CRESCAT CAPITAL®
VALUE-DRIVEN PERFORMANCE

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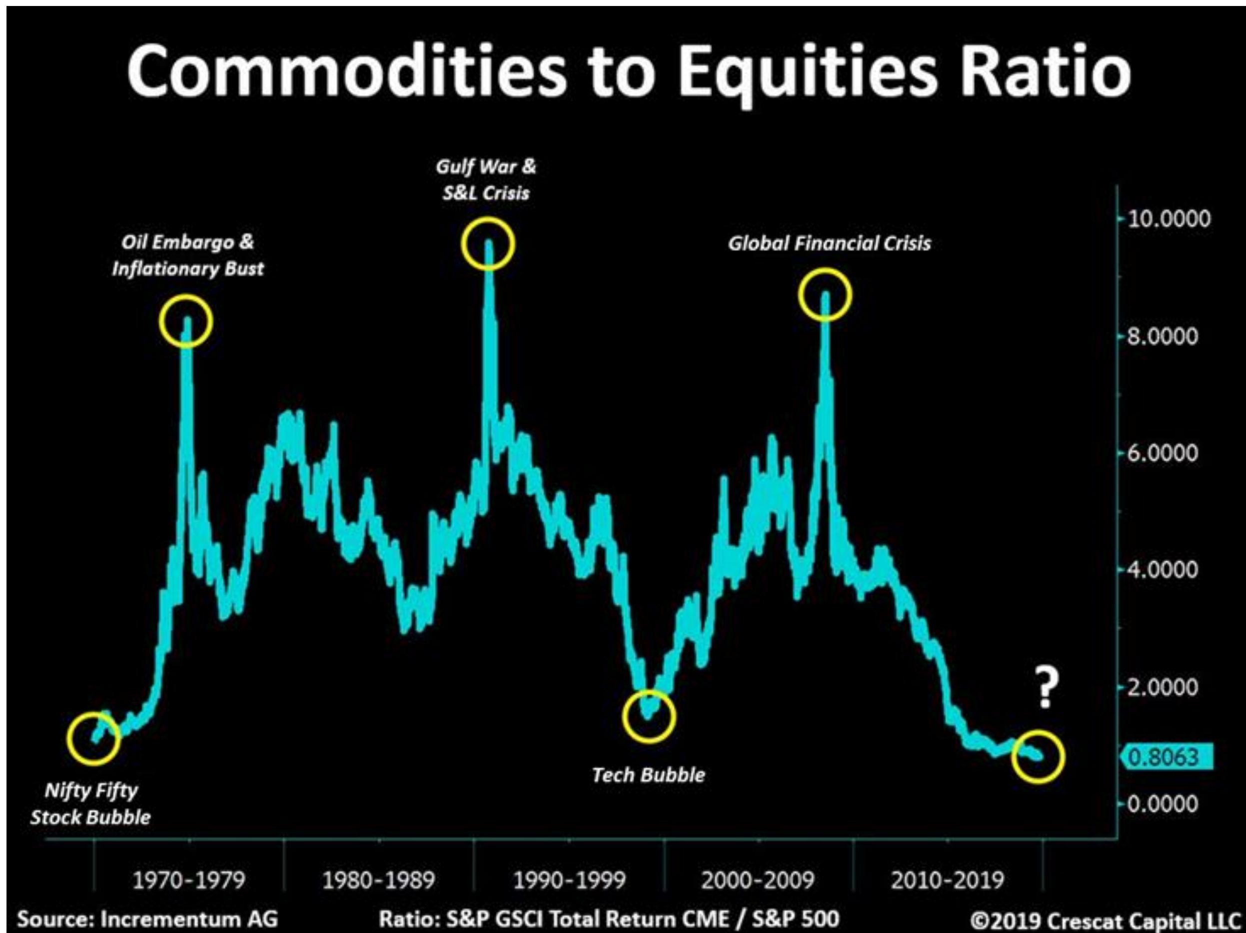
November 24, 2019

Dear Investors:

An important ratio of commodity versus equity valuations just reached a fresh 50-year low resembling two prior significant cyclical US stock market peaks in 1972 and 2000.



Macro Imbalances

There is a laundry list of dangerous assets bubbles in the global financial markets today that have built up over a record long US economic expansion:

- Highest ever global debt to GDP levels;
- A passive investing and ETF craze that has led to historic lofty US equity valuations across a composite of fundamental measures tracked by Crescat;
- Impossibly valued currency and credit markets in China at an extreme for any large country relative to the size of its economy;

- China's banking assets are valued at USD 41 trillion, including substantial hidden non-performing loans in our analysis, a major mismatch compared to its much smaller and stumbling 13.6 trillion GDP economy;
- Record $17 trillion of negative yielding sovereign debt which may have just peaked in August 2019;
- Private equity/VC excesses in opaque assets, highly leveraged companies, and frequently unprofitable businesses masquerading as new economy disruptors;
- Record indebtedness of US public and private corporations combined relative to GDP;
- Crowded "risk parity" positioning among large hedge funds and institutions who are long stocks paired with leveraged long bonds, a strategy that worked exceptionally well in a forty-year backtest as well as the last ten years that it has become popular, but it's one that would likely get decimated in a rising inflation paradigm;
- Fashionable short volatility strategies which are yield enhancement strategies for an income starved world, but the extra yield is earned in exchange for accepting asymmetric downside risk;
- High valuations and crowding into sectors traditionally viewed as defensive (including utilities, REITs, and consumer staples) with utilities being the most fundamentally questionable among them in our view; and
- Tech bubble 2.0 with extraordinary valuations in SaaS, certain FANG+ stocks, many recent IPOs.

Catalysts

The unwinding of these imbalances is likely to be highly destructive to the investment portfolios of unprepared global savers today. Below, we list the confluence of macroeconomic timing signals, including social and geopolitical forces, now bearing down for an assault on overvalued financial assets. Most of these have been uncanny warning signs directly ahead of past bear markets and business cycle peaks.

