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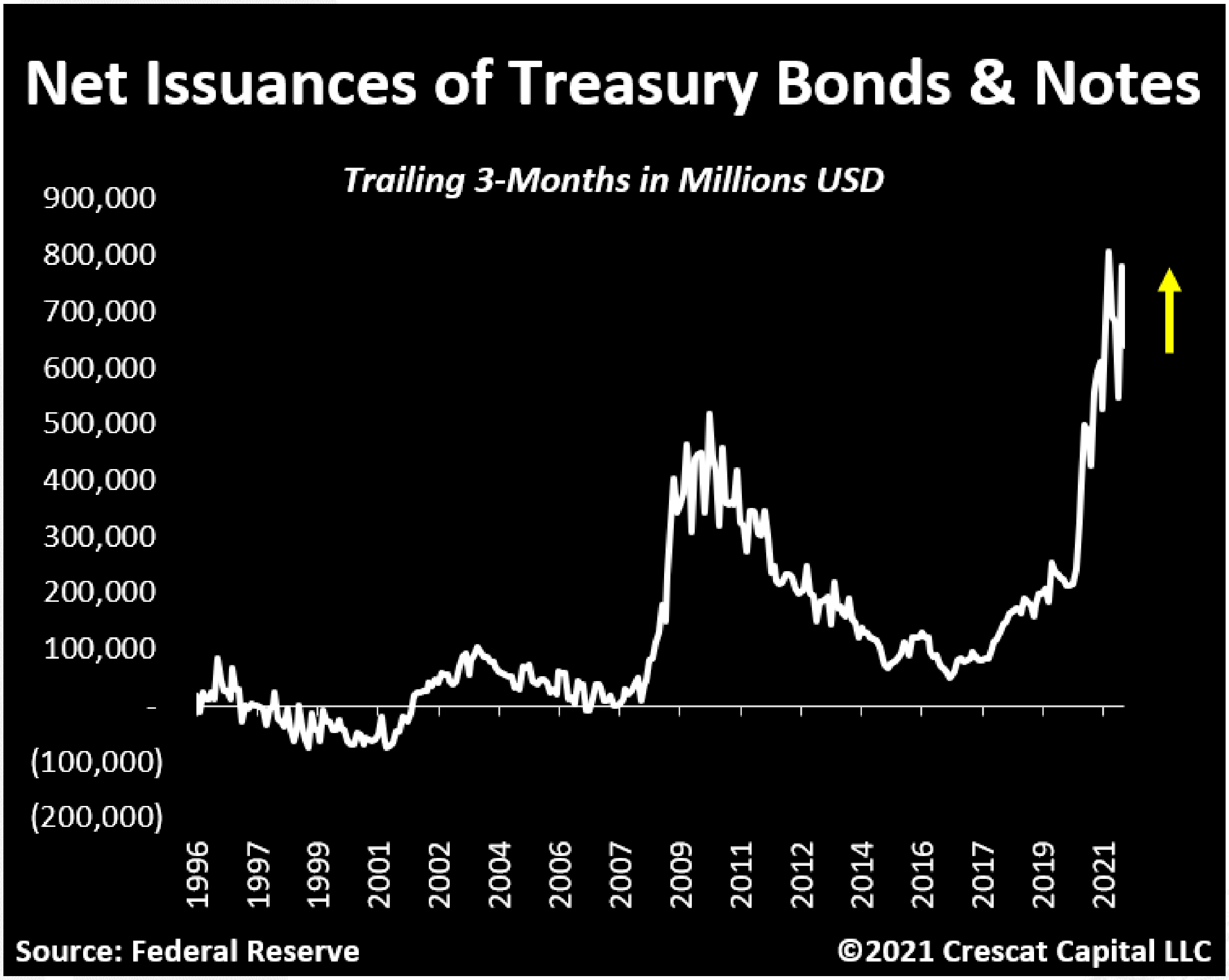
October 24, 2021

Dear Investors:

We are experiencing a macro regime change that is an abrupt reversal of a four-decade trend of disinflation in the most financially repressive moment in history. With the largest imbalances yet in both overall debt to GDP and financial asset valuations, the levitation of the entire equity and fixed income markets, and the stability of the economy, have become dependent on maintaining ever lower interest rates in the US Treasury market. Now, finally, and all at once, an onslaught of obvious and substantial inflation is curbing the ability of policy makers to keep overall cost of capital contained as well as to fight an economic downturn.

There is a significant shift underway in the composition of debt maturities issued by the US government that could profoundly increase the supply of long duration Treasuries. The timing is particularly important as it coincides with the Fed, the largest buyer of Treasuries, planning on drastically reducing its asset purchases due to more persistent rising inflation pressures than originally contemplated when it declared that inflation was likely to be "transitory".

The government has been flooding the market with issuances of longer maturity instruments at unprecedented levels. **As shown in the chart below, the amount of outstanding marketable bonds and notes have increased by $640 billion in the last three months.** While we did not see the same pattern last year, this has been happening all year. On average, the government has net issued close to $220 billion per month of bonds and notes. 10-year rates started the year around 0.9% and are now near 1.6%. That interest rate increase happened over a time period when the Fed was buying close to 35% of the net new issuance of Treasuries. We would expect even more upward pressure on rates because of the Fed's planned tapering. **What this means is that the buyer of last resort that created this artificially low interest rate in the first place is attempting to wind down net new purchases and cease them altogether eight months from now.** Rates will need to rise to attract new buyers, because nobody in their right mind should want to finance the tsunami of new longer-duration Treasury supply from ongoing fiscal deficits and T-Bills rolling over at today's sharply negative real interest rates.



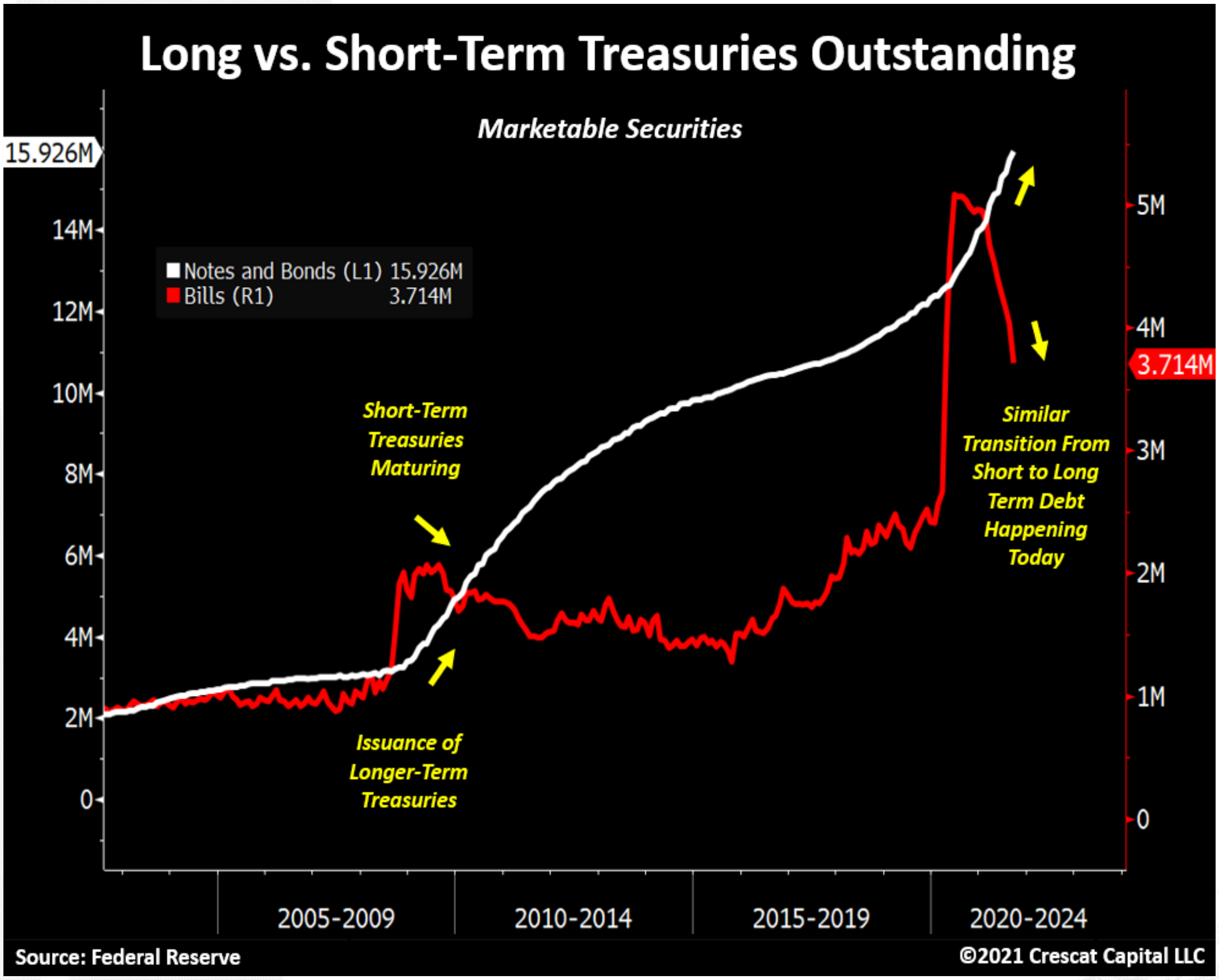
To understand the reason behind this surge in issuances, it is important to go back and rationalize how policy makers initially funded the massive fiscal operations when the pandemic started.

From March to June 2020, government debt increased by $2.7 trillion and 90% of this amount was issued through T-Bills which are less than one-year maturity instruments.

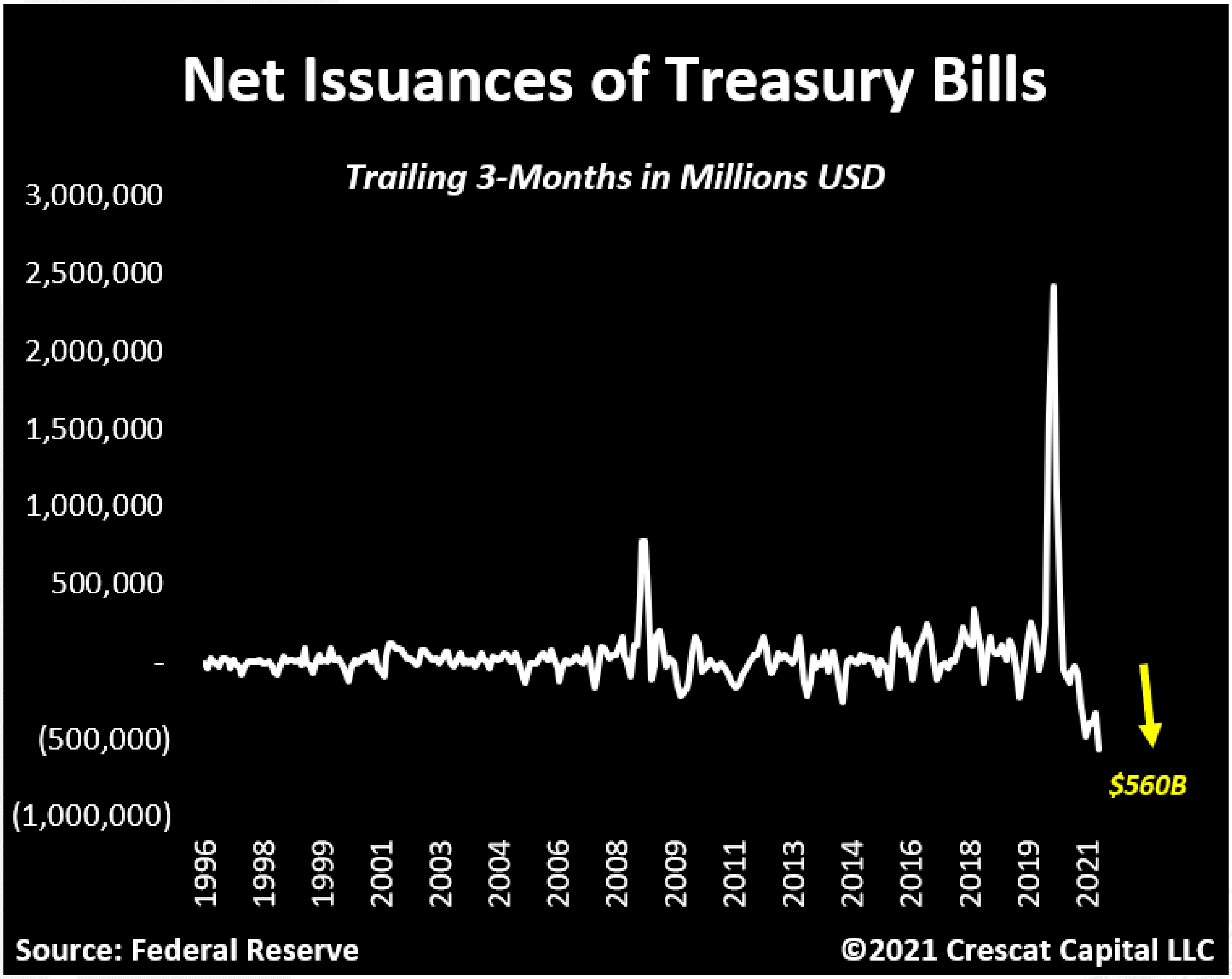
Such a large short-term issuance is not unusual in times of financial market stress. During a liquidity crunch, the demand for short duration, safer assets increases, making it significantly easier for the market to absorb these newly issued Treasuries to fund immediate fiscal stimulus measures.

We saw a similar development during the global financial crisis. From June to November 2008, the government funded 94% of its $1.1 trillion of debt increase through T-Bills.

However, back then, these shorter-term instruments matured and, rather than rolling them, the government issued bonds and notes to extend the maturity of its debt outstanding. This transition is precisely what is happening today.



In the last three months, we have seen over $560 billion of short-term government instruments mature. This is the largest decline in outstanding T-Bills ever recorded in history.



The Fed has always been trapped, but this time it is as trapped as it could possibly be.

We worry that the Treasury market is about to face one of its largest supply and demand mismatches in history. As a result, we think this imbalance could cause 10-year yields to rise as high as 2.5 to 3% or more.

