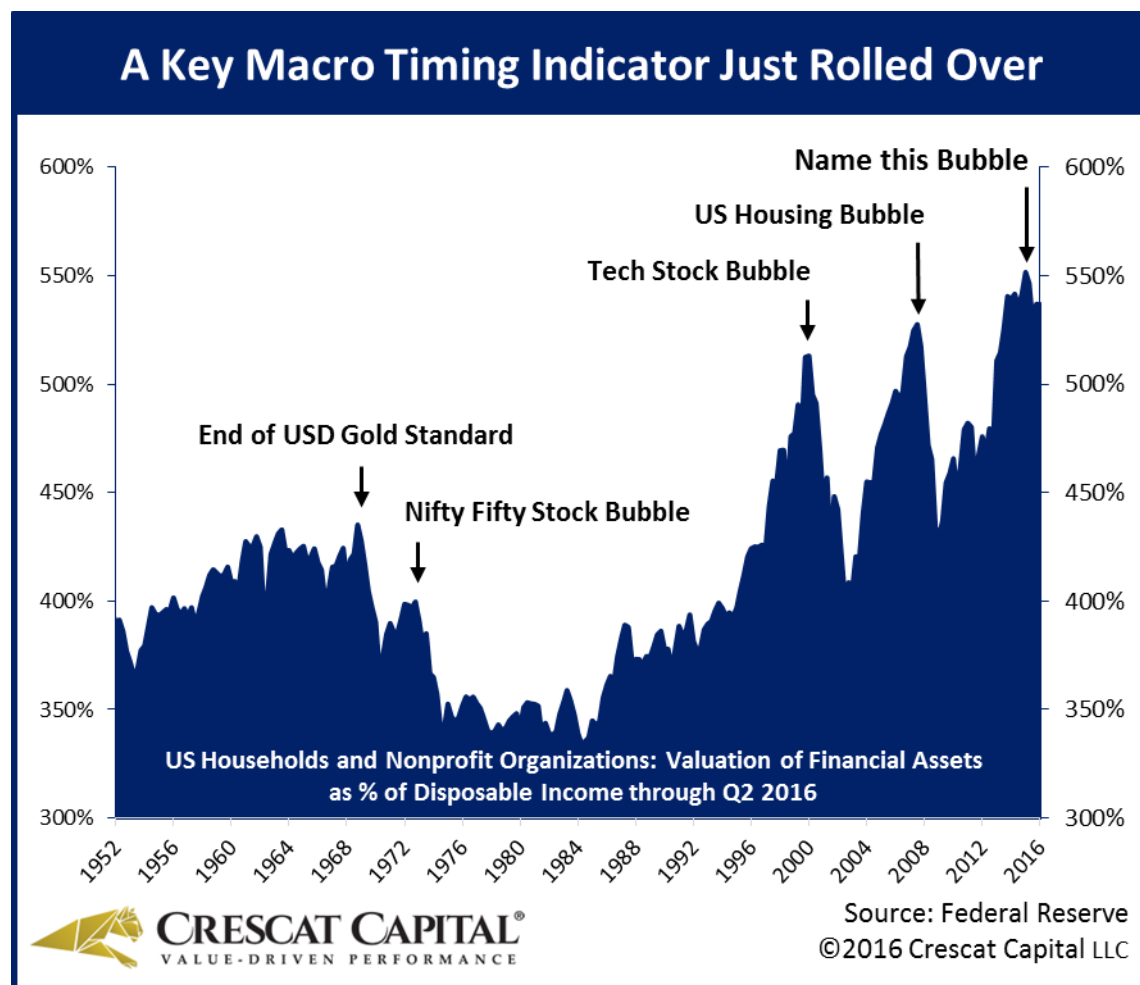


September 30, 2016

Crescat Capital Quarterly Investor Letter, Q3 2016

Dear Investors,

Here we are again at the peak of another financial asset bubble. An important macro indicator based on the valuation of US-held global financial assets is signaling extreme caution. The chart below measures the valuation of all global financial assets (stocks, bonds, and cash) owned by US persons relative to their after-tax income. Unsustainable extremes in this ratio have marked the turning points from bubbles to busts of the dominant macro trends of our time.



As one can see in the chart, the intermittent peaks in financial asset to disposable income levels that we point to correspond with watershed moments in US and global financial market history, such as the collapse of the London Gold Pool in 1968, which ended US dollar convertibility to gold and triggered a secular bear market for US Treasuries. This indicator also peaked along with the Nifty Fifty Stock Bubble in 1972, the Tech Stock Bubble in 2000, and the US Housing Bubble in 2007. Each peak preceded a major

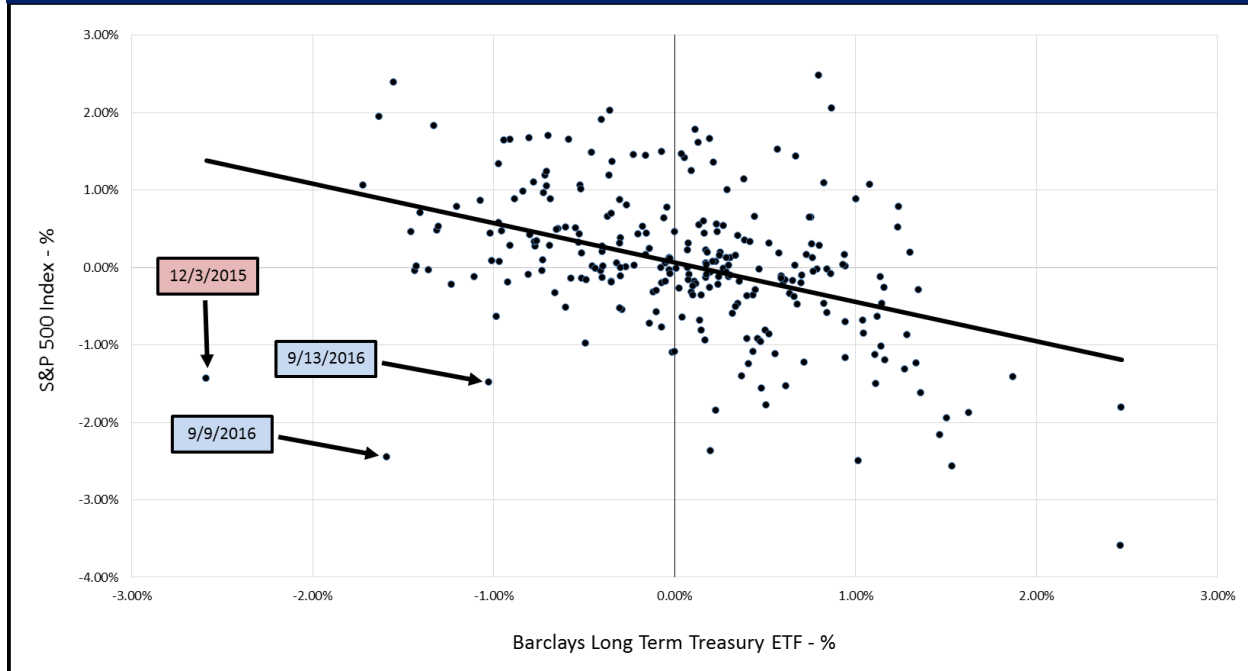
financial crisis and US economic recession. Just last year, we reached new record levels of financial asset to income imbalances with bubbles globally in essentially every financial asset class.

