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May 19, 2021

Dear Investors:

The Three Pillars of Inflation

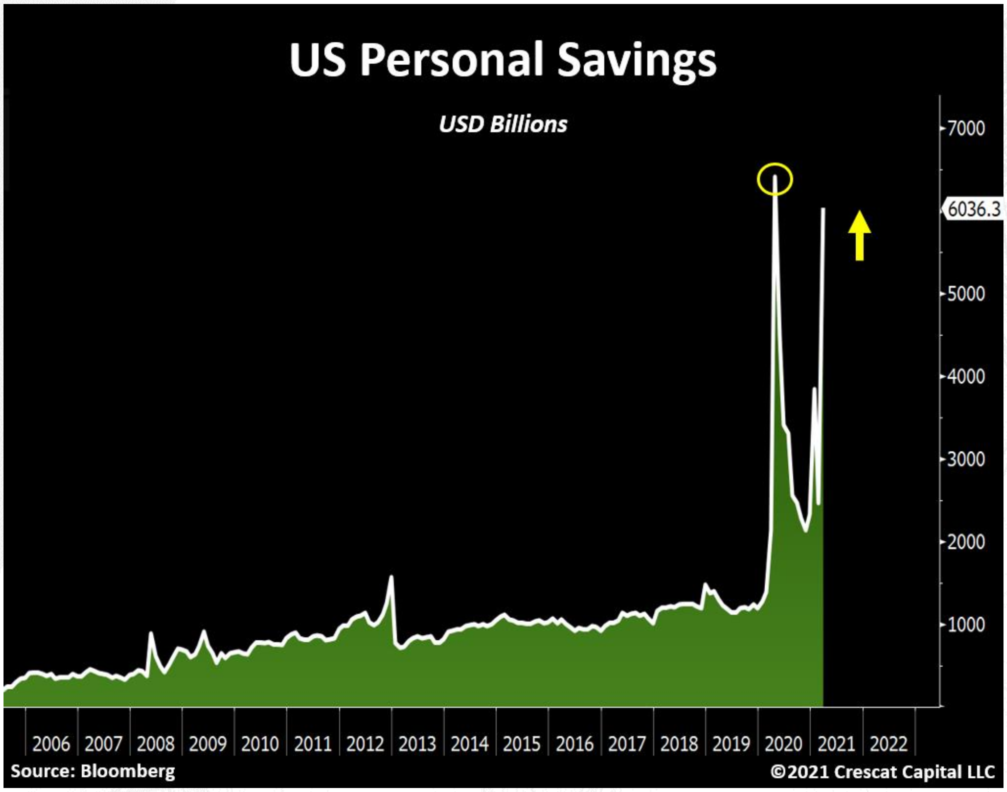
We strongly believe investors will want to get positioned now for the Great Rotation which is being catalyzed by the three macro drivers of inflation all firing in sync today:

1. Demand Pull
2. Cost Push
3. Monetary Debasement

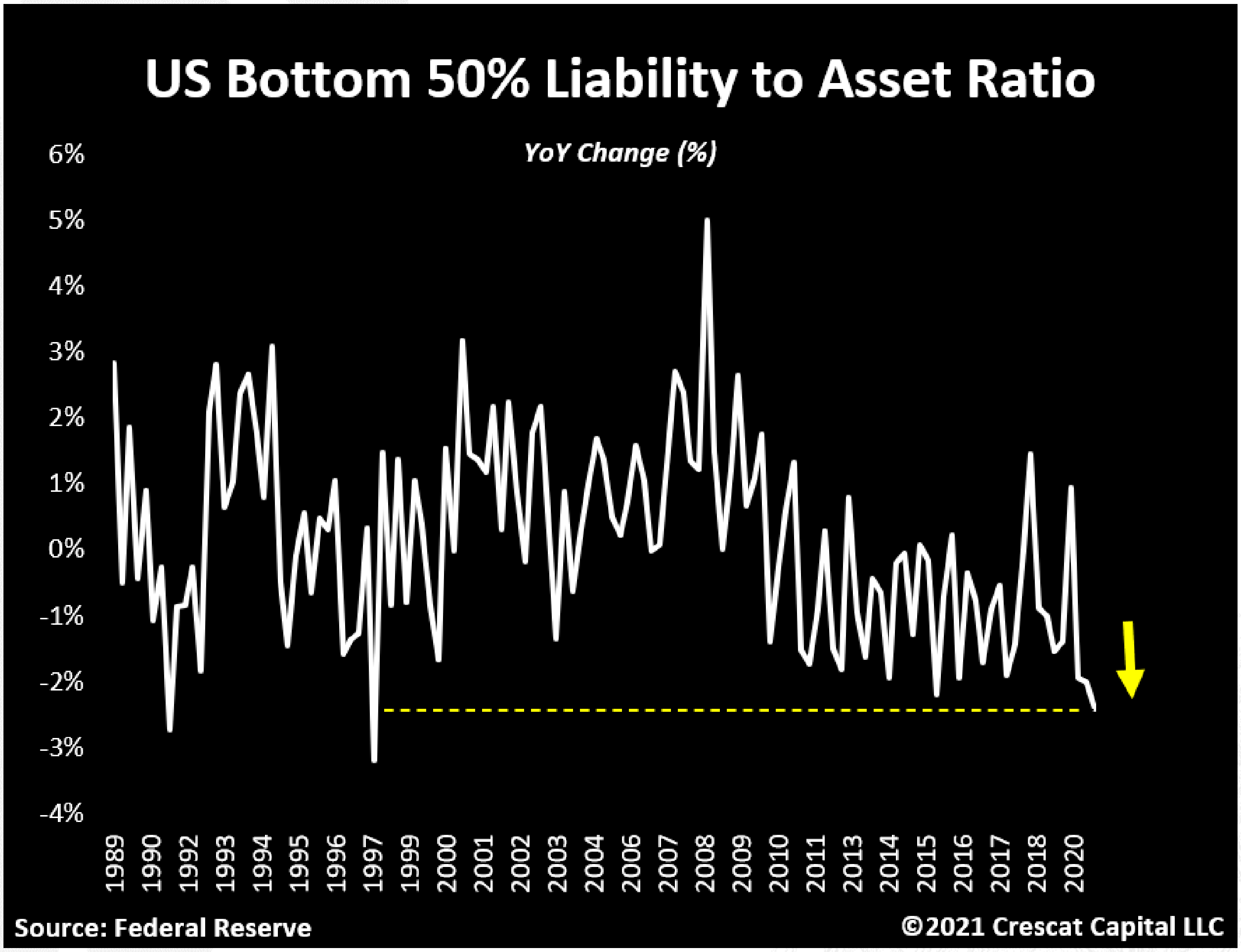
Let us explain why we think inflation is real and what investors should be doing about it.

The Demand Side

In April 2020, household savings peaked at $6.4 trillion. Subsequently, $3.6 trillion of consumer spending was unleashed over the next twelve months. That is equivalent to 7.5 times the historical average annual spending adjusted for inflation. This is relevant because household savings came out recently, and the number shot up to $6 trillion again. With the economy re-opening, we estimate that consumer spending could surge to as high as $4.5 trillion in the next 12 months.

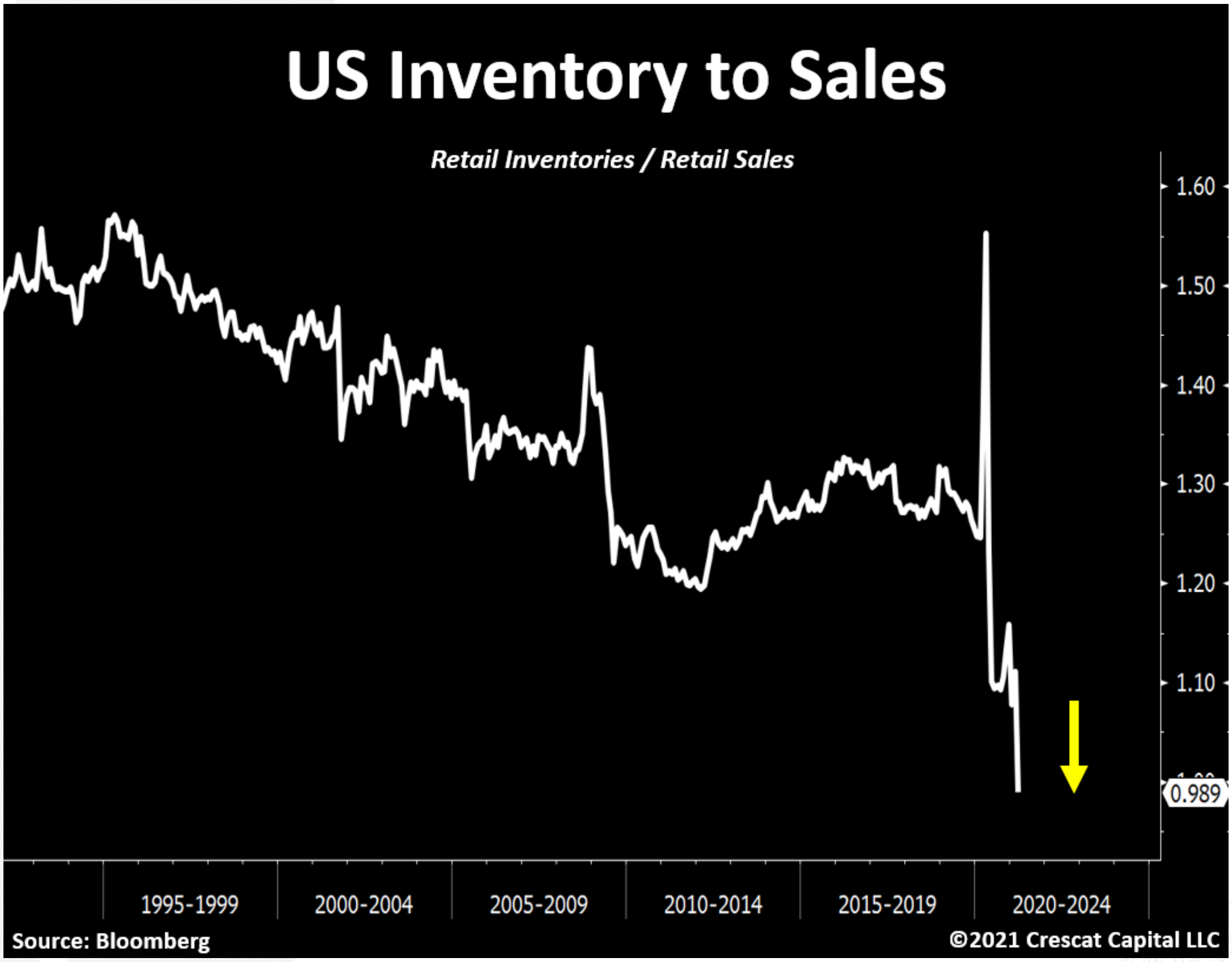


It is also important to consider the fact that the balance sheet of US households, especially those in the bottom 50% of net worth, also looks significantly stronger. The total liability to asset ratio for the lower class is not only in a long-term downward trend, but it is now at its best condition in almost two decades.