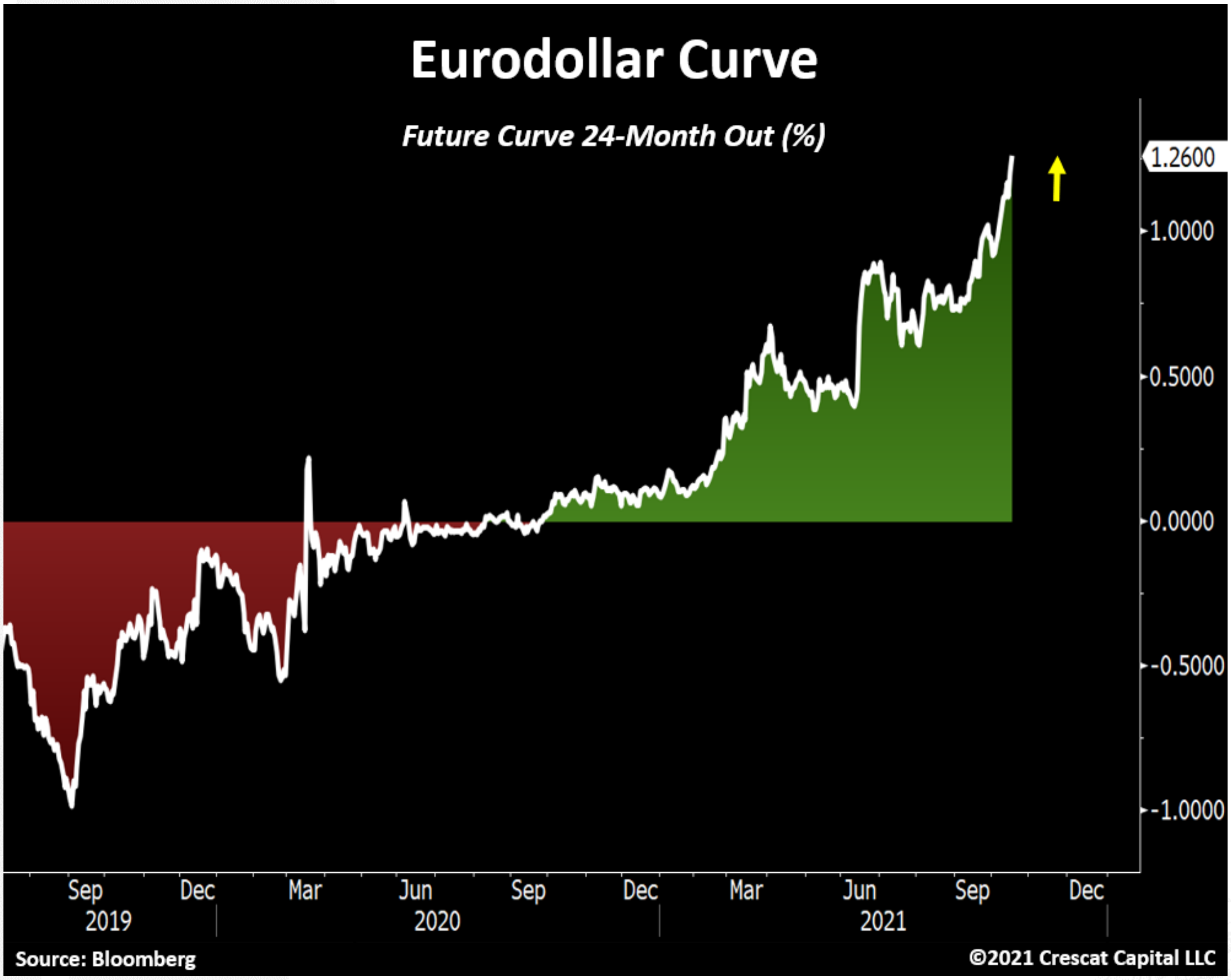
It is the first time in many decades that developed economies are having to choose between reducing monetary stimulus due to rising inflation or adding further liquidity to cope with a decelerating growth. This bifurcation of decisions is one of the many reasons why these central banks are indeed hamstrung.

Inflationary conditions are forcing policy makers to pursue an impossible mission: tighten financial conditions just enough so risky assets stay afloat, and inflation does not lose control. We all know how it ends. Inevitably, a financial shock is triggered, and central banks must resort back to liquidity measurements.

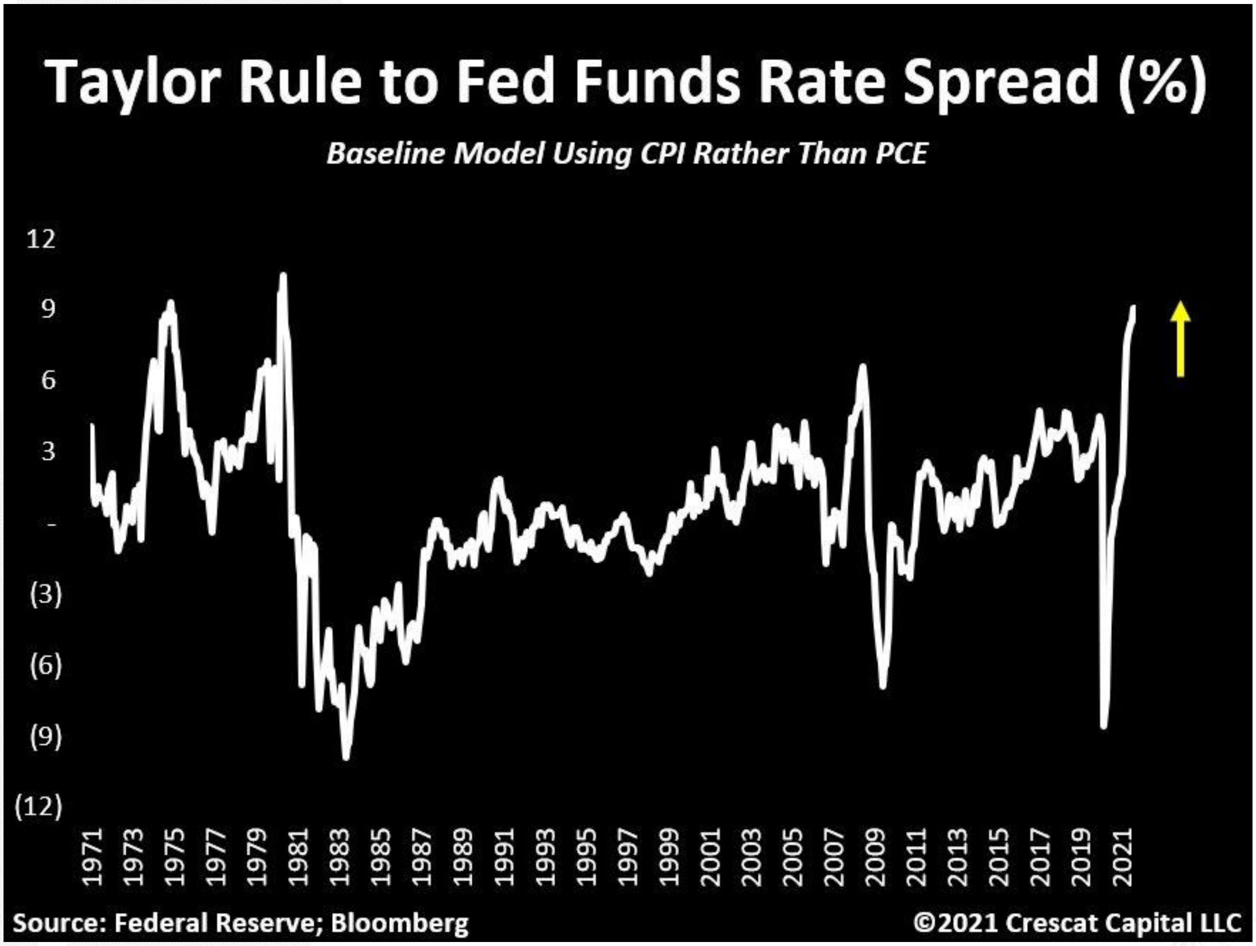
Also, separately, do commodity markets even care if 10-year yields are at 2.5 or 3%?

We think it is meaningless for these assets. The inflation genie is already out of the bottle and a mere increase in interest rates would still put today's financial conditions as one the most repressive in history. The longer inflationary forces persist, the more likely they will trigger a psychological shift in consumer behavior.

The problem is that aside from what is happening in the monetary policy side, massive fiscal spending continues to pressure the government to dig an even deeper debt hole. As we have previously mentioned, the fiscal agenda has four well-defined and long-lasting fronts:



Today's interest rate policy is perhaps most aggressive interest policy we have ever seen. Considering where the GDP growth, inflation and unemployment rate is today, the Taylor rule baseline model suggests that the Fed funds rate should be at 9.3%. The issue however is that this calculation presumes CPI is an accurate measurement of real inflation, which we obviously do not believe this assumption holds water. We think the year-over-year growth in inflation is at least two low double digits and, if correct, we are indeed living in the most financially repressive environment in history.

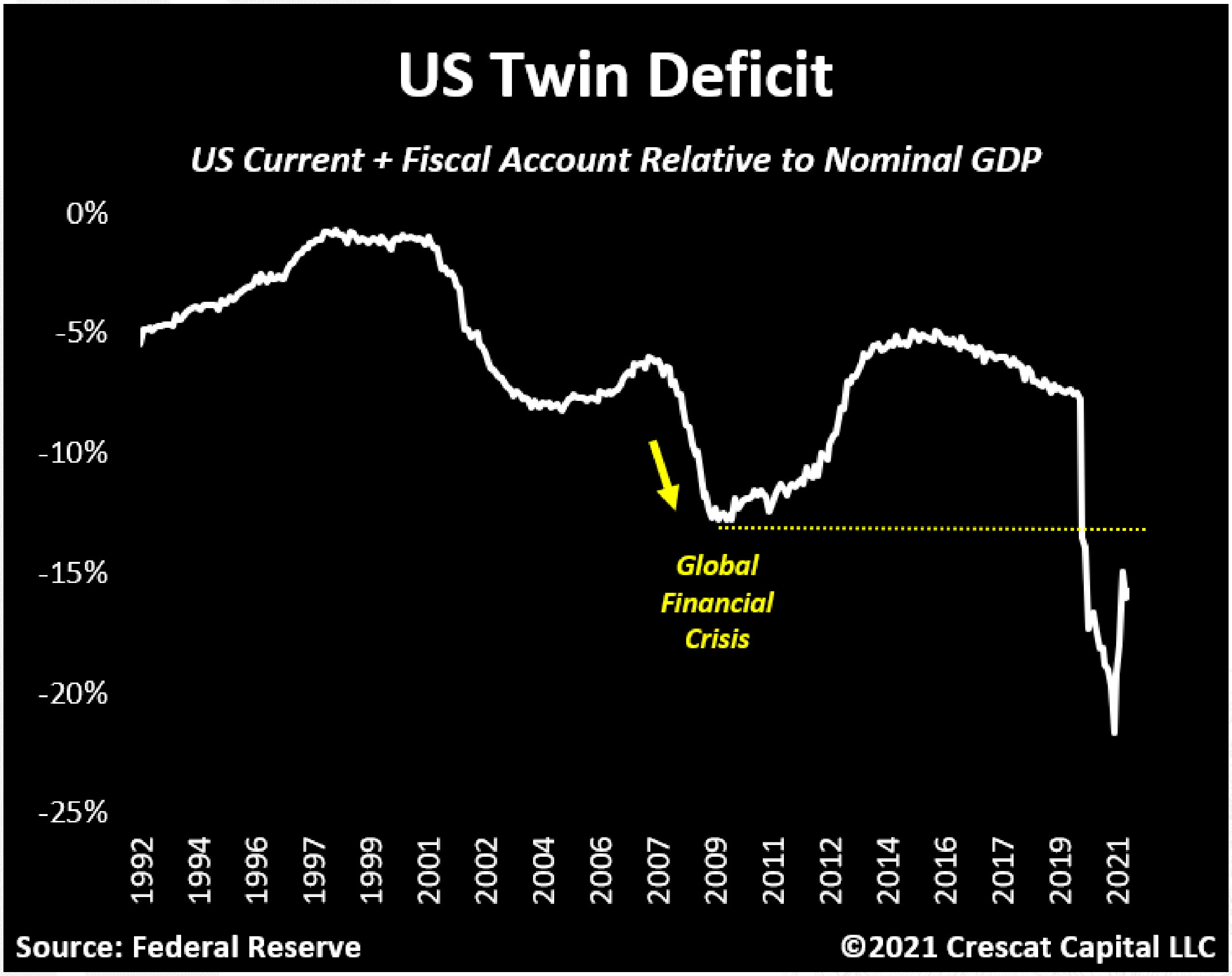


The problem is that aside from what is happening in the monetary policy side, massive fiscal spending continues to pressure the government to dig an even deeper debt hole. As we have previously mentioned, the fiscal agenda has four well-defined and long-lasting fronts:

- **The Green Revolution:** the financial efforts to attempt curbing the effects of climate change have become a major priority of the current political leadership. We are seeing big steps towards regulating carbon dioxide emissions and reducing fossil energy production and exploration. Meanwhile, the government remains focused on incentivizing renewable energy technologies and electrification as part of a transition to a modern and sustainable energy.
- **An Infrastructure Revamp:** bipartisan policy makers believe the economy necessitates major improvements in roads, bridges, airports, shipping terminals, electrical grids, green initiatives, etc.
- **Peak Inequality:** policies targeted towards narrowing the wealth spread between the lower classes and the richer parts of the society appear to be at the forefront of the Biden administration's policy stance. Some examples would be their efforts towards cancelation of student loans, the increase of minimum wages, hiking corporate taxes, etc. As part of this, we have recently seen a 27% increase in food stamps, the largest one in history. This process of wealth transfer from the rich and the government to the bottom 50% of the population is only getting started.
- **A Fiscal Arms Race with China:** Biden and his team have kept a very hawkish stance against China. The prior administration approached their concerns by imposing tariffs on Chinese imported products. This administration wants to tackle it differently by subsidizing domestic companies in strategic industries to be able to compete with Chinese businesses.

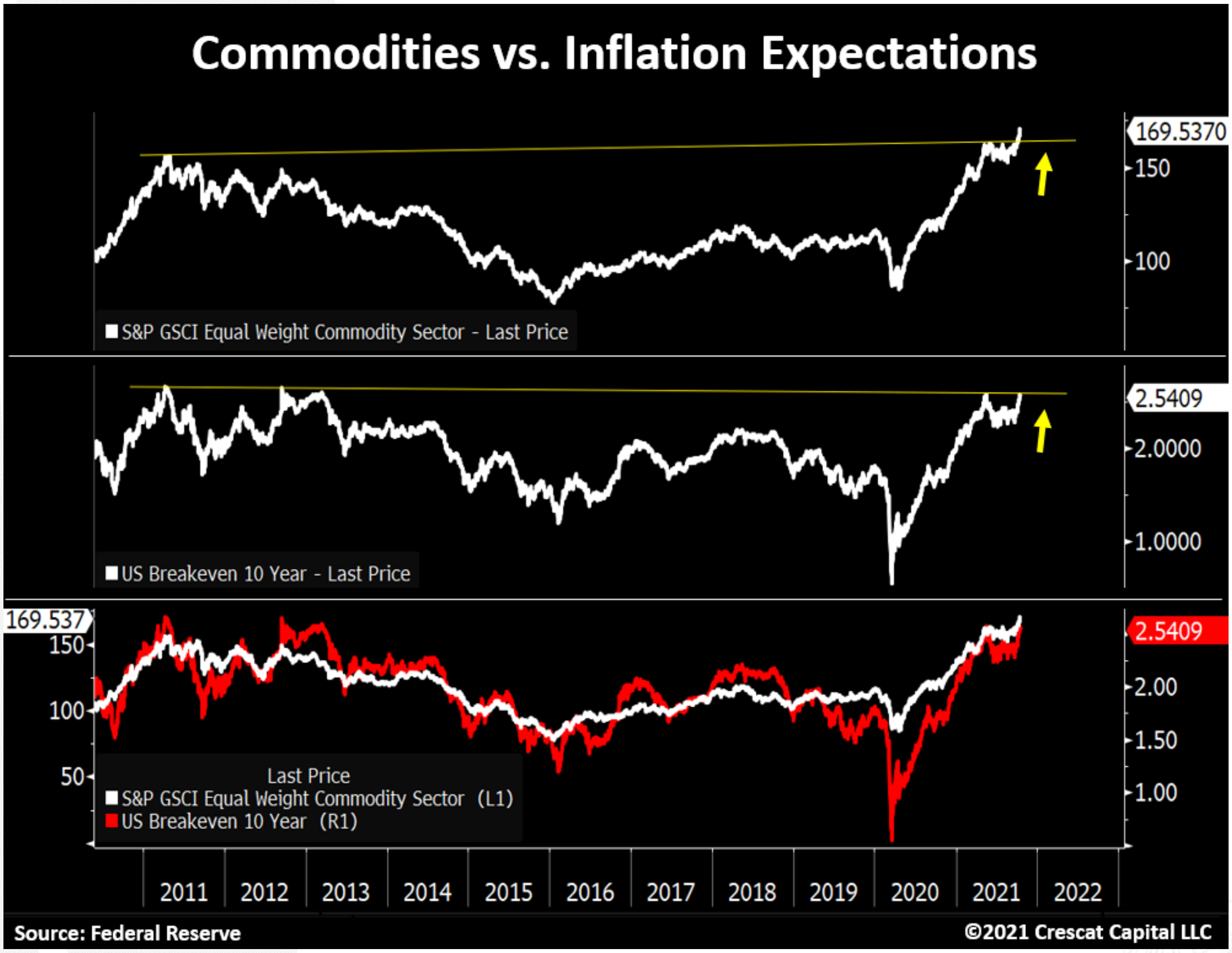
In our opinion, these political efforts significantly feed into the inflation thesis.

