



SANTIAGO
CAPITAL



IceCap
Asset Management Ltd.



Global Market Outlook

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Executive Summary

Objective:

- Educate our audience on the reality & reasoning for the extreme volatility recently seen in the global marketplace.
- Protect and grow client capital.

Strategy:

- Demonstrate the flaw and inherent instability of the current monetary system
- Position client capital across Fixed Income, Currency, Commodity and Equity markets in order to profit from what we believe will be a rapidly appreciating U.S. Dollar due to the combination of a global Sovereign Bond and Sovereign Currency crisis.

Differentiators:

- We understand the problem.
- We understand the resulting “knock-on” effects.
- We have demonstrated the ability to position capital effectively in this environment.

Experience:

- Brent Johnson and Keith Dicker each bring over 20 years of investment management experience in their respective positions as CEO of Santiago Capital and IceCap Asset Management.

Private Fund:

- Santiago Capital and IceCap Asset Management are 50/50 partners.

The US Dollar

We believe a combination of deteriorating Supply and increasing Demand regarding the Global Reserve Currency is creating the perfect U.S. Dollar storm...



...which could lead to it revisiting its all-time high.

The US Dollar

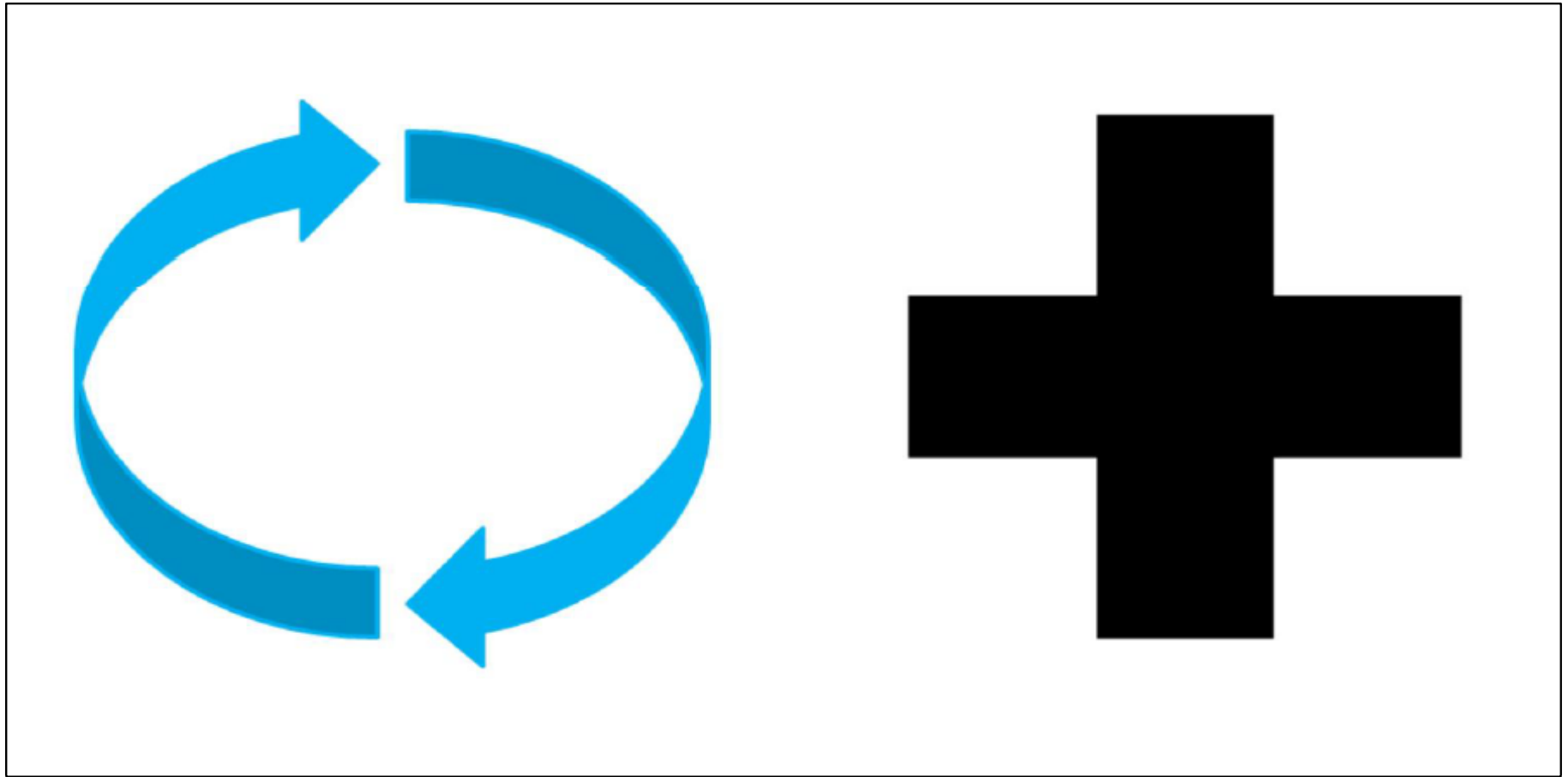
It is important not to confuse NEW SUPPLY of Dollars with MORE SUPPLY of Dollars.



The Fed is trying to fill a Black Hole.

Design of the Monetary System

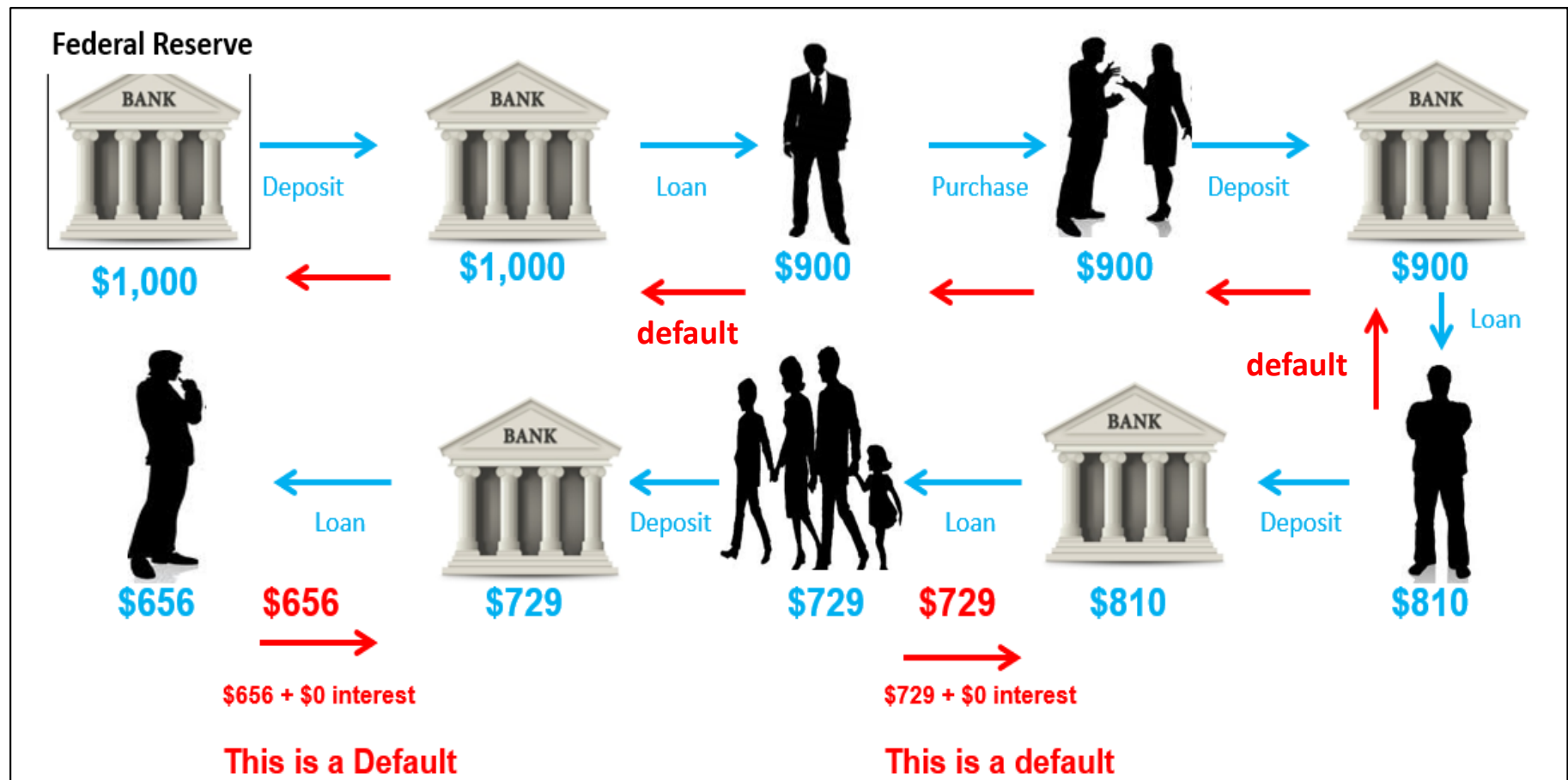
The Flow of Capital...or New Supply of Capital



There **MUST** be one or the other.

Fractional Reserve Banking

Bank Credit allows a \$1,000 deposit to become \$10,000 worth of Currency.
The \$9,000 is manufactured out of thin air in the form of loans.

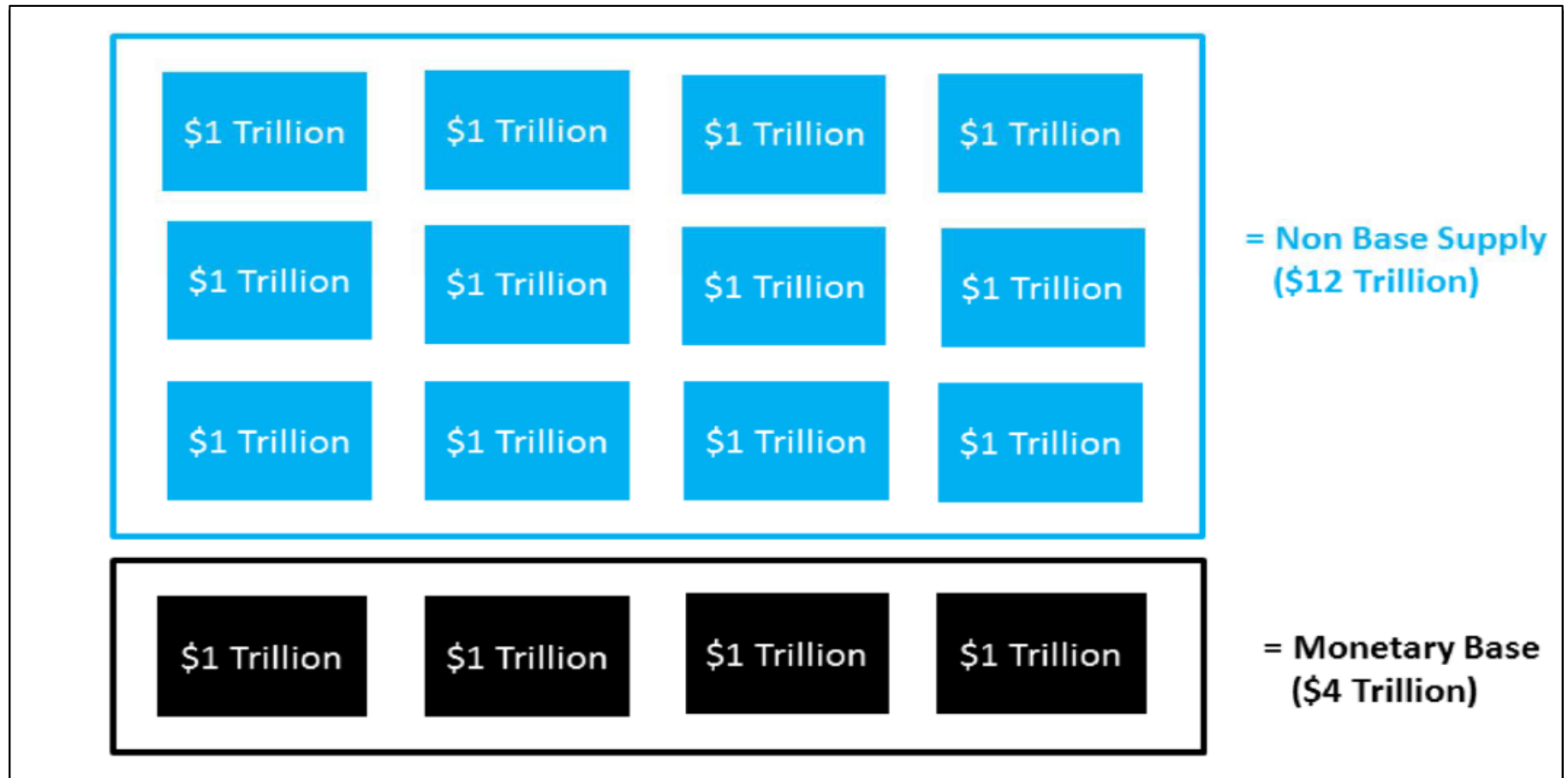


*"The actual process of money creation takes place in commercial banks...
demand liabilities of commercial banks are money."*



The Money Supply

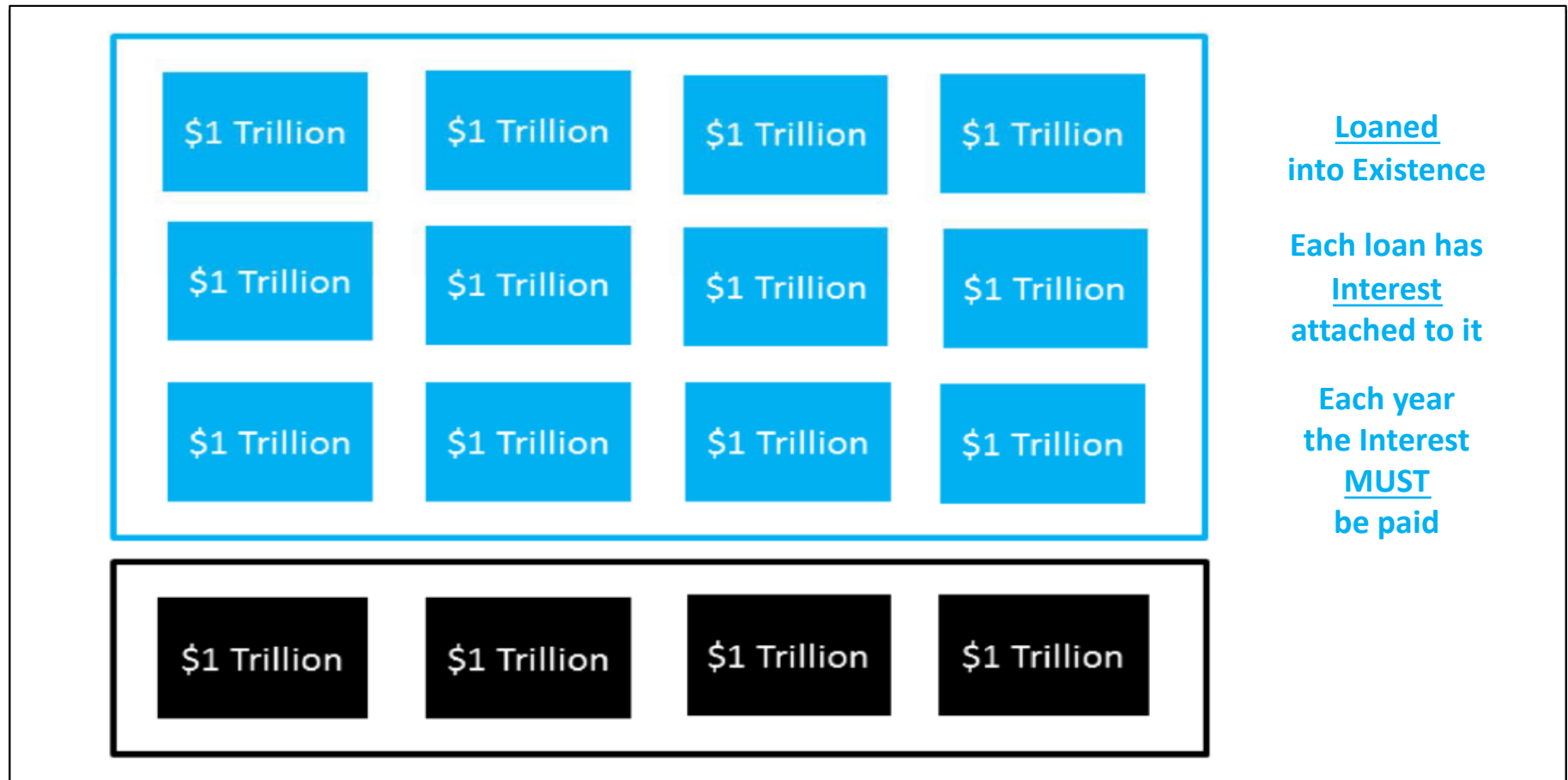
The Monetary Base...



...plus Money "loaned" into existence.

The Money Supply

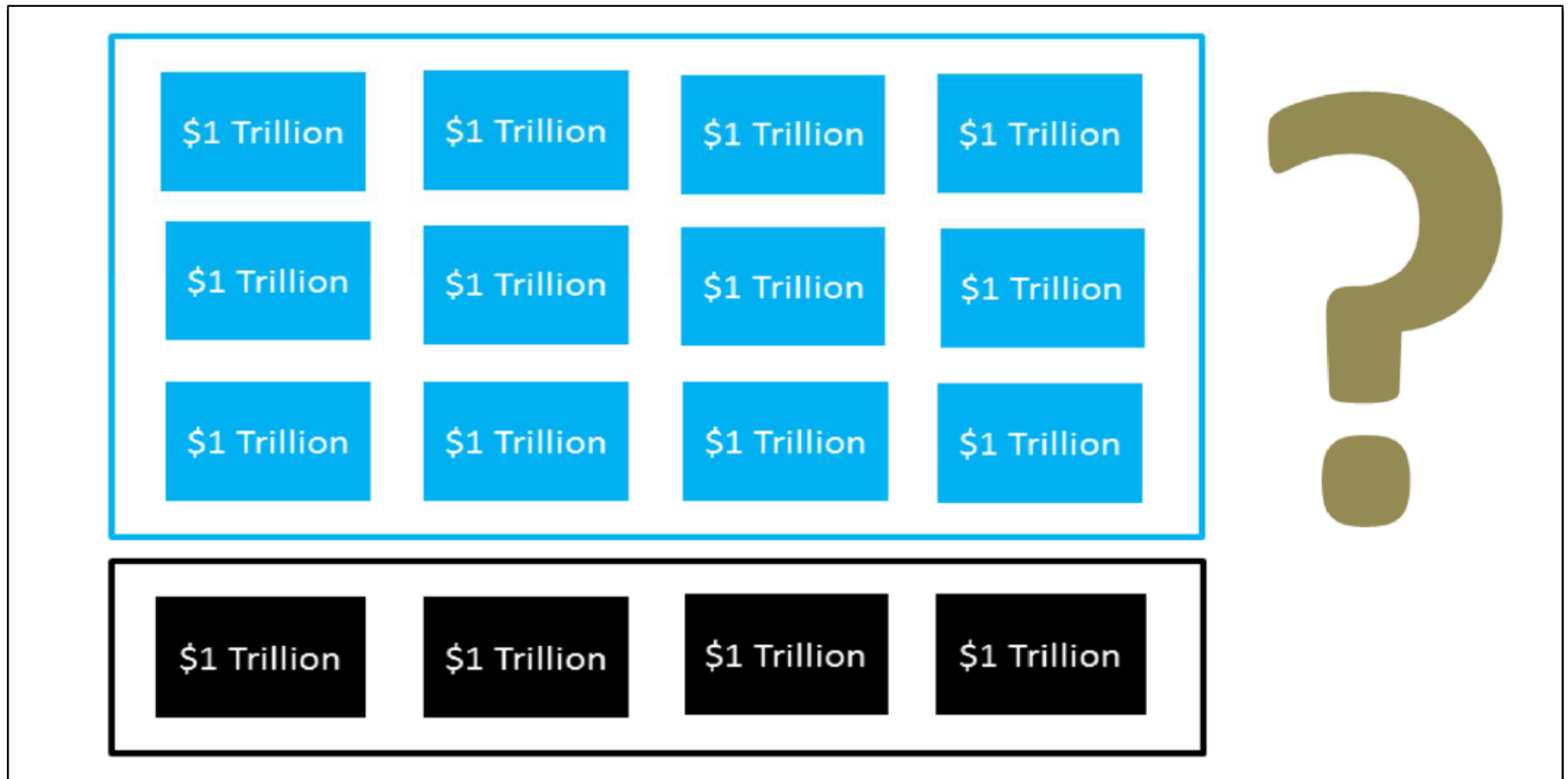
The Monetary Base...



...plus Money “loaned” into existence.

