

ACROSS THE HEDGE

WEEKEND BRIEF - SEPTEMBER 24, 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, September 30 - 3:00pm EDT. [Register Here](#).

MANAGER UPDATES²

Market volatility has thus far persisted in September, as all eyes remain on China. September 20, was the worst day for the S&P 500 Index since mid-May, with the sell-off extending across global indices. According to data from Morgan Stanley, overall hedge fund performance was negative for the day, but not quite as much as the broader market. Hedge fund shorts worked well, which offset underperformance on the long side, thus total alpha was essentially paired-off on the 20th. Along these lines, the average fund globally was down ~0.6% vs. -1.6% for the MSCI World Index. Equity long/short funds across the globe underperformed, led by Asia-based long/short funds (-0.9%) as they also had the worst relative performance. US long/short funds were down ~0.8% on the day, but that compares to the S&P 500 Index at -1.7%. Despite not capturing much of the market upside in recent months, US long/short funds only lost about 50% of the market downside. September month-to-date performance is now down ~1%, but again, still in a better position than the market at -3.6%. Overall net positioning has skewed towards selling as funds sold some longs and added to shorts, but overall flows were not overly notable one way or the other.

There has been a fair amount of dispersion across Morgan Creek's underlying managers thus far in September. Factor exposure within the growth complex continues to be challenged, while factor exposure within the value complex has somewhat dampened volatility. We will provide a more detailed update on the month and quarter in our next newsletter.

DIRECT PORTFOLIO UPDATES³

As previously discussed, we recently made a private investment in PetLove, the largest digital ecosystem for pet offerings in Brazil. The company has since announced the successful completion of its \$150 million pre-IPO funding round, which was well received by institutional investors. The round, which was heavily oversubscribed, was led Riverwood Capital. The round was nearly double what PetLove had previously raised, with the company now having raised ~\$226 million over its lifetime. Tarpon, SoftBank, L Catterton, Porto Seguro and Monashees also participated in the round.

PetLove will use the new capital in part to further expand its logistics network with the goal of accelerating its delivery capabilities. In particular, the company plans to expand its express delivery service, PetLove Já, which allows products to be delivered within four hours of an order being placed. The funding will also go toward growing PetLove's subscription program, which is the first of its kind in the country, and one of the company's flagship services. During the pandemic, the company saw substantial growth in its subscription service, which reached 75% of PetLove's volume.



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 Fund AUM Increases 14.2% on Disruptions: Hedge fund managers took advantage of plentiful disruption in the wake of the COVID-19 pandemic to find investment opportunities across stocks, bonds, sectors and geographies, producing strong returns in the year ended June 30. [Read more.](#)

Funds of Hedge Funds Continued Their Solid Pace in the First Half: Funds of hedge funds had a solid 2020 and continued where they left off then in the first half of this year. This year's first half wasn't quite at the same pace as where the funds stood in 2020, but it still was a solid return. [Read more.](#)

Why Hedge Funds are Increasingly Turning to the Private Markets for Returns: Traditionally, hedge funds stuck to the public market when it came to their allocations, but a new study from Goldman Sachs suggests that is changing. The firm reviewed more than 100 hedge fund managers with exposure to the private markets during the second quarter. [Read more.](#)

Hedge Funds Beat Market After Boosting Short Sales During Rout: While the MSCI World Index is on course for its worst monthly drop in almost a year, long-short hedge funds have outperformed. Funds that pick stocks based on business fundamentals were down 1% through Monday, while those placing bets using computer models gained 3%, according to data compiled by Goldman Sachs Group Inc.'s prime broker. Over the span, the benchmark slipped 3%. [Read more.](#)

Hedge Funds Cheer Uber's Surge: A large group of well-known hedge funds made big second-quarter bets on the ride-hailing company. Will they be rewarded? [Read more.](#)

SS&C GlobeOp Forward Redemption Indicator at 2.45 per cent for September: SS&C GlobeOp's Forward Redemption Indicator for September 2021 was a very favorable 2.45 per cent, reflecting lower redemption notices compared to the 3.43 per cent reported a year ago. [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 MCGEL-SIF. "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 ([TechCrunch](#)). Information is believed to be reasonable, but it has 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.