While on one side, government spending clearly has no end in sight, on the other side, the US trade balance is deteriorating. Just in the last twelve months, the US had net imports of over $817 billion. The twin deficit (current account + fiscal) is now close to 15% of nominal GDP, almost three percentage points lower than the worst levels of the Global Financial Crisis.



Such extreme fiscal and monetary measures combined with major supply constraints are enticing investors to seek tangible assets for capital protection. This dynamic is a self-fulfilling prophecy that causes hard asset prices to rise further as commodity investment demand becomes yet another inflationary tailwind.

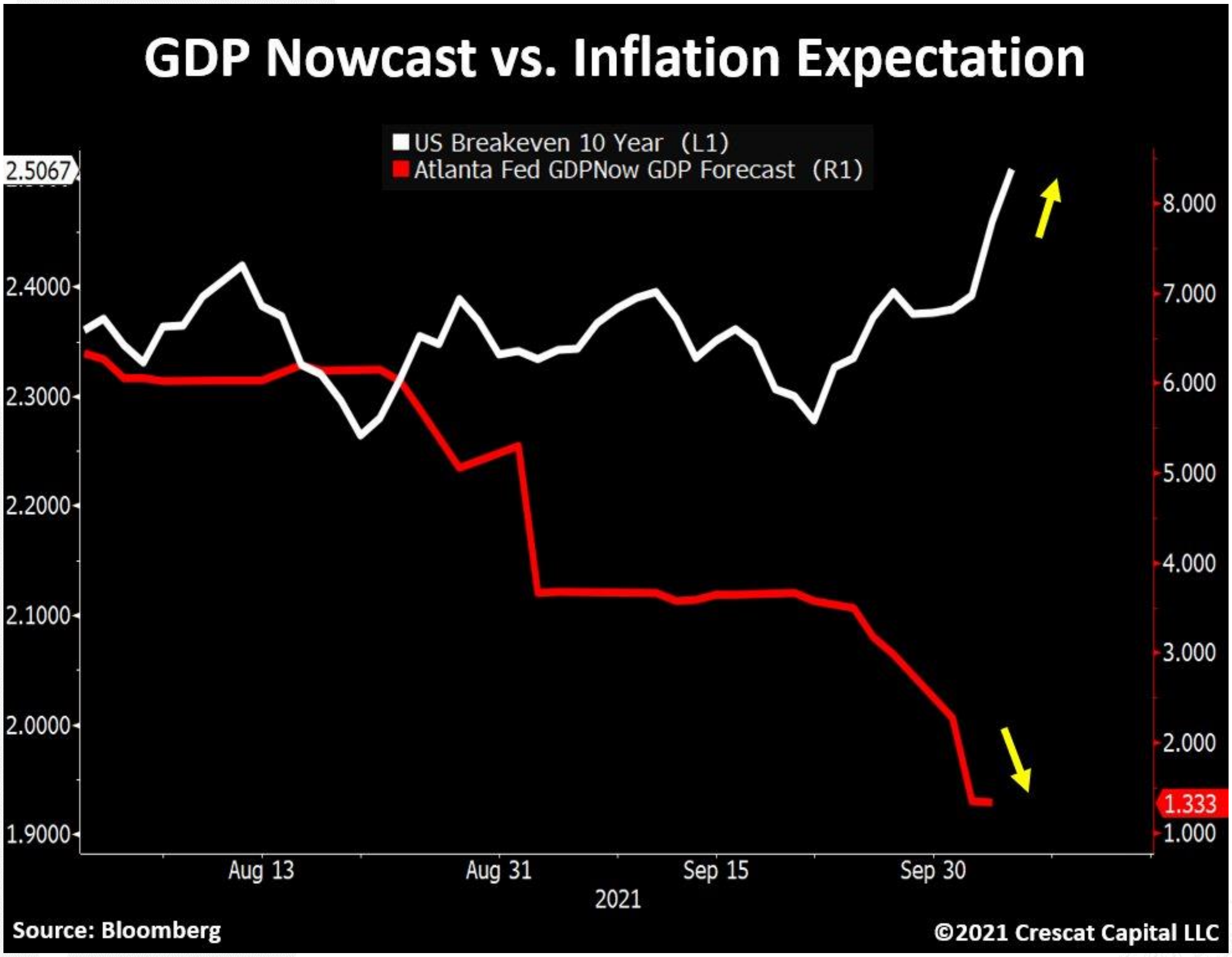
For instance, the Commodities Equal Weighted Index is breaking out from its 2011 highs with authority. The 10-year breakeven, which measures the market expectation for CPI, is likely the next to follow to the upside. Note in the third panel how these two indices follow each other remarkably close throughout history. We believe it is a matter of time until inflation expectation also makes new highs.



A Stagflationary Divergence

We now have an explosive mix of fiscal and monetary excess coupled with very long years of declining capital spending in primary resource industries that could surprisingly unleash a combination of high inflation and negative real economic growth at levels in the US that we have only experienced in the 1970s. Like then, we are now seeing signs of inflation remaining historically elevated while business activity is decelerating.

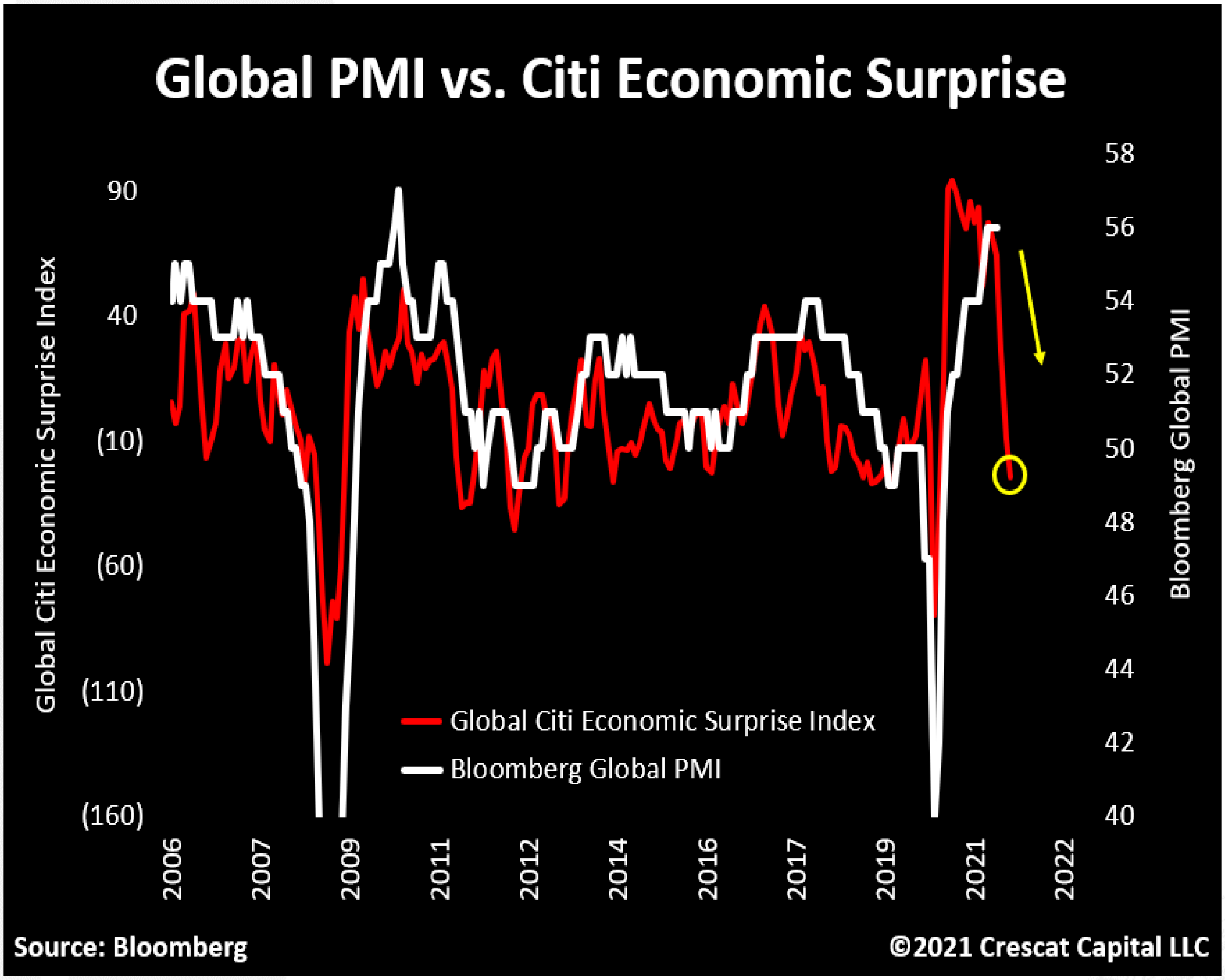
As shown in the chart below, 10-year breakeven rates, which measures the market expectation of CPI, continue to trend higher while the Atlanta Fed GDPNow has been cut from 6% to now 1.3% just in the last two months.



Economic deceleration is likely coming from Asia and spreading to the rest of the world. We are now seeing a significant number of macro data significantly disappointing prior estimates. As a result, the Global Citi Economic Surprise index is now plunging and suggesting that global PMIs should also follow to the downside.

So now we ask, if economic growth continues to decelerate while inflation remains historically elevated, what will the Fed do?

The set of monetary and fiscal policies needed to fix one problem would worsen the other.

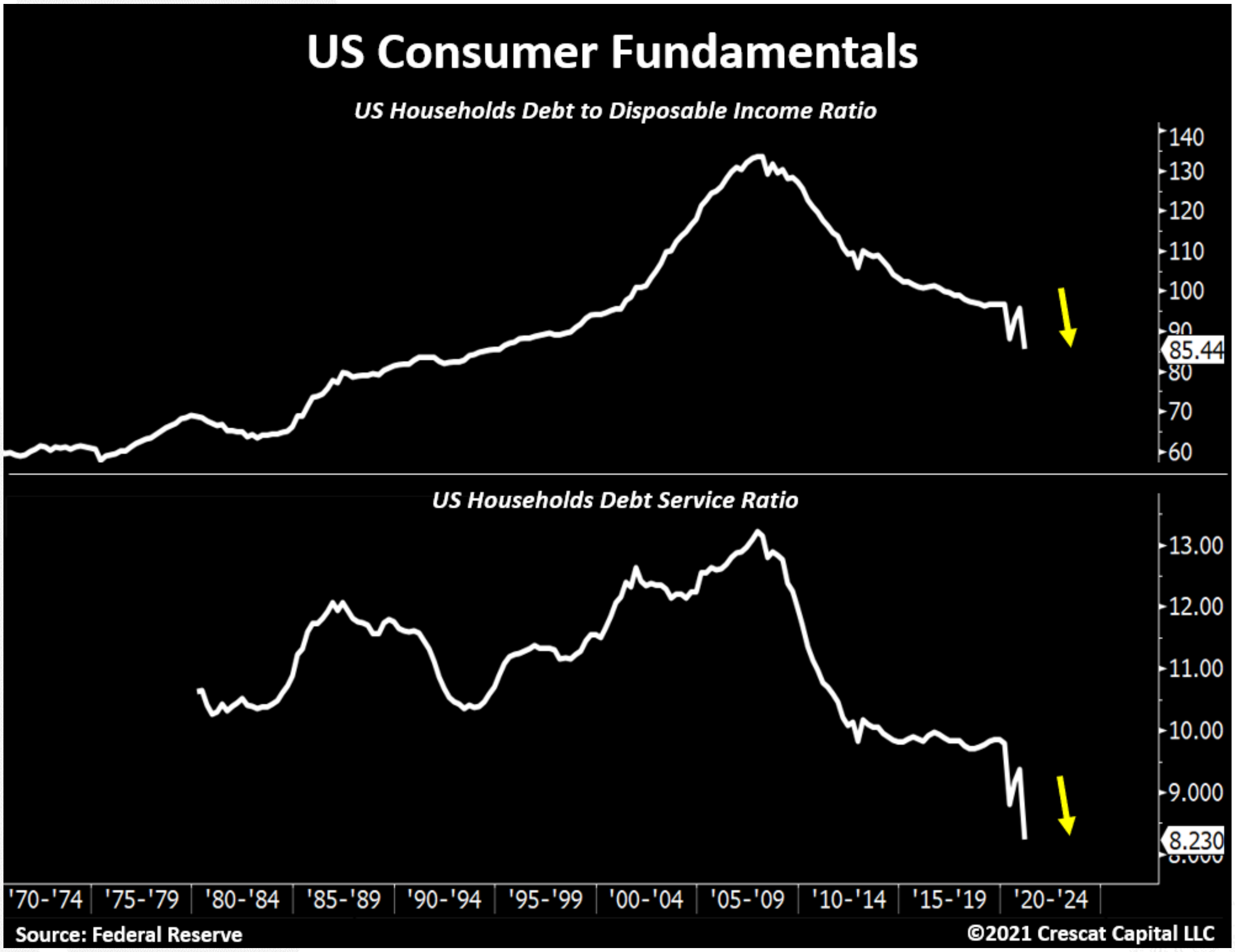


A Fundamental Shift Among Consumers

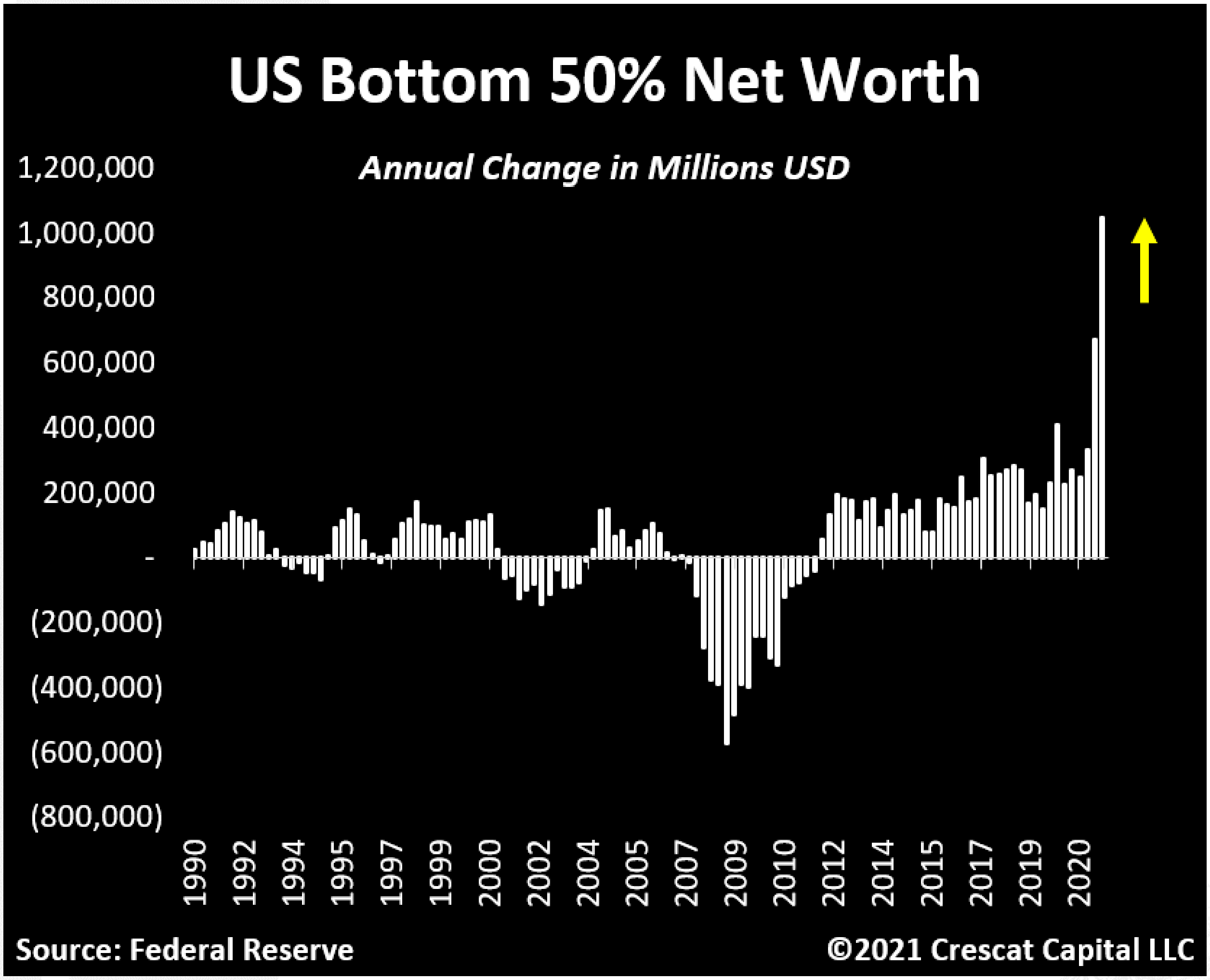
In our prior letters, we described inflationary forces as having three main pillars:

