

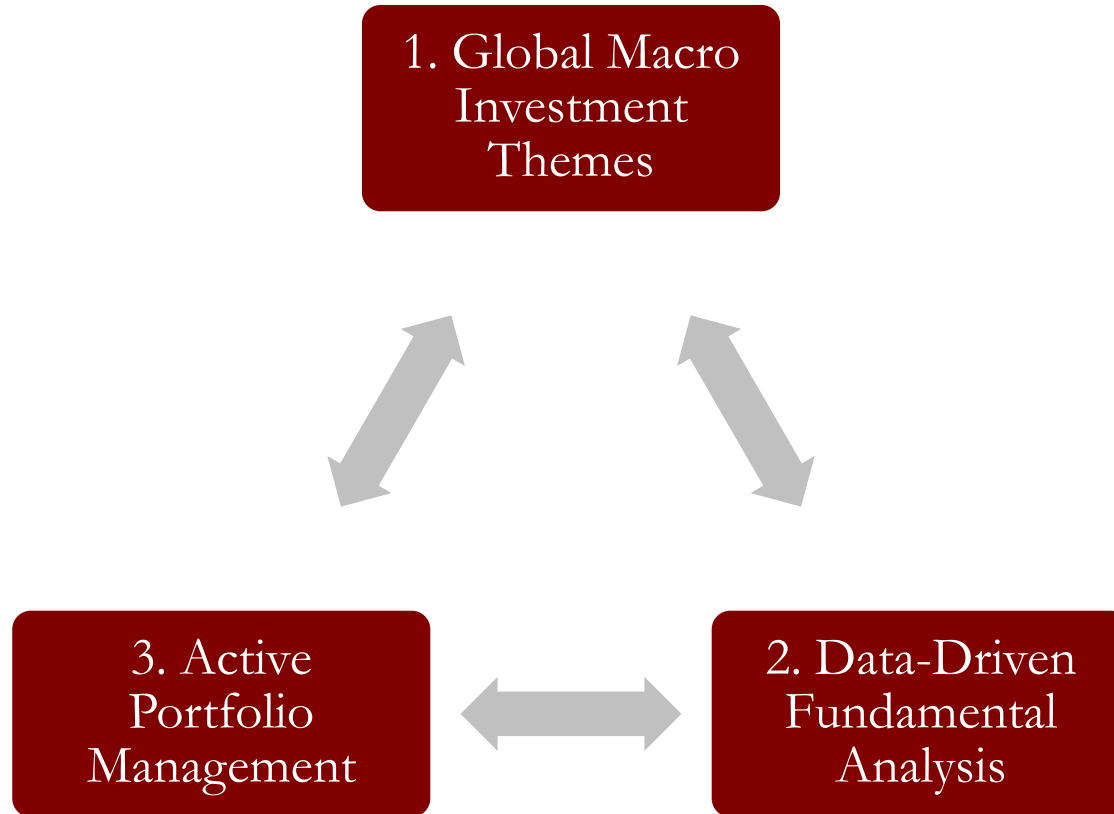


CRESCAT



Crescat Capital
Q4 Update - Macro Themes & 2014 Outlook
November 21, 2013

Dynamic and Reflexive, Information-Driven Investment Process



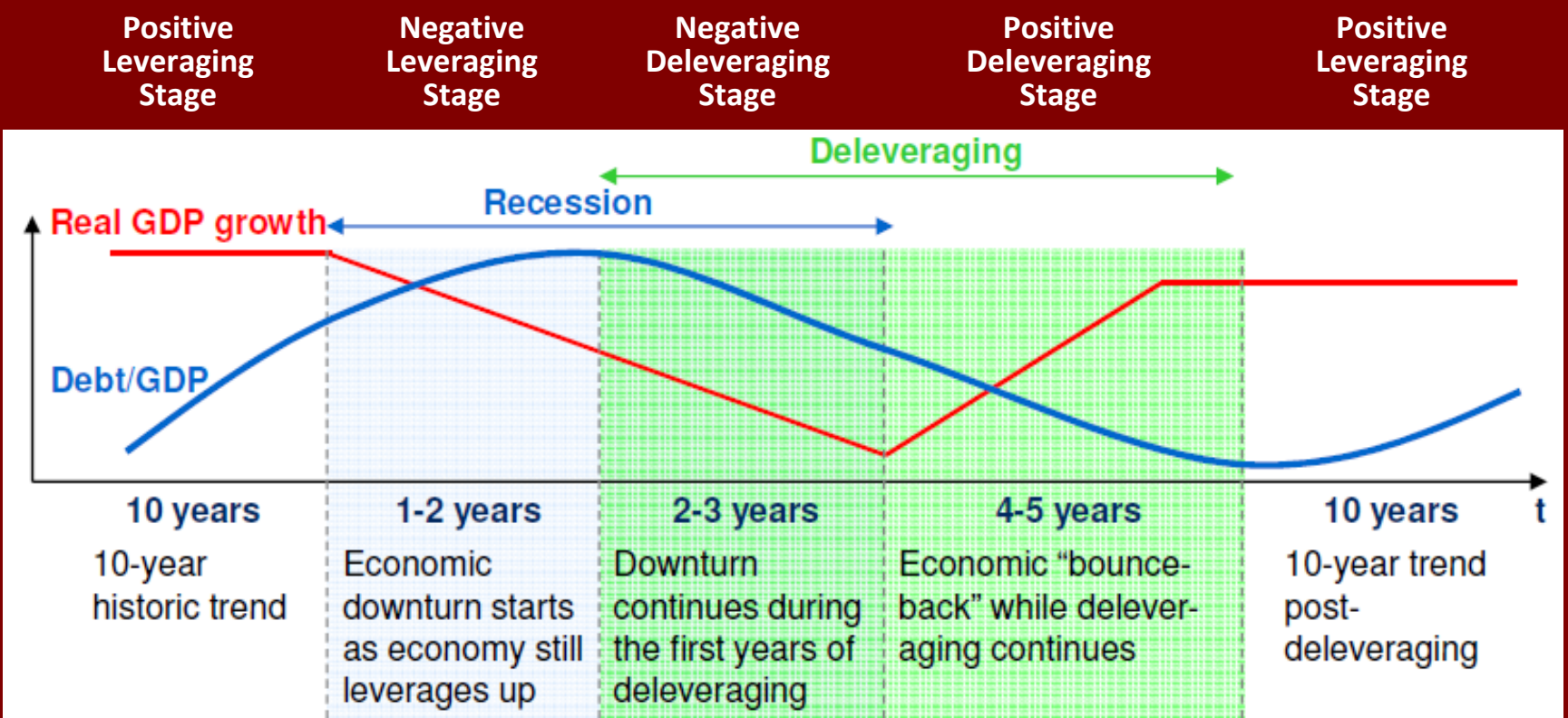
Crescat's Current Macro Themes

- Resolution of the Global Debt-to-GDP Bubble
- New Oil and Gas Resources
- U.S. Housing Recovery
- Digital Evolution
- Nanoscale
- China Infrastructure Bubble
- Aussie Housing Bubble
- Global Fiat Currency Debasement

Resolution of the Global Debt-to-GDP Bubble

Resolution of the Global Debt-to-GDP Bubble

Stages of the Debt-to-GDP Cycle



Source: McKinsey Global Institute

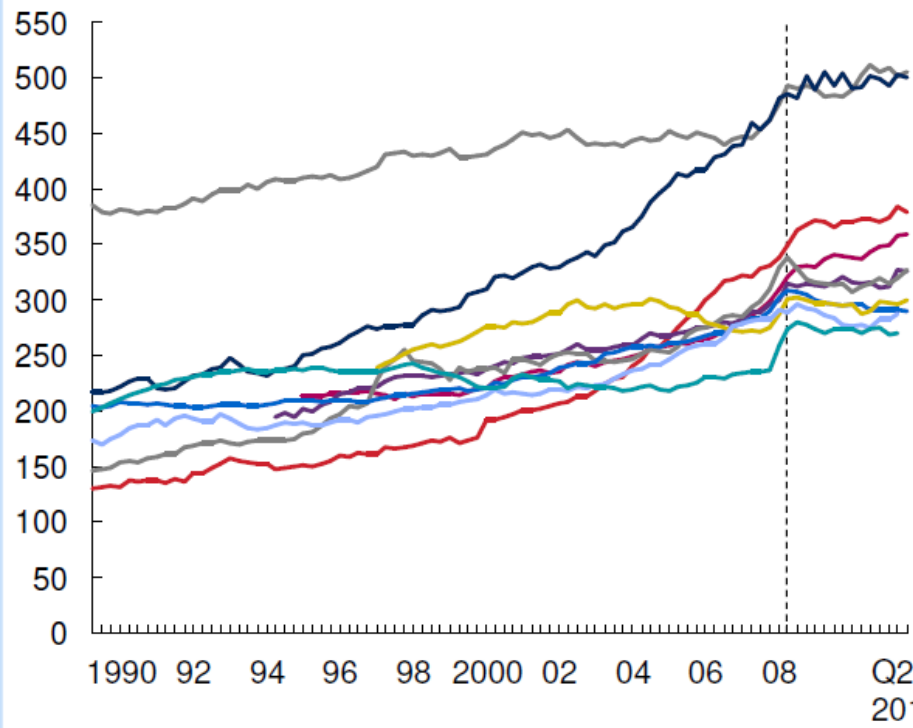
Resolution of the Global Debt-to-GDP Bubble

Deleveraging has only just begun in the ten largest developed economies

- ▲ Significant increase in leverage²
- ▼ Deleveraging

Total debt,¹ 1990–2012Q2

% of GDP



	Change		
	Percentage points		
	2000–08	2008–Q2 2012 ³	
Japan	46	28 ▲	
United Kingdom	172	18	
Spain	146	41 ▲	
France	89	49 ▲	
Italy	62	27 ▲	
South Korea	92	-2 ▼	
United States	81	-12 ▼	
Germany	12	12	
Australia	77	-4 ▼	
Canada	39	11	

1 Includes all loans and fixed-income securities of households, corporations, financial institutions, and government.
 2 Defined as an increase of 25 percentage points or more.
 3 For the US, data is available up to 2012Q3

SOURCE: Haver Analytics; national central banks; McKinsey Global Institute

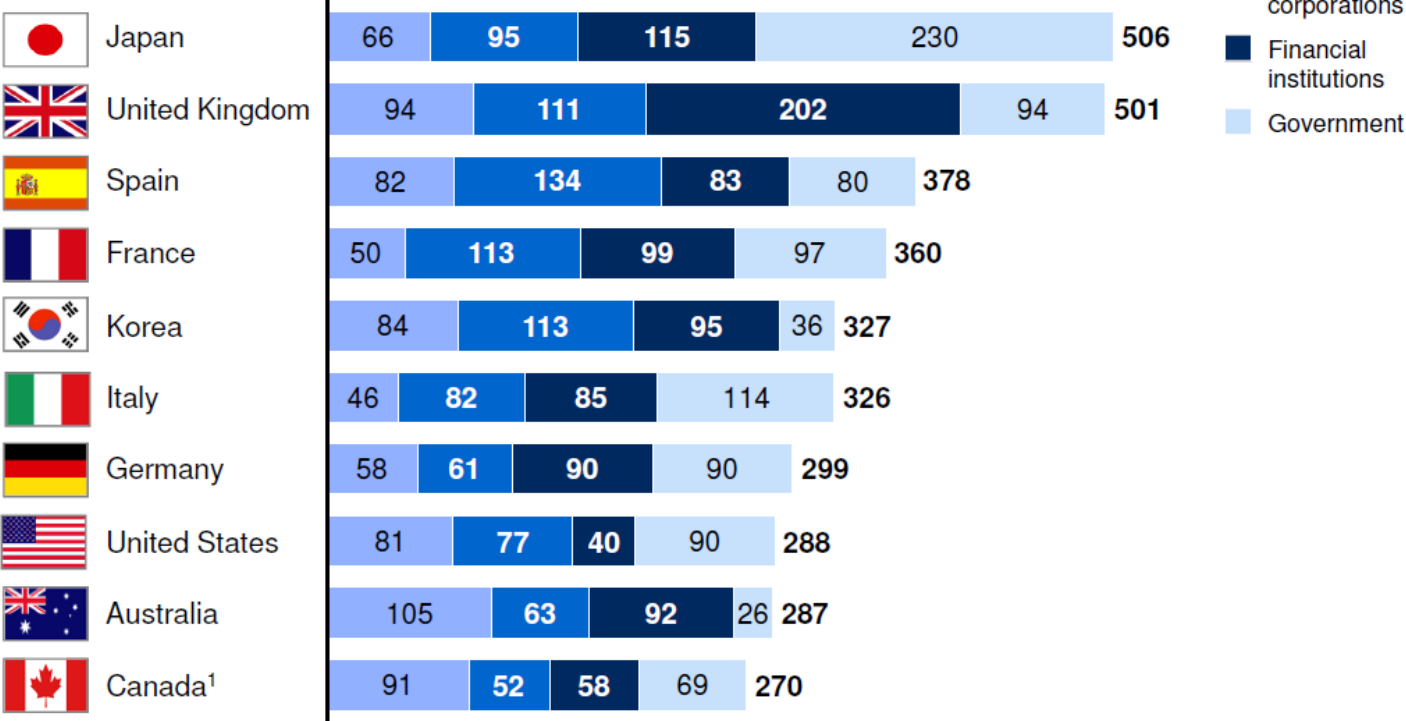
McKinsey & Company | 6



Resolution of the Global Debt-to-GDP Bubble

The composition of debt varies widely across countries, indicating different deleveraging challenges