Supply Shortages

Additionally, historic amounts of savings are likely to create a wave of consumption that the supply chain is ill-equipped to handle.



Back in December, we wrote about the economic ramifications the US suffered during the Spanish Flu of 1919 and how that period should serve as a roadmap for the current macro environment. As the economy shut down then, industrial capacity was drastically reduced, and with that a major gridlock in the production of raw materials was created, particularly within the natural resources sector of the economy. In a very similar fashion to today, this bottleneck resulted in severe upward pricing pressure in consumer goods. **We now believe a second wave of these developments is underway. In our view, the economy is at the early stages of an upsurge in labor-management conflict.** As the general supply shortages escalate and consumers start noticing the inflationary burden in their daily expenses, pressure to increase wages is sure to follow.

To provide some context, we experienced this problem across all industries of the economy during the Spanish Flu. Back then, workers revolted against their employers by demanding materially higher wages and salaries. **In fact, one out of five people in the US labor force was engaged in a strike.** We believe a similar trend is brewing in the US today. Large restaurant chains such as McDonalds and Chipotle are already experiencing pressure from employees to increase pay and provide more appropriate work conditions. We think it is a matter of time until further protests emerge in other parts of the economy. However, another important factor today that is significantly more inflationary than in Spanish Flu times, is that government policies are magnifying the labor shortage problem by discouraging folks to return the labor force. See below some shocking comments from executives as part of the Fed manufacturing report:

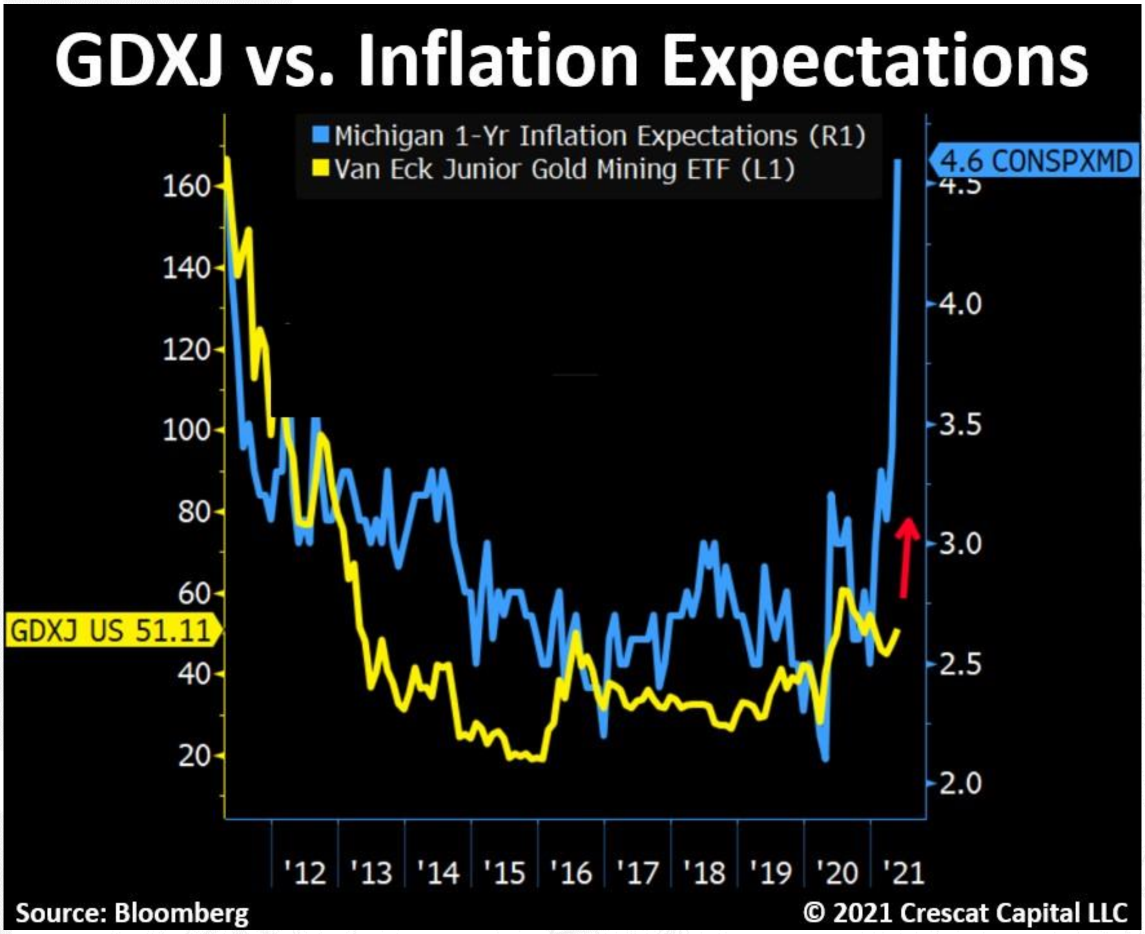
“Our human resources department reports that even at a starting pay for non-skilled-level workers of $14 per hour, we cannot fill our 20-plus open positions. People don’t want to go to work when they can stay home and collect $400 or more per week in unemployment.”

“Government stimulus money given to individuals has drastically reduced the number of people seeking a job and reduced the incentive to show up and do their job. Labor is becoming a real problem as a direct result of the handouts.”

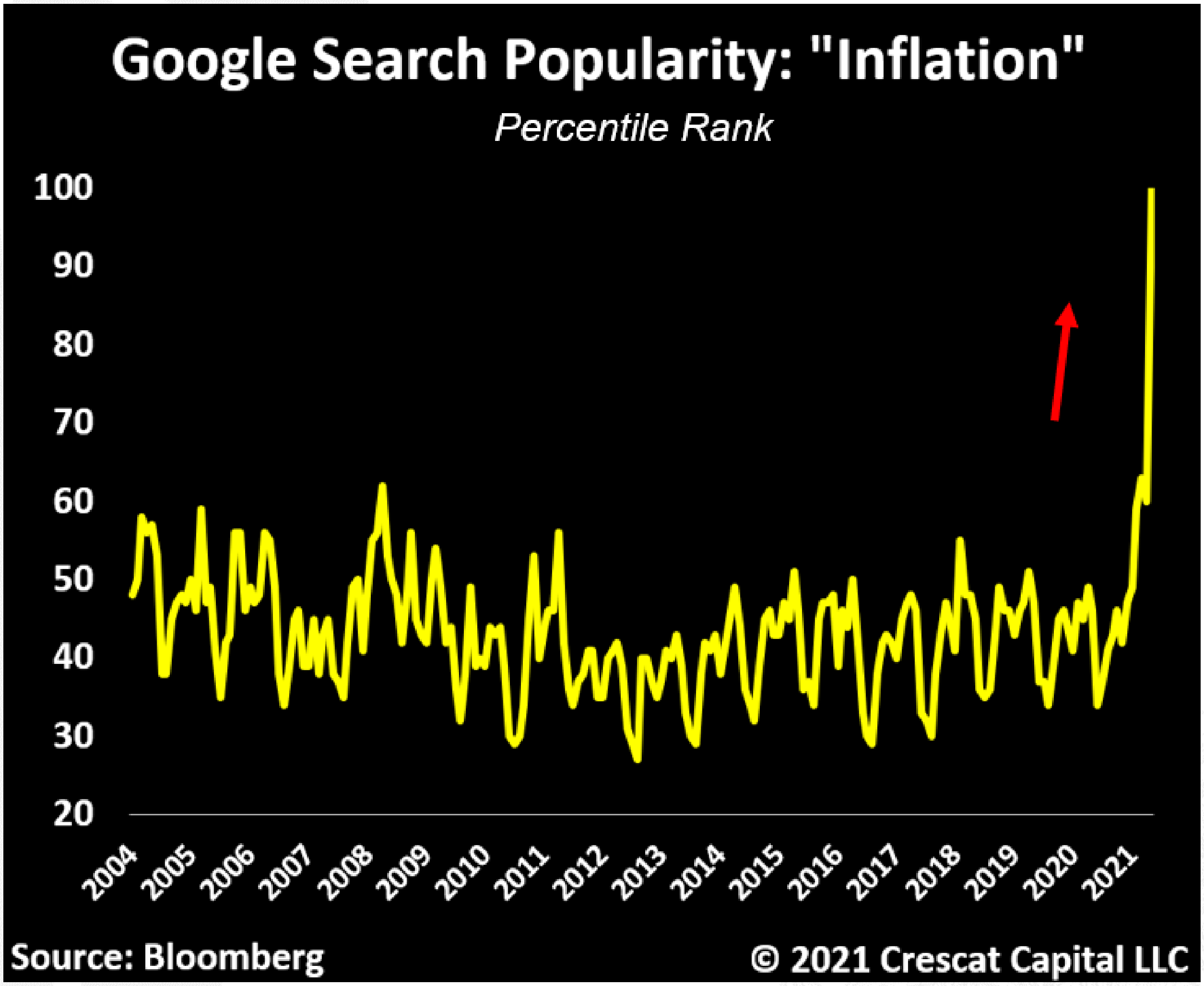
“We need to hire people, but it’s difficult when people are making $15 per hour to stay at home on unemployment.”

Today’s Inflation is Not Likely Transitory

Amid such a macro puzzle one thing is clear, inflation is progressively turning into the prevailing narrative among people. The acuity of the natural resource supply and labor shortage problem is not only leading to higher consumer prices, but it is also creating a reflexivity dynamic that feeds a longer-lasting inflationary story. The idea here is that inflation is no longer transitory when expectations for rising prices become imbedded in consumer and business spending and investment decisions. Such was the wage-price spiral that defined the 1970s macro landscape in the US and is likely to be a main feature of the current decade. Like then, it should be a great decade to own the world’s premier exploration-focused gold and silver mining stocks.



Interestingly, the number of companies that mentioned the word “inflation” on earnings calls is now growing at a pace that we never experienced before. The same is happening with Google trends, see below. Long-term inflationary cycles are often initiated by a general concern of the population in holding cash.



The Great Rotation

Until now, annual increases in wages and salaries had been in a downward trend for 40 years. Over that same time frame, the corporate cost of capital has declined. This macro landscape encouraged companies to favor growth over profitability. More recently, the post GFC years of ongoing accommodative monetary policies have enabled the largest number of money-losing businesses in history. As a byproduct, traditional value-investing principles have become highly out of favor while growth and index style investing have pre-dominated.

But now, with inflationary forces in a new full swing, we believe a major trend reversal is upon us. Analogous to noticeable macro cycles throughout history, the effectiveness of equity fundamental factors also changes over time. We believe near-term growth, profitability, and valuation factors will become priorities again as part of the security selection process. We also believe forward thinking analysts will start applying higher discount rates to incorporate rising inflation, if not yet interest rate risk, into the calculation of the present value of longer-term expected cash flows in their DCF models.

