

ACROSS THE HEDGE

WEEKEND BRIEF - MAY 14, 2021



MORGAN CREEK
CAPITAL MANAGEMENT

ALTERNATIVE THINKING ABOUT INVESTMENTS



@HEDGED_PODCAST

We would like to welcome you to Morgan Creek's *Across The Hedge* weekend brief. It is comprised of research from Morgan Creek's Hedged Equity Team together with curated articles of interest. In addition to topical industry insights, we aim to provide timely in-depth perspectives on investments across Morgan Creek's Hedged Equity Platform. Our research leverages insights from the team, together with Morgan Creek's decades-long experience in covering and investing across asset classes, sectors and regions. To learn more about the team and our various investment offerings, please email HedgeD@morgancreekcap.com or visit us on the web at www.morgancreekcap.com.

UPCOMING EVENTS CALENDAR

We hope you will be able to join us for our upcoming HedgeD, With A Capital "D" webinar on Thursday, May 20 - 3:00pm EDT. [Register Here](#).

PLATFORM OVERVIEW

With the backing of Tiger Management, Morgan Creek launched its flagship hedged equity strategy in 2005. While Morgan Creek's Hedged Equity Platform began as a traditional manager-of-managers model, it gradually transitioned to a more direct investment strategy with the implementation of the Hybrid Model in 2013¹. We seek to partner with a select group of what we deem to be best-in-class managers around the world and actively co-invest in their highest conviction ideas including public equities and select later-stage private co-investments.

CURRENT THEMES

Growth-Oriented Long Focus

- Cloud/Software
- Digital Payments
- Direct-To-Consumer
- Energy Transition
- Food & Drink Delivery
- Gaming
- Global eCommerce
- Japan Digitization
- Online Real Estate
- Ride-Sharing
- Semiconductors
- Social Media/Digital Ads
- Streaming

Value-Oriented Long Focus

- Aerospace
- Agriculture
- Classic Value Stocks
- EM Financial Inclusion
- Energy Survivors
- European SMIDs
- Gold Miners
- Innovative Healthcare
- Re-Opening Plays
- Traditional Financials

Short Portfolio Focus

- Boom-Bust Cycles
- Great-To-Good
- Frauds
- Legacy Media Assets
- Levered Roll-Ups
- Overhyped New Listings
- Over-Earning Staples
- Pandemic Fads
- Serial Promoters
- Tech Rust Belt
- Traditional Retail

ANNOUNCEMENTS

Webinar

On the most recent HedgeD, With A Capital "D" webinar, the team provided an update on Morgan Creek's high conviction investment themes as well as a comprehensive review of first quarter performance. The team also discussed a number of exciting developments in Morgan Creek's growth-oriented themes with the recent IPO filings of Didi Chuxing and Honest Company.

Replays for all webinars can be found on the HedgeD YouTube channel. [View Past Webinars](#).

Podcast

In the second episode of our series on Brazil, the HedgeD team speaks with Eduardo Mufarej, former co-founder of Tarpon Investments and more recently founder of Good Karma/GK Ventures and RenovaBR, as well as a newly-published author. Eduardo shares about his high impact initiative, RenovaBR, that is attempting to turn around the Brazilian political system with a goal of making it more transparent. In addition, Eduardo and the HedgeD team talk about the link between politics in Brazil and investing in the country, and provide some Brazil-centric advice for achieving positive investment outcomes.

HedgeD podcasts are available on [Apple Podcasts](#) and [Spotify](#).



MANAGER UPDATES

Global equities continued their strong run of performance in April, with most indices now up solidly on the year. Many of Morgan Creek's managers that experienced headwinds in Q1 bounced back strongly in April. Performance was fairly broad-based across themes and managers, with the bulk of returns being driven by the long side of the portfolio. Notably, April marked the first month in which both Growth and Value factor exposures were positive contributors to underlying performance.

As previously discussed, we added a new manager to the roster on May 1. Flight Deck Capital, founded by Jay Kahn, is a fundamental, concentrated long/short equity fund focused on Technology companies globally. We know Kahn well from his time as a partner at Light Street Capital, and are confident in his abilities to generate meaningful alpha for investors over time. It is worth noting that much of Flight Deck's investible universe will fall outside of North America, where there are persistent and increasing structural inefficiencies in the markets. Only half of the world is connected to the internet today, and we believe we are on the cusp of significant value creation in regions such as Japan, Latin America and Southeast Asia. We believe that Flight Deck's experience and network in these regions positions them to capitalize on both public and private opportunities in these regions.