The Money Supply

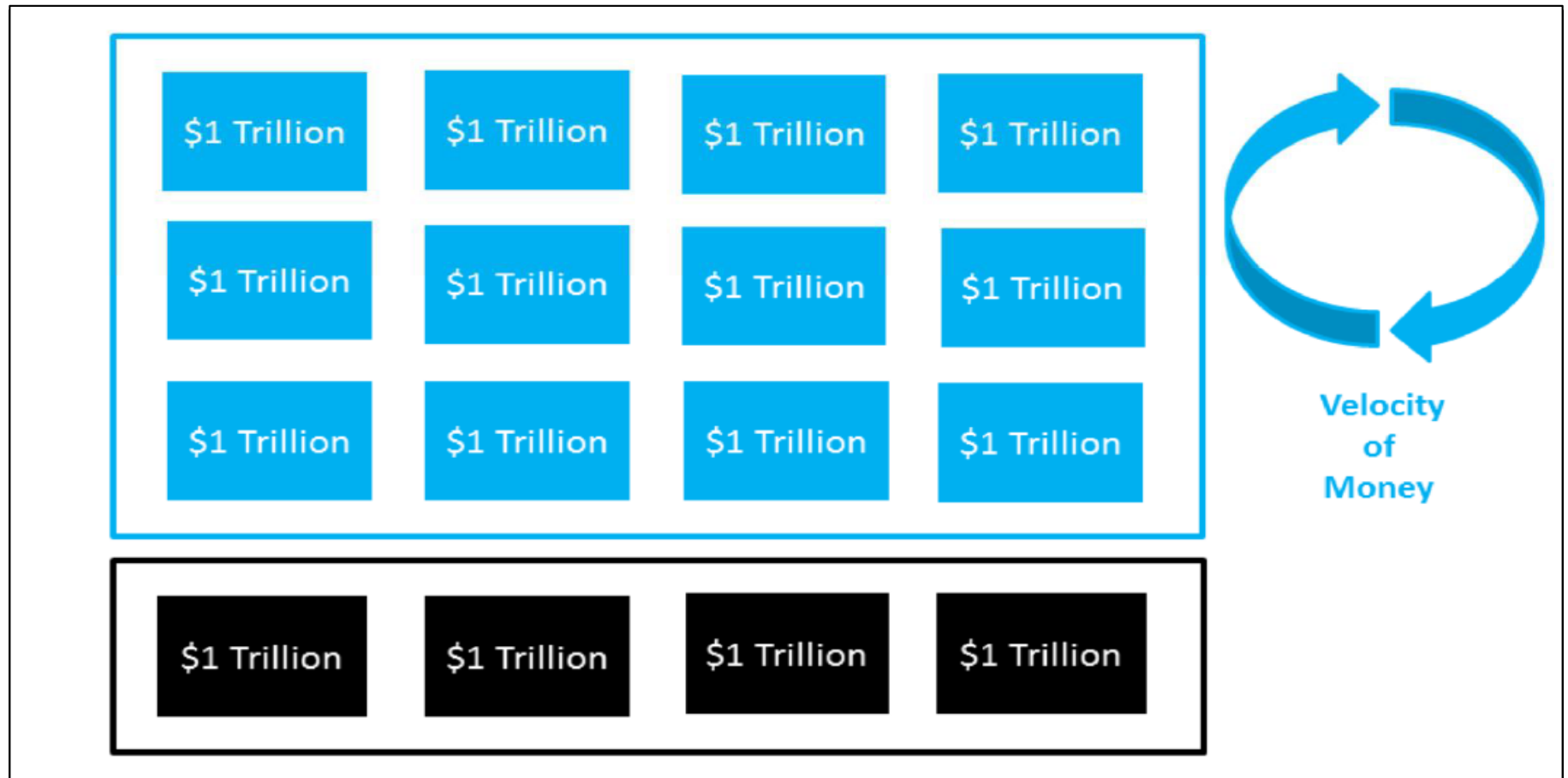
But if this is the total Supply of Dollars...



...where do the dollars needed to pay the interest come from?

The Money Supply

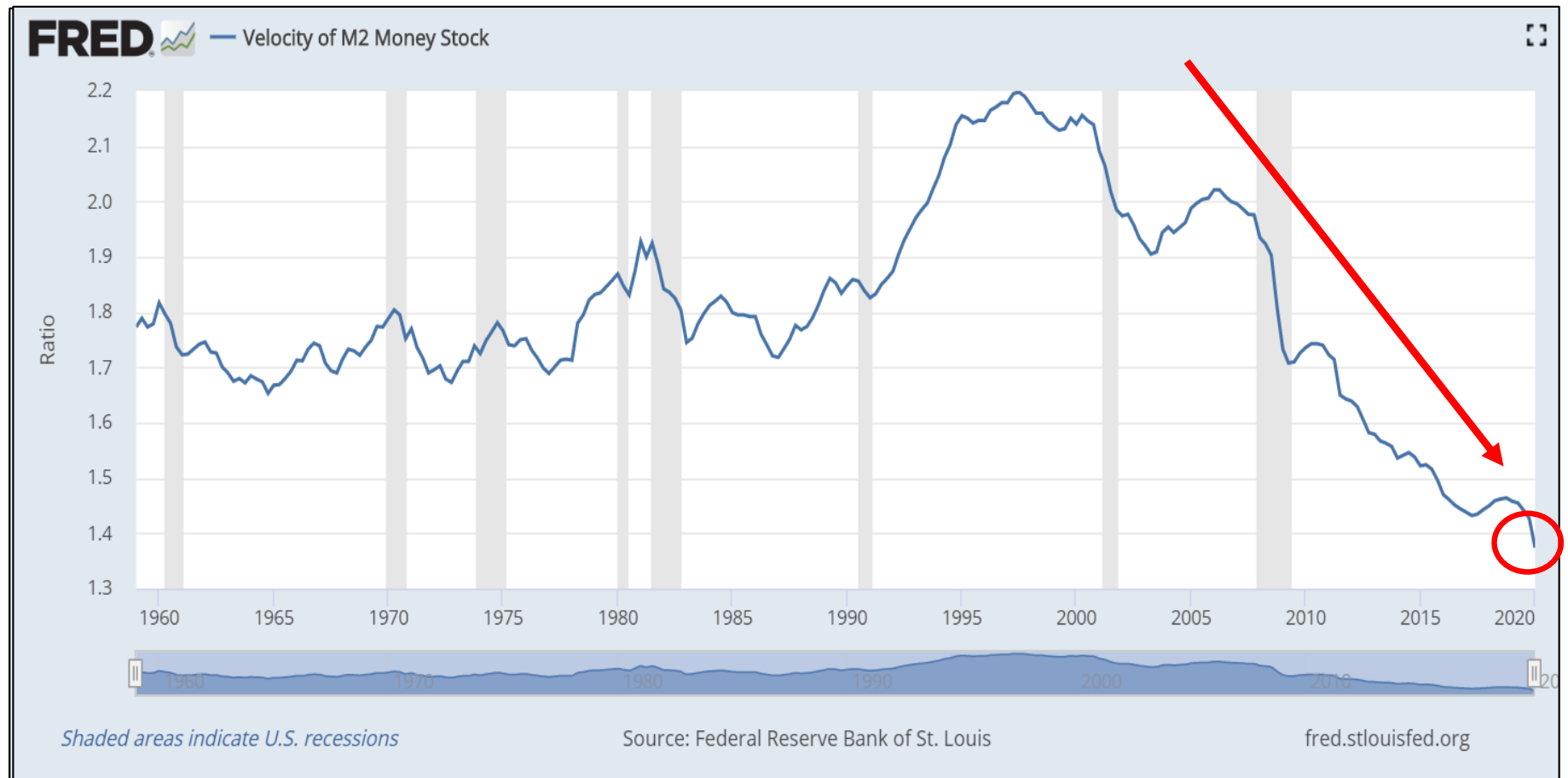
One way the interest on the loans gets paid...



...is by the FLOW of the existing Supply.

The Velocity of Money

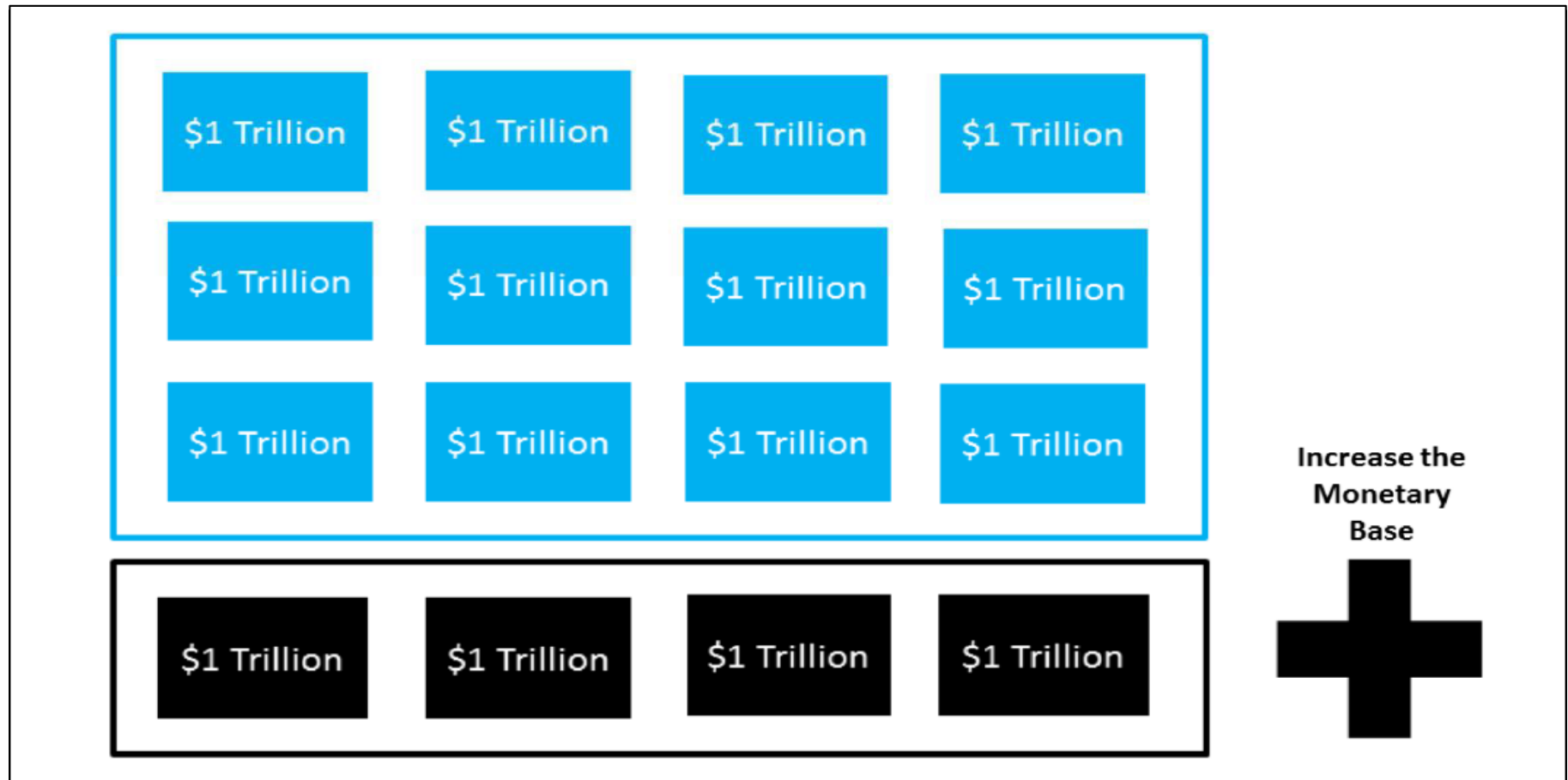
The Velocity of Money was already at its lowest point in history...



...and then coronavirus took to even lower.

The Money Supply

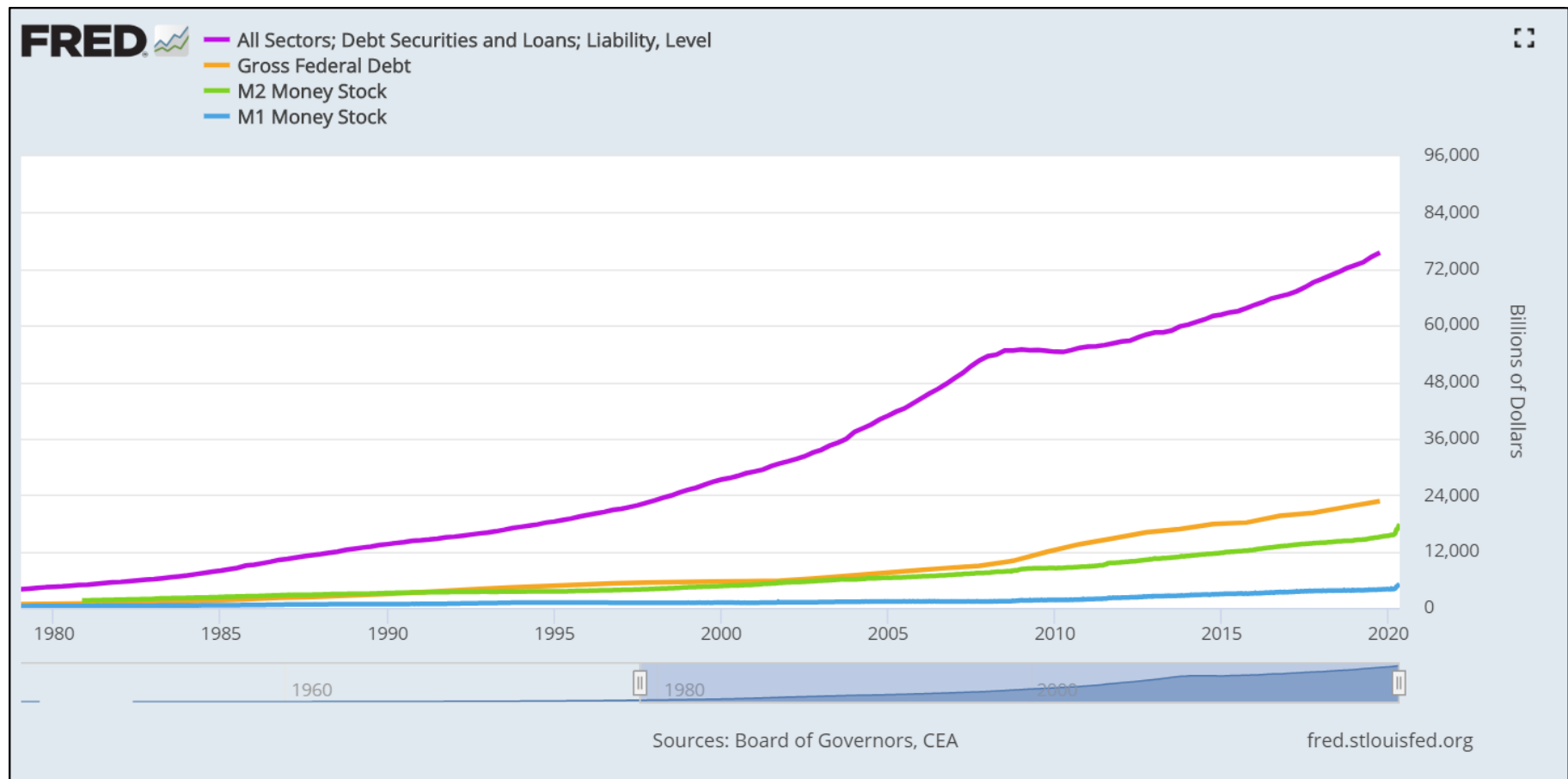
If there is not enough Velocity of Money to pay the Interest...



...the Federal Reserve must add New Supply to recapitalize the system.

Debt Super Cycle

The Monetary Base vs M2...

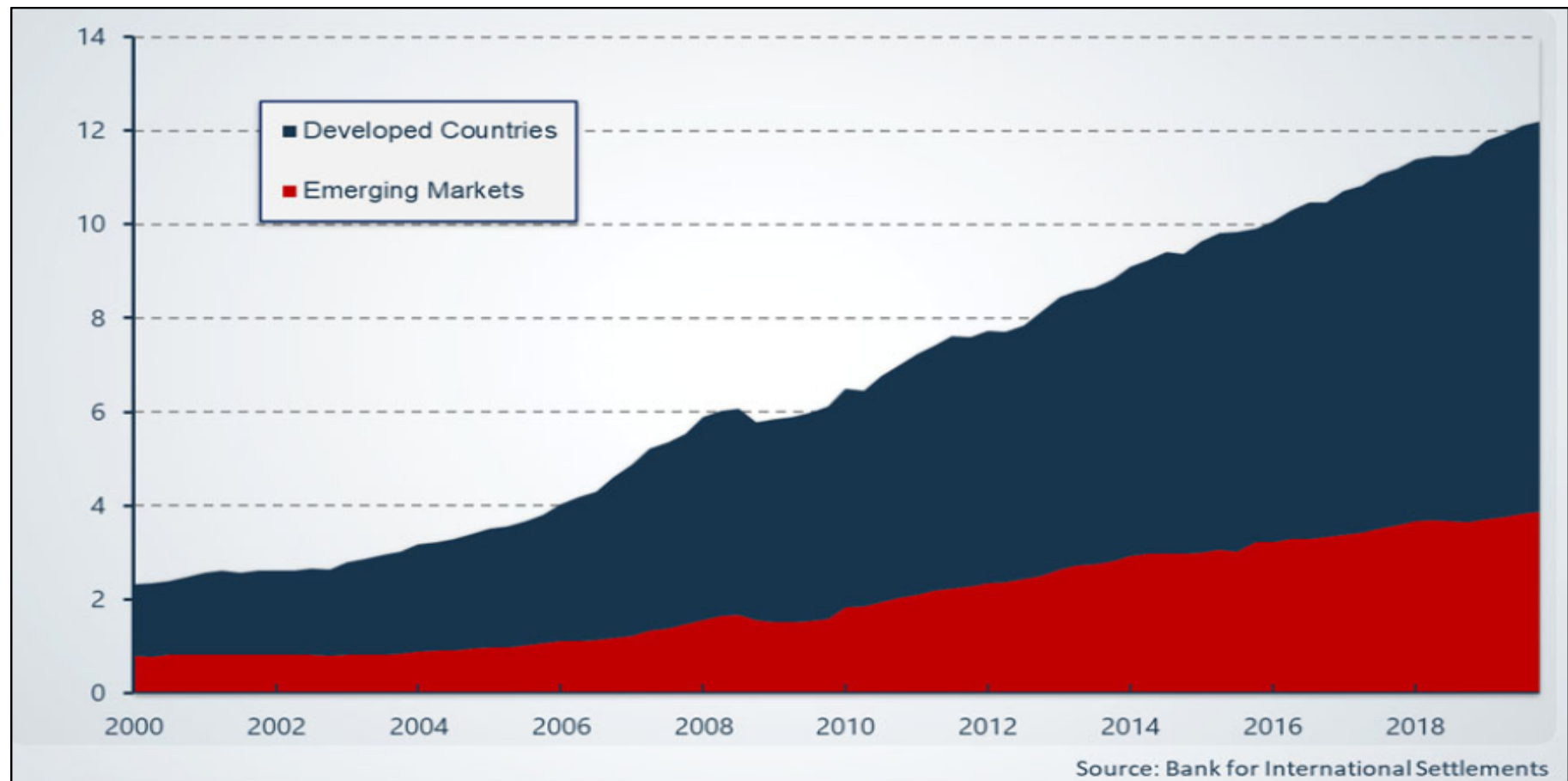


...vs the National Debt...vs All Debt Securities.

Debt Super Cycle

US Dollar Denominated Debt (Non-Banks)

Source: Global Macro Investor



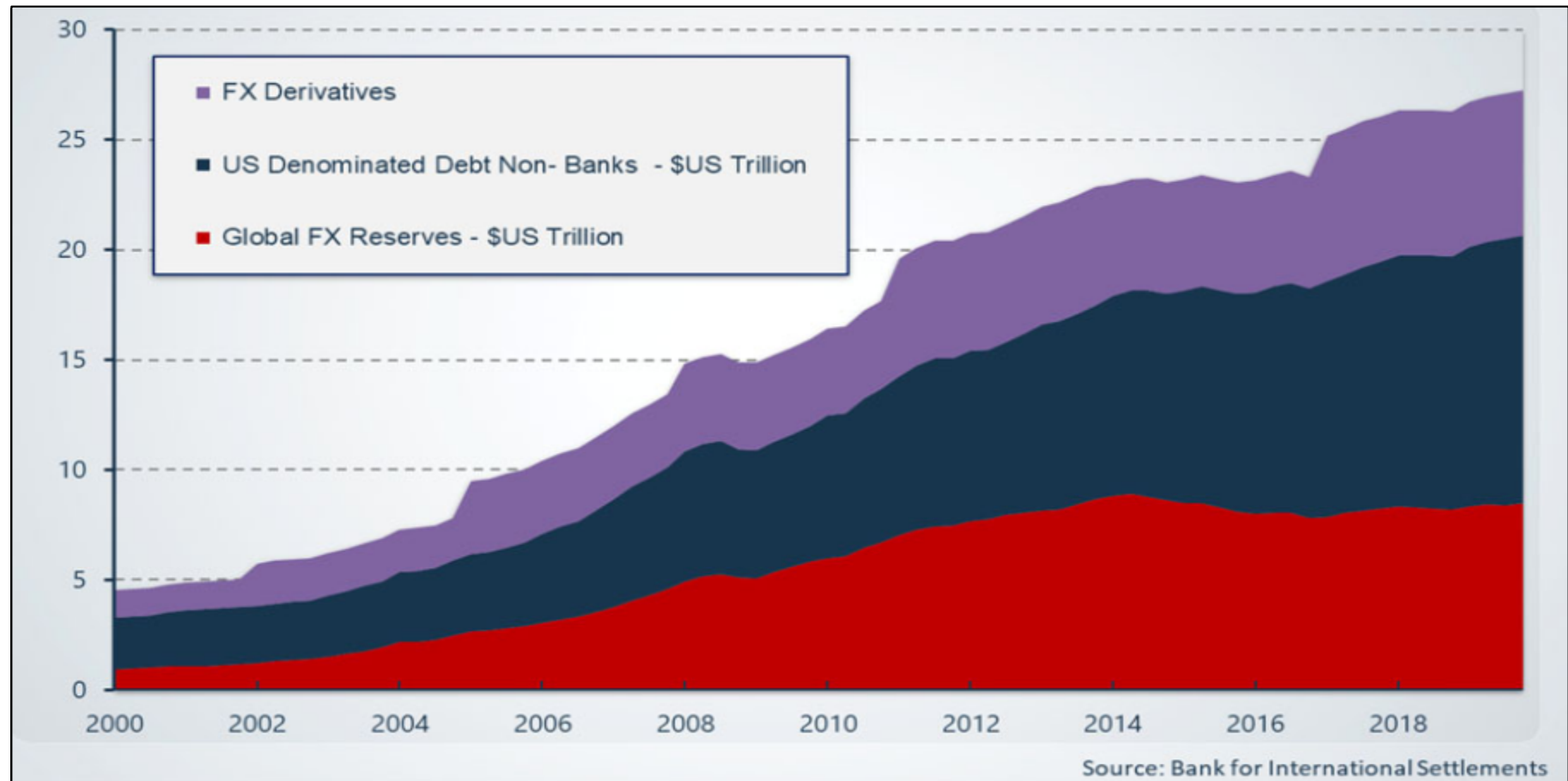
At least \$12 Trillion not including Offshore Shadow Banking.