In the US:

- The Treasury yield curve recently exceeded the critical 70% inversion threshold that has preceded each of the last six recessions with no false signals;
- The Conference Board's consumer expectations survey has diverged strongly to the downside compared to its unsustainably high present situation index;
- Job openings are declining while the lagging and contrarian unemployment rate is at cyclical lows;
- Both the Atlanta and New York Fed's real-time GDP trackers have been trending steadily down for almost two years and appear to be approaching recessionary levels;
- Corporate earnings of the Russell 3000 already contracted on a year-over-year basis in the last reported quarter;
- US share buybacks are now 30% lower than 2018;
- Increased insider selling of stocks;
- Declining CEO/CFO confidence surveys;
- M&A transactions drying up;
- ISM manufacturing PMI at recessionary levels;
- Construction spending declining;
- Bearish deteriorating stock market breadth while indices reach highs;
- Implied volatility for stocks retesting low levels that preceded previous selloffs;
- Smart money flow index diverging from the recent run-up in the S&P 500;
- Leveraged loans stumbling;
- Busted/delayed/cancelled IPOs;
- Recent liquidity crisis that spiked interest rates in the overnight US Treasury rehypothecation market;

- Inflation rate above the entire Treasury yield curve;
- Core and median CPI at 10-year highs diverging from long-term inflation expectations at 40-year lows;
- Capacity utilization now falling;
- Commercial & industrial loans declining the most since the housing bust;
- Auto loan spreads rising as delinquency rates rise;
- Net exports of services now falling the most since the GFC and tech bust;
- Increased election uncertainty and rising political polarization creates unknown binary opposite outcomes for future tax policy which is now friendly for financial markets but could swing 180 degrees;
- Trump impeachment proceedings might impair his credibility in maintaining a hyped-up economic narrative in face of deteriorating macro fundamentals; and
- New bipartisan willingness to embrace fiscal stimulus and rising government deficits could change the inflation paradigm sooner rather than later and be detrimental to financial assets.

Worldwide:

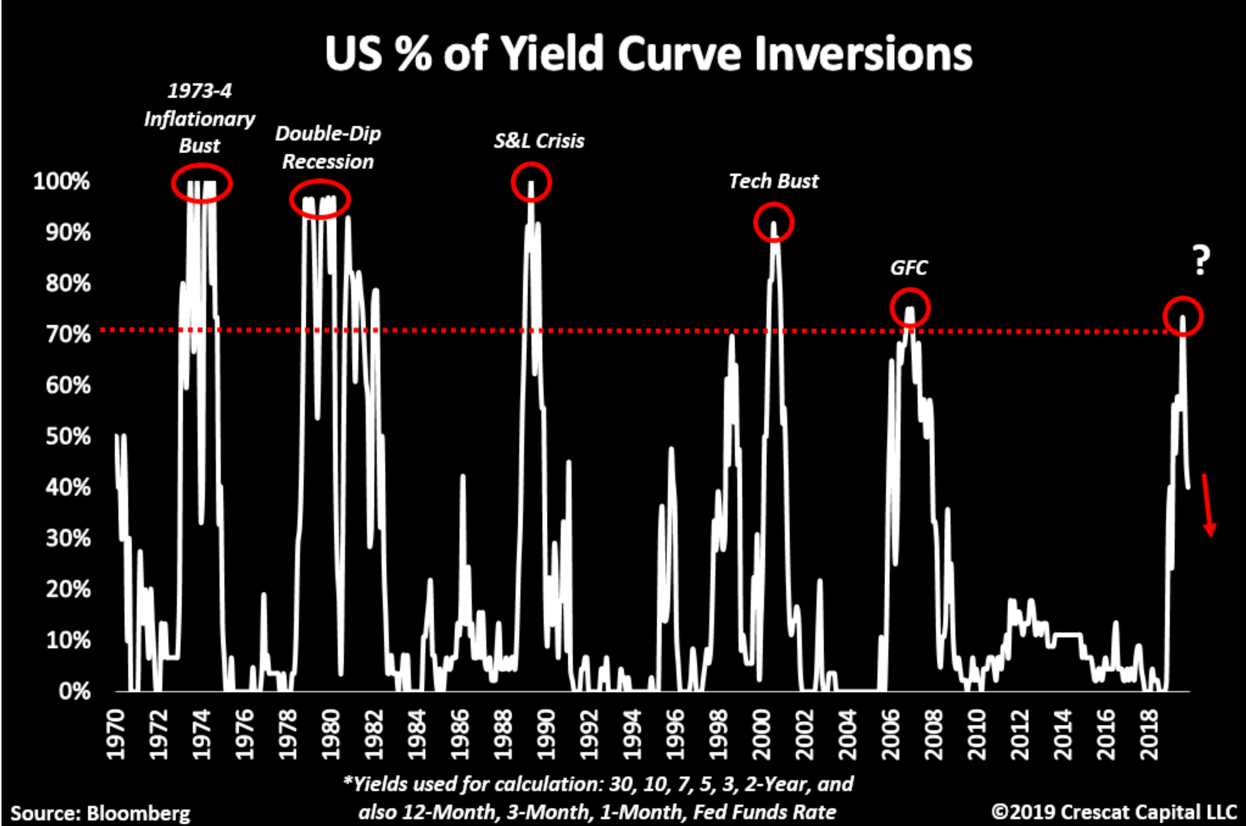
- Yield curve inversion with the US dollar as the world reserve currency versus an unprecedented 19 economies now with 30-year yields below USD Libor overnight rates;
- Like the US, Hong Kong, Canada, and Japan all recently breached critical 70% inversion levels within their sovereign yield curves;
- Emerging market currencies have been falling despite recent easy Fed policies indicating that dollar liquidity globally is still tight amidst record dollar-denominated foreign debt;
- Ongoing trade and cold war between the world's two leading economies with diametrically opposed political systems, each with its own historically extreme financial imbalances;
- The China yuan recently broke the key 7 level and looks poised for an accelerated devaluation that would almost certainly take global investors by surprise;
- Tariff increases that go into effect in December are a catalyst for an RMB shock if trade negotiations continue to stall which is our base case;
- Accelerated yuan depreciation is the rhino in the room that would be a likely contagious global risk-off event feeding back to US, European, as well as other Asian and emerging markets as we have seen on multiple occasions since 2015 with only minor devaluations;
- There have already been material disruptions in the global manufacturing supply chain due to the trade war;
- Frontloading of Chinese semiconductor inventory and CAPEX spending in 2019 amidst the threat of escalating US intellectual property purchase restrictions sets up earnings weakness ahead for this market leading but cyclically vulnerable industry;
- The global manufacturing PMI has already dropped to recessionary levels;
- Multiple political and economic crises have already been erupting in emerging and frontier markets;
- Rising populism and nationalism more generally around the globe is causing disruption in world trade and financial markets; and
- Last but not least, Brexit.