Total debt of ten largest mature economies, Q2 2012 or latest
% of GDP



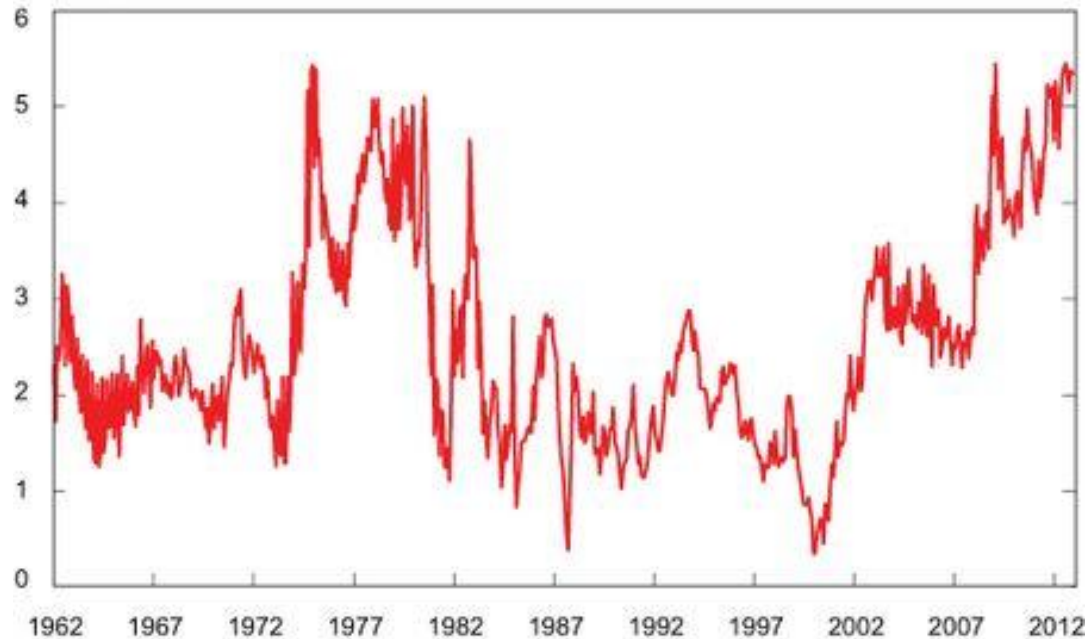
¹ According to Canada's national accounts, "household" sector includes nonfinancial, non-corporate business.
NOTE: Numbers may not sum due to rounding.

SOURCE: Haver Analytics; national central banks; McKinsey Global Institute McKinsey & Company | 7

Debt-to GDP-Resolution: Fed Trying to Inflate Stock Market

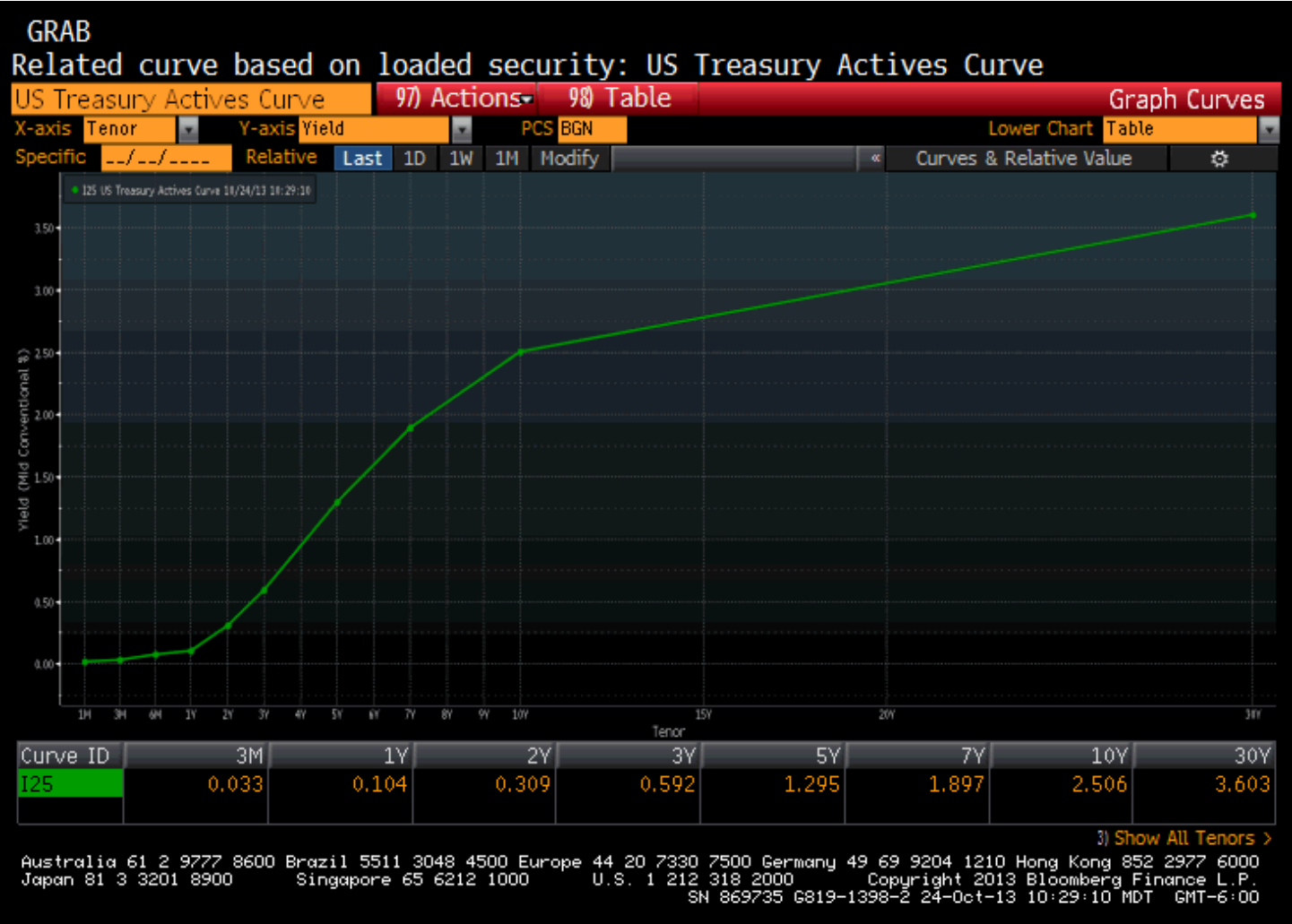
Today's equity premium has reached a historic high

Percentage annualized



Sources: Authors' calculations; Barclays; Deutsche Bank; Duke/CFO Business Outlook survey; Federal Reserve Board; Federal Reserve Bank of New York; Goldman Sachs; J.P. Morgan; Nomura; the Center for Research in Security Prices; Federal Reserve Economic Data; Thomson Reuters; the websites of NYU's Aswath Damodaran; Dartmouth's Kenneth French, University of Lausanne's Amit Goyal, University of California at Berkeley's Martin Lettau, Yale's Robert Shiller.

Debt-to GDP-Resolution: Extremely Low Interest Rates an Upward Sloping Yield Curve Bullish for U.S. Stocks and Economy

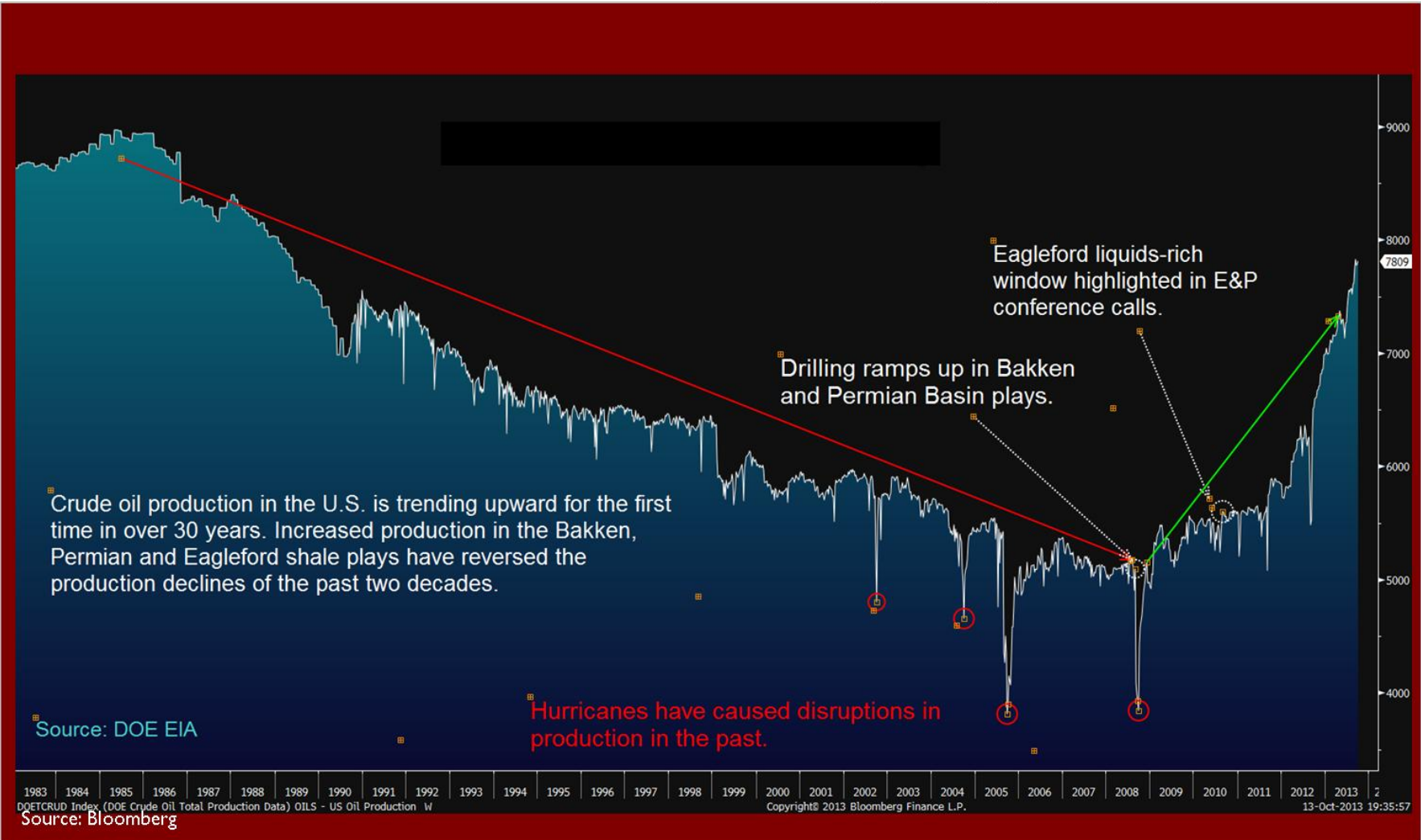


New Oil and Gas Resources (Shale Revolution)

Shale Revolution: Booming Oil Production

US Oil Production barrels per day (000's)

U.S. Crude Oil Production (BPD)