Debt Super Cycle

Foreign Currency Derivatives...

Source: Global Macro Investor



...are over \$5 Trillion.



The Eurodollar Market

Offshore Currency Markets have become huge in size...

Source: Journal of Institutional Economics

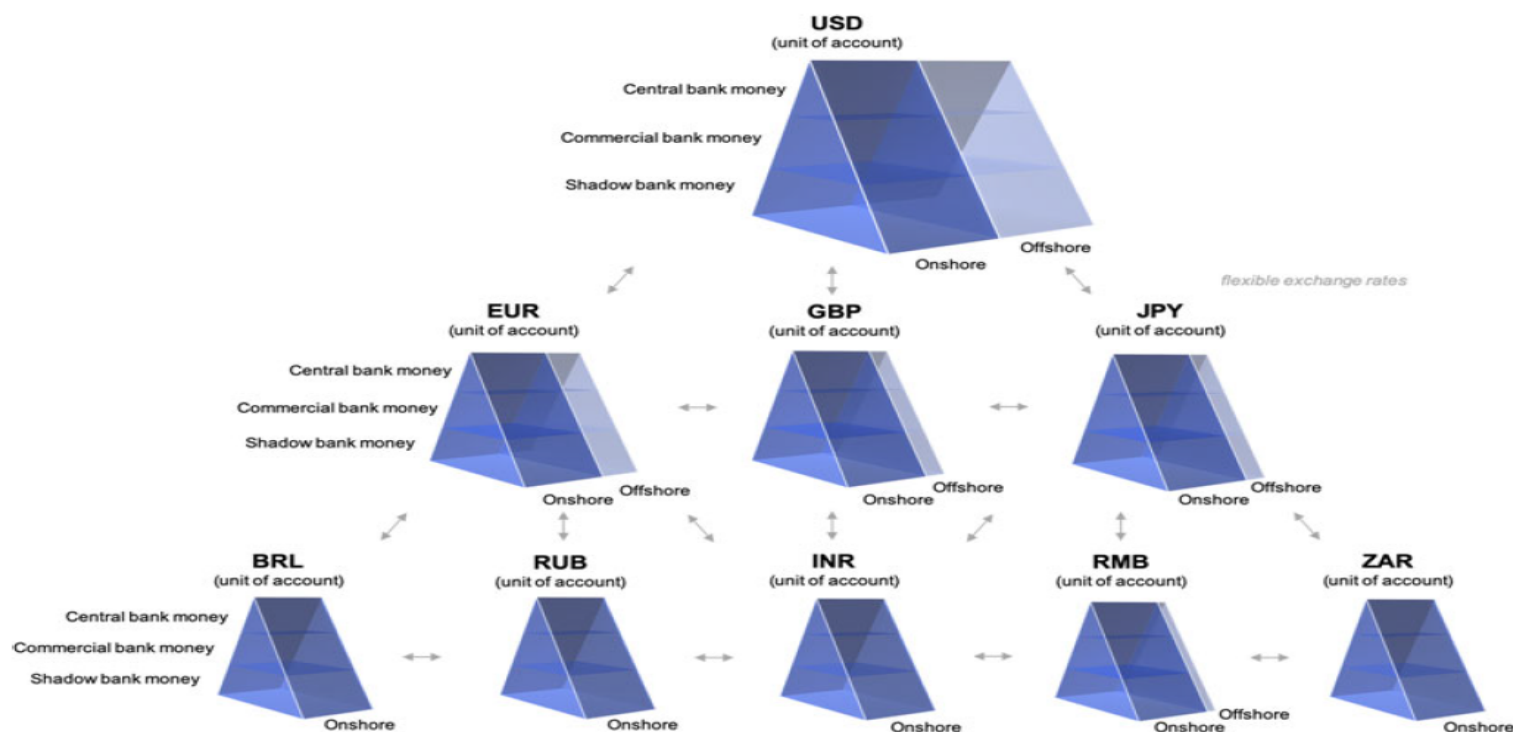


Figure 1. The international monetary system as 'Offshore US-Dollar System'. USD, US-Dollar; EUR, Euro; GBP, British pound; JPY, Japanese yen; BRL, Brazilian real; RUB, Russian ruble; INR, Indian rupee; RMB, Chinese renminbi; ZAR, South African rand. © 2020 Steffen Murau (CC-BY).

...with the USD far and away the biggest of all of them.

The Eurodollar Market

At the end of WWII the Dollar was primarily an onshore market...

Source: Journal of Institutional Economics

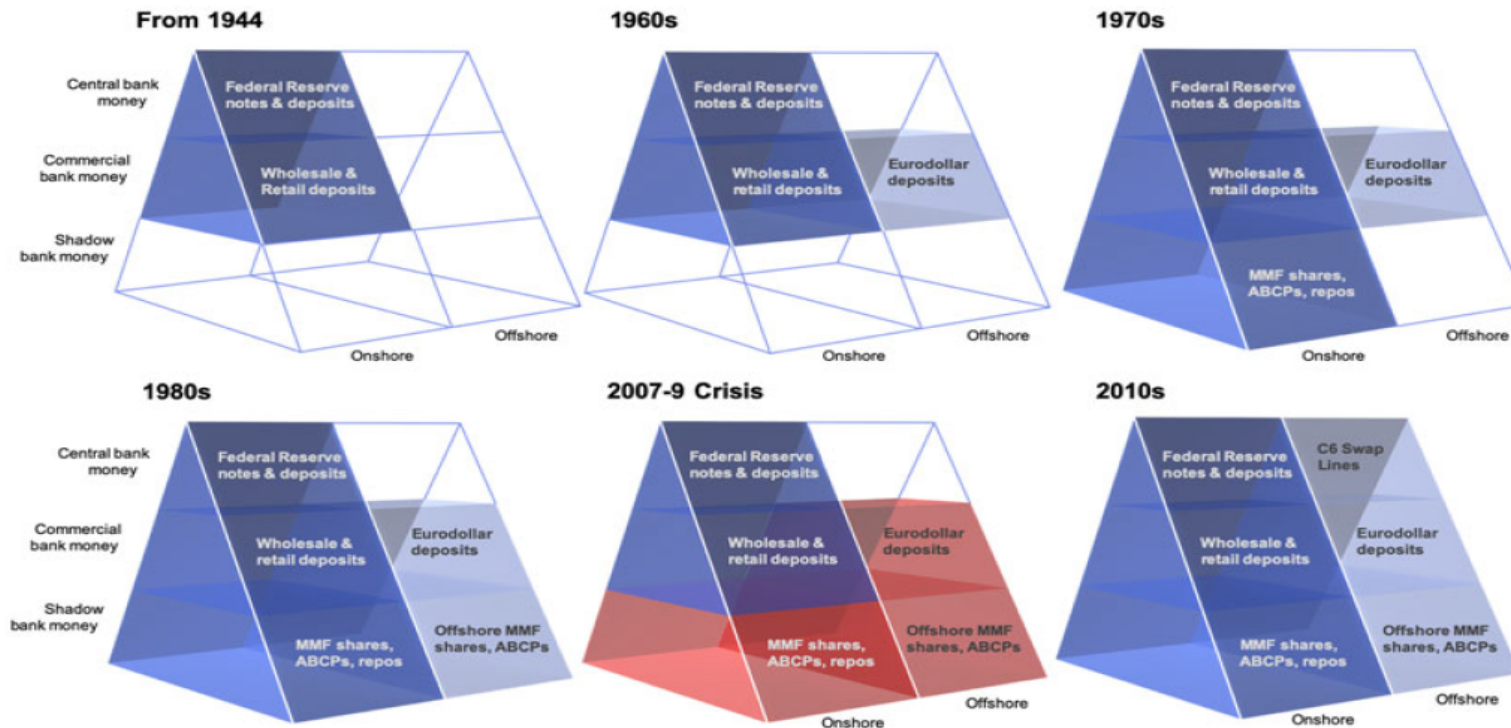
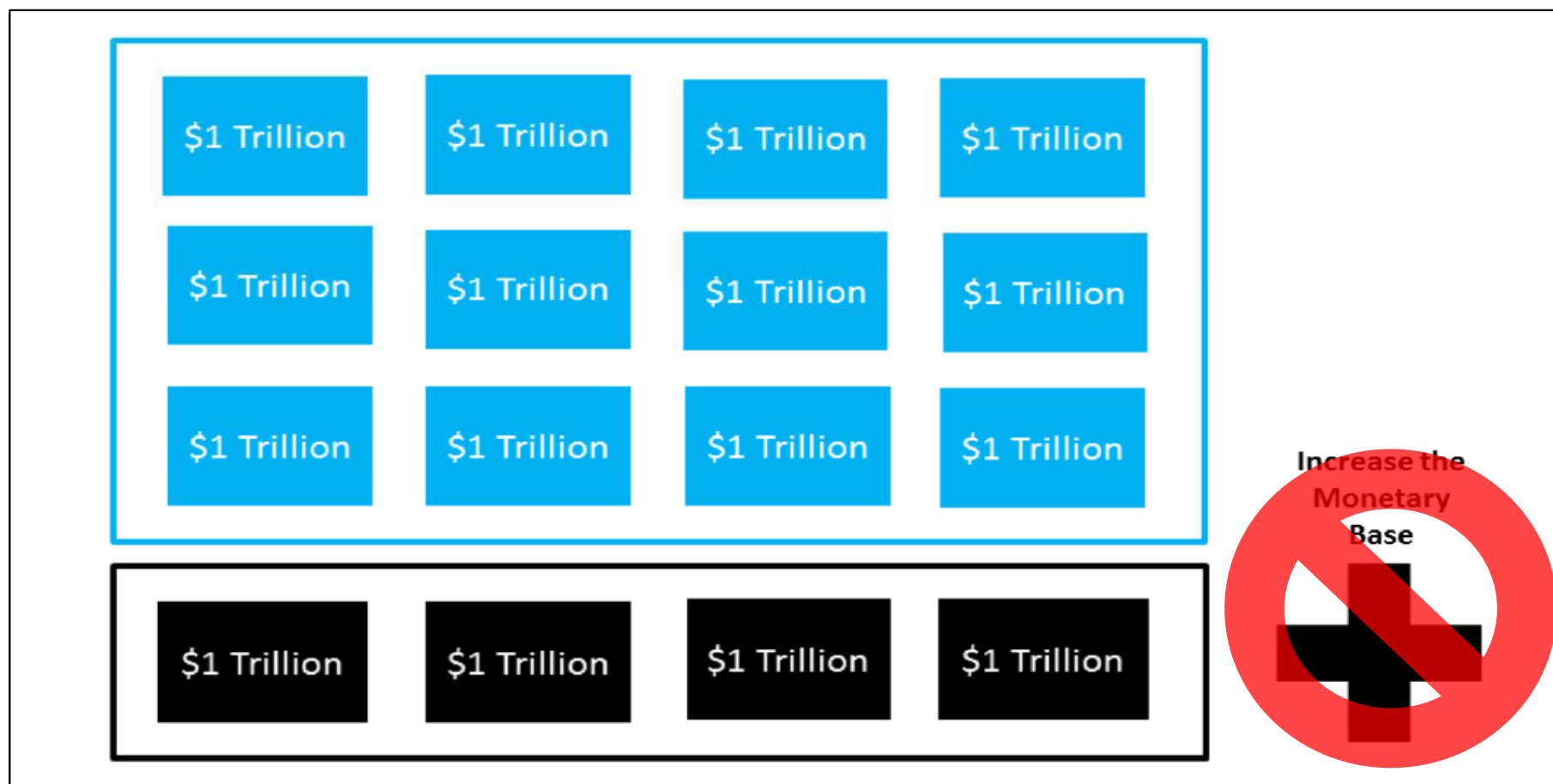


Figure 3. The institutional evolution of the US-Dollar monetary area. MMF, money market fund; ABCPs, asset-backed commercial papers; repos, repurchase agreements. © 2020 Steffen Murau (CC-BY).

...but the offshore prevalence has grown in size and it now rivals its onshore brethren.

The Eurodollar Money Supply

If there is not enough Velocity of Money to pay the Interest...



...the Federal Reserve does not have jurisdiction to recapitalize the system.



Debt Super Cycle

US Dollar Denominated Debt (Non-Banks) coming due in the next year...

Source: Global Macro Investor



...is almost \$2 Trillion.



Response to Coronavirus Crisis

Dollar Swap Lines do not fix the problem, they increase the size of the problem.

