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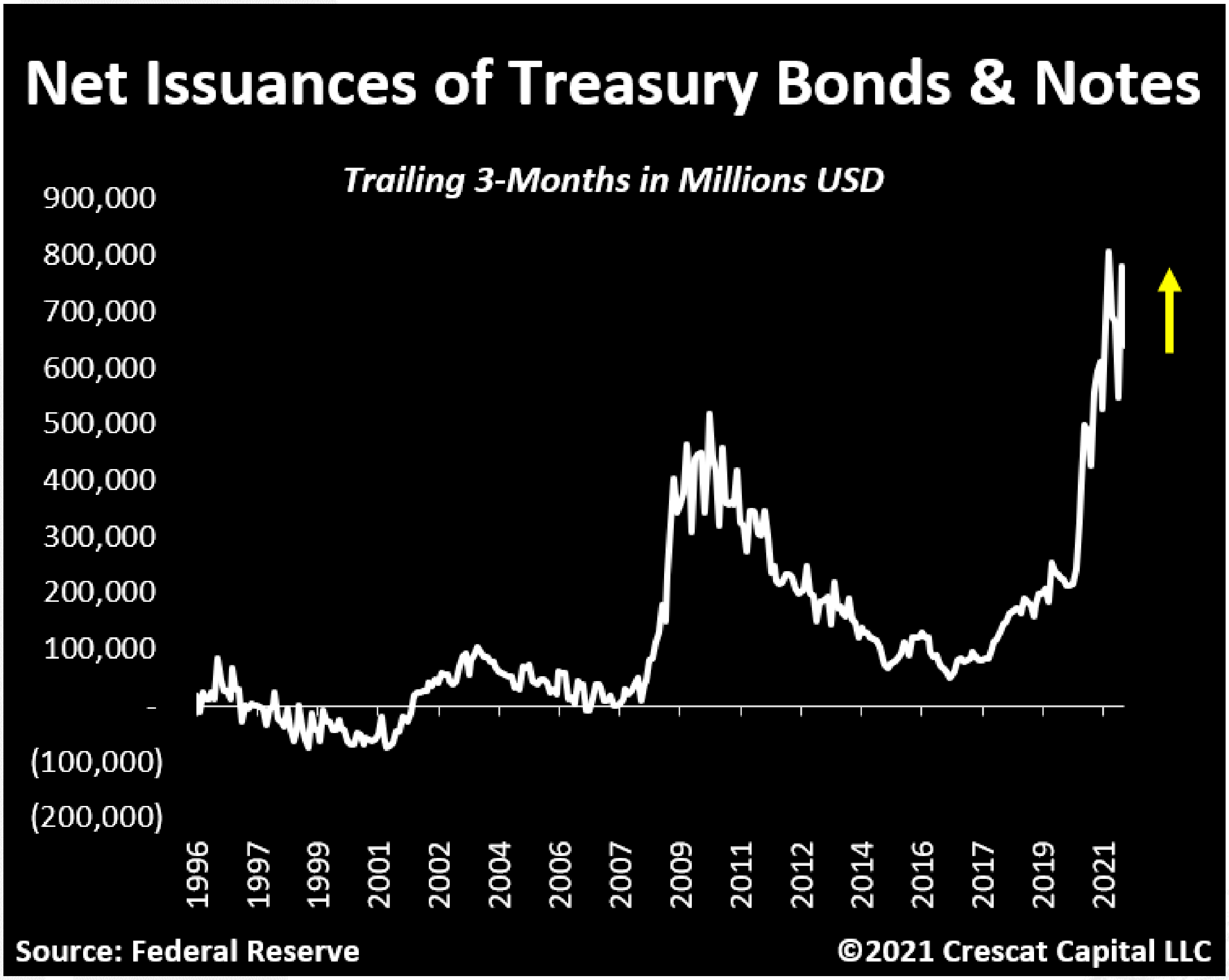
October 24, 2021

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.



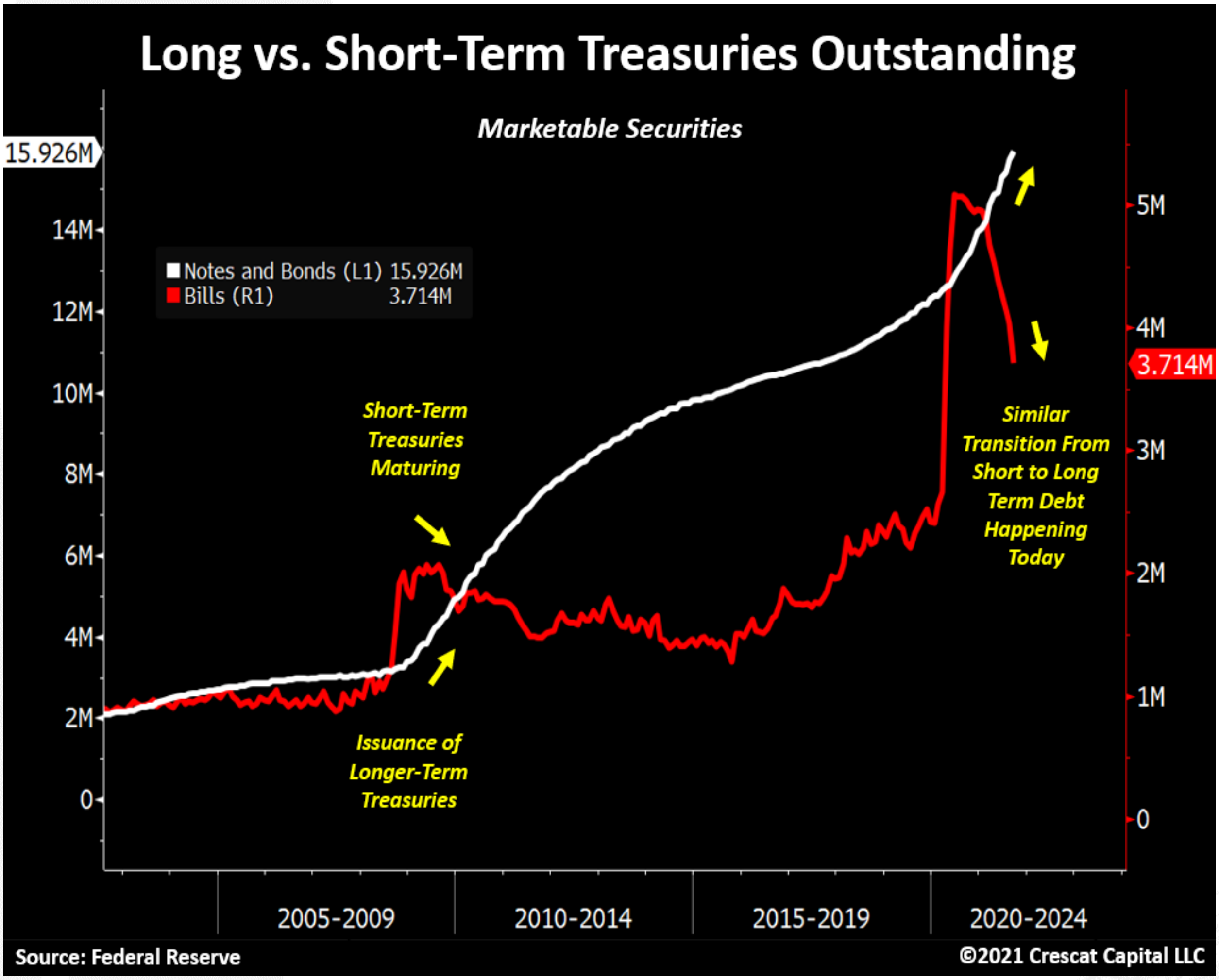
To understand the reason behind this surge in issuances, it is important to go back and rationalize how policy makers initially funded the massive fiscal operations when the pandemic started.

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.

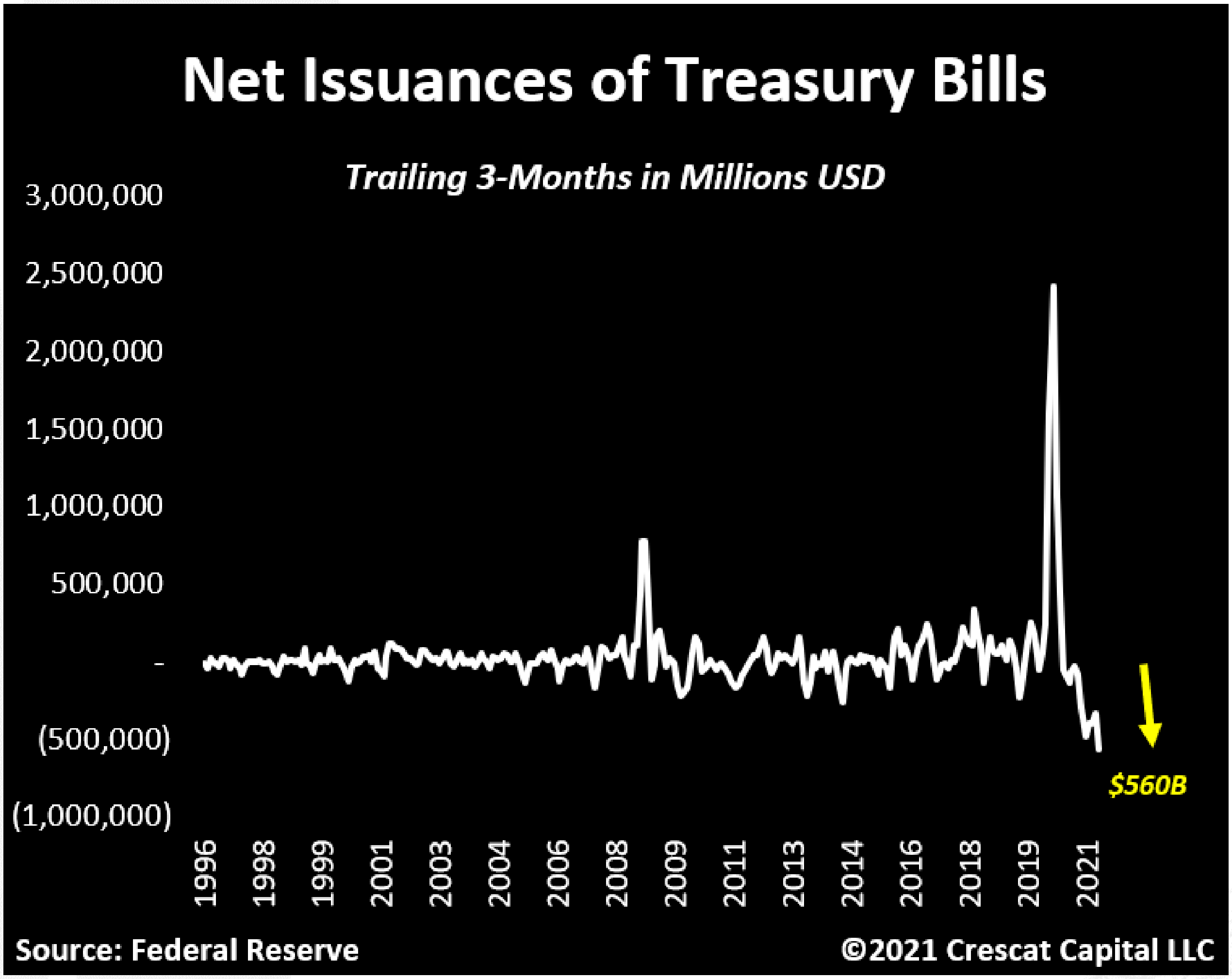
Such a large short-term issuance is not unusual in times of financial market stress. During a liquidity crunch, the demand for short duration, safer assets increases, making it significantly easier for the market to absorb these newly issued Treasuries to fund immediate fiscal stimulus measures.

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.

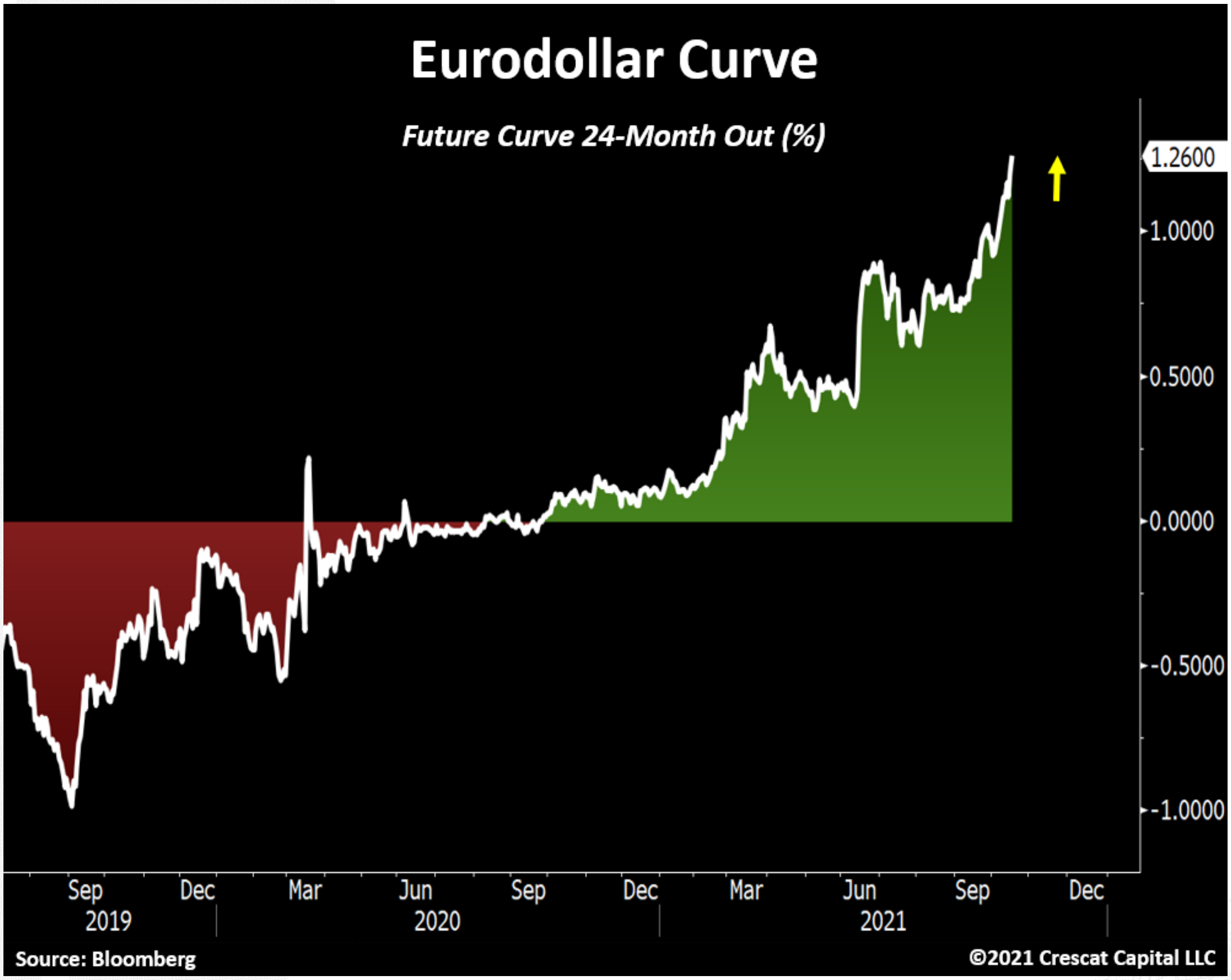
It is the first time in many decades that developed economies are having to choose between reducing monetary stimulus due to rising inflation or adding further liquidity to cope with a decelerating growth. This bifurcation of decisions is one of the many reasons why these central banks are indeed hamstrung.

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.

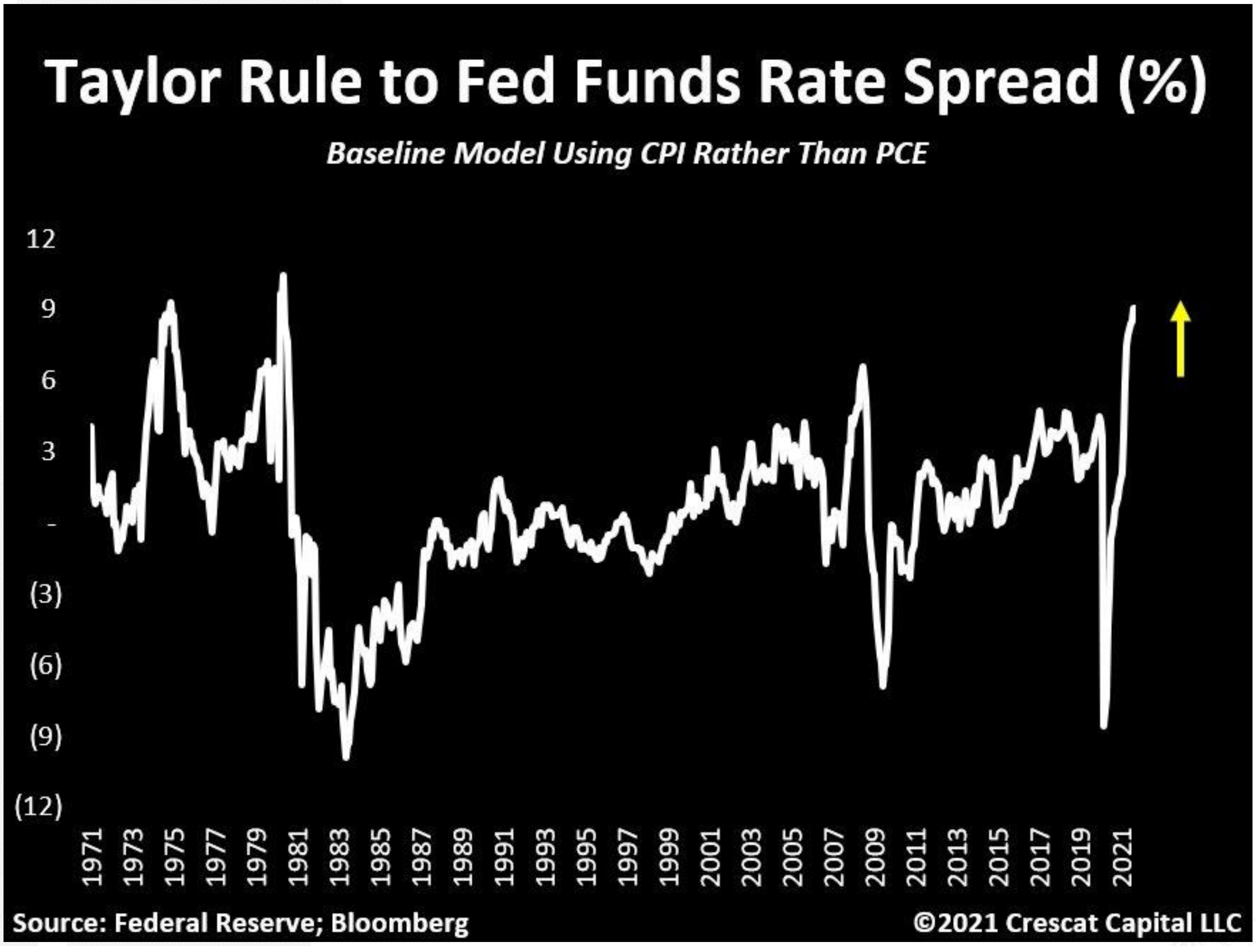
Also, separately, do commodity markets even care if 10-year yields are at 2.5 or 3%?