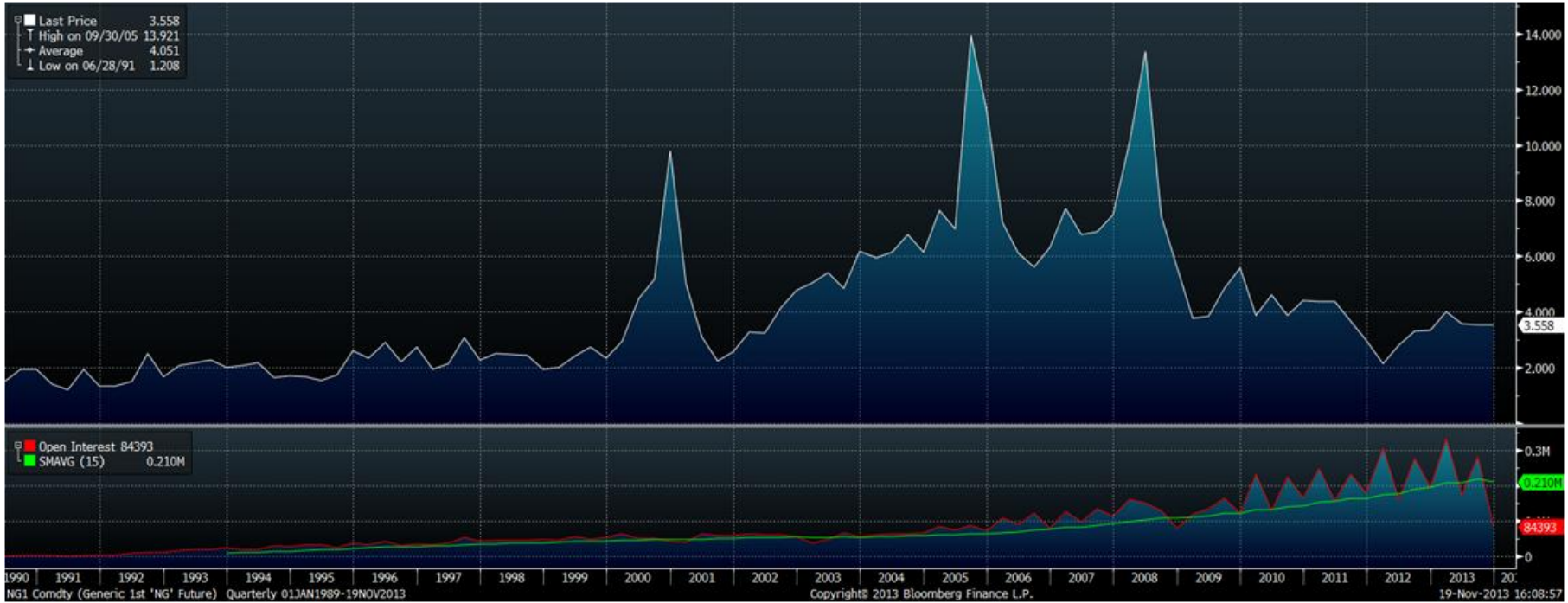
Shale Revolution: WTI and Brent Crude Spread



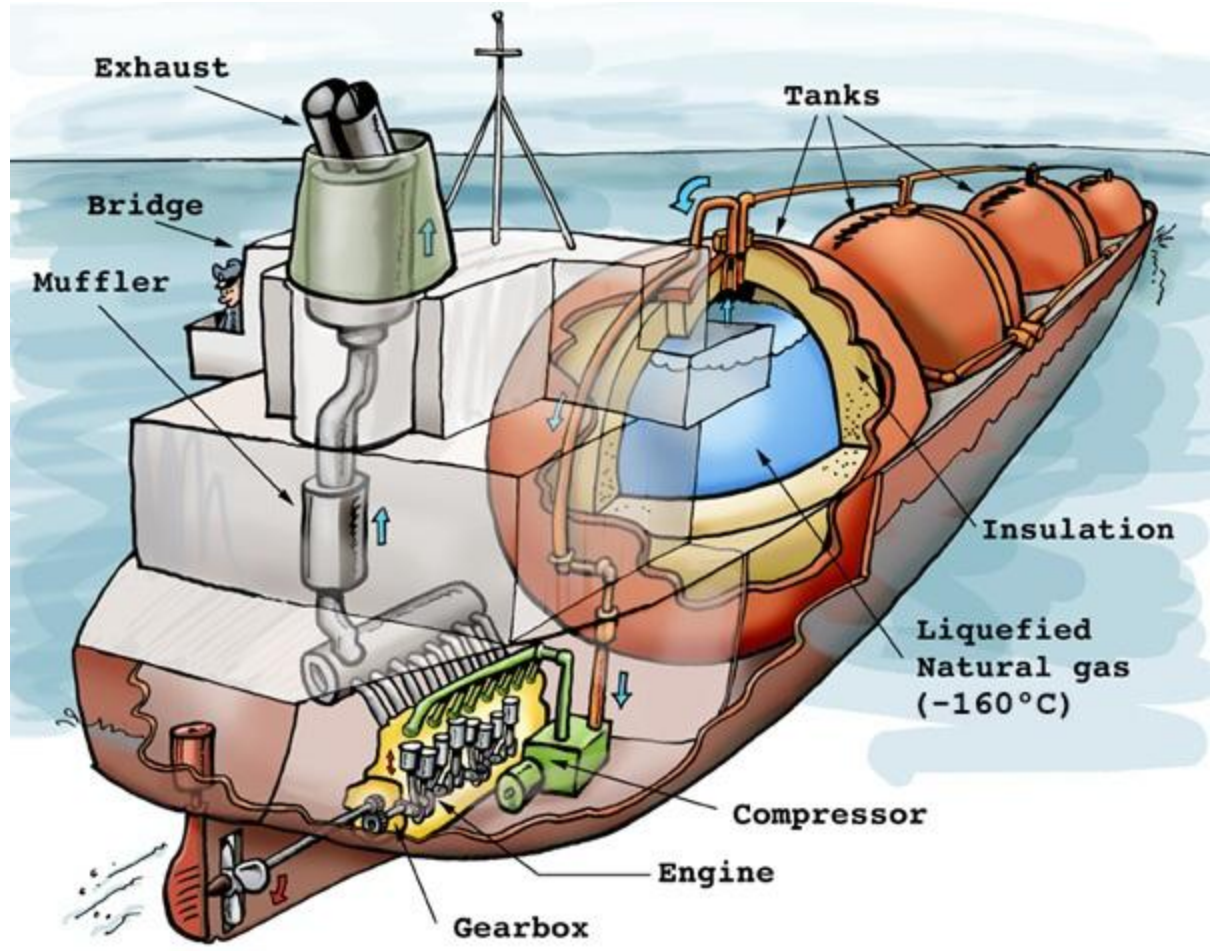
Shale Revolution: Nymex WTI 3-2-1 Crack Spread (Refining Margins)