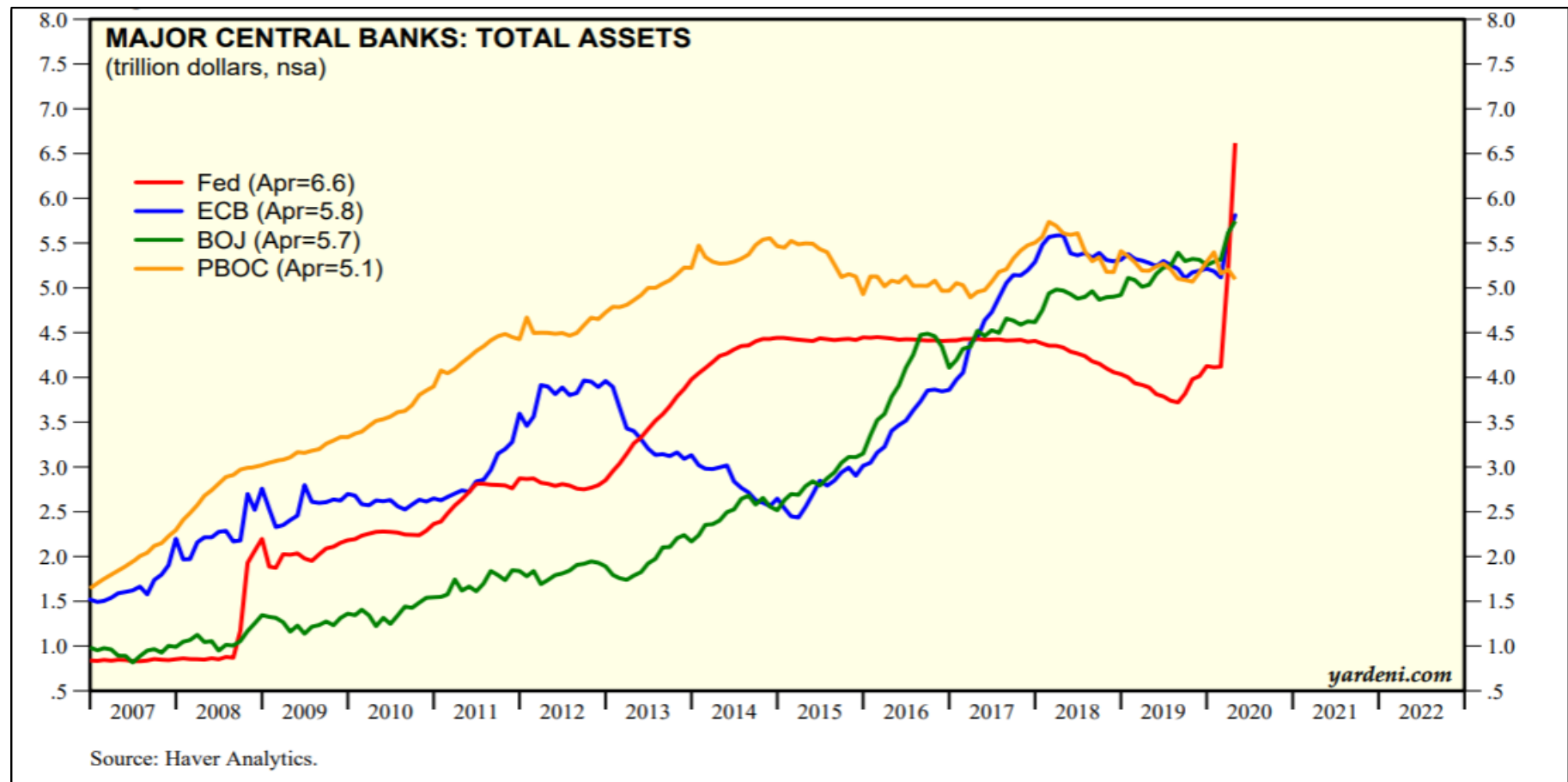
Source: NY Federal Reserve

U.S. Dollar Liquidity Swap - Amounts Outstanding (Settled positions in USD mn)															
Date	Total Amount Outstanding	European Central Bank	Bank of England	Bank of Canada	Bank of Japan	Swiss National Bank	Reserve Bank of Australia	Danmarks Nationalbank	Norges Bank	Monetary Authority of Singapore	Banco Central Do Brasil	Bank of Korea	Banco de Mexico	Reserve Bank of New Zealand	Sveriges Riksbank
5/14/2020	446,494.8	143,114.8	23,125.0	0.0	224,185.0	10,003.0	1,170.0	4,290.0	5,400.0	9,830.0	0.0	18,787.0	6,590.0	0.0	0.0
5/13/2020	440,933.7	141,369.7	23,125.0	0.0	220,518.0	9,854.0	1,170.0	4,290.0	5,400.0	9,830.0	0.0	18,787.0	6,590.0	0.0	0.0
5/12/2020	439,641.7	141,569.7	23,125.0	0.0	220,432.0	9,854.0	1,170.0	4,290.0	5,400.0	8,424.0	0.0	18,787.0	6,590.0	0.0	0.0
5/11/2020	444,047.7	143,214.7	25,880.0	0.0	220,232.0	10,060.0	1,170.0	4,290.0	5,400.0	8,424.0	0.0	18,787.0	6,590.0	0.0	0.0
5/8/2020	444,142.7	143,709.7	25,880.0	0.0	219,832.0	10,060.0	1,170.0	4,290.0	5,400.0	8,424.0	0.0	18,787.0	6,590.0	0.0	0.0
5/7/2020	442,813.7	143,709.7	25,880.0	0.0	219,832.0	10,060.0	1,170.0	4,290.0	5,400.0	8,424.0	0.0	17,458.0	6,590.0	0.0	0.0
5/6/2020	444,885.5	142,628.5	27,580.0	0.0	220,334.0	10,011.0	1,170.0	5,290.0	5,400.0	8,424.0	0.0	17,458.0	6,590.0	0.0	0.0
5/5/2020	444,809.5	142,428.5	27,585.0	0.0	220,334.0	10,011.0	1,170.0	5,290.0	5,400.0	8,543.0	0.0	17,458.0	6,590.0	0.0	0.0
5/4/2020	440,320.2	142,575.2	22,345.0	0.0	220,334.0	10,615.0	1,170.0	5,290.0	5,400.0	8,543.0	0.0	17,458.0	6,590.0	0.0	0.0
5/1/2020	446,190.2	143,195.2	27,595.0	0.0	220,334.0	10,615.0	1,170.0	5,290.0	5,400.0	8,543.0	0.0	17,458.0	6,590.0	0.0	0.0
4/30/2020	446,170.2	143,195.2	27,595.0	0.0	220,334.0	10,615.0	1,150.0	5,290.0	5,400.0	8,543.0	0.0	17,458.0	6,590.0	0.0	0.0
4/29/2020	438,952.9	142,393.9	27,545.0	0.0	214,417.0	10,166.0	1,150.0	5,290.0	5,400.0	8,543.0	0.0	17,458.0	6,590.0	0.0	0.0
4/28/2020	435,008.9	142,393.9	27,540.0	0.0	214,417.0	10,166.0	1,150.0	5,290.0	5,400.0	5,868.0	0.0	16,194.0	6,590.0	0.0	0.0
4/27/2020	436,228.9	142,265.9	27,530.0	0.0	214,747.0	11,194.0	1,150.0	5,290.0	5,400.0	5,868.0	0.0	16,194.0	6,590.0	0.0	0.0
4/24/2020	432,425.9	142,270.9	27,280.0	0.0	214,689.0	11,244.0	1,150.0	5,290.0	1,850.0	5,868.0	0.0	16,194.0	6,590.0	0.0	0.0
4/23/2020	432,304.9	141,790.9	27,280.0	0.0	214,978.0	11,314.0	1,150.0	5,290.0	1,850.0	5,868.0	0.0	16,194.0	6,590.0	0.0	0.0
4/22/2020	409,712.4	140,779.4	27,280.0	0.0	195,995.0	10,825.0	1,150.0	5,290.0	1,850.0	5,868.0	0.0	14,085.0	6,590.0	0.0	0.0
4/21/2020	410,466.4	141,264.4	27,280.0	0.0	195,906.0	10,955.0	1,150.0	5,290.0	1,850.0	6,096.0	0.0	14,085.0	6,590.0	0.0	0.0
4/20/2020	409,597.4	139,987.4	27,280.0	0.0	195,866.0	11,403.0	1,150.0	5,290.0	1,850.0	6,096.0	0.0	14,085.0	6,590.0	0.0	0.0
4/17/2020	404,401.4	139,782.4	22,280.0	0.0	196,200.0	11,353.0	1,150.0	5,290.0	1,575.0	6,096.0	0.0	14,085.0	6,590.0	0.0	0.0
4/16/2020	400,921.4	139,342.4	22,280.0	0.0	196,020.0	11,283.0	1,150.0	4,250.0	1,575.0	6,096.0	0.0	12,335.0	6,590.0	0.0	0.0
4/15/2020	378,291.0	138,199.0	21,935.0	0.0	176,212.0	9,949.0	1,150.0	4,250.0	1,575.0	6,096.0	0.0	12,335.0	6,590.0	0.0	0.0
4/14/2020	389,512.0	138,657.0	21,935.0	0.0	188,161.0	10,139.0	1,150.0	4,250.0	1,575.0	4,720.0	0.0	12,335.0	6,590.0	0.0	0.0
4/13/2020	396,644.0	140,629.0	21,935.0	0.0	193,311.0	10,649.0	650.0	4,250.0	1,575.0	4,720.0	0.0	12,335.0	6,590.0	0.0	0.0
4/10/2020	396,781.0	140,629.0	21,935.0	0.0	193,448.0	10,649.0	650.0	4,250.0	1,575.0	4,720.0	0.0	12,335.0	6,590.0	0.0	0.0
4/9/2020	396,651.0	140,629.0	21,935.0	0.0	193,318.0	10,649.0	650.0	4,250.0	1,575.0	4,720.0	0.0	12,335.0	6,590.0	0.0	0.0
4/8/2020	358,077.2	131,251.2	27,785.0	0.0	163,801.0	8,735.0	650.0	4,250.0	1,575.0	4,720.0	0.0	8,720.0	6,590.0	0.0	0.0
4/7/2020	369,924.2	133,258.2	31,290.0	0.0	175,021.0	8,925.0	650.0	2,850.0	1,575.0	2,635.0	0.0	8,720.0	5,000.0	0.0	0.0
4/6/2020	391,489.2	137,638.2	36,290.0	0.0	182,371.0	9,490.0	650.0	2,850.0	1,575.0	6,905.0	0.0	8,720.0	5,000.0	0.0	0.0
4/3/2020	394,069.2	139,638.2	36,790.0	0.0	183,501.0	8,940.0	650.0	2,850.0	1,075.0	6,905.0	0.0	8,720.0	5,000.0	0.0	0.0
4/2/2020	395,859.2	141,918.2	37,700.0	0.0	187,501.0	9,140.0	50.0	2,850.0	1,075.0	6,905.0	0.0	8,720.0	0.0	0.0	0.0
4/1/2020	348,544.0	135,867.0	31,550.0	0.0	163,957.0	6,290.0	50.0	2,850.0	1,075.0	6,905.0	0.0	0.0	0.0	0.0	0.0
3/31/2020	357,674.0	137,032.0	31,600.0	0.0	174,707.0	6,090.0	50.0	2,850.0	1,075.0	4,270.0	0.0	0.0	0.0	0.0	0.0
3/30/2020	327,240.0	130,402.0	26,600.0	0.0	161,607.0	4,656.0	50.0	2,850.0	1,075.0	0.0	0.0	0.0	0.0	0.0	0.0
3/27/2020	317,665.0	128,237.0	26,100.0	0.0	159,342.0	3,936.0	50.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3/26/2020	308,055.0	125,032.0	25,195.0	0.0	154,392.0	3,436.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3/25/2020	206,051.0	116,220.0	19,015.0	0.0	67,175.0	3,641.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3/24/2020	163,221.0	112,105.0	15,460.0	0.0	32,325.0	3,331.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3/23/2020	162,485.0	112,085.0	15,455.0	0.0	32,325.0	2,620.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3/20/2020	162,485.0	112,085.0	15,455.0	0.0	32,325.0	2,620.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3/19/2020	162,485.0	112,085.0	15,455.0	0.0	32,325.0	2,620.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3/18/2020	45.0	45.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3/17/2020	45.0	45.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3/16/2020	45.0	45.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

And they pale in size to the amounts ultimately needed.

Response to Coronavirus Crisis

In the last 3 months the Fed had increased its balance sheet...

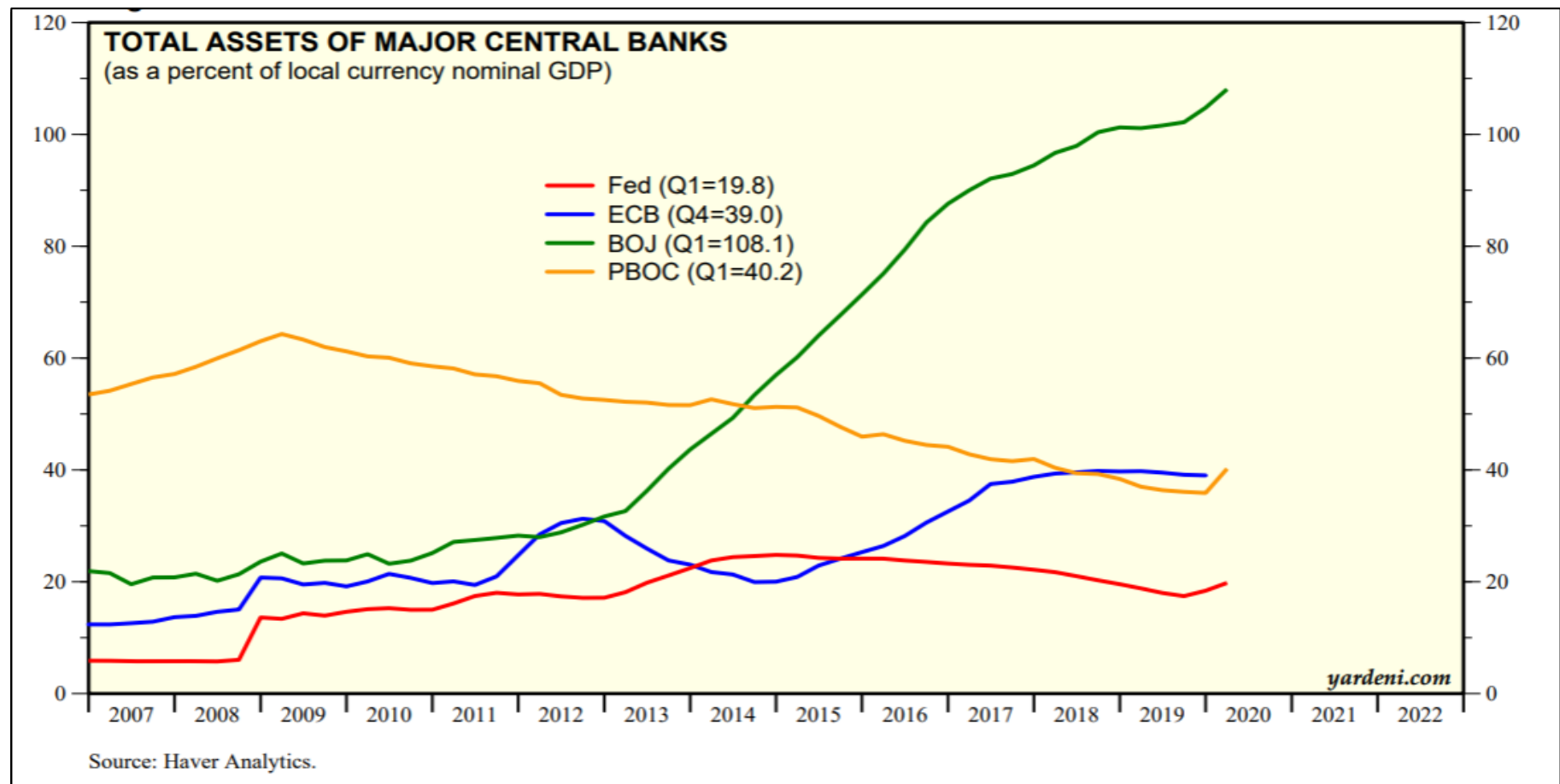


...by over \$2 Trillion.



Response to Coronavirus Crisis

But the Fed still dramatically trails its peers at the ECB, BOJ and PBOC...

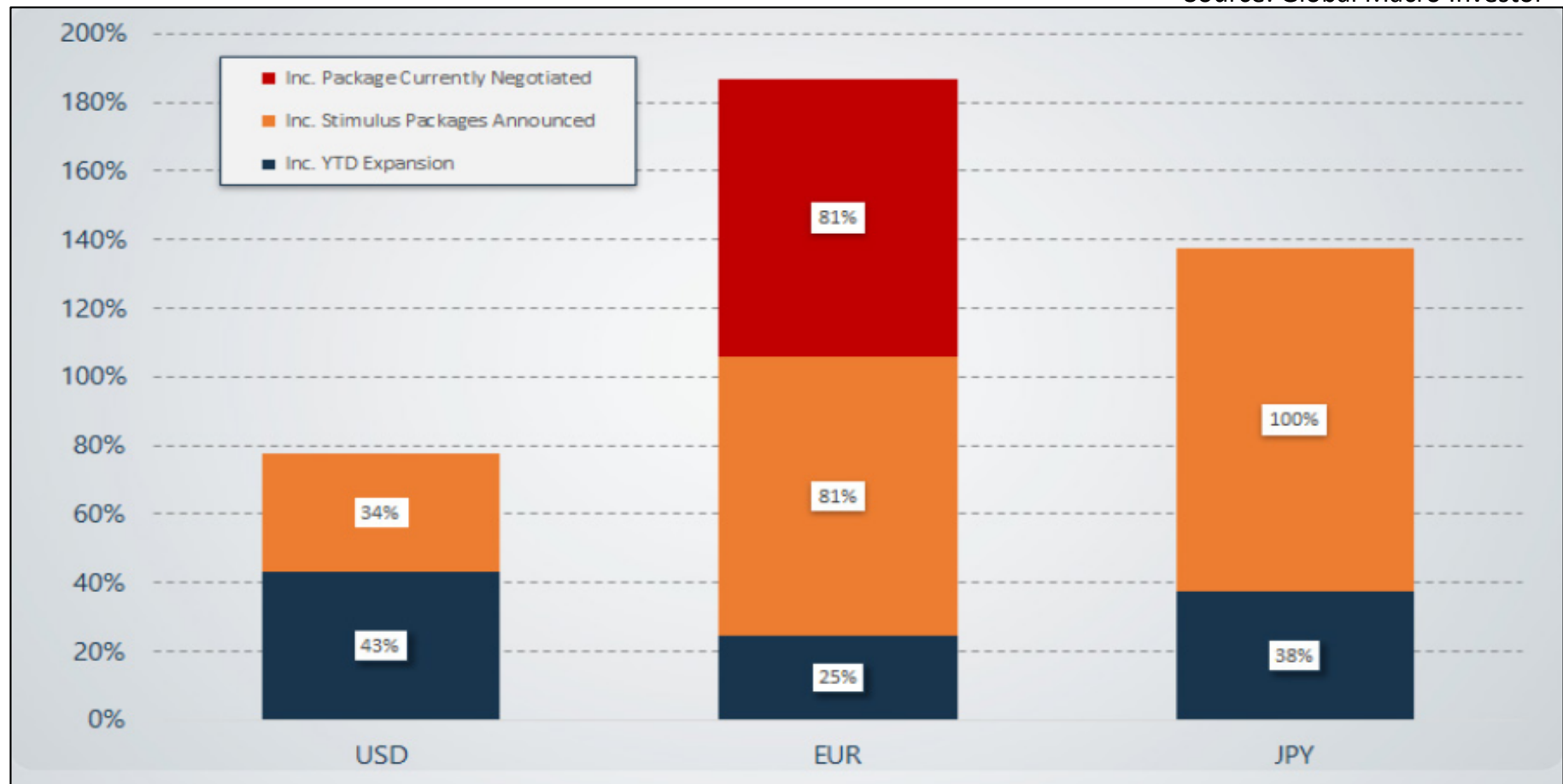


...on a Percent of GDP basis.

Response to Coronavirus Crisis

But the Fed's Balance Sheet expansion still dramatically trails its peers...

Source: Global Macro Investor



...on a Percent of FX Traded Daily basis.



Why hasn't the dollar broken out already?

The dollar index has gone up and down...

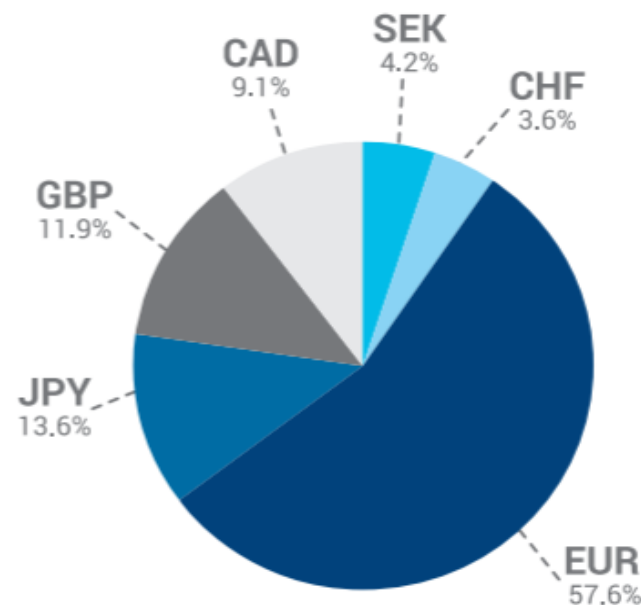


...but is largely unchanged over the last 5 years.

Why hasn't the dollar broken out already?

The Dollar Index is heavily weighted to the Euro and the Yen...

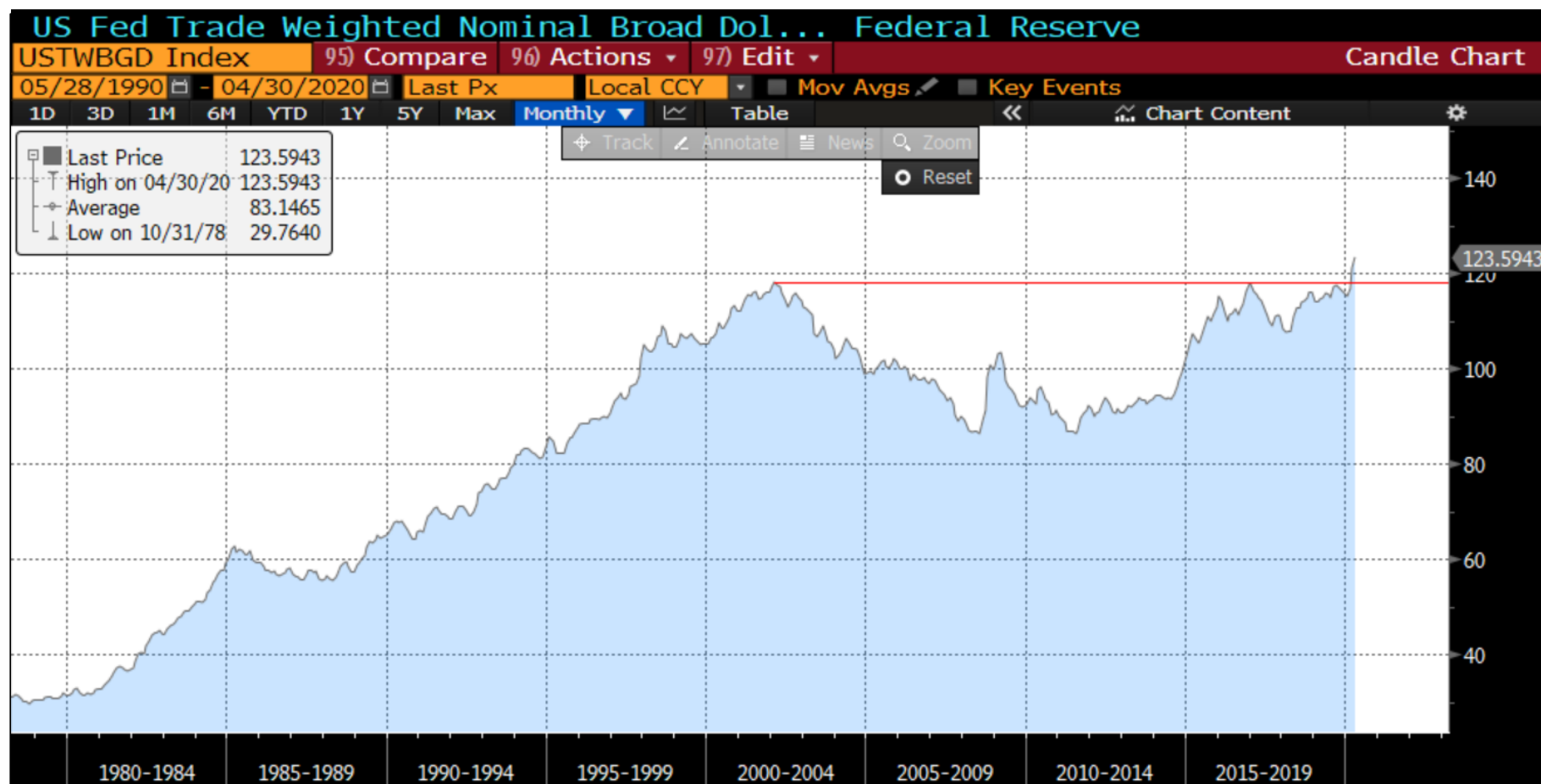
CURRENCY	WEIGHT
Euro (EUR)	0.576
Japanese Yen (JPY)	0.136
British Pound (GBP)	0.119
Canadian Dollar (CAD)	0.091
Swedish Krona (SEK)	0.042
Swiss Franc (CHF)	0.036



...2 of the biggest currencies other than the Dollar.

Why hasn't the dollar broken out already?

It has...



...and the Broad Trade Weighted Dollar is at an all time high.

Why hasn't the dollar broken out already?

It has...



The Asian Dollar index broke 20-year support 2 years ago...and now sits at a 10-year support level.

Why hasn't the dollar broken out already?

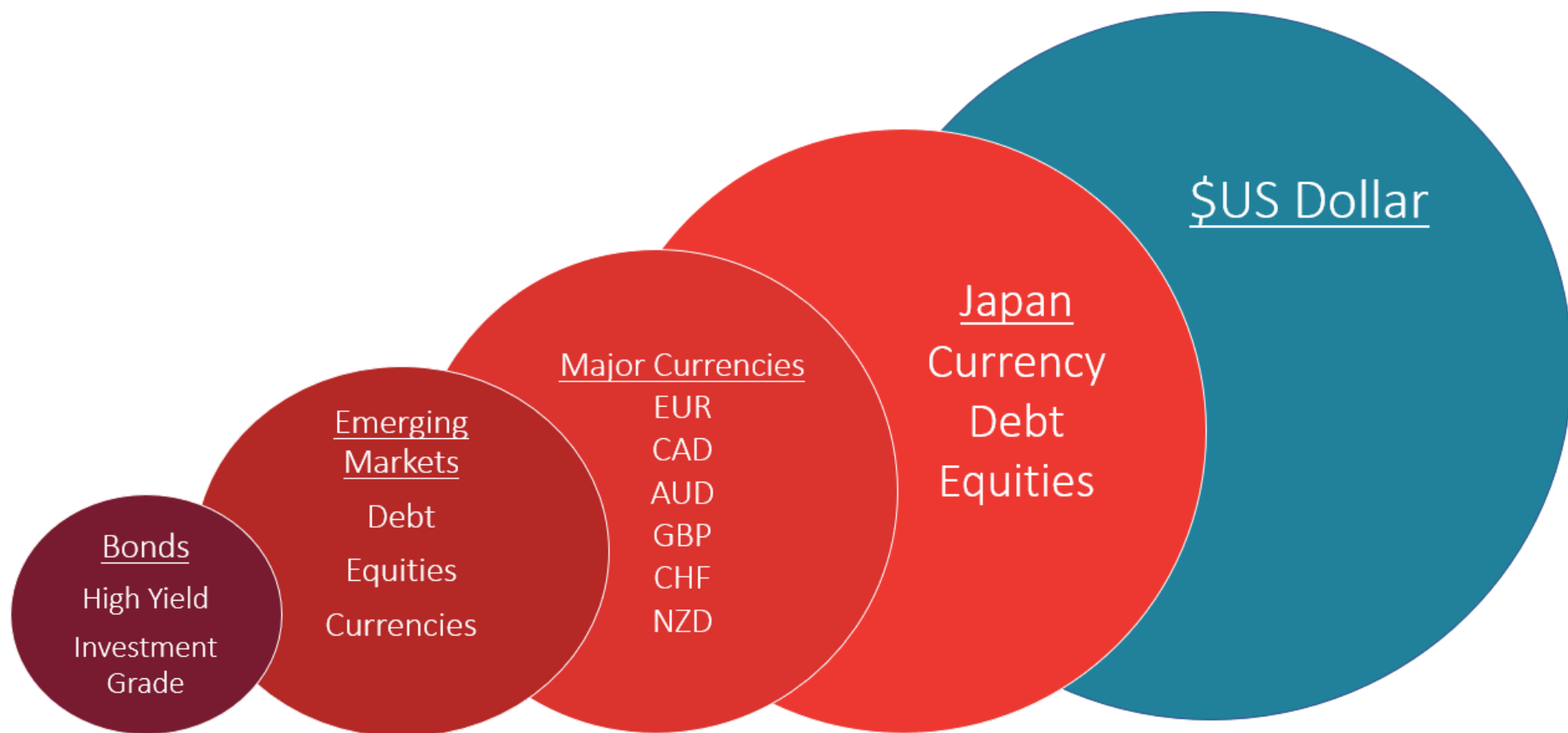
It has...