1. Demand factors that include a historic wealth transfer from the government to the people
2. Cost-push forces through supply constraints in primary resources and the secular shift in wages and salaries growth
3. Central bank led monetary debasement through debt monetization and suppression of interest rates

Regarding the very first point, a government financed wealth transfer is fundamentally changing the net worth and balance sheet of US consumers. As shown in the chart below, household debt to disposable income ratio is now at its lowest level in over 26 years. More importantly, consumers' debt service ratio just plunged to all-time lows. These improvements should certainly fuel the inflationary thesis in a significant way.

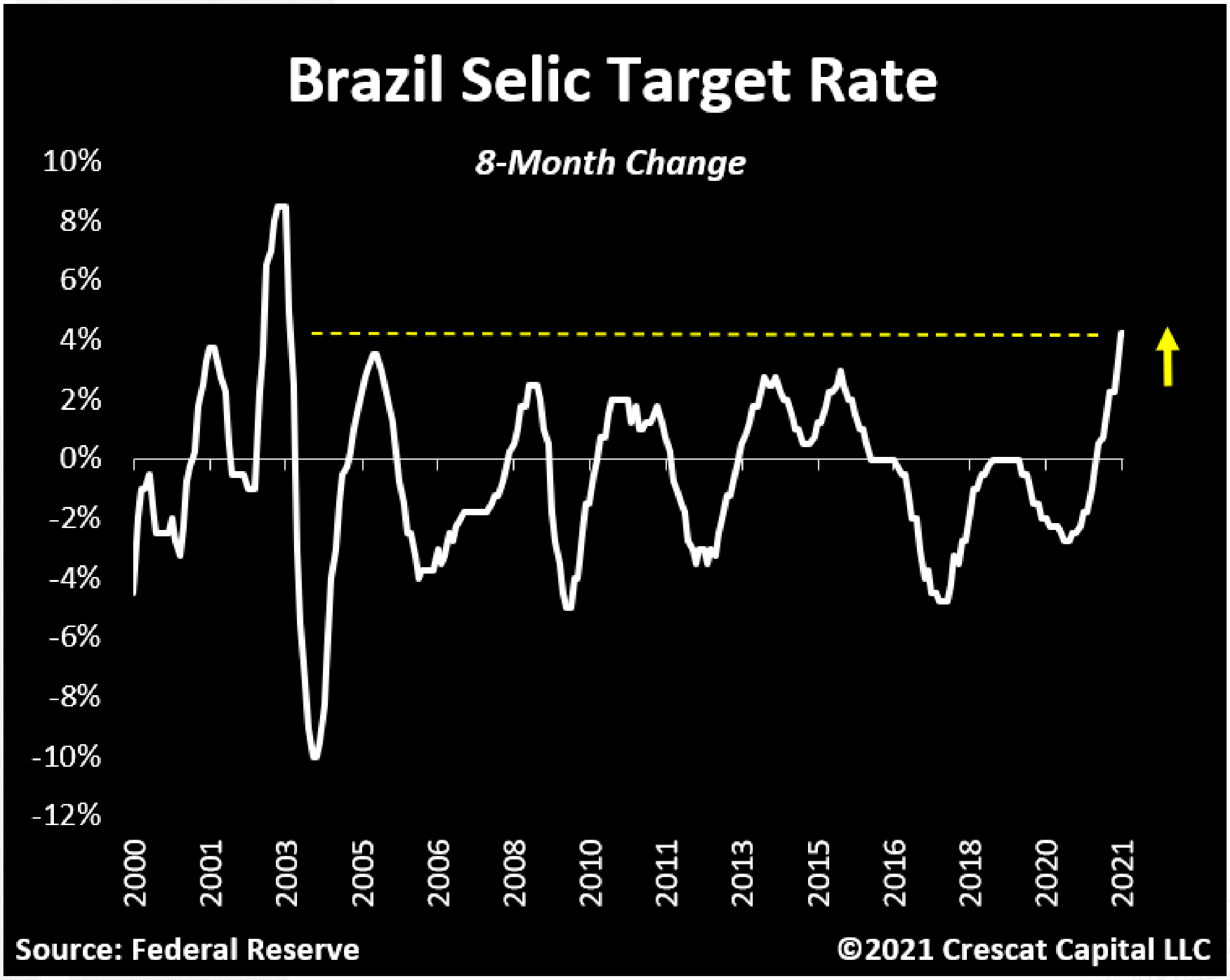


More importantly, this wealth creation is also happening across lower classes. To put into perspective, one fourth of the entire wealth accumulated by the US bottom 50% since 1990 was generated just in the last year.

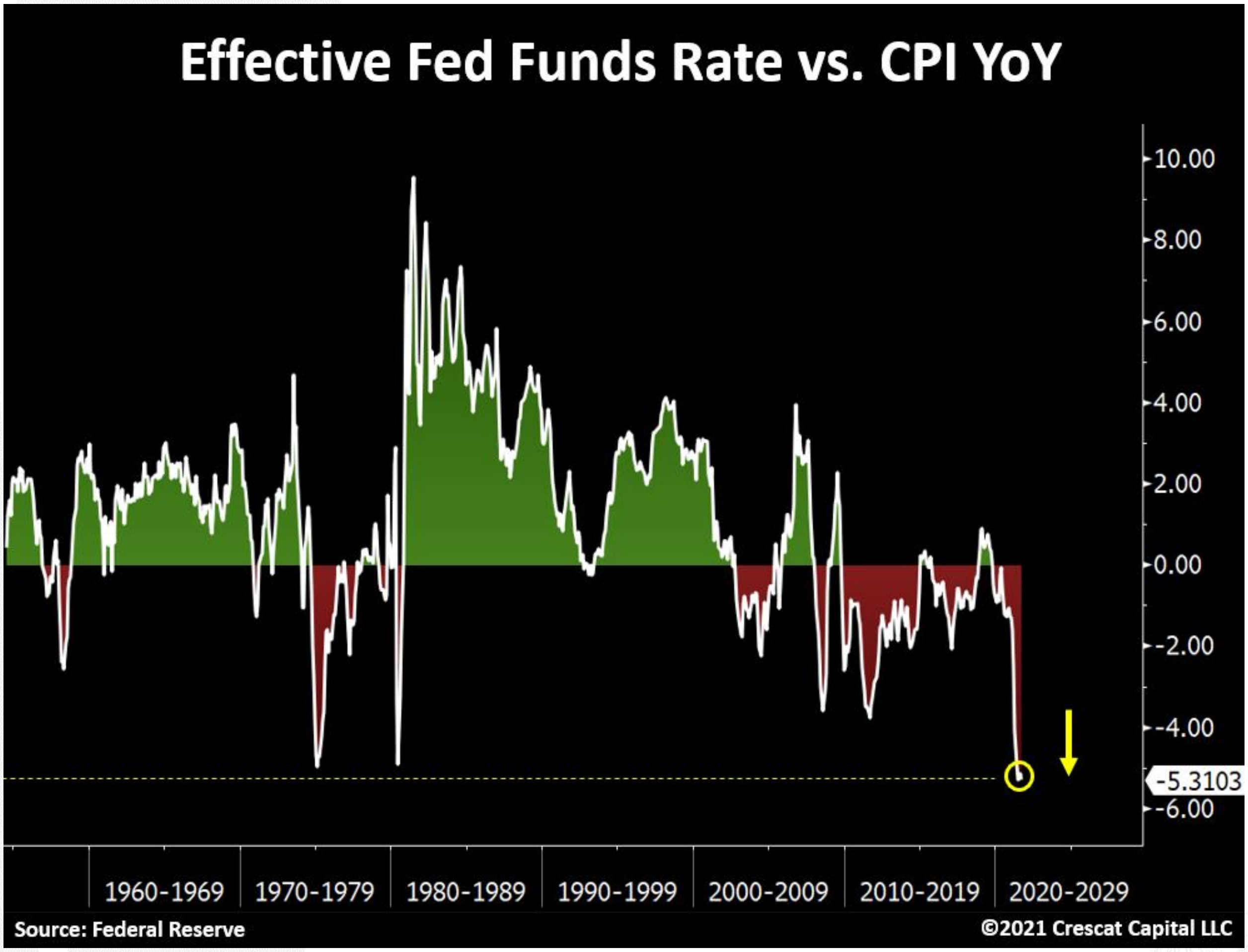


Interestingly, if you want to assess the severity of the current inflationary problem in the global economy, look no further than emerging markets. These economies know how to shift their policy stance quickly when inflation is perceived as problem.

For instance, Brazilian policy makers have already raised short-term rates five times by a total of 4.25% just in the last 8 months. This was the largest and quickest interest hike we have seen since 2003. The Brazilian economy has dealt with inflationary problems for many decades and have clearly been forced to act once again.



On the other hand, policy makers from the US and other developed economies are taking almost a complete opposite stance. The chart below is a great illustration of that. The Fed funds rate minus CPI is at its lowest level ever. Again, real short-term interest rate is most likely severely lower if one assumes CPI is massively understated.



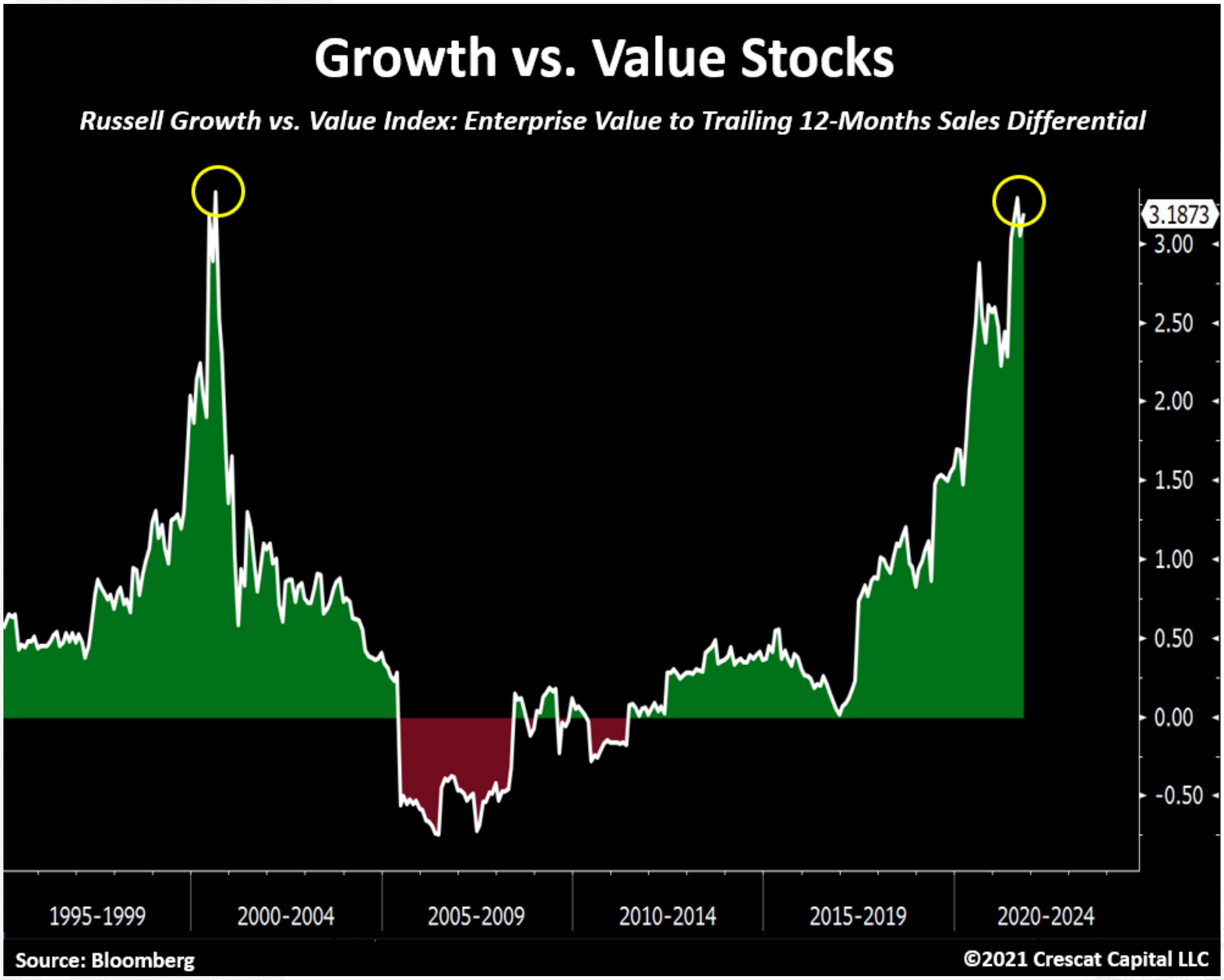
So, what are some of the key market ramifications of an economy that continues to run hot and is perhaps on a verge of seeing 100 to 150 basis points in long-term rates?

Well, precious metals and overall stocks are some of the assets that first come to mind. Let's start with the equity side first.