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.

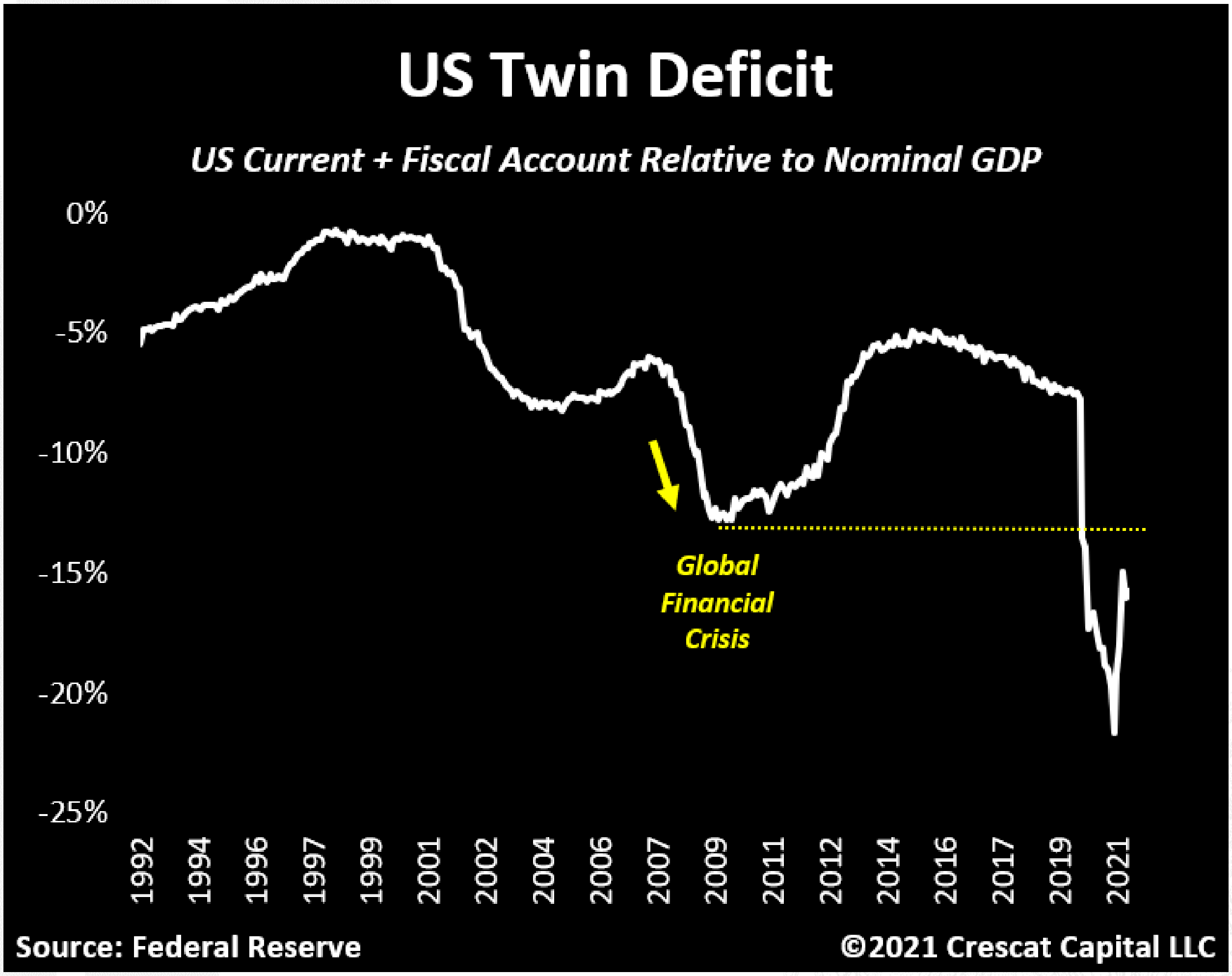


The problem is that aside from what is happening in the monetary policy side, massive fiscal spending continues to pressure the government to dig an even deeper debt hole. As we have previously mentioned, the fiscal agenda has four well-defined and long-lasting fronts:

- **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.

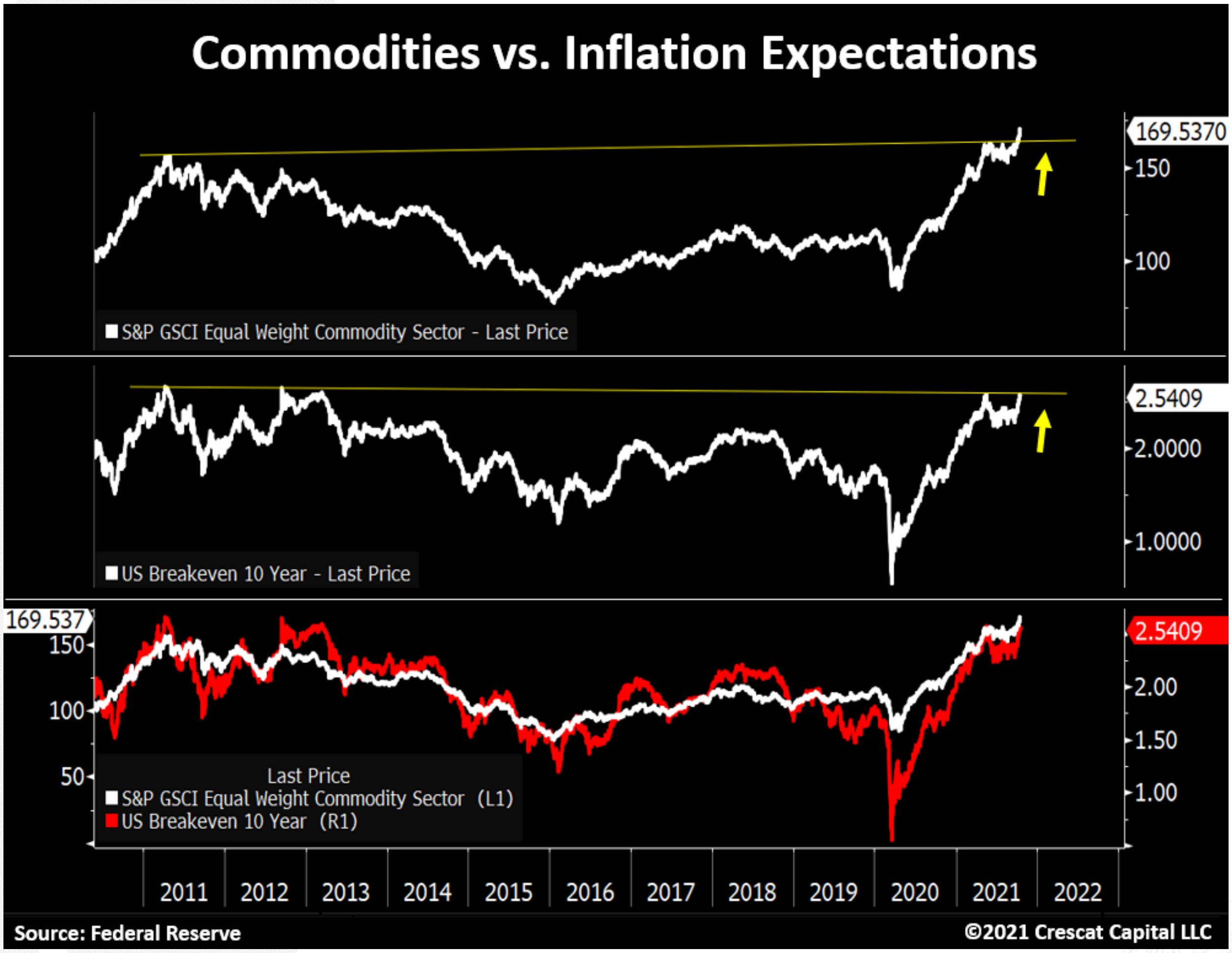
In our opinion, these political efforts significantly feed into the inflation thesis.

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.

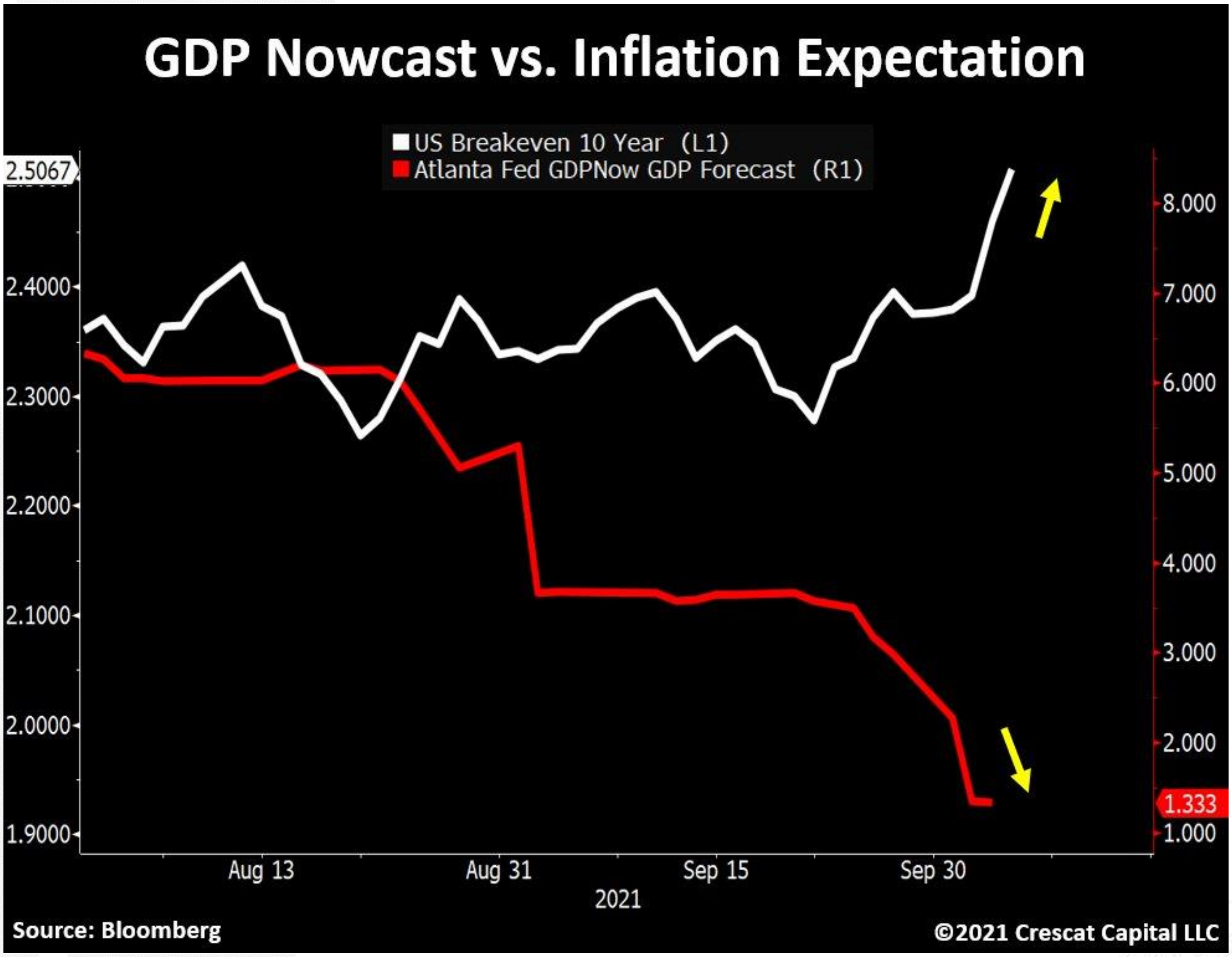
For instance, the Commodities Equal Weighted Index is breaking out from its 2011 highs with authority. The 10-year breakeven, which measures the market expectation for CPI, is likely the next to follow to the upside. Note in the third panel how these two indices follow each other remarkably close throughout 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.

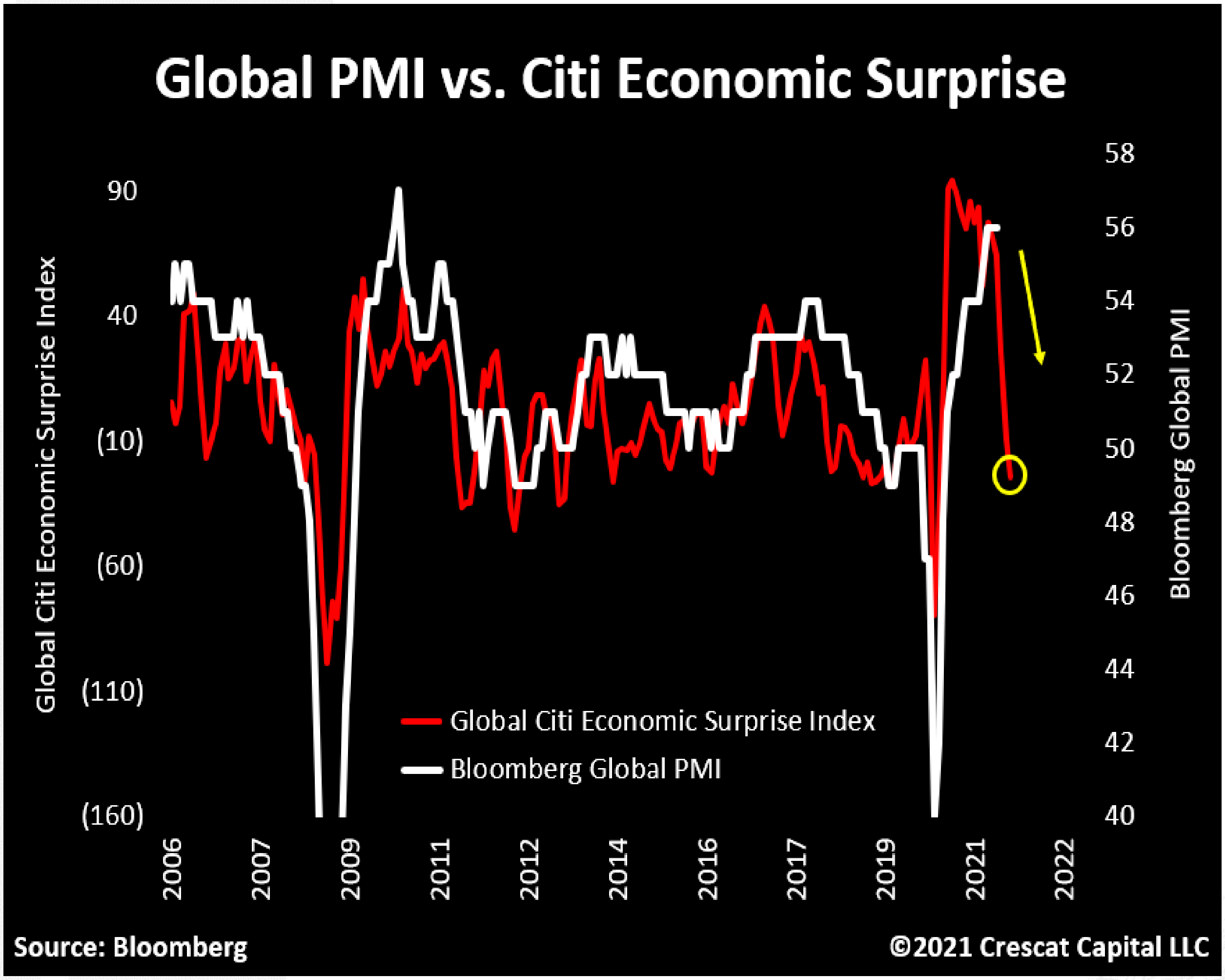
As shown in the chart below, 10-year breakeven rates, which measures the market expectation of CPI, continue to trend higher while the Atlanta Fed GDPNow has been cut from 6% to now 1.3% just in the last two months.



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.