DIRECT PORTFOLIO UPDATES²

We are pleased to report that on May 5, 2021, Honest Company completed its Initial Public Offering ("IPO"), listing on the Nasdaq Exchange under the ticker "HNST." The company priced at \$16 per share—within the deal's \$14 to \$17 target range—despite four of the past five IPO's entering the trading session below their offering price. With strong investor demand, shares opened for trading at \$21.22, nearly 33% above the company's IPO pricing. Gains were further extended into the close, as Honest finished the session at \$23 (+44%). The IPO provides Honest with more than \$100 million to strengthen its balance sheet, which the company plans to use for expanding its product lines and geographic reach. While we continue to think the company is well-positioned to take advantage of shifting consumer trends, we may look to pare the position down at these levels.

In our last newsletter, we also discussed the impending IPO of another one of our underlying private holdings, Didi Chuxing ("Didi"). While the company has not yet publically filed their S-1 registration statement, it has been reported that a listing could occur as soon as this summer. It was also recently reported that Didi is in preliminary discussions to spin-off its newly created grocery delivery unit, Chengxin Youxuan, with the intention of listing the asset in the U.S. We believe this business unit is highly complementary to Didi's core business, and could provide significant optionality to investors.

PAST EVENTS CALENDAR

- May 5: Podcast—Brasil Part 2 (Eduardo Mufarej)
- April 21: Podcast—Brasil Part 1
- April 21: Webinar—First Quarter Performance Review & High Conviction Themes
- April 7: Podcast—Alpha Theory
- March 30: Webinar—Re-Opening Plays & Coupang IPO Update
- March 17: Podcast—Nippon Part 3 (Eduardo Costa)
- March 3: Podcast—Nippon Part 2 (Russell Clark)
- February 18: Podcast—Nippon Part 1 (Land of the Rising Sun)
- February 17: Webinar—January Highlights & Lowlights + Japan Digitization
- January 27: Webinar—2020 Review & 2021 Preview + Energy Survivors
- January 19: Podcast—Project Quantum
- December 11: Podcast—Morgan Creek's Top Long & Short Equity Market Themes for 2021
- December 8: Webinar—High Conviction Themes For 2021 and Beyond
- November 12: Podcast—You Will Not Take This Conversation With Charlie About The Coronavirus For Granted



INDUSTRY UPDATES

Hedge Funds Attract a Net \$18 Billion in First Quarter: Global hedge fund strategies saw net inflows of \$17.7 billion in the first quarter, driven by strong performance and inflows into multistrategy funds, a report from eVestment said Friday. [Read more.](#)

Fed Says Stock Market Boom, 'Ebullient' Investors Warrant Caution: Booming stocks, internet-driven "meme" investments and the black box of hedge fund financing pose increasing risks as the U.S. economy emerges from the coronavirus pandemic and investor appetite soars, the Federal Reserve warned on Thursday in its latest report on financial stability. [Read more.](#)

Hedge Funds are on a Roll with Strongest Jan-to-April Returns in 20 years: Hedge funds are on a roll this year, with the industry recording its best January-to-April performance in more than 20 years, as managers profited from tech gains, commodities moves, strong earnings, and renewed optimism over the reopening US economy. [Read more.](#)

Hedge Funds Bet on Higher Oil Prices: Money managers intimate a growing confidence that oil prices have room to run higher this year, thanks to expectations of a robust economic rebound and rising global demand for crude. [Read more.](#)

How Inflation Could Shape the Next Phase of the Stock Market: Whether inflation hangs around or eases up could go a long way to determining the path of the equity market and which sectors will be winners or losers. [Read more.](#)

Is the Stock Market Going to Crash?: In The U.S. stock market is showing some cracks as the tech-heavy Nasdaq Composite index has been trading lower for the three consecutive weeks now, and this has raised concerns on Wall Street. Stock traders are debating if this is a sign that the recent rally is ending. Could a crash be on the horizon? [Read more.](#)