The two closest analogs to today's excessive fundamental valuations for US stocks were the 2000 Tech Bubble and the culmination of the Roaring Twenties in 1929. Our work suggests that today's valuations are even higher than those two periods. The nifty fifty stock mania of 1972 is another comparable period that featured excessive valuations in a popular group of large cap growth stocks that became widely regarded as "blue-chip" buy and hold positions. Institutions and retail investors were taught to cling to these stocks through thick and thin, throwing fundamental analysis and valuation principles out the window. The same idea is the prevalent passive investing dogma of today.

From today's valuations, a mere cyclical mean reversion in stock market multiples implies a 50+% drawdown in prices. Yet, too many investors remain oblivious to these valuation risks. Many today have further been lulled into believing that central banks have their backs and will keep markets rising. Such bullish sentiment on the heels of recent Fed liquidity injections has emboldened a late cycle speculative push higher in the indices even as the market internals have been noticeably deteriorating. Never mind that the last two Fed easing cycles after tightening cycles coincided with and were confirmations of major bear markets and recessions underway rather than prevention of them.

A Perfect Predictor of Recessions, so Far

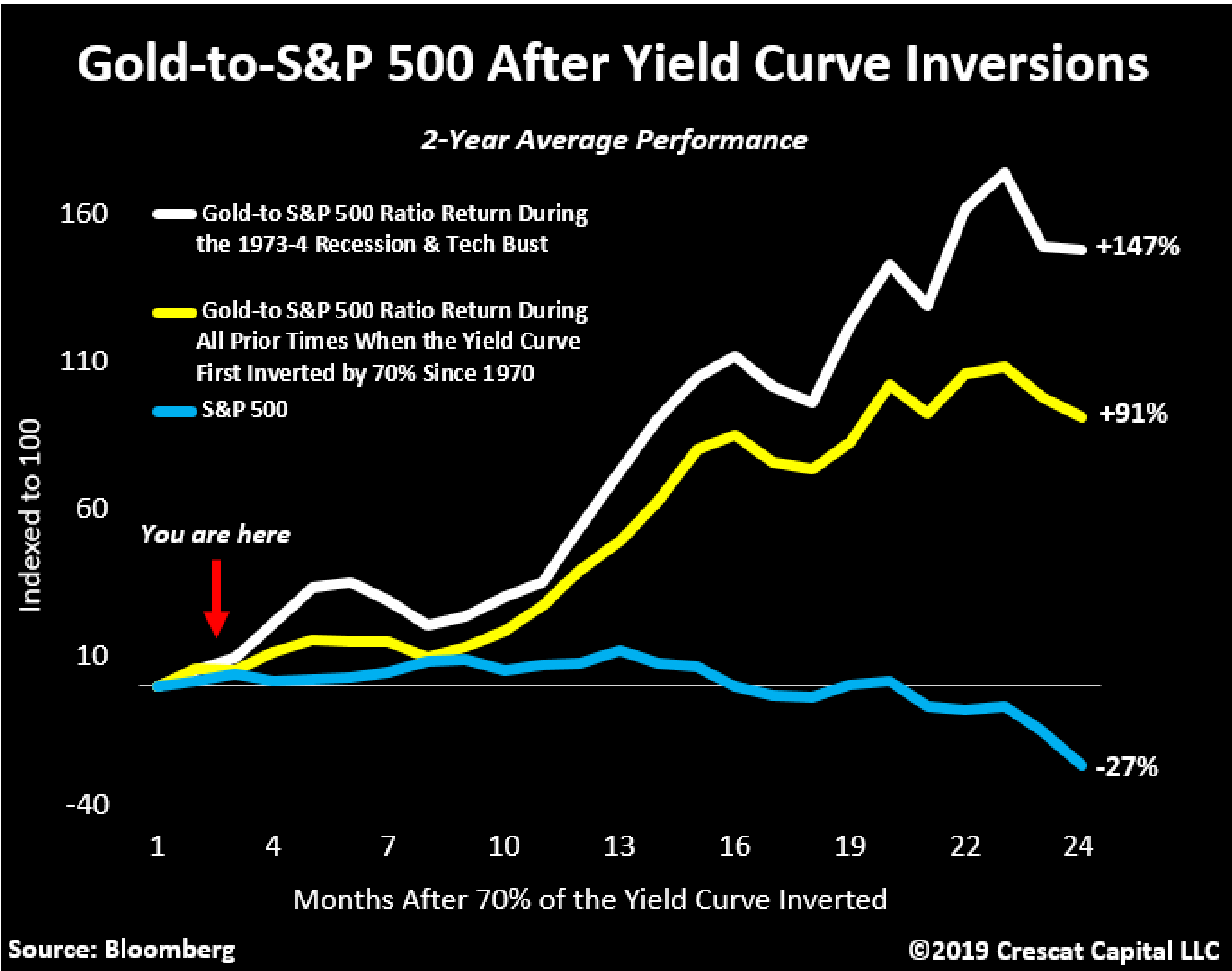
The recent distortions in the US Treasury yield curve are among the most relevant macro indicators supporting Crescat's bearish thesis and positioning today. Our comprehensive calculation shows that across all 44 spreads of the yield curve, the percentage of them that are inverted spiked to 73% just three months ago in August. This is a critical timing signal as we show in the chart below, because in the five prior business cycle expansions that we studied, we found that when 70% or more of the yield curve first inverts, a recession soon follows. In all but one case, those recessions were accompanied bear market declines in stocks. Three of them were close to 50% collapses in the S&P 500 Index.