...and is up significantly against most global currencies.

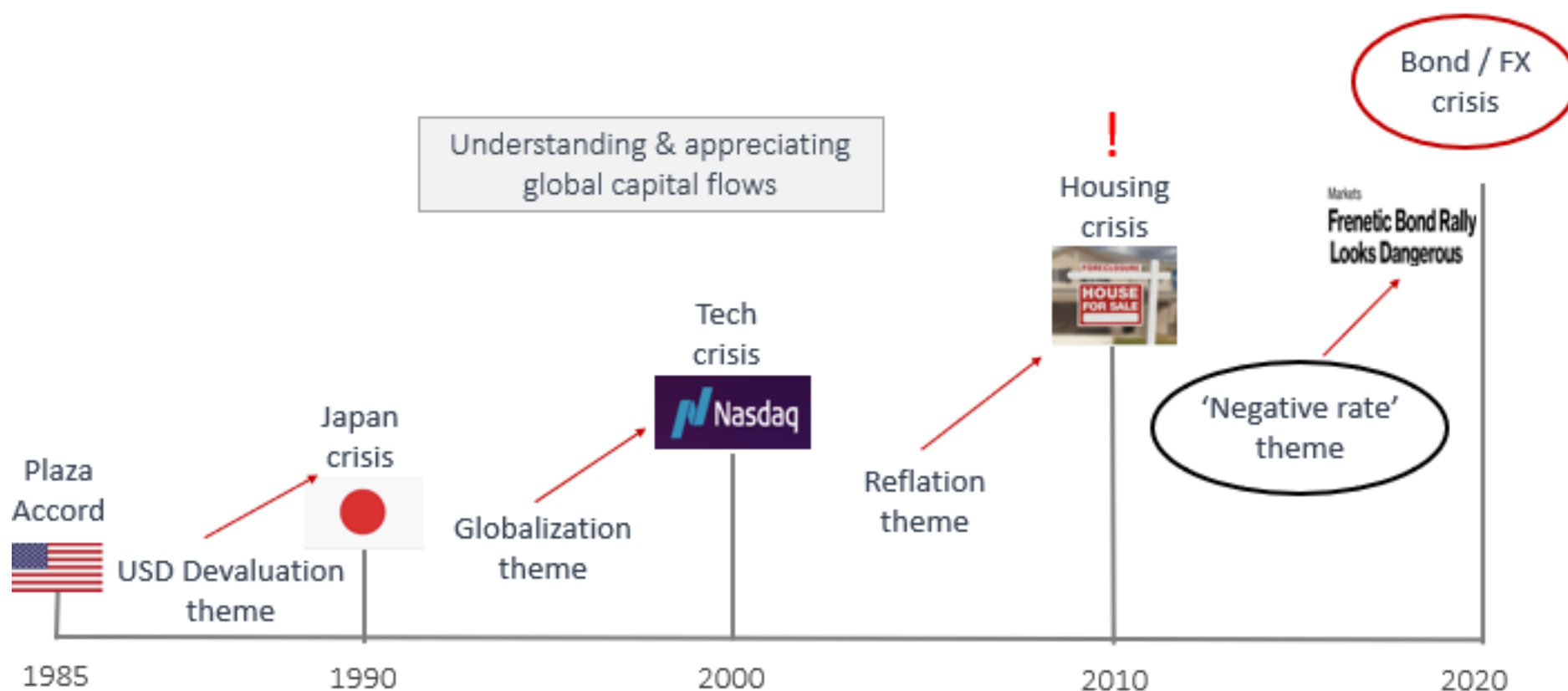
Developing 2020 Bond/FX Crisis

This is happening right in front of our eyes, yet most cannot see it



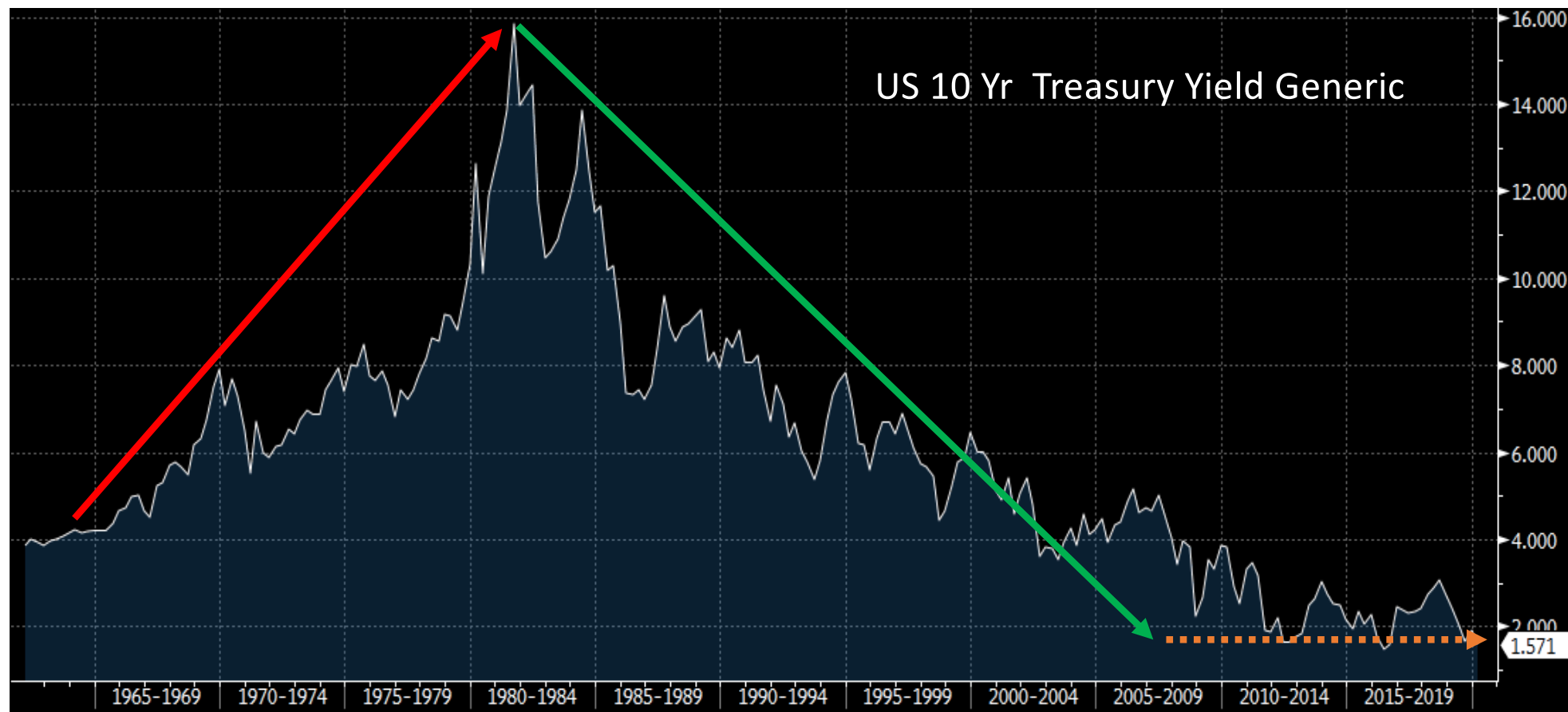
Secular Themes

This happened right in front of our eyes, yet most cannot see it



Long-term Interest Rates - a 60-year cycle.

This is happening right in front of our eyes, yet most cannot see it



Developing 2020 Bond/FX Crisis

Zero rates
Negative rates
Money printing
Extreme debt borrowings

Government Deficits
Stock buybacks
Suppression of the yield curve
European Banking System



Intolerance of price discovery

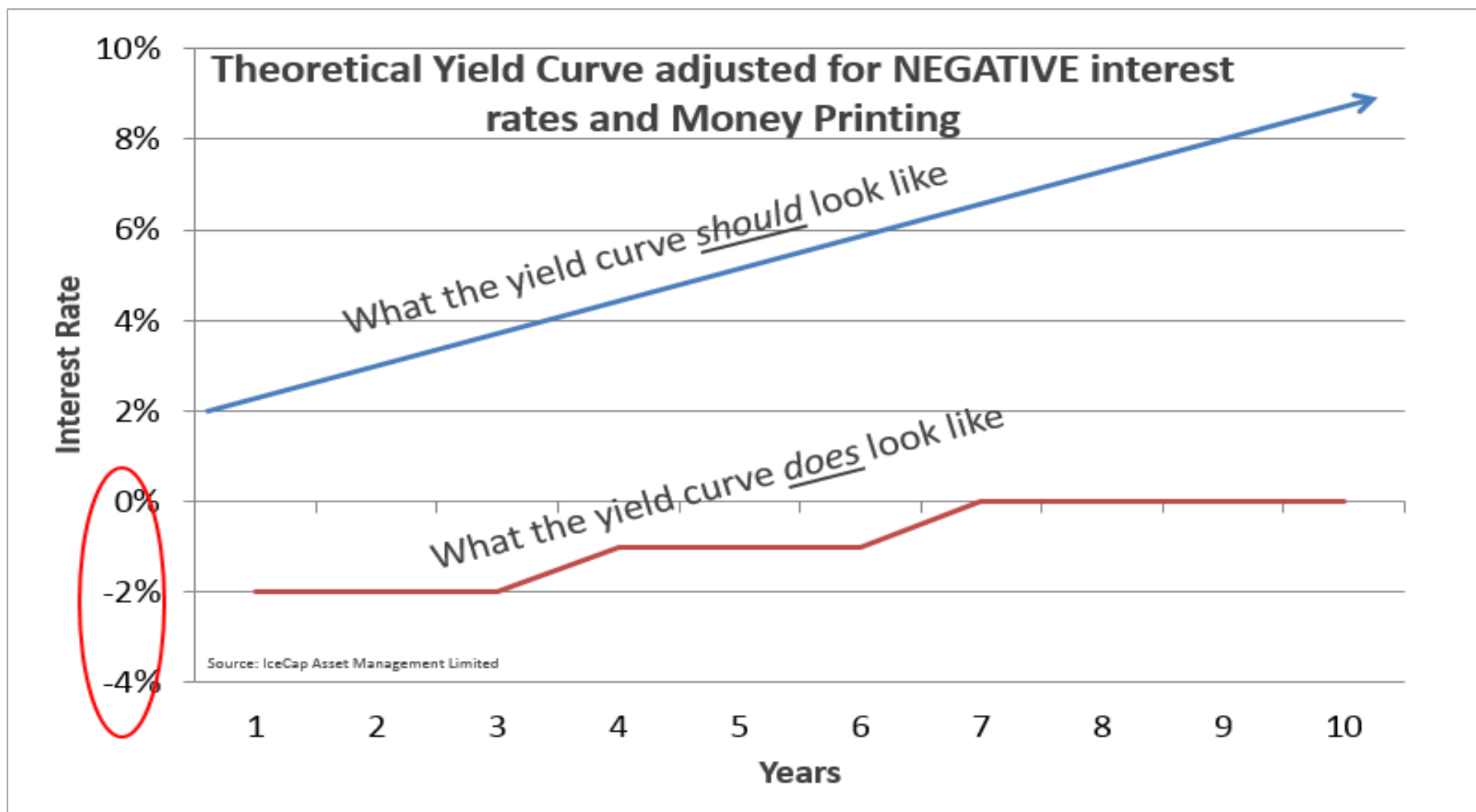
Tightest Credit spreads ever

Low volatility

Reaching for yield

Junk bonds
High yield bonds
Preferred shares
Emerging markets

Suppression of the Global Yield Curve



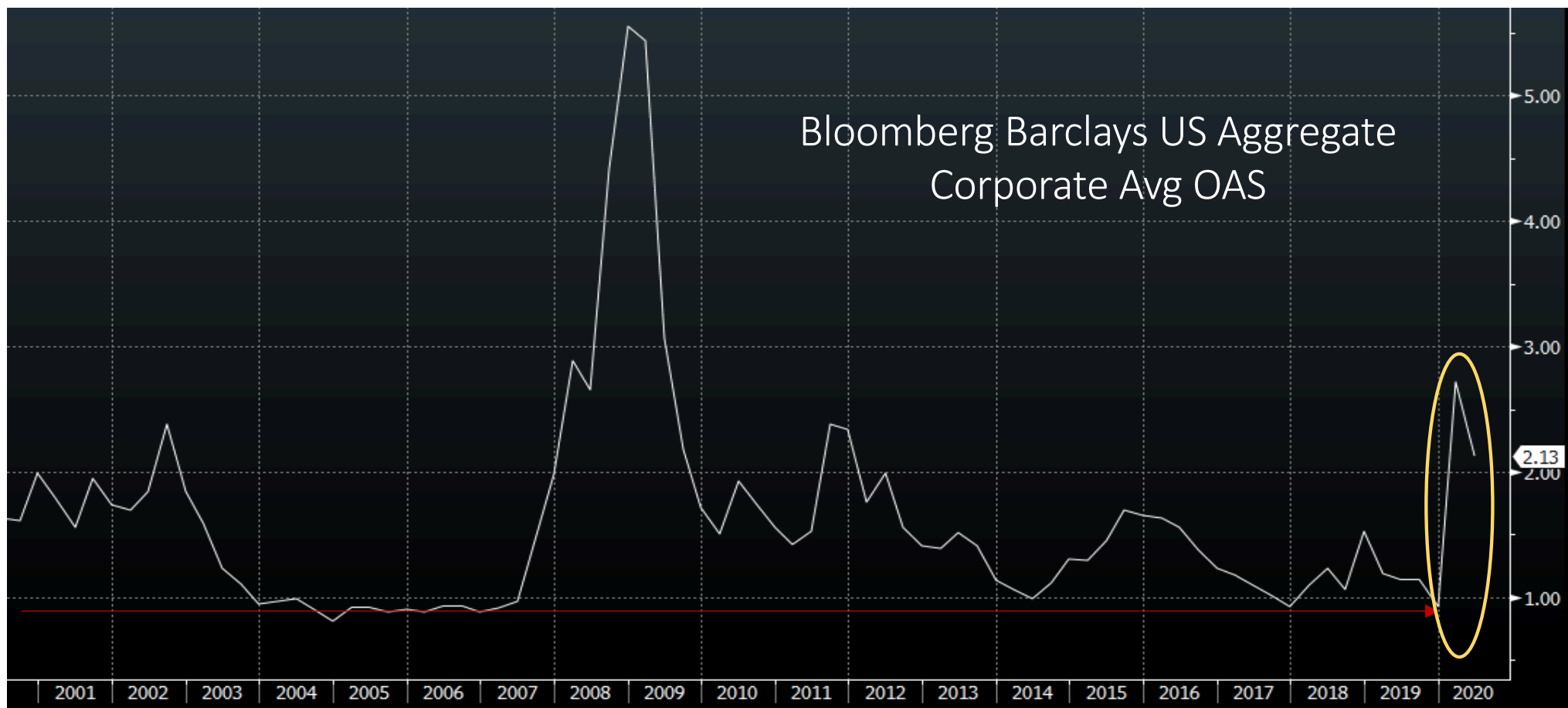
Suppression of FX Volatility



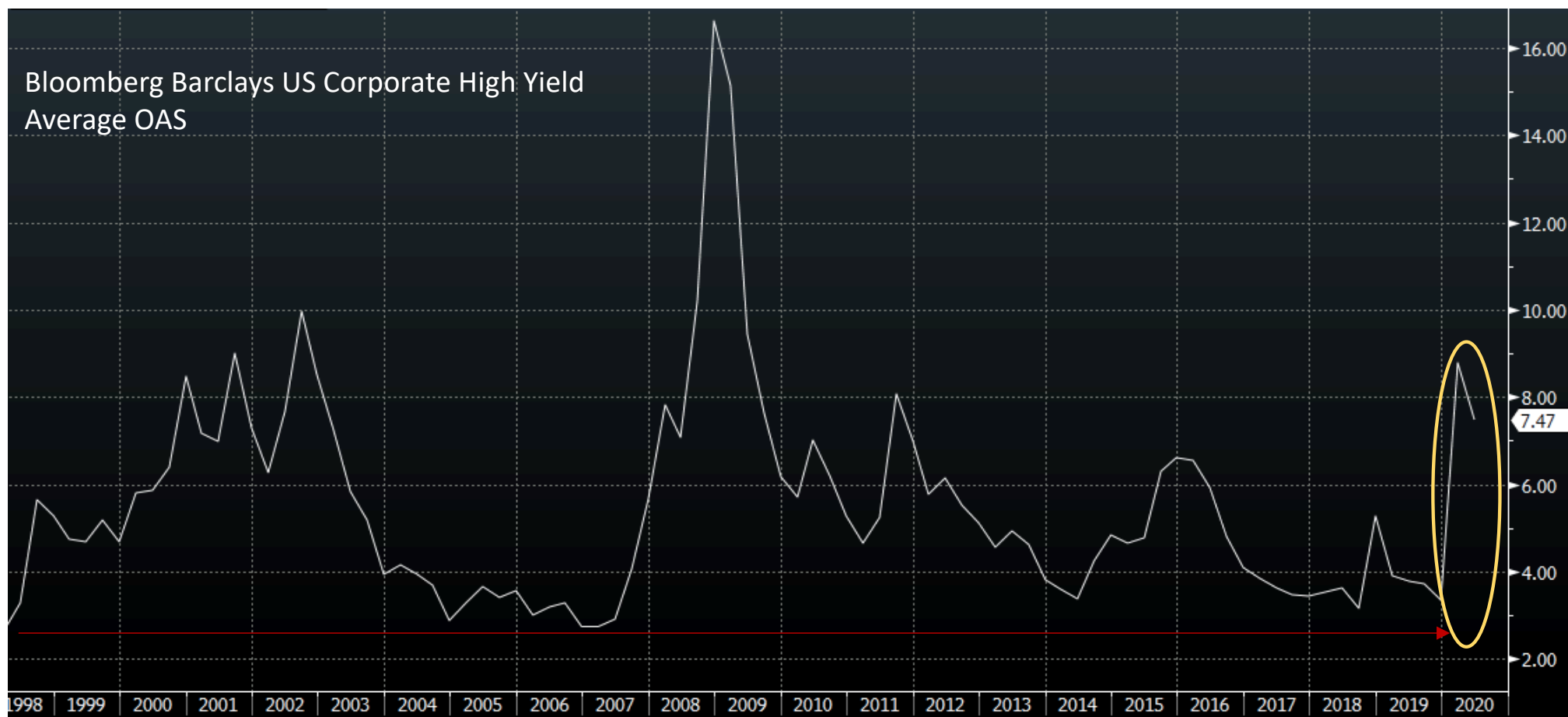
Suppression of Bond Market Volatility



Suppression of Investment Grade Credit Spreads



Suppression of Junk Bond/High Yield Credit Spreads



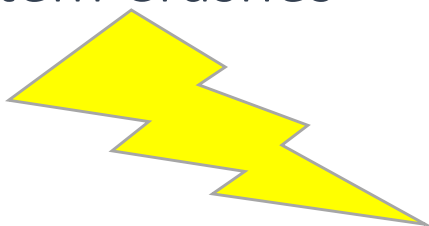
NEGATIVE yielding bonds now exist

Over \$11 trillion in Bonds have a negative yield.

