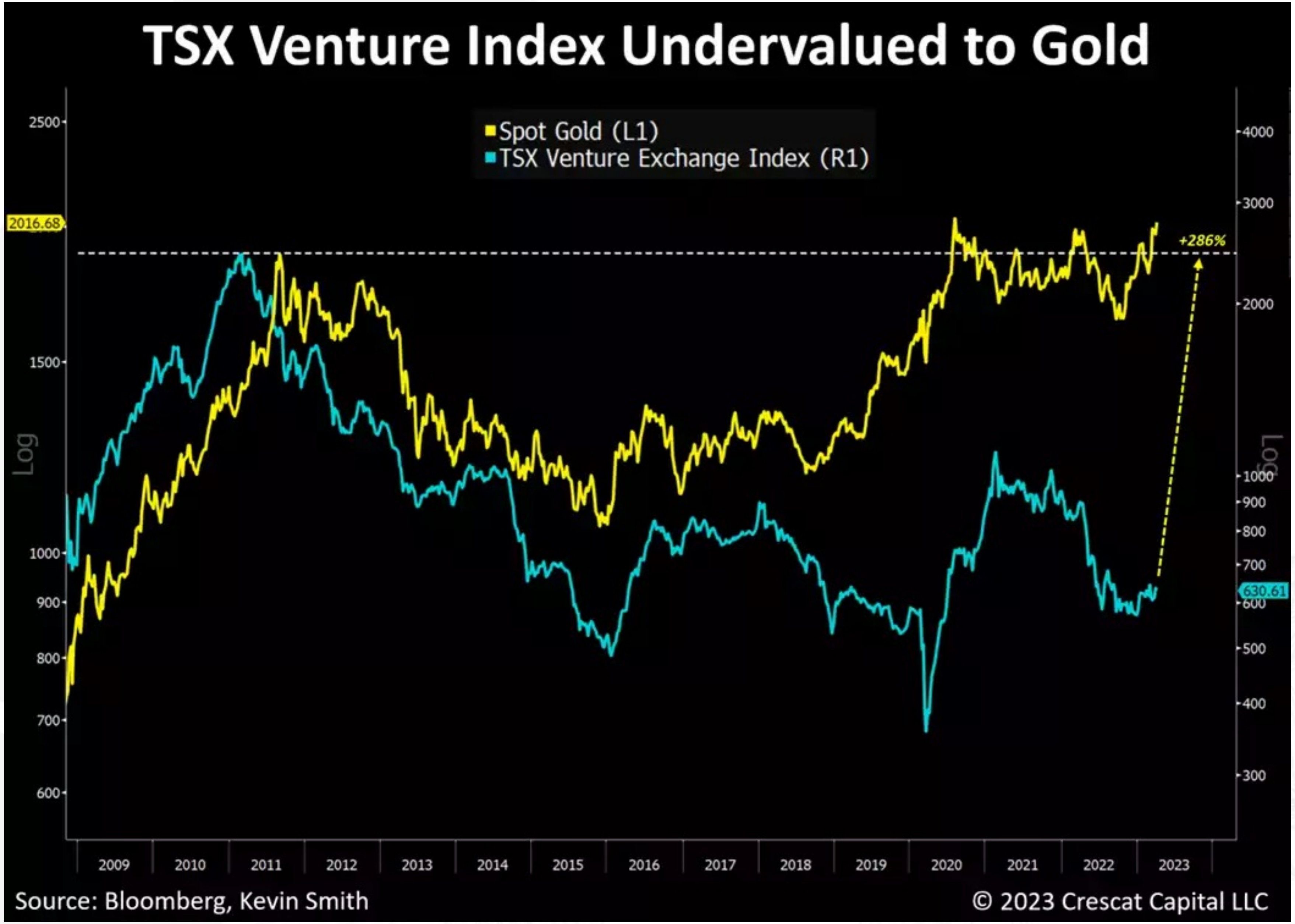
These companies are going above and beyond to attract investors with accounting conservatism rather than investing for growth.



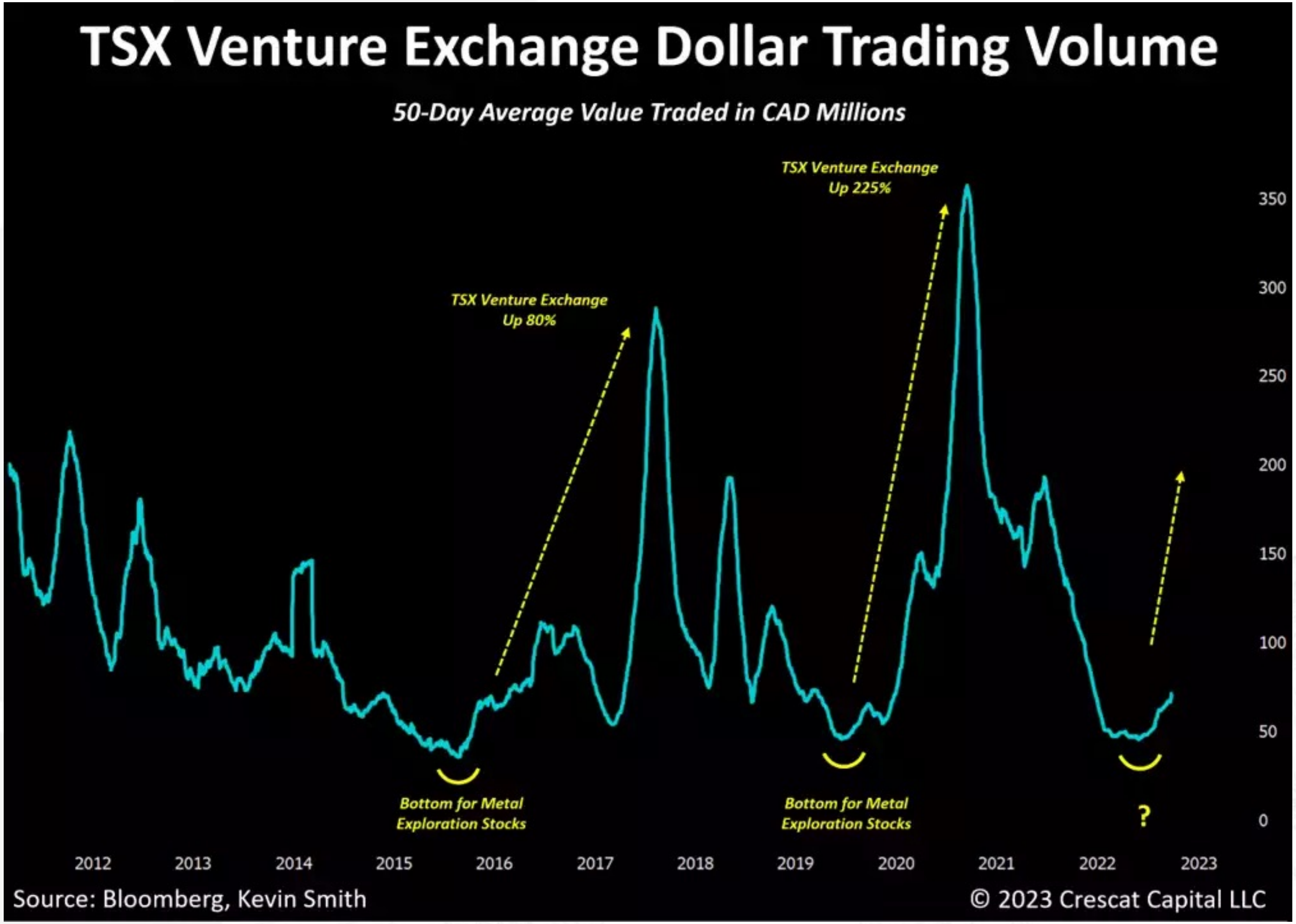
Newmont has increased its dividend in six of the last nine quarters and the stock now has the highest yield in 40 years.

Precious metals mining is one of the most fundamentally attractive industry groups in the market today. Interestingly, the gold price is almost back to its 2011 monthly highs.

If that is the playbook for the miners, there is 85% upside from here.