If this indicator did in fact peak as it appears at the end of Q1 2015, when market historians look back, how will they define the current financial asset bubble that we are now descending from? Is it a global financial asset bubble? Perhaps that term is too broad and general even though it is probably true. Is it a stock market bubble or an index investing bubble? Very possibly both. The S&P 500 is still struggling to convincingly break out above the 2100 level reached in Q1 2015 and could be ripe to break down. See our twelve fundamental charts on the S&P 500 towards the end of this letter that warn of historic leverage and valuations. Is it a fixed income bubble? Have Treasury bond yields finally bottomed? Certainly on a real return basis going forward, bonds are in a massive bubble right now. Also, bi-partisan US policy makers have fiscal stimulus plans for 2017 which could drive yields higher on Treasuries. See our six fundamental charts at the end of this letter on utility stocks, which are bond proxies and are the most overvalued sector in the S&P 500 according to our model. Is it a global fiat currency bubble? Yes. Certainly. Gold is historically cheap relative to the global fiat monetary base and is in a renewed bull market that began at the end of 2015. Is it a global central bank bubble given the record money printing and ultra-low interest rates that just can't seem to get inflation and economies cranking again? Definitely. Global central bank monetary stimulus has only served to date in creating the biggest financial asset bubble of our lifetimes.

But there is still one element behind the financial asset bubble that we haven't mentioned yet that may be the linchpin. Of course, it's China. China's economy features prominently in the recent peaking of the financial asset to income indicator in our chart above. The Chinese stock market had both a melt up and melt down last year as the indicator peaked. Also the Chinese yuan devaluation in August 2015 was one of the key global macro events of 2015 and happened just after this indicator peaked. Furthermore, the Chinese were selling their foreign reserves aggressively in 2015. In the name-that-bubble contest, Crescat is first and foremost naming this bubble and crisis precipitator, the China Bubble. We have been writing about the Chinese Currency and Credit Bubble in our investor letters for the past few years. This bubble has only just started to burst. It is perhaps the biggest financial bubble of our lifetime, and its bursting will no doubt have a contagion effect on the rest of the world. Most investors probably do not realize it yet, particularly given the convulsive, reactionary rally that we have had in stocks since the February lows, but we have very likely already entered a new crisis period for financial assets induced by China.

The tandem selloff that recently took place in stocks and bonds represents a major warning signal for the financial markets in the short term. On September 9th, the S&P 500 sold off by 2.5% at the same time as German 10-year Bunds sold off (from an all-time high) in a seven standard deviation move. US Treasury bonds also sold off that day, continuing a downtrend that began July 6th. Japanese sovereign bonds have been selling off consistently since topping out with yields of minus 30 basis points (-0.30%), on July 27th. Before September 9th, the last significant tandem selloff in stocks and bonds in the US was on December 3rd, 2015, as shown below in the scatter plot of the daily performance of the S&P 500 and Barclays Long Term Treasury ETF over the last year.

Tandem Stock and Bond Selloff is Bad Omen for Stocks



The 12/3/15 tandem selloff kicked off an ugly 2-month period for stocks to close out 2015 and begin 2016. From 12/3/15 to 2/11/16, the S&P 500 dropped by 10.4%. We want to remind our investors that the Crescat Global Macro fund gained 8.8% net over that same period. As the chart shows, a tandem stock and bond selloff just happened again, twice in September. Once again, this could portend a difficult period for global stocks in the near term. We believe Crescat is well prepared across all of our strategies for such an environment.

The recent surprise selloff in the global sovereign bond market across US Treasuries, Japanese Government Bonds, and German Bunds at the same time raises the suspicion that China is in the market selling its foreign reserves. The People's Bank of China holds its foreign reserves primarily across these three instruments, but also in gold. The PBOC has been a widely known buyer of gold over the past several years but in an undisclosed amount. In the ugly period of the most recent December and January, China sold a record \$206 billion of foreign sovereign bonds over those two months while gold rallied. At the same time, its currency, the yuan, was declining. The risks in the global financial markets as a result of the Chinese Currency and Credit Bubble are substantial. We are well positioned for these risks at Crescat within the constraints of each of the three Crescat investment strategies.

In addition, there has been a perverse phenomenon going on in the markets since the February global equity market lows that points to extremely frothy market conditions today. Many of the stocks with the poorest fundamentals and highest valuations based on our time-tested fundamental model have been rising the most. Indeed, investors have been chasing passive indexing strategies and selling hedge funds after a seven-year bull market and corresponding stretch of underperformance by large hedge funds. As a result, Crescat has been forced to cover otherwise good fundamental short positions after larger funds covered their shorts due to liquidations. This has caused short-term underperformance in our funds. This movement away from hedge funds and into actively managed long-only funds and index funds today is another significant warning sign of a possible market top.

The stock market is at all-time highs and in the eighth year of a bull market. Now, investors are piling out of hedge funds and into index funds? It's almost certainly the time for investors to be doing the exact opposite! Fear and greed will constantly tempt investors to make poor decisions. We believe that now more than ever investors need to protect themselves with seasoned asset managers of true hedged and active strategies that have a strong long term track record of navigating throughout boom and bust cycles. A good manager understands securities valuation and is grounded in fundamental quant models. Good hedge fund managers have a record of success on the short as well as the long side of the markets.

We are very confident that our actively managed discipline will get investors through the next inevitable bear market period substantially ahead of index funds. We also believe that we can outperform in what may prove to be just a low return environment for the indices. We believe that all of our strategies can outperform over any reasonable time frame regardless of the market conditions.