This development has already started to take place. We have been calling it "The Great Rotation". Our premise continues to hold that capital will flow out of expensive long-duration growth equities and fixed income securities and into a narrow group of tangible commodities in scarce supply and high demand as well as low valuation natural resource stocks that offer high cyclical near-term growth prospects, strong profit visibility, and inflation hedging properties. At historically high broad market valuations for equities, we see downside risk for unprofitable companies with high debt and low pricing power in the current macro environment.

We also see macro risk with respect to what we believe is an insane bubble in an abundance of cryptocurrencies, a new class of highly speculative intangible assets, that are not even securities, rather an unregulated highly speculative new technological asset class of software tokens whose market today resembles a hybrid of the 2000 Dotcom Bubble and the 1637 Dutch Tulip Bulb Mania. Surely, there will be long term winners in crypto. We hope to be able to discern them up as they rise from the ashes after the coming spectacular bust. Afterall, Facebook and Google only emerged after the tech bust, while Amazon was crushed during it, going down 97% within two years before rising from the ashes to become the 3rd largest market cap stock in the US today.

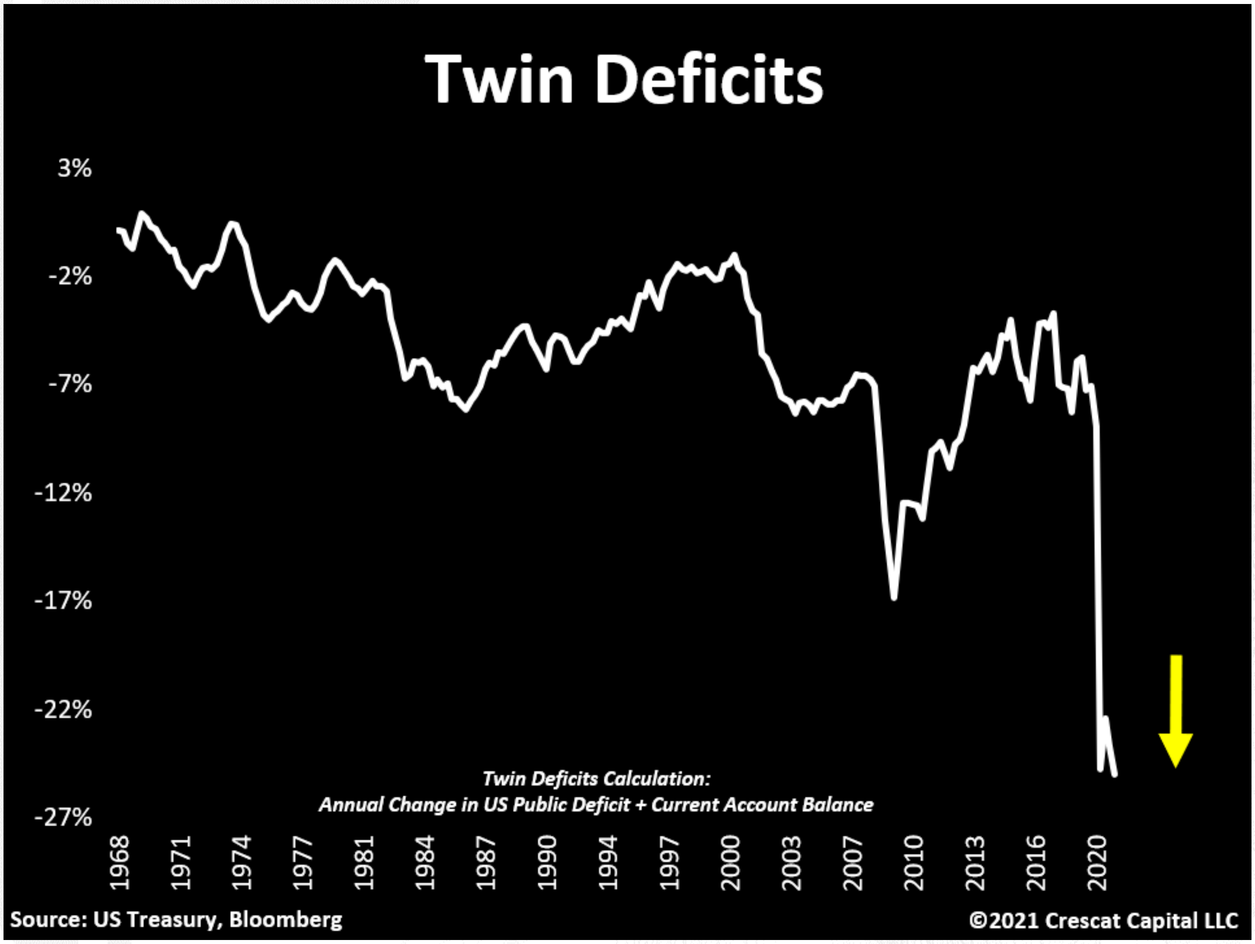
The chart below shows the enterprise value-to-sales ratio differential between high flying technology and value stocks. Note the comparison between the early stages of the 2001-02 tech bust and today.

Monetary Debasement

The third major driver of inflation is monetary debasement. The current framework of analyzing the state of the labor market and the true levels of inflation in the economy to rationalize the appropriate monetary policy has never been so unfitting. By solely observing the recent macro data, Jerome Powell and the other Fed members had all the right reasons to signal tapering in their last meeting and decided not to.

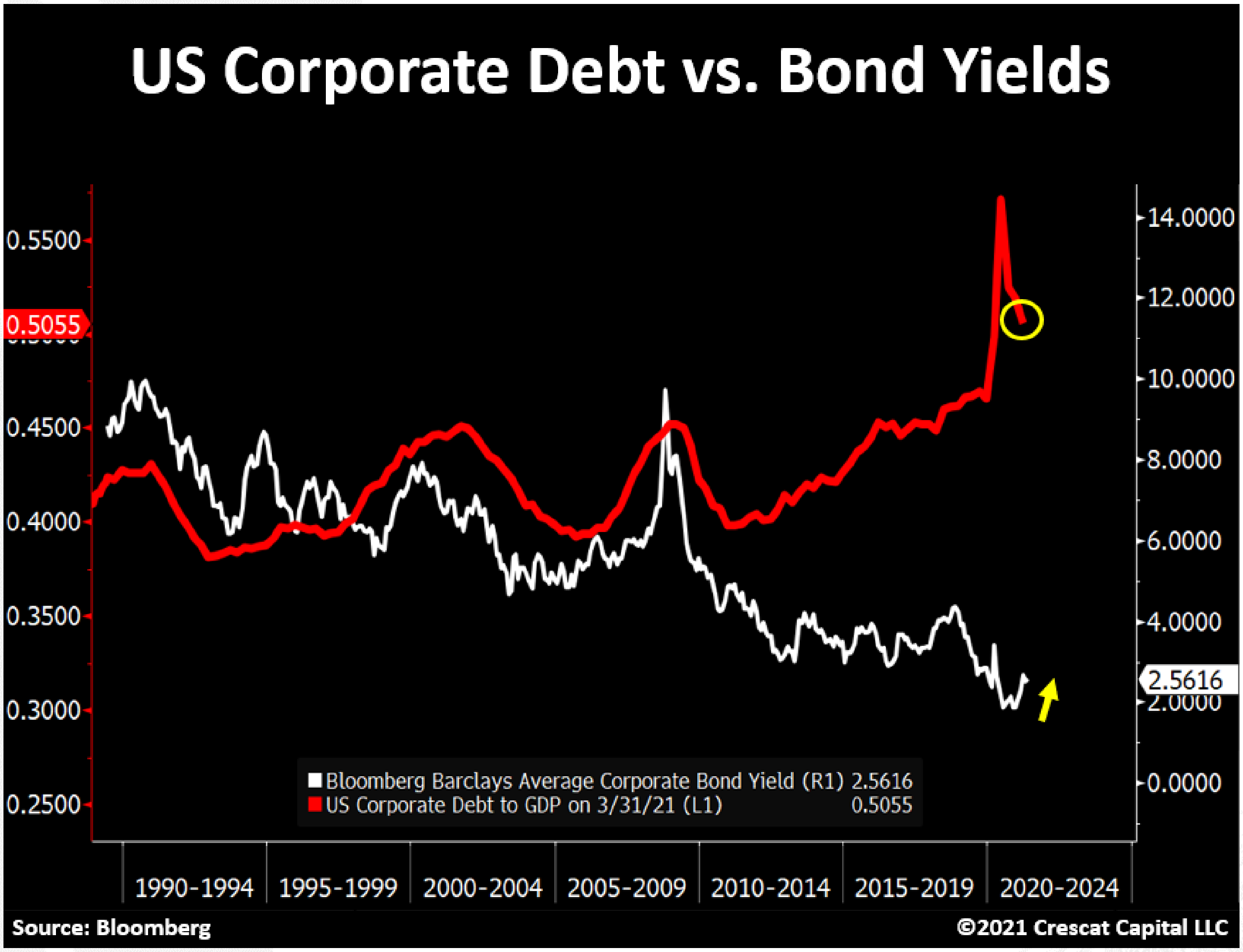
Contrary to what most believe, today's quantitative easing program and near zero interest rates completely disregard both sides of the central bank's dual mandate which is supposed to control inflation and maintain full employment. **Instead, in our view, monetary policy has only one clear objective: to prevent interest rates from rising so that our government can fund massive fiscal spending.** So now we genuinely ask:

How can the Fed reverse its ultra-easy monetary policies with an economy running a twin deficit of 25% of the nominal GDP?



