

# ACROSS THE HEDGE

WEEKEND BRIEF - JULY 30, 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](mailto:HedgeD@morgancreekcap.com) or visit us on the web at [www.morgancreekcap.com/hedge-funds/](http://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 2013<sup>1</sup>. 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, August 12 - 3:00pm EDT. [Register Here](#).

## MANAGER UPDATES<sup>2</sup>

With the recent decline in China equity indices, an area where hedge funds still hold somewhat high levels of exposure, performance across the broader hedge fund complex has been challenging. According to data compiled by Morgan Stanley, the average global fund was down approximately -90bps through July 28th, with the average US long/short fund down -110bps (vs. MSCI AC World +50bps). Given the recent market volatility in the region, the average China-focused long/short fund is down approximately -310bps thus far in July, with most of the pain coming from the long side of portfolios.

We believe that the selloff in China and Energy has created an attractive entry point for new capital into the strategy. Our level of conviction in pockets of China Internet and U.S. Shale E&Ps based on fundamental developments remains high, and we think the recent selloff in stocks associated with these themes has been sharp and indiscriminate. Manager portfolios have ample liquidity to take advantage of specific situations where stock prices and valuations have dislocated from fundamentals. Using history as a guide, we believe our managers could be poised for a robust period of performance ahead as valuations normalize.

## DIRECT PORTFOLIO UPDATES<sup>3</sup>

Following Didi Global's (NYSE: DIDI) IPO, Chinese regulatory authorities came down hard on the Company for proceeding with the listing despite data protection and privacy concerns, which has led to significant volatility in the stock price. These concerns blindsided investors, but we believe the Company should be able to successfully navigate the current crisis and that DIDI remains very well-positioned in both the domestic ride share and grocery delivery markets. In the ride share business, DIDI was only fulfilling ~70% of orders due to driver shortages before the crackdown and, importantly, authorities have only restricted new users from signing up on DIDI's platforms as of now (existing users remain unaffected). DIDI and its 500 million users were completing 60 million daily trips before the crackdown. As staggering as those numbers might sound, this represented just 3% of daily transportation trips in China. We think DIDI's share of daily transportation trips can increase to the high single-digits over the next few years. If regulatory headwinds subside, we believe that investor attention could quickly return to DIDI's dominant position within this market, not to mention the potentially even larger market opportunity in front of DIDI in grocery delivery. We continue to monitor the situation closely.

Coupage, Inc. (NYSE: CPNG) will release its financial results for the second quarter after the market close on Wednesday, August 11. We anticipate that private shares will come off lock shortly after this event, and will be providing further updates post lock-up expiration.



## CURRENT THEMES

### Growth-Oriented Long Focus

- Clean Energy Transition
- Cloud/Software
- Digital Ads/Social Media
- Digital Payments
- Dislocated SPACS
- Dislocated China ADRs
- Direct-To-Consumer
- Food & Drink Delivery
- Gaming
- Global eCommerce
- Internet of Healthcare
- Japan Digitization
- Live From Home
- Online RE
- Ride Share
- Semi Arms Race

### Value-Oriented Long Focus

- Aerospace
- Agriculture
- Classic Value Stocks
- EM Financial Inclusion
- Energy Survivors
- European SMIDs
- Gold Miners
- Good Capital Allocators
- Healthcare
- Re-Opening Plays

### Short Portfolio Focus

- Boom-Bust Cycles
- Electric Vehicles
- Frauds
- Great-To-Good
- Legacy Media Assets
- Levered Roll-Ups
- Overhyped New Listings
- Over-Earning Staples
- Pandemic Fads
- Renewable Energy Bubble
- 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 some of Morgan Creek’s new high conviction themes on the Growth, Value and Short sides of the portfolio. The team also provided an overview of second quarter performance, which ended on a strong note in June.

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

### Podcast

In the second episode of a two-part series on oil, the HedgeD team dives into the long-term bear case for hydrocarbons with Matt Niblack, President & Co-CIO of HITE Hedge Asset Management. HITE is one of the longest standing and few remaining sizeable hedge funds focused on Energy, which is particularly impressive considering the peaks and valleys they have had to endure across the firm’s seventeen-year history. Matt makes a compelling case for why many Energy business models today could prove to be the brick and mortar retail or film camera companies of the future. The opportunity set in Energy today is rich and complex. We trust our conversation with Matt will leave you with plenty to think about. Enjoy.

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

## PAST EVENTS CALENDAR

- July 22: Webinar—New High Conviction Themes
- July 16: Podcast—The Bear Case For Oil (Matt Niblack)
- July 13: Podcast—The Bull Case For Oil (Dan Pickering)
- July 1: Podcast—2021 Mid-Year High Conviction Theme 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)



## INDUSTRY UPDATES

**Hedge Fund Assets Near USD \$4 trillion as Fresh Inflation Fears Push Investors Towards Alternatives:** Growing numbers of investors are turning to hedge funds to protect their portfolios in the face of inflationary fears, with total industry capital swelling to almost USD4 trillion and more allocators set to tilt towards alternative assets, new research shows. [Read more.](#)

**98% of Managers are Seeking to Incorporate Data Science to Optimize Investment Performance, says Northern Trust Survey:** Investment managers pressured by rising costs, increased transparency demands and the need to generate consistent performance are looking to harness the full potential of data in order to compete and position their firms for the future, according to a survey of 300 global asset management firms sponsored by Northern Trust. [Read more.](#)

**Hedge Fund Investors Pleased After Best Start To A Year Since 2009:** The vast majority of hedge fund investors were pleased with the performance of their funds during the first half of this year, according to a new study from HFM and the Alternative Investment Management Association (AIMA). As a result, more than one-third of investors are planning to boost their allocation to hedge funds. [Read more.](#)

**Hedge Fund Investment Jumps in Part on Prospect of Inflation:** Asset owners significantly increased the pace of hedge fund investment in the first half of 2021 as they sought returns as well as diversification to protect portfolios from the potential of higher inflation, a rise in interest rates and higher volatility. [Read more.](#)

**Hedge Fund Confidence at Highest Level “in many years” as Industry Enjoys Renaissance Among Investors:** Hedge funds are in a buoyant mood heading into the second half of the year, boosted by impressive Q2 performances and increased capital inflows, according to a key industry confidence metric. [Read more.](#)

**China's Efforts to Calm Investor Jitters Help Markets Rebound:** China stepped up attempts to calm frayed investor nerves after a wild markets rout this week by telling foreign brokerages not to "overinterpret" its latest regulatory actions, setting the stage for a rebound in beaten-down stocks on Thursday. [Read more.](#)

## AWARDS



## CONTACT INFORMATION

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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.