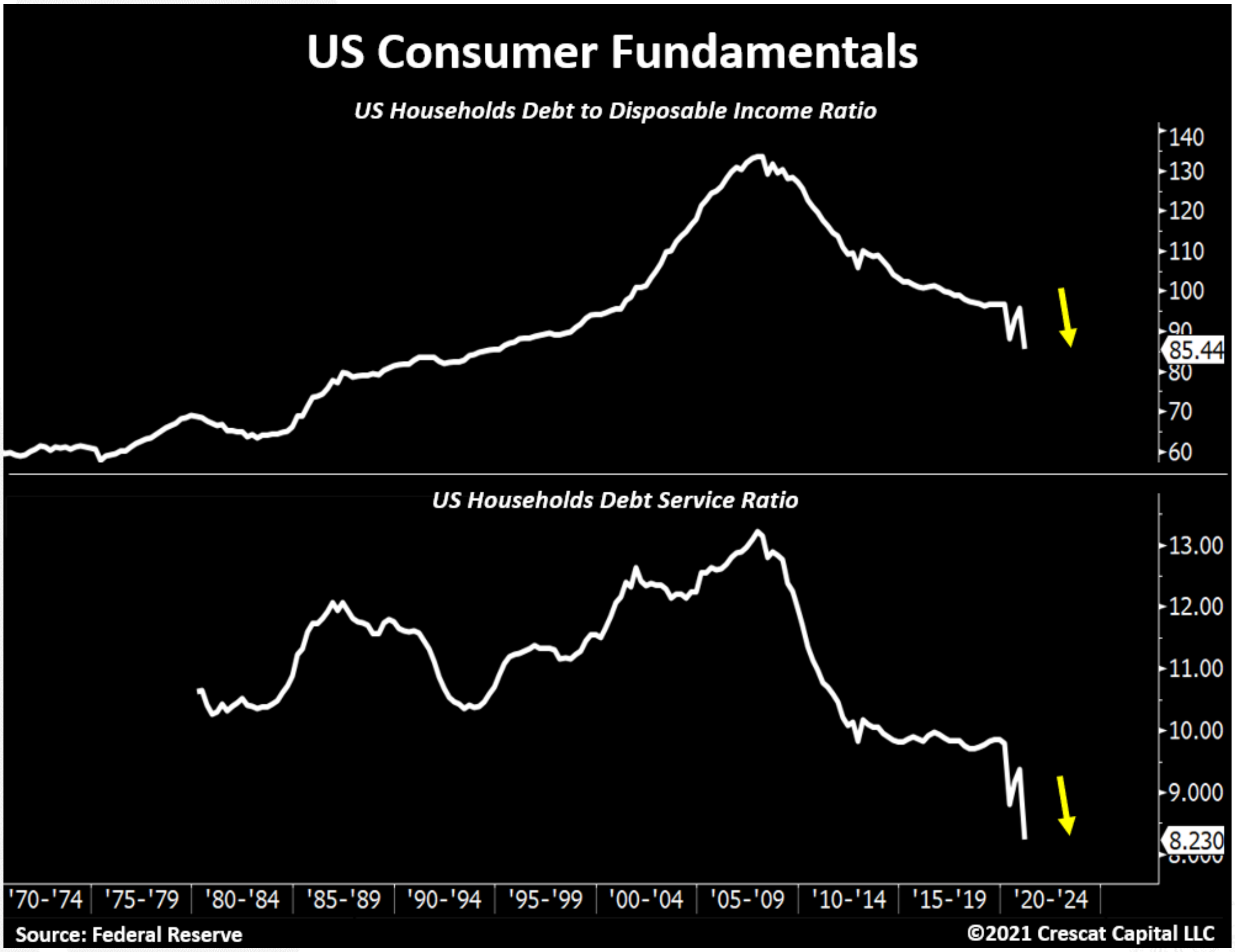


A Fundamental Shift Among Consumers

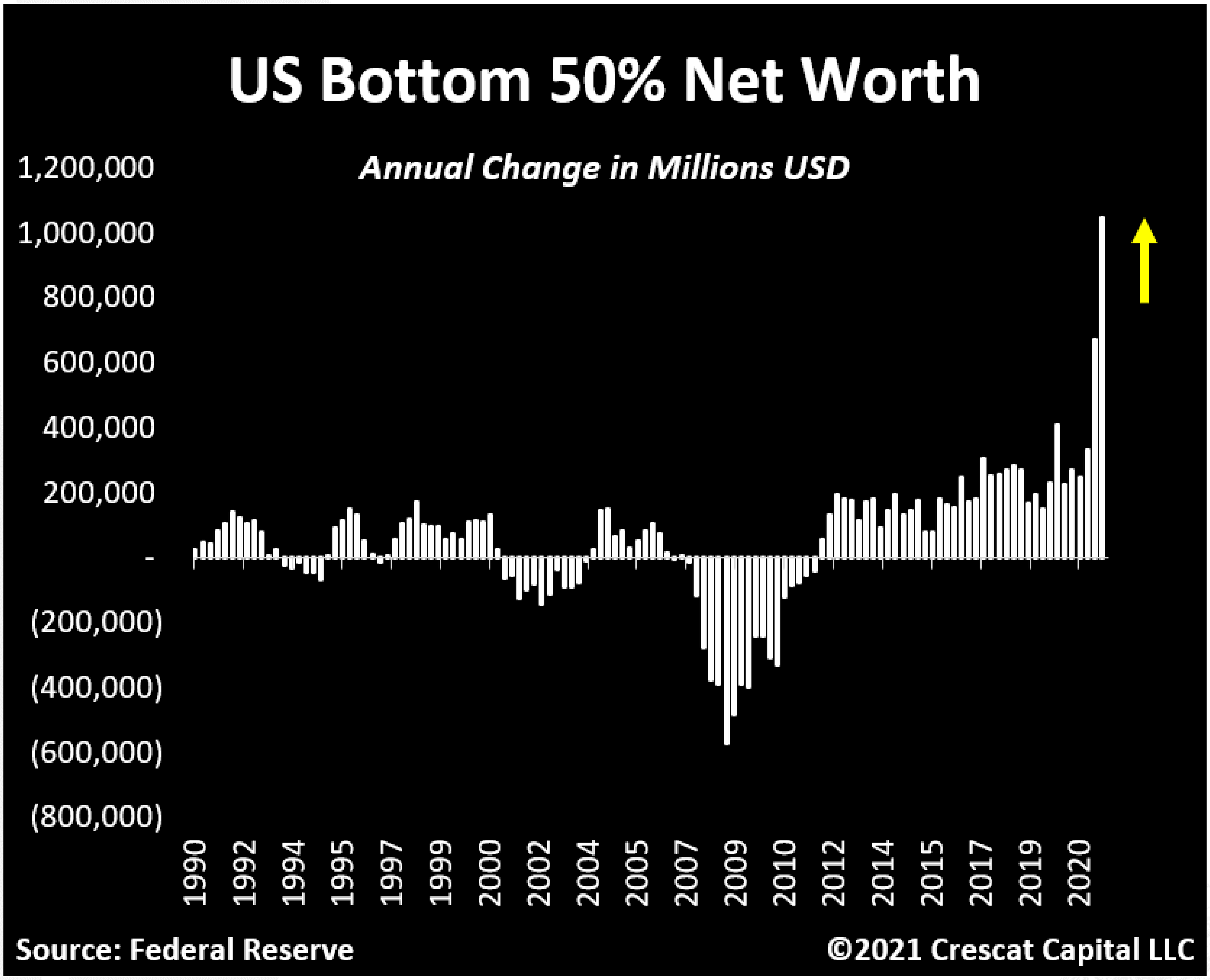
In our prior letters, we described inflationary forces as having three main pillars:

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.

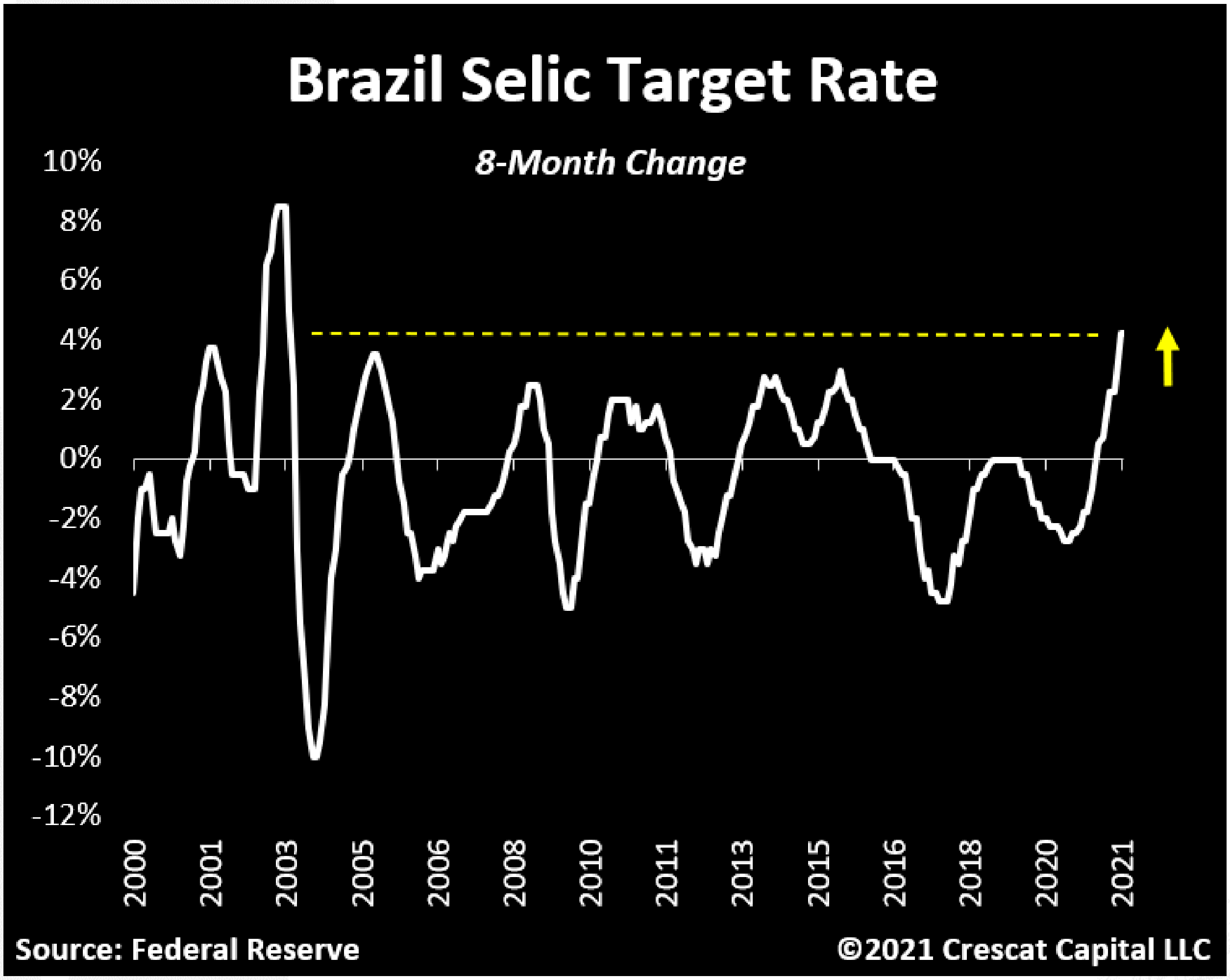


More importantly, this wealth creation is also happening across lower classes. To put into perspective, one fourth of the entire wealth accumulated by the US bottom 50% since 1990 was generated just in the last year.

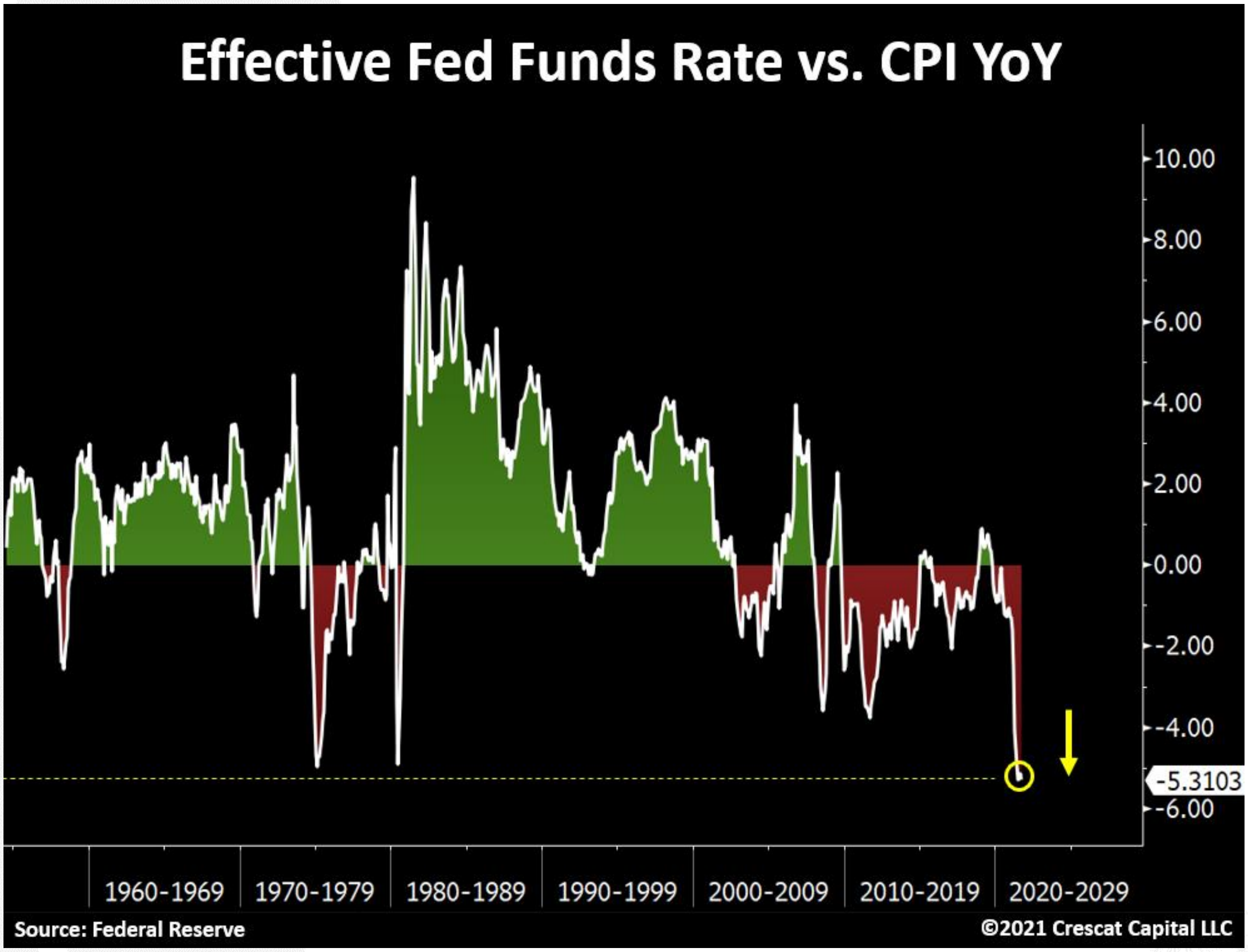


Interestingly, if you want to assess the severity of the current inflationary problem in the global economy, look no further than emerging markets. These economies know how to shift their policy stance quickly when inflation is perceived as problem.

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.



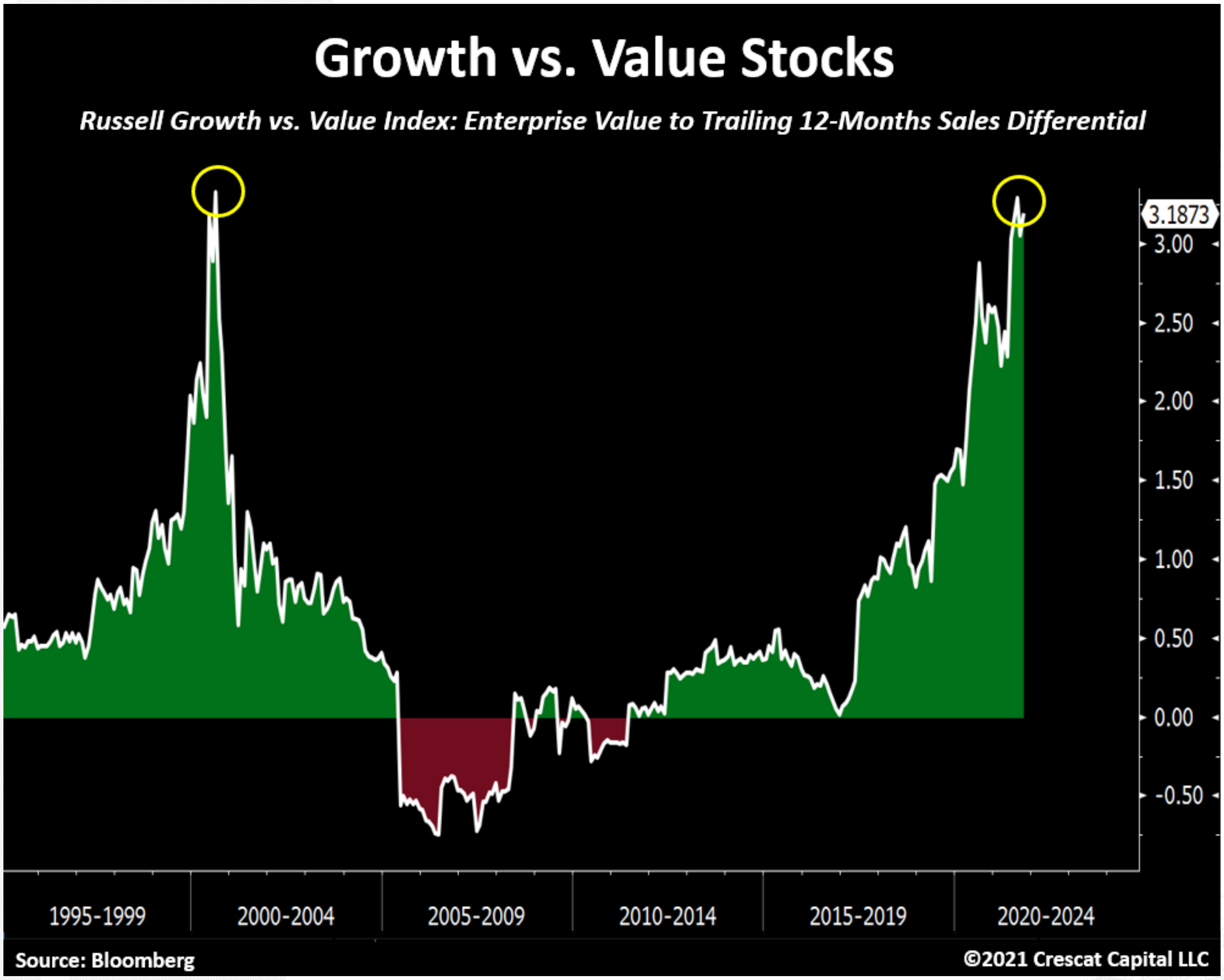
So, what are some of the key market ramifications of an economy that continues to run hot and is perhaps on a verge of seeing 100 to 150 basis points in long-term rates?

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

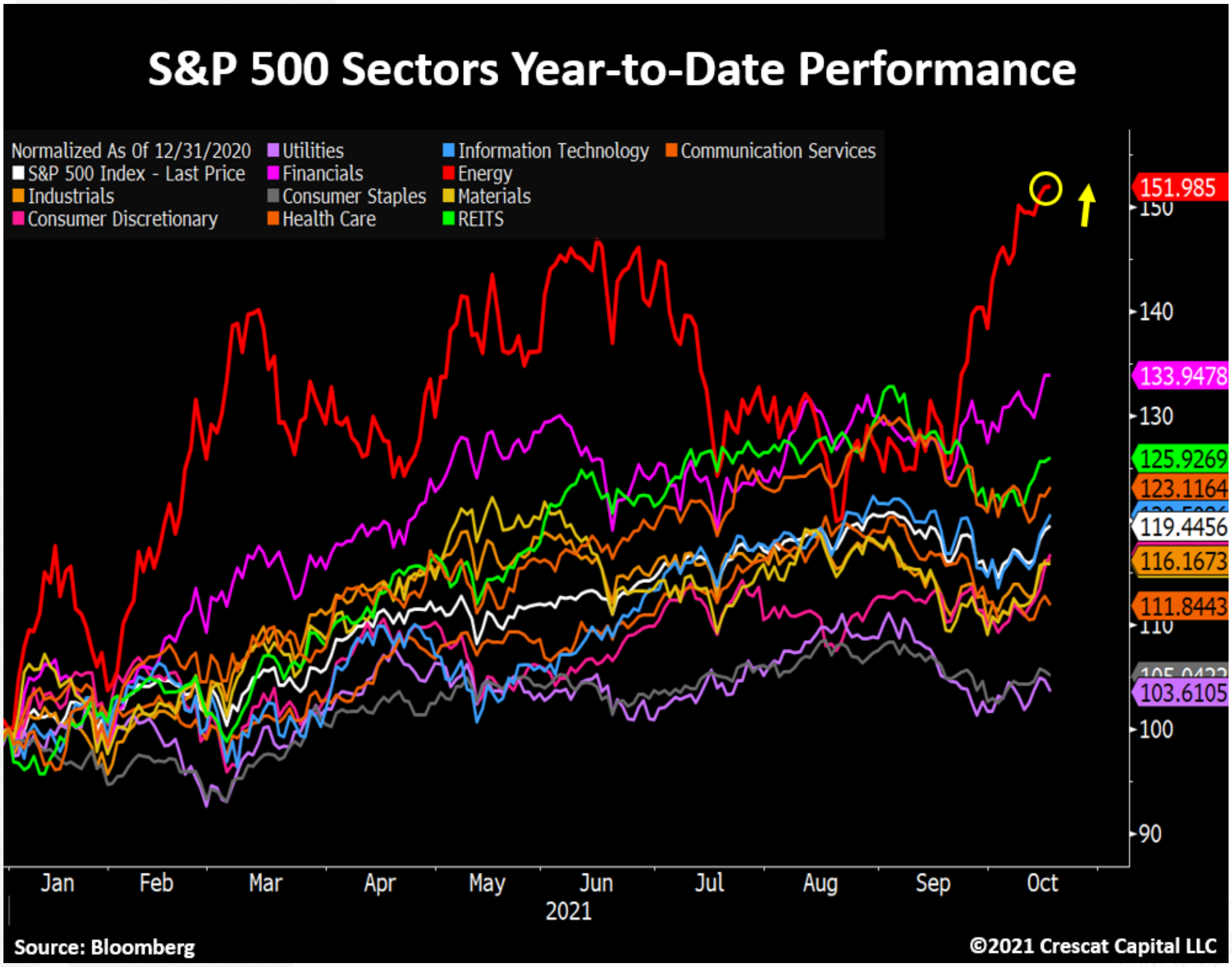
As we have articulated is previous letters, we believe a Great Rotation away from growth stocks and into value companies is upon us. Long duration equities that tend to justify their excessive multiples with potential long-term growth through low interest rates could very well be the first ones to be 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.