As proof of that, Crescat Large Cap, our long-only strategy just earned a Morningstar 5-star rating through the June quarter, which puts us in the top 10% of money managers for 3-year, 10-year, and overall performance among 492 active professional large cap money managers in the Morningstar universe. Morningstar further gives Crescat Large Cap a high return rating overall and a below average risk rating overall. Furthermore, our hedge funds outperformed the market and the vast majority of hedge funds in 2014, 2015, and early 2016.

We typically recommend that qualified clients who have a significant portion of their net worth with us diversify across all three Crescat strategies to smooth out overall returns and profit when one strategy is doing better than another.

Crescat has a long track record of success identifying beforehand and then capitalizing on financial bubbles and busts. Here are some examples:

- Tech Run Up & Bust, 1999-2002
- Peak Oil (long energy theme), 2006-2007
- US Housing Bust (short homebuilders, mortgage companies), 2006-2008
- Global Financial Crisis (short banks), 2007-2008
- Precious Metals Bull Market, 2006-2007, 2009-2010, 2016+
- China Infrastructure Bust (copper, coal and iron-ore shorts) 2011 to 2015
- Biotech Run Up & Bust, 2014-2015
- Oil Price Collapse, 2014
- MLP Bust, 2015
- China Yuan Devaluation, 2015 & 2016

Through all of these varied environments, we have substantially beat both the market and the vast majority of money managers net of fees since inception for each of our three strategies. Our first strategy, Crescat Large Cap was started in 1999; our first hedge fund, Crescat Long/Short Fund LP in 2000; and our second hedge fund, Crescat Global Macro Fund LP, in 2006.

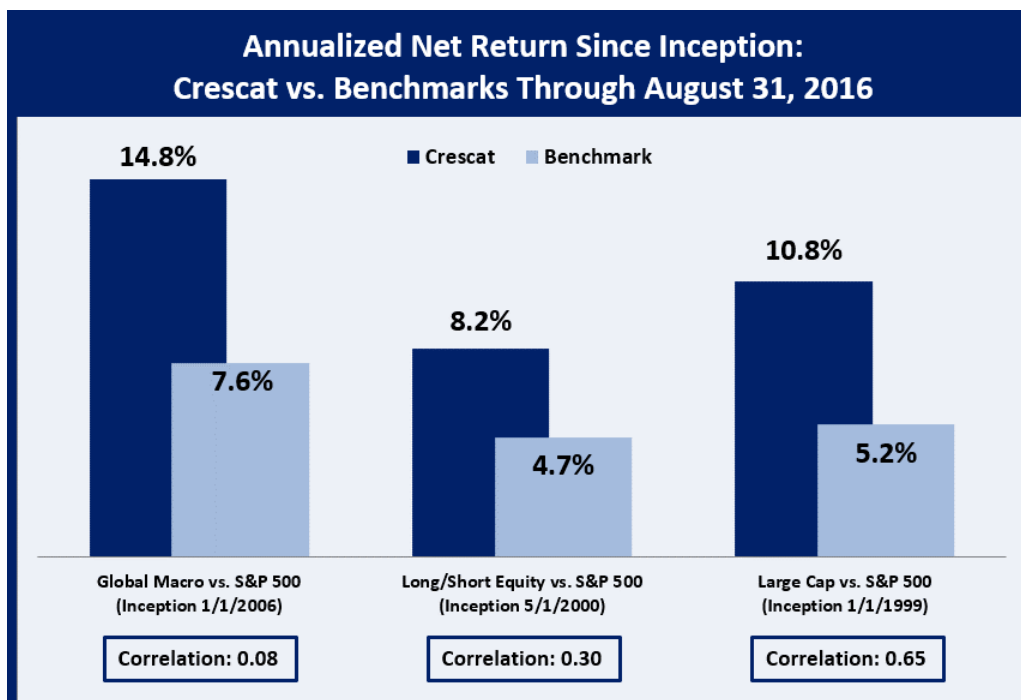
The collapse of oil in late 2014 and through early 2016 has been another feature alongside China that has kicked off the financial asset crisis. We wrote about the upstream oil exploration and production stock bubble and midstream MLP bubble before they both crashed and capitalized on them both. Most other

hedge funds did not see the oil crash or MLP bust coming. We played the Nanoscale boom on the way up and shorted the Biotech Bubble as it peaked last year also as the financial asset to disposable income ratio crested. We have written about the Global Fiat Currency Bubble for years now. Precious metals are once again leading the financial markets year to date and we have been capitalizing on that on the long side of our portfolios all year despite some recent short term setbacks. There is much more room for gold to run to the upside in the correction phase of this record financial asset bubble, which in our view must ultimately unwind with significant inflation—much like in the decade of the 1970s.

We will soon be entering a period of rising inflation and perhaps even rising interest rates. Inflation is ultimately the only way that the world can reconcile the unsustainable Global Debt to GDP Bubble as well as the Financial Asset to Income Bubble. These are really the same bubbles. Debt and GDP are quoted in nominal terms just as financial asset values and incomes are. This means that these figures include inflation. Inflation is ultimately the only reconciling force that can both boost the denominator of these two bubble ratios while devaluing the numerator in real terms, even if the numerator does not devalue in nominal terms. When central bankers finally get around to raising interest rates, they are almost sure to stay several steps behind true inflation. Negative real interest rates and inflation are a central banker's best friends. Inflation makes both peoples' incomes and GDP go up. Debt and financial asset values can continue going higher, but inflation can go up even more. This is what negative real interest rates are all about. Many of the developed world's savers are still stuck in a deflationary mindset and are not ready for it. The Chinese get it. They invented fiat paper money 1,000 years ago during the Sung Dynasty and have been masters of inflation and hyperinflation ever since. We think the Chinese still have the whole world fooled right now regarding the value of their currency. But that should change soon enough.