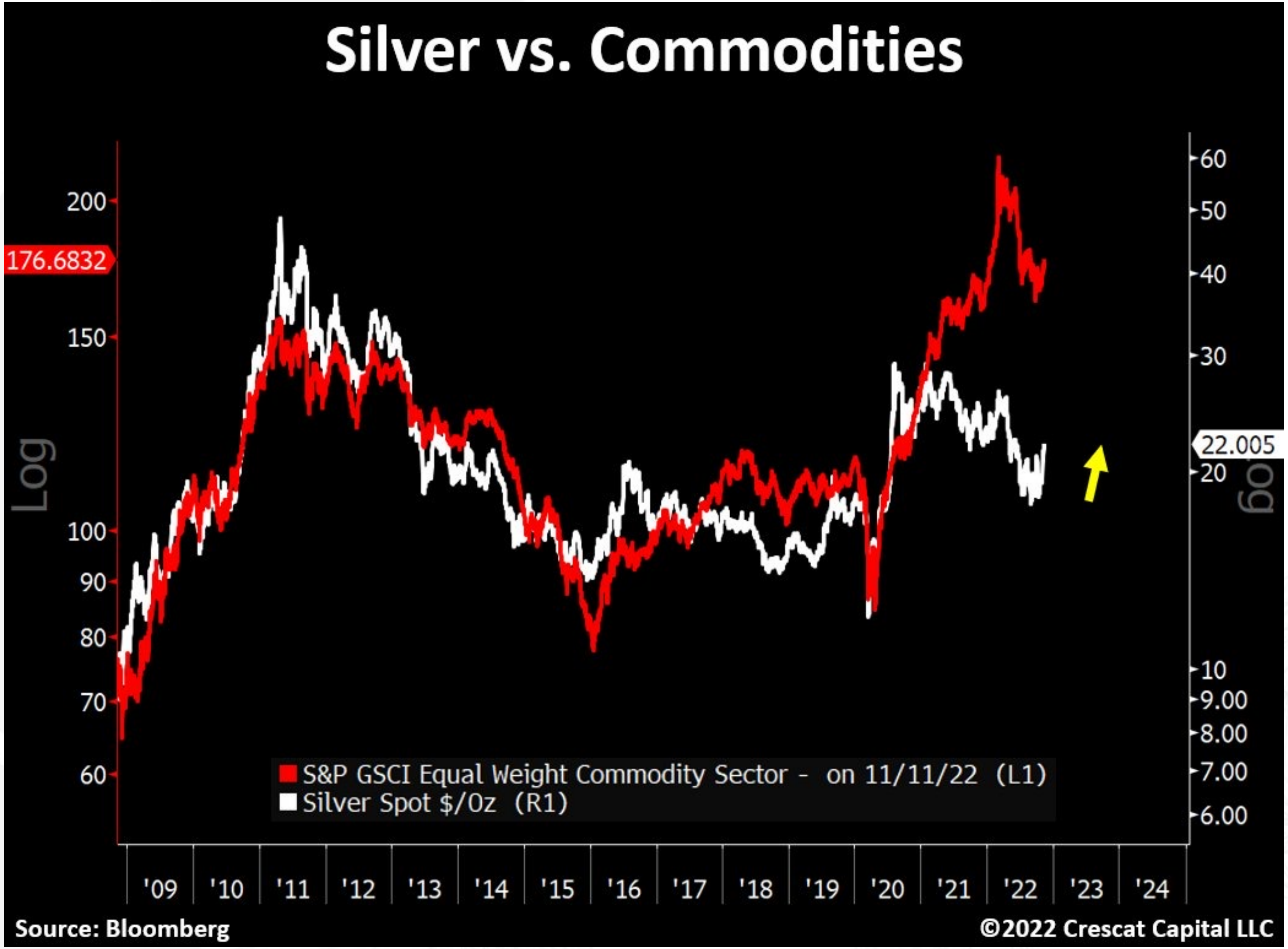


If gold is indeed on the verge of a major breakout, as we believe it is, some of the most rewarding value and growth investments to compound real wealth are likely to be found among the metals exploration companies that own the world's critical new discoveries.

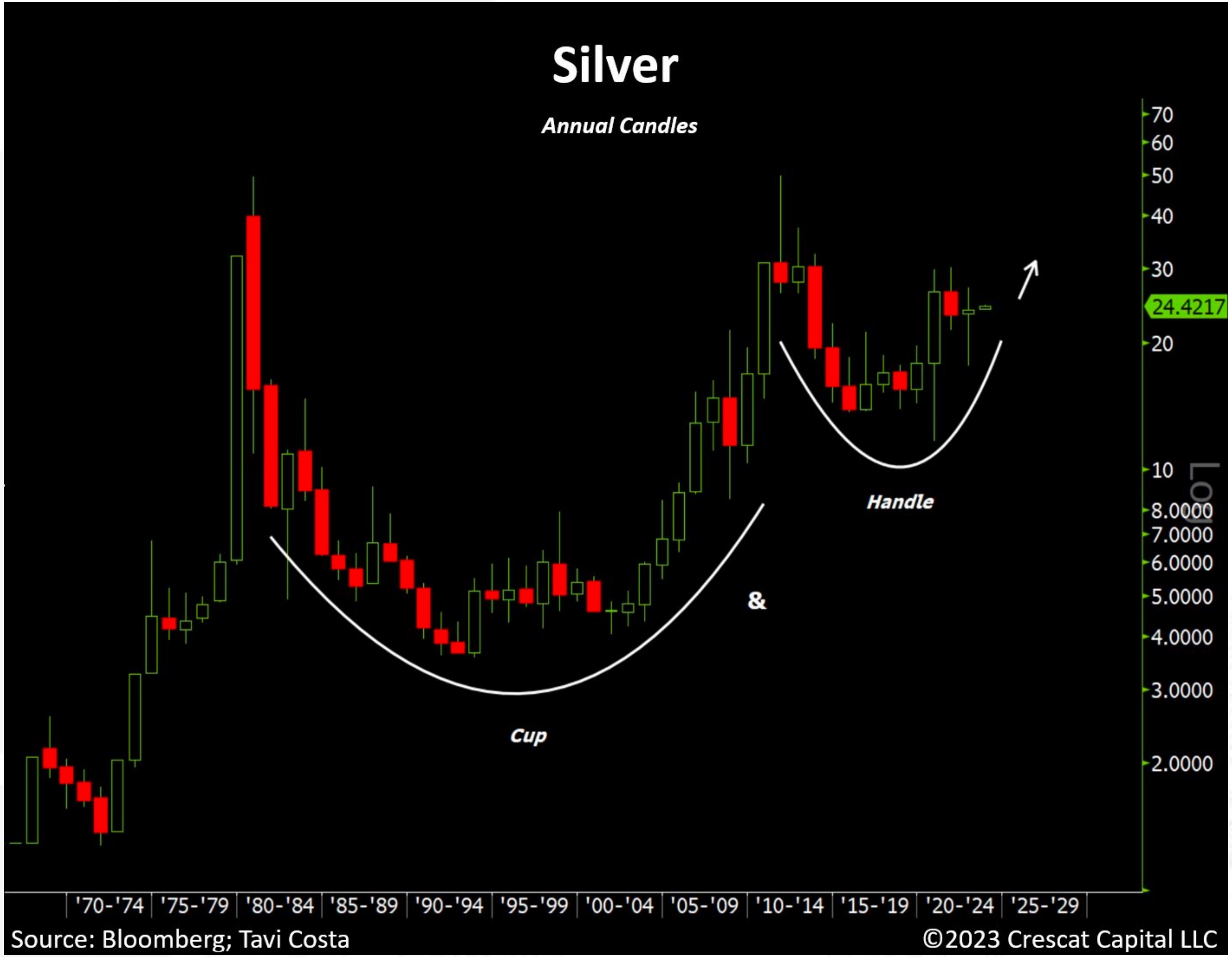


When big money flows into this tiny segment of the market comprised of small and micro market cap stocks, note how it tends to correspond with outsized price appreciation. We are confident that there is an enormous value-oriented and macro growth window that is wide open now.

When looking at the silver relative to M2 money supply, it may have recently just reached a historic double-bottom after re-testing the early 2000s levels, which preceded a major upward move in silver prices.



Silver has significantly lagged behind other commodities since 2020.
We believe the metal is poised for a major catch-up.
After two years of frustrating investors, silver looks ripe for an explosive and sustainable move to the upside.

