

ACROSS THE HEDGE

WEEKEND BRIEF - OCTOBER 8, 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 or visit us on the web at 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 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, October 21 - 3:00pm EDT. [Register Here](#).

MANAGER UPDATES²

Hedge funds fared well in September, protecting capital in what proved to be a volatile month. According to data from Morgan Stanley, the average hedge fund globally finished the month down -0.6% vs. -4.1% for the MSCI AC World Index and -4.7% for the S&P 500 Index. Crowded longs in North America finished the month with their worst week of absolute performance since October 2020, declining ~3.8% in September. While challenging, this was offset by crowded shorts falling ~4.9% in September, resulting in a positive long/short spread of ~1.1%.

Macroeconomic risks are prominent once again, and they are influencing the flow of capital out of high-growth assets like Technology stocks. Conditions like this are a tough headwind for our more growth-oriented managers to overcome, but, these conditions can also potentially create great long-term opportunities. Our managers within this sphere continue to make concentrated bets on what they believe to be exceptional companies at attractive valuations, while avoiding trying to predict what direction the macro winds will blow next. This approach has served our managers well in the past, but it does come with unavoidable periods of volatility. While this kind of volatility served as a headwind to September performance, it was more than offset by our concentrated bet within the Energy sector. After a challenging start to the quarter, our dedicated manager in the space posted one of their best months of performance thus far in 2021, and was by far the largest driver of performance in September. If our underlying thesis within the sector plays out, we see upside in the coming months and quarters, as the cyclical recovery in oil prices could continue to create meaningful alpha generation opportunities.

DIRECT PORTFOLIO UPDATES³

As previously discussed, we recently made a private investment in Market Kurly, South Korea's largest and fastest growing dedicated online grocer. The company recently announced the acquisition of an electronic payment and settlement startup, Paybot. The acquisition is part of Market Kurly's evolutionary strategy to have its own payment system and become an 'open market' platform. Specifically, Paybot facilitates transactions by authorizing credit cards or processing direct payments. With the acquisition, Market Kurly intends to develop a system within its online payment service that makes settling payments for outside sellers easier. The company expects to strengthen its product assortment and broaden customers' product options while at the same time providing additional opportunities for more partners to sell a more diverse suite of products. Market Kurly currently offers ~30,000 products from about 2,000 partners through direct purchase, 96% of which are small and medium-sized businesses, and they believe there is a demand for a more convenient and quick settlement system. The company expects that once the upgrade of the settlement service is completed, it will be able to contribute to the business stability of partner companies, which are small and medium-sized businesses, as the convenience of settlement increases.



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 current market outlook and why long/short equity might be the new 60/40. The team also highlights why exposure to high quality long/short equity strategies is crucial to preparing for the potential market environment ahead.

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

- 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)
- April 21: Podcast—Brasil Part 1



INDUSTRY UPDATES

AIMA Sentiment Index: Hedge Funds Remain Upbeat Heading into Final Quarter: Hedge funds' confidence continues to rise, with managers across the UK, Europe and Asia all bullish on their business prospects heading into the final quarter of the year, a key industry sentiment index shows. [Read more.](#)

How “Explosive” Energy Prices are Fueling a Quant Hedge Fund Surge: The “explosive” upward price movements in energy markets are helping power performance among machine-based hedge funds this year, as CTAs and trend-following strategies successfully lock onto strong price signals. [Read more.](#)

Fund Launches Outweigh Closures in Q2 as Industry Maintains Momentum: The number of new hedge funds launched in the second quarter of 2021 totaled 180, a slight dip from the estimated 189 launches during the previous three-month period, according to Hedge Fund Research data. [Read more.](#)

Hedge Funds Keep Breaking Records with August Inflows and Performance Bringing AUM to USD3.662tn: 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.](#)

Larger Funds of Hedge Funds Dominate in H1, Citco Data Shows: Funds of hedge funds generated an average gain of 4.2% during the first six months of the year, outflanking long/short equity hedge funds and convertible arbitrage strategies, with larger portfolios pulling ahead of the pack as bigger proved to be better in H1. [Read more.](#)

Hedge Funds Scramble to Buy Crude Oil Futures as Market Tightens: Hedge fund speculators are having a heyday in oil markets, betting big on even higher crude prices in the short-to-medium term. [Read more.](#)

AWARDS



CONTACT INFORMATION

Morgan Creek Capital Management
301 West Barbee Chapel Road, Suite 200
Chapel Hill, NC 27517

Chris Arnold
carnold@morgancreekap.com
Phone: 919-933-4004

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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. 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.