Of the three financial asset classes, stocks, bonds, and cash, stocks actually offer the best place to beat inflation, but one must be very selective and own the right stocks that have good valuations, strong growth, with competitive advantages that yield pricing power to operate and succeed in an inflationary environment. One cannot just buy an S&P 500 index fund in this reconciling environment. One must own only the best stocks.

| Net Returns through 8/31/2016 | | | | |
|--|--------------|--------------|--------------|-----------------|
| Crescat Strategy/Benchmark | Year to Date | Annualized | | |
| | | 1 Year | 3 Year | Since Inception |
| Global Macro Hedge Fund | -2.7% | 1.2% | 12.1% | 14.8% |
| -Benchmark: HFRX Global Hedge Fund Index | 0.8% | -1.9% | -0.1% | 0.1% |
| Long/Short Hedge Fund | -1.4% | 4.5% | 10.6% | 8.2% |
| -Benchmark: HFRX Equity Hedge Index | -2.2% | -3.4% | 0.8% | 1.9% |
| Large Cap SMA | 10.5% | 12.4% | 11.8% | 10.8% |
| -Benchmark: S&P 500 Index | 7.8% | 12.6% | 12.3% | 5.2% |



In the current environment of negative real interest rates, investors will need to take risk, not only to build wealth, but just to preserve capital by staying ahead of inflation. Taking risk means enduring inevitable short-term downturns and reasonable volatility in the pursuit of prudent long-term gains. If any investment strategy has strong market-beating long term returns, but doesn't have sporadic drawdowns along the way, it's not real. We learned this from Bernie Madoff. In addition to looking out for Ponzi schemes, investors should be wary of hedge funds that gained fame by nailing one market cycle, but that don't have sound risk management or a sustainable investment process. Performance chasing without proper diligence is rarely rewarded.

Taking calculated risks is what Crescat does well. We follow an investment discipline that our team has honed over the last seventeen years of managing discretionary money. We have persevered thanks to a robust, repeatable investment process that we are continuously improving through our experience and analysis. Crescat's single, firm-wide investment process of combining macro themes with our fundamental equity valuation model and disciplined risk controls applies to all three distinct Crescat strategies.

While other hedge funds are shrinking, Crescat has been growing. We just finished two strong years in 2014 and 2015 of outperformance compared to both other hedge funds and the market. We have received significant capital inflows this year and aim to continue this trend. Our hedge funds are slightly down year to date, given the short-term trouble with our short positions, but the year is not over. We are about to report preliminary results for September where our shorts hurt us again. Most recently, we thought there would be one more round of short opportunity in 2016 for oil stocks after the strong bounce off the lows for E&P stocks. However, the likelihood for an OPEC production freeze deal that became apparent last week and subsequent market reaction worked against us. We did not see that coming. We have had to cover our oil-related shorts at least temporarily. We are sacrificing these shorts in the name of risk control. The six fundamental charts on oil E&P stocks further below will show why we were justified

in getting more bearish on them recently and why there could still be one more short opportunity ahead in spite of OPEC's talk.

Of course we are going to have short-term periods of underperformance. They are a necessary part of the path to long-term outperformance. Please be assured that we are sticking to our time-tested disciplines that have been key to substantial outperformance relative to the benchmarks net of fees, and more importantly, have protected and grown capital for our clients. In our hedge fund strategies, we remain well hedged with a good mix of longs and shorts. We remain cautious on the markets overall heading into October with risks posed by numerous financial asset bubbles, China, Presidential elections, and a flip-flopping Fed. October, while not a down month overall on a seasonal basis, has the distinction of being the two worst down months for the S&P 500 in the last 30 years: 2008 (-17%) and 1987 (-21%).

We are and will remain committed to truly independent thinking and non-correlation with other funds and the market.

Sincerely,

Kevin C. Smith, CFA
Chief Investment Officer

Tavi Costa
Emerging Markets Analyst

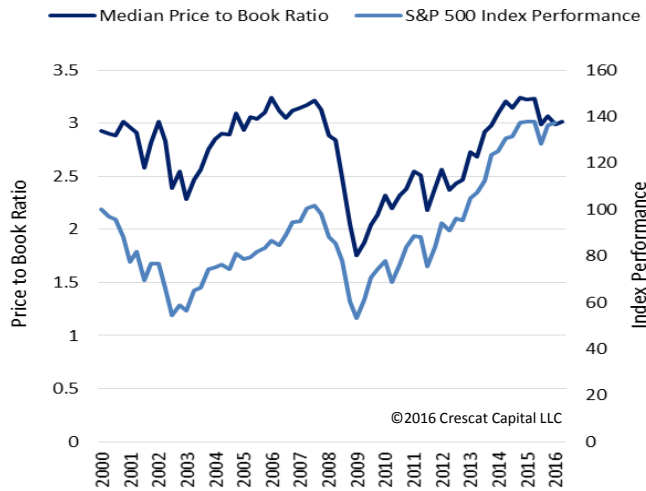
Nils Jenson
Energy and Materials Analyst

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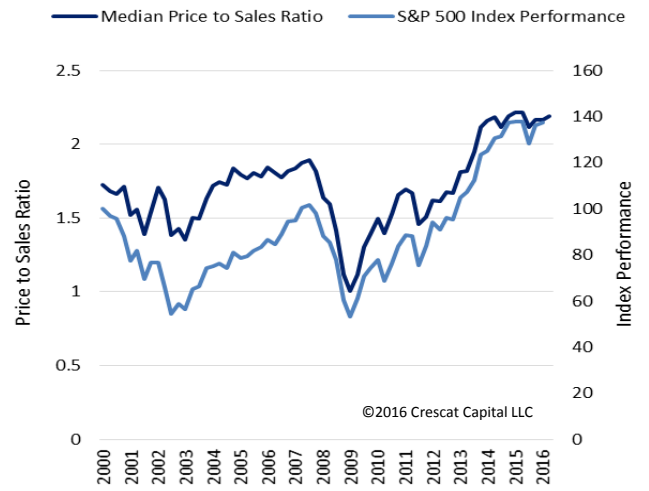
Case studies are included for informational purposes only and are provided as a general overview of our general investment process, and not as indicative of any investment experience. There is no guarantee that the case studies discussed here are completely representative of our strategies or of the entirety of our investments, and we reserve the right to use or modify some or all of the methodologies mentioned herein. 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. 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) 271-9997 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.

Please see the next four pages of fundamental charts with our descriptive captions highlighting the valuation risks in the S&P 500, Oil Exploration and Production Stocks, and Utility Stocks...