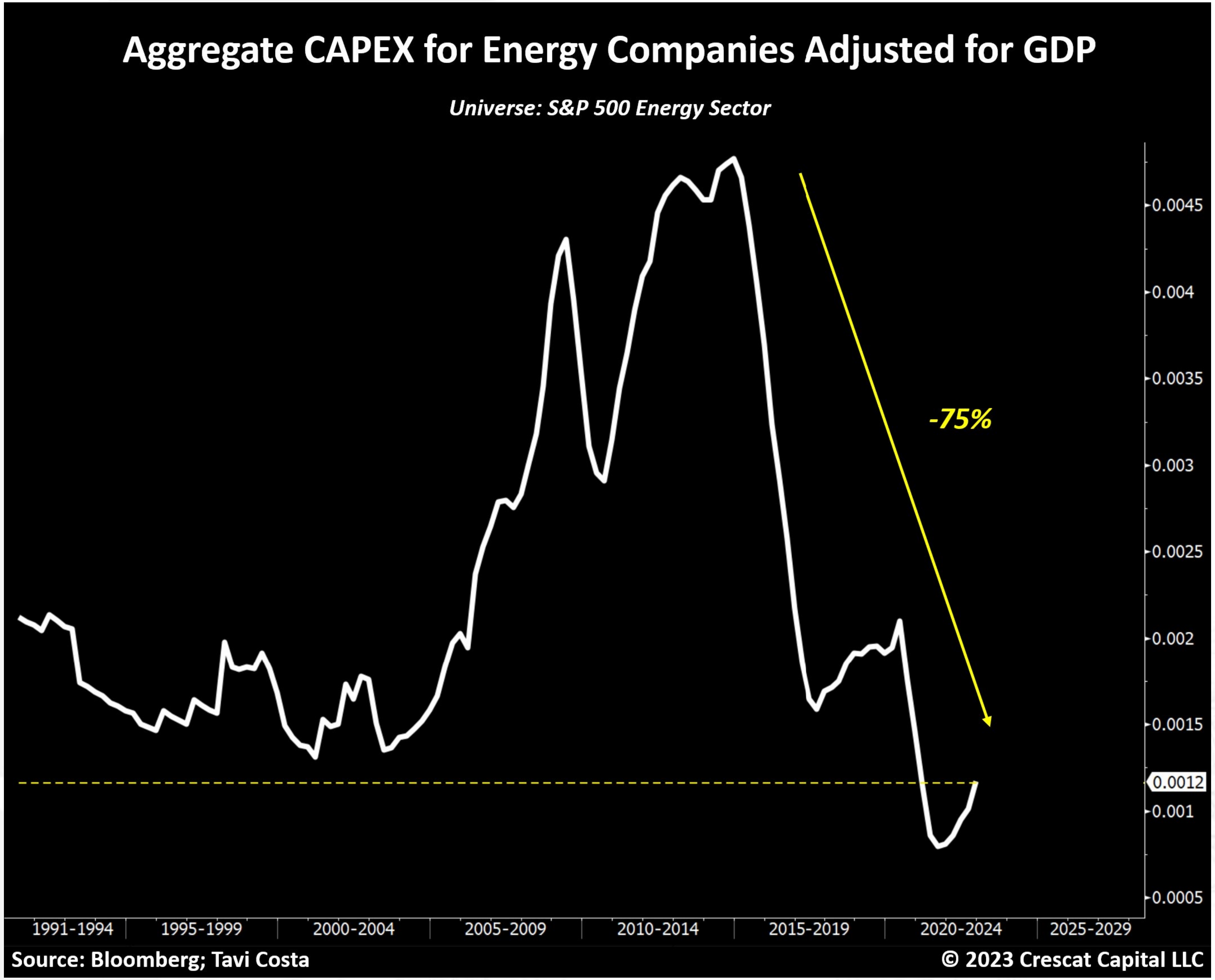


It's hard to find a better-looking chart than this one.

Time to get aggressive with gold, silver, and the miners.

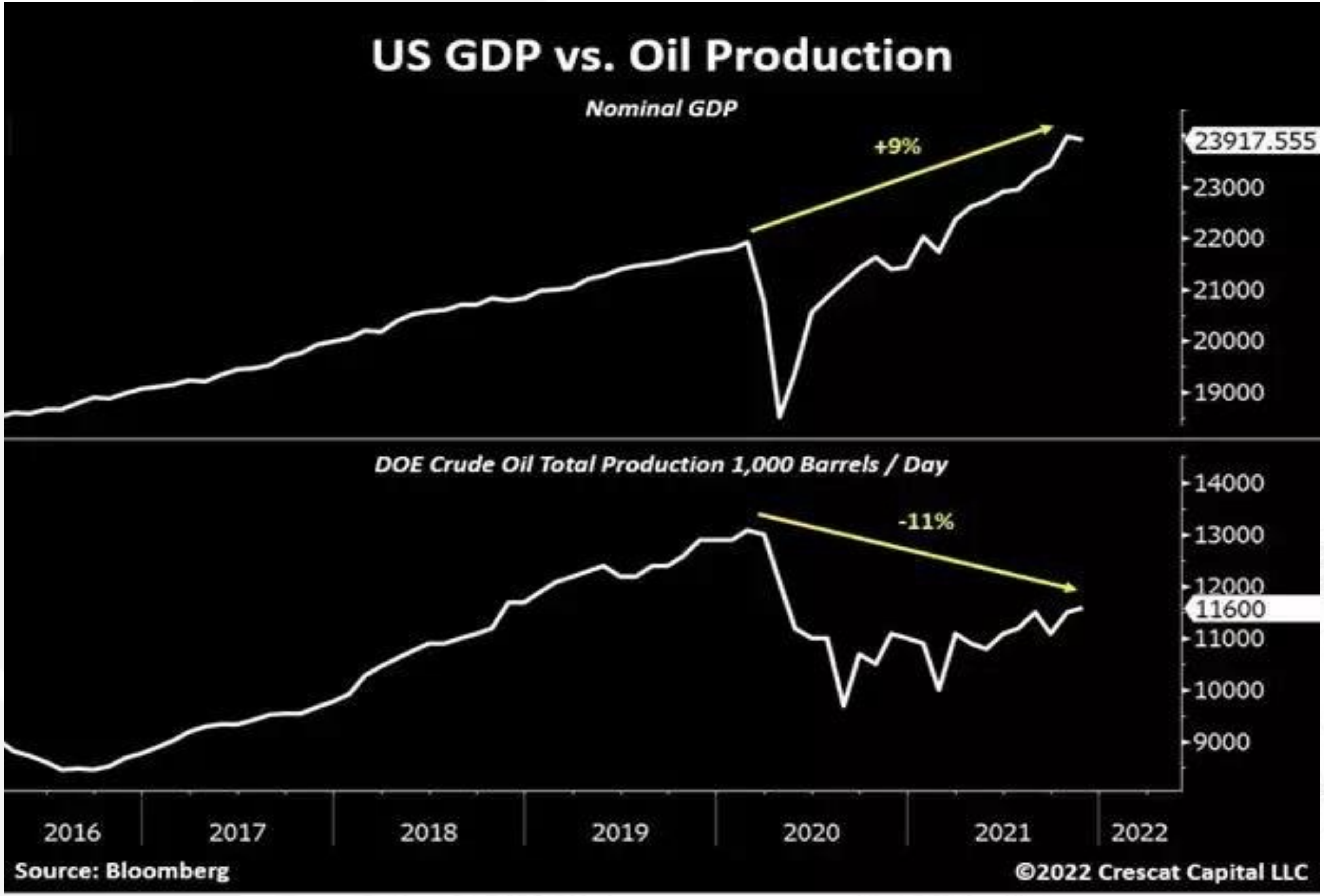
CRESCAT CAPITAL®
THE VALUE OF GLOBAL MACRO INVESTING

ENERGY TRANSITION

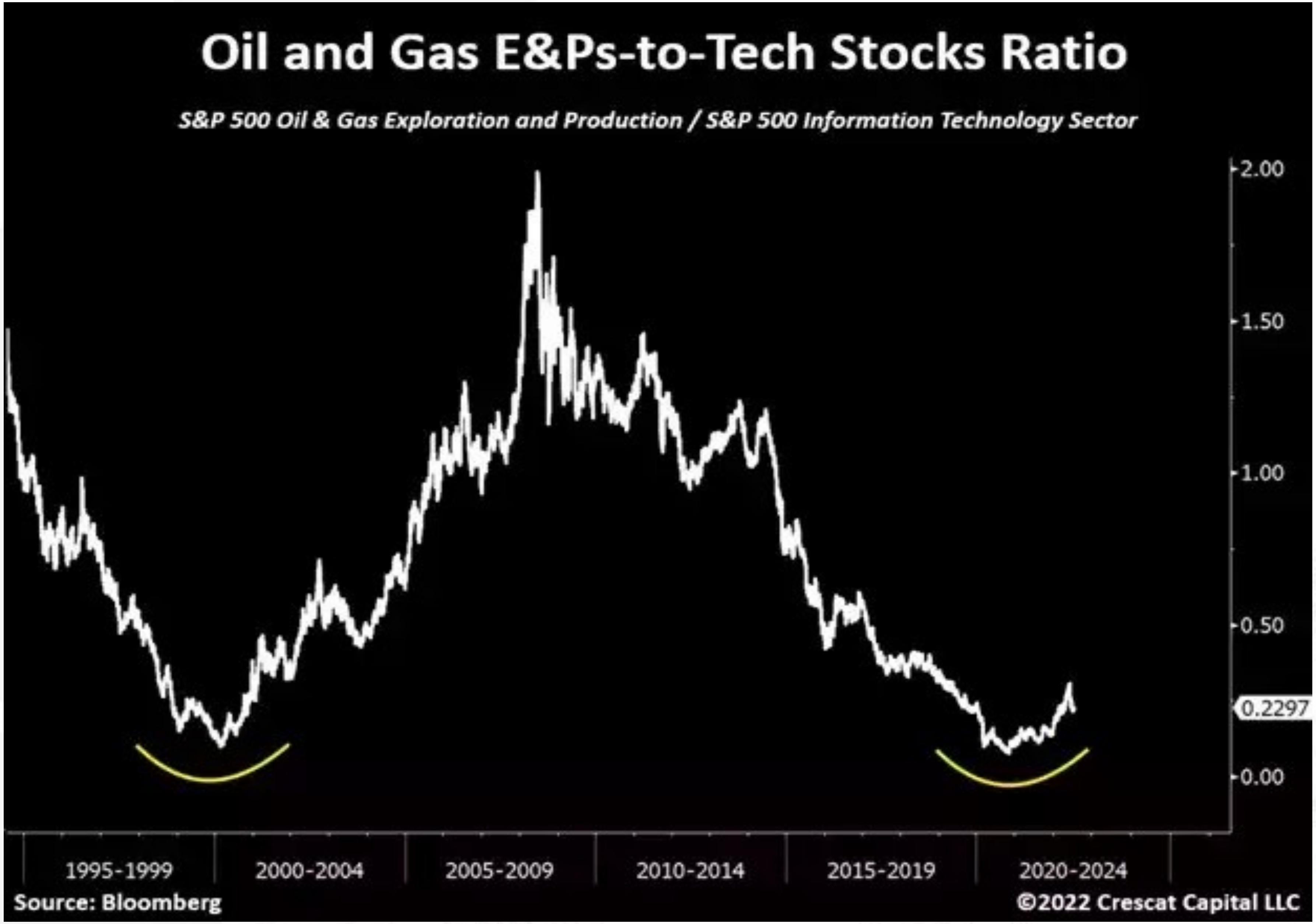


Aggregate CAPEX for energy companies adjusted for GDP levels is still below every other depressed level in the last 30-plus years.