Too Much Debt

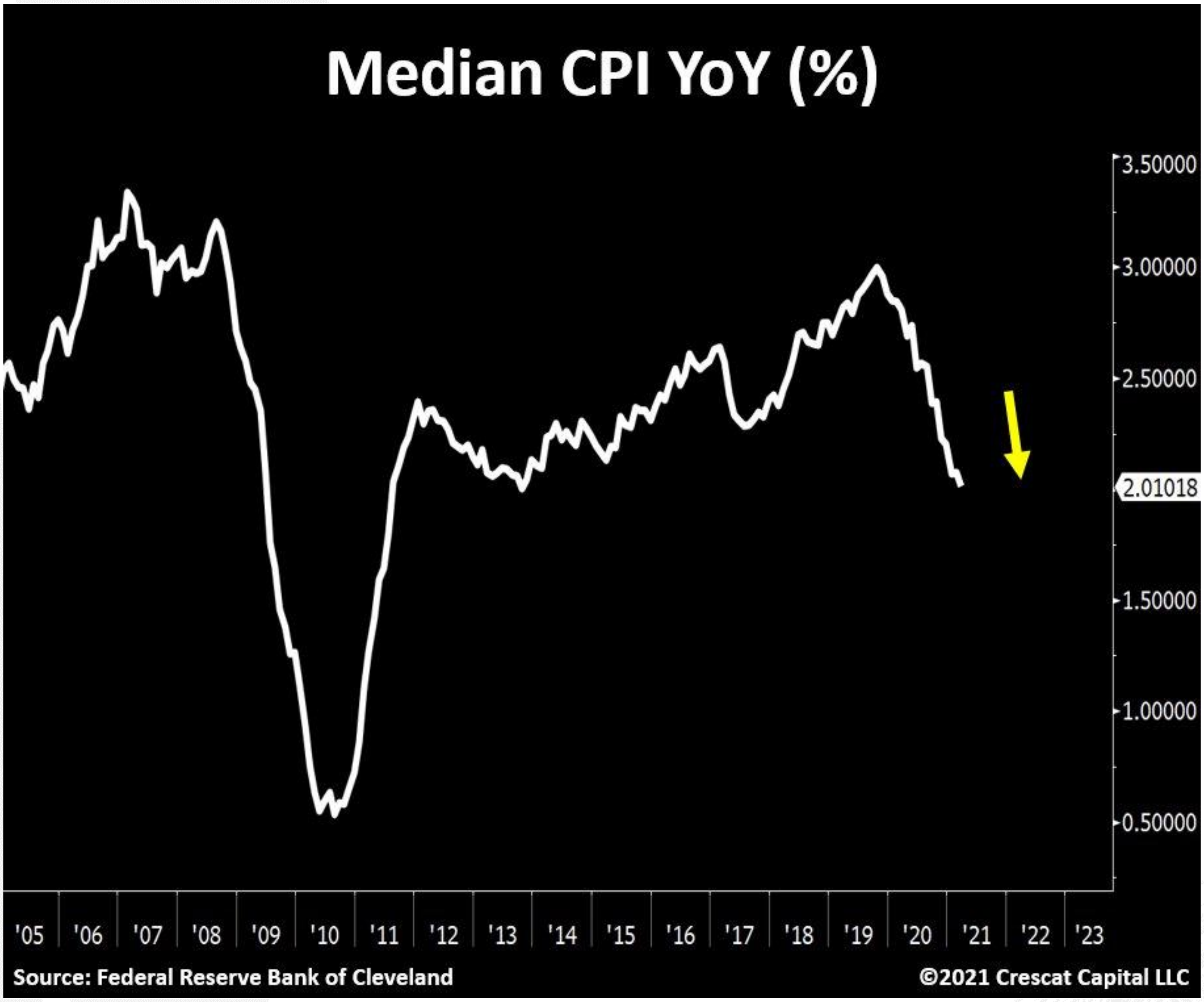
Or, on another thought, how does the Fed unwind the alligator mouth below? Corporate debt has grown to near all-time highs while bond yields remain near all-time lows. Again, this is all product of easy money policies.



Ultimately, the Treasury market holds the key for the health of the financial system. With current high debt-to-GDP levels, the economy has an inherent need for loose financial conditions. Correspondingly, the sheer magnitude of the excess liquidity in the markets has created one of the most speculative investment environments of all times. As such, any marginal increase in interest rates would be detrimental for financial assets at near record valuations.

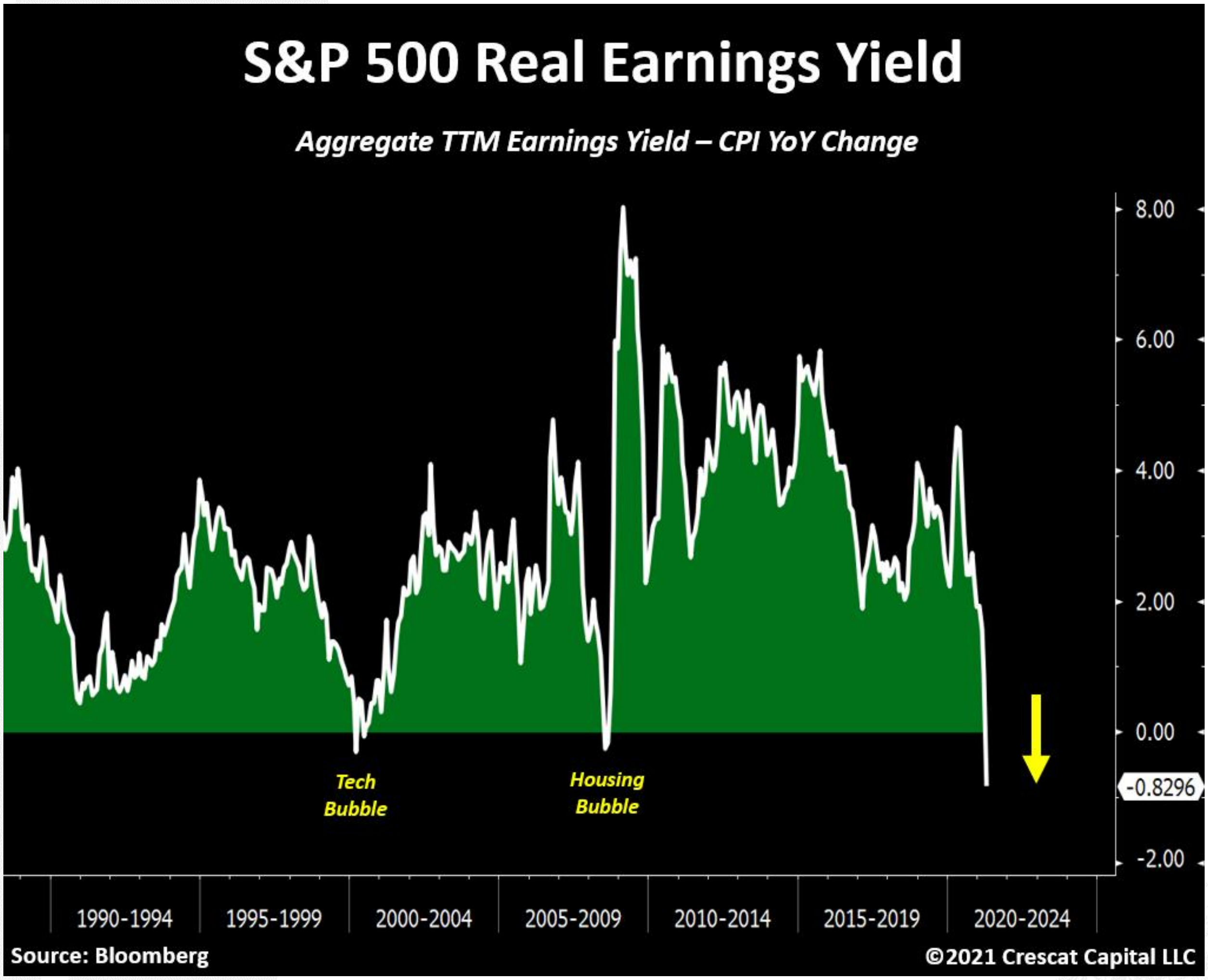
CPI Not Credible

Truth be told, a highly indebted and broken government is at mercy of the Fed. Policy makers have no other options than to continue pumping liquidity into the system while making absurd claims to justify their actions. Most consumer goods and commodities have started to go vertical in prices within the last 1-2 years, and bizarrely, the Fed's own calculation of inflation just reached a 7-year low. This is what they call a "data-driven" approach?



Real Yields Are What Matter

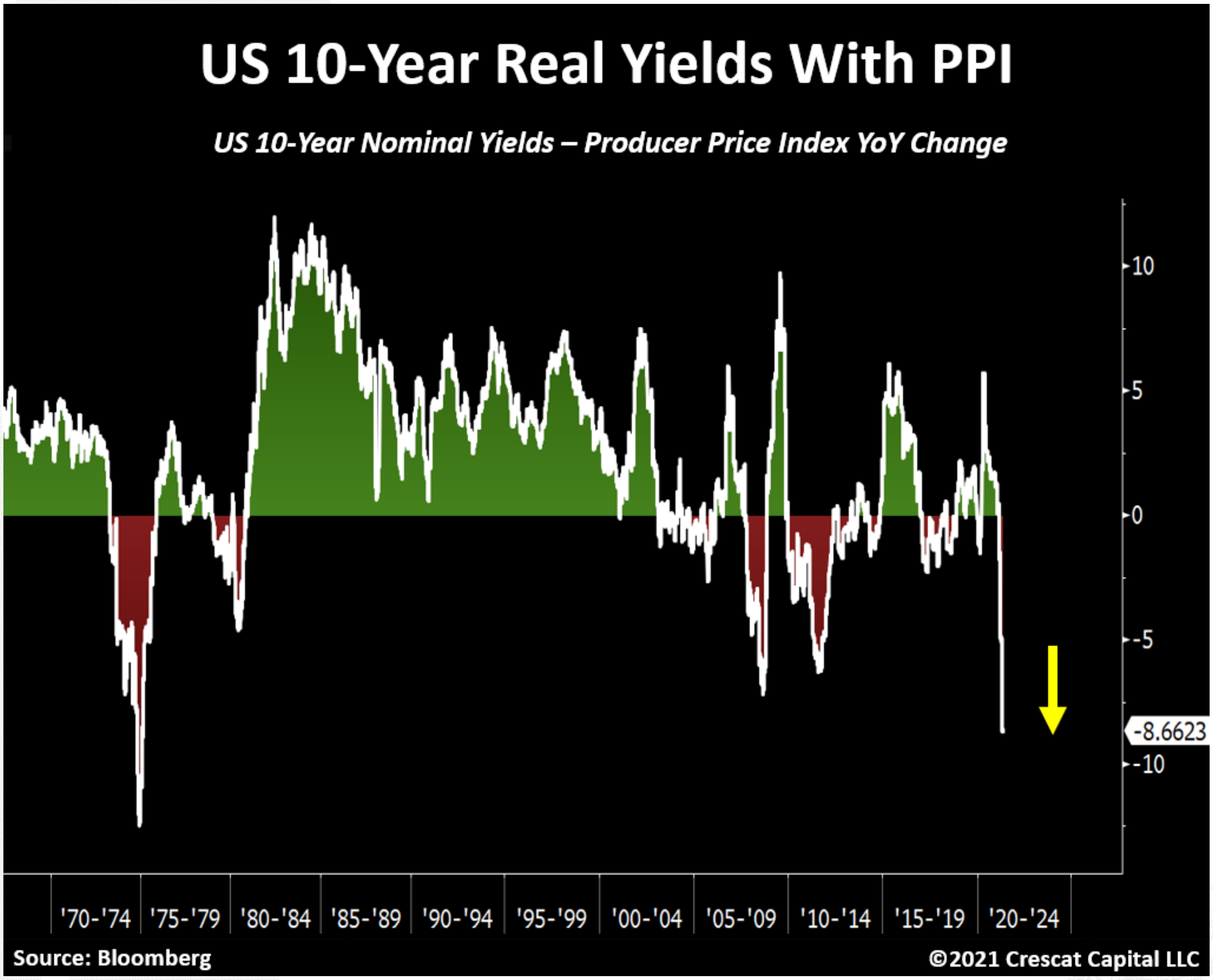
As stimulative packages become exponentially larger in size, the curve of efficacy for monetary policy is peaking. We believe the Fed stimulus is transitioning from a diminishing return phase to a negative one. The scarcity of financial assets yielding anything in real terms is creating a vigorous capital flow dynamic that is incredibly attractive for undervalued tangible assets. With growing concerns of monetary debasement emerging, investors continue to bid up commodity prices, leading to higher consumer prices. This should start becoming an issue for equity markets at excessive valuations yielding less than inflation. For instance, the S&P 500 earnings yield adjusted for CPI is now at its most negative level in 30 years. It is likely much worse, because this is using what we strongly believe is an understated measure of true inflation. Monetary dilution can only lead to higher financial asset prices until inflation begins to develop. At that point, as capital cost rises, Fed's policies become counterproductive, and a price reset for historically overvalued assets is needed.