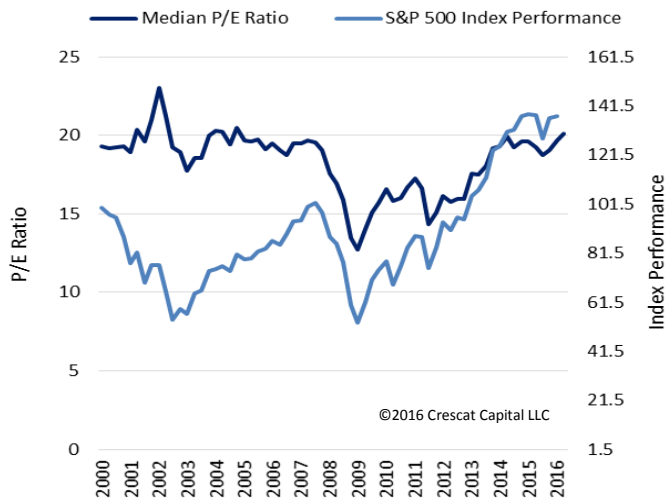
S&P 500 Price to Book valuations already crested



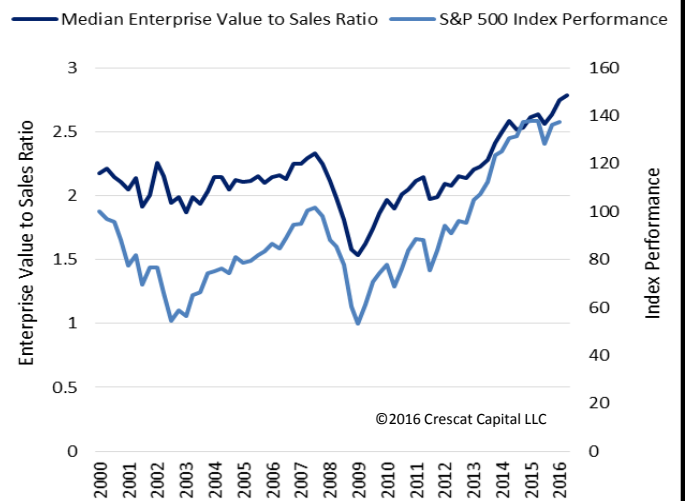
S&P 500 price to sales ratio exceeds 2007 levels



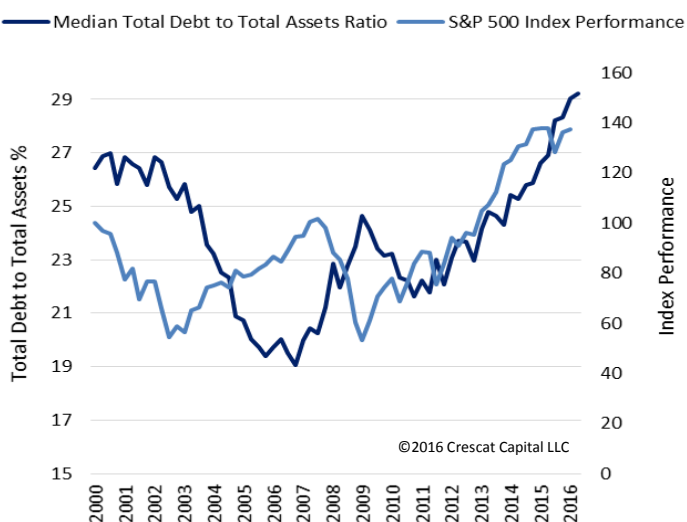
S&P 500 median Price to Earnings ratio at pre-GFC levels despite declining EPS growth trend since 2011



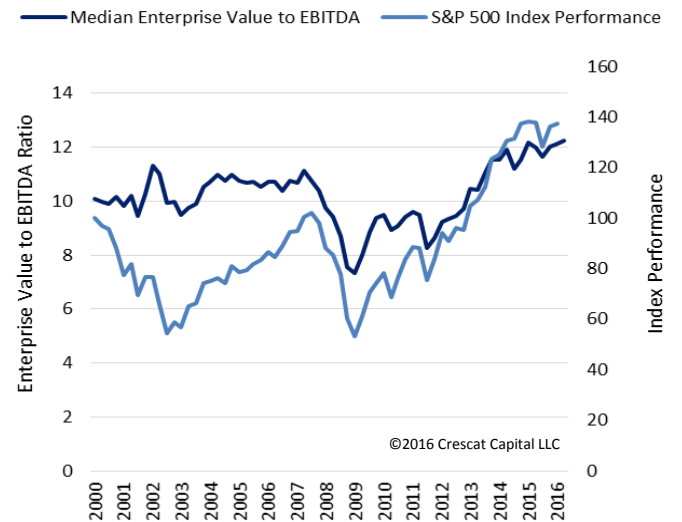
S&P 500 EV/Sales valuations are at record highs



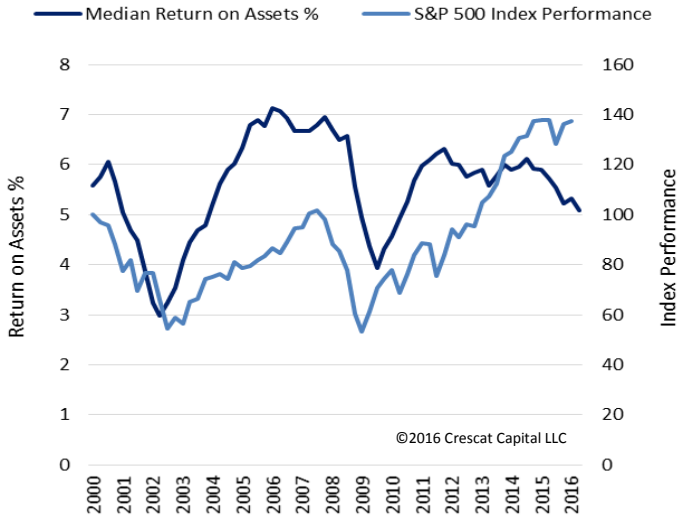
S&P 500 companies have been leveraging up with debt to record levels