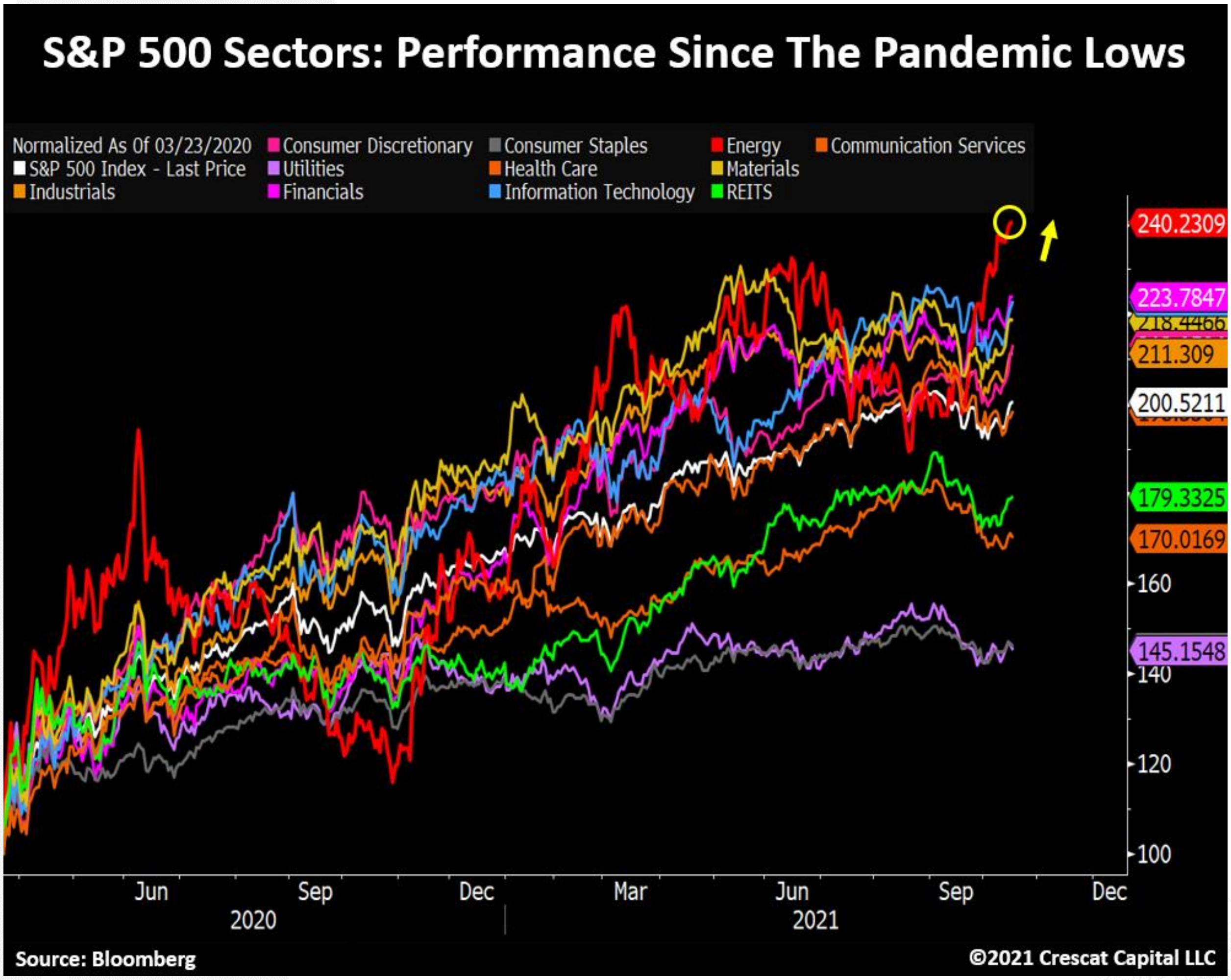
See below how the differential of fundamental valuation between growth and value stocks is re-testing the peak tech bubble levels that we saw in 2000.



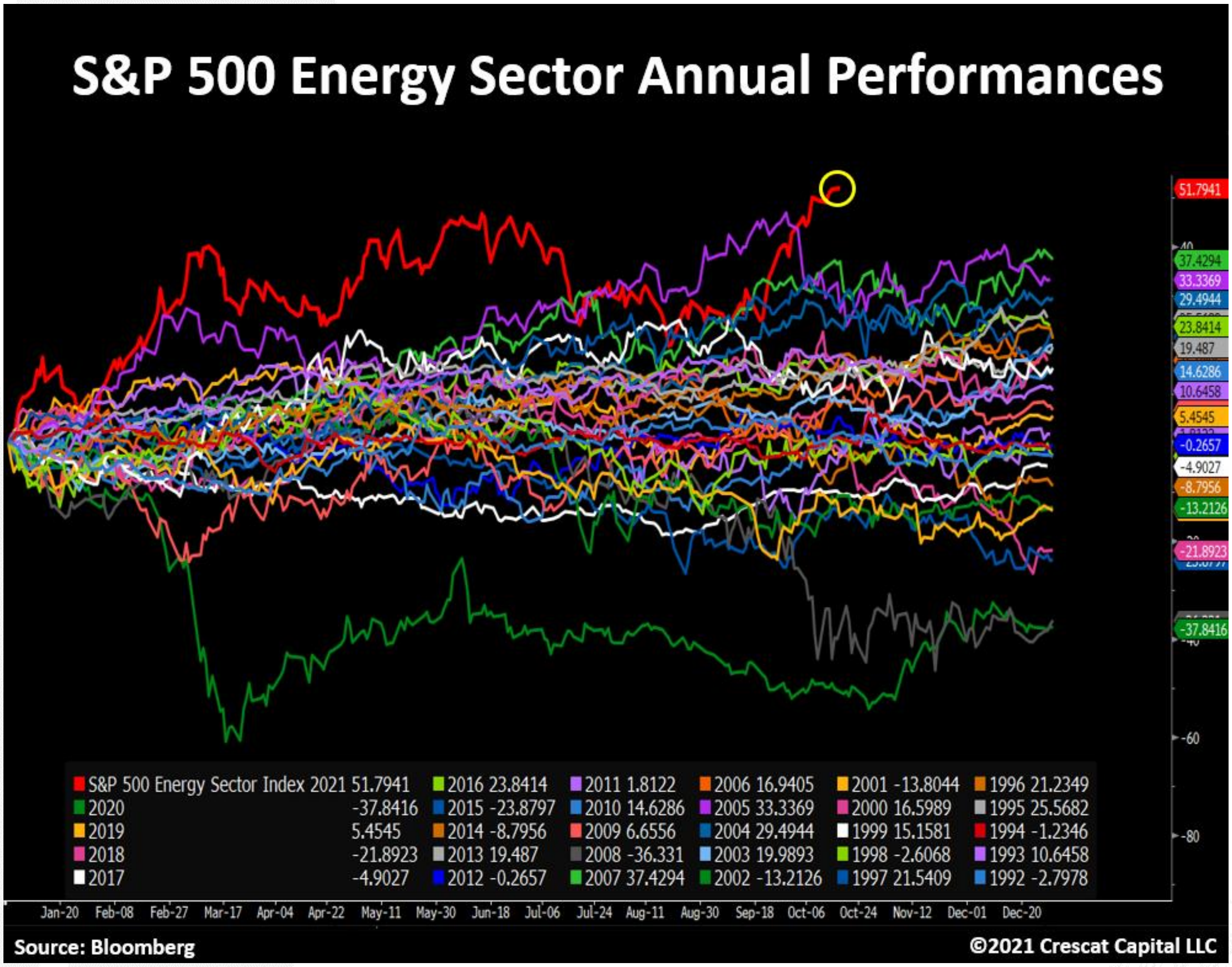
Parts of the Great Rotation have already started to play out. For instance, energy is already the best performing sector of the S&P 500 by almost 18 percentage points ahead of the second-best performer, financials.



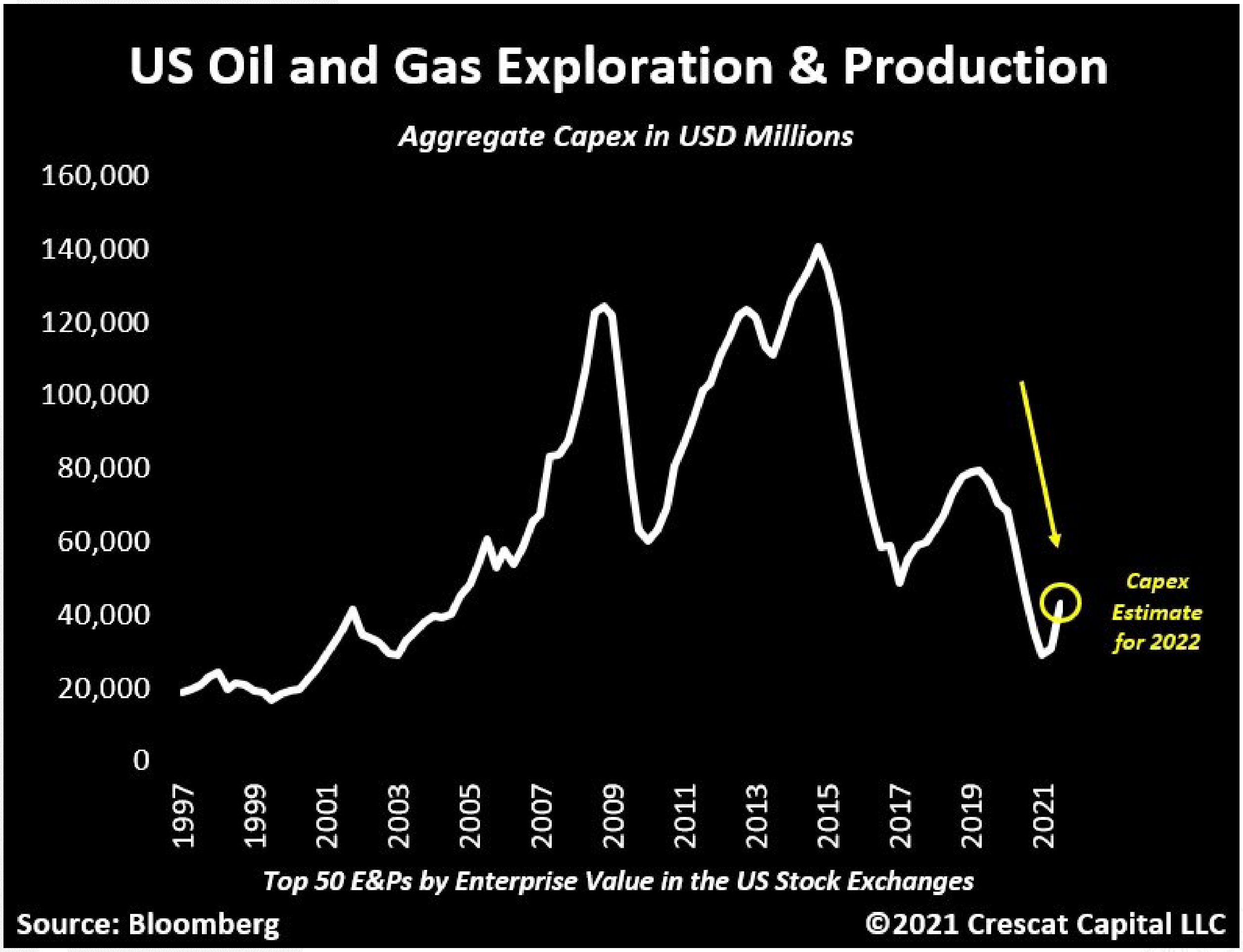
Also, note that oil and gas companies had the strongest returns since the pandemic lows and are almost 20 percentage points ahead of information technology and financials.



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.



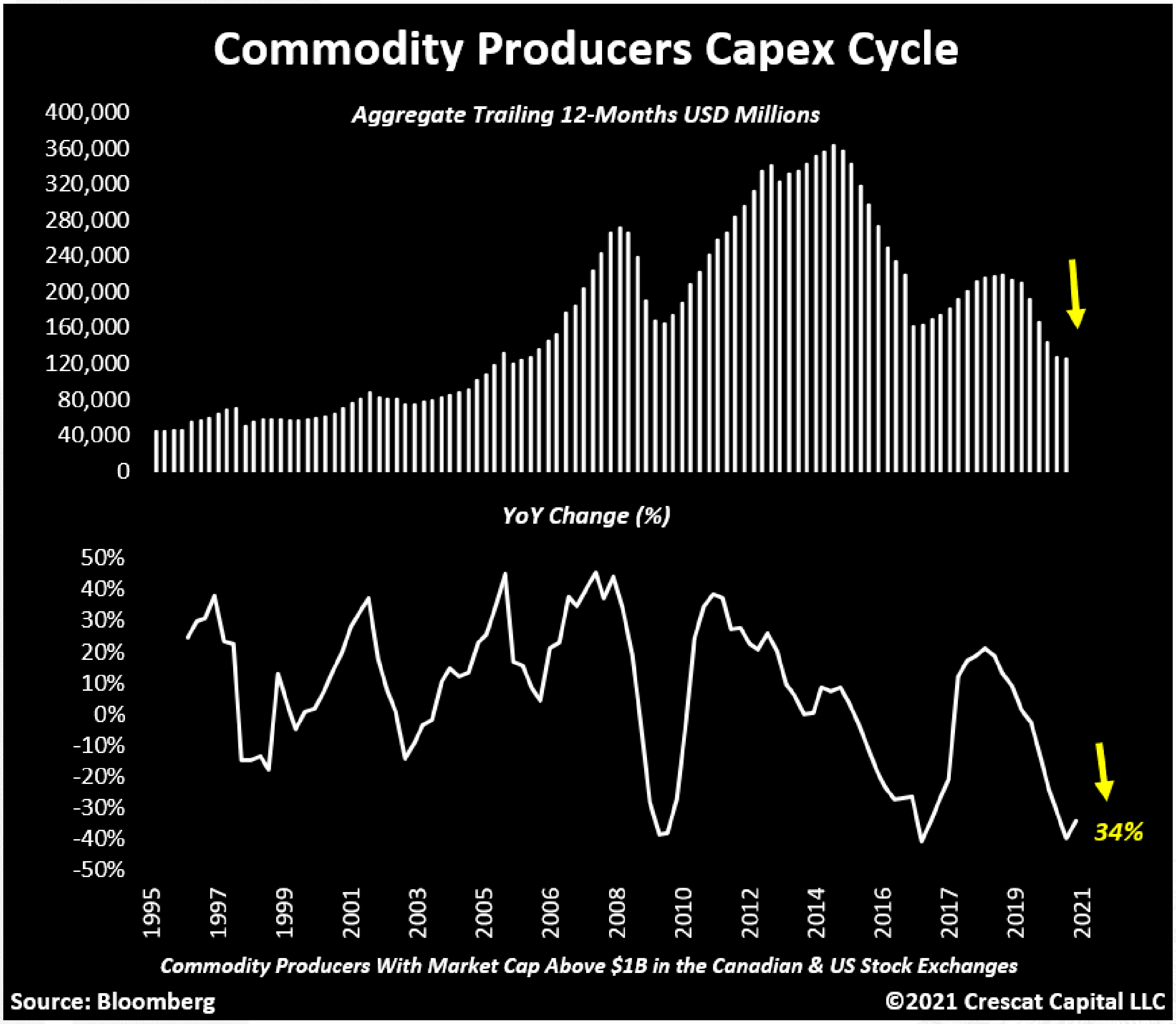
What is intriguing about oil markets today, however, is that regardless of how energy commodities are surging, the CAPEX estimate for E&Ps is still near all-time lows. Historically, when oil and gas prices rise, energy companies tend to overspend capital and therefore oversupplying the market. Today, 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?