Early Days for Precious Metals

We believe overall equities will continue to underperform commodities, especially monetary metals. The Philadelphia Gold & Silver Index to S&P 500 ratio is now breaking out from an important resistance and it looks to be resuming an upward trend initiated in the fourth quarter of 2018. As long-term investors, we appreciate how much value can be unlocked in the gold and silver mining industry while also offering an incredible growth opportunity.

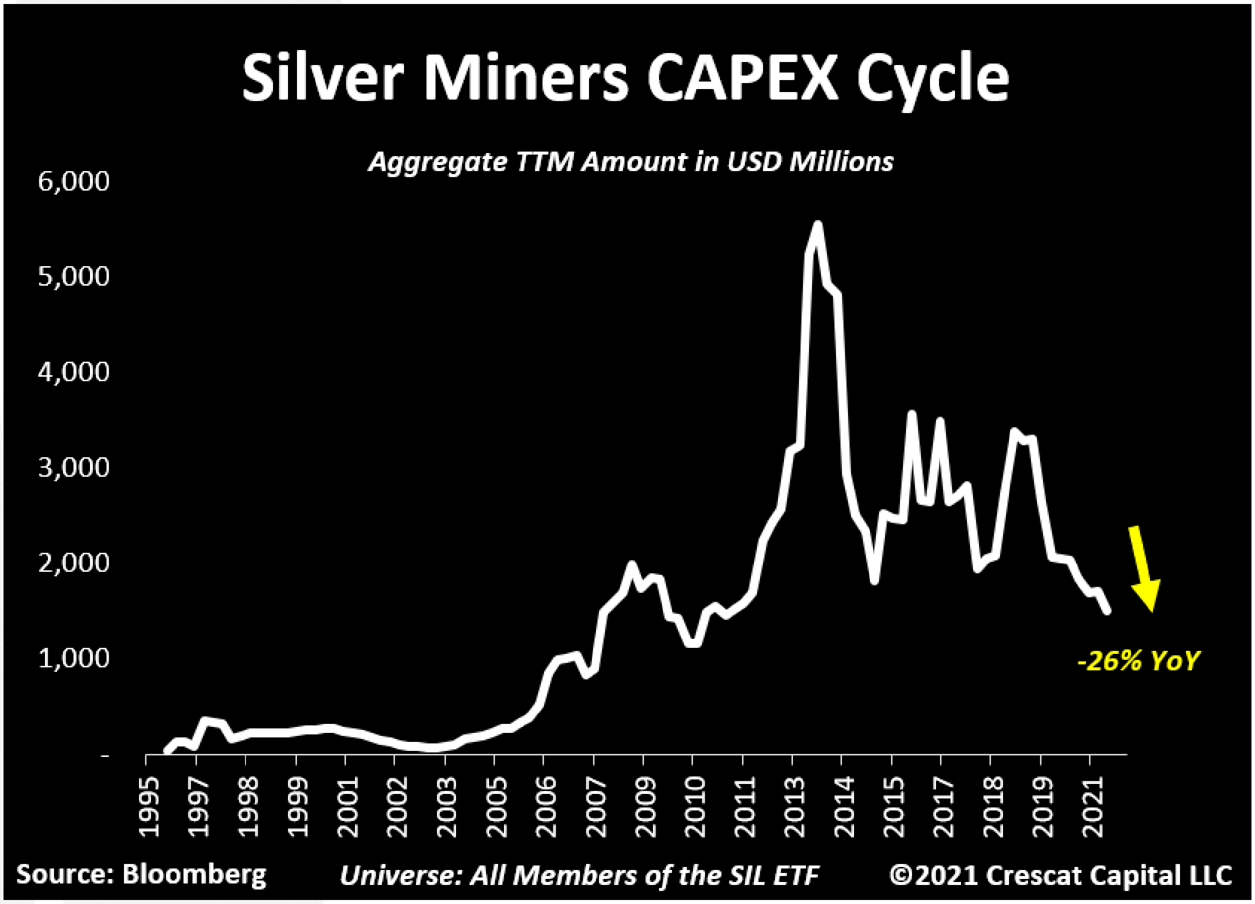
One of the key macro drivers for precious metals continues to be the fact that nominal rates are currently well below the levels of inflation. On the latest report for Producer Price Index (PPI), the number came out with a decade-high growth of 9.5% on a year-over-year basis. When you subtract 10-year yields to the PPI data, the number is close to -8.6% today. The spread is at its lowest level since the mid-70s.



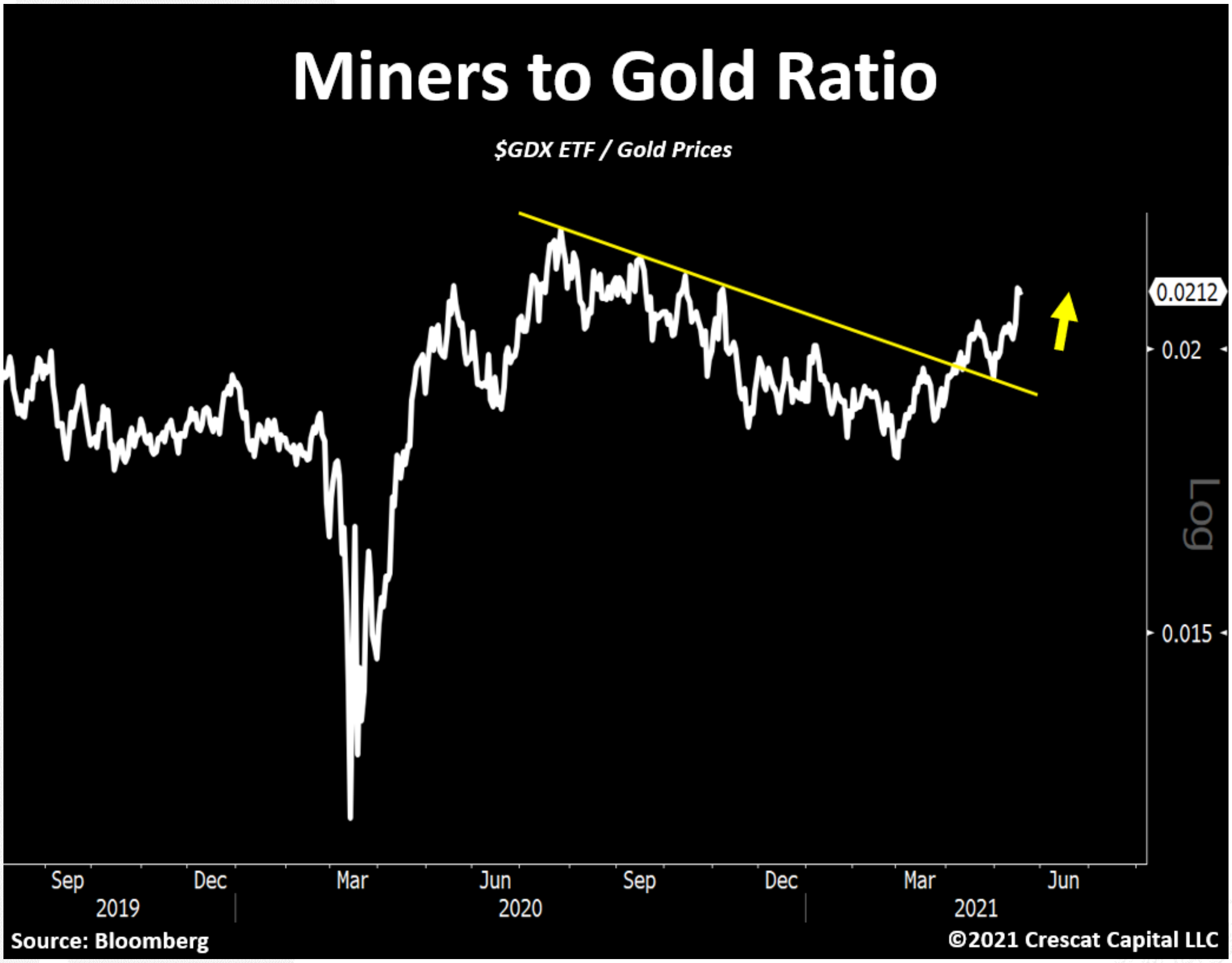
Silver is the single most important asset that we, as a firm, are focused on. If we had to boil down our entire macro thesis into one position, it would undoubtedly be that. Once silver breaks above $30, we believe we will see an explosive move to new highs. See below the almost perfect double bottom on silver to M2 money supply ratio.

On a quarterly chart, it is truly astonishing to see silver hanging around such a historic resistance while sentiment remains mostly bearish. We believe the metal looks poised to another explosive move to the upside.