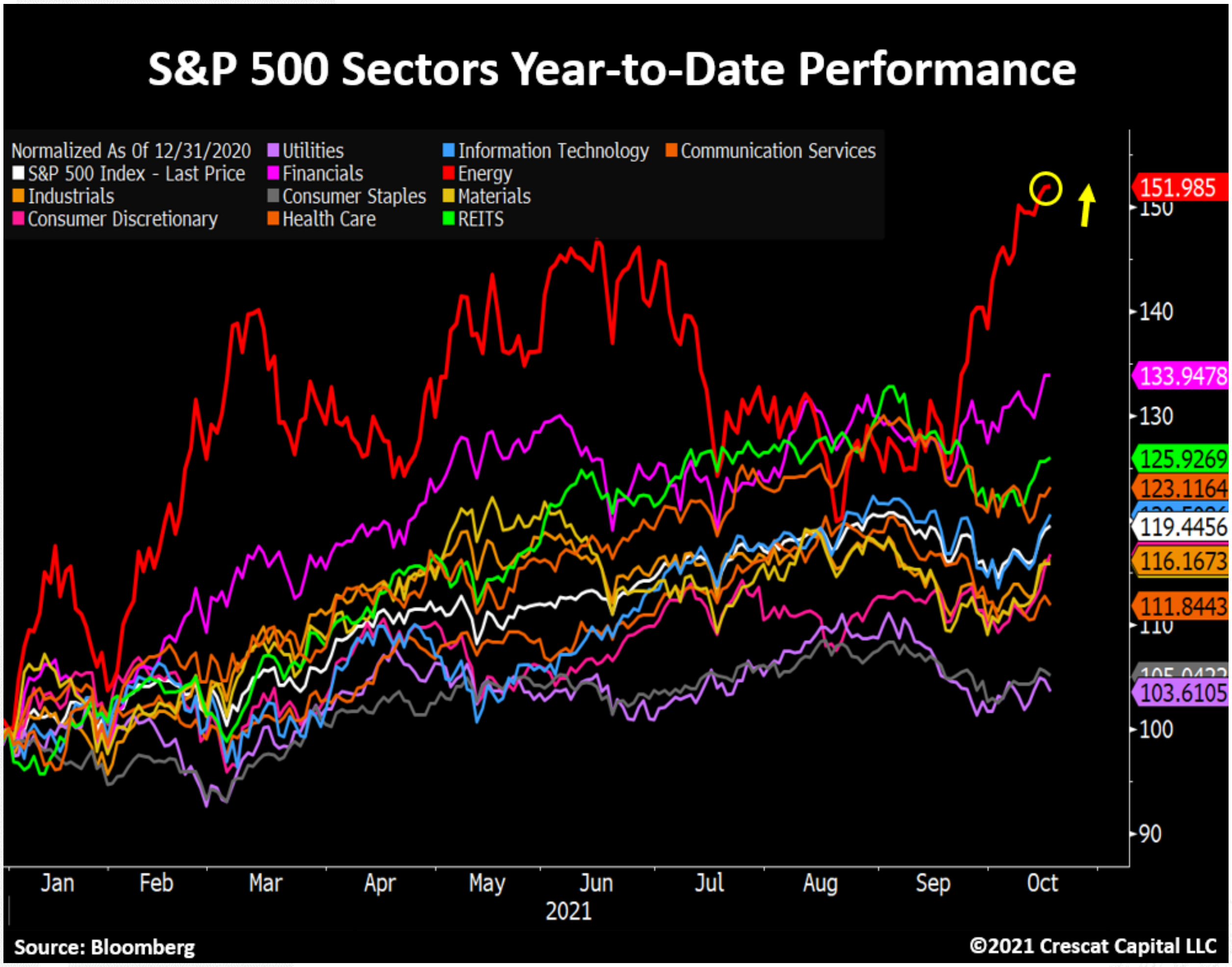
As we have articulated is previous letters, we believe a Great Rotation away from growth stocks and into value companies is upon us. Long duration equities that tend to justify their excessive multiples with potential long-term growth through low interest rates could very well be the first ones to be impacted in this market regime change. We think tech companies, particularly software businesses, will start running into trouble as investors start rewarding strong bottom-line fundamentals and high near-term growth at cheap multiples.

We think investors will continue to give a fresher look at natural resource industries with substantially improving fundamentals as commodity prices appreciate. With regards to portfolio positioning, we are currently buyers of high-quality and historically undervalued businesses and short sellers of a basket of crowded, high-flying large-cap growth equites that trade at excessive valuations.

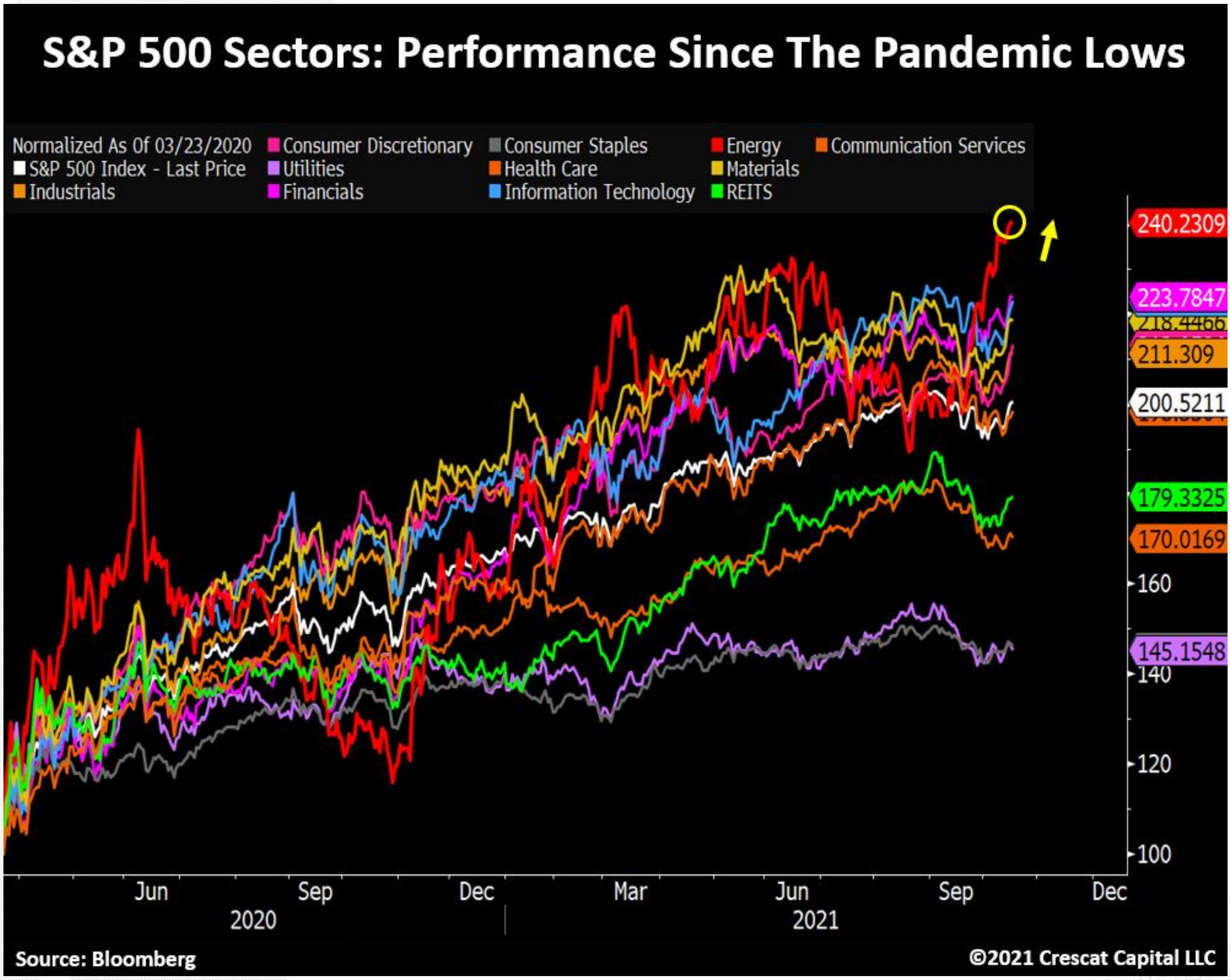
See below how the differential of fundamental valuation between growth and value stocks is re-testing the peak tech bubble levels that we saw in 2000.



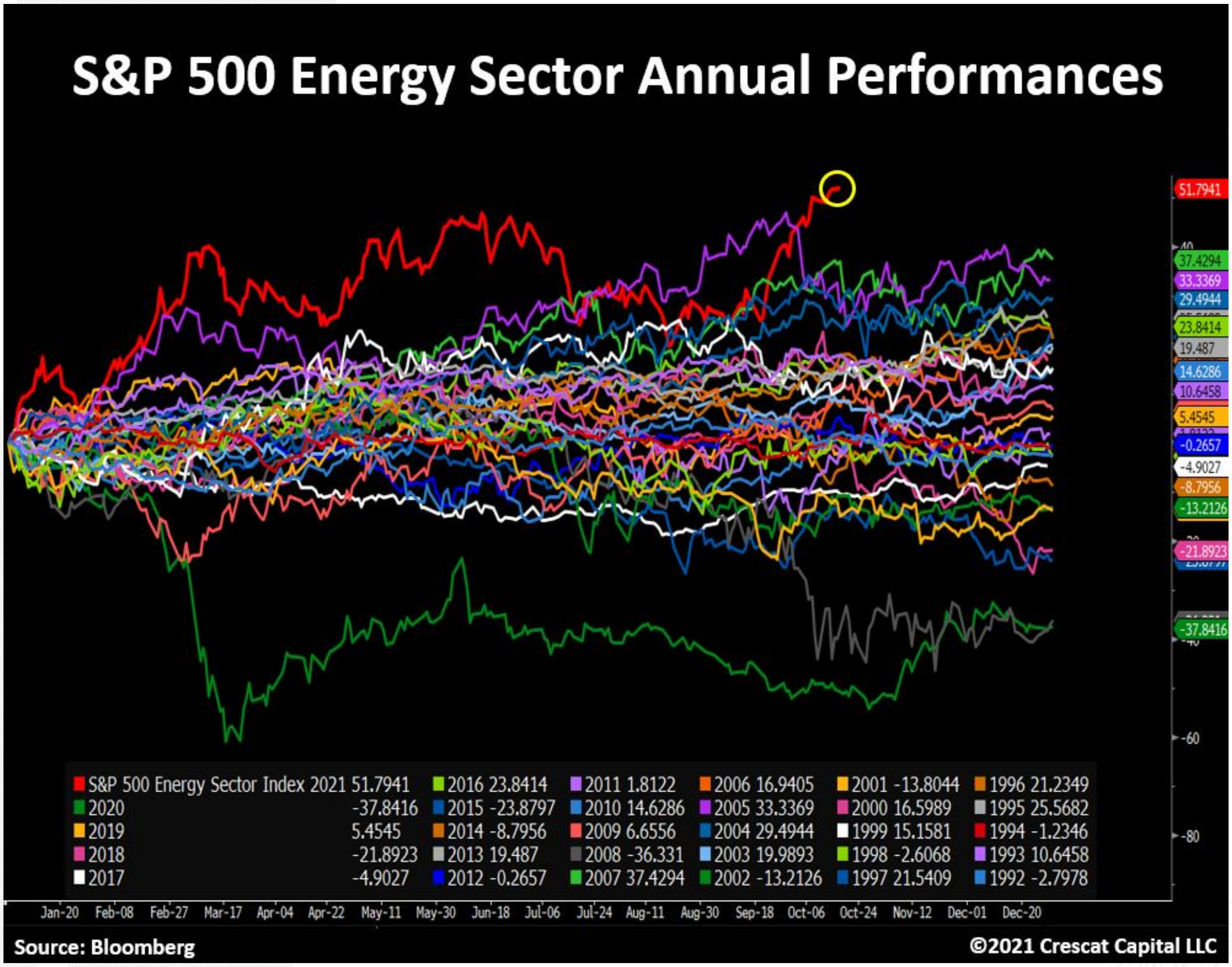
Parts of the Great Rotation have already started to play out. For instance, energy is already the best performing sector of the S&P 500 by almost 18 percentage points ahead of the second-best performer, financials.



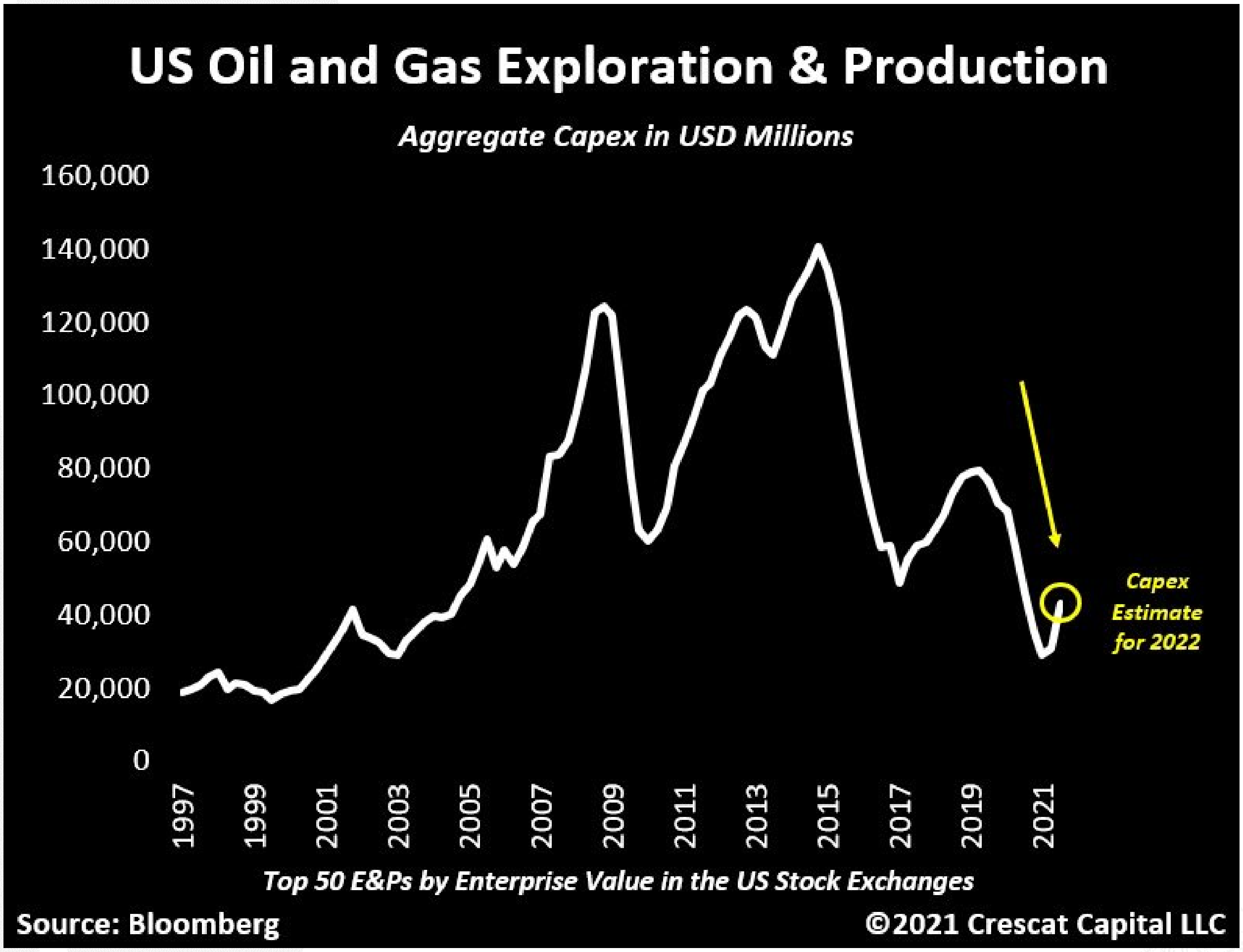
Also, note that oil and gas companies had the strongest returns since the pandemic lows and are almost 20 percentage points ahead of information technology and financials.



Oil and gas stocks are also having their best year-to-date performance in 30 years. We think leadership from the energy and materials sectors will continue to develop and many other businesses from mining to forest products and agriculture should benefit going forward.