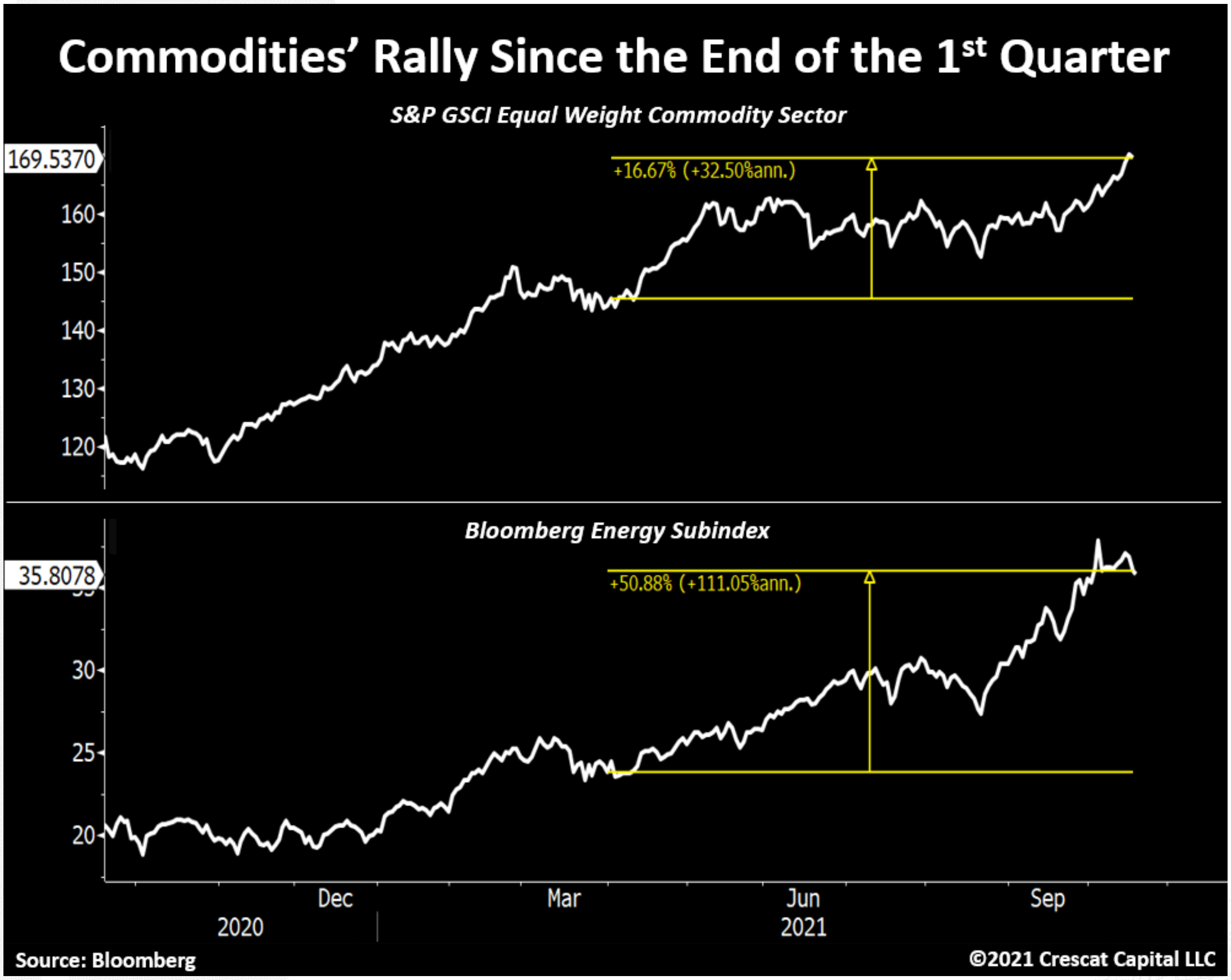
ESG policies are impacting the entire capital spending cycle of commodity producers. What most "deflationistas" underappreciate is that the supply constraints are much less about pandemic issues and much more about the long-germ declining trends in capex among critical parts of the economy such as natural 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.

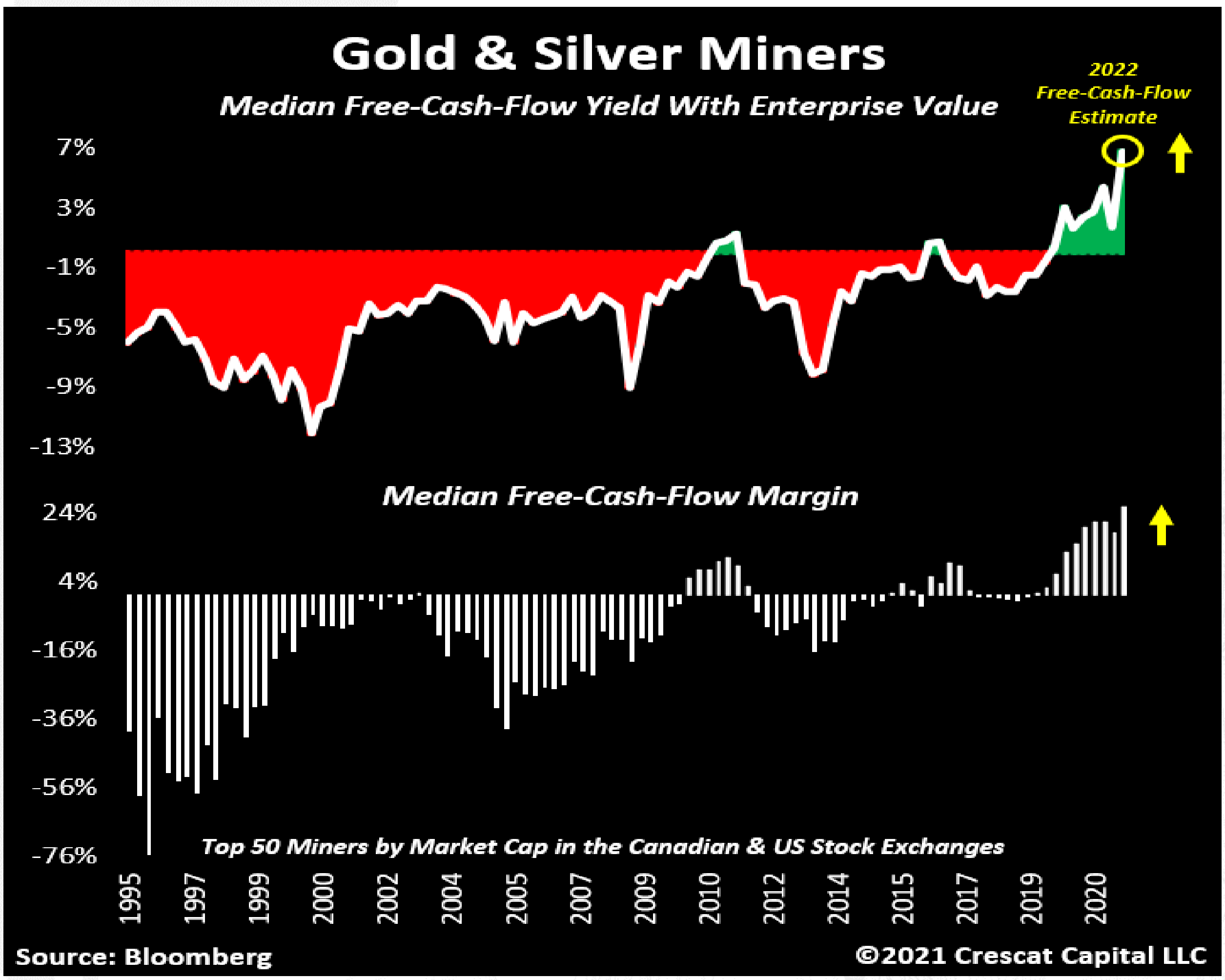
Then how do we identify that we are indeed in a long-term bull market for precious metals?

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.

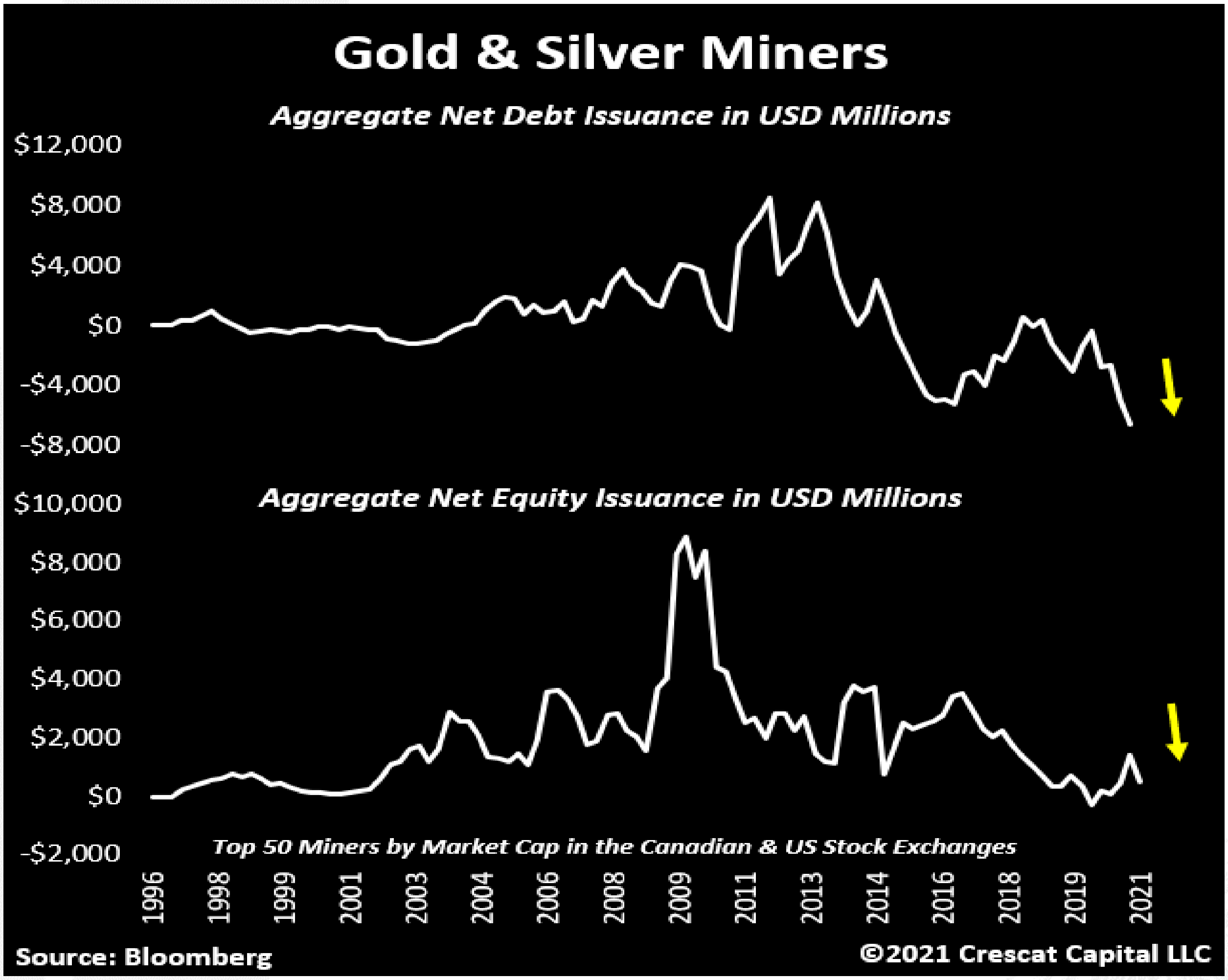
There are multiple reasons for us to believe that gold, silver, and the mining industry present an incredible opportunity at the current prices. Let us start by looking at the usual fundamental trends of this industry as part of prior historical cycles.

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

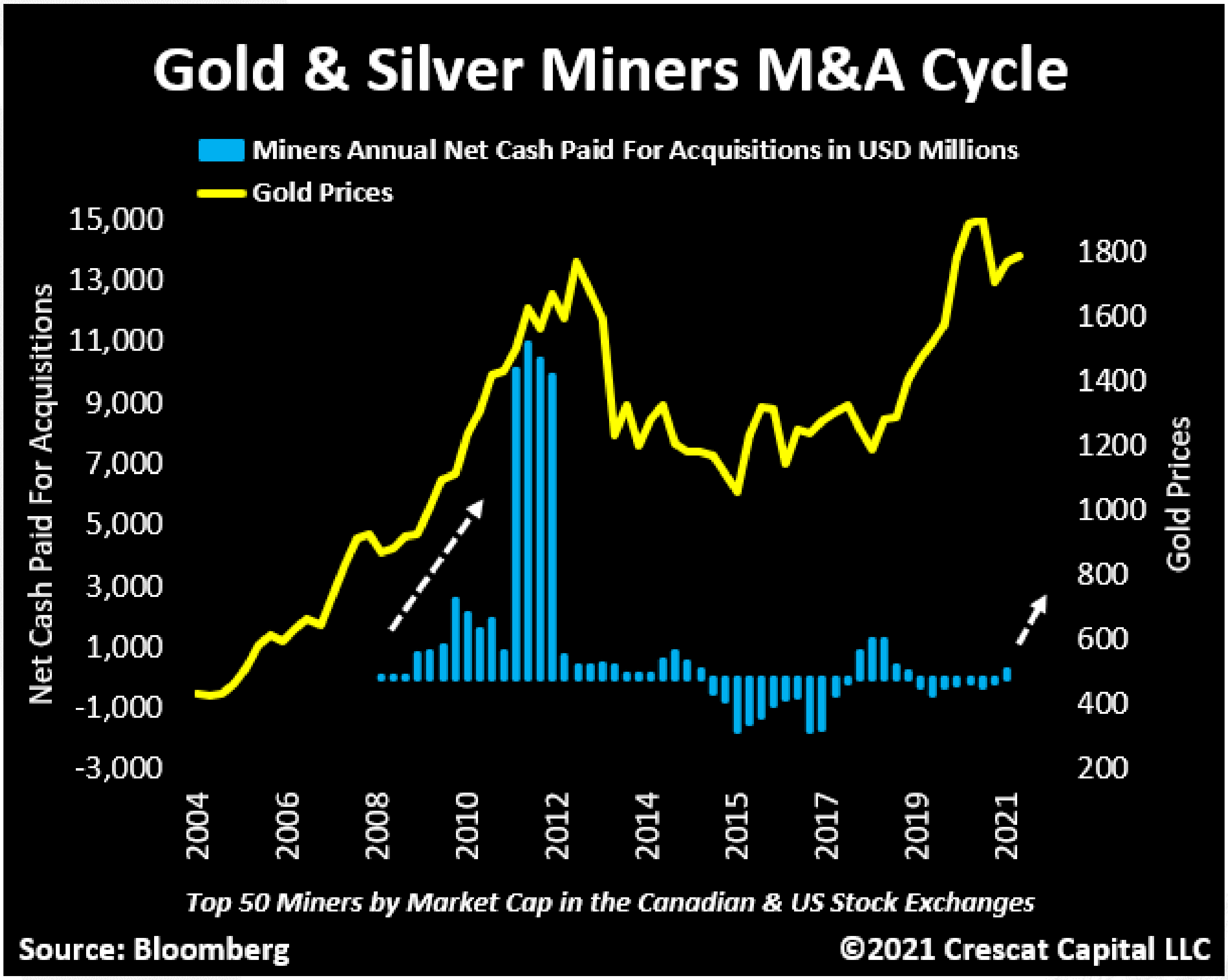
Miners are now trading at the cheapest fundamental multiples we have seen in history. Assuming the current 2022 free-cash-flow estimate relative to the current enterprise value, the median company among the 50 largest miners in the US and Canada exchange now trade at an unprecedented 7% yield. Note that 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%.



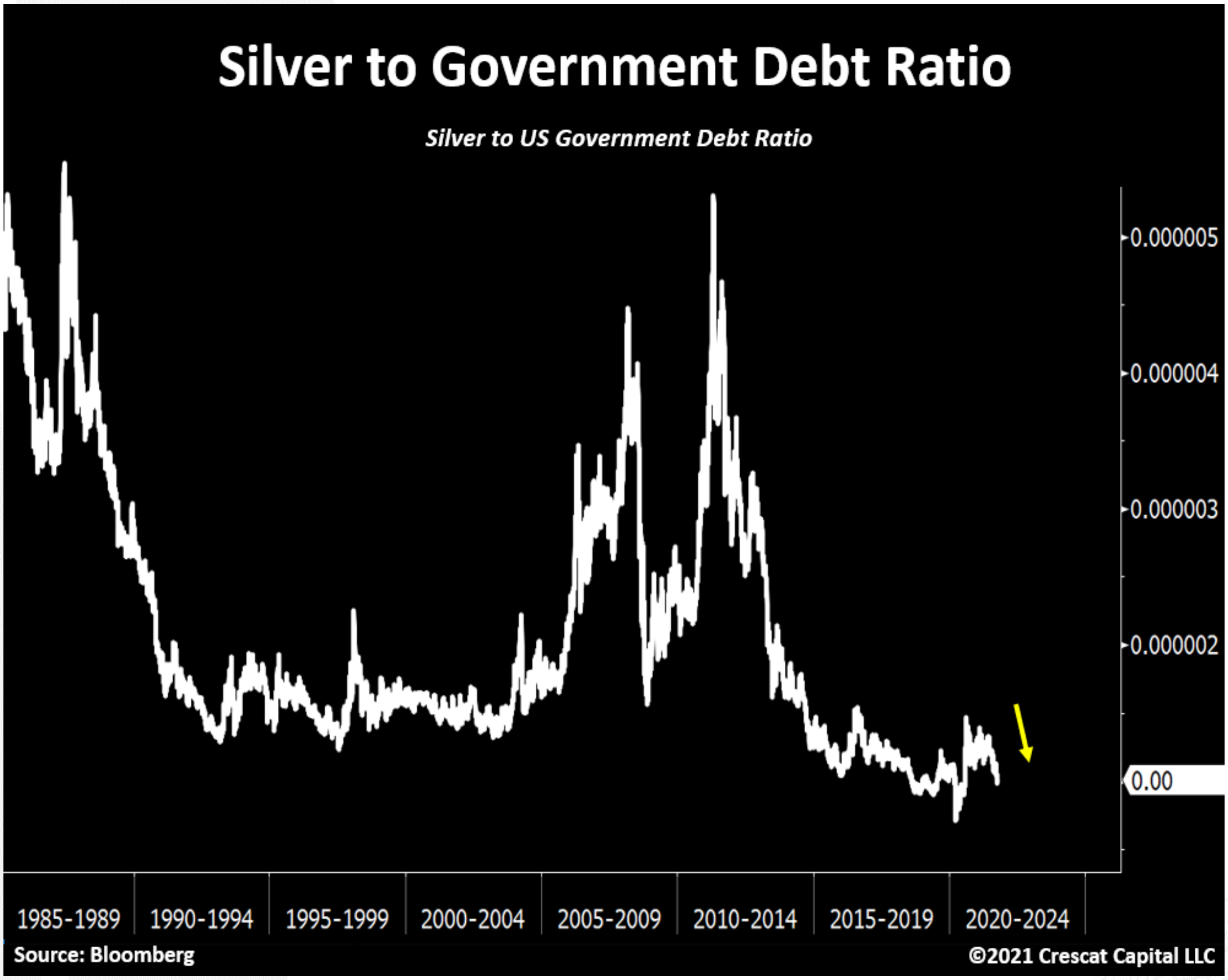
Historically, mining companies tend to lever up and dilute massive amounts of shares when they are at the top of their cycle. We are experiencing the complete opposite today. These companies have become true free-cash-flow machines and are now being able to not only pay down debt but to avoid significant 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.