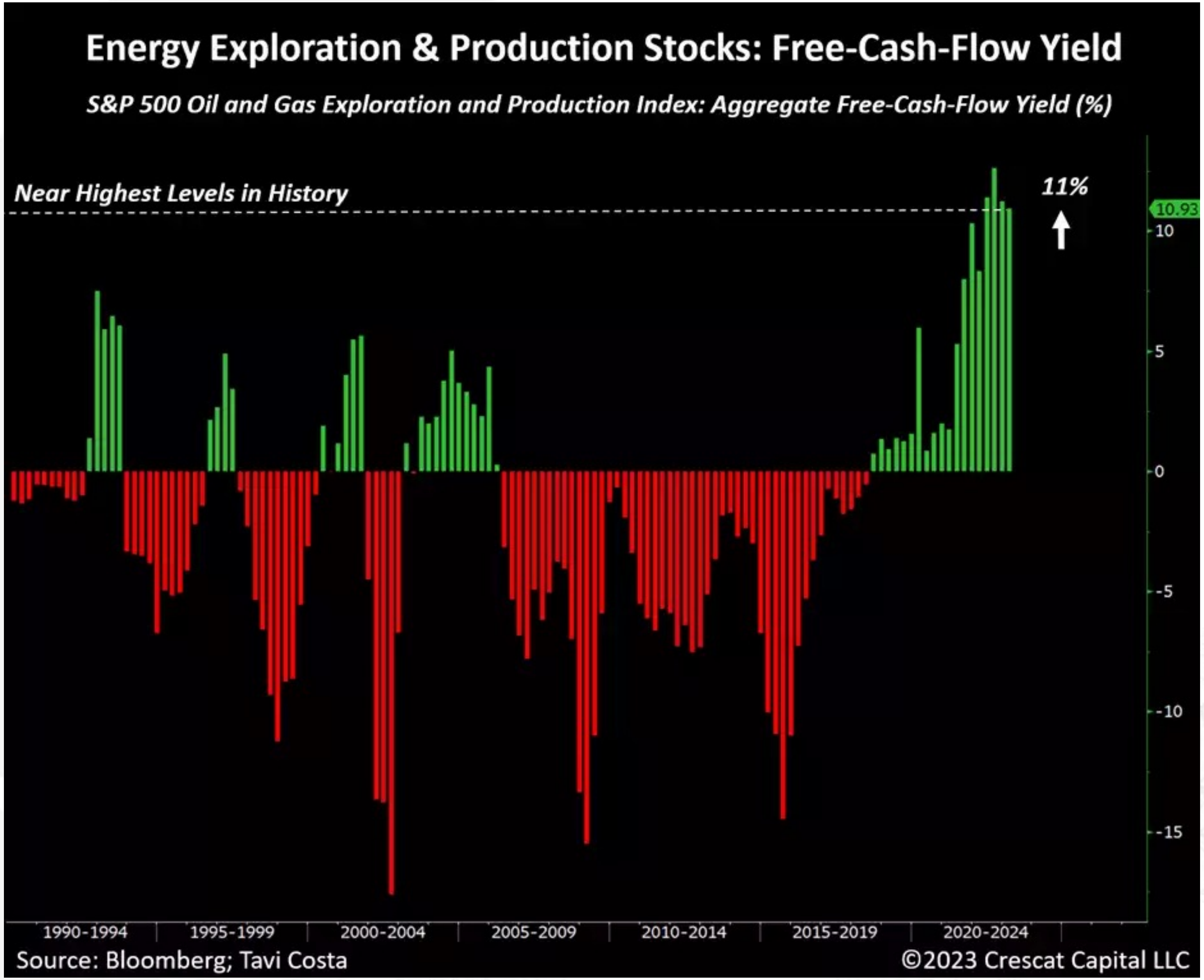
Current levels are over 75% lower than the prior peak.



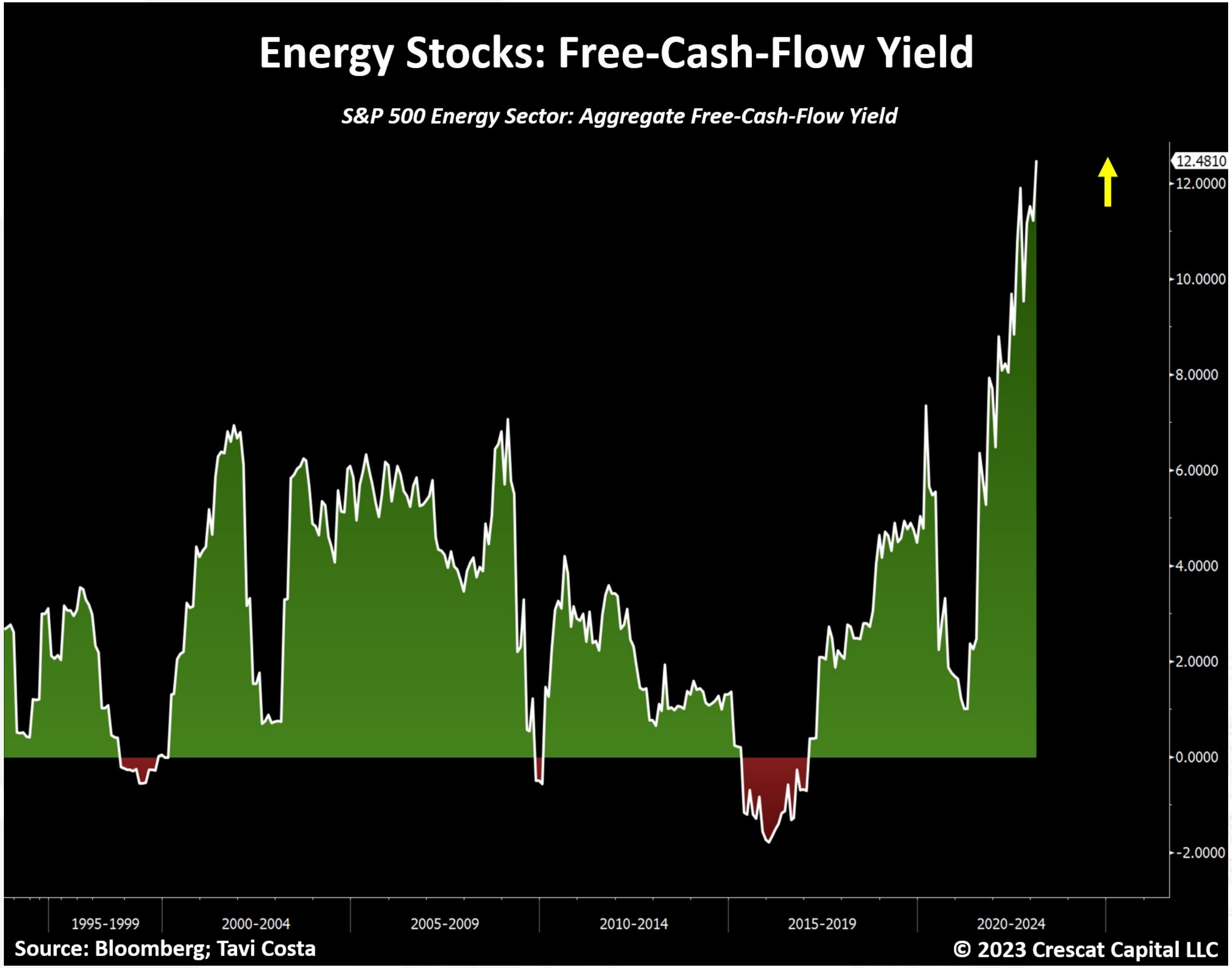
Nominal GDP is well above its pre-pandemic levels while oil production remains significantly below.