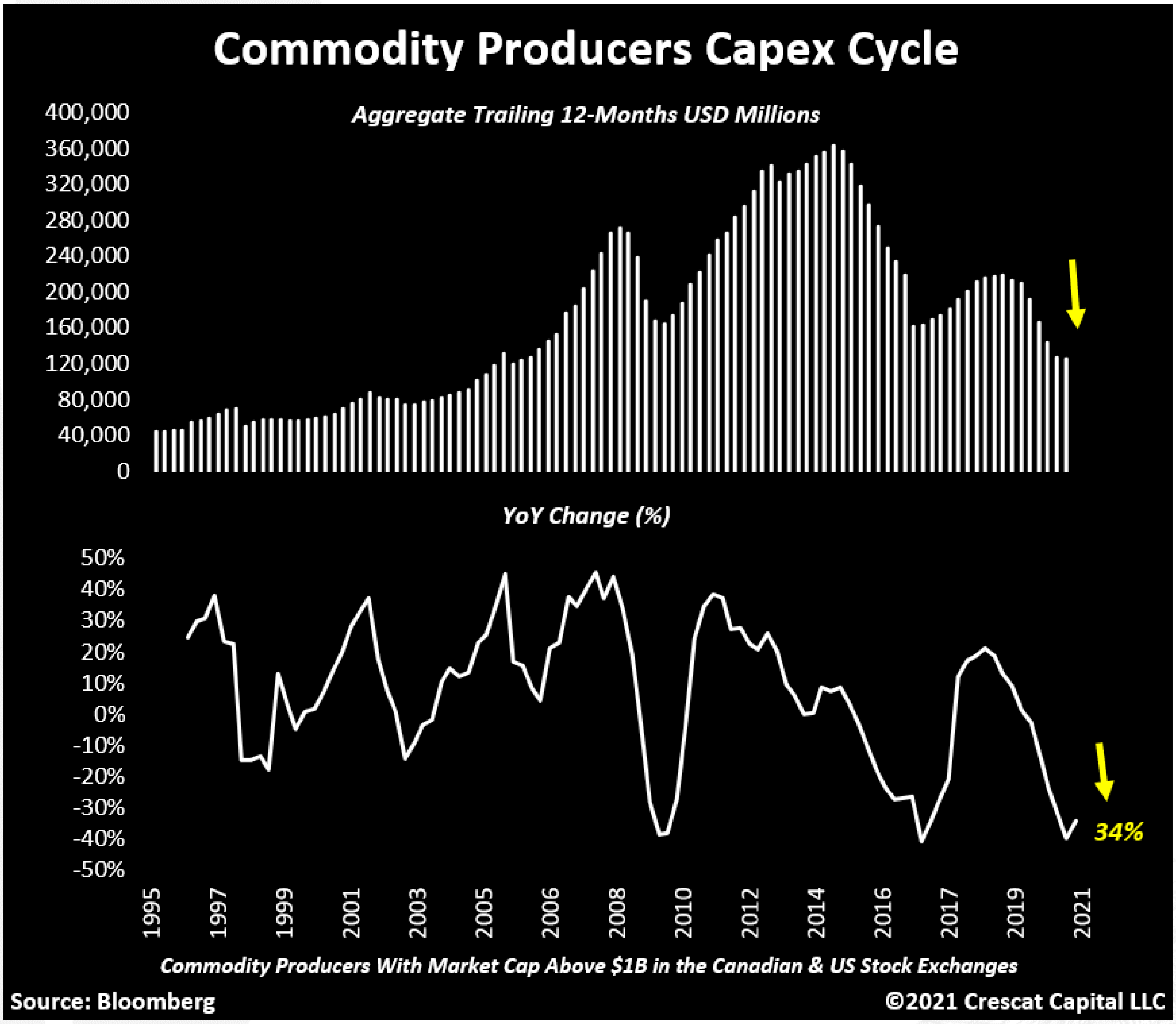
What is intriguing about oil markets today, however, is that regardless of how energy commodities are surging, the CAPEX estimate for E&Ps is still near all-time lows. Historically, when oil and gas prices rise, energy companies tend to overspend capital and therefore oversupplying the market. Today, on the other hand, environmental, social, and political constraints have been preventing these companies from exploring and producing. This might be the first time that the oil bull cycle could potentially last longer than most expect. The chart below is not an indication of a market at its peak.



You think oil and gas companies are just exceptions?

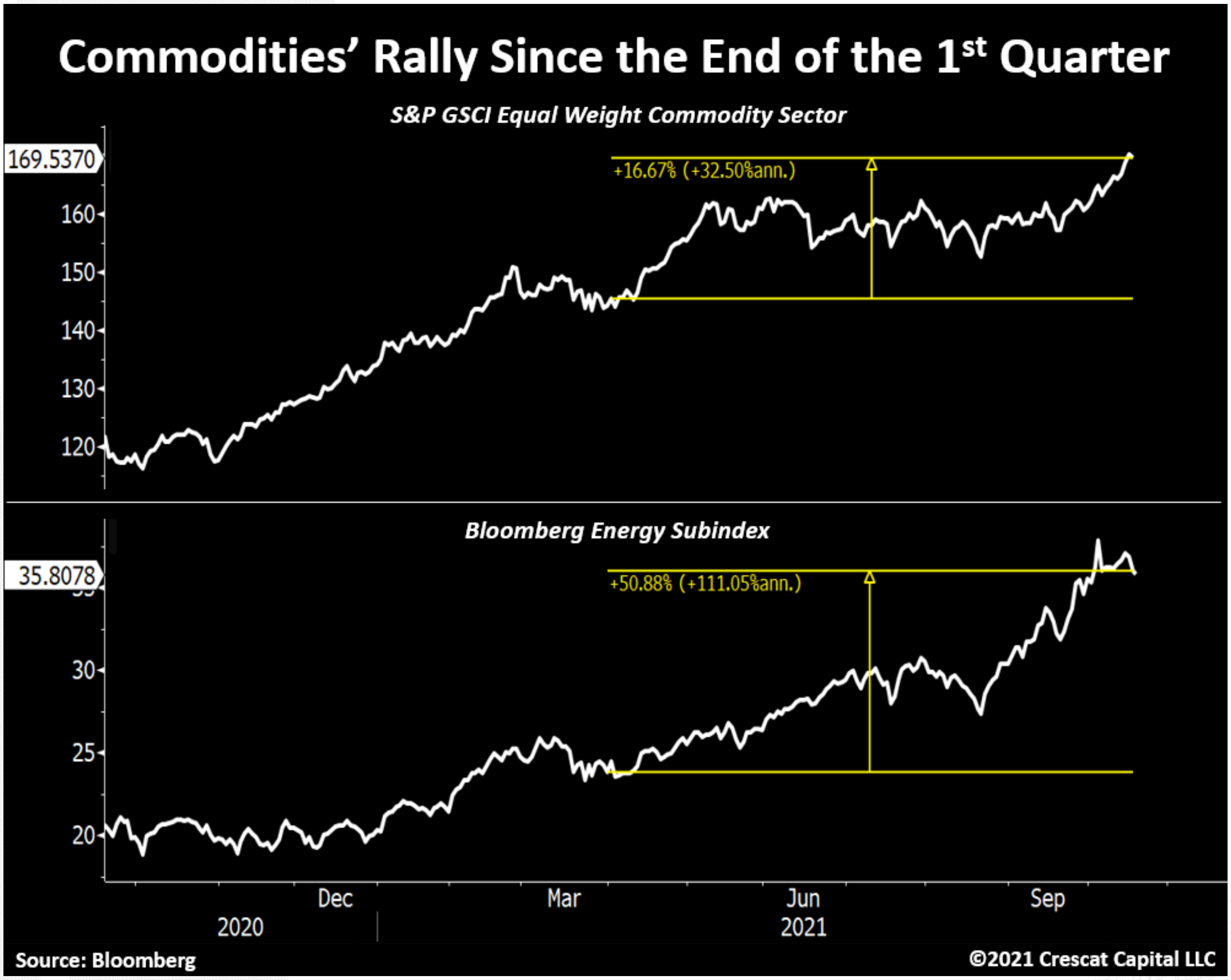
ESG policies are impacting the entire capital spending cycle of commodity producers. What most "deflationistas" underappreciate is that the supply constraints are much less about pandemic issues and much more about the long-germ declining trends in capex among critical parts of the economy such as natural resources. Considering we had no pandemic issues raw materials were inevitably headed towards a major supply shortage problem.

Note on the chart below that even though commodity prices have been surging, producers' capex is now declining by 34% on a year-over-year basis.



For those expecting inflation to slow down by the first quarter of 2022:

Keep in mind that since March of this year the commodities' equal weighted index is up almost 17%. Energy commodities are up even more, now close to 51% in the same time frame. If these assets just go sideways for another five to six months there will be some major tailwinds for inflation data.



"Gold is Consolidating but NOT Dead"

There is no shortage of questions on why gold has significantly underperformed during such an ideal macro setting. Inevitably, secular trends and long-term investment theses are always being tested. It is our job to identify the times when price volatility becomes unwarranted and use it as an opportunity to allocate capital accordingly. We think this is the case today. Our deep understanding of the mining industry along with our comprehensive macro and value framework gives us enormous conviction to stick with our strategy and continue to be buyers of these assets at lower prices.

To be clear, we did not make a firmwide commitment to partner with arguably the most successful exploration geologist to launch a precious metals fund if all we were aiming for was a couple years of strong returns. Gold and silver cycles are long-term trends that tend to last many years. Our view is that if there was ever a time to go up on the risk curve in exchange for upside return potential, that time is now.

As the larger, and more established, companies deplete their reserves and continue to build strong balance sheets, we think they will be compelled to acquire our high-quality projects to replenish their production pipelines. This is especially the case today due to an overly conservative management that has underinvested in exploration over the last ten years.

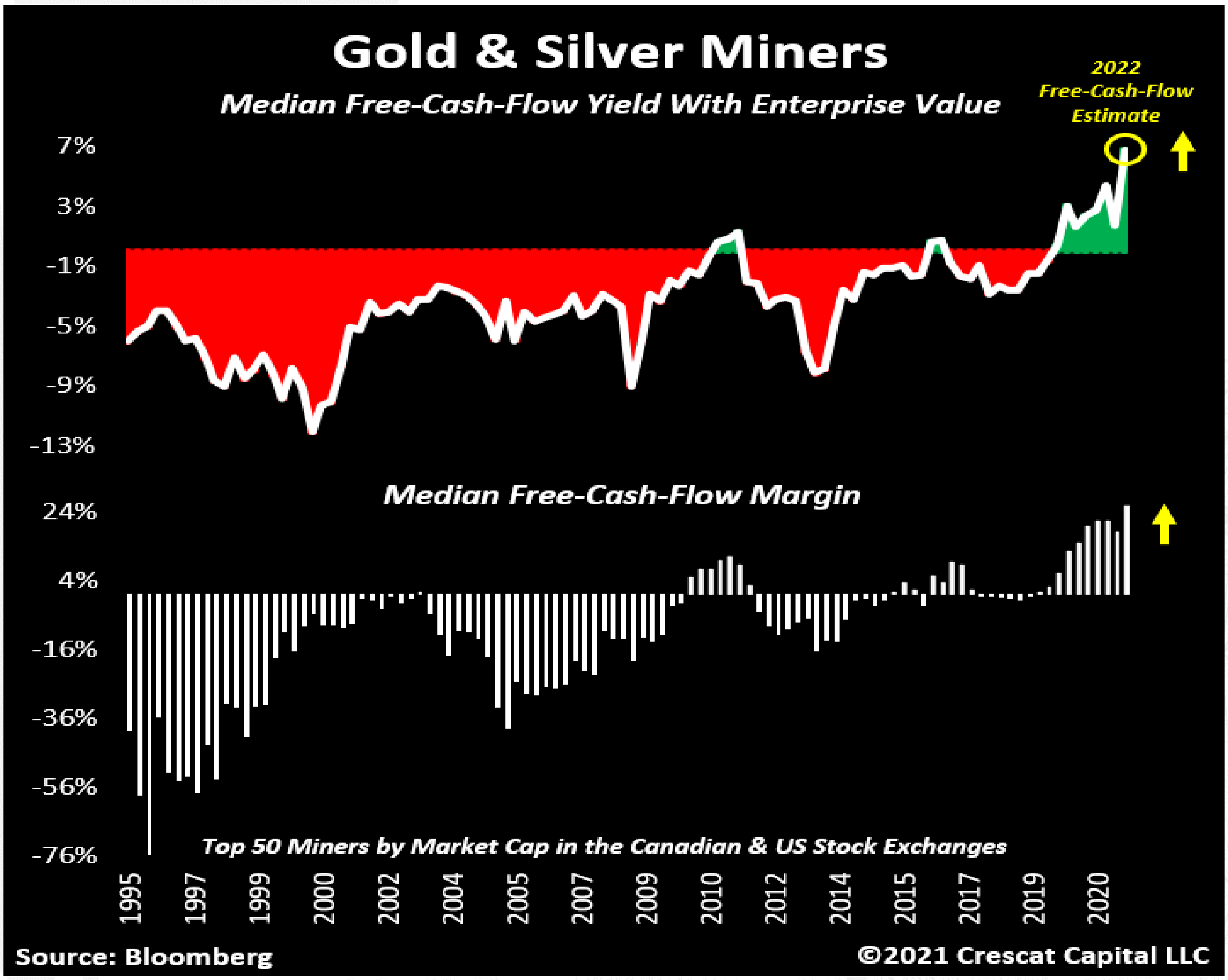
Then how do we identify that we are indeed in a long-term bull market for precious metals?

It feels like the market is pricing these companies at multiples of businesses that will be going out of business in the next couple of years. In our humble our opinion, that could not be further from the truth.

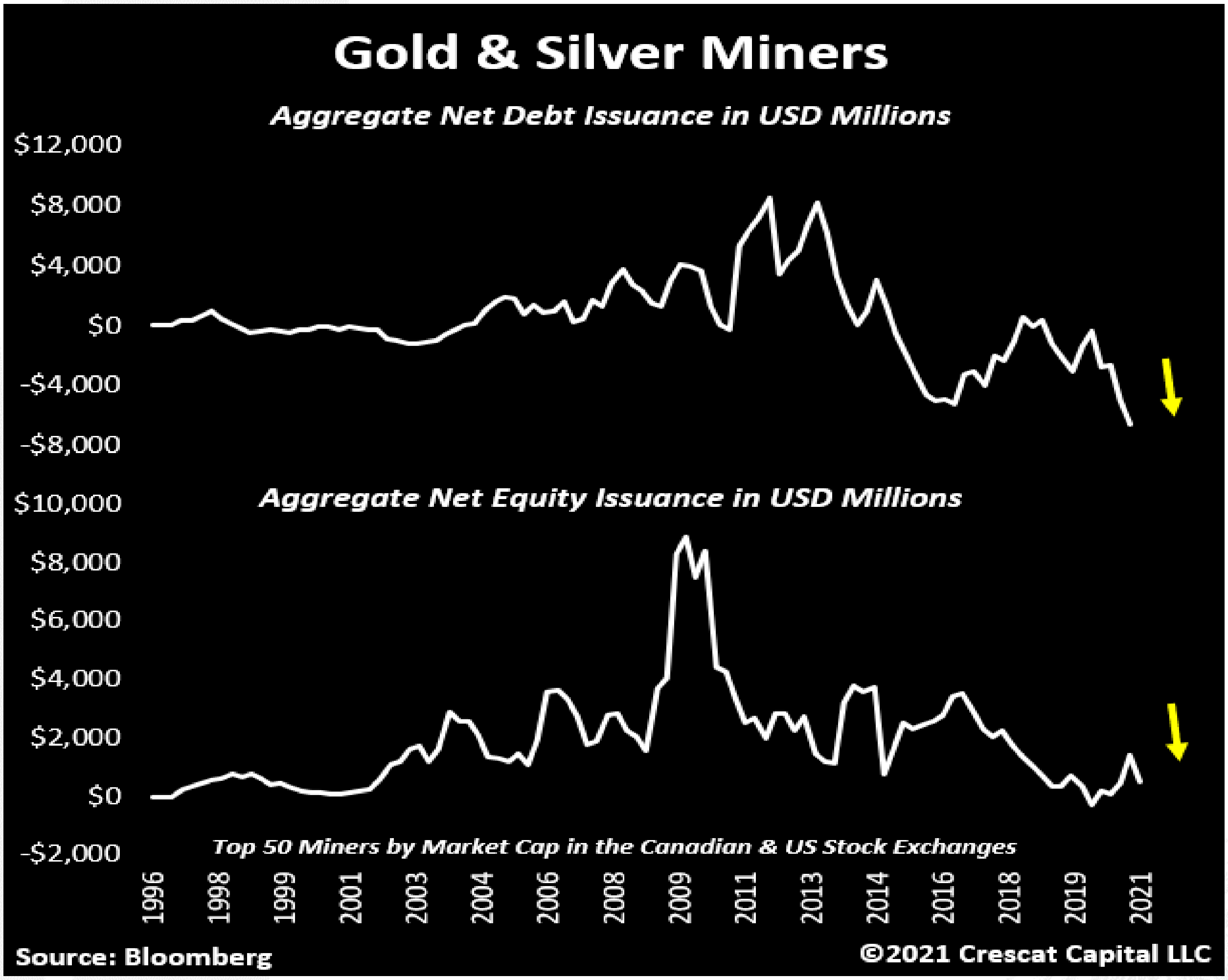
There are multiple reasons for us to believe that gold, silver, and the mining industry present an incredible opportunity at the current prices. Let us start by looking at the usual fundamental trends of this industry as part of prior historical cycles.