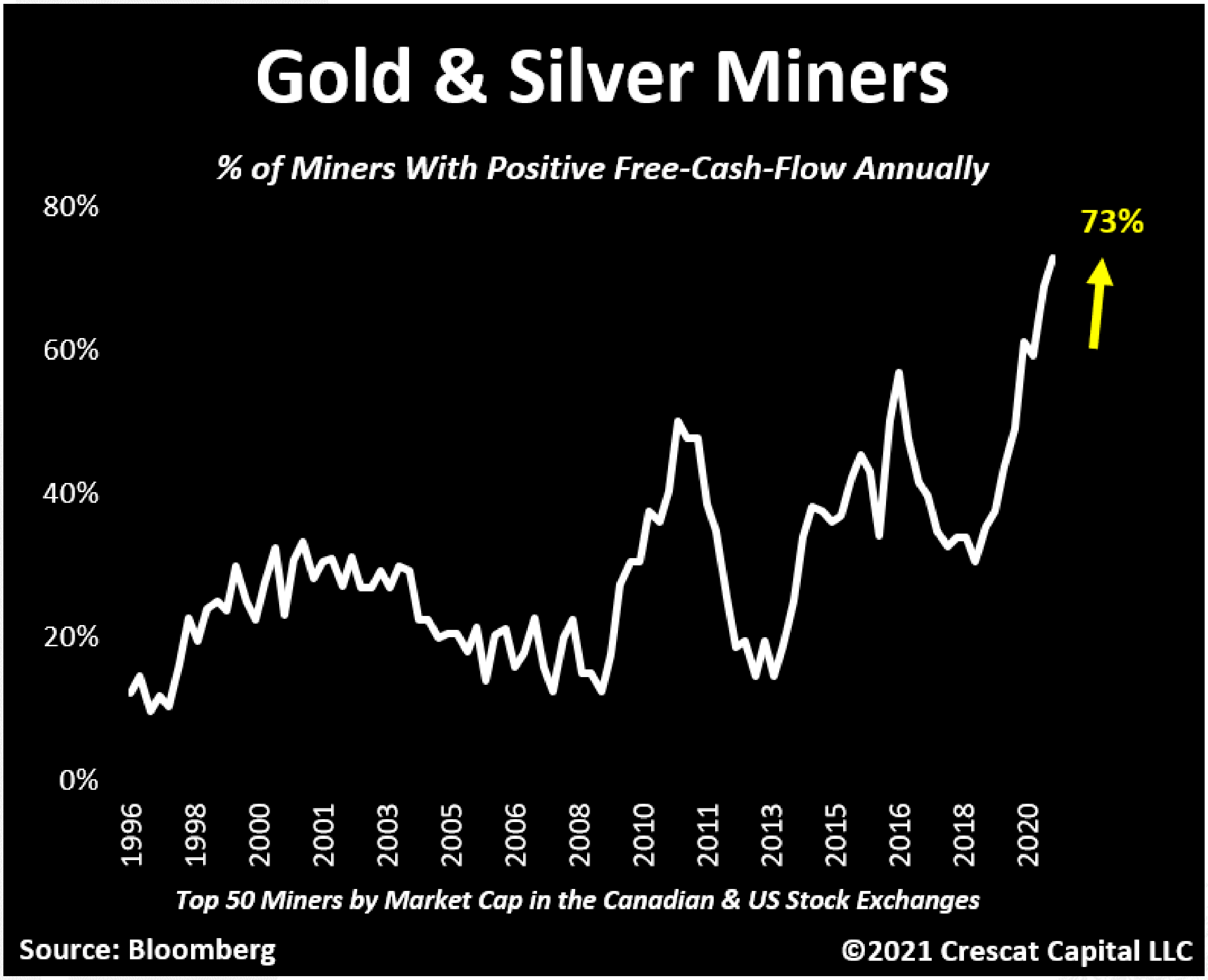
While the demand side of the precious metals thesis is incredibly compelling, the supply side is probably even more. The aggregate capex for the largest silver miners today just declined again reaching a new decade low. On a year-over-year basis, capital spending is down 26%.



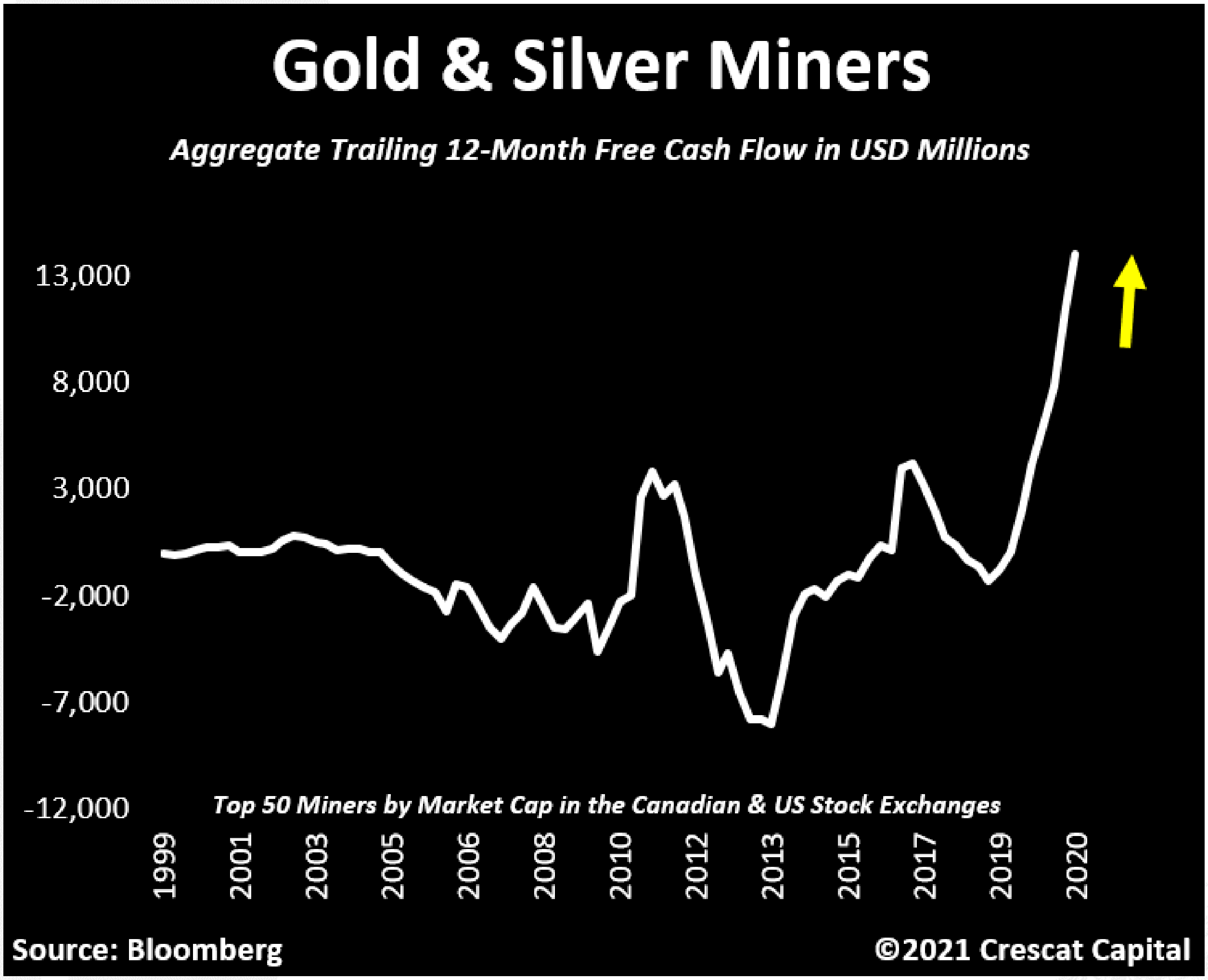
To say the least, the outperformance of precious metals miners relative to gold itself has been noteworthy. The miners-to-gold ratio looks to be breaking out from a downward trend that started in August. Who would have thought that with all macro drivers to die for, investors would be ignoring gold and silver due to the potential risk of assets like bitcoin becoming the new refuge for monetary debasement? History matters. Gold has thousands of years of history of protecting wealth in periods of fiat debasement and when speculative asset bubbles burst. The entire precious metals industry is climbing a wall of worry and we are likely headed much higher from here.



Believe it or not, today 73% of the top 50 gold and silver miners are profitable on a free cash flow basis. That is the highest level we have ever seen. Miners continue to improve their margins, tighten up their cost structure, and generate more money than any other time in history.

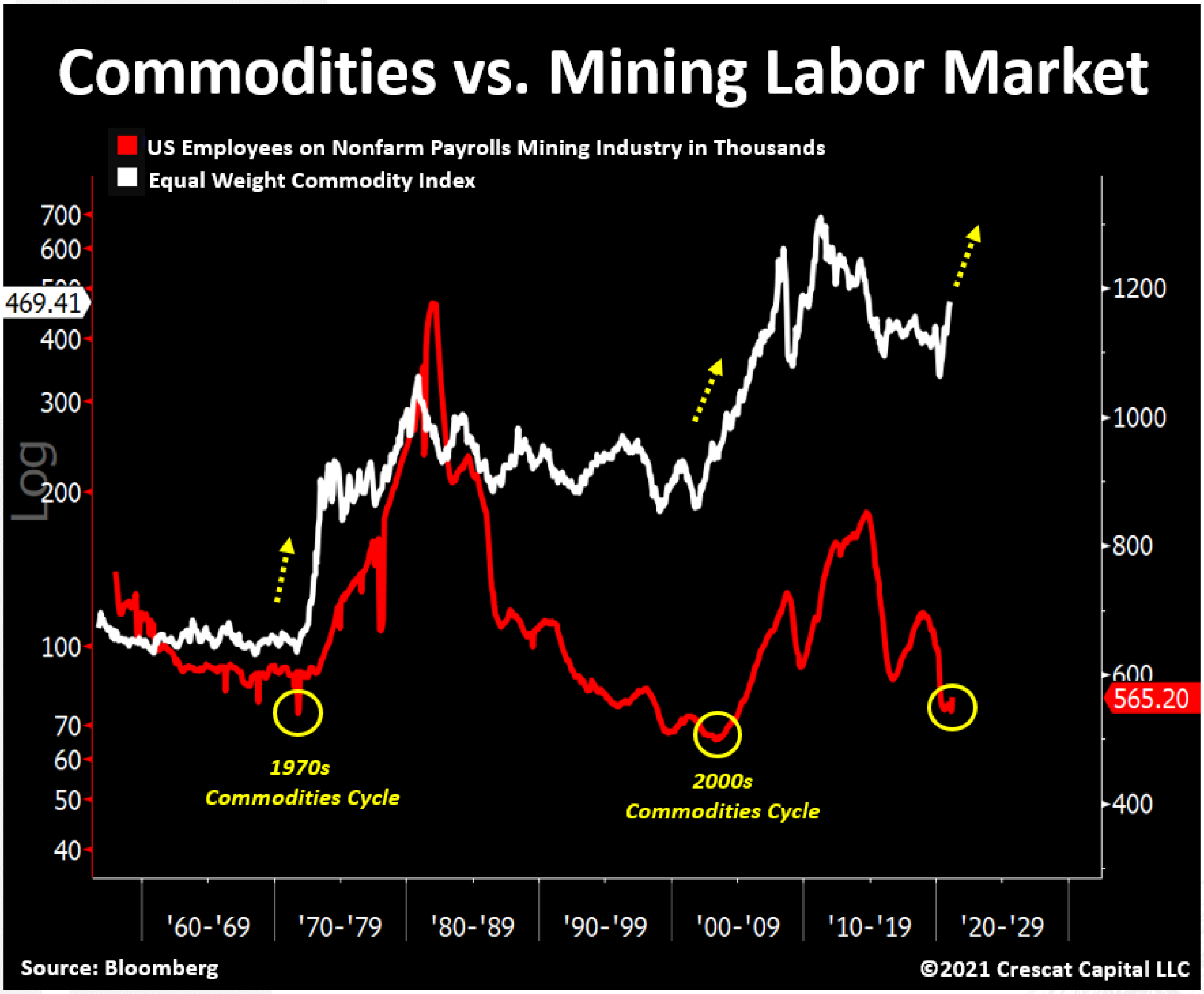


With precious metals' prices at their current levels, mining companies continue to improve their margins, tighten up their cost structure, and generate more money than any other time in history. The free cash flow for the top 50 gold and silver miners is now growing exponentially. The fundamental improvement in the overall industry is a central part of our thesis and the reason why each of our hedge funds have significant exposure in exploration-stage companies. Major and Mid-Tier mining companies have been depleting their reserves and resources inventories since the last peak in 2011. As the larger and more established companies deplete their reserves and continue to build a strong cash balance foundation, we think they will be compelled to acquire high-quality projects to replenish their production pipelines. This is especially the case today due to an overly conservative management that is unwilling to spend on exploration. In our view, it is a matter of time until major producers begin to look for highly economic deposits as an alternative to their supply cliff problem, setting off a unique opportunity for us.