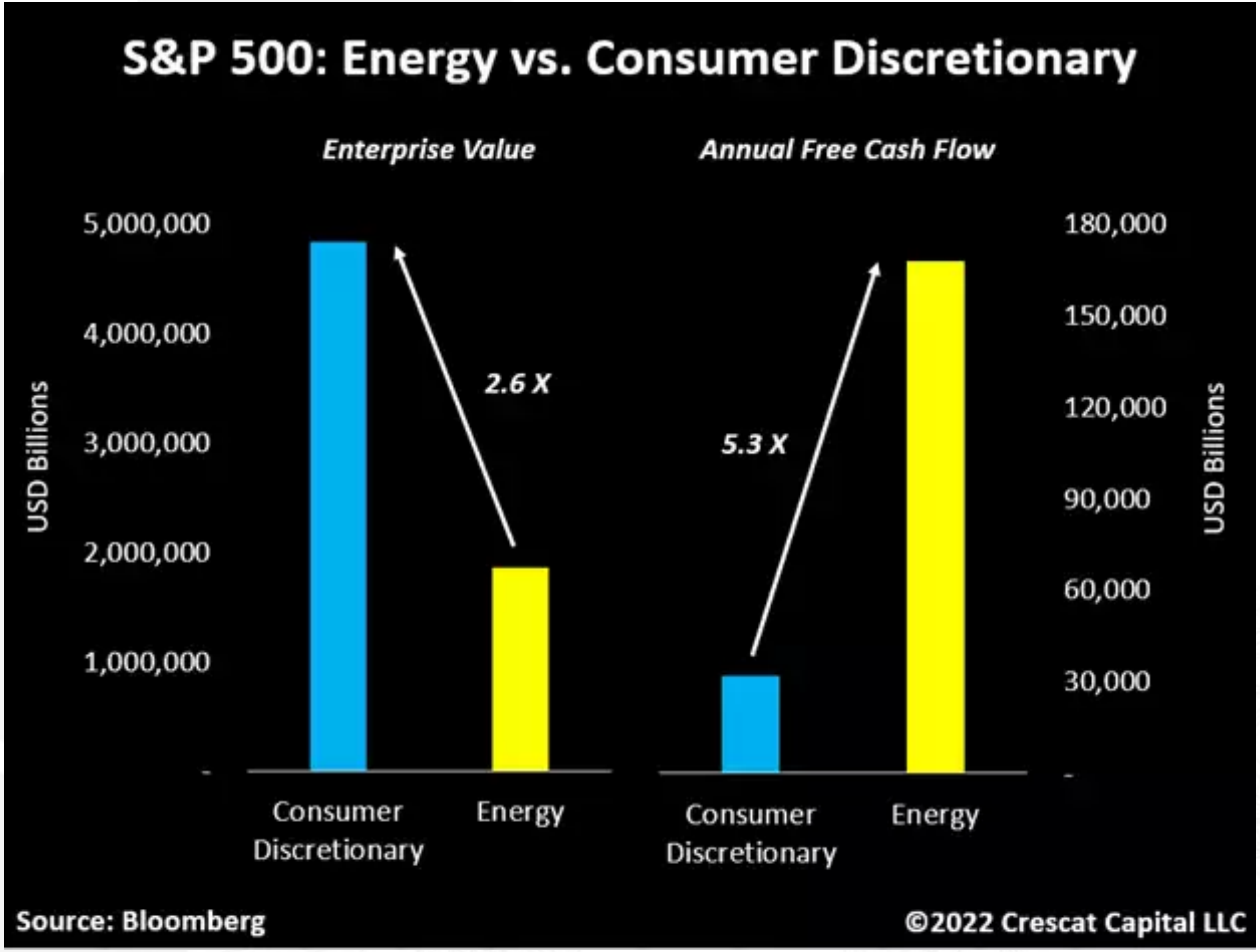
The energy-to-tech stock's ratio is as low as it was at the peak of the tech bubble.



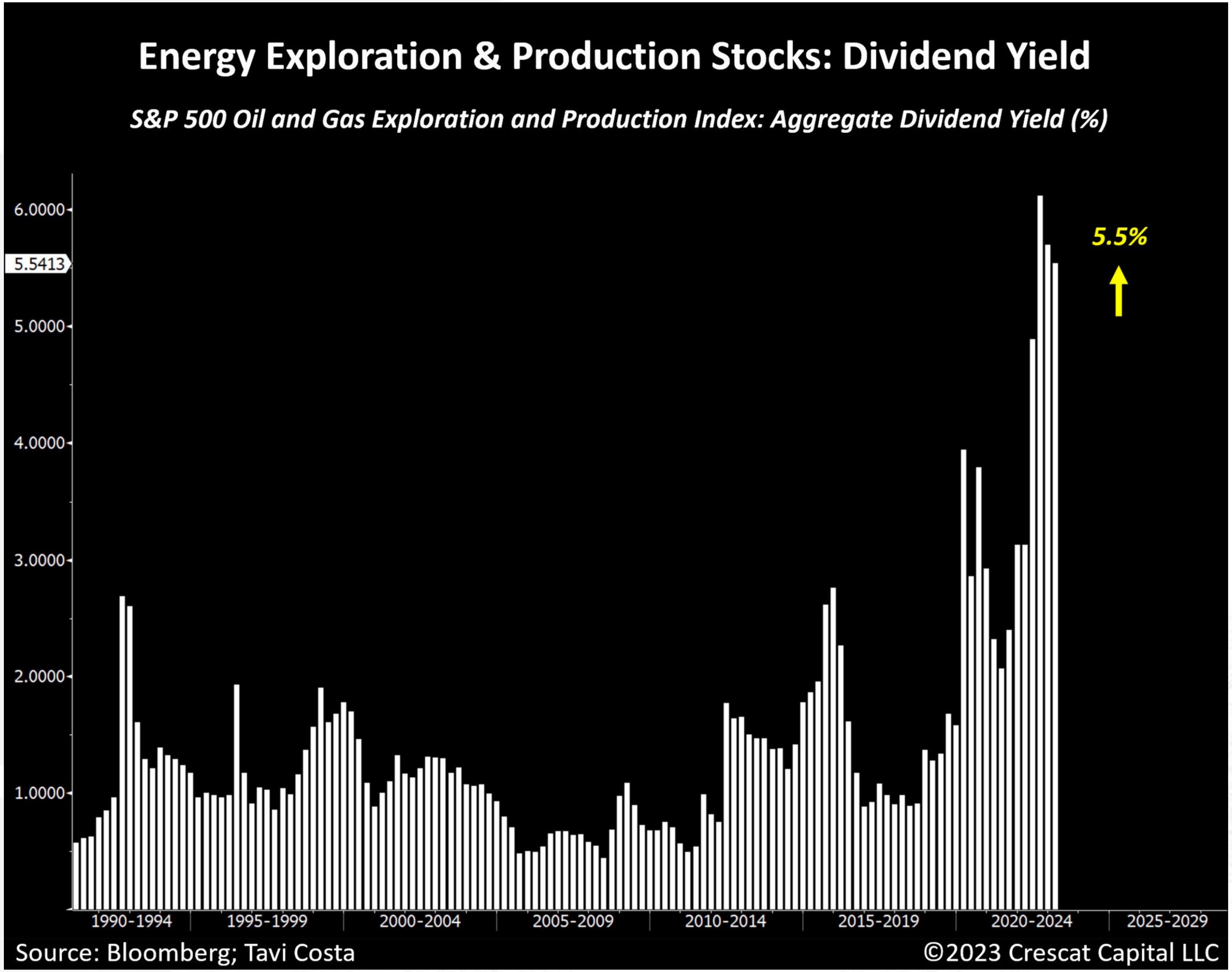
Oil and gas stocks just had their two best annual performances in 30 plus years, and the sector still trades at one of the cheapest levels in history. Aggregate free-cash-flow yield for energy exploration and production companies is now at 11%.