Shale Revolution: Natural Gas Prices

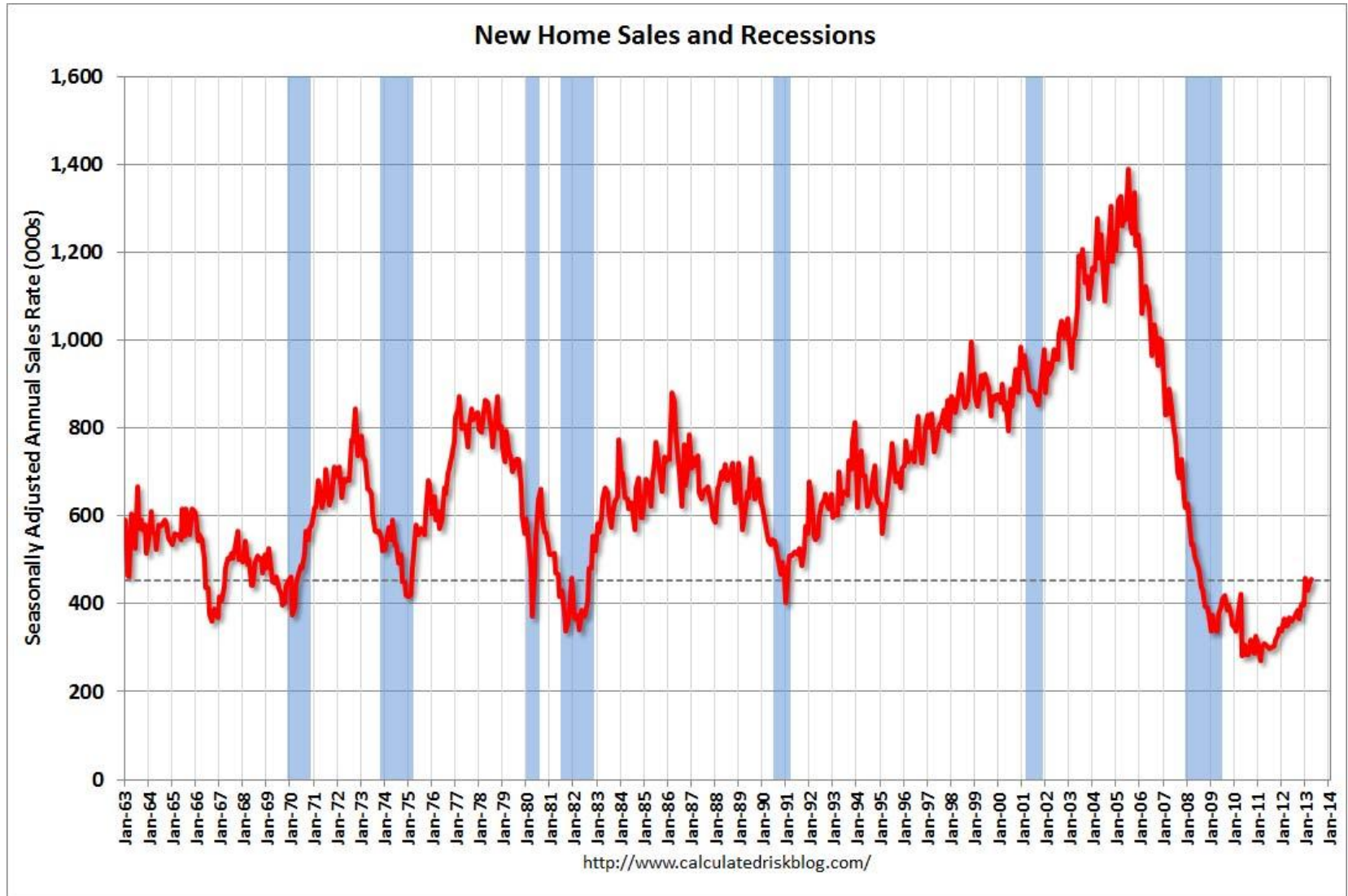


Shale Revolution

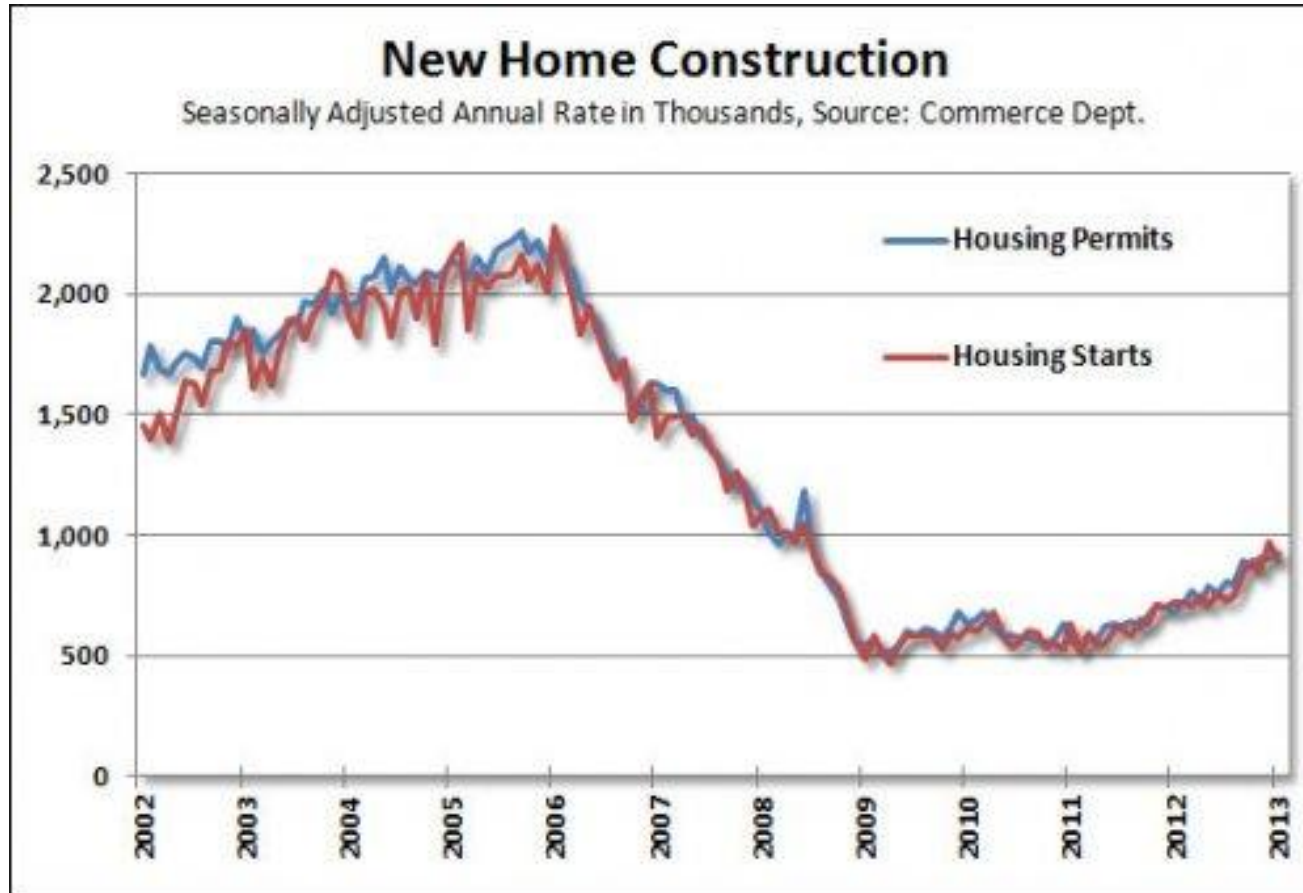


U.S. Housing Recovery

U.S. Housing Recovery



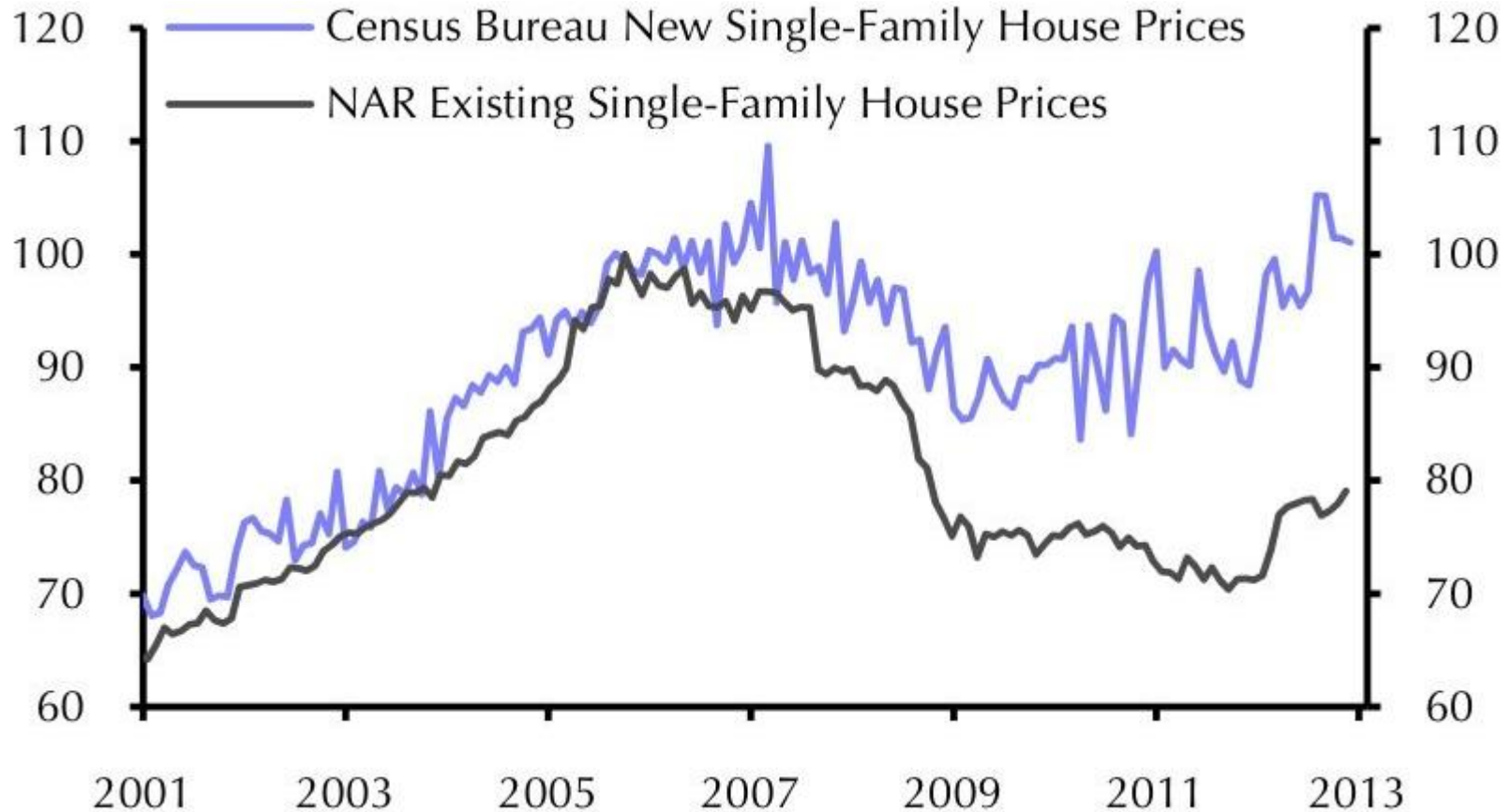
U.S. Housing Recovery



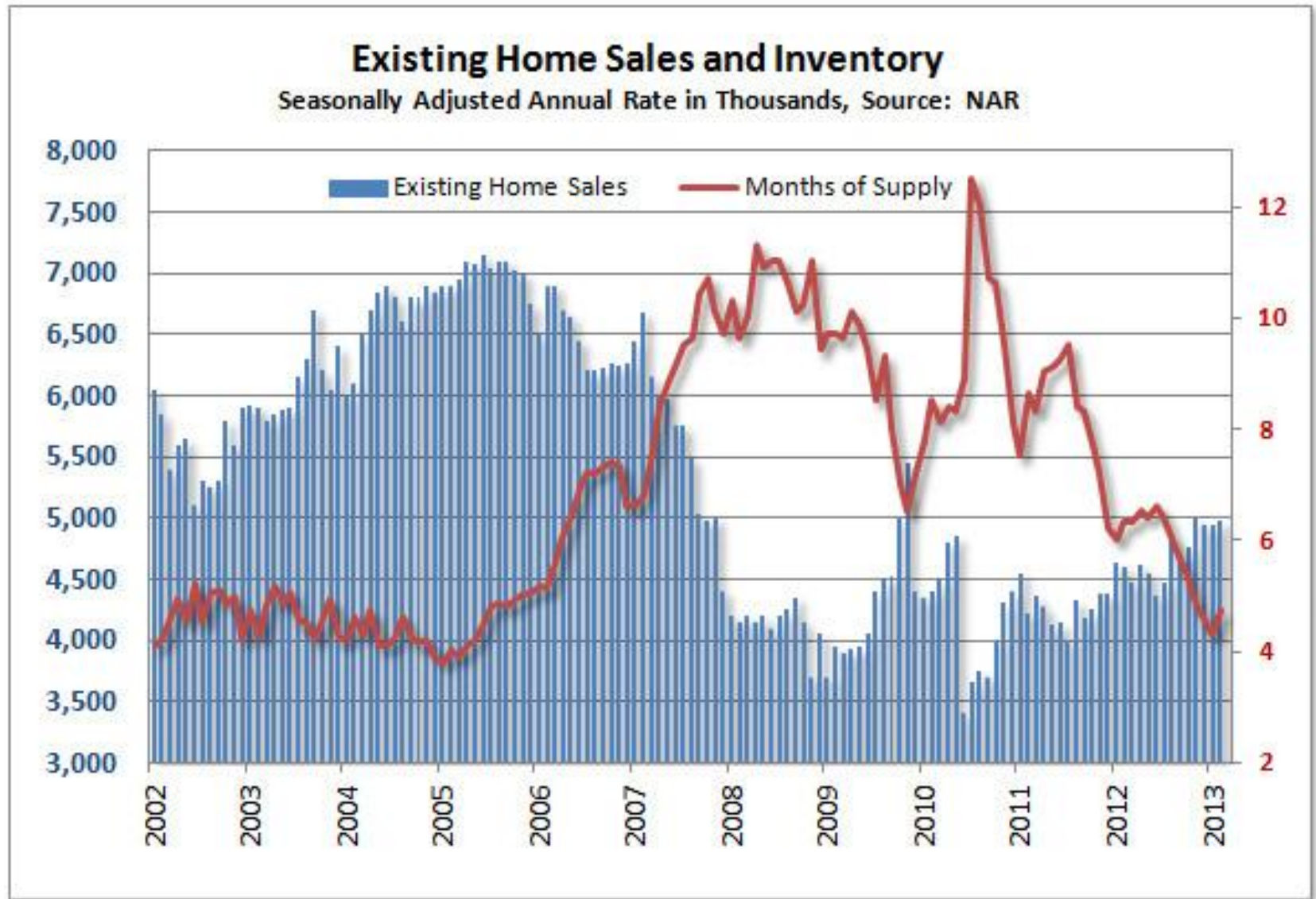
From year ago levels, housing starts are up 23.6 percent and permit issuance is 35.2 percent higher. As shown above, home building bottomed back in 2011 at historic lows. However, the industry has rebounded steadily ever since. With housing inventory remaining low and since current levels of home building are still down more than one-third from the pre-housing bubble norm, residential construction will likely continue to rise, contributing to U.S. economic growth again this year as it did last year for the first time since 2005.

U.S. Housing Recovery

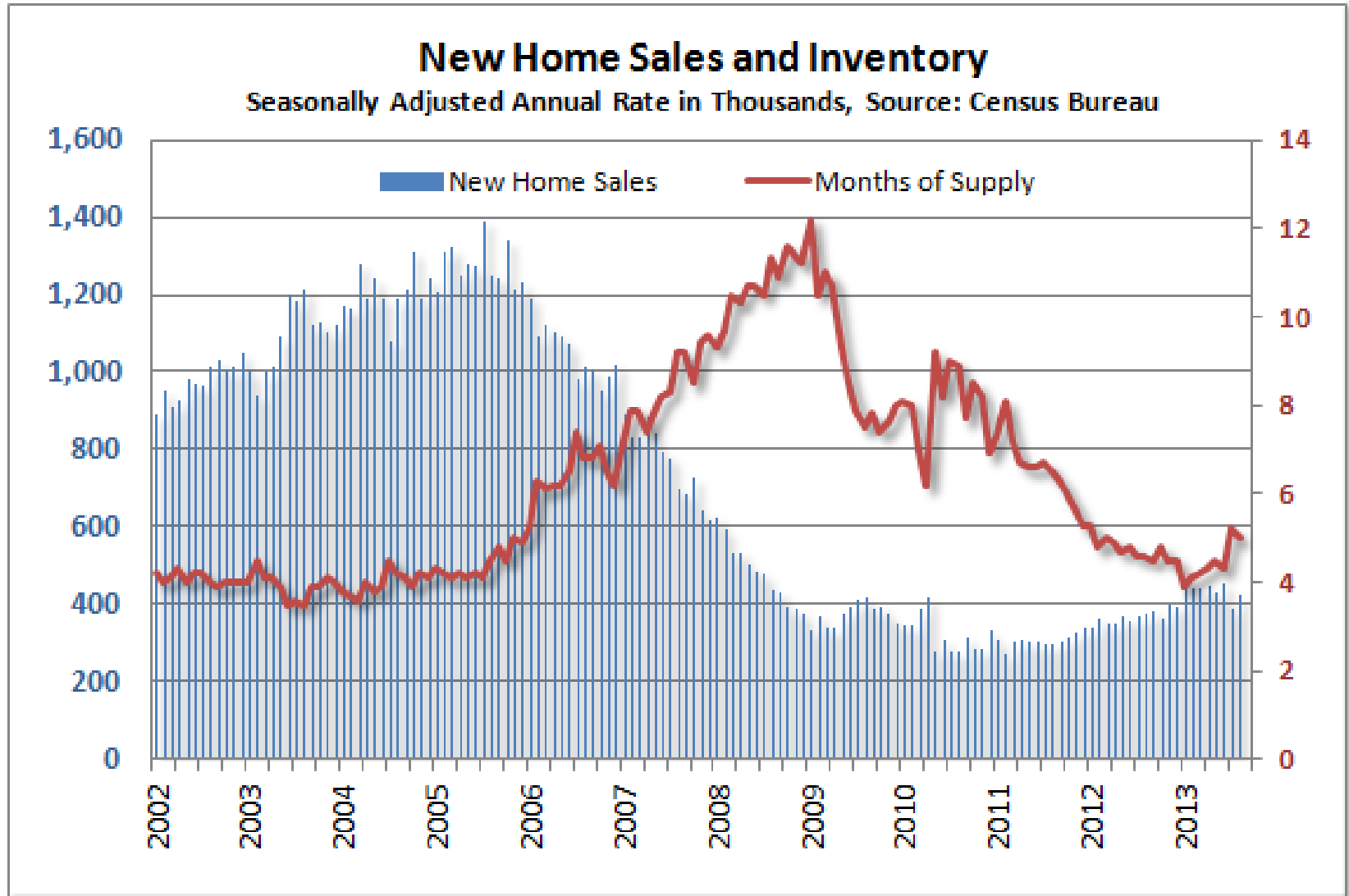
New & Existing House Prices (Oct 2005=100)