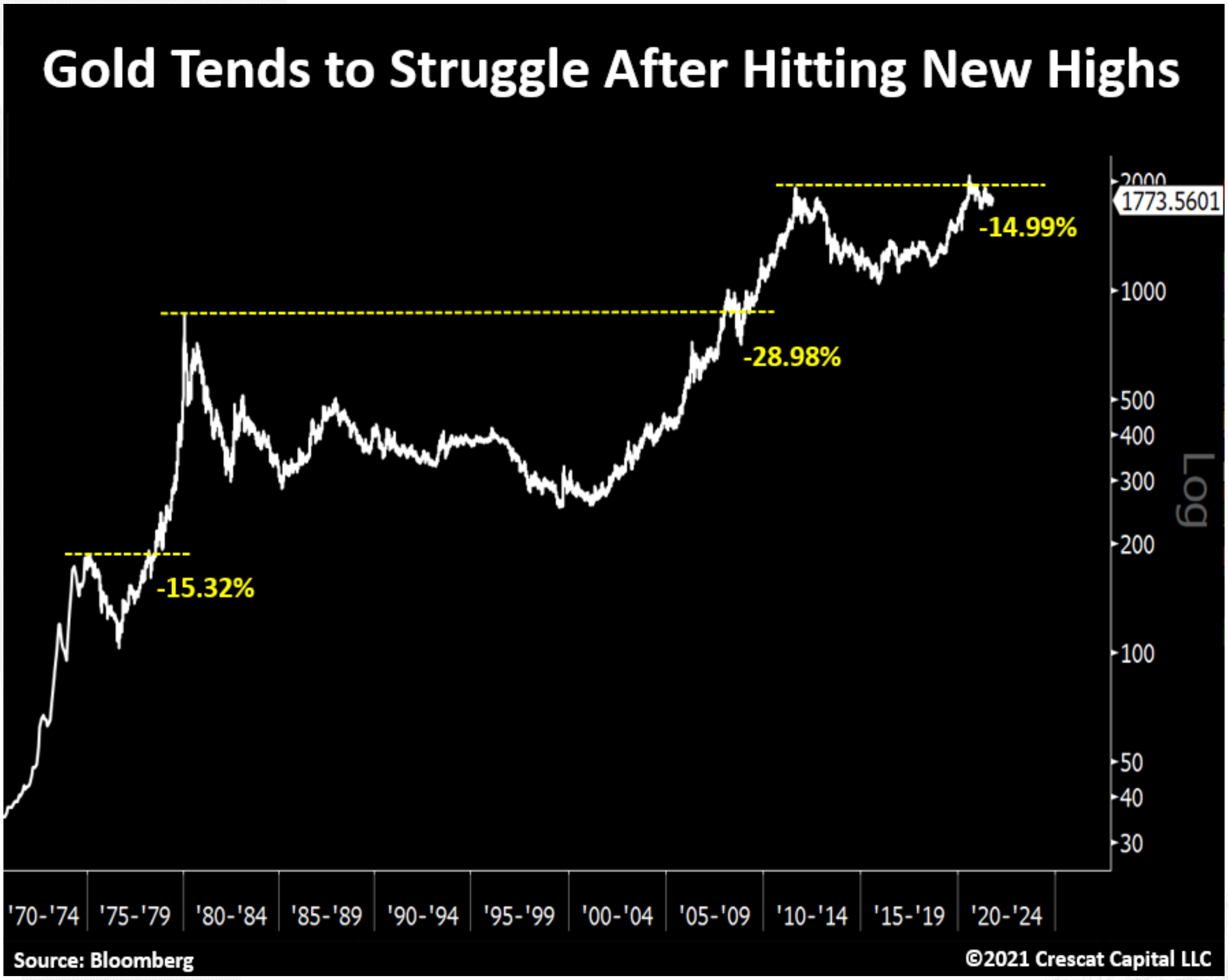


Interestingly, as the government has continued to pile on more and more debt, gold has underperformed. Such a phenomenon is unsustainable in our view. Today, the setup today looks just like it did in the early 2000s ahead 10-year precious metals bull market.



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.

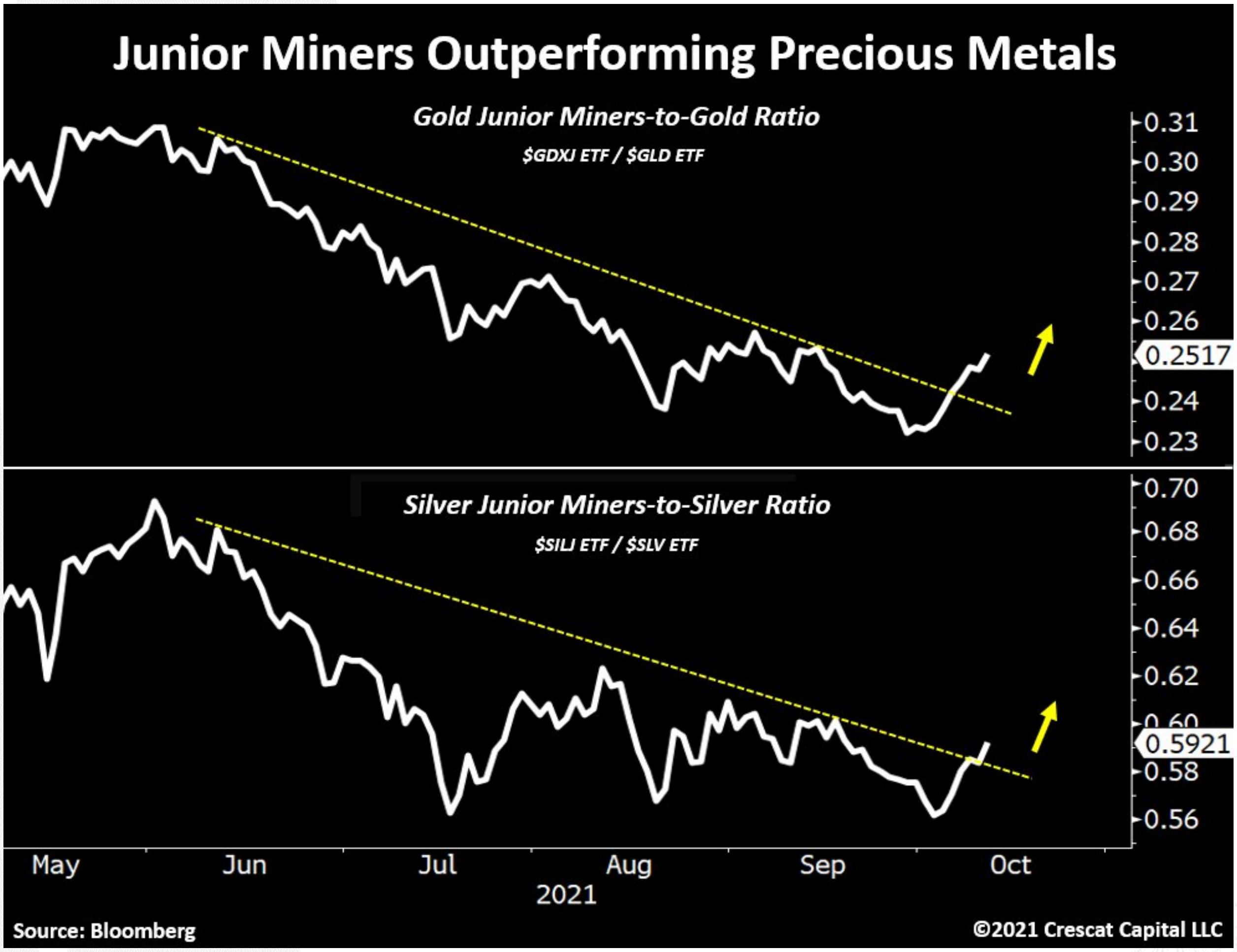
We are probably seeing a similar issue today again. In July 2020, gold broke out to record levels and kept moving higher for another two weeks. The price is now 14% lower, and the entire financial media already claims that gold is dead. Note, however, how the shiny metal tends to come screaming back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



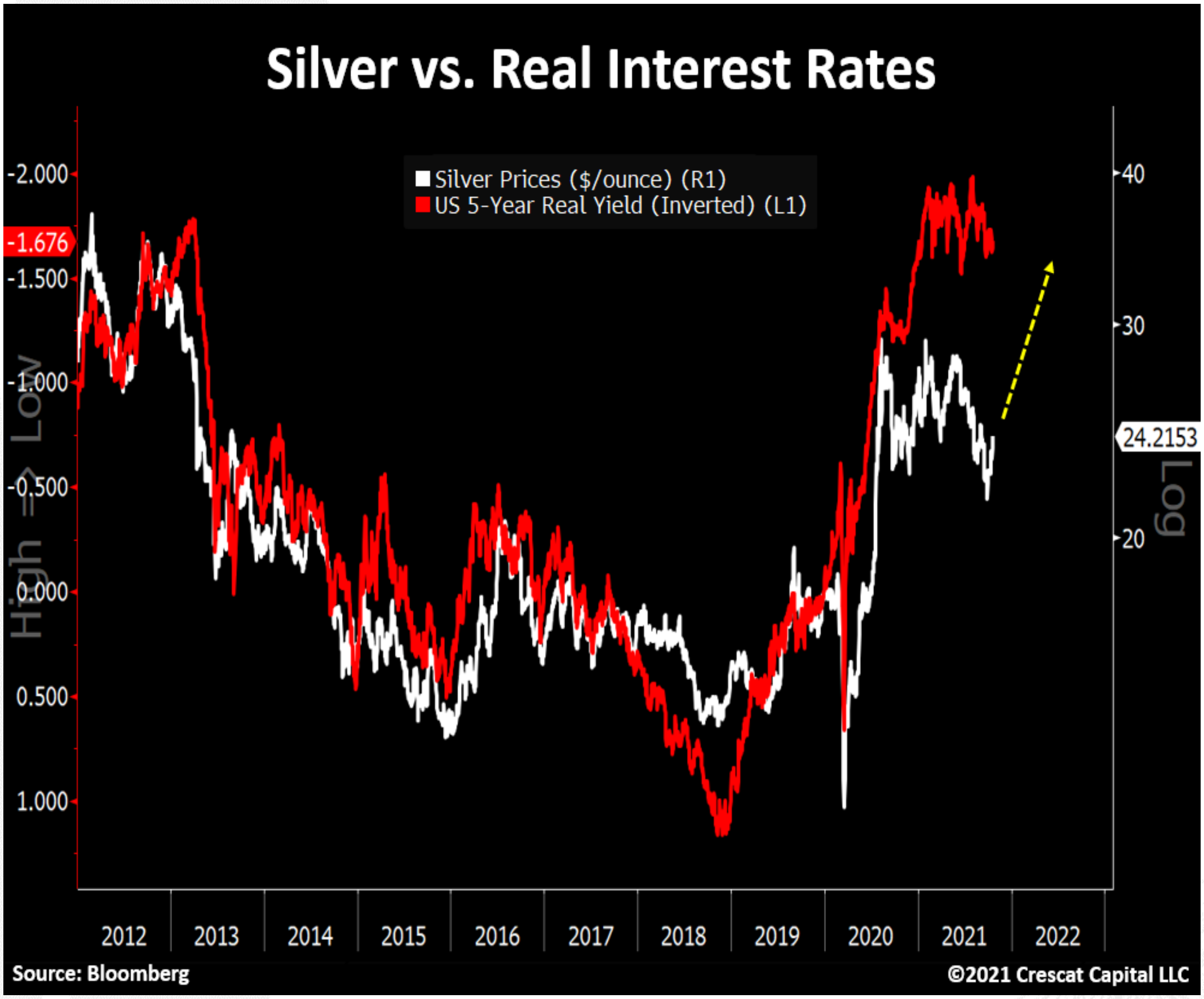
The gold-to-silver ratio usually reaches historical lows when miners are near peak cycle. Yes, this ratio was higher during the Covid crisis, but the current levels are almost as low as it was during other major bottoms. Yet another reason why silver is historically undervalued relative to not only its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

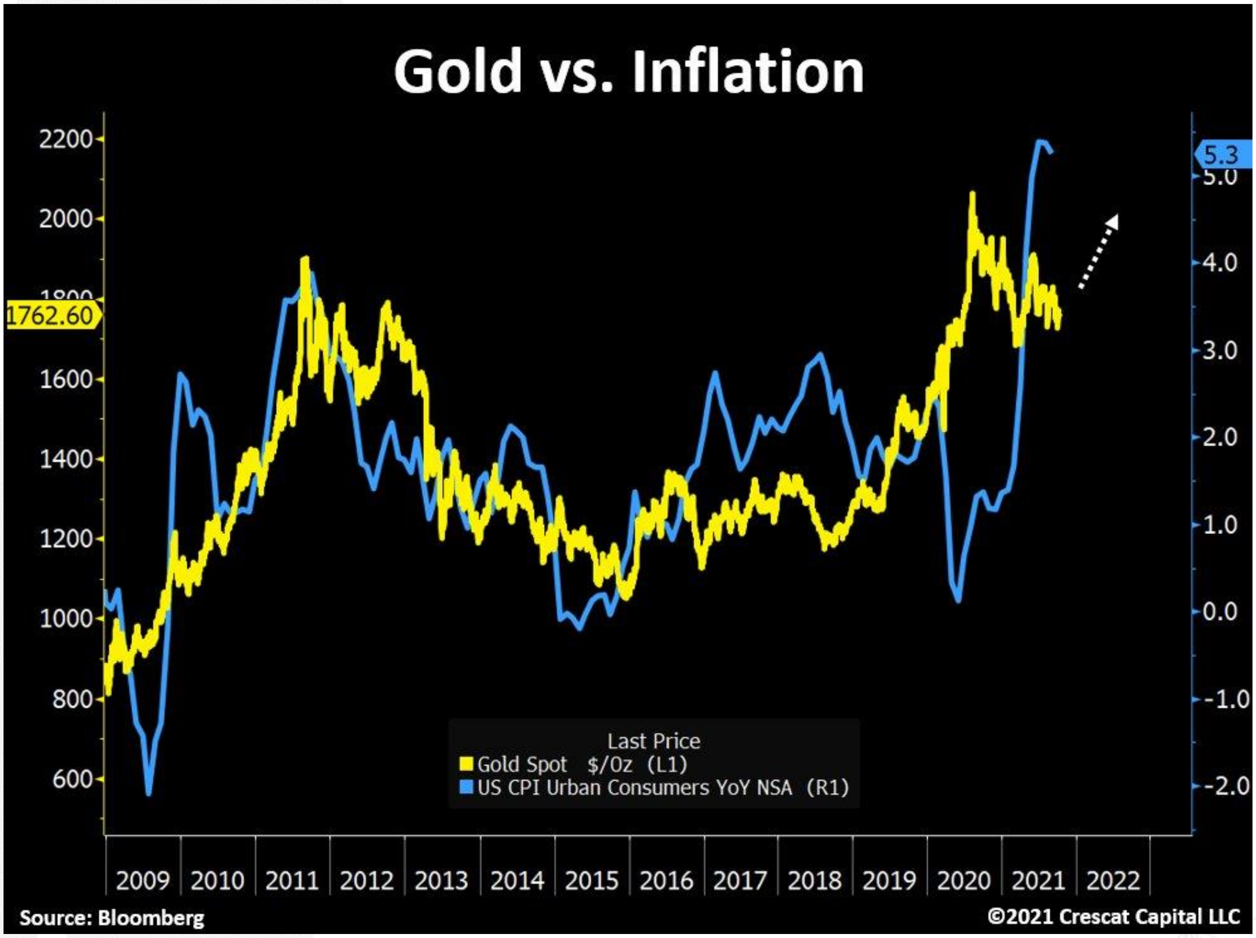
Junior miners in the precious metals industry have started to outperform the seniors. These are important signs that a bottoming is taking place. Ideally, one wants to see the riskier parts of the market not only holding up their values but perhaps even leading the way to the upside.



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

			Annualized Trailing			
CRESCAT STRATEGIES VS. BENCHMARK (Inception Date)	September	YTD	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,

Kevin C. Smith, CFA
Member & Chief Investment Officer

Tavi Costa
Member & Portfolio Manager

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November 13, 2021

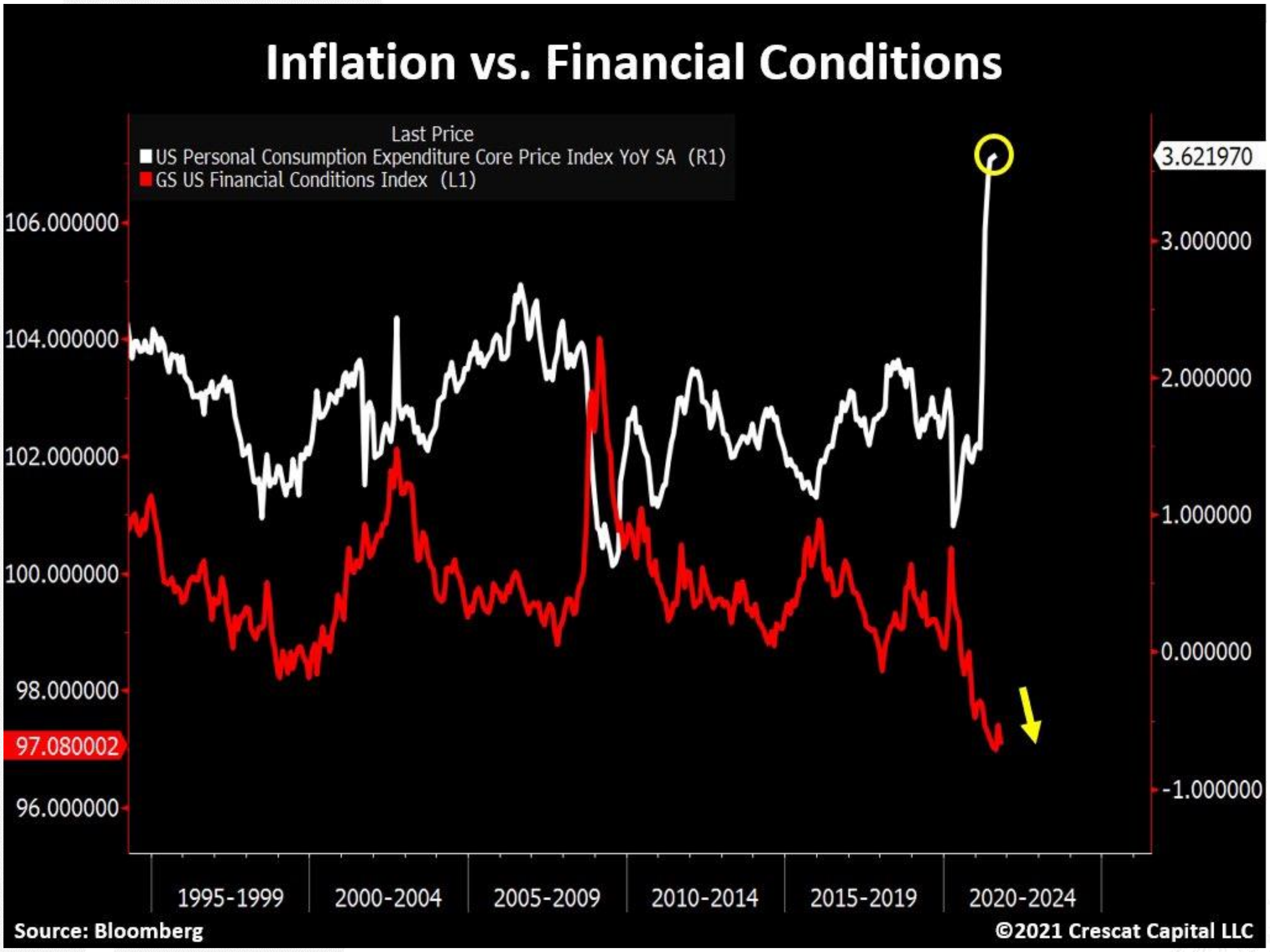
Dear Investors:

The Catalyst for The Great Rotation

Based on the firm's current equity and macro models, and our investment team's analysis, we believe we are in the explosive first wave of an inflationary cycle in the US and globally that will elevate consumer prices at a much higher annualized rate and for significantly longer than priced into financial markets today. The factors driving our view include structural shortages in primary resource industries due to chronic underinvestment, incipient wage-price spirals, and unsustainably high government debt-to-GDP imbalances which make a new inflationary trend the policy path of least resistance.