To be loud and clear, gold and silver stocks have never peaked at their historically undervalued levels.

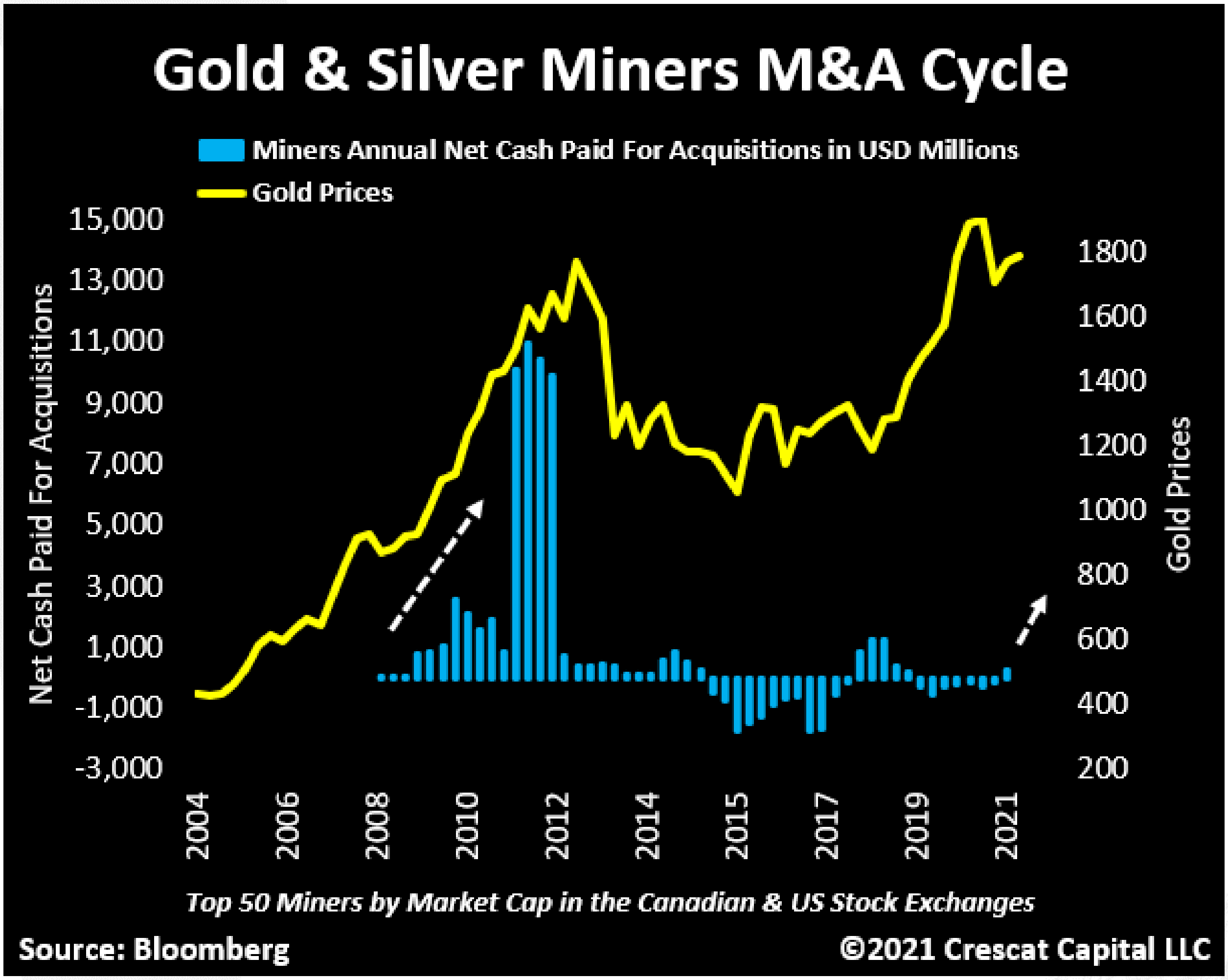
Miners are now trading at the cheapest fundamental multiples we have seen in history. Assuming the current 2022 free-cash-flow estimate relative to the current enterprise value, the median company among the 50 largest miners in the US and Canada exchange now trade at an unprecedented 7% yield. Note that in aggregate terms, the same basket of companies also trades at its highest free-cash-flow yield in history. Additionally, as shown in the second panel of the chart below, gold and silver miners continue to expand their margins in a significant way. The median free-cash-flow margin is now above 25%.



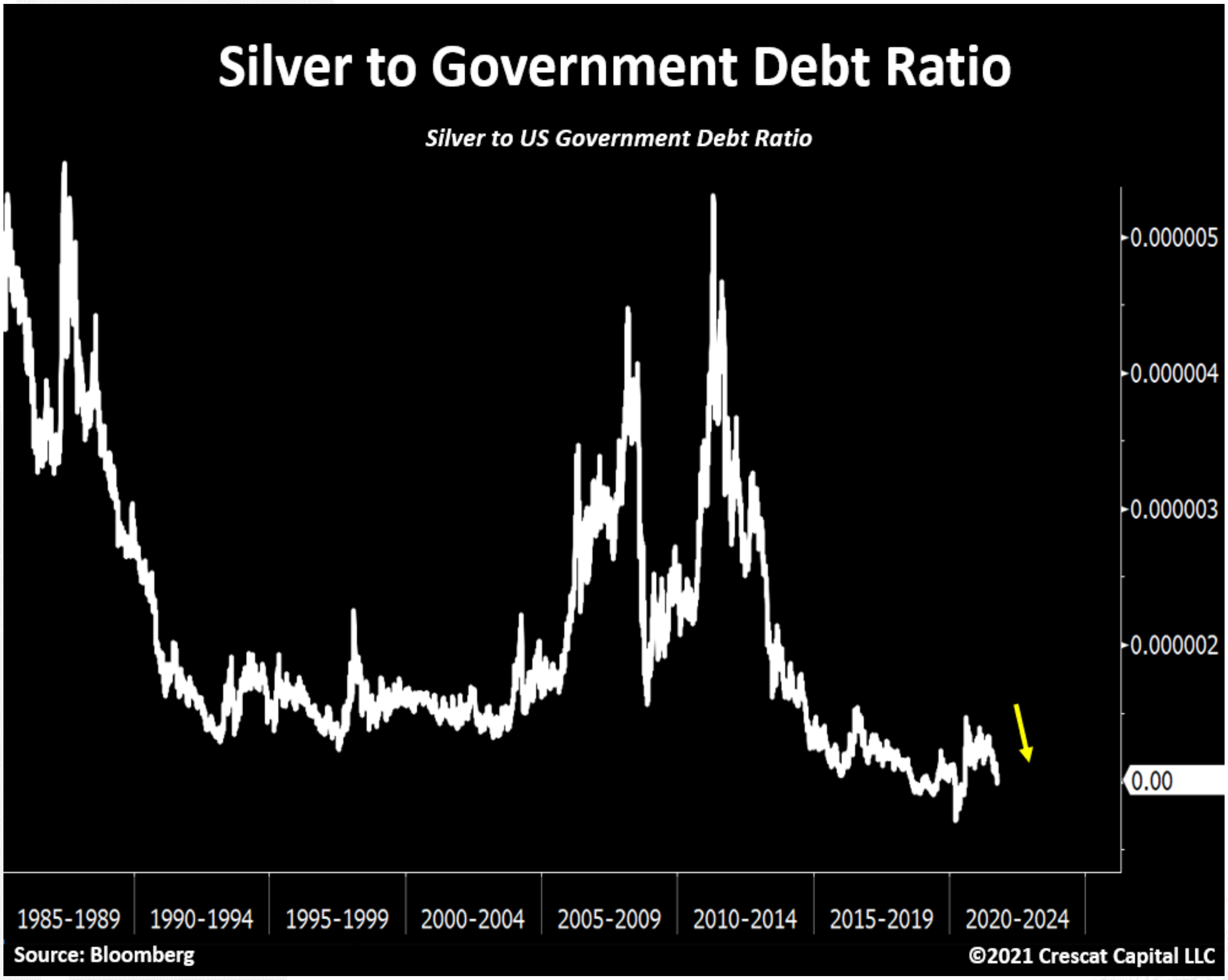
Historically, mining companies tend to lever up and dilute massive amounts of shares when they are at the top of their cycle. We are experiencing the complete opposite today. These companies have become true free-cash-flow machines and are now being able to not only pay down debt but to avoid significant equity issuances to finance their businesses. In fact, as shown in the chart below, gold and silver miners just repaid the largest amount of debt in the last 25 years.



We have not even seen the onset of an M&A cycle yet. Precious Metals miners have turned gun-shy when it comes to acquiring new projects or companies. Remember, mining companies tend to overpay for deals at the peak of the cycle. We are barely seeing any deals being done today.

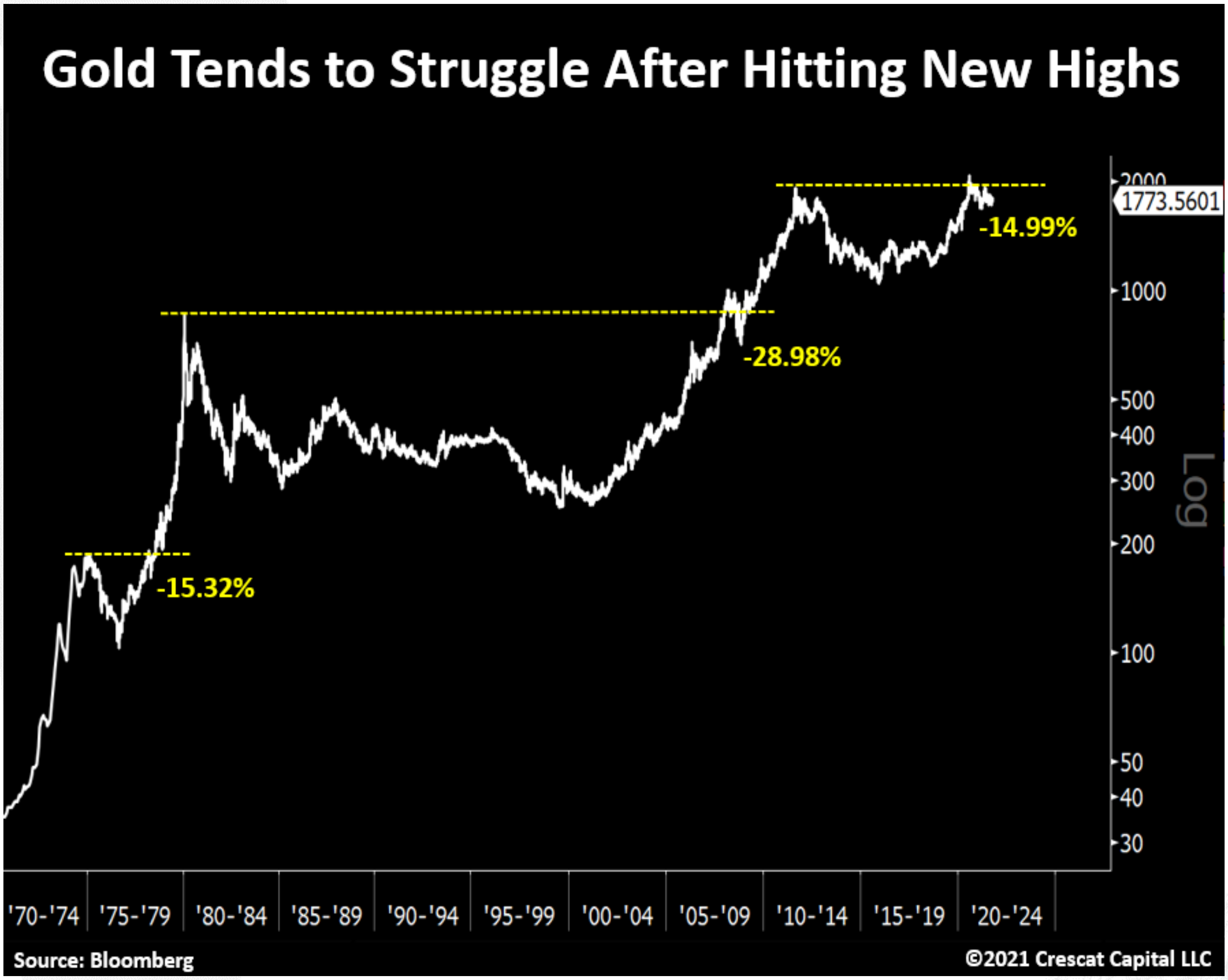


Interestingly, as the government has continued to pile on more and more debt, gold has underperformed. Such a phenomenon is unsustainable in our view. Today, the setup today looks just like it did in the early 2000s ahead 10-year precious metals bull market.



It is quite normal for gold to struggle after making new highs. We have seen this price behavior happen twice before. In March 1978, gold briefly reached a record level and then corrected by 15% soon after. Also, January 2008, the metal hit new highs and continued to appreciate for another month until declining by 28% during the Global Financial Crisis.