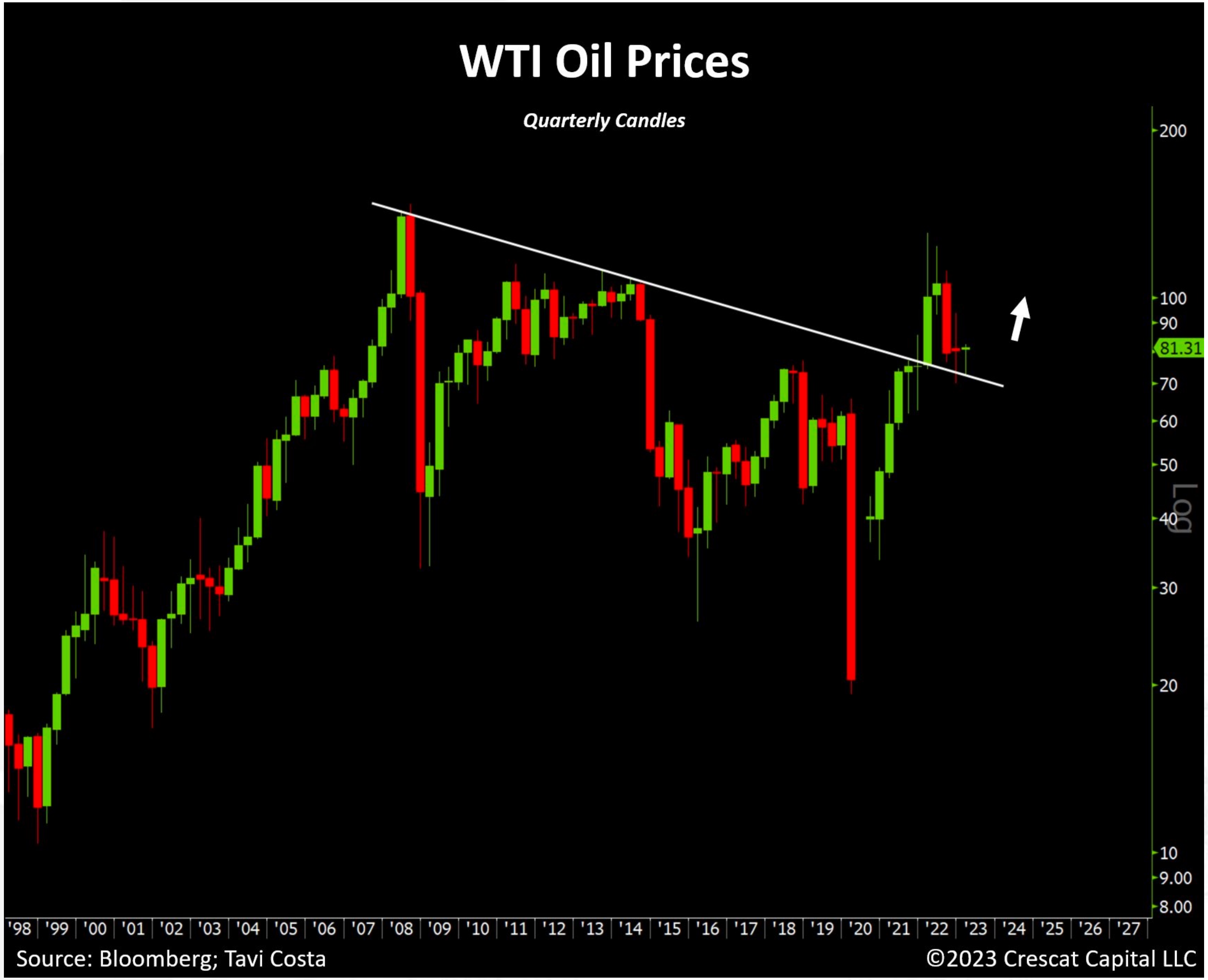
If energy prices strengthen, as we envision due to structural shortages and ongoing demand, these companies are even more of a bargain.



Unsurprisingly, today's consumer discretionary sector is now worth 2.6 times the size of the energy sector, while the latter generates over 5 times more in free cash flow.



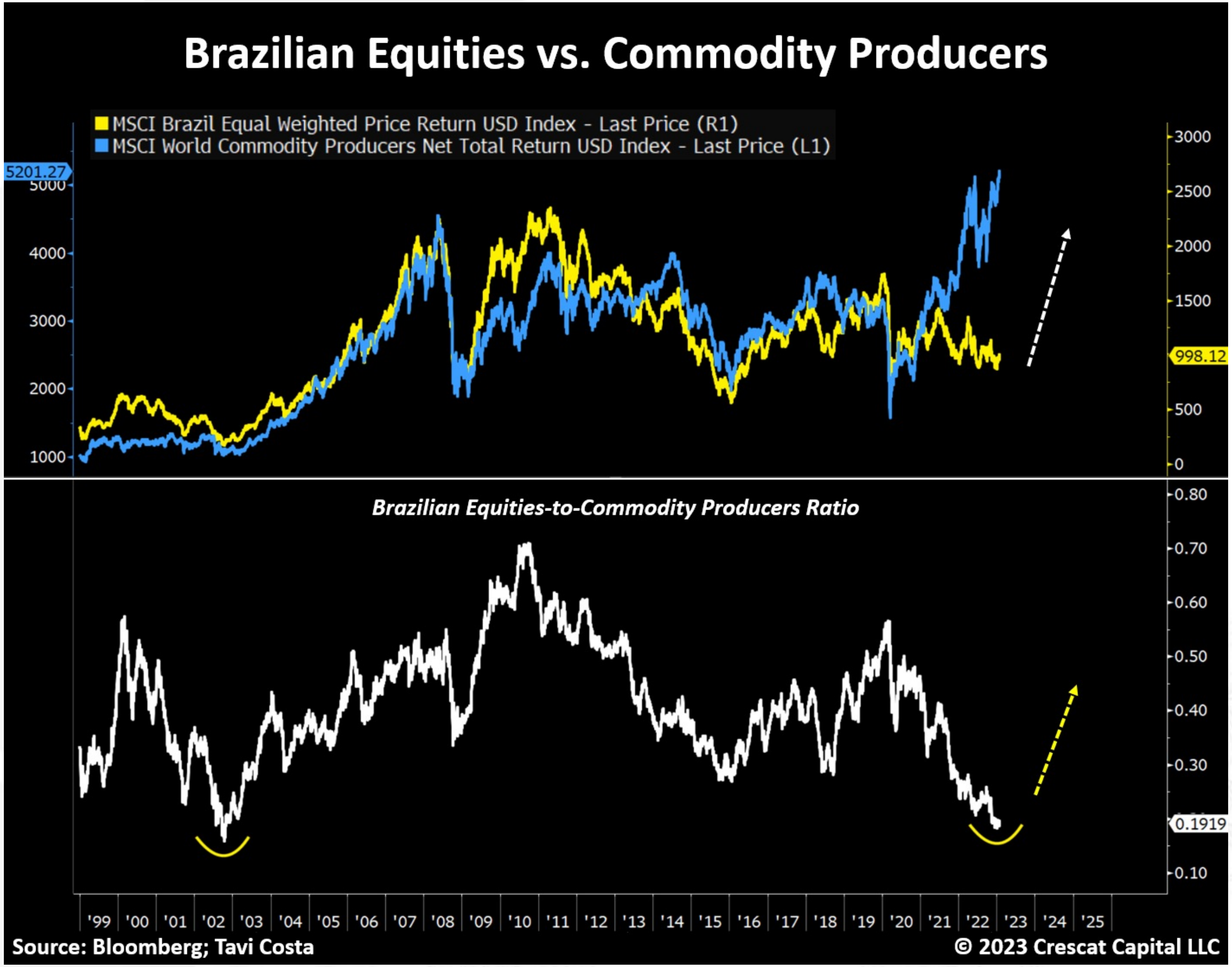
Oil and gas exploration & production companies are by far paying their highest dividend yield in history of the data.



What if oil has another big move, inflation re-accelerates, and interest rates need to stay higher for longer? Equity markets would not appreciate this.

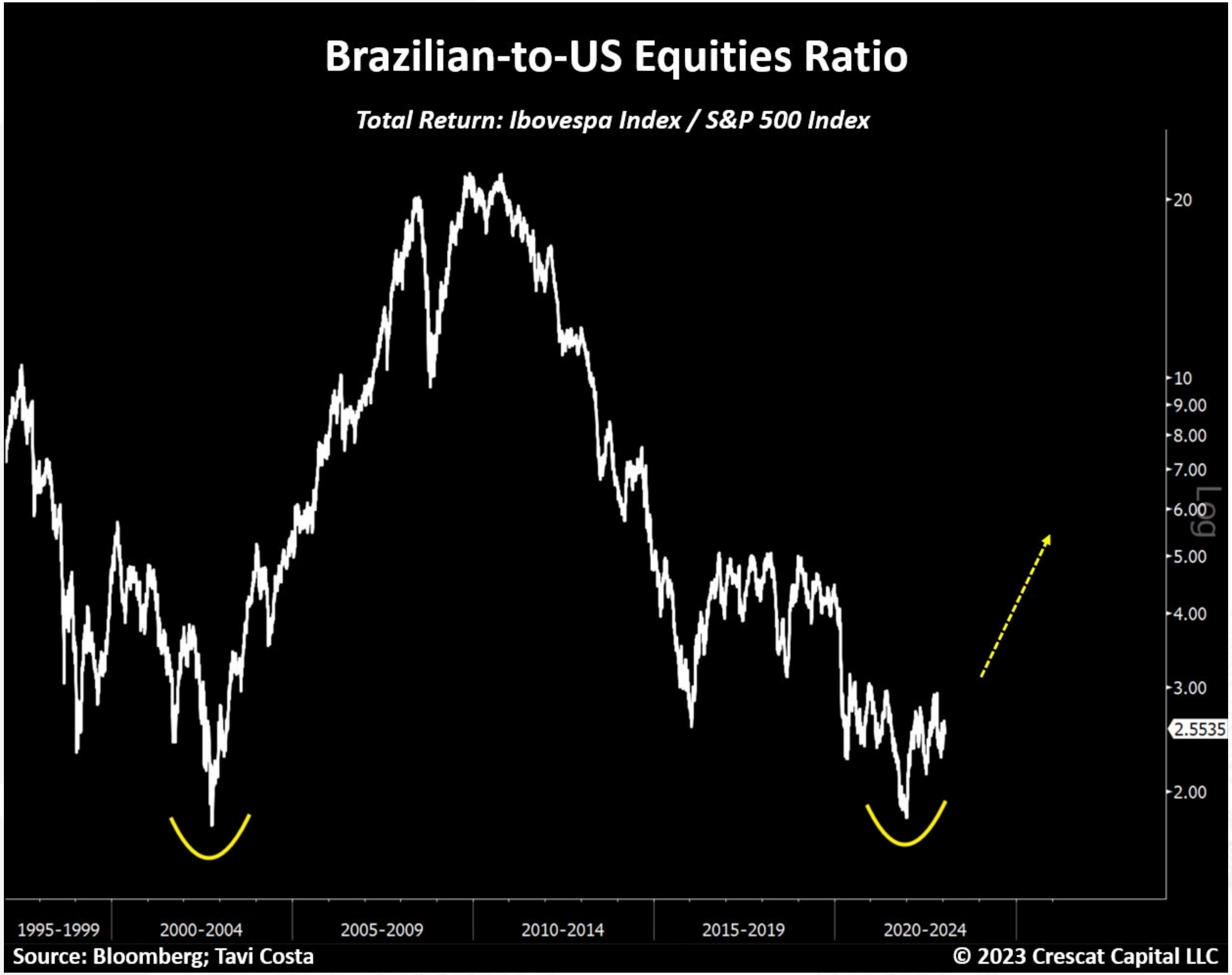
CRESCAT CAPITAL®
THE VALUE OF GLOBAL MACRO INVESTING

BRAZIL LIFTOFF



Brazilian equities are historically cheap even relative to global commodity producers.