Hedge Funds and Professional Money Managers Keep Selling Stocks: With euphoria taking over the stock market, so-called smart money investors like hedge funds and asset managers at major investment firms are hitting the sell button, expecting prices to fall. [Read more.](#)

Transparency Key to Building Relationships: In these times of uncertainty, startup and emerging managers are turning to their partners, consultants and service providers for support and guidance. [Read more.](#)

AWARDS



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IMPORTANT DISCLOSURES & FOOTNOTES

General

This is neither an offer to sell nor a solicitation of an offer to buy interests in any investment fund managed by Morgan Creek Capital Management, LLC or its affiliates, nor shall there be any sale of securities in any state or jurisdiction in which such offer or solicitation or sale would be unlawful prior to registration or qualification under the laws of such state or jurisdiction. Any such offering can be made only at the time a qualified offeree receives a Confidential Private Offering Memorandum and other operative documents which contain significant details with respect to risks and should be carefully read. Neither the Securities and Exchange Commission nor any State securities administrator has passed on or endorsed the merits of any such offerings of these securities, nor is it intended that they will. This document is for informational purposes only and should not be distributed. Securities distributed through Morgan Creek Capital Distributors, Member FINRA/SIPC.

Performance Disclosures

There can be no assurance that the investment objectives of any fund managed by Morgan Creek Capital Management, LLC will be achieved or that its historical performance is indicative of the performance it will achieve in the future. Past performance is not indicative of the performance that any fund managed by Morgan Creek will achieve in the future. Although Morgan Creek Capital Management, LLC has been presented with co-investment opportunities in the past, there can be no assurance that Morgan Creek will be presented with similar opportunities in the future. Further, there can be no assurance that co-investment opportunities will be available in the future.

Forward-Looking Statements

This presentation contains certain statements that may include "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements, other than statements of historical fact, included herein are "forward-looking statements." Included among "forward-looking statements" are, among other things, statements about our future outlook on opportunities based upon current market conditions. Although the company believes that the expectations reflected in these forward-looking statements are reasonable, they do involve assumptions, risks and uncertainties, and these expectations may prove to be incorrect. Actual results could differ materially from those anticipated in these forward-looking statements as a result of a variety of factors. One should not place undue reliance on these forward-looking statements, which speak only as of the date of this discussion. Other than as required by law, the company does not assume a duty to update these forward-looking statements.

No Warranty

Morgan Creek Capital Management, LLC does not warrant the accuracy, adequacy, completeness, timeliness or availability of any information provided by non-Morgan Creek sources.

Risk Summary

Investment objectives are not projections of expected performance or guarantees of anticipated investment results. Actual performance and results may vary substantially from the stated objectives with respect to risks. Investments are speculative and are meant for sophisticated investors. An investor may lose all or a substantial part of its investment in funds managed by Morgan Creek Capital Management, LLC. There are also substantial restrictions on transfers. Certain of the underlying investment managers in which the funds managed by Morgan Creek Capital Management, LLC invest may employ leverage (certain Morgan Creek funds also employ leverage) or short selling, may purchase or sell options or derivatives and may invest in speculative or illiquid securities. Funds of funds have a number of layers of fees and expenses which may offset profits. This is a brief summary of investment risks. Prospective investors should carefully review the risk disclosures contained in the funds' Confidential Private Offering Memoranda. No investment is risk free; loss of principal is possible. Alternative investments involve specific risks that may be greater than those associated with traditional investments. One should consider the special risks with alternative investments, including limited liquidity, tax considerations, incentive fee structures, potentially speculative investment strategies, and different regularly and reporting requirements. There can be no assurance that any investment will meet its performance objectives or that substantial losses will be avoided.

Footnotes

1. The "Hybrid Model" or "Morgan Creek Direct" consists of "Morgan Creek Direct Top 20", "Morgan Creek Direct Qualitative", the Fund's direct private co-investments and "Morgan Creek Tactical". "Morgan Creek Direct Top 20" is a basket of 20 equally-weighted equities and reflects the top long positions in the underlying portfolios of the current managers in the MCGELSIF. "Morgan Creek Direct Qualitative" is a portfolio of equities sourced from the underlying portfolios of the current managers in MCGELSIF. "Morgan Creek Tactical" includes ETFs and other passive instruments.
2. Didi Chuxing/Honest Company IPO information taken from publicly available sources as well as Managers within Morgan Creek's network.