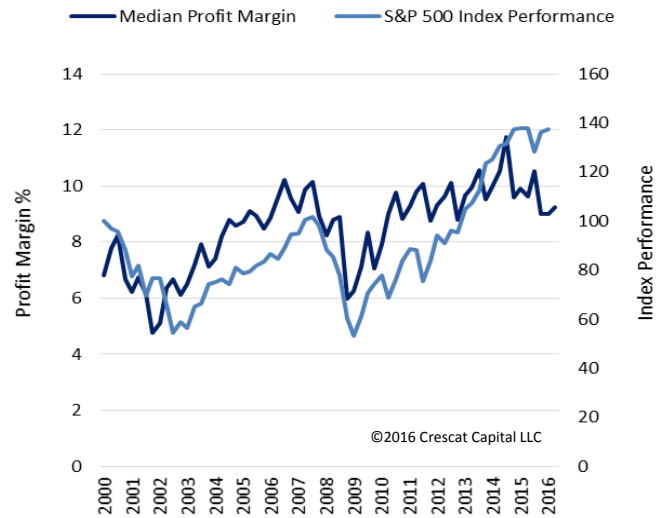
EV to EBITDA also at all-time highs



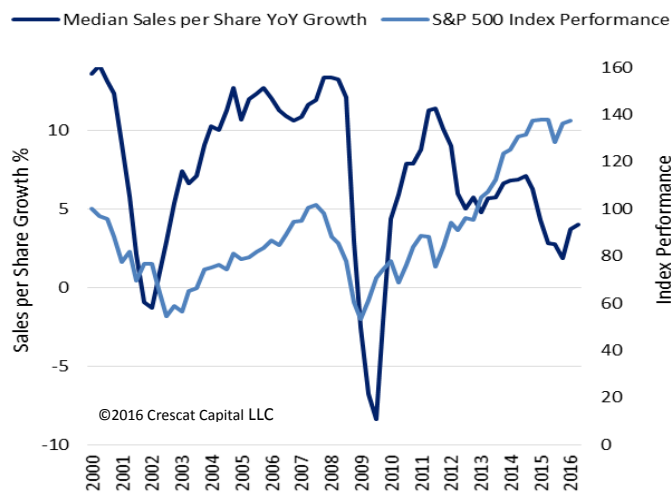
S&P 500 Return on Assets has been declining due to increased debt load and declining earnings growth trends



S&P 500 may ultimately get dragged down by declining profit margins as in prior cycles



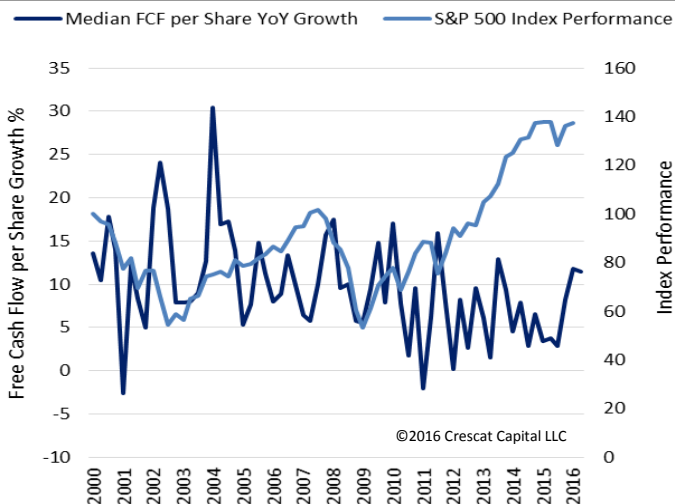
S&P 500 Sales per Share Growth has been declining albeit a recent pickup



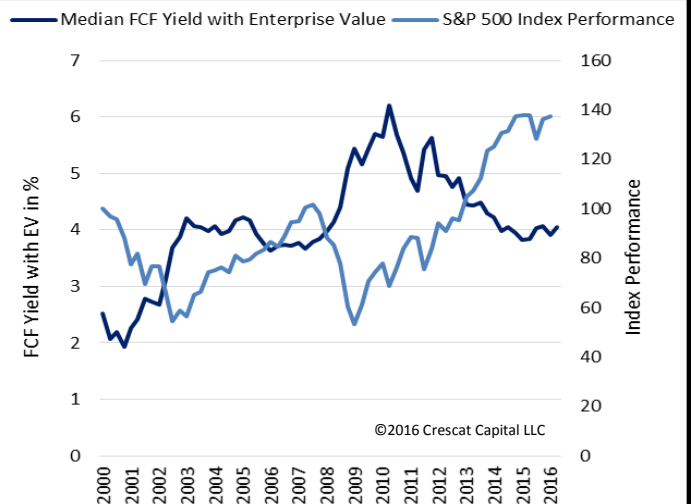
S&P 500 EPS Growth declining since 2011 though a recent spurt



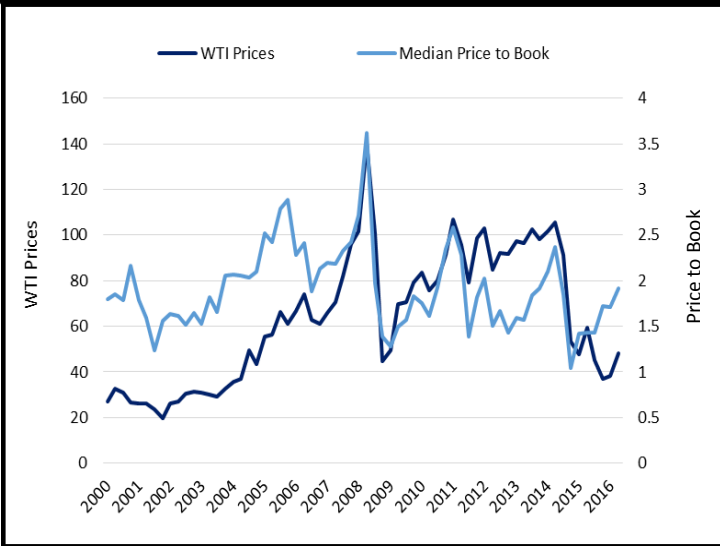
S&P 500 FCF per share growth, an encouraging recent pickup, one of few bright spots but index ahead of its skis



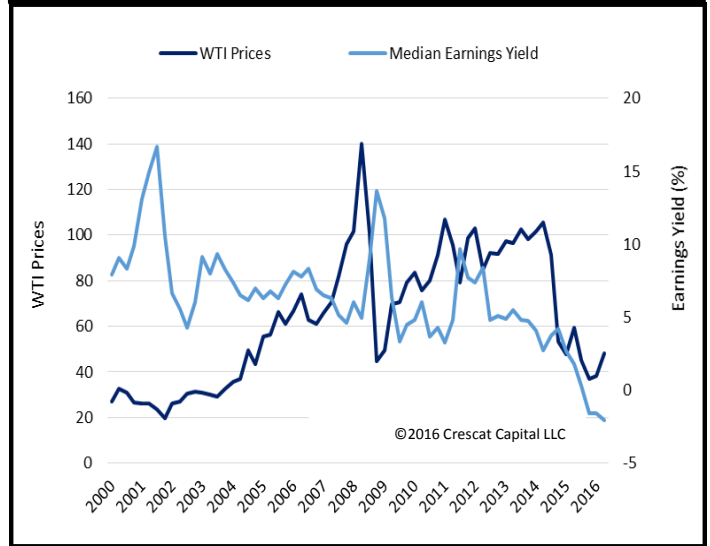
S&P 500 Free Cash Flow to Enterprise Value yield, not as bubbly as tech bubble, just frothy like pre-GFC levels