How to Profit from Yield Curve Inversions

From a portfolio management perspective, we have determined that buying gold and selling stocks is one of the most compelling macro investment ideas after inversions reach excessive levels. Since 1970, our analysis shows that when the yield curve first exceeds 70% inversions in a business cycle expansion, the gold-to-S&P 500 ratio

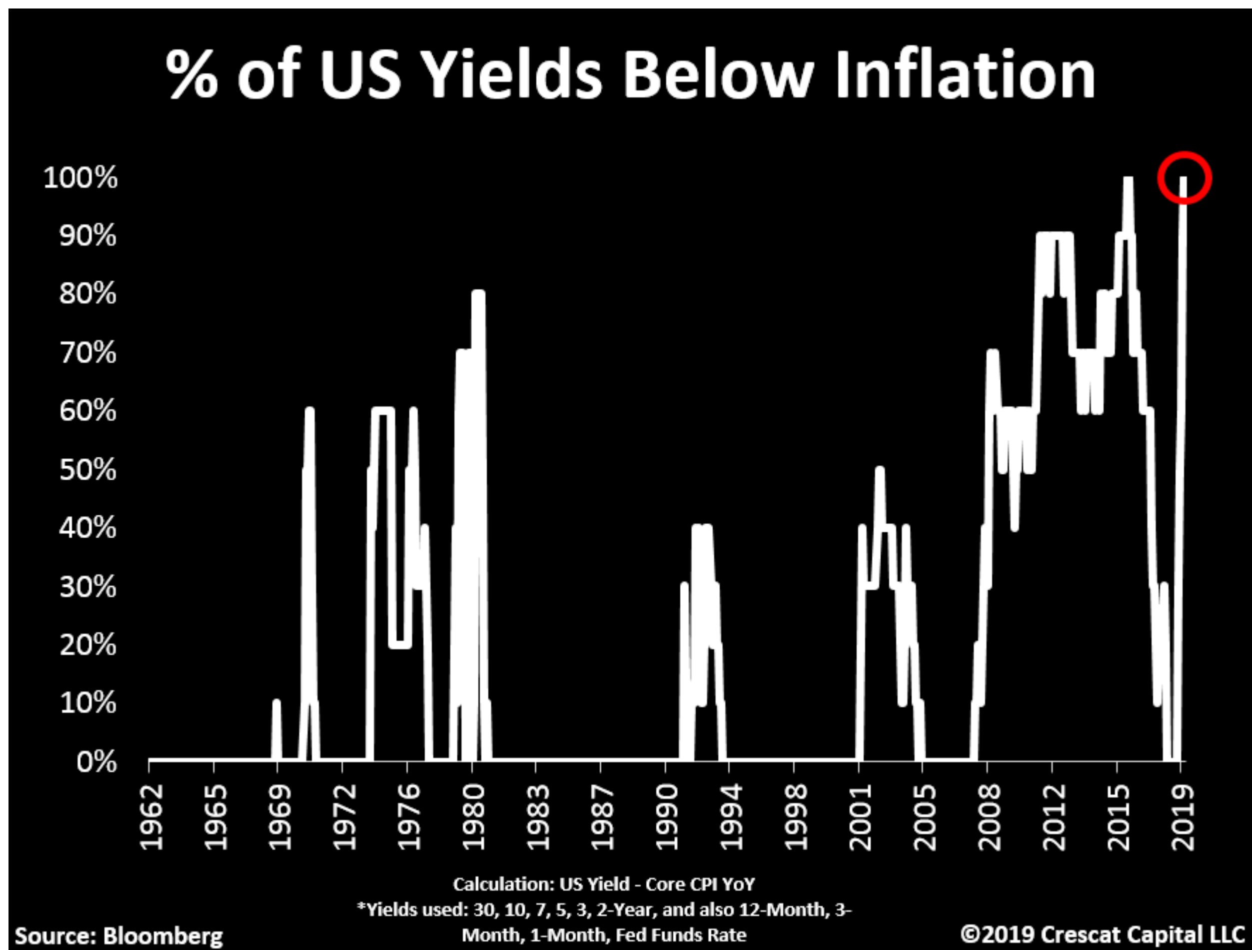
performed exceptionally well on average in the following two years returning close to 90% while stocks lost almost 1/3 of their value on average. The only time buying this ratio didn't work was during the S&L crisis. Yet, back then, equity valuations were quite the opposite from today. We think the 70%+ inversions that immediately preceded the 1973-4 inflationary recession and tech bust have the most comparable setups to today. Both of those times, the numerator and denominator of this ratio worked extremely well for the ensuing 2-year period resulting in an average gain in the gold-to-S&P 500 ratio of 147% excluding dividends! The intriguing fact here is that the commodities-to-equity ratio was near historic lows at the peak of those two stock bubbles (Nifty Fifty and Tech) as shown by the first chart in our letter above. Today's macro set up looks remarkably similar, perhaps even more extreme. Gold is near record undervalued relative to the size of global monetary base and money supply. At the same time, equity valuations relative to their underlying fundamentals are arguably at their highest ever.