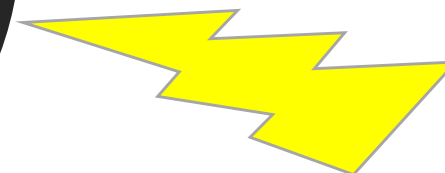


Trigger Point for Instability

Global Supply
System Crashes



Fragile
Financial
system



Global Demand
System Crashes



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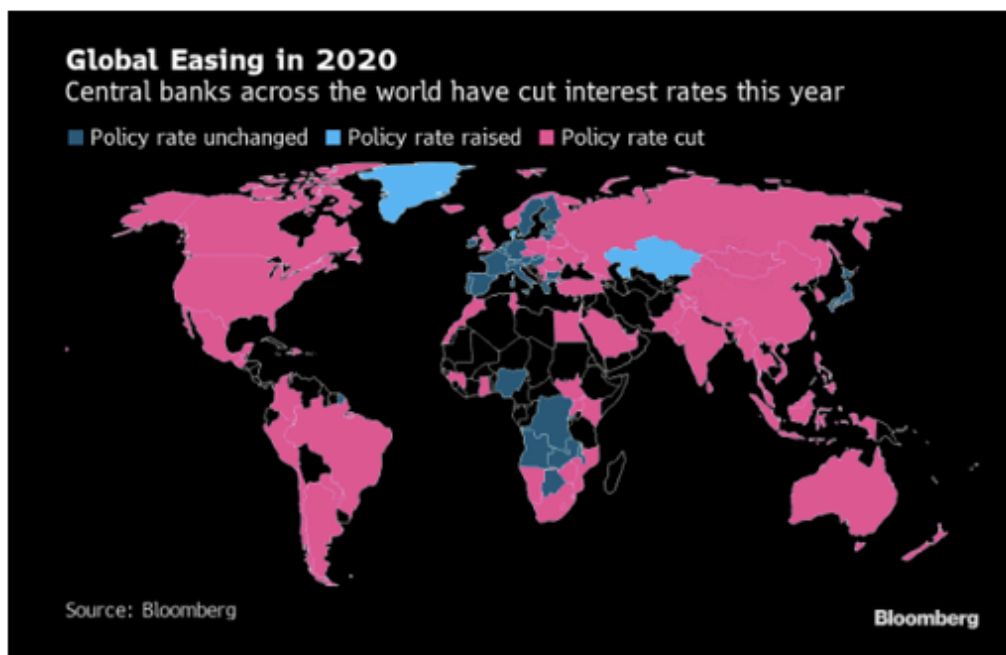
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Keynesian Economics

42

Global Monetary Stimulus

Keynesian Economics



JAPAN APRIL 26, 2020 / 10:05 PM / A DAY AGO

Bank of Japan expands stimulus as pandemic pain worsens

As part of its coronavirus response, the RBA is creating money out of thin air. Here's how

By David Taylor

Posted 6 Apr 2020, updated 7 Apr 2020

Bank of Canada Announces Further Enhancements to its Standing Term Liquidity Facility (STLF)

Notice - Friday, April 24, 2020, 15:00 (ET)

ECB will allow some junk-rated debt to be used as collateral in event of downgrades

Published: April 22, 2020 at 4:18 p.m. ET

Bank of England warns of worst contraction in centuries, as economic activity slumps - as it happened

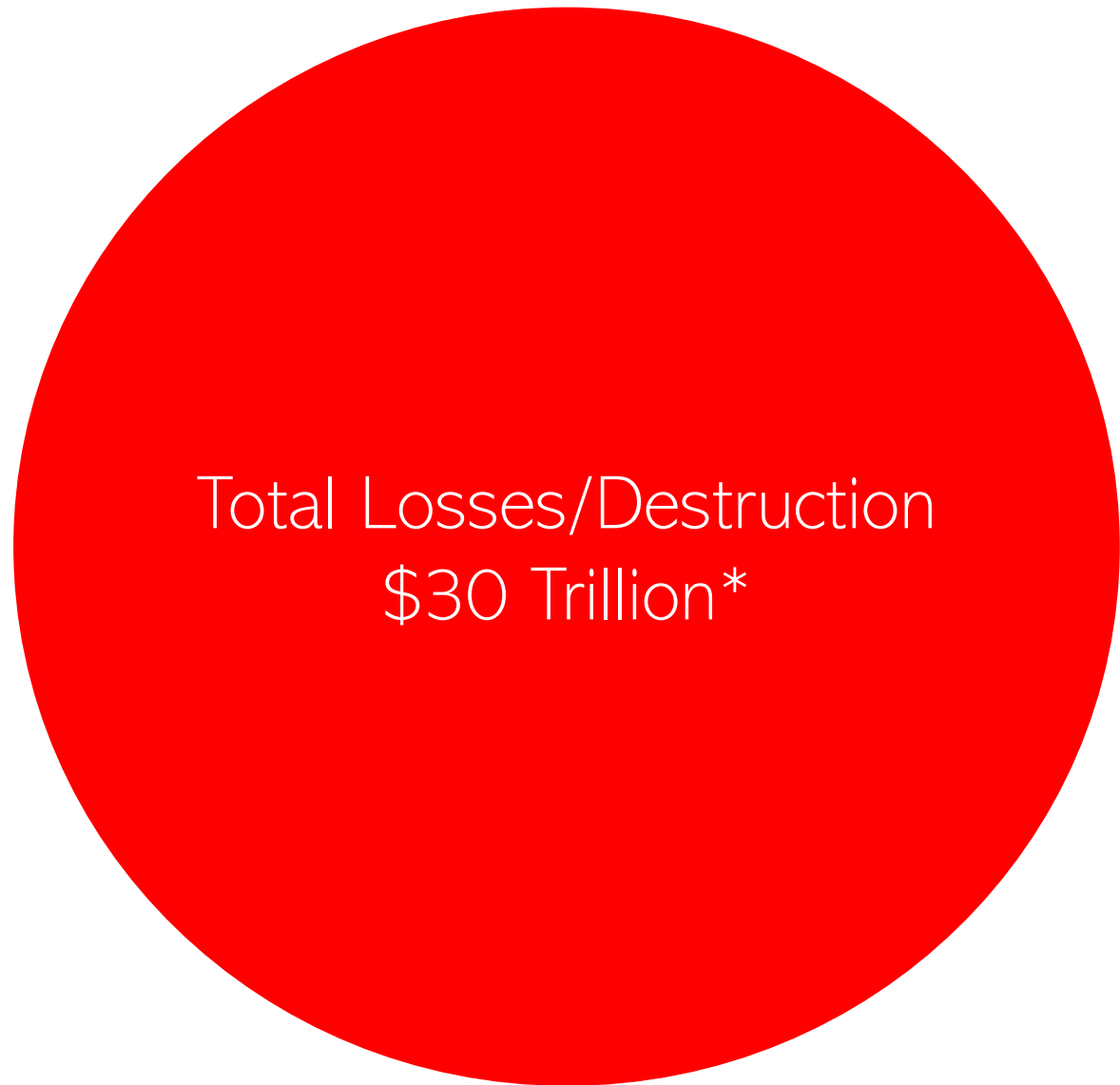


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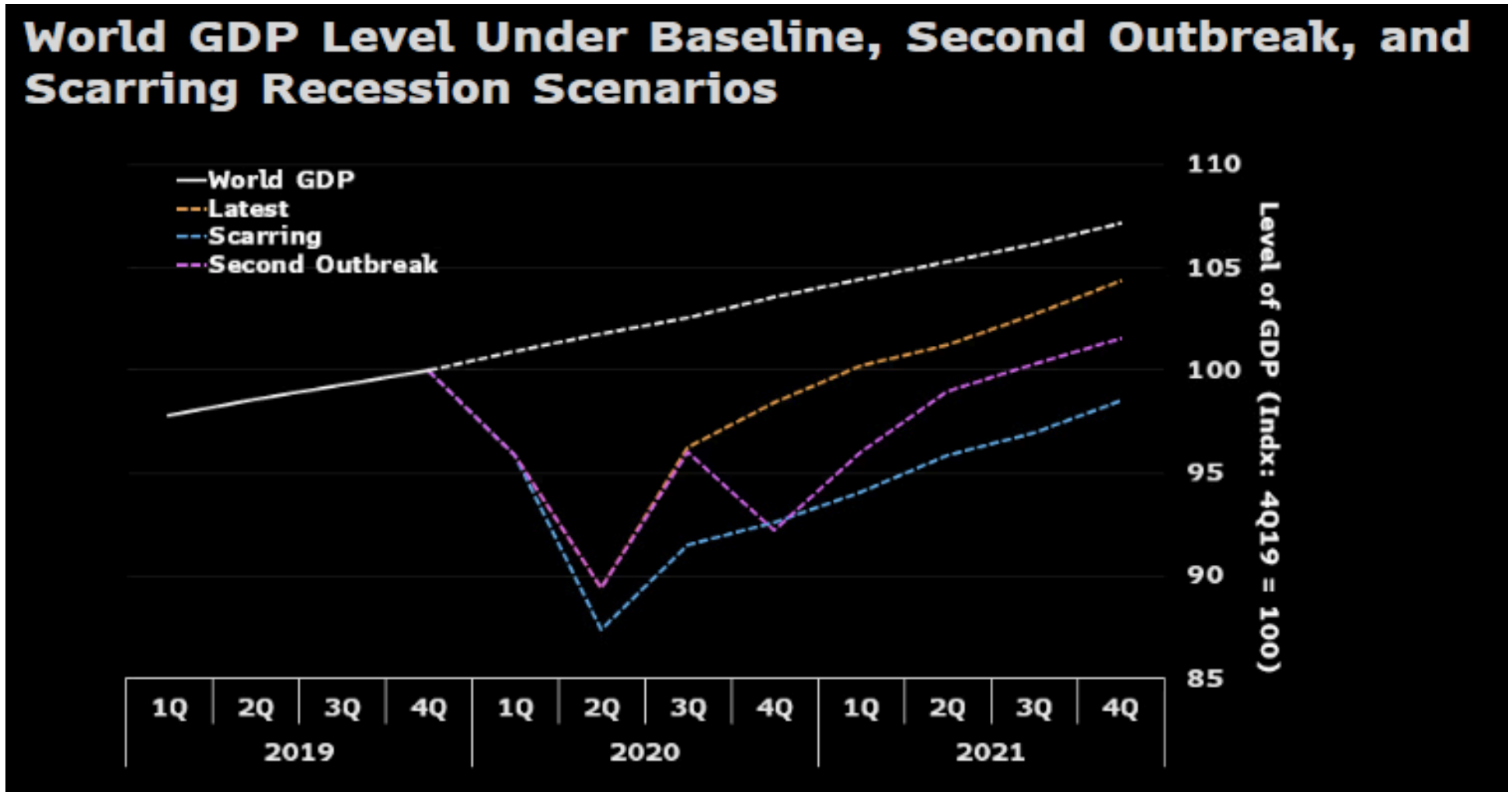


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The World Will See Significant Stimulus



The Risk—are Expectations Reasonable?

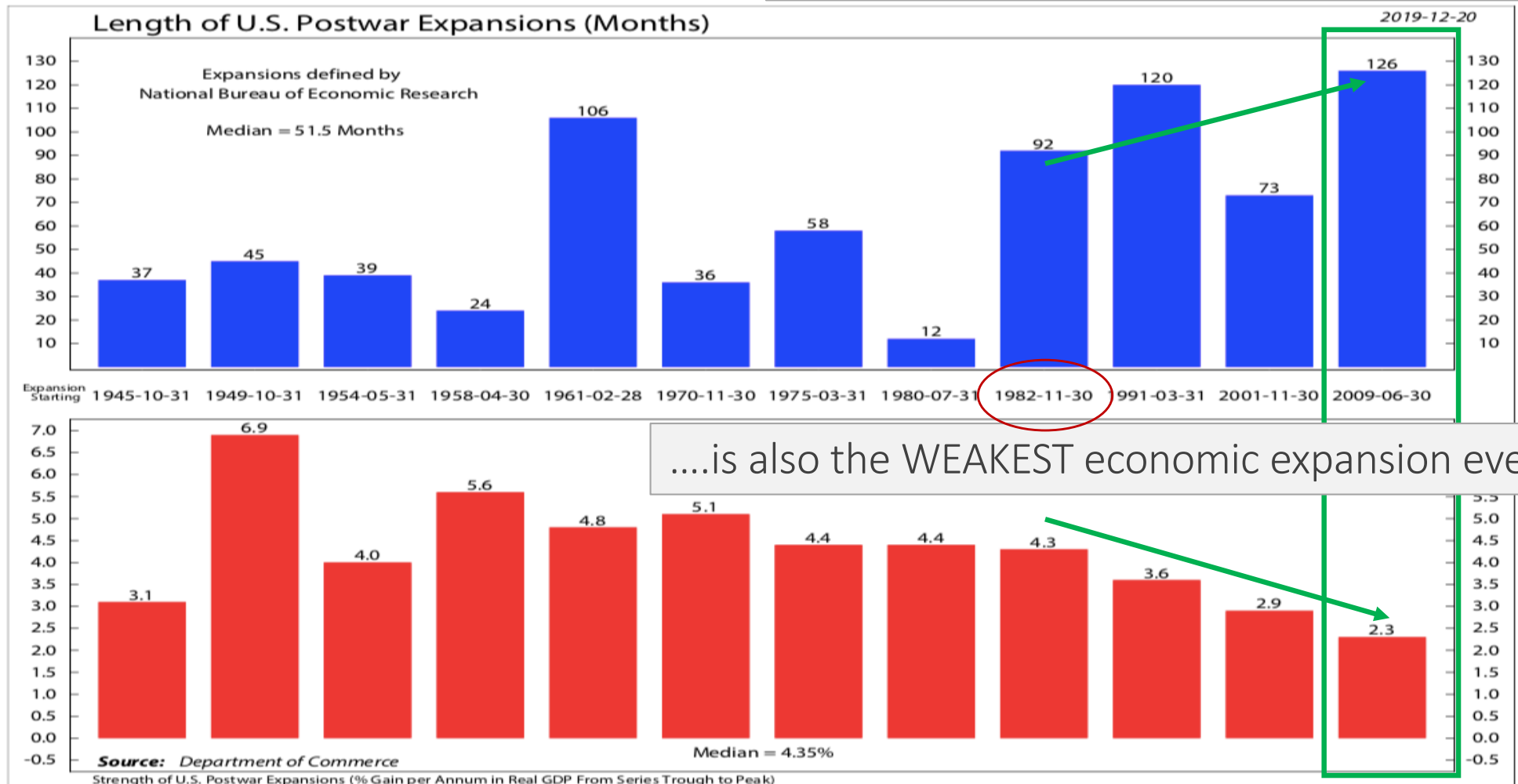


Velocity Of Money—a Serious Problem Before COVID-19

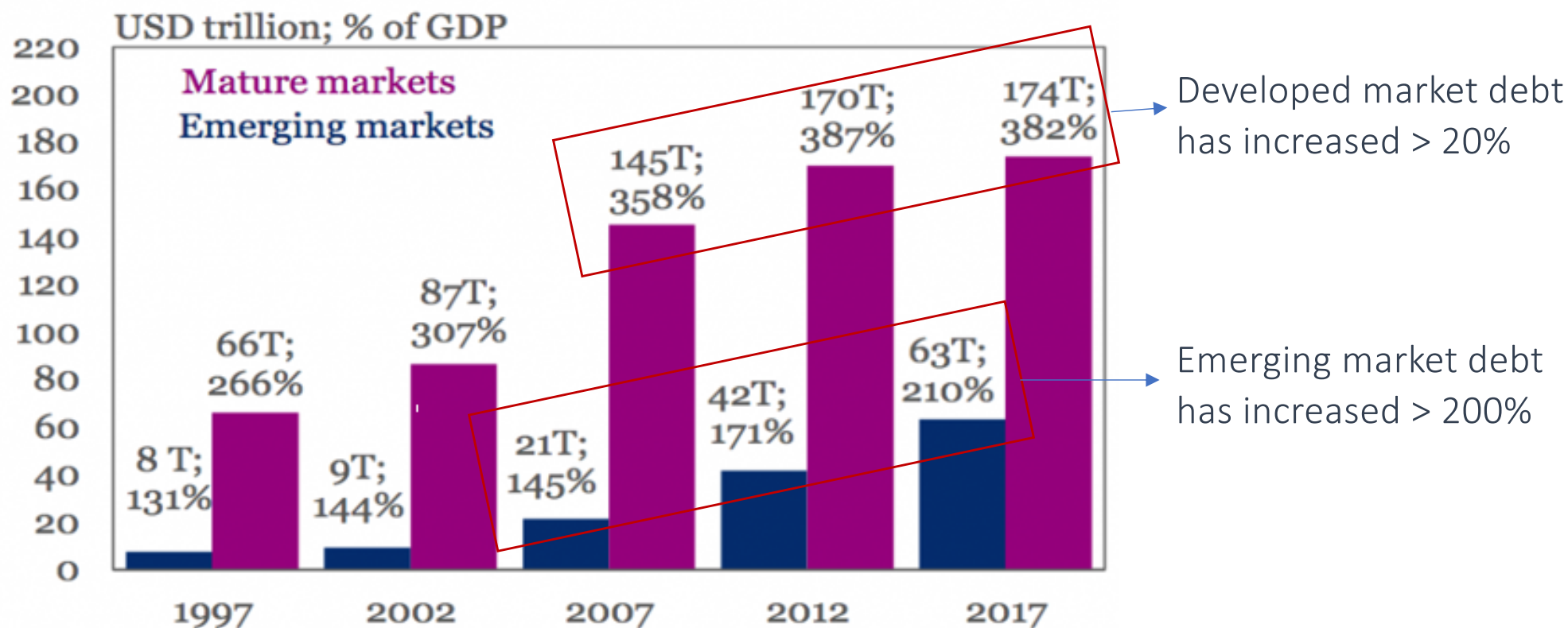


Stimulus Had Become Ineffective Before COVID-19

The longest economic expansion ever...



Meanwhile, Sovereign Debt Had Surged Before COVID-19



Source: IIF, BIS, IMF

Stimulus Will Become Even More Ineffective After COVID-19

Markets

Wall Street Titans See Tax Hikes Whether They Like Them or Not

By [Sridhar Natarajan](#) and [Max Abelson](#)

May 8, 2020, 3:33 PM ADT

- ▶ Dalio and Fink predict higher individual, corporate rates
- ▶ Blankfein says pandemic response means more revenue is needed

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Governments Cannot Tolerate Higher Rates

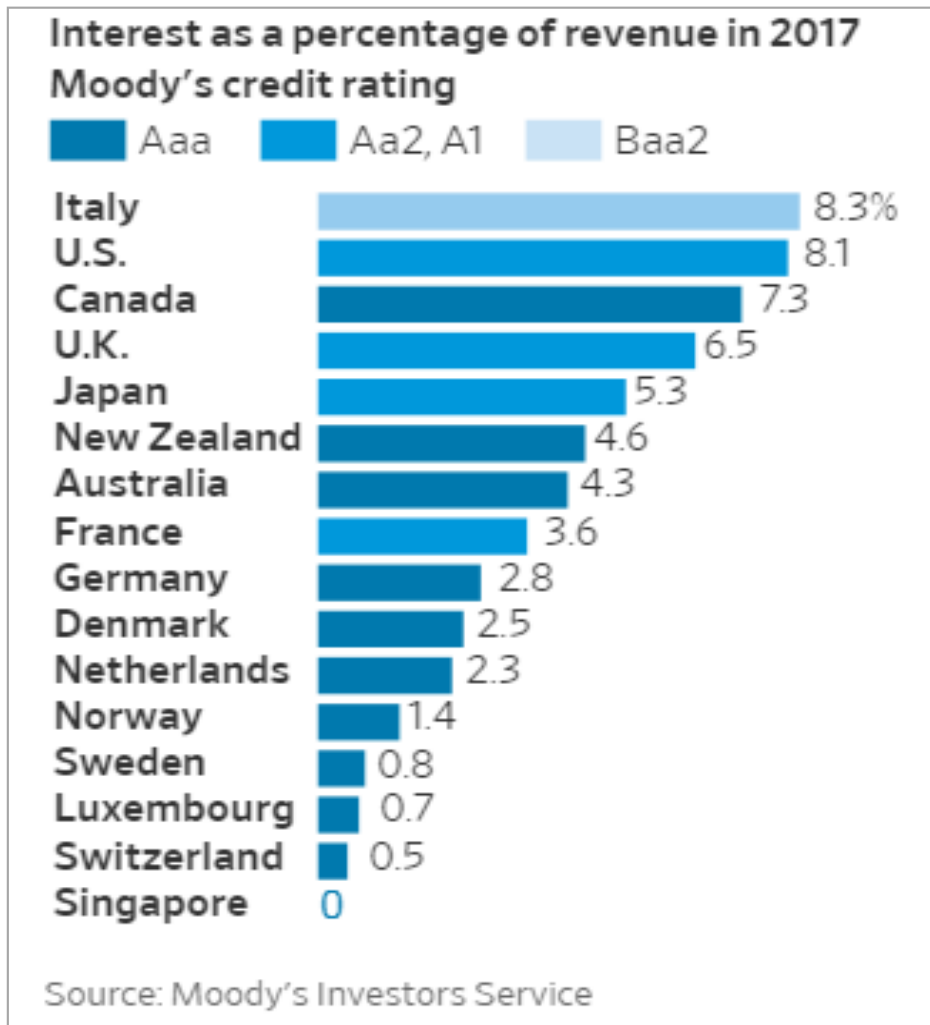
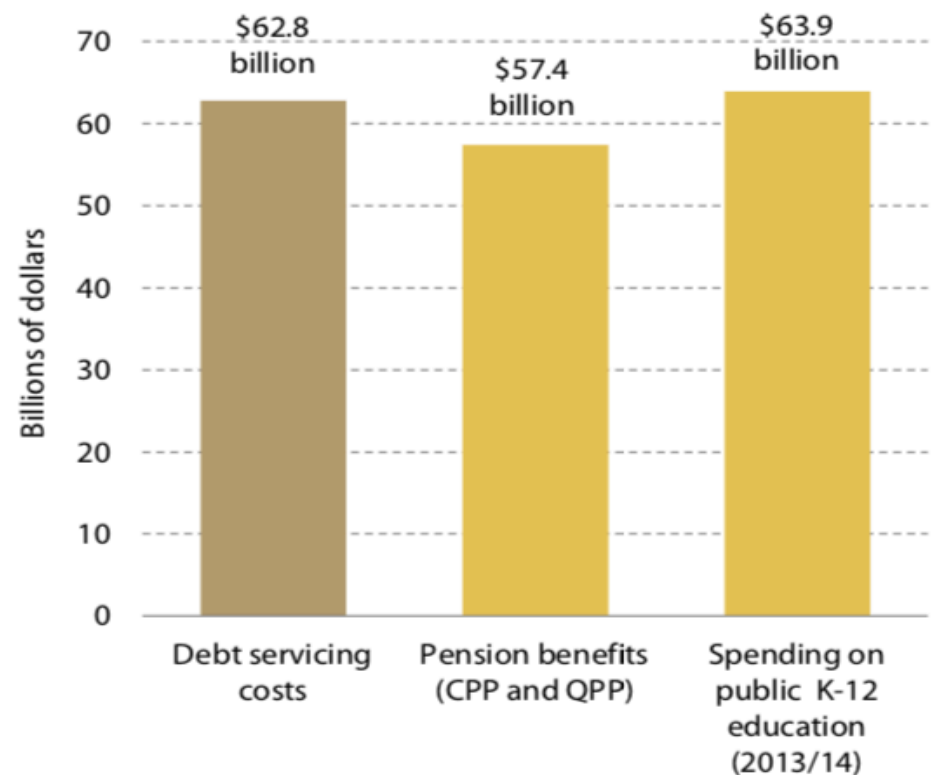


Figure 2: Consolidated government debt servicing costs compared to other expenditures, 2015/16



Permanent Losses

Reading the body language of the commercial banks and non-bank lending markets, we anticipate a wave of defaults across a range of asset classes that will be far larger than 2008. Whereas the great financial crisis saw severe credit default events across a range of residential mortgages and related securities, this time the picture looks more like the 1930s. We anticipate that net loss rates will rise quickly from the historic lows seen over the past several years to and even exceeding 100% loss in many asset classes. Prepare accordingly.