U.S. Housing Recovery



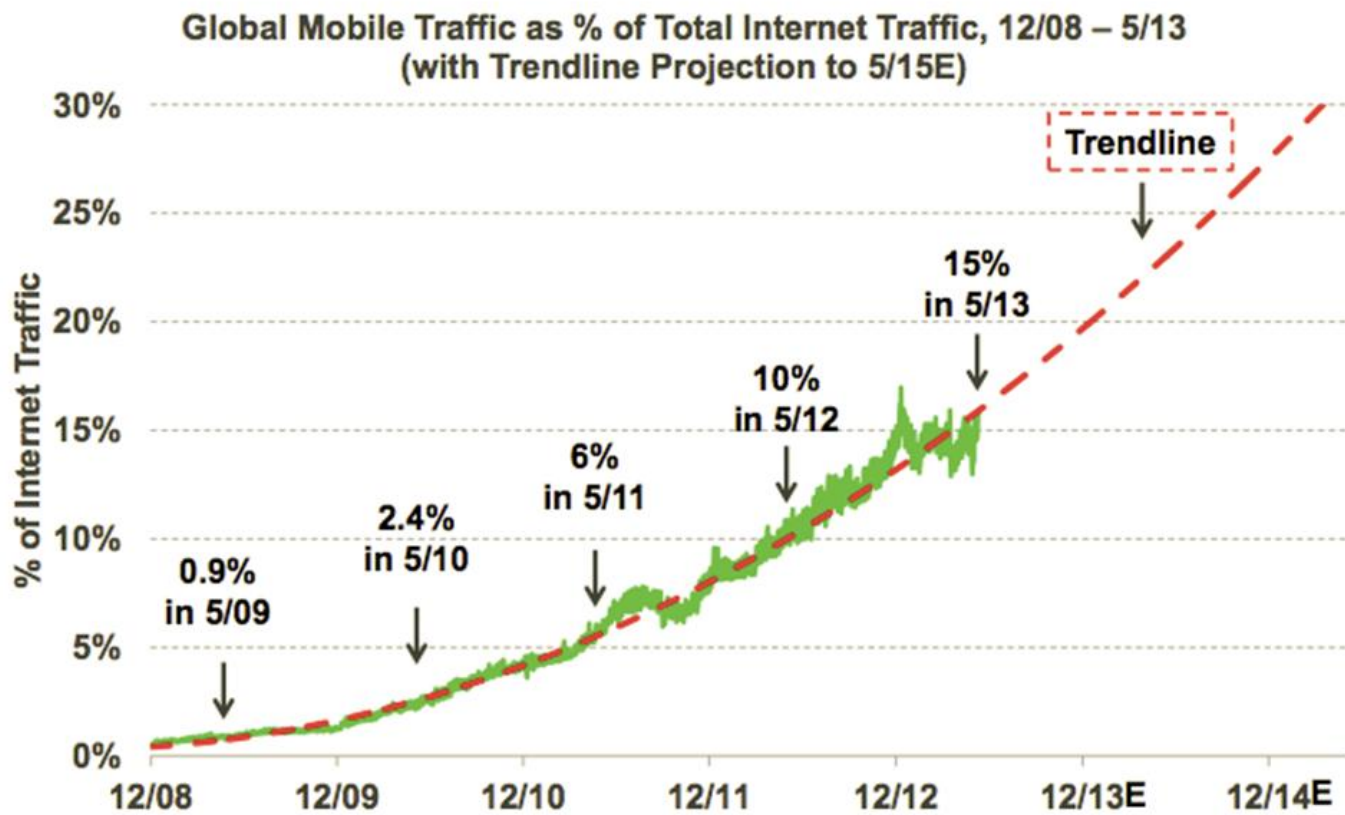
U.S. Housing Recovery



Digital Evolution

Digital Evolution

Mobile Traffic as % of Global Internet Traffic = Growing 1.5x per Year & Likely to Maintain Trajectory or Accelerate



KPCB

Source: StatCounter Global Stats, 5/13. Note that PC-based Internet data bolstered by streaming.

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TZ - Fig 1 - Bell Labs model of future traffic demand

Published January 25, 2013 at 688 × 255 in A Changing Market Environment Demands a High Leverage Network

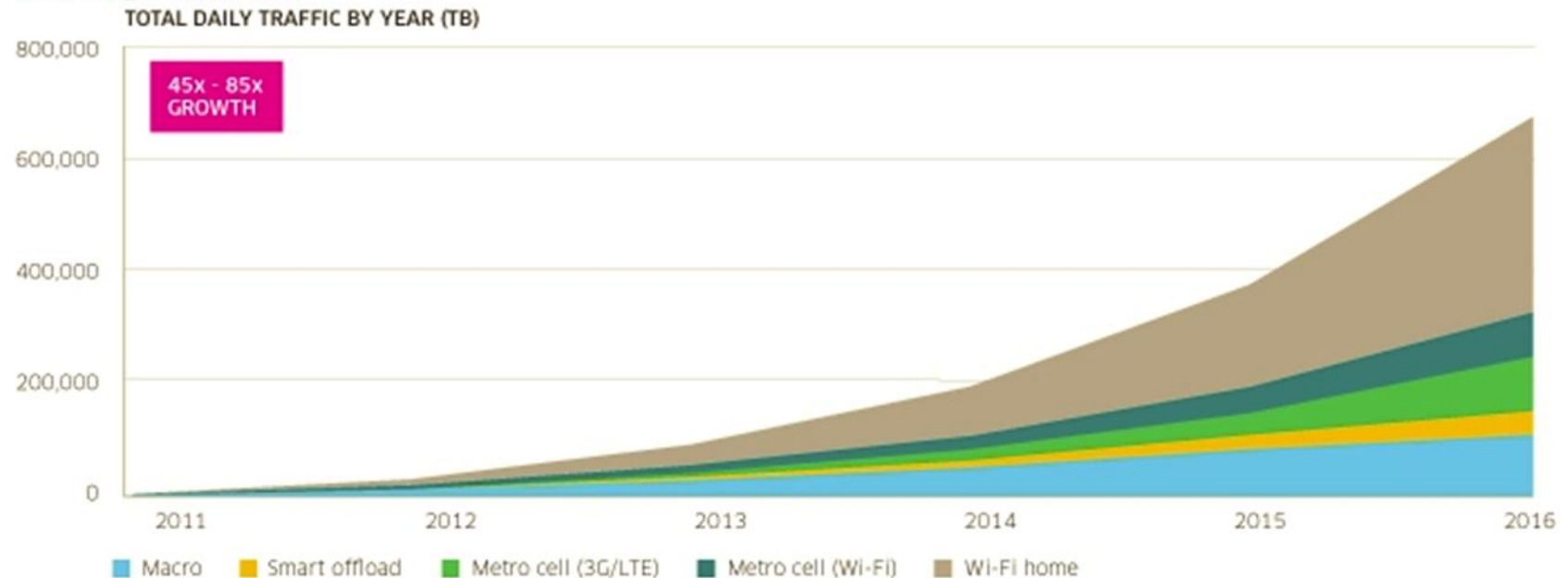
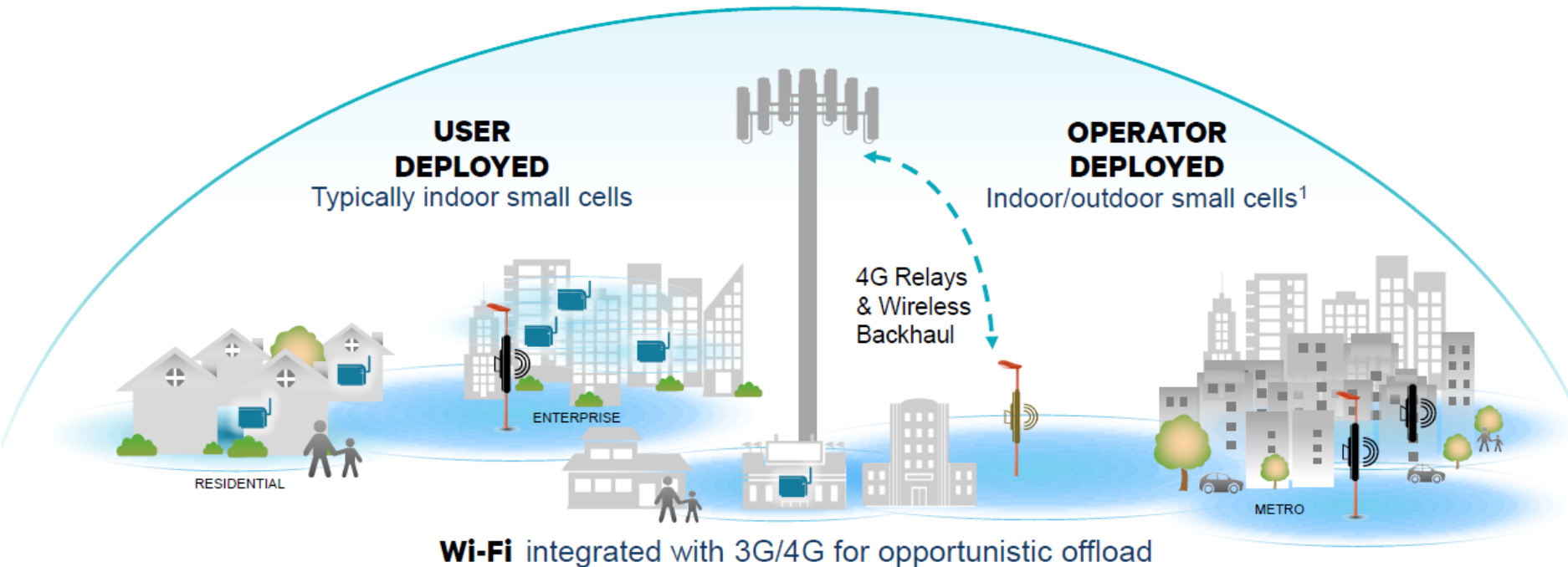