Negative Real Rates Across the Whole Treasury Curve – Uber Bullish for Gold

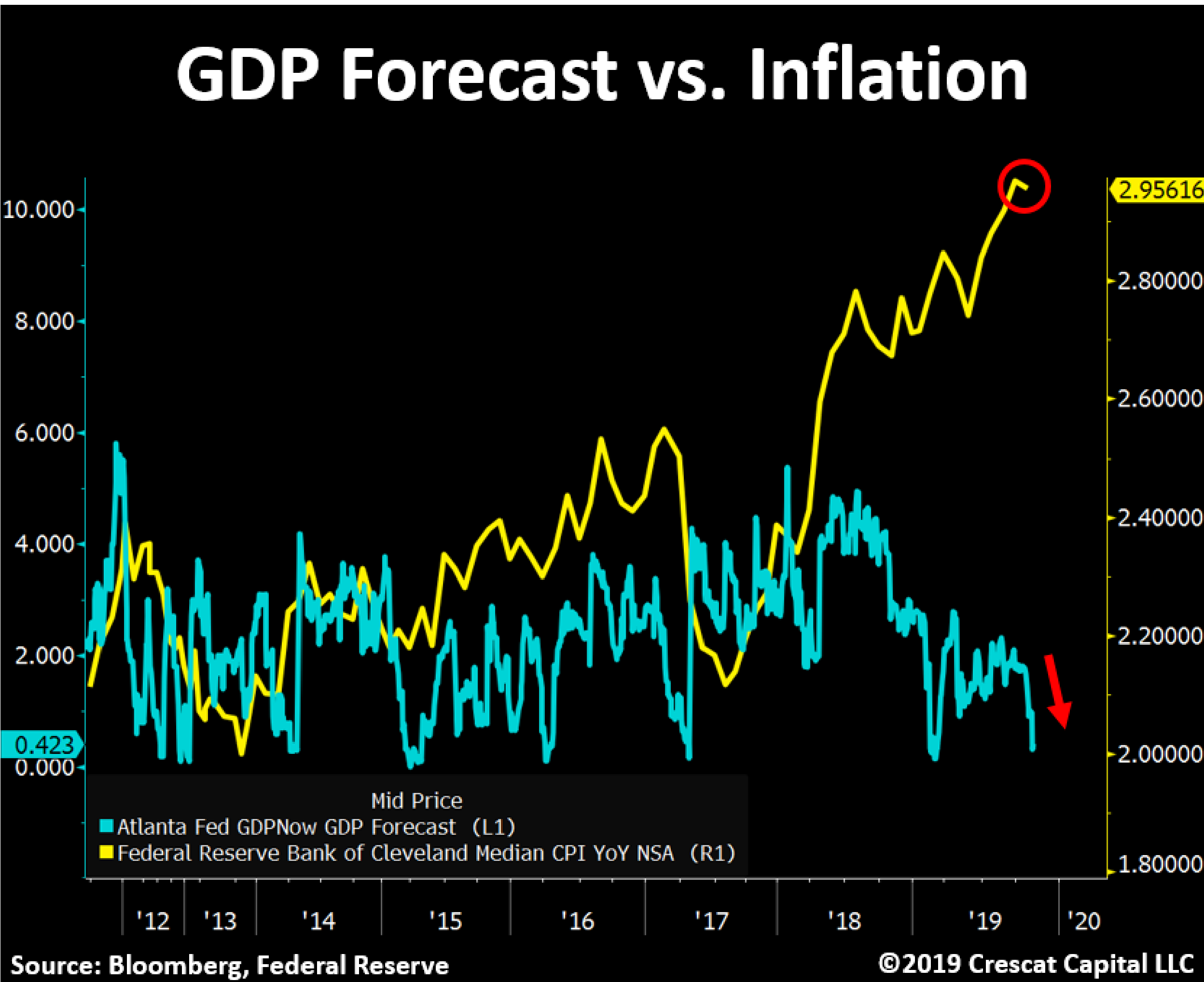
The entire Treasury curve now yields less than core CPI. It's the second time in history we have seen this, the first being in early 2016 when precious metals mining stocks exploded. That time, the Fed had already hiked rates at the end of 2015 and was in quantitative tightening mode. This time, the Fed has cut interest rates three times in three months and has returned to quantitative easing at an alarming 45% annualized rate. With $15+ trillion worth of sovereign bonds with negative yields and central banks easing globally, we believe precious

metals are in the early stages of a multi-year bull market.



Economy Weakening as Inflation Rising

When we look at the chain of events historically, it's Fed tightening late in the business cycle that leads to yield curve inversions and then recessions. By the time the Fed starts easing, it's a confirmation that the downturn is ripe to unfold. When such times have also coincided with stocks at record valuations, severe equity bear markets have ensued. Today, given the historic levels of debt and macro imbalances worldwide, the next decline could easily be among the worst in US history. Given all the warning signs, we think investors should prepare urgently if they have not already. In our view, a new wave of global fiat debasement policies is in its early stages and a shift in the inflation paradigm could be near. To get a glimpse of this in the US, note how the Atlanta Fed's GDP nowcast has already been declining in the face of rising consumer prices. This scenario could be extremely bullish for scarce and non-dilutable forms of haven assets such as precious metals.



At Crescat, precious metals are overwhelmingly our preferred hedge against fiat money printing and over-valued financial assets. It's important to note that cryptocurrencies provide an additional outlet for investors to flee stocks and bonds as well as fiat currencies today and thereby to help make rising inflation in those currencies a self-fulfilling prophecy. Bitcoin is a bet on technology and cryptography as well as a vehicle to disrupt and even circumvent government control over money. Bitcoin is limited in supply like precious metals and in that sense could be a valuable call option on inflation. As the first mover, it has the network-effect advantage over other cryptocurrencies which are abundant and therefore unlike precious metals as an asset class. We believe a small position in bitcoin could provide diversification and hedging with significant upside, but we do not advocate for more than one or two percent of a portfolio at this time given its high risk. For those living under authoritarian governments with strict capital controls, it is important to note that cryptocurrencies provide a functional and disruptive means of escape which plays into our bearish view on the Chinese yuan.

In the wake of the 2008-9 crisis, central banks starved investors for yield in attempt to generate new borrowing and spending and thereby grow the economy. But in the absence of significant fiscal stimulus to go along with it, extraordinary monetary policy mainly served to generate extreme expansion in value of financial assets with only muted economic growth and real-world inflation to go along with it. Monetary stimulus alone thus increased the wealth disparity between the rich who disproportionately own stocks and bonds compared to the more generally debt-laden masses. It is thus no surprise that today we have a fertile breeding ground for rising

populism and nationalism and their financial bubble bursting implications, including trade wars and deglobalization.