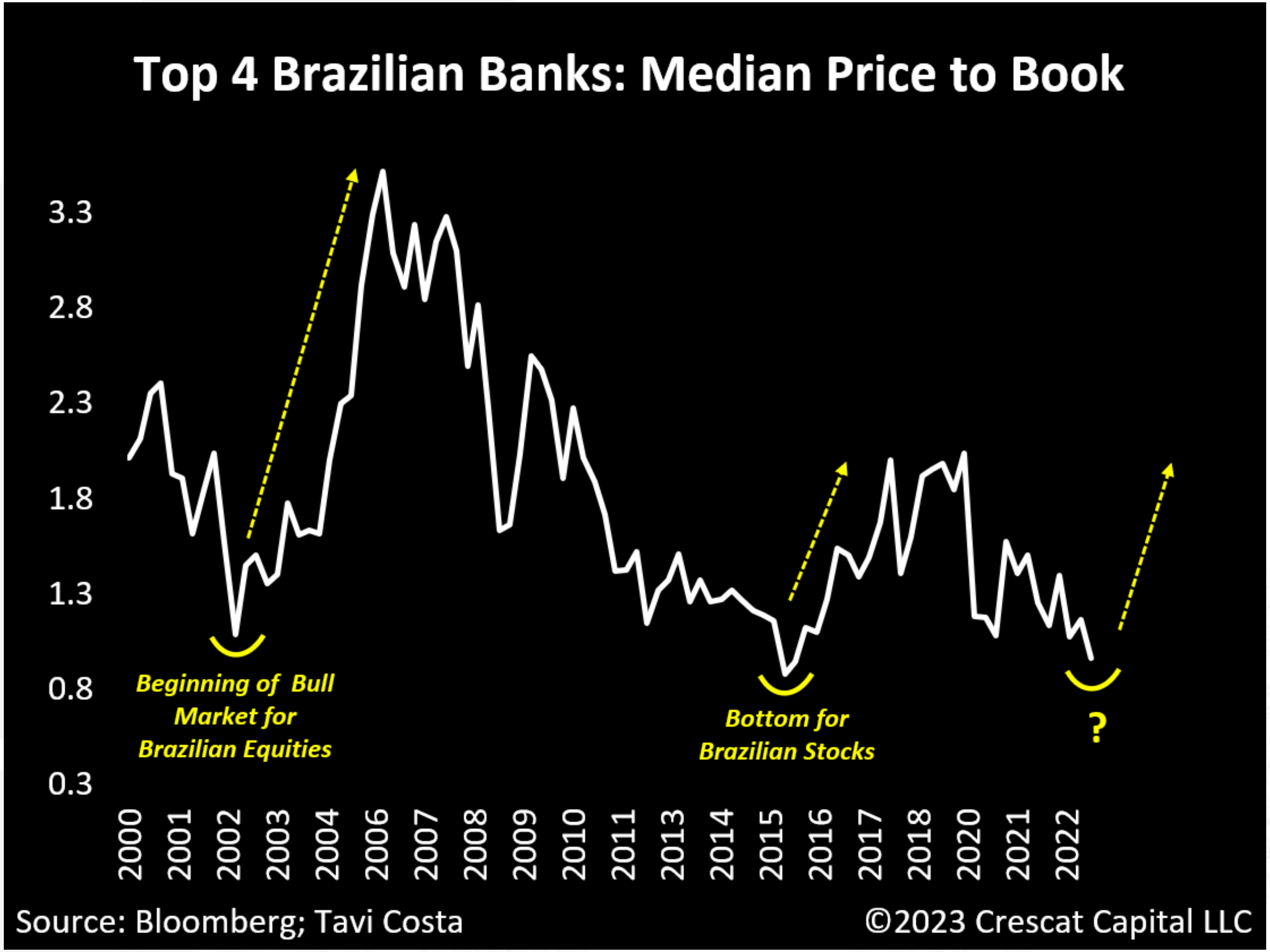
The last time we saw such undervalued prices was in the early 2000s, when Brazilian stocks entered a bull market.



Brazilian equities are also historically undervalued relative to US stocks.

Brazilian stocks significantly outperformed other emerging markets and developed economies despite a challenging year.

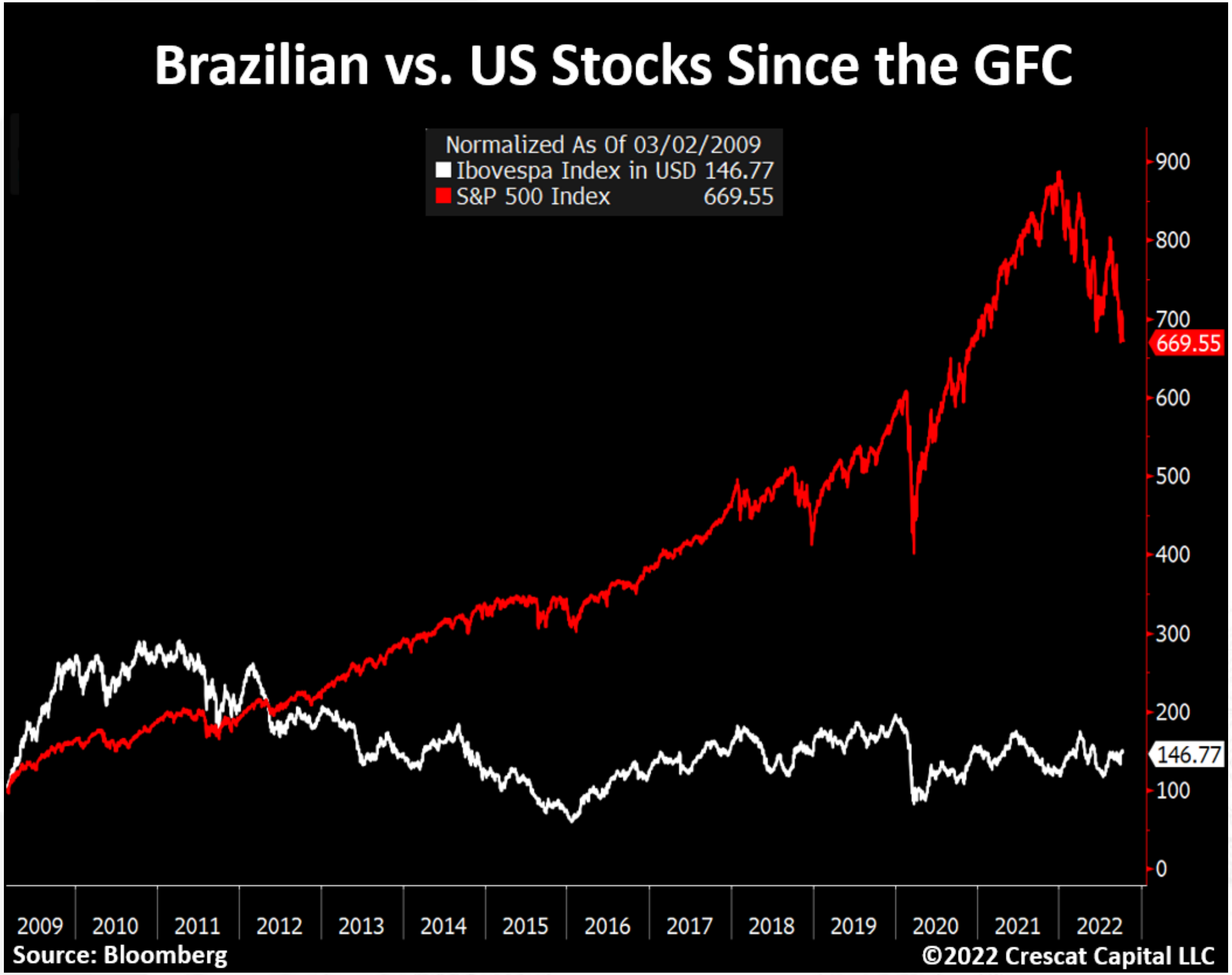
A geopolitically neutral net exporter of commodities with a historically undervalued equity market.



