

ACROSS THE HEDGE

WEEKEND BRIEF - JUNE 11, 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@morgancreecap.com or visit us on the web at www.morgancreecap.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 UPDATES²

The broader hedge fund complex underperformed in May, as most strategies lagged regional indices. Alpha generation has thus far proven to be quite challenging in the current market environment, as up-capture remains low relative to overall net leverage levels. According to data compiled by Morgan Stanley, hedge fund alpha generation is off to its worst start since 2010, with the spread between longs and shorts globally now sitting at -11.4%. This underperformance has largely been the result of negative factor contribution, particularly on the long side of portfolios.

We were not immune to the above mentioned trends, as a number of Morgan Creek's underlying managers underperformed in May. Factor exposure within the growth complex was the biggest headwind to performance, as the continued rotation negatively impacted our managers with meaningful exposure to Technology and Asia. This was somewhat counteracted by our more value-oriented managers, both of whom posted strong results.

It is worth noting that the selling pressure we have seen within the growth complex has somewhat abated in June. We continue to monitor the current market environment and will look to be tactical in a number of situations we believe to be oversold.

DIRECT PORTFOLIO UPDATES³

As we look across the current growth equity landscape, we have become increasingly excited about the opportunity set in Latin America, both public and private. Specifically, in Brazil, we have identified a compelling later-stage private opportunity in an eCommerce asset that operates within the pet care segment. While we are unable to disclose the investment at this time, we would like to spend some time highlighting the broader market opportunity in the region and how pattern recognition plays a key role in identifying investment opportunities globally.

The pet care industry in Brazil provides a unique backdrop for investors as the market remains highly fragmented, with relatively low levels of eCommerce penetration. Pet ownership rates in Brazil are amongst the highest globally, with nearly 55% of households owning at least one companion animal. Notably, Brazil is the second largest pet food market globally, behind only the United States. Many emerging and mid-level markets almost inevitably follow the pet industry trends set by the developed markets of North America and Western Europe, indicating that we are in the early innings of a rising shift to more premium products and services in the region. We view these changes as secular in nature, in an industry growing double digits that has largely proven to be recession-proof. Importantly, we believe that eCommerce penetration within the Brazilian pet care industry is likely to increase by over 3x in the coming years, from just 6% in 2020.



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 final episode of our series on Brazil, the HedgeD team interviews José Carlos Reis de Magalhães Neto (aka Zeca), who founded Tarpon Investments at just 23 years old. Brazil is blessed with abundant sunshine, wind and water, positioning the country to be a global leader in renewable energy and agriculture. Zeca shares with listeners his enthusiasm and involvement in these megatrends and a lot of wisdom and insight along the way. Zeca brings home our four-part series on Brazil with effortless style and grace. Enjoy.

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

PAST EVENTS CALENDAR

- June 2: Podcast—Brazil Part 4 (José Carlos Reis de Magalhães Neto)
- 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



INDUSTRY UPDATES

Hedge Funds Traverse Volatility and Inflation Trends with Biggest Jan-to-May Returns in 25 years: Hedge funds are stacking up gains this year as shuttered economies continue to unlock, with the industry navigating volatility and inflation to score its best January-to-May performance in two-and-a-half decades. [Read more.](#)

How Seed Investors Spurred a Hedge Fund ‘Reawakening’: New hedge funds got a “head start” in a challenging fundraising environment, while more established managers got protection against redemptions, according to Seward & Kissel. [Read more.](#)

Hedge Fund Assets Soar to Record High Amid Boom in Trading Profits: The pandemic era has been great for hedge funds, which have seen their assets boom to a record amid high hopes for the economy and huge government spending. [Read more.](#)

This Hedge Fund Manager Sees Sea Limited At Over \$600 A Share: At the recent Sohn Hong Kong conference, hedge fund managers from Asia presented new ideas for investors. [Read more.](#)

Hedge Funds Raise Bar on Data Technology: Increased demand for data is impacting how hedge fund managers think about their data ecosystem, according to Jonathan White, Global Head of Fund Sales, Intertrust Group. [Read more.](#)

These Are the Most Popular Hedge Fund Stocks: Hedge funds stuck to a lot of their favorites in the first quarter — but there were also several stocks that gained many new hedge fund investors, according to Novus. [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. Hedge fund performance data provided by Morgan Stanley Prime Brokerage—Strategic Content Group.
3. Information has been provided by underlying managers/co-investment partners and are believed to be reasonable but have not been independently verified by Morgan Creek. Do not place undue reliance on the above as actual results may vary depending on future market conditions.