Repo Liquidity Crisis a Wake-up Call to China Risks

When today's plethora of macro imbalances begin to unwind, we fully expect that Fed intervention will again be necessary to attempt to ease the pain of collapsing asset prices. The repo liquidity crisis that we just experienced in September is a new kind of wake-up call. Like in 2008, a freeze up in the interbank credit markets is a sign that a large financial institution somewhere on the planet may be on the brink of collapse. The Fed indeed has already responded with emergency liquidity injections. We can only imagine that a large and wobbling Chinese bank is in need of US dollars and has been attempting to pledge Treasuries to borrow them. Perhaps other banks stepped away for fear that those Treasuries had already been pledged too many times over and nobody really knows who would get them if the music stopped. We are not saying that is what happened in September. We don't know what exactly happened. The Fed has been carefully guarding the true story, but it has also continued in emergency QE mode for the last three months. What we are saying is that there is indeed substantial financial market risk today because of the truly insane imbalances that have built up inside the Chinese banking system. Based on our macro research, we believe the PBOC has already more than fully encumbered its foreign exchange reserves in its effort to keep its currency from collapsing to date. The recent surprise new money printing from the Fed is confirmation that there are indeed real problems beginning to surface in the global capital markets. The Fed's role, to be clear, if China's banking imbalances are indeed finally poised to unwind, is not to rescue Chinese banks, rather to rescue the US banks that are their counterparties.

So, while today's US stock market has many parallels to 1929, 1972, and 2000 in terms of valuation and downside risk, it also has some to parallels to 2008 with the potential for banking liquidity crises in the interbank dollar funding markets. We are much less concerned about the risk of an actual collapse of the US banking system today because the Fed has proven its willingness and ability to swiftly step in there.

Ultimately, we believe combined fiscal and monetary stimulus will be applied in concert to combat the next market and economic downturn. We strongly believe that too many investors today are underestimating the future inflationary risk of this high likelihood. The problem is the recency bias of the post-GFC world where central bank easing failed to generate the inflation that was feared at that time. The reason it didn't is that, outside of China, the accompanying fiscal expansion was absent. The chessboard looks much different today. The willingness to embrace new monetary and fiscal experiments today is high and they will come at a cost.

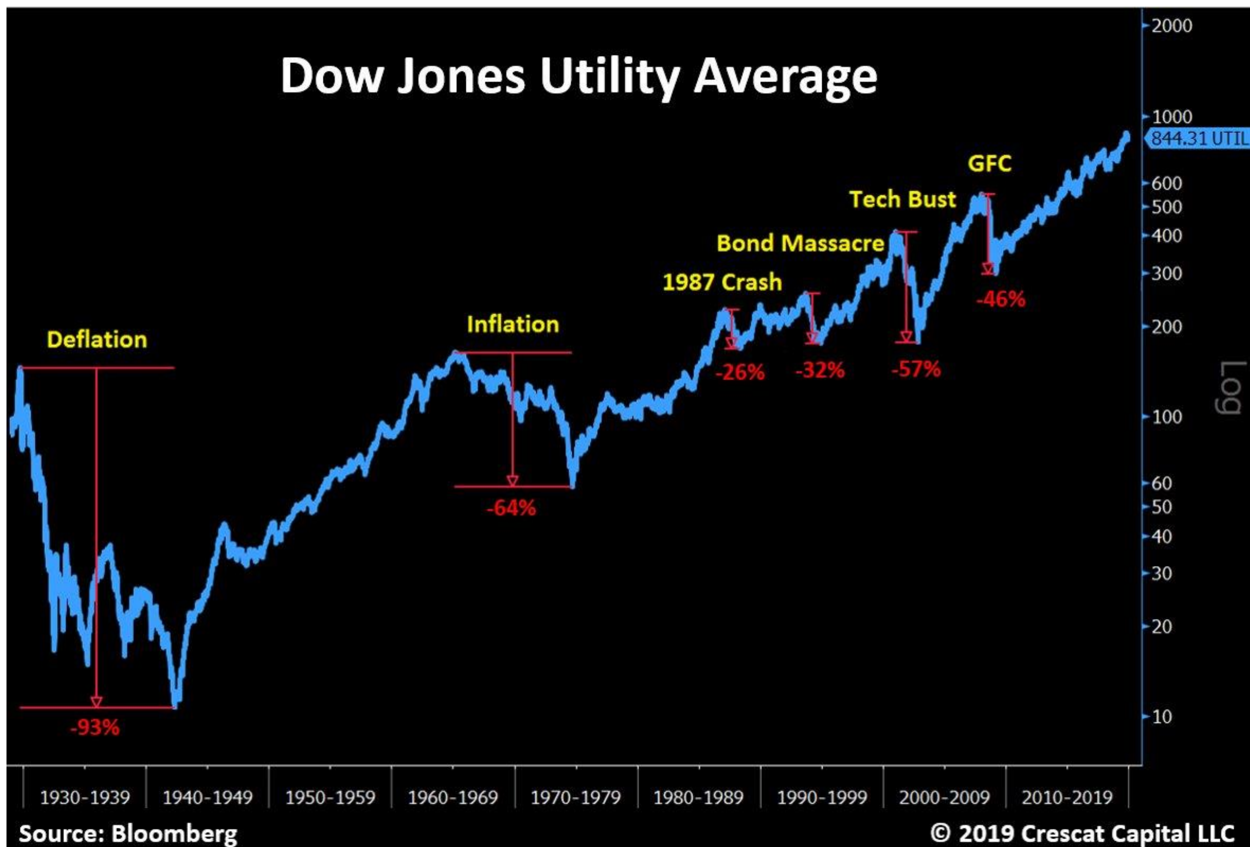
Such a political climate is particularly troublesome for stock and bond bulls today because rising inflation would almost certainly be a killer of today's financial asset euphoria. If one is going to buy stocks at all in this environment, one area that looks extremely attractive with low valuations and improving fundamentals is gold and silver mining stocks. Many of these companies have low valuations, improving growth, and strong positive free cash flow already, after going through a bear market from 2011 to early 2016. After four years of base building, we believe they are poised to take off fundamentally and technically in a soon to be rising gold and silver price environment.

Why Crescat

Many investors are not even aware of the extreme valuations in the financial markets today at this likely critical macro inflection point in the global economy. For those who are, many are not willing to do very much about it in their portfolios for fear of going against the crowd.

