

# ACROSS THE HEDGE

WEEKEND BRIEF - SEPTEMBER 10, 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@morgancreekcip.com](mailto:HedgeD@morgancreekcip.com) or visit us on the web at [www.morgancreekcip.com/hedge-funds/](http://www.morgancreekcip.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, September 30 - 3:00pm EDT. [Register Here](#).

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

According to data from Morgan Stanley, all major hedge fund strategies were able to generate positive returns in the month of August. While performance had been challenging earlier in the month, a strong back-half swung performance into positive territory. YTD returns across the industry currently stand at ~8% for the average global fund, which is in line with the strongest absolute returns Morgan Stanley has tracked through August for the past decade. Long/Short alpha was slightly positive in August, bringing the YTD spread to -6.9% across all strategies. While global long/short alpha is still on track for its most challenging year since Morgan Stanley began tracking the data in 2010, the current spread of -6.9% is a significant improvement from where levels stood earlier in the year (it was as low as -12% as recently as early June). Though global equity indices rose in August, hedge funds were net sellers of global equities. In line with the selling, net leverage across strategies fell month-over-month.

Along these lines, we have seen a fair amount of dispersion amongst Morgan Creek's underlying managers. The continued rotation away from Chinese equities and U.S. Shale E&Ps served as a headwind, while performance within TMT was broadly strong. We will continue to take a measured and patient approach when deploying capital in the current market environment, and will likely wait for better entry points in a number of opportunities where we see potential for outsized returns in the coming quarters.

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

We recently completed the reset of the Morgan Creek Direct portfolio. Given market volatility, turnover was slightly higher than normal, with seven new positions added to the portfolio post-reset. Within the direct portfolio, overlap with highly-owned hedge fund names remains low. Importantly, given recent market dynamics, we were able to add a number of positions to the portfolio where we feel stock prices have dislocated materially from underlying fundamentals. We believe that these names will be accretive to the portfolio's long-term performance.

Within the private portfolio, we continue to monitor the regulatory landscape in China as it relates to Didi Global. While our conviction remains high, we believe there will likely be continued share price volatility until a resolution with regulators has been reached.



## 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 Morgan Creek’s conviction levels in pockets of Chinese Technology and U.S. Shale E&Ps. The team also provided an overview of July performance, while highlighting how managers within these themes typically have extended periods of outperformance following sharp drawdowns.

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

### Podcast

In this episode, the HedgeD team dives into the current regulatory landscape in China. Recent developments have served as a stark reminder that understanding the Chinese mindset is essential to successfully investing in China as a foreigner. The team unpacks this topic in detail with Credit Suisse’s Chief China Economist David Wang. David shares many helpful insights on the ongoing regulatory crackdown from a local perspective and provides a unifying framework for thinking about China’s ongoing long-term policy goals. We hope you take away as much from our conversation with David as we did. Enjoy.

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

## PAST EVENTS CALENDAR

- August 12: Webinar—The Case for China Technology and U.S. Shale E&Ps
- August 11: Podcast—An Update On The Chinese Regulatory Landscape (David Wang)
- 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



## INDUSTRY UPDATES

**Hedge Funds Muscle in to Silicon Valley With Private Deals:** Deal value smashes records while investment vehicles hunt for new ways to fire up drab returns. [Read more.](#)

**Hedge Funds Slash Exposure to China Amid Ongoing Regulatory Crackdown:** Hedge fund exposure to Chinese equities and indexes listed in the U.S. has dropped to a two-year low due to a sharp reduction in prices and selling of positions, according to a new client note by Credit Suisse. [Read more.](#)

**Hedge Funds Surge Into Double-Digit Territory After August Rebound:** Hedge funds' narrow rise during August has driven their year-to-date returns back into double-digit territory, as equity long/short, event driven, macro and relative value managers all scored gains in the face of the Afghanistan crisis, ongoing monetary policy uncertainty, and Covid's continued impact on markets. [Read more.](#)

**Greatest Asset Raising Environment in the History of the Hedge Fund Industry:** The next 15 months will be the greatest asset raising environment in the history of the hedge fund industry and potentially a once-in-a-career opportunity for managers to grow assets. The strength of asset flows to managers will be much stronger than many industry professionals expect and potentially surpass USD1 trillion. [Read more.](#)

**Hedge Funds' Quarterly Returns More Than Double as Industry Resurgence Receives "Strong Vote of Confidence":** There is one giant reason why asset managers have been accelerating their shift into the cloud in recent years: big data. The sheer scale of the data sets fund managers now use every day to shape their investment decisions is so large, that cloud-based data management and analytics solutions have become the most obvious choice. [Read more.](#)

**Hedge Funds Could be Staging a Comeback as Short Bets Post Best Month Since 2010:** Short selling is booming again after almost being left for dead due to the GameStop mania, reviving hope that hedge funds could turn things around in 2021. [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 as well as publically available sources, 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.