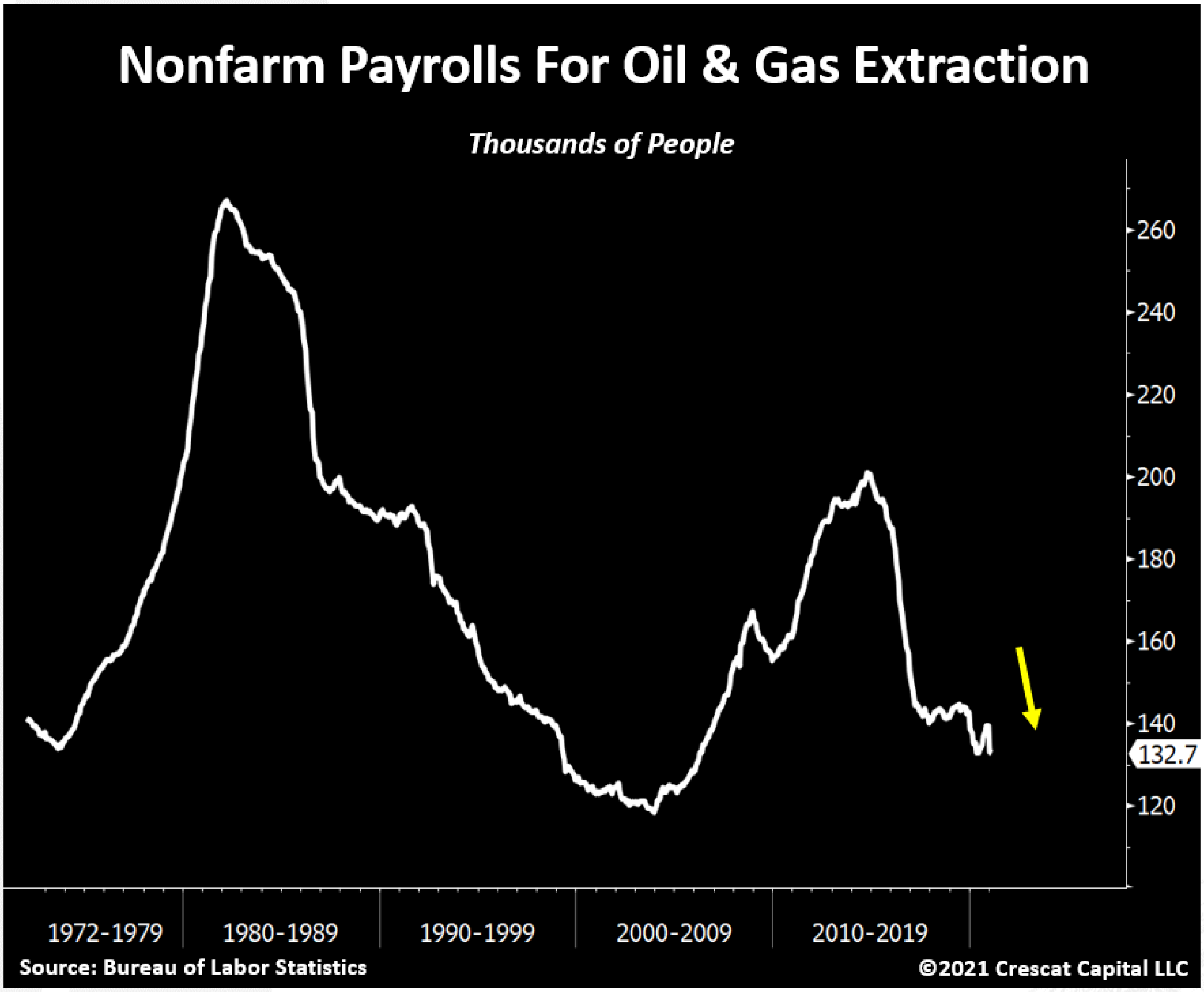


Scarce Commodities and Scarce Labor

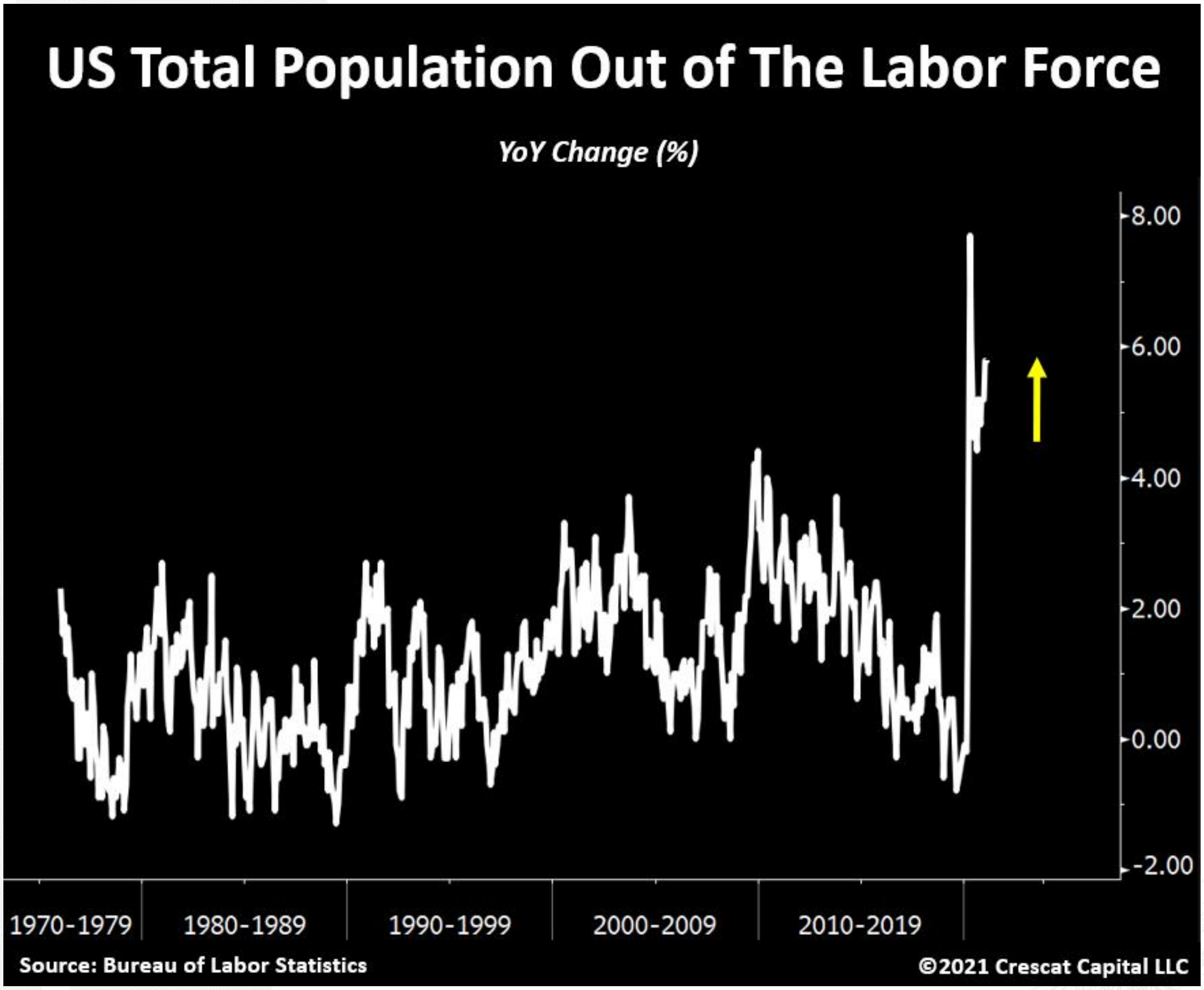
Here is a classic early sign of a commodity cycle. The mining industry nonfarm payrolls is now near historical lows. This happened in early 1970s and 2000s, both marking the onset of a commodities bull market. The labor and capital constraints are the amplifiers of a bull market in resource stocks.



Obviously, all commodities are not mining job related, but see below the nonfarm payrolls for the oil and gas extraction industry which is also at historical lows. The new green political agenda has hardly even started yet.



This pandemic has truly magnified a long-term trend of labor reduction and under investments in the commodities space. Resource companies have been facing a deep recession for some time now with not enough workers willing to enter this industry. On top of that, government policies seem to be discouraging folks from return to the labor market. In fact, as shown in the chart below, people continue to leave the labor force like never before.