For those who are willing to do something, many today are unwittingly moving toward conventional defensive long positions and thereby are crowding into a different kind of mania, such as utility stocks, which in reality

have a horrific track record of protecting wealth during bear markets and recessions as we show below in the chart below going back to 1929.



At Crescat, we believe we have a better way of investing ahead of a probable downturn in the business cycle across multiple themes. In our global macro hedge fund, we are expressing what we believe is the macro trade of the century based on our three highest conviction investment themes today:

1. Long precious metals including mining stocks;
2. Shorts select overvalued US and global equities; and
3. Short the China yuan and Hong Kong dollar through asymmetric risk put options

The truth is that not many professional money managers are willing to be significantly short stocks. Even most hedge funds tend to be net-long oriented funds and only rarely attempt to time markets. We are not perma-bears by any means but are indeed attempting to tactically time the market today based on our macro models and themes given our strong views on the current unprecedented euphoria and abundance of catalysts for an imminent downturn. Our goal is to grow and protect wealth by capitalizing on the decline.

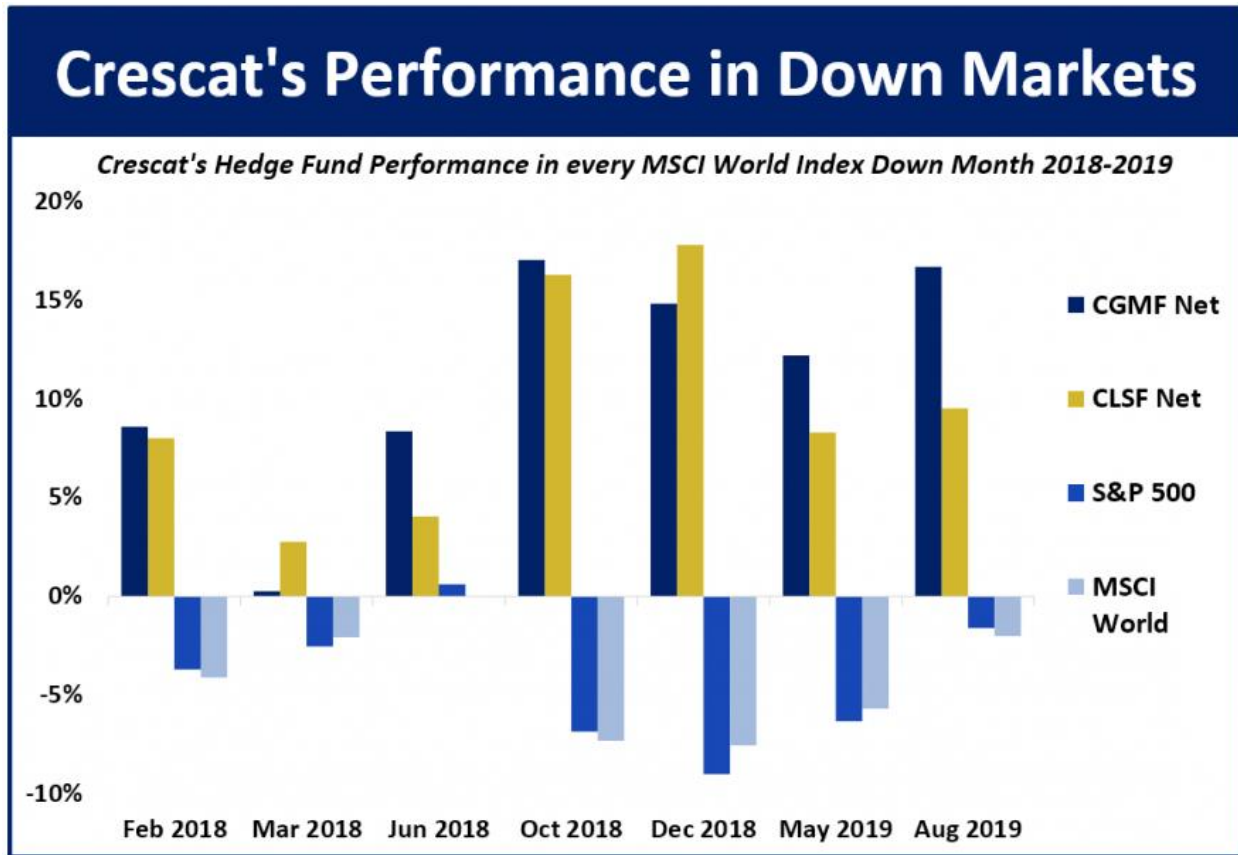
We are somewhat unique as a macro fund in that we believe in security selection in addition to broad macro trades. For instance, we prefer to pick individual equity longs and shorts based on our models to express our themes and generate outperformance (alpha) rather than just getting index (beta) exposure. We have demonstrated our ability to generate alpha in stocks over time in our Large Cap and Long/Short strategies.

Furthermore, we are value investors which gives us intrepid confidence to hold a portfolio that we believe is worth substantially more (or less in the case of our shorts) than the market is valuing it at any point in time. Within the context of our risk model, we are willing to ride with the fluctuations in the market's pricing of our

positions knowing that is what can also drive significant upside as the true value of our holdings ultimately becomes recognized.

Thus, we can be secure in maintaining our substantial US equity net short position today in each of our hedge funds at the same time as a frenzied Wall Street is trying to squeeze the last juice out of a record overvalued market historically late in the business cycle while oblivious to many of the risks that we see.