Figure 1. Bell Labs model of future traffic demand

Digital Evolution: Bringing the network closer to the user is key to 1000X

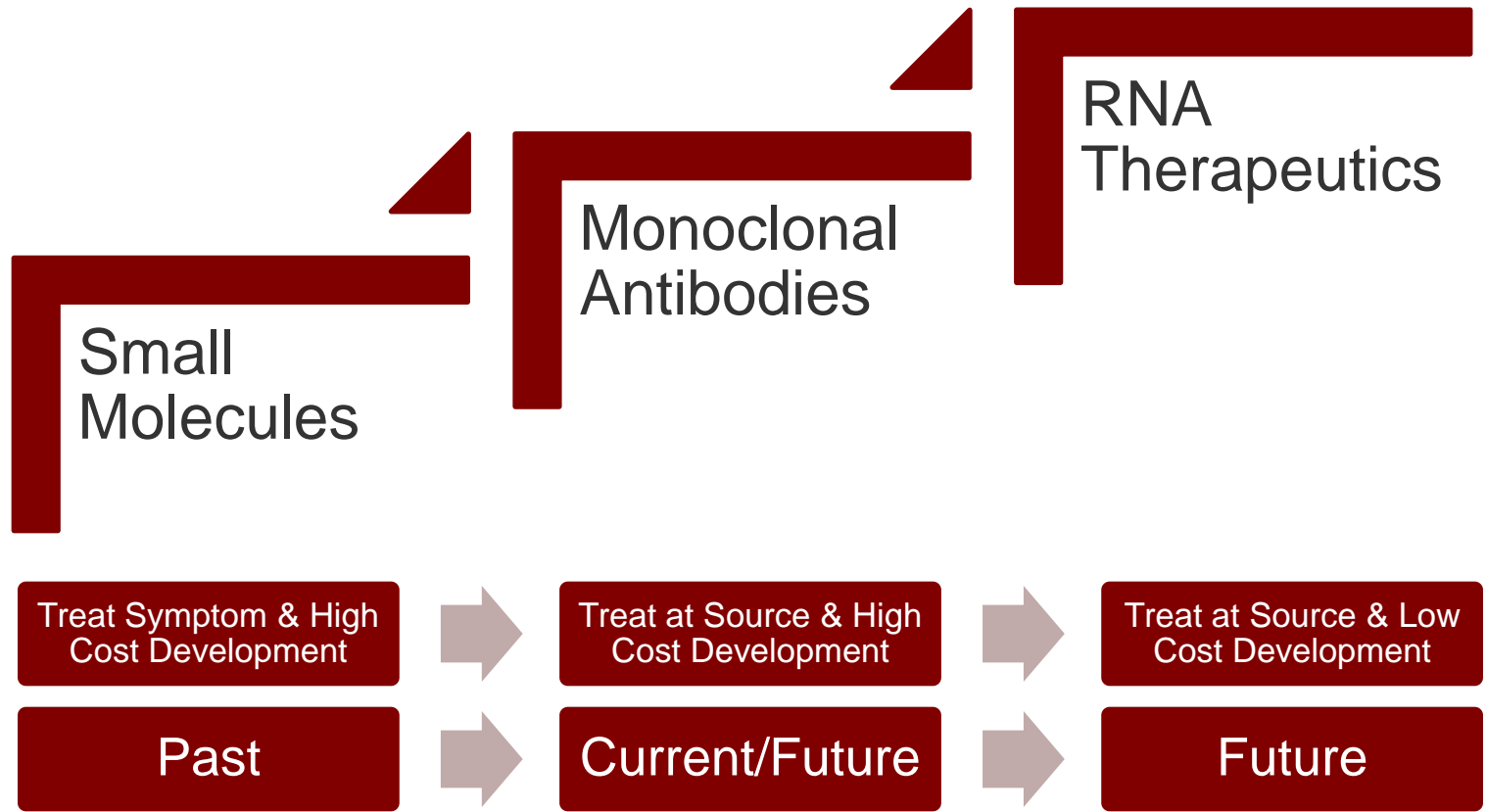


Extreme Densification—3G/4G+Wi-Fi Small Cells Everywhere

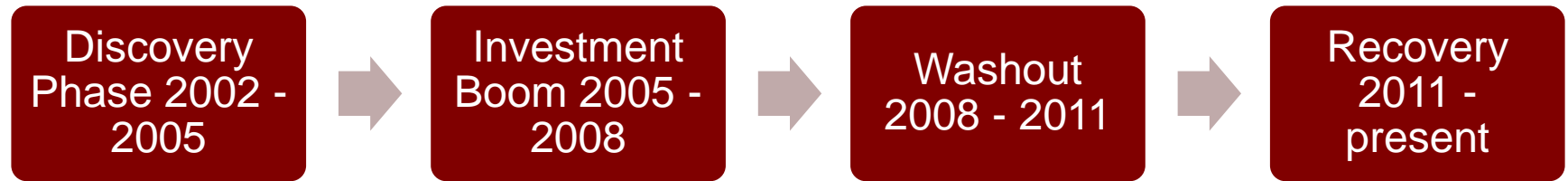
¹Such as relay and Pico/Metro/RRH small cells for hotspots. RRH= Remote Radio Heads, in addition Distributed Antenna Systems are used in HetNets

Nanoscale

Nanoscale: Evolution of Drug Development Platforms



Nanoscale: RNA Industry Timeline

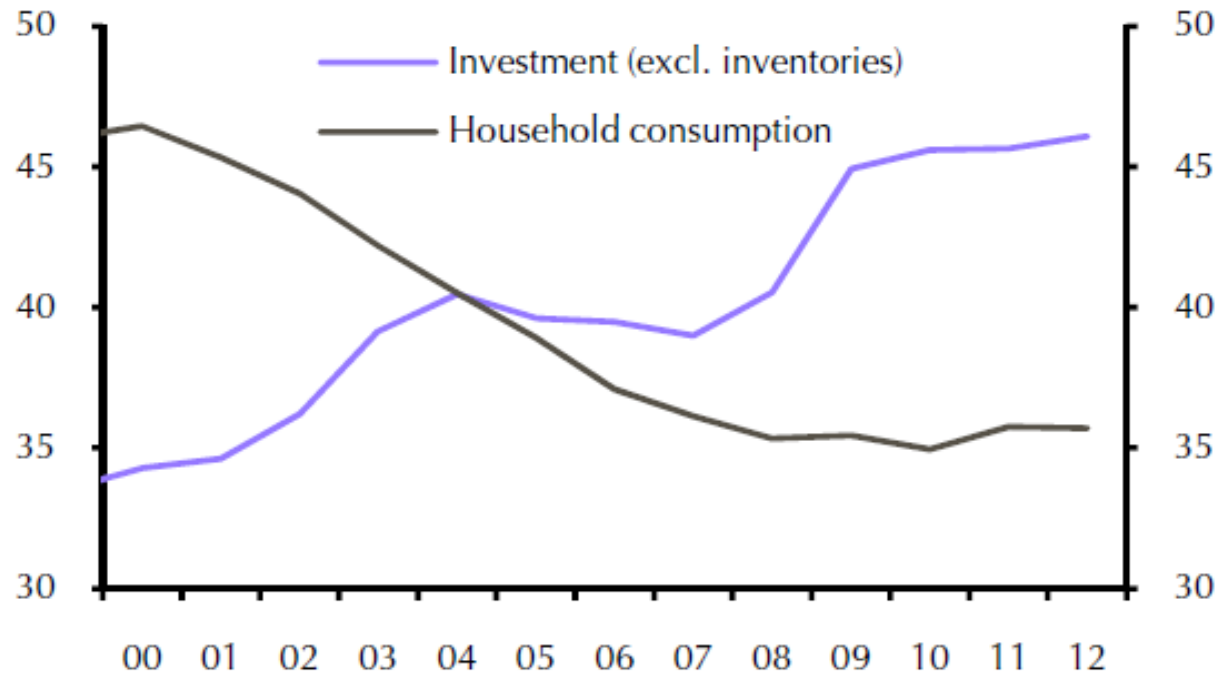


- Washout reduced competition made investors more critical of RNA therapies. The recovery is backed by better science this time and higher conviction investors armed with more data
- Multiple proven RNA therapeutic delivery vehicles have made RNA therapies much more viable and has made the industry much more attractive
- Robust pipelines of safe, high efficacy drugs now in play

China Infrastructure Bubble

China Infrastructure Bubble, An Unsustainably Large Misallocation of Capital

Investment & Household Consumption (% of GDP)