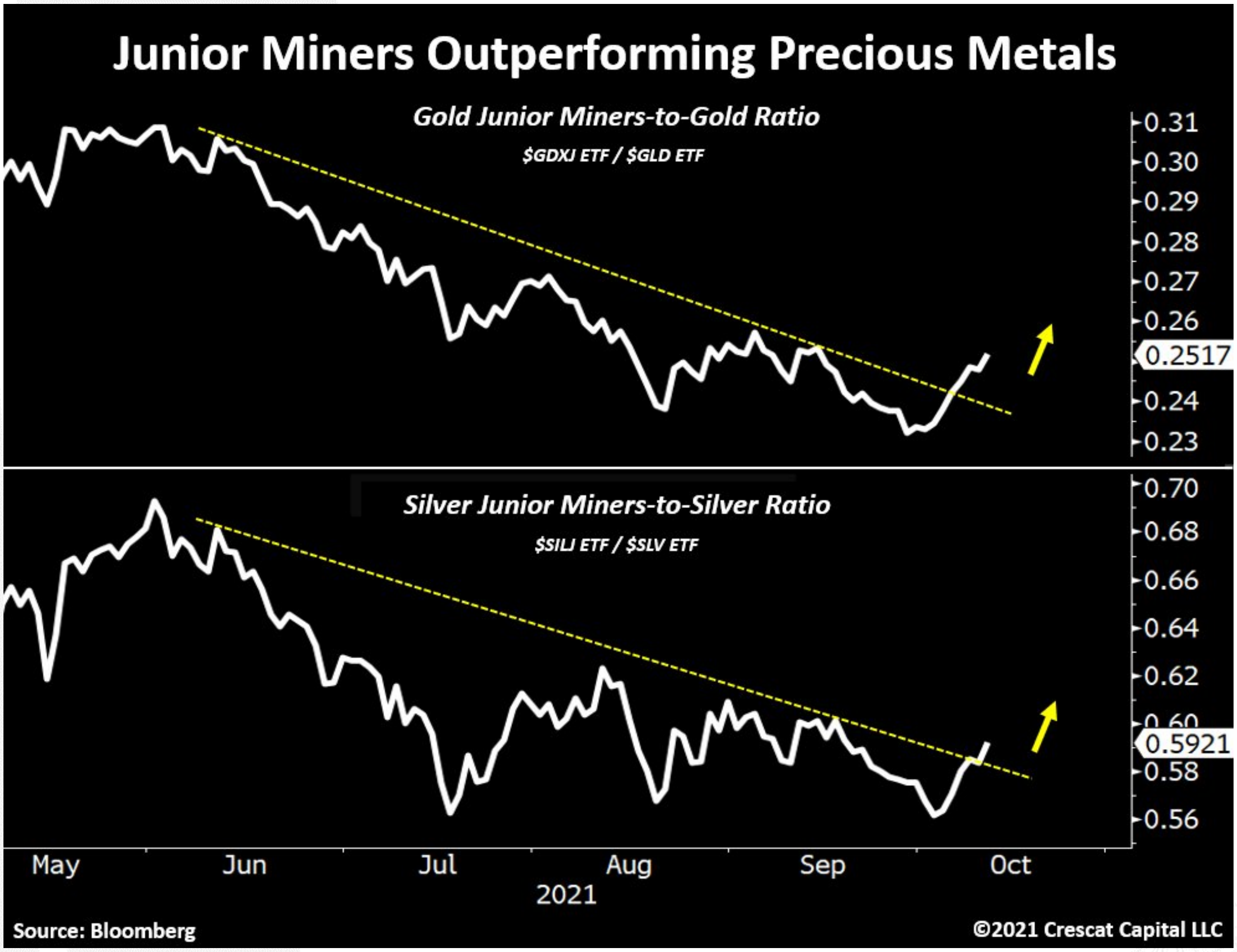
We are probably seeing a similar issue today again. In July 2020, gold broke out to record levels and kept moving higher for another two weeks. The price is now 14% lower, and the entire financial media already claims that gold is dead. Note, however, how the shiny metal tends to come screaming back after these pullbacks.



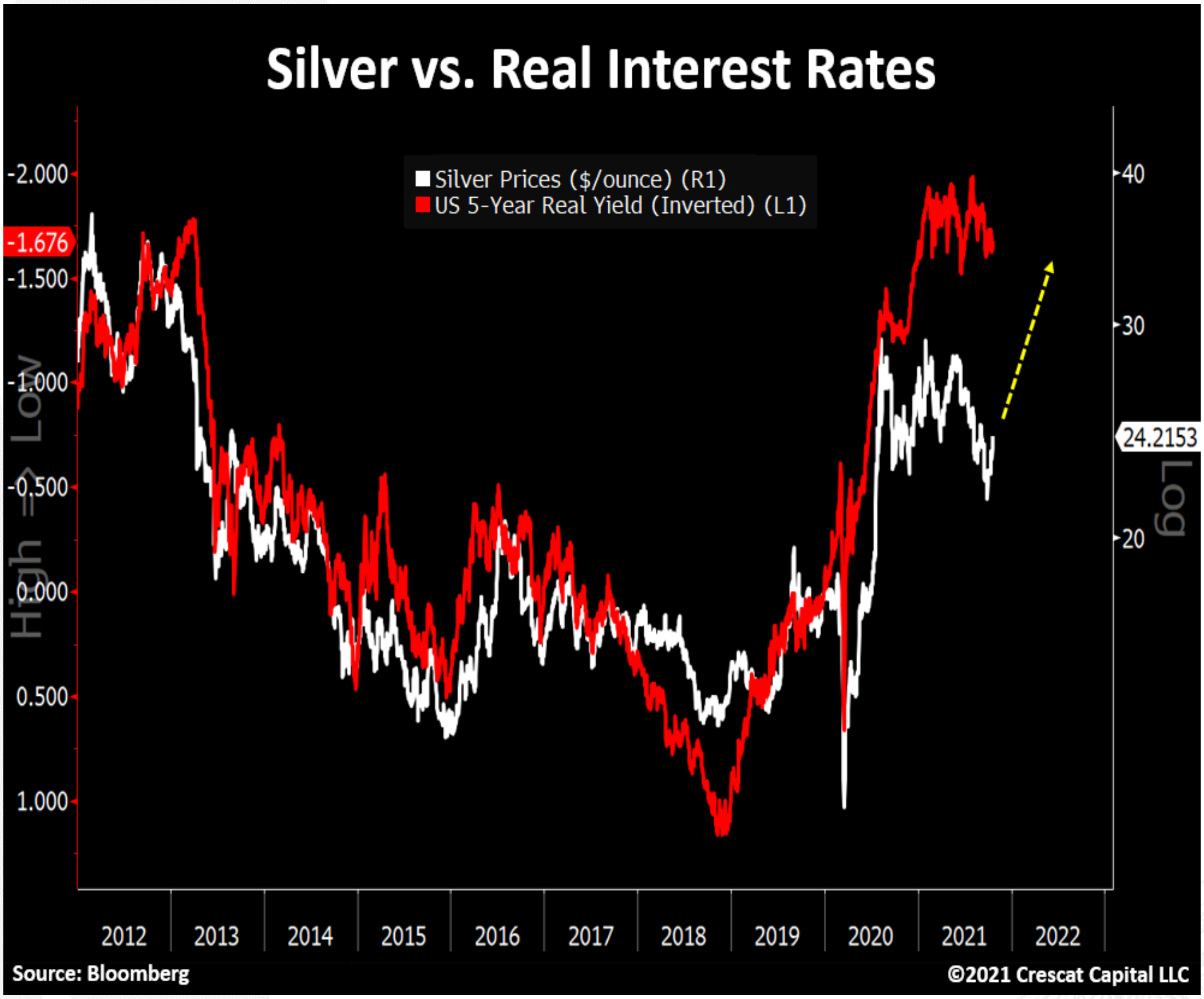
The gold-to-silver ratio usually reaches historical lows when miners are near peak cycle. Yes, this ratio was higher during the Covid crisis, but the current levels are almost as low as it was during other major bottoms. Yet another reason why silver is historically undervalued relative to not only its own fundamentals, but also versus gold.

Miners also look technically oversold. The last times we had such a divergence between the Philadelphia Gold and Silver index relative to its 200-day moving average, it marked two important bottoms.

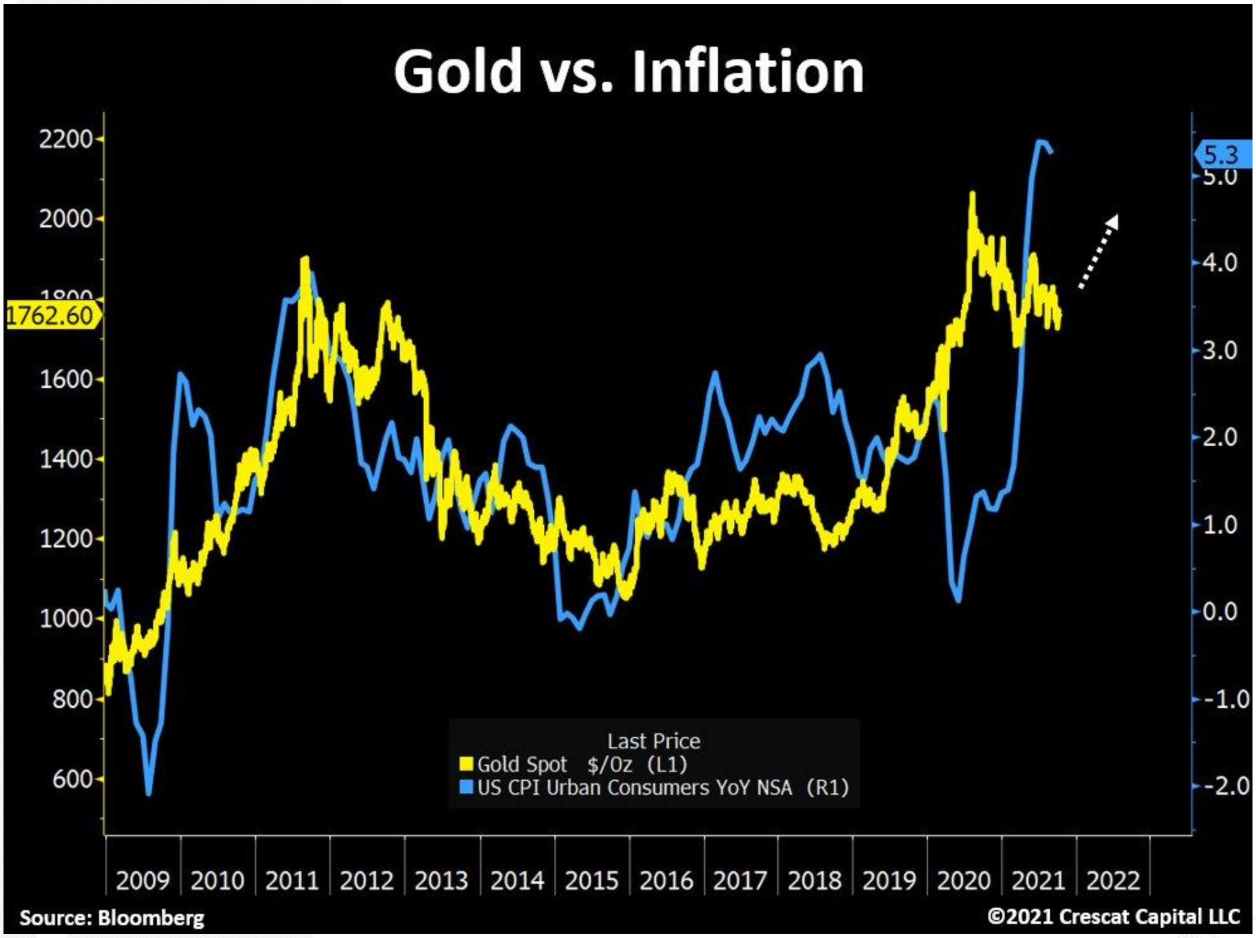
Junior miners in the precious metals industry have started to outperform the seniors. These are important signs that a bottoming is taking place. Ideally, one wants to see the riskier parts of the market not only holding up their values but perhaps even leading the way to the upside.



The correlation between inverted real interest rates and silver is strong and indicates that silver is due for a jump.



As inflation continues to surface in the economy, the chart below shows the incredible link between gold prices and CPI since the Global Financial Crisis. Note how after the pandemic lows, gold ran up in advance of the rise in consumer prices with the entire precious metals complex appreciating sharply. Gold and silver not only diverged from CPI but also significantly outperformed the rest of the commodities market. It is important to remember that before recently peaking, gold had been rallying for two years already. The metal was up more than 75% from August 2018 to August 2020 and even reached new highs during this period. Back then, with CPI around 1%, very few investors foresaw inflation as a risk to the economy. Now, it is a real problem. We think gold likely appreciated too quick and too fast, becoming what some thought as an obvious trade. Extreme sentiment probably explains the reason for its recent weakness after signaling way earlier than any other asset the possibility that an inflationary environment could be ahead of us. We are now on the other side of this extreme. ***Gold looks fundamentally cheap, technically oversold while inflation continues to gain traction***. We think the historic relationship between precious metals and the growth in consumer prices will continue to be strong and the recent pullback in gold and silver related assets poses an incredible opportunity for investors to deploy capital at what we believe to be truly attractive levels. Also, keep in mind that we are using government reported numbers to gauge inflation in this analysis. We should all know by now that the true cost of goods and services is growing at a drastically faster pace than CPI.



The overall macro thesis behind owning hard assets that serves as an alternative for the monetary system remains strong. Gold remains historically undervalued relative to M2 money supply.

Performance

All Crescat's strategies are performing exceptionally well month-to-date, especially with the recent turnaround in precious metals prices and mining stocks. We believe we are still in the early stages of what we have coined the "Great Rotation" out of overpriced growth stocks and fixed income investments and into undervalued inflation hedge assets, particularly undervalued businesses in the energy and materials sectors. We are overweight gold and silver mining companies where we can buy next generation, large, high-grade deposits for pennies on the dollar.

Our stock-picking effort in the precious metals is led by world-renowned exploration geologist, Dr. Quinton Hennigh. Crescat has built an advanced statistical model to systematize Dr. Hennigh's criteria to allocate capital among the world's premier exploration and development projects in top tier Fraser jurisdictions across the globe. Our model accounts for key factors that include target size, probability of discovery, expected profitability, dilution, and management and technical team scores to derive entry points and target prices for all of our activist positions to optimized weighting and overall portfolio structure. As a result, we believe we have an ultra-deep value and high appreciation potential portfolio that will perform extremely well in the new and persistent inflationary environment that we envision.

Understandably, a number of investors have been holding out for signs of a life in the precious metals market before initiating positions. We believe our recent rebound in performance, coupled with our macro and fundamental views outlined above, provide the confirmation patient investors have been waiting for.

Crescat Strategies Net Return through September 30th, 2021

CRESCAT STRATEGIES VS. BENCHMARK (Inception Date)	September	YTD	Annualized Trailing 1-YEAR	3-YEAR	SINCE INCEPTION	CUMULATIVE SINCE INCEPTION
Global Macro Hedge Fund (Jan.1, 2006)	**-10.8%**	**-19.7%**	**-6.0%**	**10.2%**	**10.9%**	**412.5%**
Benchmark: HFRX Global Hedge Fund Index	-0.4%	3.6%	8.9%	4.3%	1.3%	22.5%
Long/Short Hedge Fund (May 1, 2000)	**-7.8%**	**-13.5%**	**2.7%**	**15.4%**	**7.5%**	**373.7%**
Benchmark: HFRX Equity Hedge Index	-0.5%	9.2%	17.7%	4.9%	2.7%	76.7%
Precious Metals Hedge Fund (August 1, 2020)	**-8.2%**	**1.7%**	**54.8%**	**-**	**135.9%**	**172.2%**
Benchmark: Philadelphia Gold and Silver Index	-11.0%	-16.5%	-15.6%	-	-18.9%	-21.7%
Large Cap SMA (Jan. 1, 1999)	**-5.0%**	**-4.1%**	**-7.5%**	**6.7%**	**9.9%**	**760.5%**
Benchmark: S&P 500 Index	-4.7%	15.9%	30.0%	15.9%	7.7%	438.0%
Precious Metals SMA (June 1, 2019)	**-7.6%**	**-3.2%**	**13.5%**	**-**	**53.2%**	**170.6%**
Benchmark: Philadelphia Gold and Silver Index	-11.0%	-16.5%	-15.6%	23.5%	26.9%	74.3%

CRESCAT STRATEGIES: OCTOBER MTD NET ESTIMATES

Global Macro Hedge Fund	**+8.6%**
Long/Short Hedge Fund	**+6.9%**
Precious Metals Hedge Fund	**+9.4%**
Large Cap SMA	**+8.4%**
Precious Metals SMA	**+8.7%**

Sincerely,

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Member & Chief Investment Officer

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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.