Source: Chris Whalen, Institutional Risk Analyst

Permanent Losses

"The world is going through a once-in-a-lifetime health and economic crisis and we are committed to assisting as many customers as possible to bridge this shutdown period," Westpac chief executive Peter King said.

"It is however unfortunate that some customers will not be able to navigate the financial and economic changes of this crisis and may not reopen."

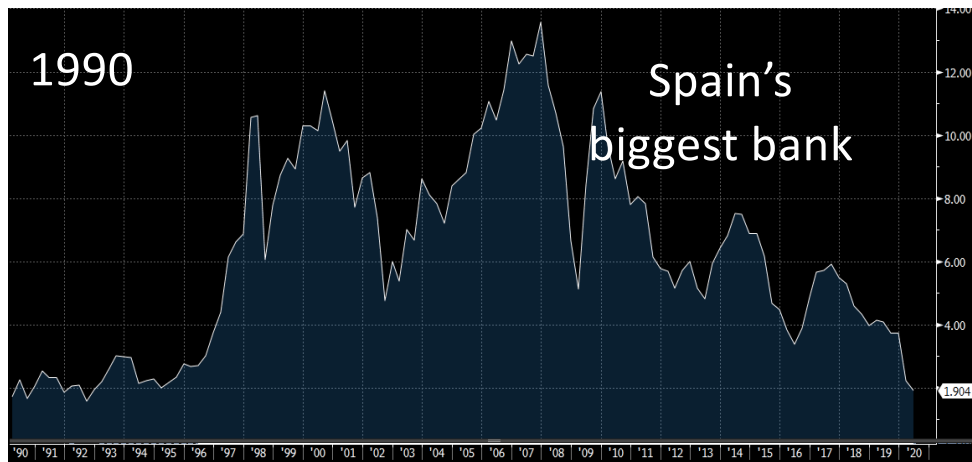
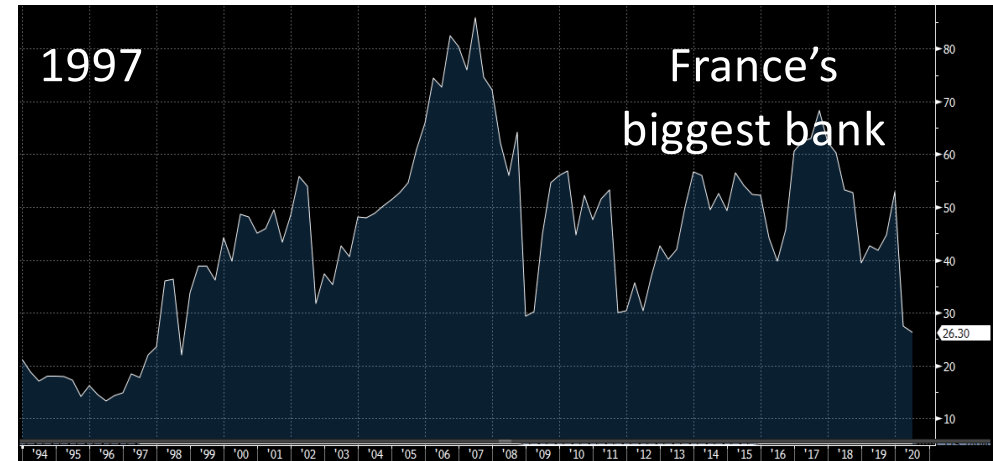
Canary In The Coal Mine

HSBC Charge

8) Geo Seg FA GEO »	2019 Rev
Asia	30.4B
Europe	18.1B
North America	6.6B
MENA	3.7B
Latin America	3.5B

HSBC took its biggest charge for bad debt in almost nine years and warned of deepening loan losses as it pushes back parts of its restructuring program. Expected credit losses swelled to \$3 billion in the first quarter, almost double estimates, while adjusted

European Banking System Teetering before COVID-19



European Banks Distrust Each Other



Eurozone is Broken



European Central Bank ✓

@ecb

Press release: ECB takes steps to mitigate impact of possible rating downgrades on collateral availability

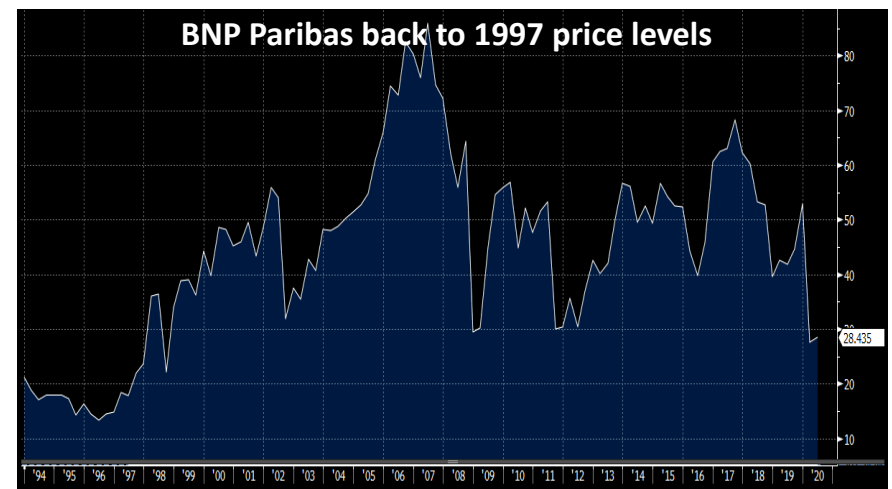
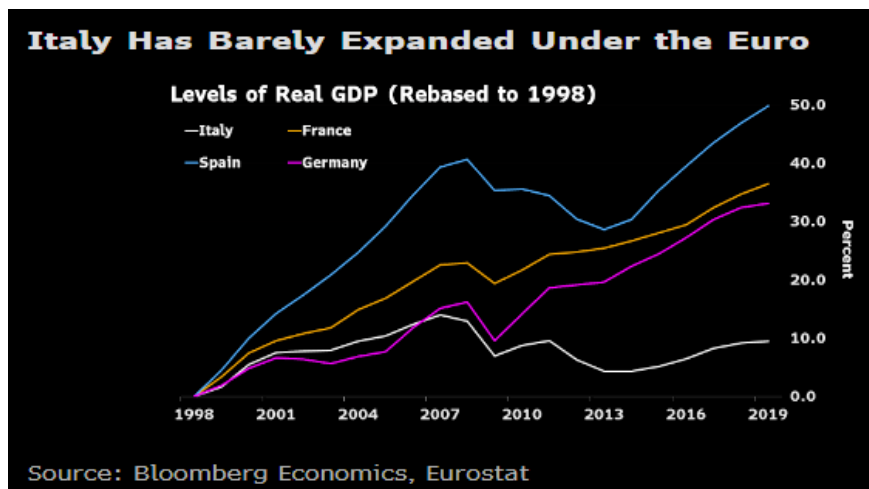
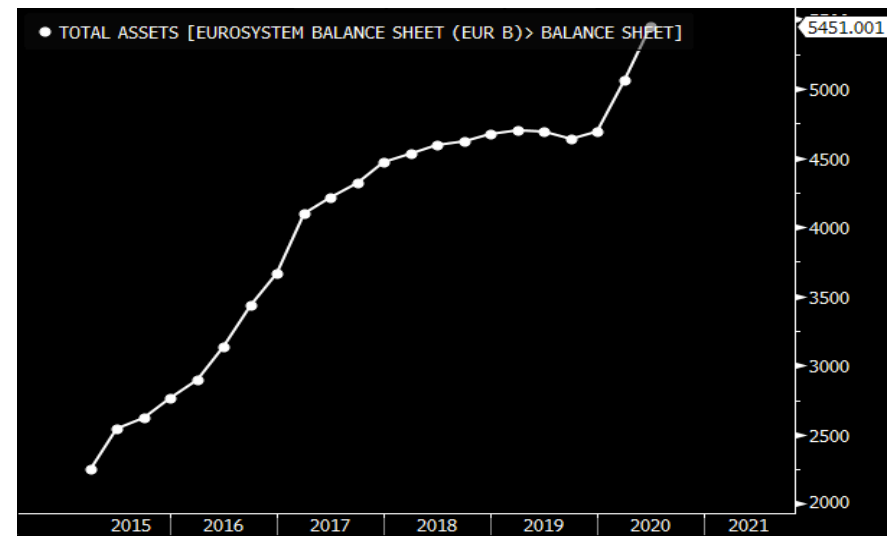
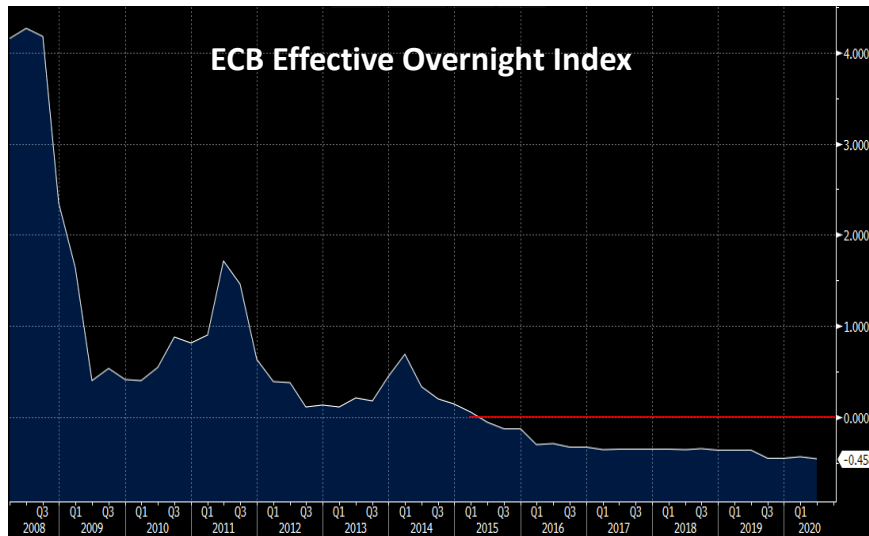


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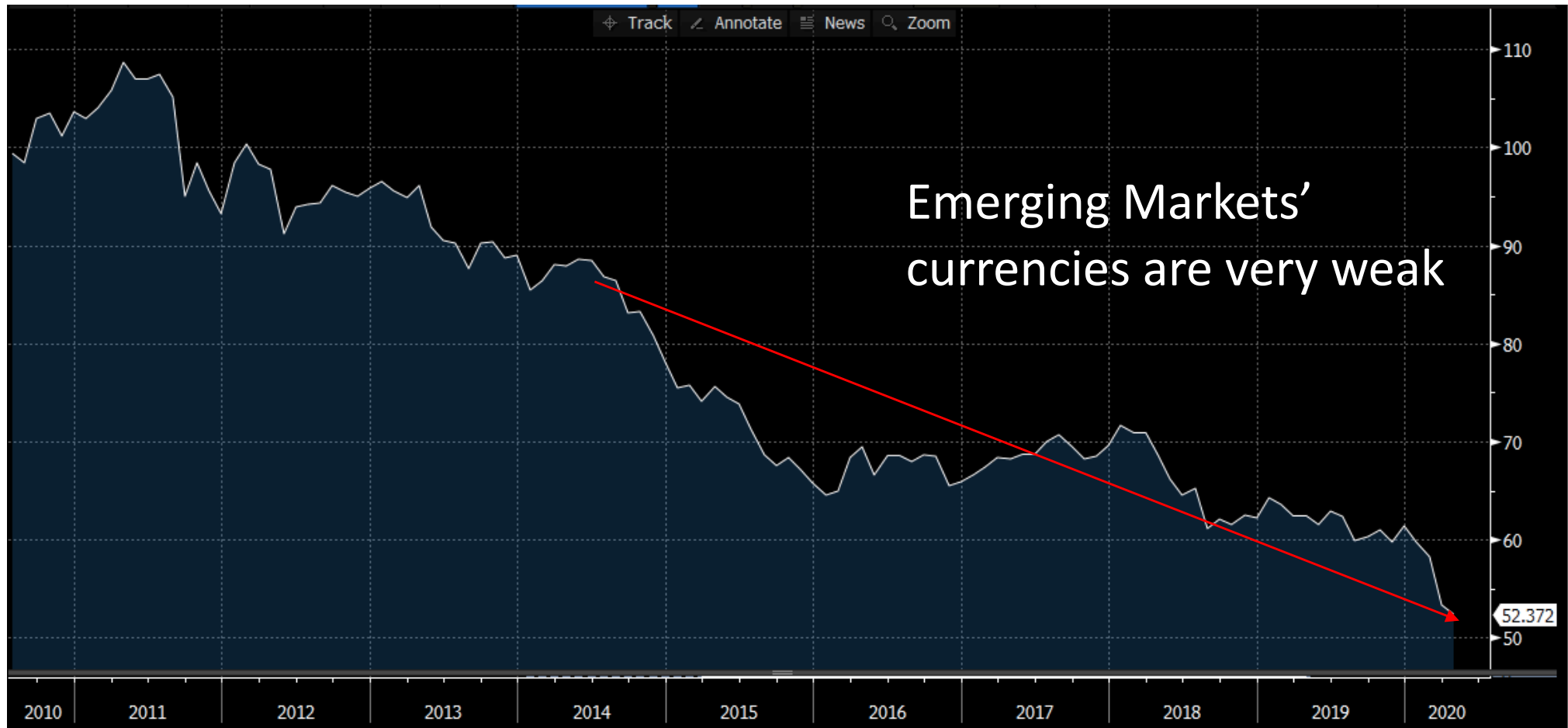


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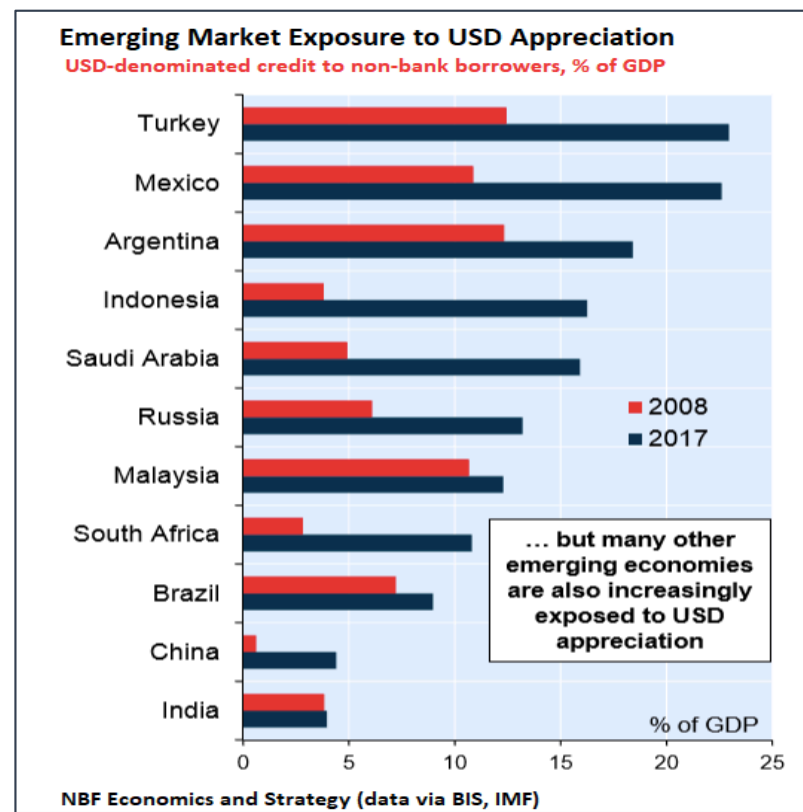
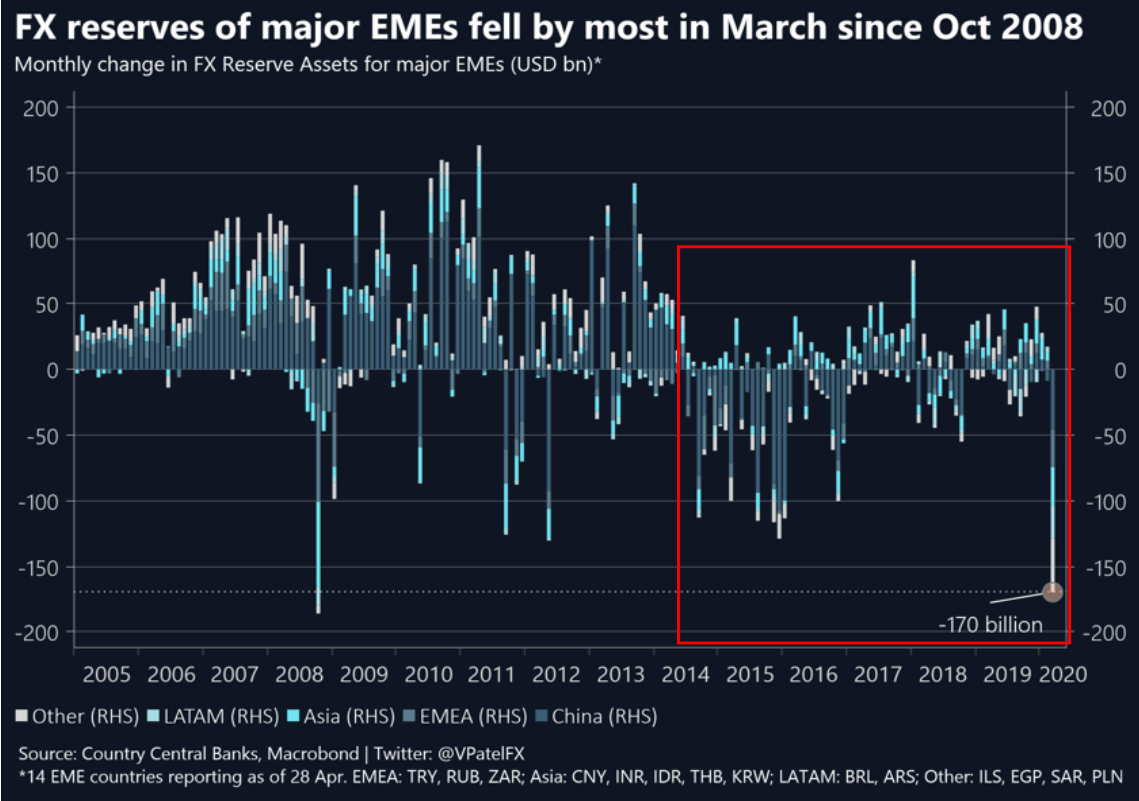
Eurozone is Broken



Emerging Market Currencies are Breaking Down



EM vulnerable to USD shortages and foreign capital flight



Turkey is Broken

Erdogan Vows to Punish Those Who 'Smuggle' Dollars Out of Turkey

By Selcan Hacaoglu and Firat Kozok

(Bloomberg) -- President Recep Tayyip Erdogan vowed to be harsh on anyone smuggling foreign currencies abroad in remarks Monday as some foreign banks halted or minimized trading in Turkish lira.

Erdogan's remarks came as BNP Paribas SA scaled back its operation in the Turkish lira market following a regulatory clampdown, according to three people with knowledge of the matter. Clearstream Banking and Euroclear Bank suspended Turkish lira transactions over a shared electronic communications platform effective from Monday.