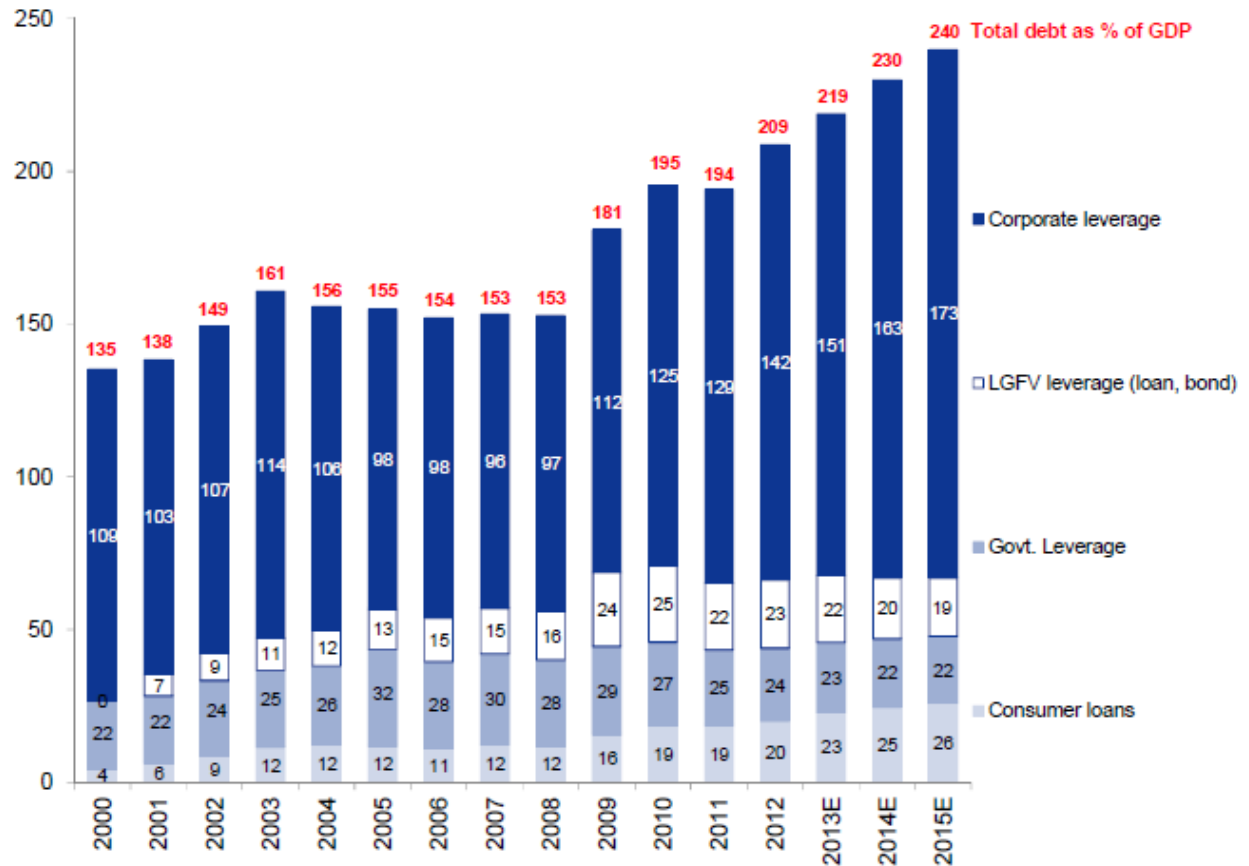


Sources – Thomson Datastream, Capital Economics

China Infrastructure Bubble

A post-GFC credit boom

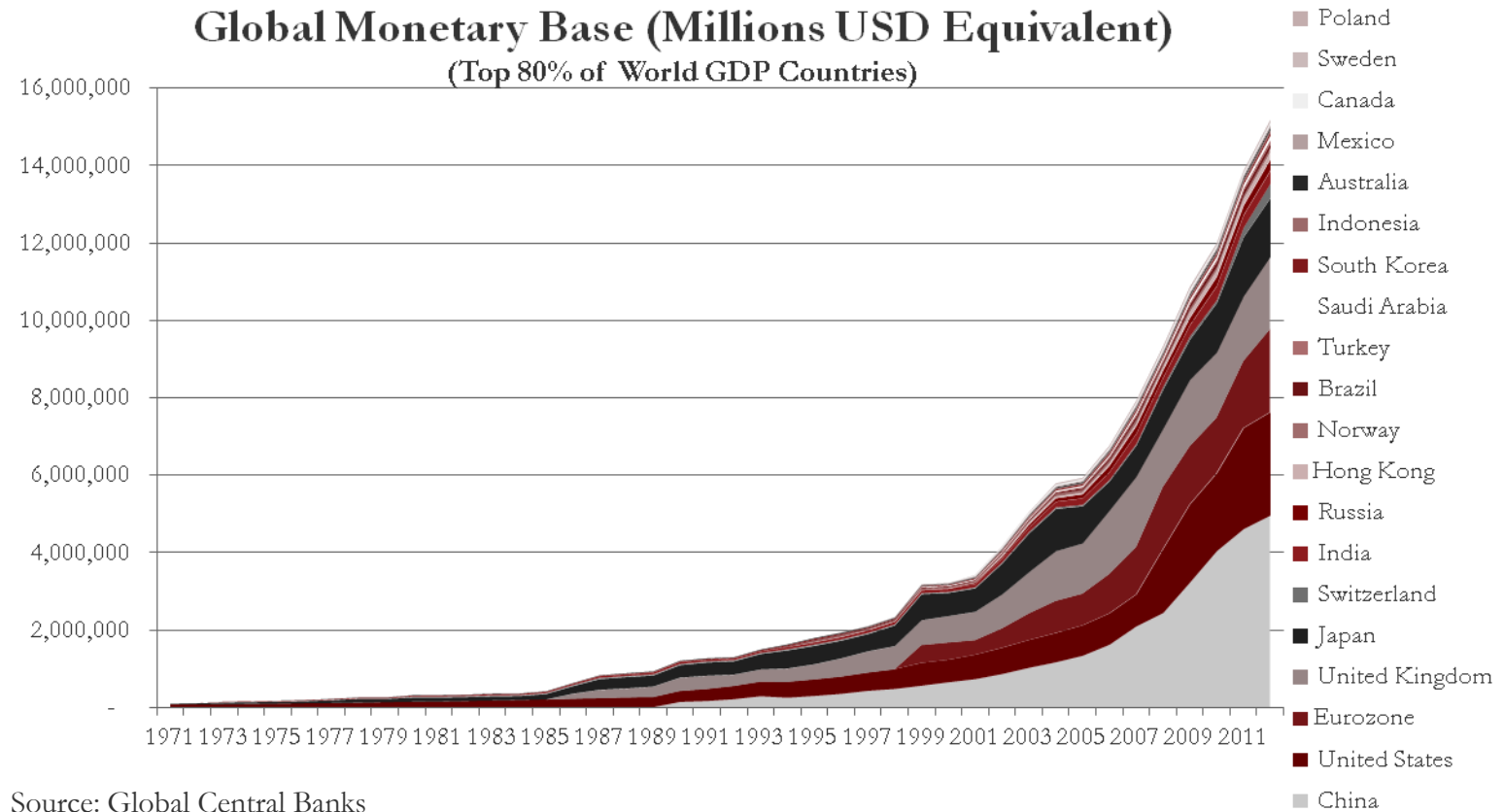
Debt-to-GDP ratio (percent of GDP)



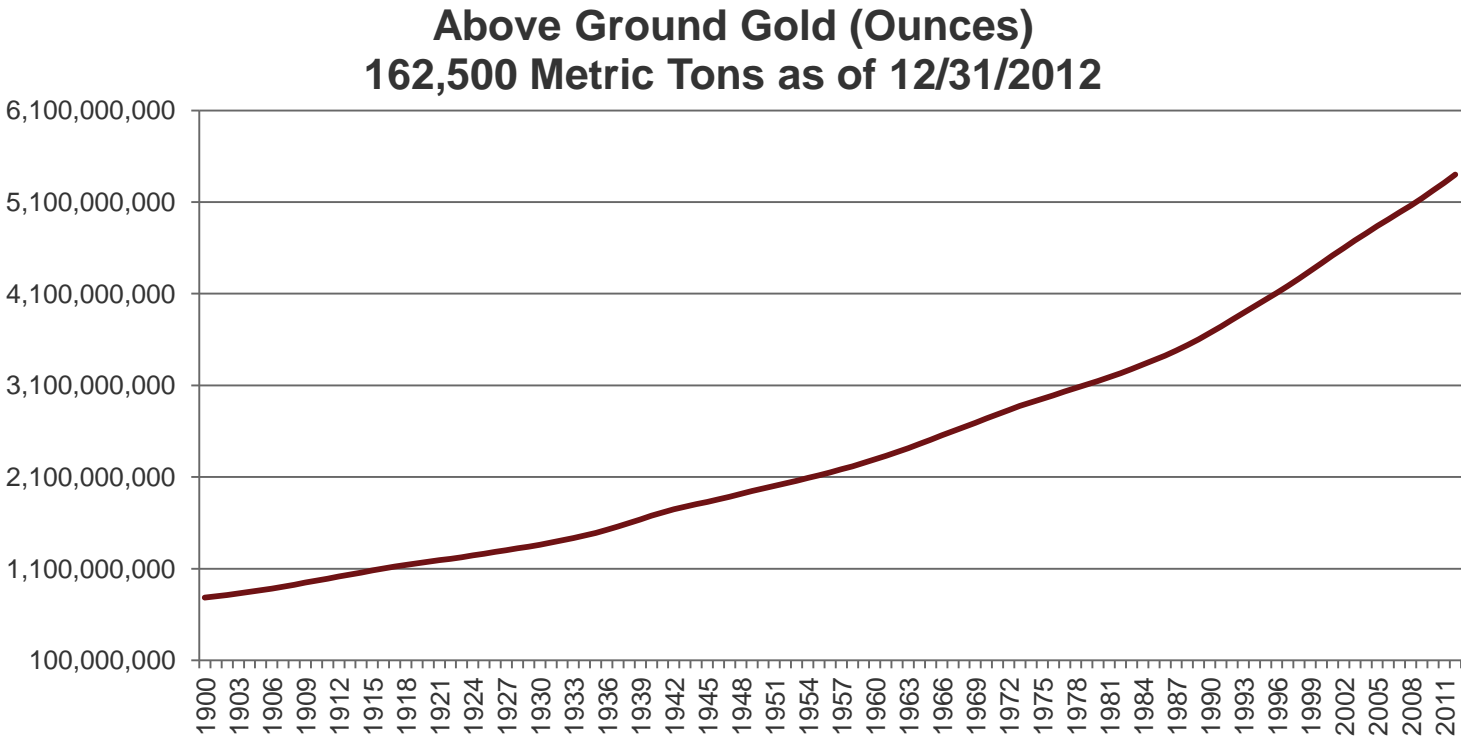
Source: PBOC, Gao Hua Securities, GS Global Investment Research.

Global Fiat Currency Debasement

Resolution of the Global Debt-to-GDP Bubble: The Global Fiat Monetary Base Has Been Growing At a 15% Compounded Annual Growth Rate Over the Last 10 Years



Global Fiat Currency Debasement: The Global Gold Monetary Base Grows At Approximately 1.7% Annually

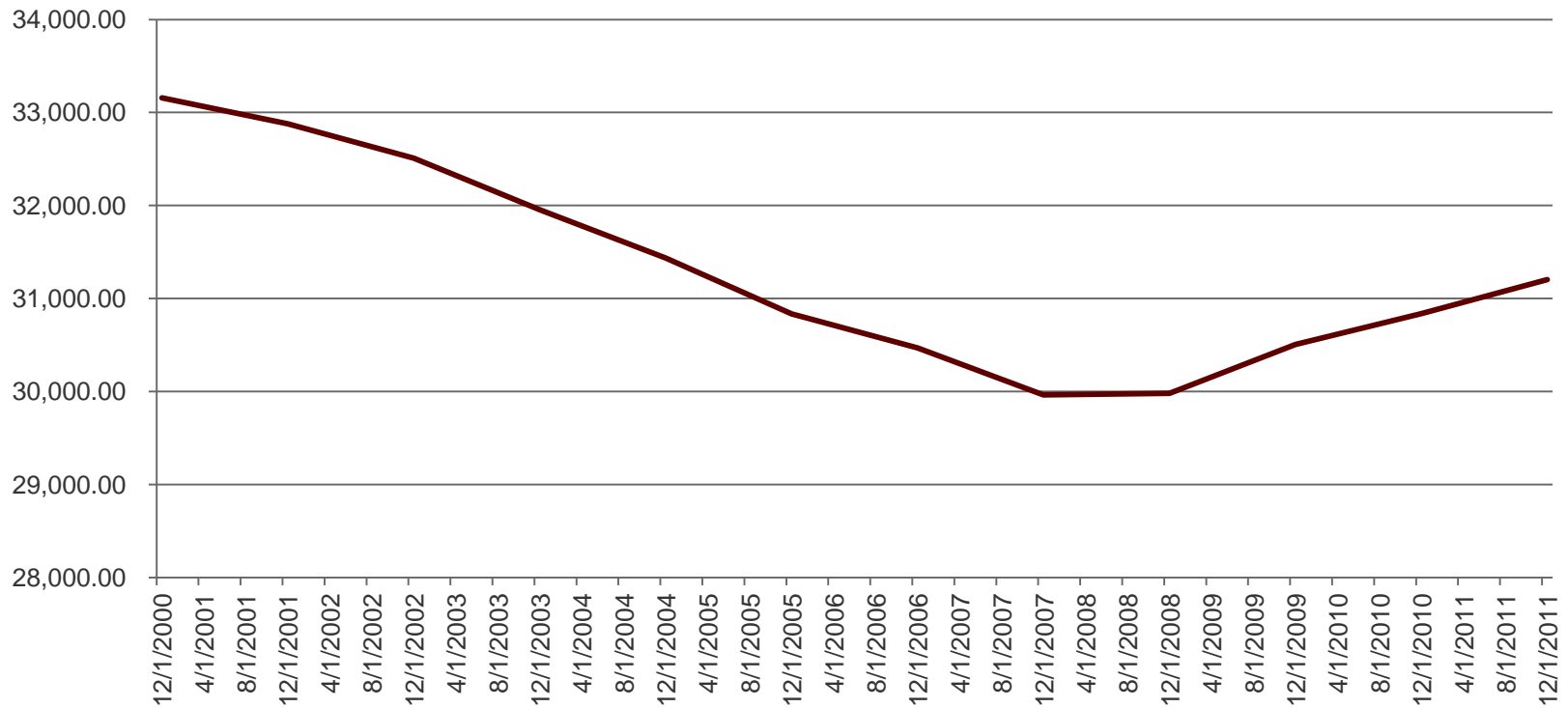


Source: USGS & World Gold Council

Gold is hard to find and produce. It exists in the earth's crust at approximately .005 parts per million.

Global Fiat Currency Crisis: Global Central Banks are 800-Pound Gorilla Buyers of Gold Who Will Drive The Price Substantially Higher, Particularly When The U.S. Eventually Jumps In

Total World Central Bank (Metric Tons)

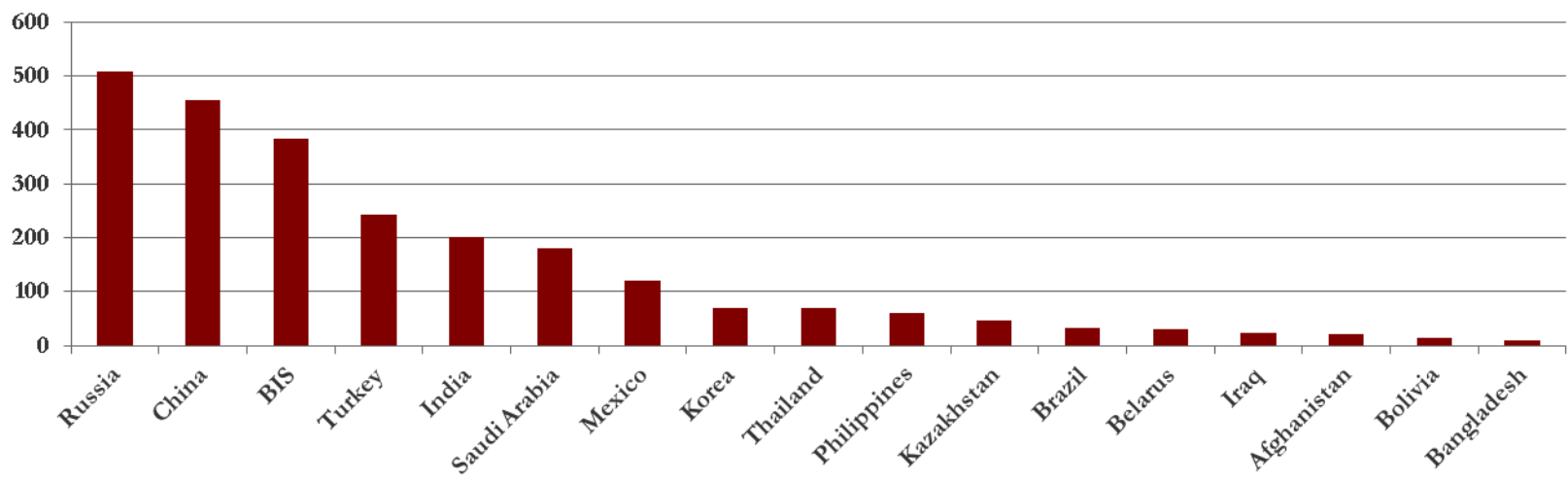


Source: World Gold Council

We expect central bank gold buying to accelerate rapidly as central banks augment their QE with gold asset purchases. We hope Bernanke and Yellen get the memo and pay particular attention to the low valuation of gold relative to the USD monetary base as they consider their range of QE asset purchase options.

