

ACROSS THE HEDGE

WEEKEND BRIEF - MAY 28, 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.

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.

UPCOMING EVENTS CALENDAR

We hope you will be able to join us for our upcoming HedgeD, With A Capital "D" webinar on Thursday, June 17 - 3:00pm EDT. [Register Here.](#)

MANAGER UPDATES

Hedge fund performance has been challenging over the past few weeks, with most strategies posting mixed results thus far in May. While the short side had been the clear outlier in terms of negative alpha earlier this year, the recent decline in long/short alpha has been due to the long side of portfolios, with long alpha now being a larger contributor to total negative alpha YTD.

Along these lines, we have seen a fair amount of dispersion amongst Morgan Creek's underlying managers. The continued rotation away from growth and into value has served as a headwind for a number of our managers, particularly those with meaningful exposure to Technology and Asia. This, as one might expect, has been somewhat counteracted by our more value-oriented managers who have continued their strong run of positive performance.

While we believe that recent price dislocations will likely create fantastic buying opportunities for investors with multi-year time horizons, we have taken a more measured approach deploying capital into such opportunities, and in some cases, are waiting for better entry points.

DIRECT PORTFOLIO UPDATES²

We recently completed the reset of the Morgan Creek Direct Top 20 ("Top 20") portfolio. As a reminder, the Top 20 portfolio is a basket of 20 equally-weighted equities that reflect Morgan Creek's highest conviction long positions. Turnover was slightly higher than normal, with seven new positions added to the portfolio post-reset. Importantly, overlap with highly owned Hedge Fund names remains low. Using the Goldman Sachs' Hedge Fund VIP List as a proxy, only four names within the portfolio can be found amongst the twenty most widely held hedge fund names in 1Q21. This level of position turnover, while higher than normal, is not unexpected given the Top 20's recent outperformance relative to long only indices, as the portfolio has outperformed the MSCI World by ~3,700bps over the trailing-year.

As previously discussed, Didi Chuxing ("Didi" or the "Company"), continues to progress on its path to becoming a publically traded company. In advance of the highly anticipated listing, we were able to secure additional shares of Didi on the secondary market at a slight premium to the Company's last primary funding round. We believe this represents an attractive entry point, as we can underwrite meaningful upside from these levels with relatively short duration. It is our expectation that the Company publically files their S-1 registration statement with the SEC in June, with an Initial Public Offering to take place soon thereafter. We will provide further updates as we get closer to this exciting event.



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 one of Morgan Creek’s newer high conviction investment themes in Latin America as well as a comprehensive review of April performance. The team also introduced Flight Deck Capital, a specialized TMT manager that was added to the portfolio on May 1.

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

Podcast

In the third episode of our series on Brazil, the HedgeD team interviews Pedro Faria from Tarpon Investments and Paulo Passoni from Softbank Latin America Ventures. Latin America represents 6-7% of global GDP, but has only received about 1% of global venture capital and growth equity dollars historically. Why is this, how is it changing and where are the investment opportunities as a result? Pedro and Paulo share their thoughts on these questions and a few of their top themes and ideas in the region.

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

PAST EVENTS CALENDAR

- May 20: Webinar—April Performance Review & Technology Opportunities in Latin America
- May 18: Podcast—Brazil Part 3 (Pedro Faria & Paulo Passoni)
- 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

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INDUSTRY UPDATES

Hedge Funds Continue Winning Performance Ways in April: Hedge fund performance was broadly positive in April, with 85% of funds reporting to eVestment seeing positive performance figures and the industry as a whole posting a return of +2.61% for the month, according to the just-released April 2021 eVestment hedge fund performance data. [Read more.](#)

Hedge Funds Surpass \$4 Trillion in Assets: The industry hit a record high of over \$4.1 trillion in assets after three consecutive quarters of inflows and the best first-quarter performance since 2006, according to Preqin. [Read more.](#)

Hedge Funds Increase Bets on Private Companies: Hedge fund firms are stepping up their presence in what has emerged as Wall Street's hottest area: investing in private companies. [Read more.](#)

Here are the New Top Stock Picks of Hedge Funds, According to Goldman Sachs: Hedge funds have found themselves a new favorite stock, and the industry is increasingly betting on shares that stand to benefit the most from the economic recovery, according to Goldman Sachs' basket tracking the community's most-loved positions. [Read more.](#)

The LatAm Funding Boom Continues as Kaszek Raises \$1B Across a Duo of Funds: Long before SoftBank launched its \$2 billion Innovation Fund in Latin America, and before Andreessen Horowitz began actively investing in the region, São Paulo-based Kaszek has been putting money into promising startups, helping spawn nine unicorns along the way. [Read more.](#)

Industry Supportive of Prime Business Despite Hurdles: Buoyancy in the hedge fund industry, following a year of strong performance, bodes well for the prime brokerage business. Numerous new funds are being launched and prudent prime players are benefiting from the renewed interest in the asset class. [Read more.](#)

Hedge Fund Market Observations: Counterparty Risk and Revisiting the Hedge Fund/Prime Broker Relationship. [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. Goldman Sachs VIP List data pulled from Bloomberg and publically available sources.