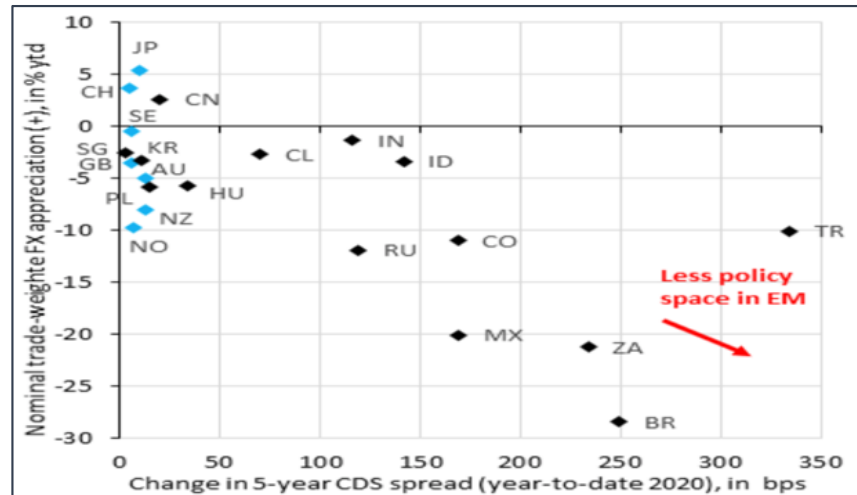
BNP Paribas Halts New Turkish Lira Trades at Prime-Broker Unit



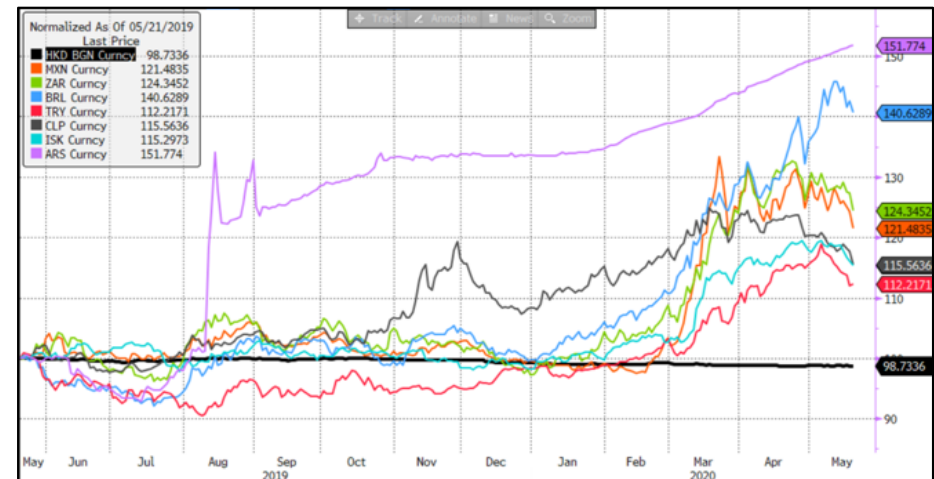
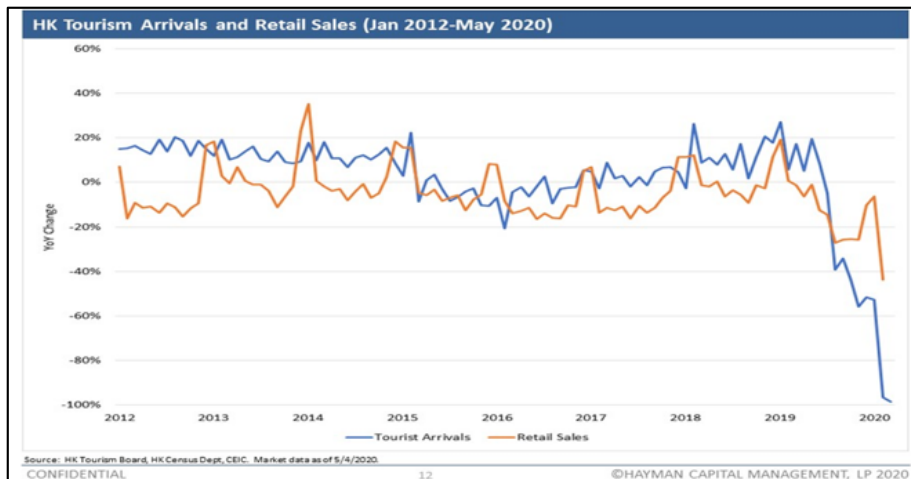
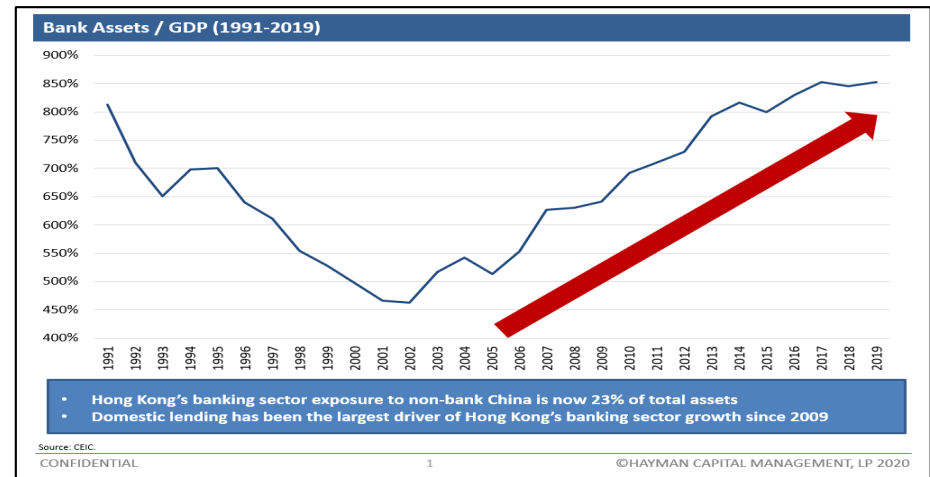
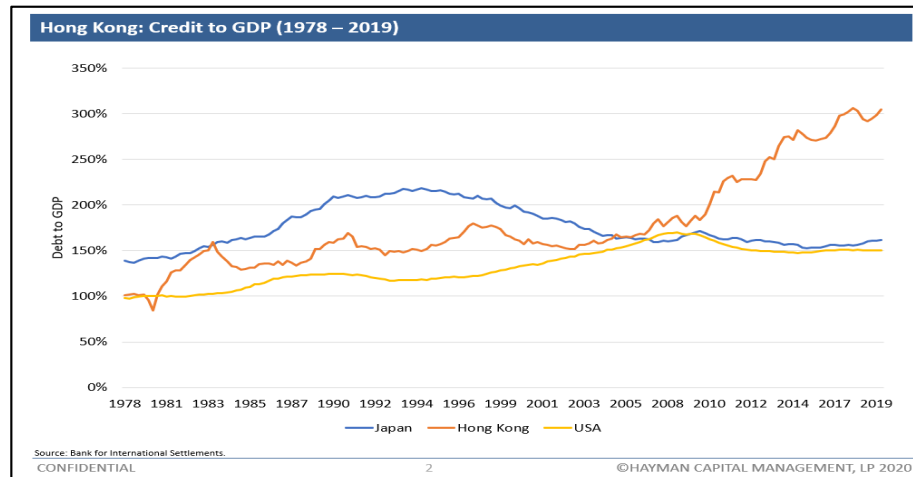
EU Banks' Exposure to Turkey

Name	2019 Q4	2019 Q3	2019 Q2	2019 Q1
-- Claims on Banks	28,622.4	30,345.2	30,379.6	31,380.0
-- Claims on Public Sector	32,214.7	34,097.8	35,782.6	33,570.0
-- Claims on Private Sector	102,797.8	95,149.6	96,178.0	101,290.0
Spanish Banks	45,091.6	44,123.5	43,943.7	46,050.0
French Banks	16,212.0	17,046.0	16,296.0	17,940.0
Italian Banks	14,135.0	5,649.4	6,270.0	6,530.0
US Banks	3,805.0	4,085.0	3,678.0	4,480.0
UK Banks	5,584.0	5,954.0	6,191.0	5,770.0
German Banks	3,159.0	3,288.0	3,747.0	3,560.0
Japan Banks	3,443.3	3,522.6	3,935.3	4,030.0
Total Other Exposures:	71,990.6	71,834.3	70,442.7	71,880.0
Derivatives	3,682.7	4,349.2	3,700.5	3,450.0

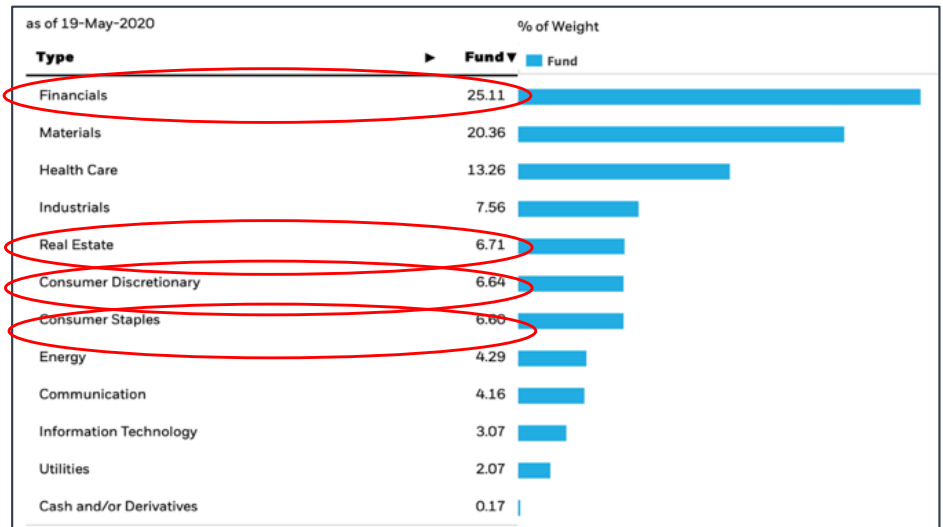
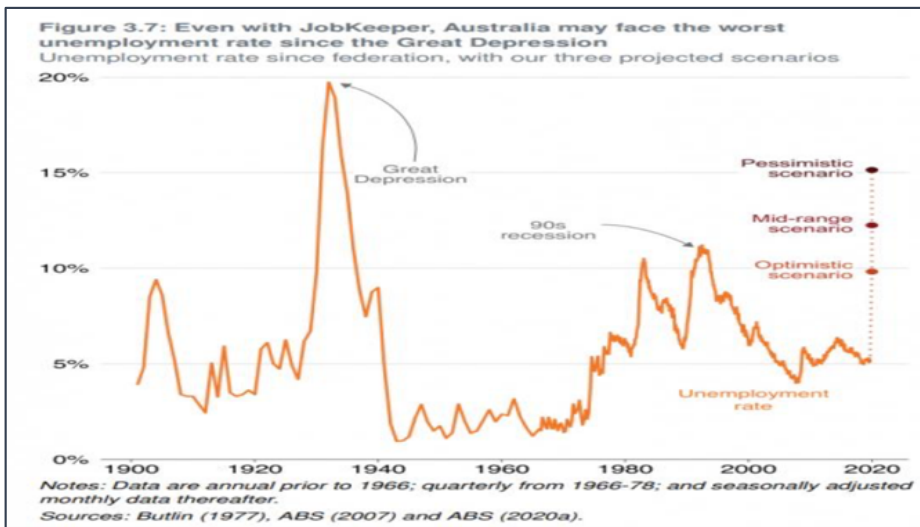
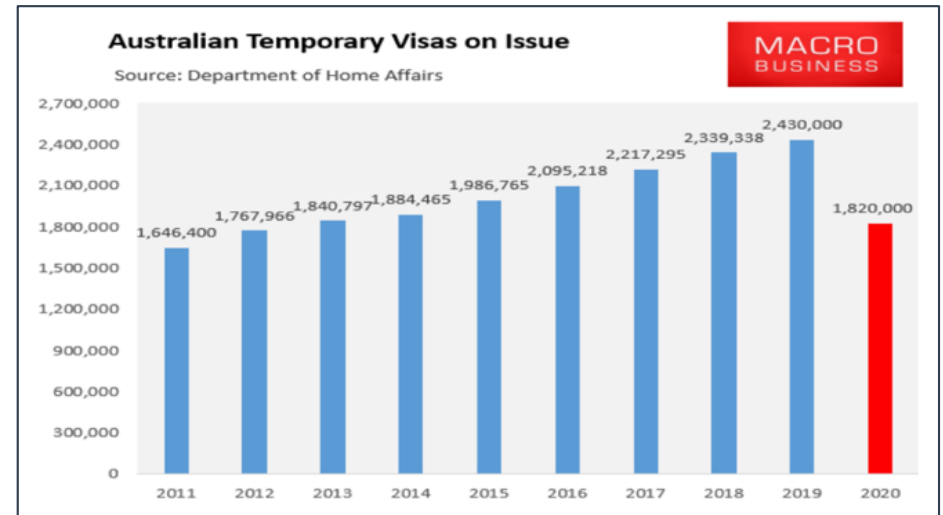
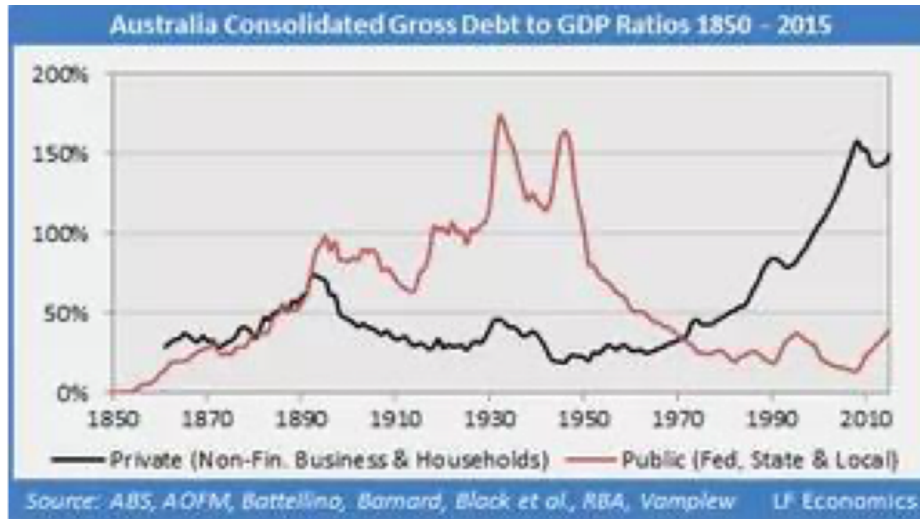
Source: Bloomberg Intelligence



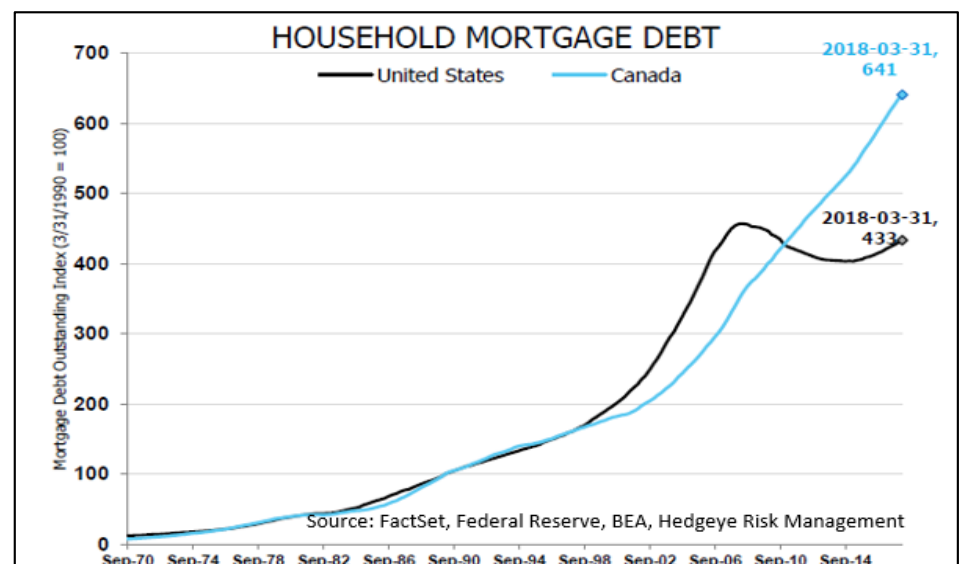
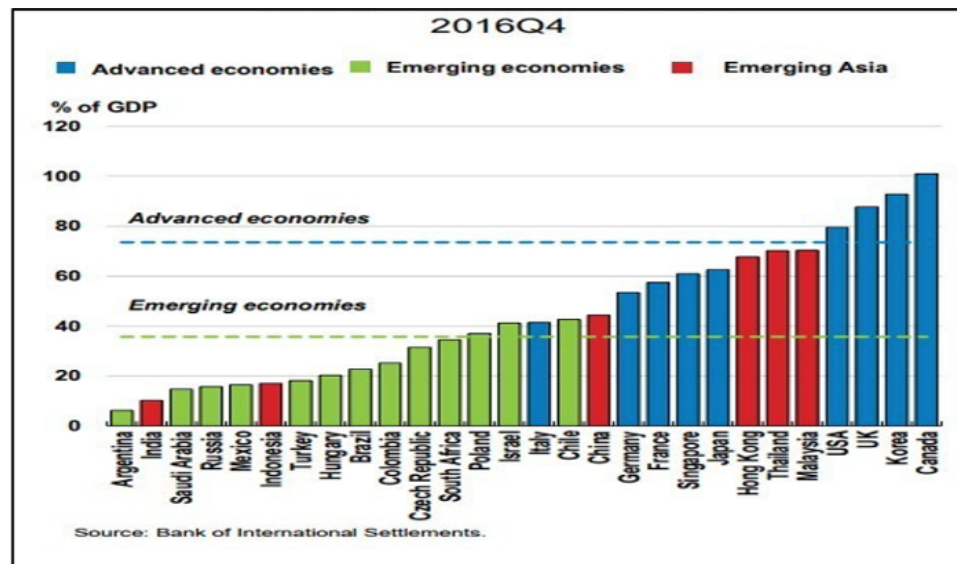
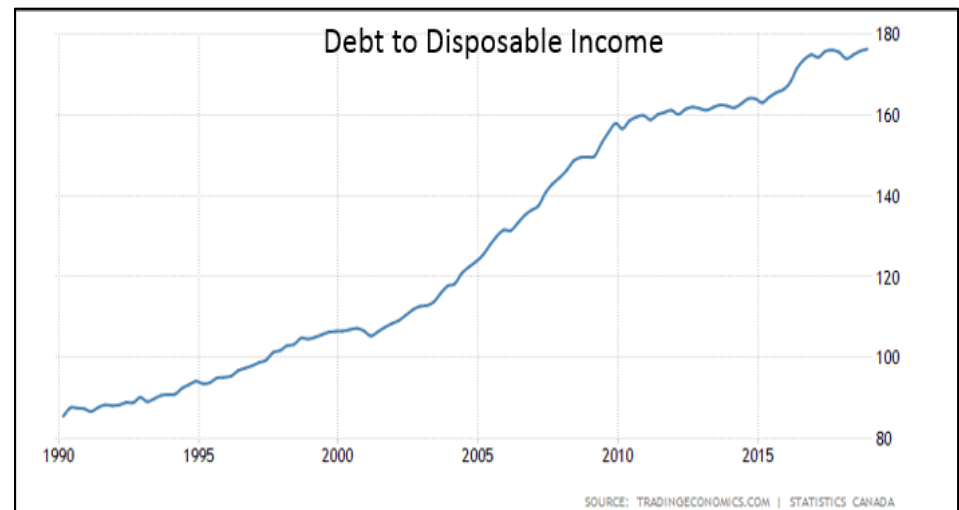
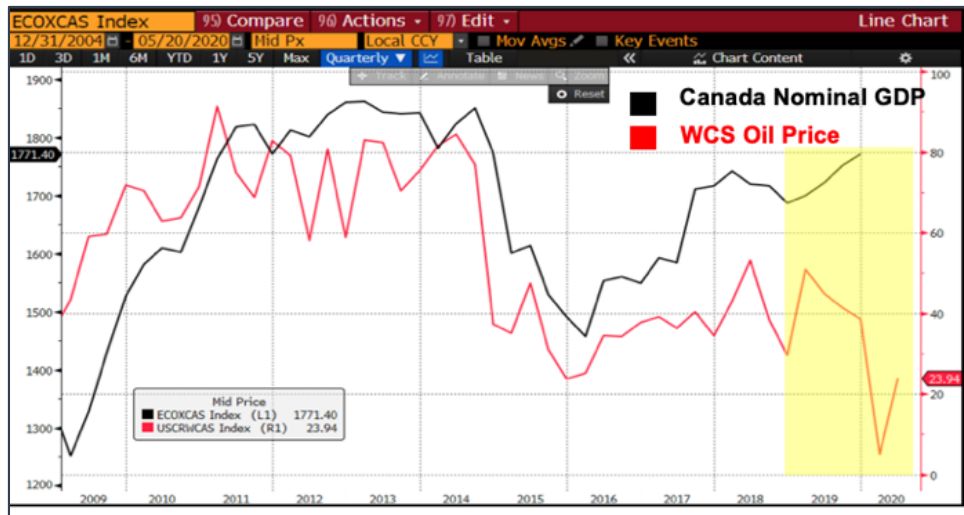
Hong Kong is Breaking Down



Australia is Vulnerable



Canada is Vulnerable



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Conclusion

- Culmination of 70 years of Keynesian economics applied to global monetary and global fiscal policies have created asymmetric risk-return opportunities across many markets
- Increasing dominance and importance of USD, and the USD reserve position has created stressed funding positions across multiple currencies and debt markets
- Majority of investors cannot see these markets stresses, and this creates asymmetric opportunities
- We favor long positions in USD, USD assets and volatility
- We favor short positions across non-USD currencies, and non-USD assets



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