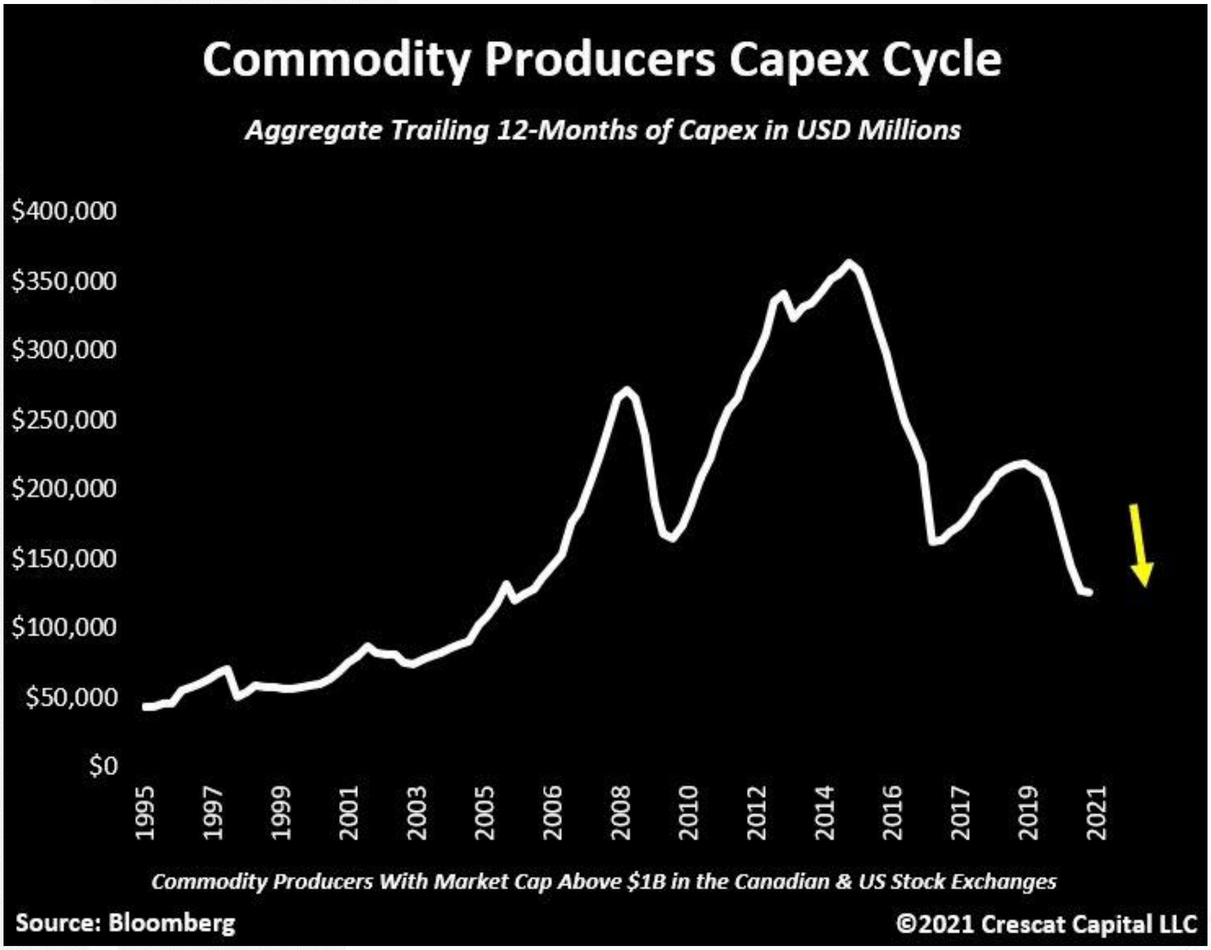
As an overarching macro investment theme at Crescat today, we are calling for what we have dubbed the Great Rotation. This theme is a highly probable and pending shift, in our view, out of crowded, hyper-overvalued, long-duration financial assets, including mega-cap tech and negative-real-yielding fixed income securities, and into the less populated and more undervalued segment of the market that is focused on the tangible assets at the core of the global economy. In our analysis, the companies involved in these industries are driven by both intrinsic and calculable fundamental value and offer some of the best value and appreciation potential in the market.

Rising inflation expectations and the Fed attempting to tighten financial conditions are the catalyst for this critical inflection point.



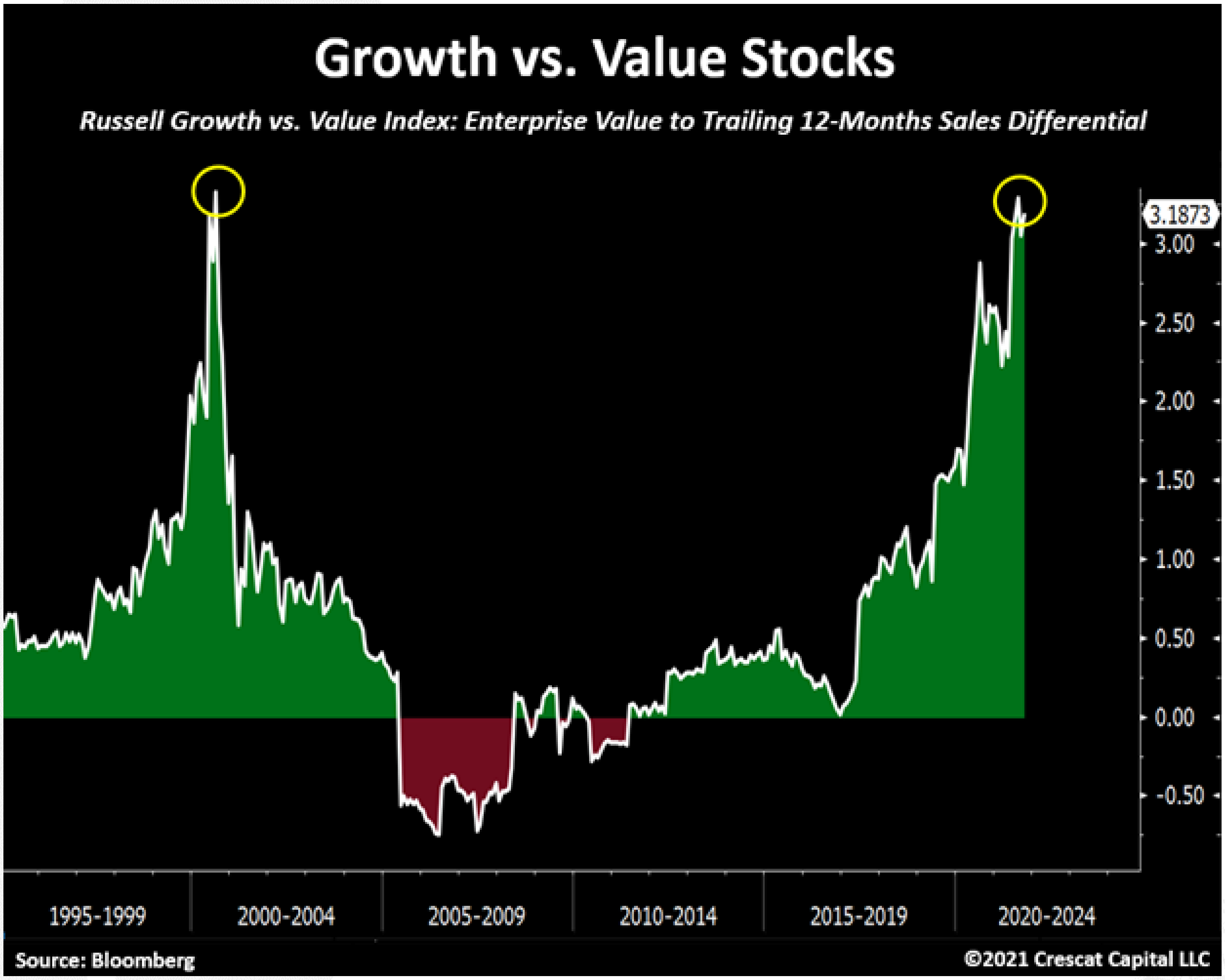
Policy makers are far from doing what is necessary to halt what is already the most inflationary environment since the 1970s when they are instead:

- Running twin deficits at double digit percentages of GDP.
- Holding the Fed funds rate at 0% for another seven months.
- Planning to add $400 billion more in QE before beginning to raise rates.
- Restricting commodity companies from exploring, developing, and producing natural resources.



Crescat's Global Macro and Long/Short Equity strategies are hedge funds with significant short positions in the overvalued areas that we believe the investor masses will be rotating out of, as well as long positions in the undervalued areas, where we believe the smart money will be rotating into, in this likely-to-be epic regime change. At Crescat, these two strategies are the most comprehensive ways to play the Great Rotation. Large Cap and the Precious Metals strategies, on the other hand, are ways to play the long side of the Great Rotation without the short component.

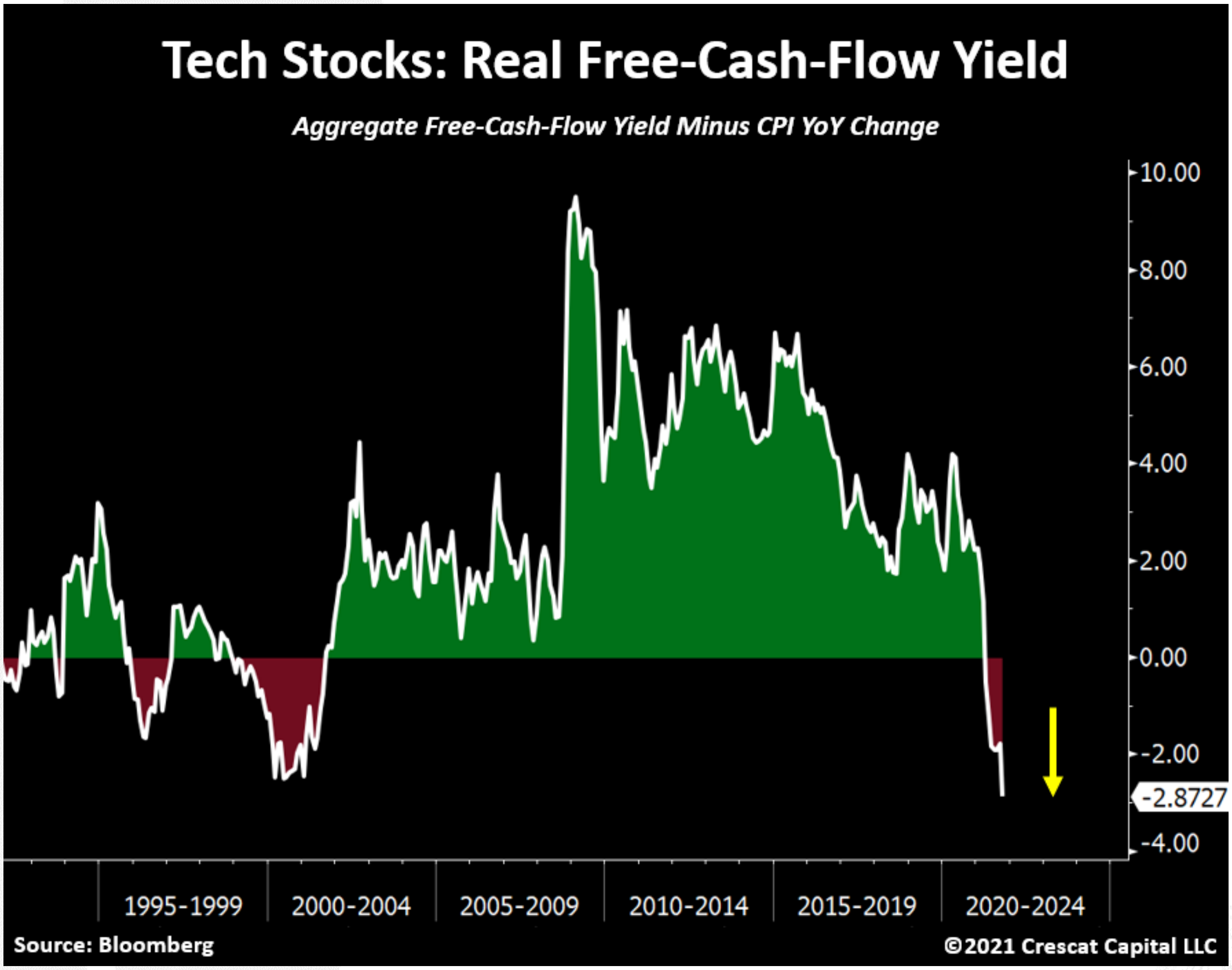
Note how the relative fundamental valuation, using enterprise value relative to sales, between the Russell Growth vs. Value indices is re-testing the peak tech bubble levels that we saw in 2000.



Tech Looks Ready to Roll Over

Technology stocks have retained the limelight in the press and investor consciousness year to date as well as price momentum but are now facing an outlook of significantly deteriorating growth and profitability. Meanwhile, primary resource stocks in the energy, materials, and industrial sectors have had equally strong momentum since the March 2020 Covid crash but possess eminently better intermediate-term growth, value, and appreciation potential as the world continues to emerge from the pandemic.

The real aggregate free-cash-flow yield among tech companies in the S&P 500 is now even lower than it was at the peak of the Tech Bubble.



With three of the big-five mega cap tech stocks (FB, AMZN, AAPL) missing Q3 revenue and/or earnings expectations and warning of a weak Q4, this is a fundamental signal of a major US market top in the making. Add to that Elon Musk boldly cashing in on $6.9 billion worth of his Tesla shares this week, the largest sale ever by a CEO. This at the same time as one of the best performing and most persistent hedge fund short sellers of the last decade was forced to throw in the towel due to client redemptions. Those clients are fools. Russell Clark is a legend and so is his performance on this much needed and now almost vacant side of the market. Hat tip to him.

Our research shows that, across a composite of valuation metrics, the stock market is more overvalued than it was in 2000, as well as any other time in history, including 1929. However, our models also show that we are headed towards an inflationary bubble burst, like that of 1973-74, when popular large cap growth stocks were decimated at the same time as commodity prices and resource stocks exploded to the upside. This is a unique type of bear market and economy that we envision, because it is much different than the deflationary-style meltdowns of 1929-32 or 2008-09. The 2000-02 tech bust and 1973-74 stagflationary shock are much better case studies for the type of macro environment we envision and want to be positioned for over the next one-to-three years. These were abrupt regime shifts in macro environments where bubbles burst in overpopulated segments while new secular bull markets began in others. There was much money to be made on both the long and short side of the market by being in the right industries on each side. There was also much pain for those who ignored valuation, changing fundamentals, and macro indicators in their approach and just kept hanging on, or worse if they bought the dip of the prior popular trend instead.

Crypto

Software based crypto assets, in the CIO's opinion, are in a broad speculative mania along with the entire software industry akin to the Dotcom bubble on steroids. No doubt, distributed ledger technologies and tokenization are brilliant innovations that have value and will have endurance, just like the Internet did at its investment craze peak in early 2000. Crescat is not short crypto assets though the idea has been tempting due to the excessive level of speculation, along with their abundance and questionable intrinsic value. They are not securities with underlying fundamentals that can be valued based on a discounted-free-cash-flow model or with macro data that makes any sense to us today. For now, we see too much risk to being short crypto assets due to their crazy popularity and dogmatic following, including as a form of inflation protection. We couldn't agree more with the need for inflation protection, but fervently believe there is a much more prudent way to get that when one's nest egg is considered.