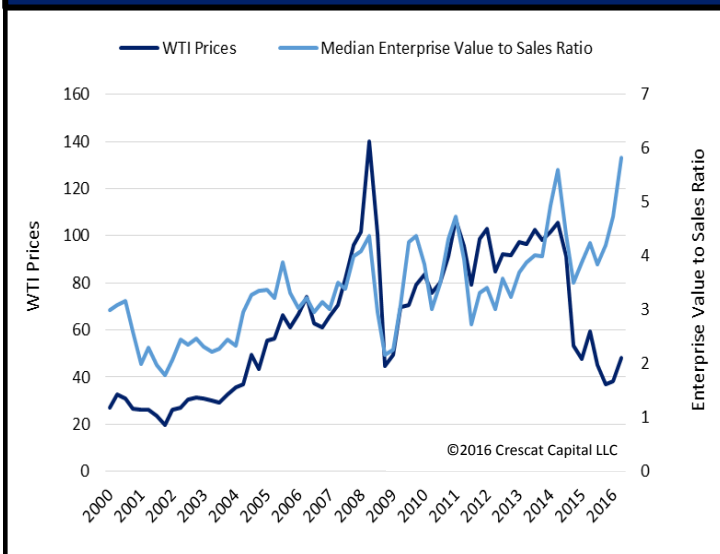
Oil E&P Stocks were actually cheap based on historic P/B at year end - not anymore and not if oil doesn't continue higher



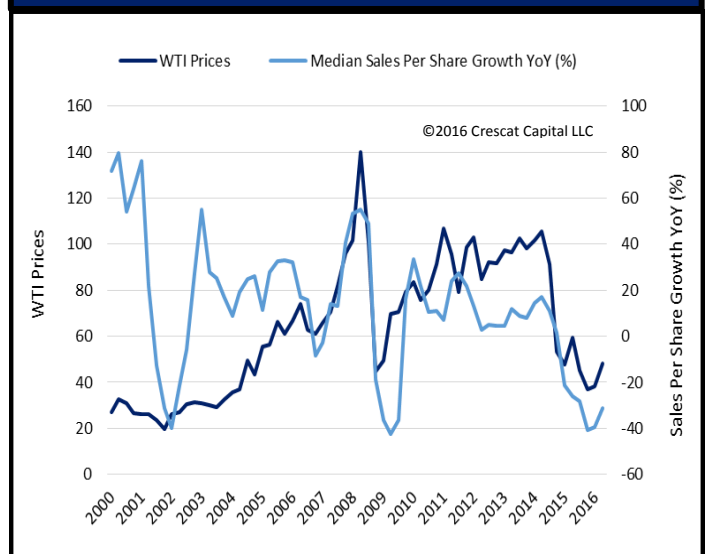
Oil E&P Stocks lose money on an earnings basis with oil below \$50 per barrel and earnings are suspect



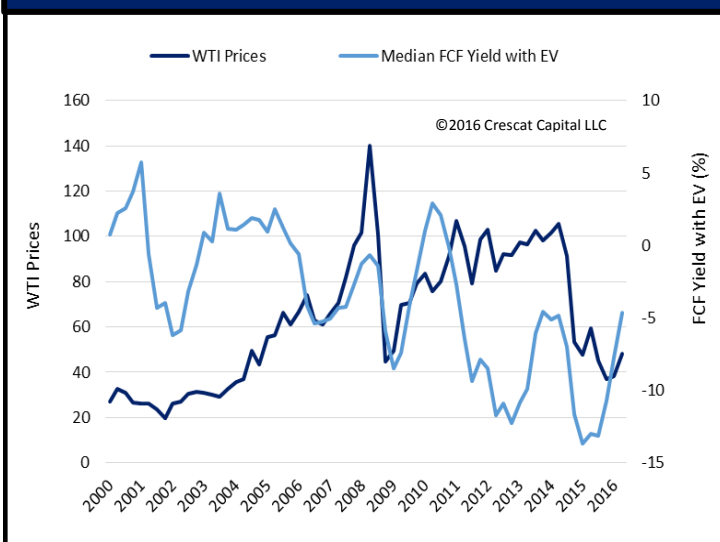
Oil E&P stocks EV to Sales show a big divergence from fundamentals: debt and equity discounting a big recovery



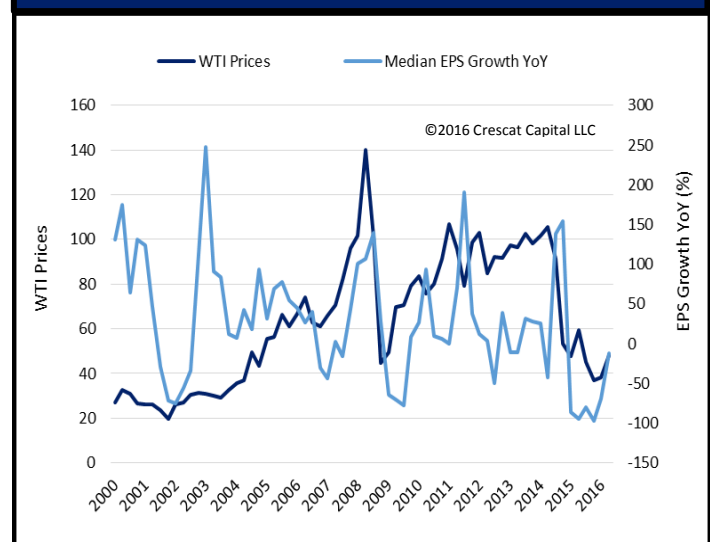
Oil E&P stocks Sales per Share growth tracks oil price as one would expect, duh just checking