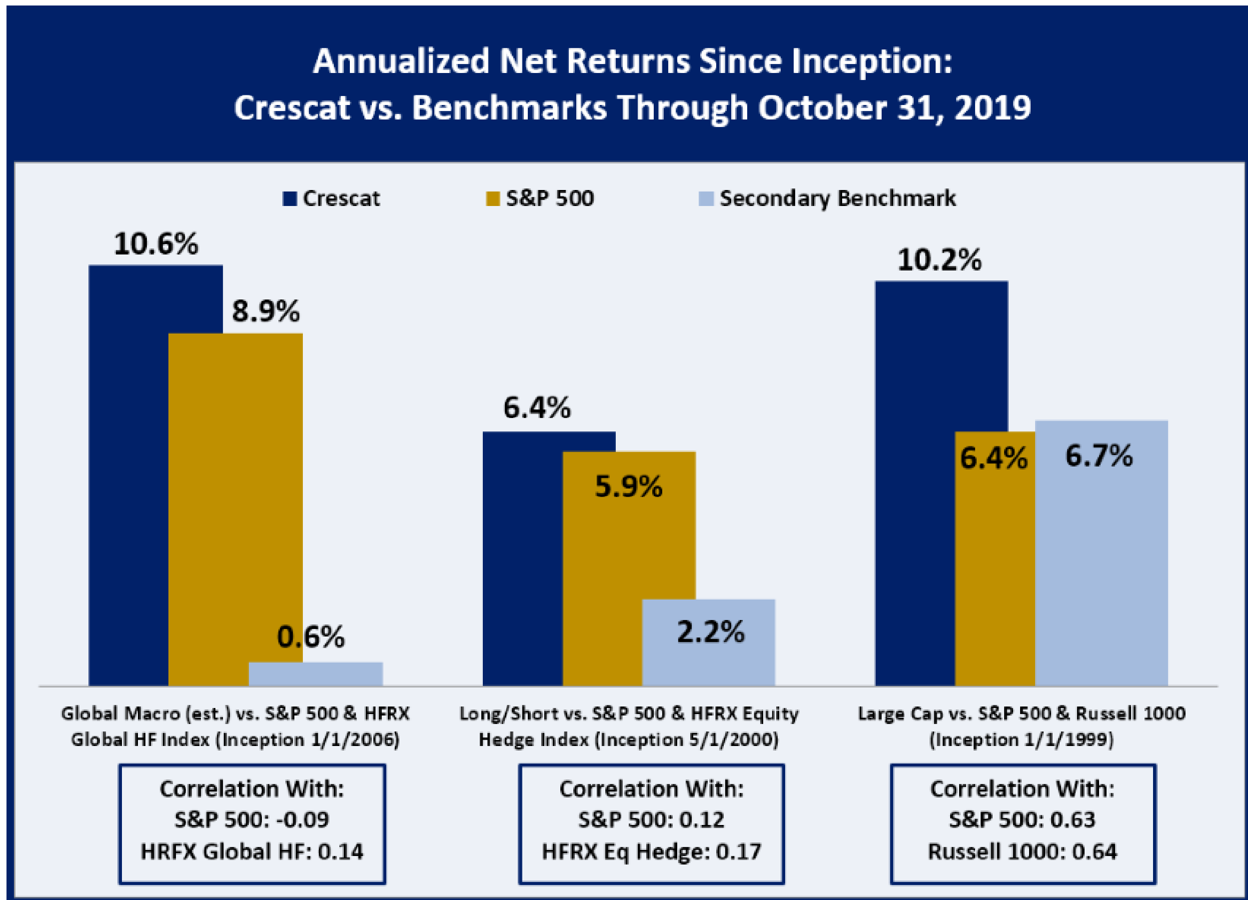
The performance in our hedge funds in Q4 of last year and in May and August of this year, which we show in the chart below, is just a glimpse of what we believe we can achieve when the overall US stock market more fully transitions from bull to bear. While we are having a pullback in November to date as the US market has pushed marginally to new highs while precious metals have retreated, our US equity shorts have not been hurting us as much as one might think in our hedge funds because many of the stocks we are short have been declining. US equity short positions in our maturing expansion theme made money for instance in both funds in September and October even as the overall indices pushed higher. This is because the internals of the market have been weakening. We think the market's diverging breadth is an important timing signal for the likely near-term direction of the overall market which could begin to turn decisively down as soon as December. Given the holiday later this week, investors will need to move on Monday and Tuesday if they want to add money to our hedge funds ahead of December. We think it could be great timing.



October Performance Attribution

Crescat Global Macro Fund October 2019 Net Performance Estimates by Theme (Basis Points)	
10-Year UST-Bund Spread	80
Asian Contagion	-104
Aussie Debt Crisis	30
Canadian Housing Bubble	-14
China Credit Bust	-140
Genomic Revolution	40
Global Fiat Currency Debasement	254
Maturing Expansion	29
Opportunistic	-15
Reefer Madness	6
Twilight in Utilities	38
US Corporate Credit Deterioration	-10
Yuan Devaluation	-170
Total (Net)	**24**

October Performance



Net Returns Through October 31, 2019								
Crescat Strategies vs. Benchmark	Strategy Inception Date	October 2019	2019 YTD	2018	3 Year Annualized	5 Year Annualized	Annualized Since Inception	Cumulative Since Inception
Global Macro Hedge Fund	1/1/2006	**0.2%**	**-18.1%**	**40.8%**	**-0.5%**	**2.7%**	**10.6%**	**303.3%**
-Benchmark: HFRX Global Hedge Fund Index		0.3%	6.2%	-6.7%	2.2%	0.7%	0.6%	8.2%
Long/Short Hedge Fund	5/1/2000	**1.6%**	**-16.3%**	**32.3%**	**0.0%**	**1.7%**	**6.4%**	**236.6%**
-Benchmark: HFRX Equity Hedge Index		0.5%	8.4%	-9.4%	3.2%	1.2%	2.2%	51.5%
Large Cap SMA	1/1/1999	**1.7%**	**8.7%**	**1.3%**	**8.1%**	**7.6%**	**10.2%**	**661.1%**
-Benchmark: S&P 500 Index		2.2%	23.2%	-4.4%	14.9%	10.8%	6.4%	267.6%
Precious Metals SMA	6/1/2019	**5.2%**	**36.1%**	**N/A**	**N/A**	**N/A**	**N/A**	**36.1%**
-Benchmark: Philadelphia Stock Exchange Gold and Silver Index		8.2%	37.0%	N/A	N/A	N/A	N/A	37.0%

Sincerely,

Kevin C. Smith, CFA
Chief Investment Officer

Tavi Costa
Portfolio Manager

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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

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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.