On a recent interview, Minneapolis Fed president Neel Kashkari made the following statement after the latest jobs report disappointment:

"For all those people who have been saying 'oh my gosh, the Fed needs to normalize quantitative easing,' today's job report is just an example of – we have a long way to go"

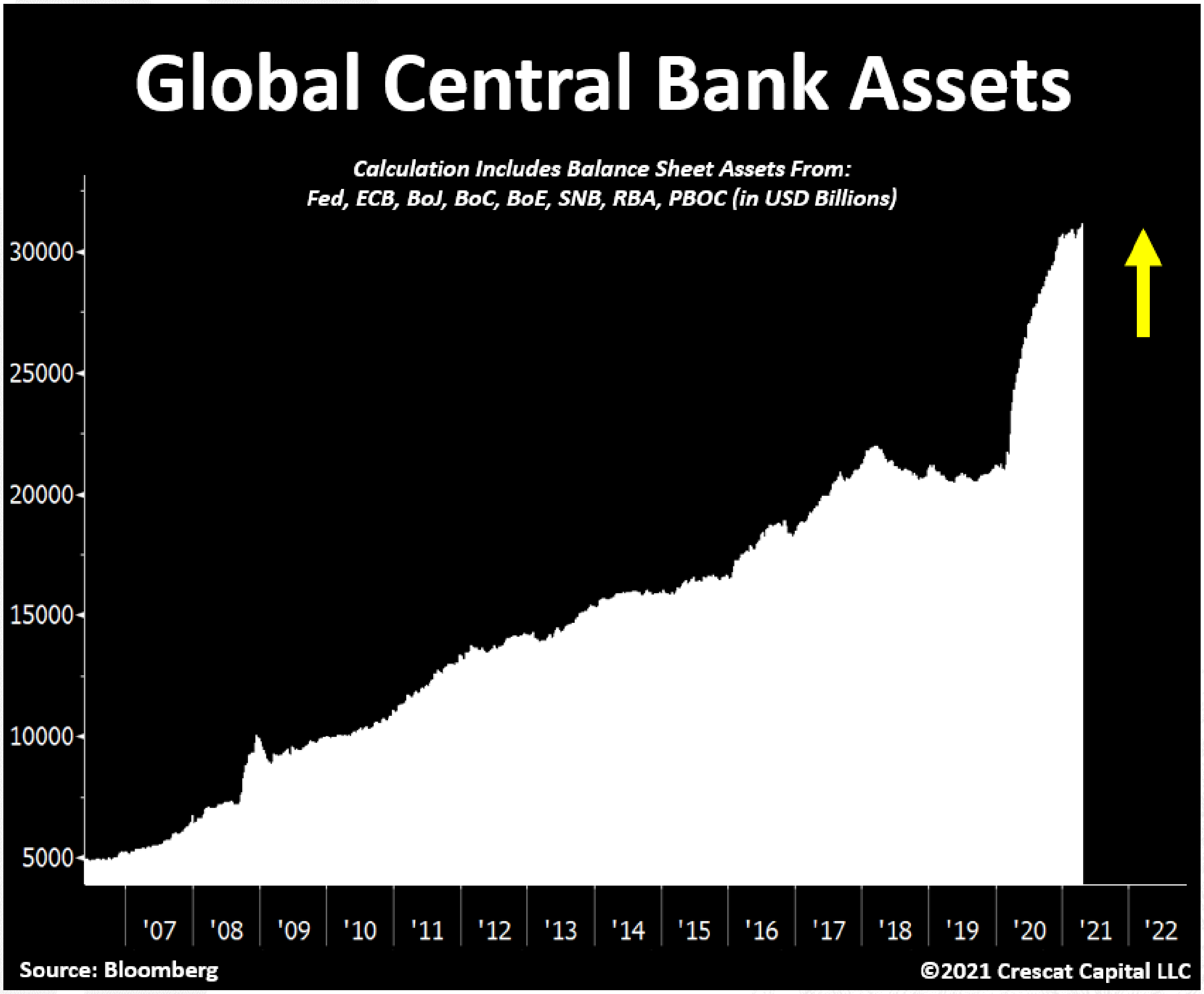
And then, subsequently said:

"We hear all the same anecdotes...yes of course there are people who are on the sidelines and who are getting generous unemployment and they're saying 'yes we understand the labor market will be strong in three or four months...we know that dynamic is there,"

It is funny how he expresses his concerns about the labor market to justify the current policies to then admit that the same policies (fiscal spending mostly funded through Fed stimulus) are also playing a major role in discouraging folks to return to the job market. Their own answer to the problem is what is worsening the recovery process.

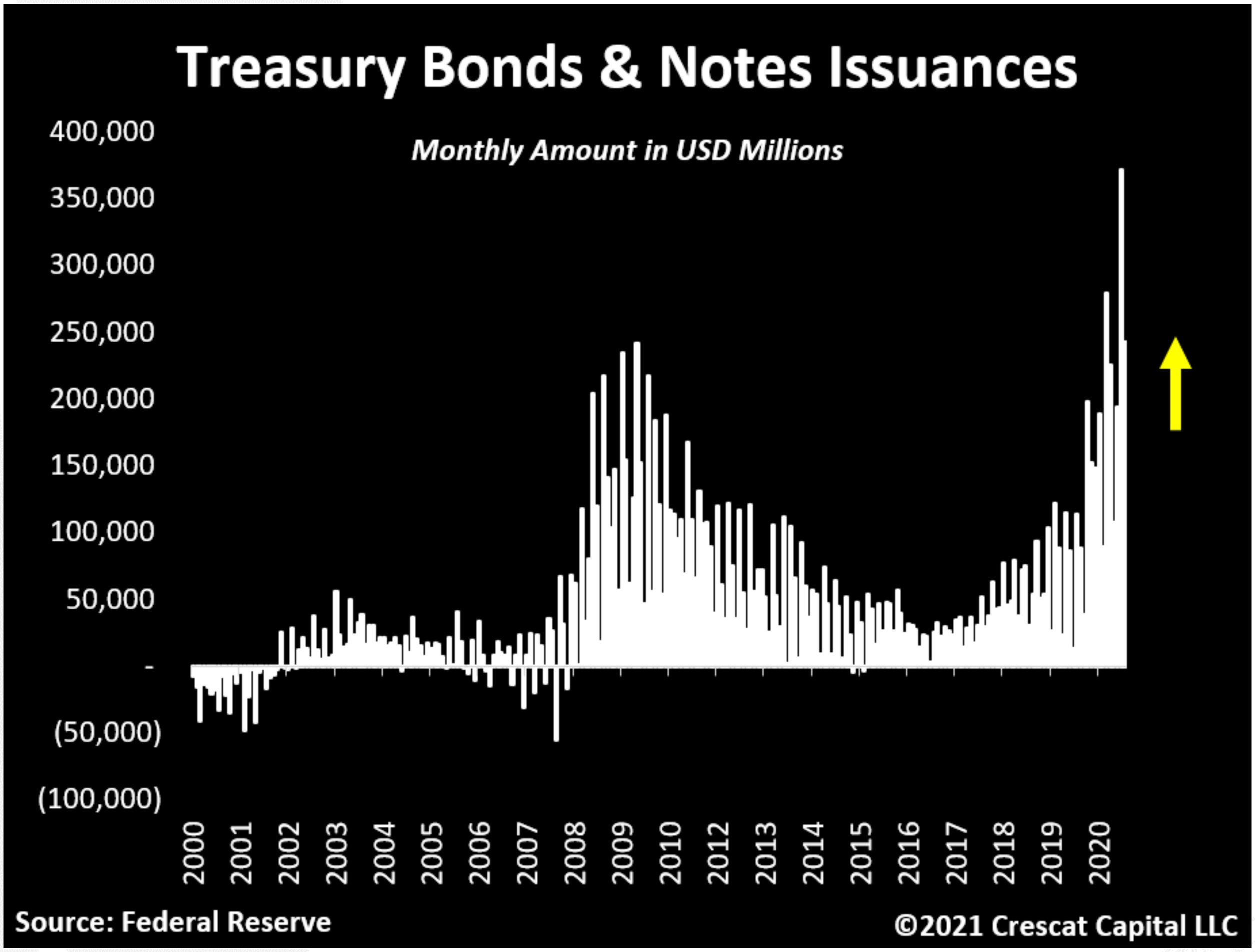
Global Fiat Debasement

Central banks are ultra-easy across the globe, and it seems to have no end in sight. See below that global central bank assets just reached $31T for the first time.



Treasury Market Dependence on the Fed

The recent increase in Treasury issuances is in perfect alignment with the market dependence on the Fed to continue monetizing debt through large quantitative easing programs. To note, in the last two months alone, the US government issued $614 billion worth of notes and bonds and the central bank only bought 26% of the total. To put that into perspective, that amount represents the lowest 2-month purchase relative to the issuance size in one year. Since foreign investors also did not participate at the same historical level we have seen in the past decades, the excess supply added tremendously to the upward pressure in yields in the last months and created severe headwinds to high-multiple stocks.



Crescat Performance

Please see Crescat's official April performance below along with May MTD estimates. Performance has been strong across all strategies. We are very excited about the opportunities ahead as we aim to capitalize on the Great Rotation on both the long and short side of the market in our global macro and long short hedge funds. Furthermore, we are extremely bullish on the prospects for our activist precious metals holdings which are a component of all of strategies today to one degree or another depending on the vehicle.

Crescat Strategies Net Return Estimates through May 17th, 2021

CRESCAT STRATEGIES VS. BENCHMARK (Inception Date)	APRIL	MAY MTD	YTD	2020	CUMULATIVE SINCE INCEPTION
Global Macro Hedge Fund (Jan.1, 2006)	**6.8%**	**12.9%**	**9.5%**	**65.6%**	**598.9%**
Benchmark: HFRX Global Hedge Fund Index	1.7%	-0.5%	2.4%	6.8%	21.0%
Long/Short Hedge Fund (May 1, 2000)	**7.2%**	**13.7%**	**9.8%**	**67.2%**	**500.9%**
Benchmark: HFRX Equity Hedge Index	3.0%	-0.9%	4.7%	4.2%	69.4%
Precious Metals Hedge Fund (August 1, 2020)	**9.4%**	**10.4%**	**20.7%**	**167.8%**	**223.1%**
Benchmark: Philadelphia Gold and Silver Index	5.8%	16.8%	15.7%	36.0%	8.4%
Large Cap SMA (Jan. 1, 1999)	**3.2%**	**11.2%**	**15.5%**	**11.7%**	**936.5%**
Benchmark: S&P 500 Index	5.3%	-0.4%	11.4%	18.4%	417.8%
Precious Metals SMA (June 1, 2019)	**11.7%**	**10.8%**	**24.3%**	**73.7%**	**247.6%**
Benchmark: Philadelphia Gold and Silver Index	5.8%	16.8%	15.7%	36.0%	141.5%

Crescat Capital is a global macro asset management firm. Our mission is to grow and protect wealth over the long term. Our goal is industry leading absolute and risk-adjusted returns over complete business cycles with low correlation to common benchmarks. We encourage you to reach to a Crescat representative to learn more about any of our five strategies, you can find both Marek Iwahashi and Cassie Fischer's contact information below.

Sincerely,

Kevin C. Smith, CFA
Member & CIO

Tavi Costa
Member & Portfolio Manager

For more information including how to invest, please contact:

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Important Disclosures

Performance data represents past performance, and past performance does not guarantee future results. An individual investor's results may vary due to the timing of capital transactions. Performance for all strategies is expressed in U.S. dollars. Cash returns are included in the total account and are not detailed separately. Investment results shown are for taxable and tax-exempt clients and include the reinvestment of dividends, interest, capital gains, and other earnings. Any possible tax liabilities incurred by the taxable accounts have not been reflected in the net performance. Performance is compared to an index, however, the volatility of an index varies greatly and investments cannot be made directly in an index. Market conditions vary from year to year and can result in a decline in market value due to material market or economic conditions. There should be no expectation that any strategy will be profitable or provide a specified return. 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.

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 predominatly 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.

Hedge Fund disclosures: 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. 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. Hedge funds may involve complex tax strategies and there may be delays in distribution tax information to investors.

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.