Brazilian banks are currently trading at one of lowest price-to-book levels in history.

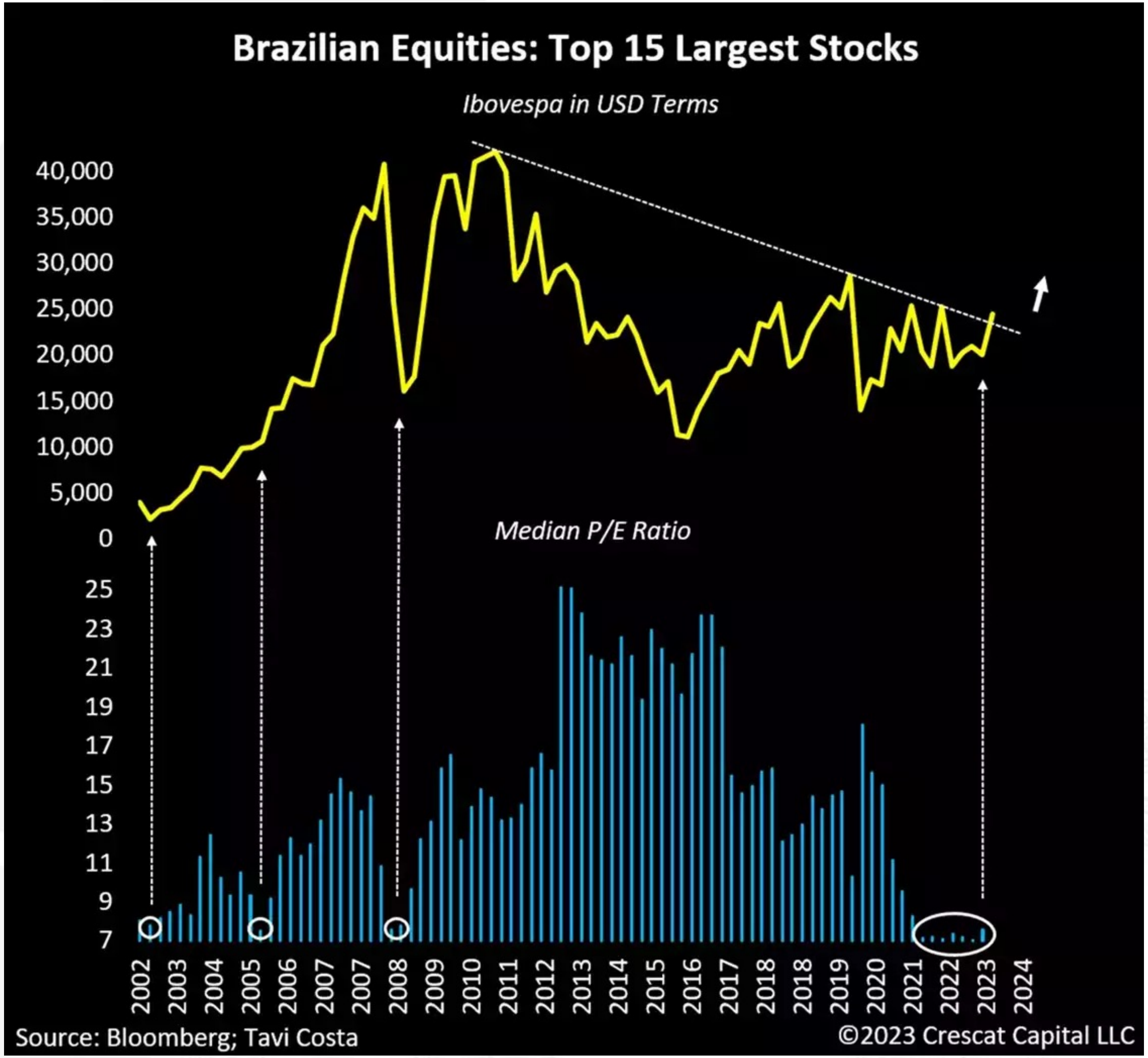
Prior times when this industry was trading at such cheap multiples also marked great buying opportunities.

Brazilian equities are insanely cheap.
Here is one of the largest steel producers now on the brink of a major breakout.
The stock is currently trading at less than 4x earnings with a 24% FCF yield.
Not to mention, its dividend policy is at a 30% payout.



Note how Brazilian equities have massively underperformed US stocks since the Global Financial Crisis.

Note how Brazilian equities have massively underperformed US stocks since the Global Financial Crisis.

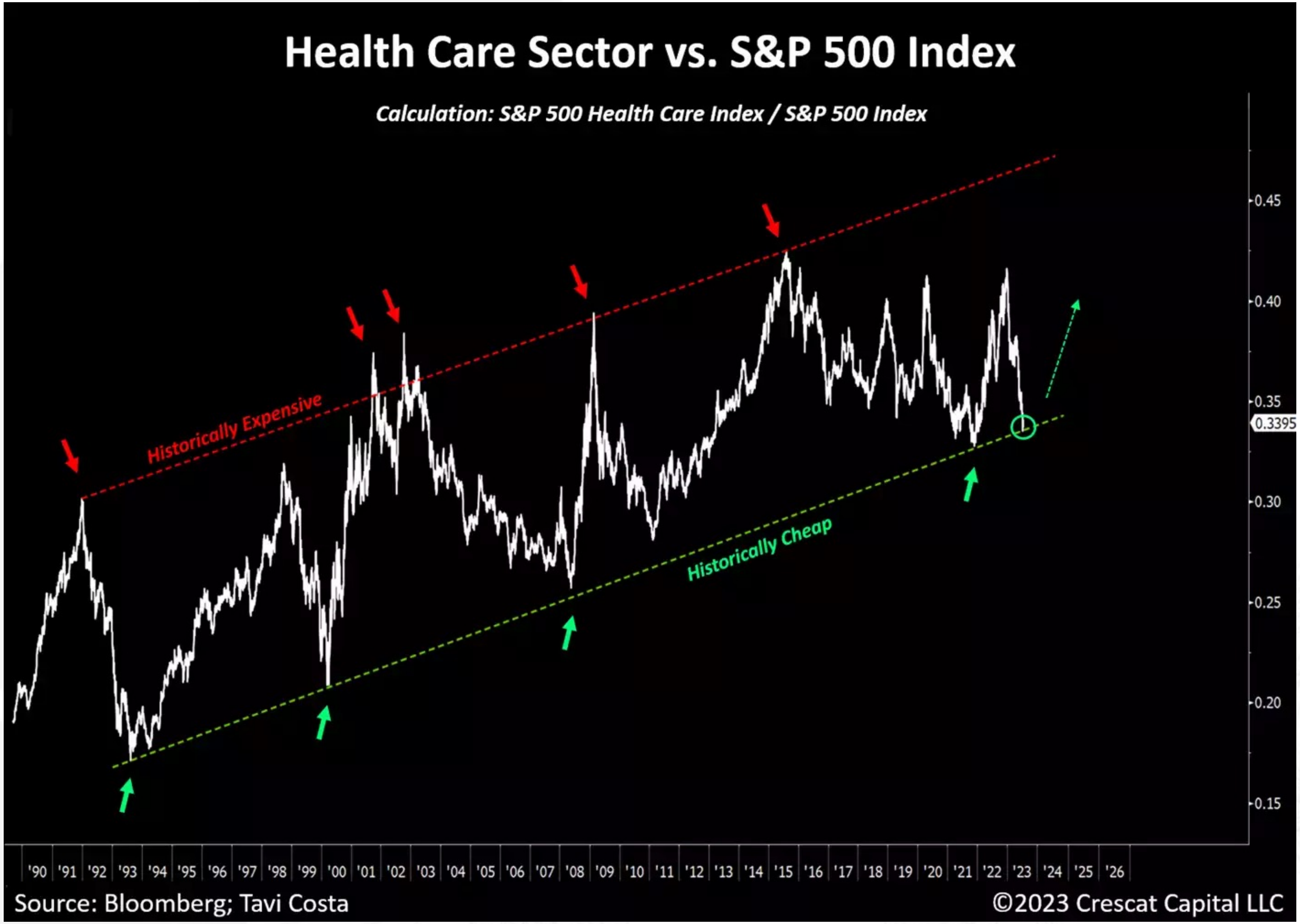


Rarely in history have Brazilian stocks been as cheap as they are today.

While we rather be long the Brazilian equities that offer even further asymmetry, the simplistic part of the thesis is to be buyers of natural resource-rich economies and sellers of net importers of commodities.

CRESCAT CAPITAL®
THE VALUE OF GLOBAL MACRO INVESTING

Genomic Revolution



The healthcare sector is one area of the market outside of natural resource industries where we have become highly constructive on the long side given the recent price dislocation and valuation proposition, particularly biotechnology businesses.

CRESCAT CAPITAL®
THE VALUE OF GLOBAL MACRO INVESTING

Contact Information

Crescat Capital LLC
44 Cook Street, Suite 100 | Denver, CO 80206
www.crescat.net

Marek Iwahashi
Client Service Specialist
(303) 271-9997
miwahashi@crescat.net