

ACROSS THE HEDGE

WEEKEND BRIEF - JULY 16, 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/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 underperformed in June, with most strategies capturing only a small portion of the market upside. The one exception was Asia-based hedge funds, who remain top relative performers year-to-date. Style factors posted their best month in terms of long/short attribution for the year driven by the growth rally. From an alpha perspective, the spread between longs and shorts was essentially paired off, though it is worth noting, this was due to both longs and shorts outperforming equity indices. According to Morgan Stanley, 2021 continues to be one of the most challenging years for long/short alpha since they began tracking the data in 2010 (spread -9.4%) - for reference, the next worst spread midway through the year since 2010 was seen in 2016, when the spread between longs and shorts was -3.3%.

A number of Morgan Creek's underlying managers outperformed in June, with performance well in excess of broader equity markets. Factor exposure within the growth complex served as a tailwind to performance, as the current rotation has positively impacted our managers with meaningful exposure to Technology. Our dedicated manager within the Oil & Gas space continued its strong run of performance, and was the largest driver of returns in June.

DIRECT PORTFOLIO UPDATES³

On Wednesday June 30, 2021, Didi Global ("Didi" or the "Company") completed its initial public offering, making its public market debut on the New York Stock Exchange ("NYSE") under the symbol "DIDI." Didi priced the upsized offering of 316.8 million American depositary shares at the upper end of its \$13 to \$14 range, raising approximately \$4.4 billion. The company's stock began trading at \$16.65 per share, up about 19% from the company's offering price of \$14 per share. Shares closed the day at \$14.14, with a market cap of \$67.8 billion. We are monitoring the regulatory landscape in real-time and will provide further updates in the coming weeks.

We are in the process of completing a private investment in Asia's largest and fastest growing dedicated online grocer in South Korea. We believe the eCommerce market in South Korea provides a unique value proposition as it is one of the most advanced internet markets in the world. Unlike most developed market economies, South Korea is evolving as an internet-first economy with eCommerce penetration of 31% today compared to the United States at just 15%. The country's very high population density also provides an advantage to the eCommerce business model, as 92% of the population lives in dense urban areas. Already one of the largest eCommerce markets globally, the South Korean market is expected to reach \$325 billion by 2025 (+19.9% CAGR). The food/grocery category is the fastest growing segment of South Korean eCommerce, with ~3x the growth of the broader market in 2020 (+53% year-over-year). Importantly, we believe that eCommerce penetration within the category is likely to increase by over 2x in the coming years.



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 first episode of a two-part series on oil, the HedgeD team dives into the bullish side of the debate with industry-vet Dan Pickering, Founder & CIO of Pickering Energy Partners. Dan talks about the short-term and long-term fundamentals on both the demand and supply side, and outlines the biggest risks to his otherwise bullish view. With so much riding on the future of hydrocarbons, we hope you come away from this episode with a deeper appreciation of the bull case before we turn to the bear case in the following episode to be released today.

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

PAST EVENTS CALENDAR

- July 13: Podcast—The Bull Case For Oil (Dan Pickering)
- July 1: Podcast—2021 Mid-Year High Conviction Them Review & Update
- 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



INDUSTRY UPDATES

Hedge Funds See Best First Half Performance Since 2009, says eVestment: The global hedge fund business returned +0.18 per cent in June, bringing year to date (YTD) performance for the industry to +9.22 per cent, the best first half performance since 2009, according to the just-released eVestment June 2021 hedge fund performance data.

[Read more.](#)

Hedge Funds on a High as New Launches Outweigh Liquidations: More hedge funds were launched in the first quarter of this year than at any other time since the end of 2017, with the number of new strategy roll-outs outstripping liquidations for the third consecutive quarter, amid further signs the industry is on track for another strong year. [Read more.](#)

Bearish Bets: Hedge Fund Short Sellers Stack up Wagers Against Cineworld, Sainsbury's and Petropavlovsk: Hedge funds are continuing to pile on bets against Cineworld, with the beleaguered global movie theatre chain – whose share price tumbled again this week – now the most-shorted, UK-listed stock. [Read more.](#)

Short Sellers and Hedge Funds Sign On to Fintech Company Whose Algos Sniff Out Corporate Fraud: 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.](#)

Brazilian Hedge Funds Provide Safe Haven for Domestic Investors Amid Political and Macroeconomic Uncertainty, says Preqin: Brazilian hedge funds are providing attractive risk-adjusted return for domestic investors, with a 23.38 per cent one-year return, according to research published by Preqin, the global leader in alternative assets data, tools and insights. [Read more.](#)

Two and Twenty is Long Dead. Hedge Fund Fees Fall Further Below Onetime Industry Standard: In recent years, average fees have shrunk. According to HFR, in the fourth quarter of 2020, hedge funds charged an average of a 1.4% management fee and 16.4% performance fee. That's down from the 1.6% management fee and 19% performance fee that was commonplace a decade prior. [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.