

ACROSS THE HEDGE

WEEKEND BRIEF - JUNE 25, 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@morgancreekcapi.com or visit us on the web at www.morgancreekcapi.com/hedge-funds/.

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, July 22 - 3:00pm EDT. [Register Here](#).

MANAGER UPDATES²

The broader hedge fund complex has performed relatively in-line with overall net leverage levels thus far in June, with the average fund capturing about 50% of the S&P 500's month-to-date gain. It is worth noting that we have started to see a reversal across a number of recent trends that have been headwinds to performance thus far year-to-date. According to data compiled by Morgan Stanley, the top 50 crowded longs rallied by +1.4% last week vs. shorts falling by -0.4%, resulting in a positive spread of +1.8% (largest in 2+months). At the factor level, hedge funds have been net buyers of growth in June while reducing overall factor exposure to value. It is also worth noting that flows to the growth factor have now been positive on a net basis in four of the past five weeks.

A number of Morgan Creek's underlying managers have benefited from the above mentioned trends thus far in June, with performance tracking well ahead of broader equity markets. Factor exposure within the growth complex broadly has been a tailwind to performance, as the current rotation has positively impacted our managers with meaningful exposure to Technology. Our underlying thesis within the Oil & Gas sector continues to play out, as the cyclical recovery in oil prices has created meaningful alpha generation opportunities thus far in 2021. Our dedicated manager in the space has continued its strong run of performance, and will likely be the largest driver of returns in June.

DIRECT PORTFOLIO UPDATES³

As previously discussed, there have been a number of exciting developments across the private portfolio. We recently touched on one such opportunity in Brazil, where we had identified a compelling later-stage eCommerce asset operating within the pet care segment. PetLove, the largest digital ecosystem for pet offerings in Brazil, has established itself as a market leader while serving as an unrivaled resource for a growing population of pet owners. The Company is consolidating all relevant pet verticals in the region (i.e. products, services, insurance, veterinary clinics/hospitals), creating a unique one-stop-shop pet care platform, fueled by proprietary growth channels. We believe that the Company has reached an inflection point, whereby PetLove can leverage economies of scale to drive future growth. Absent a strategic exit, we anticipate that the Company will likely have a liquidity event in the form of an initial public offering ("IPO") within the next 18-24 months.

We are also pleased to report that Didi Chuxing revised its Form S-1 on June 24th, formally kicking off the countdown to the Company's highly anticipated IPO. The Company received enough global investor demand to cover its \$4 billion offering only one day after the range was announced, further solidifying Didi's position as the world's dominant mobility platform. We anticipate that final pricing for the offering will be determined next Tuesday, with trading to commence Wednesday morning.

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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 highest conviction themes coming into the year, while adding a few new ones to the list. The team also discussed some of the biggest winners and losers year-to-date, and how the portfolio is positioned for the back-half of 2021.

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 17: Webinar— 1H21 Review & 2H21 Preview
- June 2: Podcast—Brasil Part 4 (José Carlos Reis de Magalhães Neto)
- May 20: Webinar—April Performance Review & Technology Opportunities in Latin America
- May 18: Podcast—Brasil 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



INDUSTRY UPDATES

Hedge Funds Poised to Outperform 2020 “by a Wide Margin”, as Investor Flows Swell Industry Coffers Further: Hedge funds are on track to comfortably outperform their 2020 showing this year, with strong strategy returns and continued capital inflows boosting industry coffers to almost USD3.6 trillion in the run-up to 2021’s midway point. [Read more.](#)

How a \$4 Billion Hospital’s Hedge Fund Program Reaped Returns of Over 20 Percent: Hartford HealthCare scored a 23 percent hedge fund return in 2020, with its largest allocation going to a minority-owned manager. [Read more.](#)

Net Inflows of USD23.3bn in April Put Hedge Fund Assets up Nearly 40% Year-on-Year: Net Inflows of USD23.3 billion in April signaled a continued vote of investor confidence in the hedge fund industry. This result represented an increase in industry AUM of .6% on the month and built momentum on the previous month’s USD19.1 billion increase in assets, according to the Barclay Fund Flow Indicator published by BarclayHedge. [Read more.](#)

Creative Connections: Re-Mapping Emerging Hedge Funds’ Capital-Raising Techniques: Start-up and emerging hedge funds must increasingly look towards creative techniques and solutions when it comes to getting in front of allocators and raising capital. [Read more.](#)

How Covid-19 is Transforming the Hedge Fund Outsourcing Model: The Covid-19 pandemic is opening up a deeper discussion around more business functions becoming permanently outsourced, particularly among start-up and emerging hedge funds battling against budgetary constraints. [Read more.](#)

Fee Structures in the Spotlight: What Start-up Hedge Funds Need to Know: Start-up hedge funds’ success or failure often hinges on how managers build fee structures and foster investor relationships during the perennially tricky launch process, which industry participants warn can be frustrating, expensive and time-consuming. [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.