

# ACROSS THE HEDGE

WEEKEND BRIEF - OCTOBER 22, 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, November 18th- 3:00pm EDT. [Register Here](#).

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

Hedge funds have largely performed in-line with their net exposure profiles thus far in October. According to data compiled by Morgan Stanley, U.S. focused long/short funds came into the week up ~1.5% vs. the S&P 500 Index at ~3.1%. On average, funds came into the month running 198% gross (94th percentile since '10) by 61% net (95th percentile since '10). It is worth noting that one positive driver of performance this month has been crowded longs, marking a sharp reversal of the trends we saw in the third quarter. As of October 15th, the top 50 crowded hedge fund long positions, as tracked by Morgan Stanley, had appreciated by ~3.7% for the month. We have also seen alpha generation on the other side of the book, as the top 50 short positions have appreciated ~2.0% (vs. ~3.1% for the S&P 500), resulting in a positive long/short spread of ~1.7%.

After a challenging third quarter, our managers have experienced broad-based outperformance in October, with positive factor contribution across both growth and value. As previously highlighted, we continue to see meaningful alpha generation opportunities within the Oil & Gas sector. Given this segment of the portfolio's recent outperformance, we thought it would be prudent to provide additional color heading into year-end. Valuations for oil exploration and production ("E&P") companies remain depressed, even after significant returns since late last year. Based on operating cash-flow multiples, our dedicated manager's E&P positions are currently trading at less than 50% of the average valuation over the last 20 years. Furthermore, at \$70 oil and relatively flat production, our manager's research suggests that many of the companies they own could privatize themselves in 3-5 years by purchasing their own shares at current prices with internally generated cash flow. Our conviction level in this theme remains high, and we continue to be excited about the return prospects of this segment of the portfolio heading into 2022.

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

It was recently reported by the Wall Street Journal that Chinese regulators suggested ride-hailing giant Didi Global (ticker: DIDI) and two other U.S.-listed tech firms explore listings in Hong Kong. The Cyberspace Administration of China, which in July started data security reviews into apps operated by the three companies, broached the idea in recent conversations with executives from DIDI, logistics platform Full Truck Alliance (ticker: YMM) and online recruitment firm Kanzhun (ticker: BZ). Having another listing in Hong Kong may mean any potential delisting from the U.S. market—either by choice or as a result of regulatory pressure—would be less disruptive to companies and their investors. A listing in Hong Kong could also potentially allow mainland Chinese investors to more easily invest and profit from the growth of these fast-expanding companies. U.S.-listed firms like Alibaba (ticker: BABA) and Baidu (ticker: BIDU) have pursued Hong Kong share offerings in the past two years. It was also reported that authorities are expected to deliver their findings after the probes conclude which could be as soon as November. Investors thus far have reacted favorably to these reports, with DIDI's share price appreciating nearly ~30% in October through yesterday's close.



## 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 high conviction themes and positions heading into year-end. The team also provided an overview of third quarter performance, which ended on a strong note in September.

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

### Podcast

In this Back-To-School episode, the HedgeD team illustrates why long/short equity might be the new 60/40. The outlook for stocks and bonds looks pretty bleak considering the starting point offered by prevailing valuations. And as central banks pullback emergency stimulus measures implemented during the pandemic, and inch closer to tightening monetary policy, market tailwinds could quickly turn into market headwinds. Like the early 2000s when the Tech Bubble deflated, the team thinks high quality long/short equity strategies can not only help protect capital, but potentially provide a much needed source of positive return in the face of potential losses elsewhere. Tune in to hear the rationale behind this view. Enjoy.

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

## PAST EVENTS CALENDAR

- October 20: Webinar— 3Q21 Review & 4Q21 Preview
- September 30: Webinar—Why Long/Short Equity Is The New 60/40
- September 29: Podcast—Why Long/Short Equity Is The New 60/40
- 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)



## INDUSTRY UPDATES

**Institutional Investors and Wealth Managers to Increase Allocations to Alternatives, Says New Study:** A new study reveals over half of professional investors believe that over the next two years, institutional investors will look to dramatically increase the level of diversification in their portfolios, and a further 40% think there will be a slightly greater focus on this. [Read more.](#)

**US Equity Investor Sentiment Lifts from Lows in October but Caution Persists Amid Concerns Over Policy and Politics:** US equity investors' risk appetite has picked up in October from the one-year survey low seen in September, but remains subdued compared to earlier in the year as investors cite concerns over the political environment and perceive waning equity market support from monetary and fiscal policy. [Read more.](#)

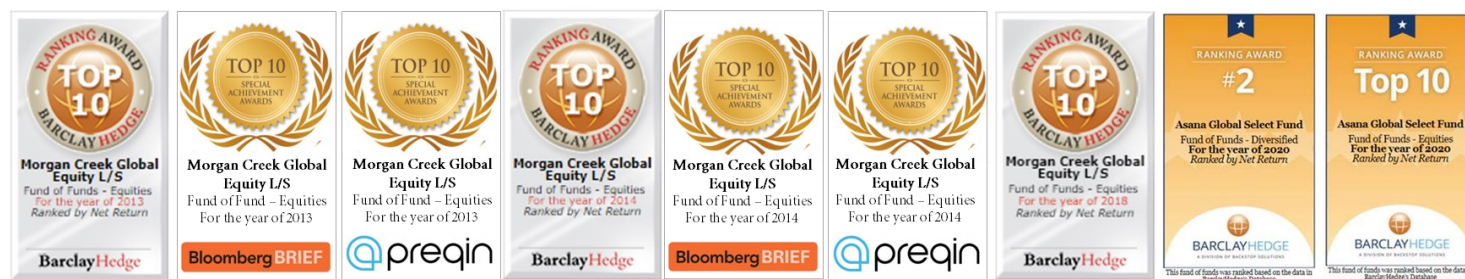
**Challenges and Opportunities: How Hedge Funds are Grappling with ESG, Remote Working and the 'Portfolio Conundrum':** With traditional equity and credit returns set for a squeeze, and ESG, Covid-19 and remote working upending the hedge fund industry from both an investment and operations perspective, managers face both considerable challenges and sizable opportunities up ahead, speakers at EisnerAmper's 6th annual Alternative Investment Summit said this week. [Read more.](#)

**Hedge Funds Ride Out Market Reversals with "Impressive" September Performance:** The global hedge fund business continues to set, then break, new overall AUM records as investors pour more money into hedge funds and performance gains bolster industry AUM further. [Read more.](#)

**How Asset Owners Are Using Hedge Funds to Replace Fixed Income:** Hedge funds aren't dead yet, according to TIFF Investment Management's chief executive officer Kane Brennan. [Read more.](#)

**Number of Hedge Funds Remains on the Upswing:** In the second quarter, there were 180 hedge fund launches and 149 liquidations. The net 31 openings mark the fourth consecutive quarter in which launches exceeded closings. This comes after eight quarters of net closures. [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 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 ([Wall Street Journal](#)). 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.