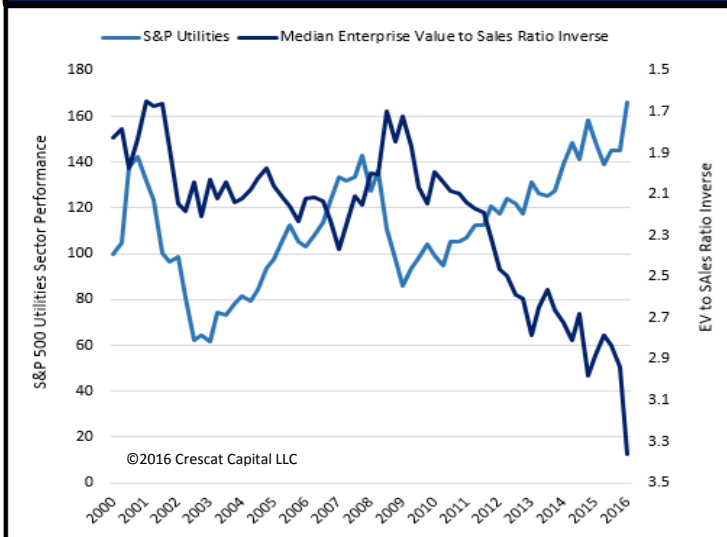
Oil E&P Stocks today only make money on a FCF basis when oil is above \$100, a tough business squeezing oil from rock



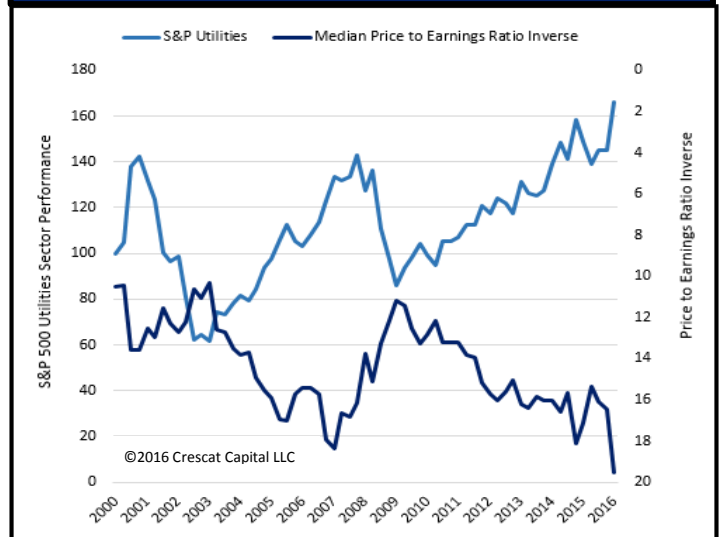
Oil E&P Stocks EPS growth in secular decline



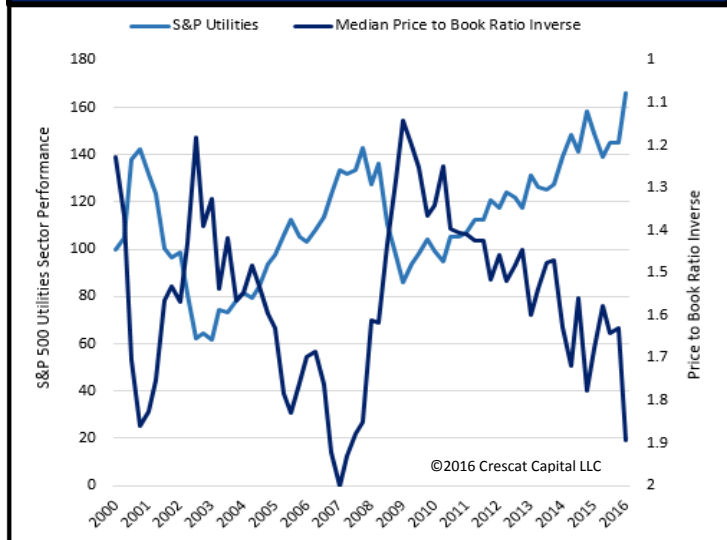
Utilities have EV to Sales at record high valuations



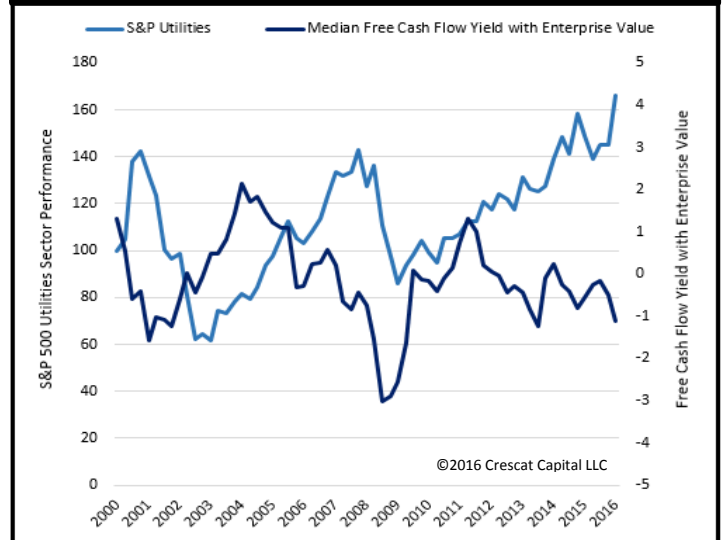
Utilities at record high Price to Earnings levels



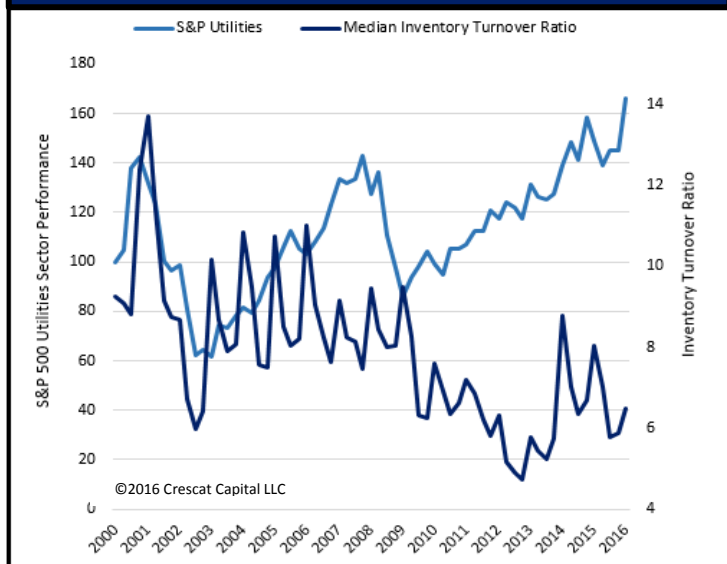
Utilities Price to Book valuations at near record highs



Utilities have negative FCF to EV yields



Utilities inventory turnover highlights weak secular demand trend due to energy efficiency gains



Utilities sales per share growth declining while prices diverge