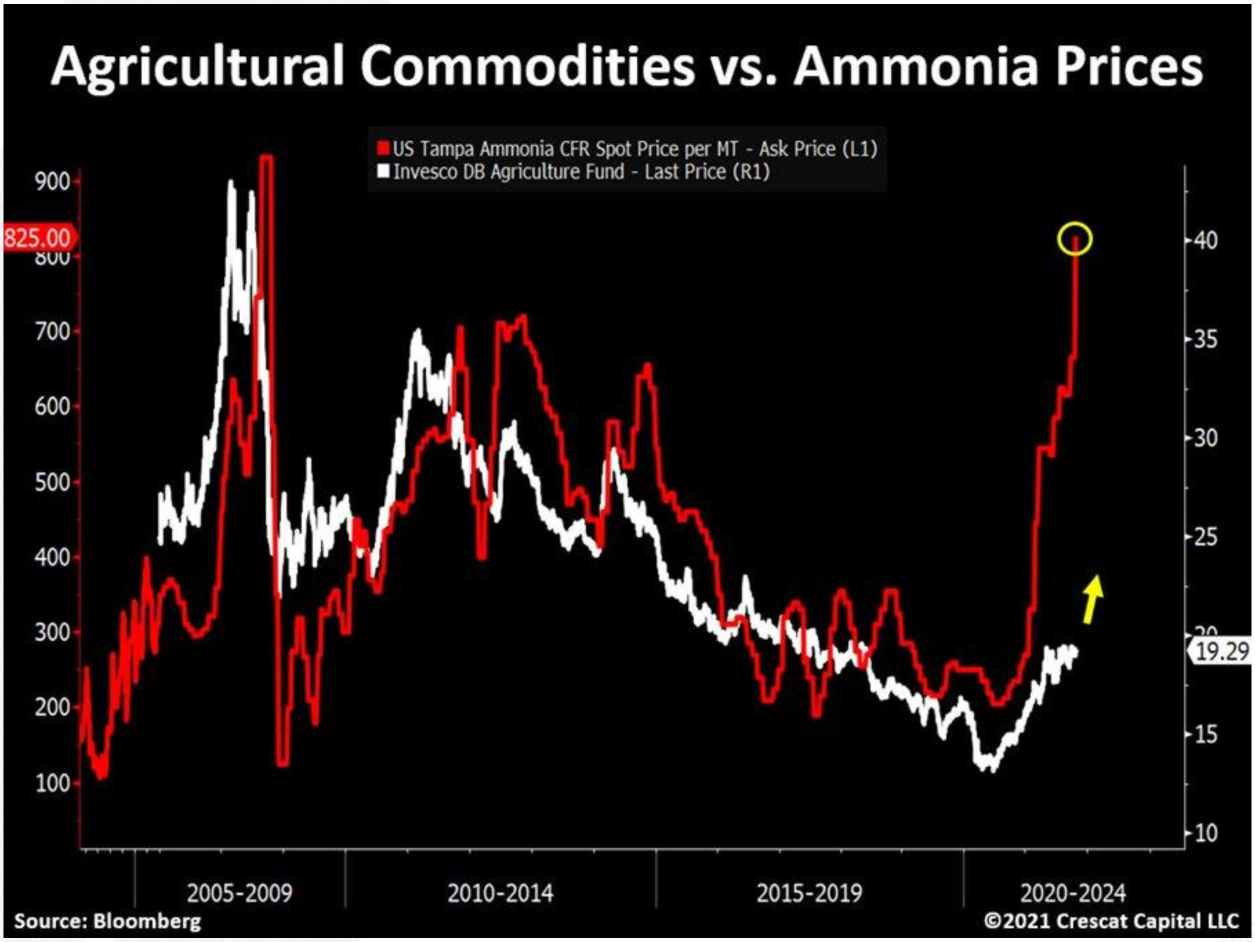
Primary Resources Industries

According to our macro and fundamental models, the most desirable assets to own in today's changing investing climate, are the hard and soft commodities that are the core building blocks of the global economy. In our analysis, some of the best prospective risk-adjusted performance in the financial markets over the next three years (our target investment horizon) should accrue to the companies that own and produce these resources. These firms offer some of the highest relative revenue, earnings, and free cash flow growth for the foreseeable future along with low stock price multiples today, a powerful setup. These companies are spread throughout the energy, materials, industrial, and agricultural sectors of the economy. Based on a discounted free cash flow valuation approach, they predominate the list of highest appreciation potential stocks in Crescat's fundamental equity model.

We expect the leadership in primary resource industries of the economy to continue over the next several quarters and years due to acute raw material shortages at the root of the supply chain, as well as increased demand due to fiscal and monetary policies, including the resource intensive push to a cleaner and greener economy. Heightened environmental and social pressure have only made the supply and demand imbalances more extreme.

Strong fiscally driven tailwinds including the new $1.1 trillion Infrastructure Investment and Jobs Act just passed by Congress, and about to be signed by the president, add fuel to this fire. Supply-side constraints to producing the materials needed to run the new as well as the existing economy are not easily reversed due to long lead times and the multiple years of declining capital investment trends.

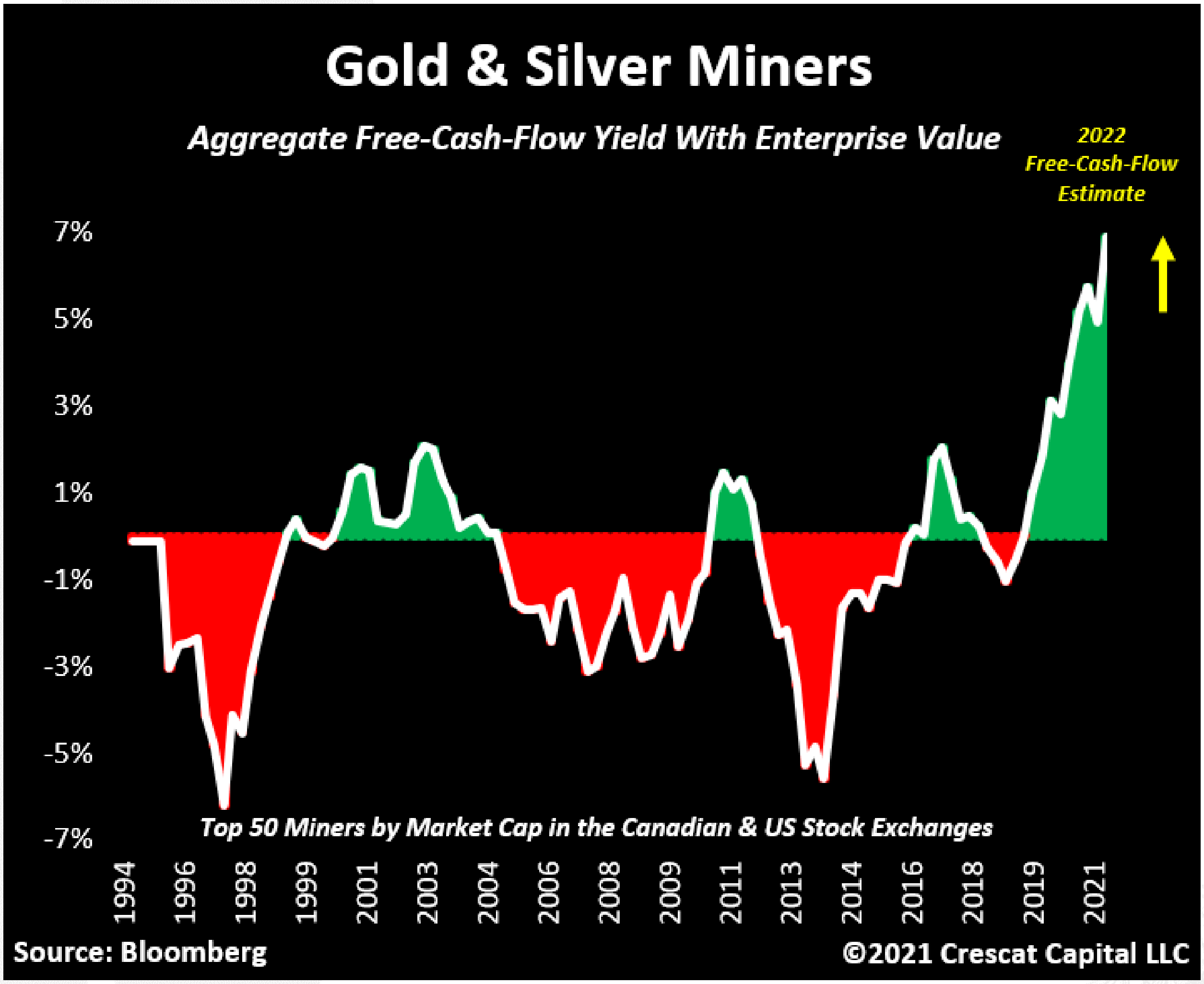
We are already experiencing a domino effect among natural resources. It started with spikes in lumber prices, then oil and gas, lead, zinc, and coal. If we look at ammonia prices, a key ingredient in fertilizer, agricultural commodities are a whole new set of commodities likely to be spiking next, potentially creating food shortages.



Crescat's Large Cap, Global Macro, and Long/Short strategies own many positions in the broad resource sectors identified by our models. Among our favorites is precious metals.

The Fundamental Opportunity in Precious Metals

Gold and silver producers are trading at historically low free-cash-flow multiples and strong near-term growth prospects. We love them. But even more, we are enamored with high-quality gold, silver, and select copper and base metal explorers with high-grade targets who are aggressively growing new resource ounces in top mining jurisdictions globally. The companies with competent management and technical teams in this segment offer unbelievable value and appreciation potential according to our DCF model. Owning gold in the ground in a carefully constructed portfolio of these firms is one of the most asymmetric reward-to-risk opportunities we have ever seen.



Precious Metals, A Key Focus Today

With inflation continuing to surprise to the upside, precious metals mining stocks are ripe for a major breakout after taking the strong early lead among all S&P industry groups in the immediate four months after the March 2020 Covid crash. Until last month, gold and silver stocks had been consolidating, but with their underlying fundamentals only getting better, we believe they are poised for another major leg up. We are constructive regarding our potential to deliver a strong finish to 2021 based on the incredibly strong fundamental and macro set-up. That is our goal.

At Crescat, we recently became so excited about the deep-value opportunity for precious metals ahead of a likely new secular bull market, that we created two focused strategies based on it, the Precious Metals separately managed account strategy launched in June 2019 and the private Precious Metals Fund in August of 2020, both industry specific mandates.

Here is some quick math to illustrate the set up likely ahead of us. The monthly price of gold is now above its 2011 highs. If miners were to re-test the same levels, it would imply a 61% appreciation from here. More importantly, the fundamental story behind these companies today is unquestionably better than back then.

Precious Metals Fund Description

The Precious Metals Fund is an activist private fund. It is a macro and fundamental-driven industry specialist fund focused exclusively on the precious metals. This fund can short, in addition to going long, but chooses to be long-only today, given where we believe we are in the precious metals cycle, early in a new secular bull market. It also has an active futures account associated with it. The Precious Metals Fund participates in private as well as public transactions and holds a substantial equity warrant portfolio.

We have partnered with renowned exploration geologist, Quinton Hennigh, PhD to help us manage the precious metals portfolios across the firm. He has been advising Crescat for the past two years and has recently joined the team full-time as an equity owner/member of the firm and its geologic and technical advisor. We remain locked and loaded with an extensive portfolio of undervalued gold and silver in the ground. We have significant copper and other base metal exposure too where gold and silver are significant byproducts.

Our activist precious metals portfolio companies are focused on substantial organic growth in high-grade resource ounces through exploration and drilling. We expect industry M&A to heat up significantly over the next several quarters and our companies to be coveted. In a segment that has seen declining exploration spending for a decade,we have over 300 million target gold equivalent resource ounces in our portfolio which is thanks to Quinton's expertise. Total global gold production in not even 100 million ounces.

Global Macro Fund Description

Crescat Global Macro remains the firm's most comprehensive strategy and can trade any asset class globally, long and short, across currencies, commodities, fixed income, and equites. The Global Macro Fund was launched in 2006 to express investment themes via a broad set of instruments in addition to equities. The Global Macro Fund includes an active futures account and as well as equity account and several ISDA relationships with large bank counterparties to trade swaps that are not otherwise traded on an active exchange, such as our Chinese yuan and Hong Kong dollar put options that we own today.

Long/Short Fund Description

Long/Short is a classic equity hedge fund and is our second broadest mandate. It also exploits Crescat's firmwide themes but is focused exclusively on equities. Long/Short is Crescat's second longest running strategy. It was launched in 2000 and has persistently delivered strong alpha through multiple business cycles.

Large Cap SMA Description

Large Cap is a separately managed account strategy also focused on equities, but in the large and mid-cap realm. Think of it as a souped-up, blue-chip portfolio. Like all Crescat strategies, Large Cap is driven by our firmwide models and themes. It is focused on the best large and mid-cap long equity opportunities therein. It is diversified across select industries without being "diworsified" across all of them. Large Cap is Crescat's longest running strategy. It was launched in 1999. It has been through the Tech Bubble, Tech Bust, Housing Bubble, Global Financial Crisis, and the longest bull market ever followed by both the Covid Crash and recovery.

Precious Metals SMA Description

The Precious Metals separately managed account strategy is a long-only separately managed account strategy designed for investors who do not qualify for our private fund, but who still want exposure to our management and publicly listed holdings. The Precious Metals SMAs do not participate in private placements and pre-IPO investments, nor do they get the warrants frequently associated with those investments, but they can still participate in our favorite public gold and silver stocks in a managed portfolio.

We are long a selective basket of miners in the precious metals industry across all five strategies at Crescat today due to rising actual and expected inflation worldwide and ultra-cheap valuations. However, it is important to understand that Crescat is more than a precious metals focused investment firm. We remain a comprehensive, value-driven investment firm guided by fundamental equity and macro models across five differentiated strategies. In addition to the two precious metals strategies, we manage a Large Cap long-only SMA, a Long/Short Equity hedge fund, and a Global Macro hedge fund. Each of these three strategies has an increasingly broader mandate in that order.

Crescat Hedge Fund Term Sheet

Crescat Hedge Fund Term Sheet

Global Macro and Precious Metals Funds

Investor Class	Minimum Investment	Annual Management Fee	Annual Incentive Allocation w/ High Water Mark
Main Class	$250,000	2%	20%
Institutional Class 2	$1,000,000	1.5%	15%
Institutional Class 1	$5,000,000	1.25%	12.5%

A 3-Year partial lock up applies to all classes of Crescat's Global Macro and Precious Metals funds.
With 30-day notice, LPs may redeem up to 25% of capital account any month after year 1, up to another 25% after year 2, and all after year 3.

Long/Short Fund

Main Class	$100,000	1.5%	20%

A 1-Year Soft Lock Up applies to the Crescat Long/Short Fund.
LPs have monthly liquidity with a 30-day notice but a 2% redemption fee in the 1st year.

Crescat SMA Term Sheet

Crescat SMA Term Sheet

Large Cap SMA

Minimum Investment	Annual Management Fee
$100,000	Sliding Scale Below
Portfolio Value	**Annualized Rate**
First $250,000	2.00%
Next $250,000	1.75%
Next $250,000	1.50%
Above $1 million	1.25%

Precious Metals SMA

$25,000	2.0%

Fundamental Equity Quant Model

Both Crescat Large Cap and Long/Short have beaten their benchmarks since inception, net of fees, on an absolute and risk-adjusted basis over multiple business cycles. One constant behind these strategies has been Crescat's fundamental equity quant model. The CIO originally began developing it in 1995. He, along with Crescat and its predecessor firms, have continuously refined and applied the equity model to managing client money since 1997. The equity model has always been an important tool in driving the firm's stock picking in addition to helping define macro themes. Crescat has invested heavily in improving our equity model over the last year. We are more excited than ever about its current condition and potential to continue to help the firm deliver alpha.

Macro Models

Crescat also relies on macro models for developing its investment themes. Co-portfolio manager, Tavi Costa, helped take Crescat's macro modeling to a new level after he joined the firm in 2014. Today, Crescat applies a variety of its own macro models in addition to our equity model to source and support its firmwide investment themes and positions.

Global Macro Positioning

Crescat Global Macro, being our most comprehensive strategy, maintains exposures to Crescat's themes and most of the positions in our equity-oriented mandates, but it will also add exposures to currencies, commodities, and/or fixed income asset classes.

Today, Global Macro holds two substantial fixed income short positions in asymmetric reward-to-risk put options, because we are at the lowest level of real yields in post-World War II history without a bond bear market already having occurred. One is overdue, in our view, and most investors are not ready.

The first fixed income position is a junk bond short via the iShares iBoxx $ High Yield Corporate Bond ETF which long investors today are effectively paying, in the form of negative real yields at an historic level, for the dubious privilege of accepting default risk.

The second is a significant put option position in 10-year Treasury Note futures. With rising inflation in the form of both CPI andexpectations, the Fed must do something credible to fight the steep rise in the price of consumer goods and services. It has already announced that it will be tapering its fixed income asset purchases. At the same time, the Treasury department is in extreme deficit spending mode relative to GDP while aggressively extending its maturities post a record Covid-T-Bill issuance. With the Fed out of the game, who is going to take-up the slack to digest the increased supply of long-duration Treasuries in a rising inflation environment? Shorting UST 10s from a starting nominal yield of 1.5% with CPI running at 6.2% simply makes a ton of sense to us here.

China is the Black Swan trade of the century that the market still just doesn't get in our view. We remain committed to Plan A here in Global Macro, an asymmetric trade with minimal downside risk through low volatility option premium paid and large upside potential through long USD calls versus short CNH and HKD puts. We have been risking about 1 to 1.5% quarterly with notional update to devaluation and de-peg that has ranged from 500 to 1000%. China has been melting down before the world's eyes all year. We believe its currency is the ultimate shoe to drop. We are continuing with this strategy.

Summary

The Fed is trapped into moving forward with its plan to scale back its debt monetization. For now, this includes pressure from the yield curve to raise rates next year. The taper matters big time as the catalyst for financial asset bubbles to burst along with actual inflation. This reduction of monetary stimulusis a huge liquidity drain on the margin given the formerly outrageous QE levels and asset bubbles they have created. Whether it is now or within just several months from now, we believe we are very close to a major twin top in US equity and credit markets. We need to be ready and positioned for it now. Across the firm, we are doing everything we can on that front.

We are determined to make money on short side of the market in Global Macro and Long/Short when the Great Rotation burst gets going in earnest. The shorts have been holding those funds back YTD but we strongly believe that will not be the case forever. Many fund managers are precluded from shorting. We are not. The team here is working extremely hard and focused on delivering value across all our strategies.

October Performance

Crescat delivered robust performance in October across all strategies with precious metals long positions being the biggest driver. These holdings comprise our highest conviction forward-looking expected return vs. risk macro theme at Crescat. Thus, precious metals, and gold and silver mining equities, are widespread positions across all Crescat's strategies.

Crescat Strategies Net Return through October 31st, 2021

CRESCAT STRATEGIES VS. BENCHMARK (Inception Date)	October	YTD	Annualized Trailing 1-YEAR	3-YEAR	SINCE INCEPTION	CUMULATIVE SINCE INCEPTION	YEARS SINCE INCEPTION
Global Macro Hedge Fund (Jan.1, 2006)	**2.6%**	**-17.6%**	**-6.8%**	**5.4%**	**11.1%**	**425.8%**	**15.8**
Benchmark: HFRX Global Hedge Fund Index	0.9%	4.5%	10.1%	5.9%	1.3%	23.6%	
Long/Short Hedge Fund (May 1, 2000)	**2.1%**	**-11.6%**	**0.2%**	**9.6%**	**7.5%**	**371.8%**	**21.5**
Benchmark: HFRX Equity Hedge Index	2.2%	11.6%	21.0%	7.6%	2.8%	80.6%	
Precious Metals Hedge Fund (August 1, 2020)	**7.1%**	**8.9%**	**53.3%**	**-**	**135.4%**	**191.5%**	**1.2**
Benchmark: Philadelphia Gold and Silver Index	9.0%	-9.0%	-6.3%	27.0%	-12.0%	-14.7%	
Large Cap SMA (Jan. 1, 1999)	**4.3%**	**-0.1%**	**-1.1%**	**8.8%**	**10.1%**	**797.8%**	**22.8**
Benchmark: S&P 500 Index	7.0%	24.0%	43.0%	21.9%	8.0%	475.7%	
Precious Metals SMA (June 1, 2019)	**6.3%**	**2.9%**	**20.0%**	**-**	**54.8%**	**187.8%**	**2.4**
Benchmark: Philadelphia Gold and Silver Index	9.0%	-9.0%	-6.3%	27.0%	30.4%	90.0%	

November has started off extremely well MTD, with short positions adding value in Global Macro and Long Short on top of strong gains in precious metals.

Sincerely,

Kevin C. Smith, CFA
Member & Chief Investment Officer

Tavi Costa
Member & Portfolio Manager

For more information including how to invest, please contact:

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