Global Fiat Currency Debasement : For Now, Russia, China, Turkey, India, Saudi Arabia, and Mexico Lead the Charge Along With the Bank For International Settlements, A Central Bank Vehicle Dominated by U.S. and Western European Interests.

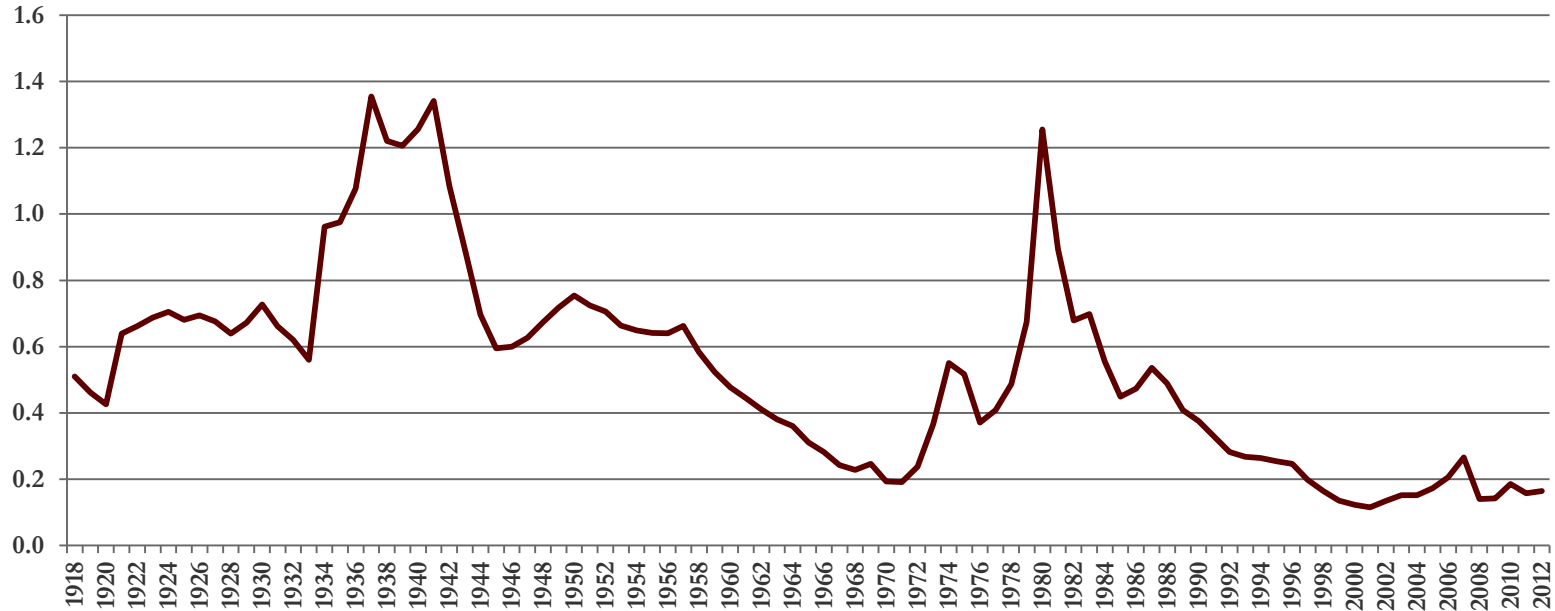
Central Banks That Have Increased Their Reported Gold Reserves in the Last Five Years (2008 to 2012, metric tons)



Source: World Gold Council

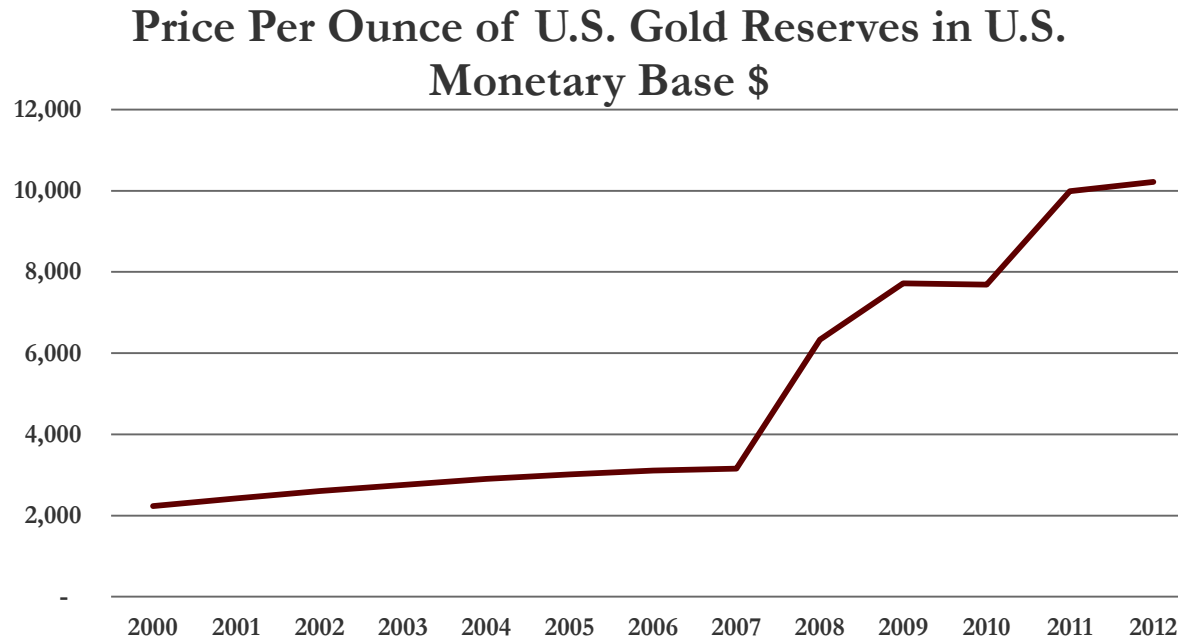
Resolution of the Global Debt-to-GDP Bubble: Gold Is Historically Undervalued Based On U.S. Reserves To USD Monetary Base

Value of U.S. Gold Reserves / U.S. Monetary Base



The U.S. monetary base has been backed at least 1:1 by the value of its gold reserves twice in the last 100 years: 1934 to 1942 (on a gold standard) and again in 1980 (not on a gold standard). In prior periods, gold and silver have served as the global monetary base.

Global Fiat Currency Debasement: Gold Is Worth \$10,000/Ounce Today Based On The Value Of U.S. Gold Reserves Priced in U.S Monetary Base. This Is The High End Of Crescat's Valuation And Target Price In Today's Dollars (Real Price) For Gold

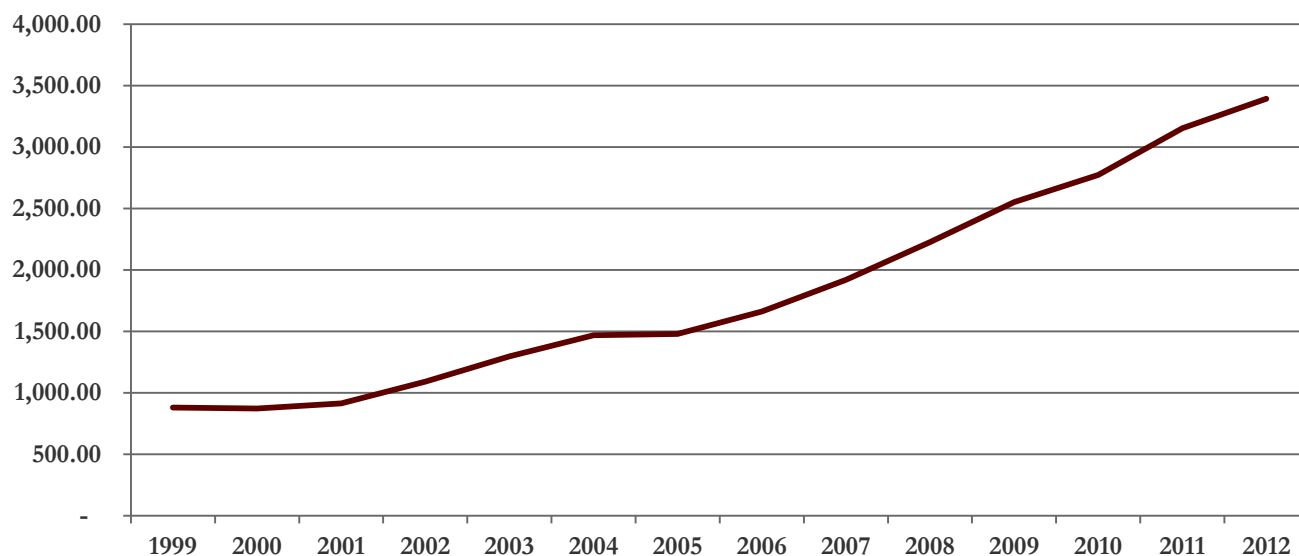


Market and global central bank forces can combine to realize this value:

1. Fed can buy gold in free market with printed dollars (QE) both increasing its gold reserves and driving up the price of gold.
2. Private investors around the world can buy gold, driving its price in dollars up.
3. Non-U.S. central banks around the world can print their own money, buy gold.

Global Fiat Currency Debasement: Gold Is Worth \$3,400 Per Ounce Today Based On The Global Fiat Currency Monetary Base Compared To Total Above Ground Gold Ounces. This Is The Low End Of Crescat's Valuation And Target Price For Gold In Today's Dollars (Real Price)

Price Target for Gold Based on Global Monetary Base of Top 80% of World GDP Countries Converted to USD/ Total World Gold Supply



Source: Global Central Banks, USGS, World Gold Council

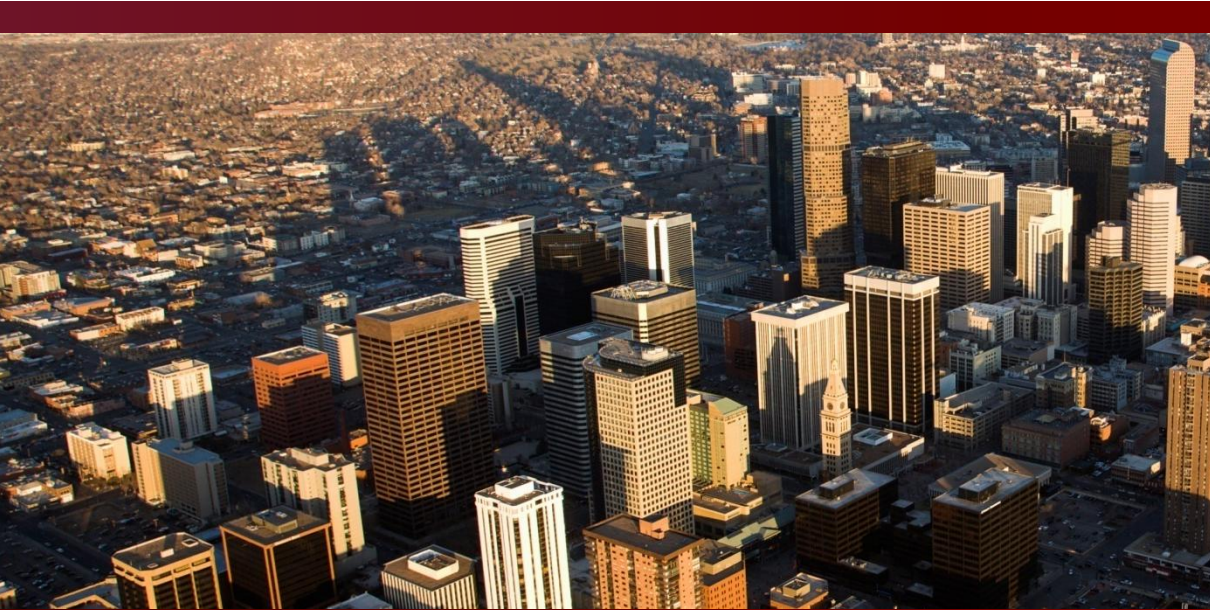
The target price will continue to increase in line with the dollar value of the global monetary base until inflation is perceived and global consciousness shifts from deflation to inflation, at which point money velocity will spike, and the price target for gold will almost certainly be achieved in a parabolic step function.

Disclosures

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