

# ACROSS THE HEDGE

WEEKEND BRIEF - NOVEMBER 19, 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, December 23rd- 3:00pm EDT. [Register Here](#).

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

The reduction in leverage we have seen from hedge funds since mid-October has seemingly started to slow. Recent reductions by hedge funds have not been driven by a particular market catalyst or performance headwinds, but in our mind, is likely the result of seasonal exposure reductions at this time of year. When coupled with the sizable gross exposure increases this summer (particularly from the short side), the magnitude of these moves seems less surprising. According to data compiled by Morgan Stanley, the weighted gross leverage for Americas-based long/short funds is still around 199% with net positions inching up to 64%. While there tends to be more seasonal de-leveraging on the short side into year-end, it is unclear if this trend will follow the same path in the coming weeks, as much of this has already happened at both the index and single-stock level. Alpha generation has been challenging thus far in November (-1.2% through 11/15), with most of the losses coming from the short side. It is worth noting that absolute hedge fund performance for the year continues to be strong, with the average global fund up ~8.7%.

Our underlying managers have thus far outperformed broader industry averages in November, building off of October's strong performance. We have continued to take a measured approach when underwriting the current opportunity set in China, and we are seeing some encouraging signs of life in the region heading into year-end. We are particularly excited about the opportunity set in China in 2022, and after a challenging year in 2021, we think it will likely be a driver of fund performance.

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

We are currently in the process of completing two new private co-investments and wanted to provide a high-level overview on each as we believe they present compelling return opportunities for our investors.

Through an existing relationship with one of our co-investment partners, we were fortunate to have the opportunity to acquire shares in a digital-freight technology leader that is impacting the \$1.2 trillion global trucking and shipping industry. We believe the company is well positioned to capture market share in what has historically been a highly fragmented and inefficient market.

We are also in the process of closing an investment in one of the largest producers and developers of non-alcoholic spirits in the world. The demand for non-alcoholic spirit offerings and the growth of mindful drinking has experienced a significant increase in recent years, following similar trends that we have seen in adjacent consumer categories. Within this backdrop, the company has become a global category leader in a growing market.

We will do a deeper dive on both of these opportunities after their respective closes.



## CURRENT THEMES

### Growth-Oriented Long Focus

- China Healthcare
- Clean Energy Transition
- Cloud Migration
- Cybersecurity
- Digital Ads/Social Media
- Digital Payments
- Direct-To-Consumer
- Food & Drink Delivery
- Gaming & Trading
- Global eCommerce
- Internet of Healthcare
- LatAm Tech
- Live From Home
- Online Real Estate
- Semi Arms Race
- Scientific Innovation
- SME Digitization
- The Space Race

### Value-Oriented Long Focus

- Agriculture
- Chinese Industrials
- Energy Survivors
- European SMIDs
- Dislocated Chinese ADRs
- Dislocated SPACs
- Gold Miners
- Idiosyncratic Self Help
- Leisure Travel Surge
- Re-Opening Plays
- Traditional Financials
- Steeper Yield Curve Winners
- Vices

### Short Portfolio Focus

- Boom-Bust Cycles
- EV/Renewable Bubbles
- Frauds
- Great-To-Good
- ICE Autos
- Legacy Media Assets
- Levered Roll-Ups
- Mall REITS
- Over-Earning Staples
- Pandemic Fads
- PCs & Tablets
- Serial Promoters
- Secular Decliners
- Tech Rust Belt

## 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 Growth-oriented themes and positions heading into 2022. The team also set the stage for the upcoming webinar in December, which will highlight our high conviction Value-oriented themes and short ideas.

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

### Podcast

In this episode, the HedgeD teams tackles the ins and outs of all the rage these days – Crossover Investing – that is, investing in both private and public equities and all the variations and iterations of equity ownership in between – from Friends & Family rounds, to Growth Equity investments, to Pre-IPO opportunities and so on. Investing has always been in Bill Martin’s blood, having bought his first stock at the ripe young age of 10, starting his first business at the age of 19 or 20 and cutting his teeth in markets during the height of the Tech Bubble back in the late 90s. With some similarities, but many differences between then and now, we trust you will gain as much insight as we did from our conversation with Bill. Enjoy.

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

## PAST EVENTS CALENDAR

- November 19: Webinar— High Conviction Themes for 2022 (Part 1— Growth Ideas)
- November 11: Podcast—A Conversation About Crossover Investing (Bill Martin)
- 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)



## INDUSTRY UPDATES

**Hedge Funds' Service Provider Selection "More Important than Ever Before":** The selection of service providers – be they prime brokers, administrators or software systems – is more important than ever before following the seismic upheaval faced by hedge fund firms over the past 18 months. [Read more.](#)

**The Biggest Hedge Funds Are Starting To Move Away From Formerly Hot Stocks:** In recent years, when we think of hot stocks, names like Tesla, Facebook, Amazon, Alibaba, Alphabet, Microsoft and Peloton come to mind. These stocks have seen quite a bit of action among hedge funds every quarter for the last few years, but we uncovered an interesting trend in the third quarter. [Read more.](#)

**Hedge Fund Managers Returned 1.51% in October:** Opalesque Industry Update - Hedge fund managers returned 1.51% in October, underperforming the global equity market as represented by the MSCI ACWI (Local) which returned 4.61% during the month. In terms of 2021 performance, global hedge funds were up 9.18%, with more than a third of the constituents of the Eurekahedge Hedge Fund Index generating double-digit returns in 2021. [Read more.](#)

**Hedge Fund Net Inflows Top USD23bn in First Three Quarters as Volatility Increases:** The global hedge fund industry saw positive net inflows of USD6 billion in Q3 amid increasing volatility, totaling net inflows of USD23.7 billion in the first nine months of 2021, according to data from the Citco group of companies (Citco), the asset servicer with USD1.6 trillion in assets under administration (AuA). [Read more.](#)

**Pandemic Puts Cybersecurity and Succession Planning at the Heart of Due Diligence Process:** This year's hedgeweekLIVE European Emerging Managers Summit examined how start-up funds can best organize their approach to operational due diligence, with attendees hearing how cybersecurity and succession planning have emerged as key considerations as a result of the coronavirus pandemic. [Read more.](#)

**Over Three-quarters of Hedge Funds Say Regular Online Meetings Help Develop Talent in a Remote Working Environment:** The Alternative Investment Management Association (AIMA) has just published new research exploring where hedge funds are sourcing talent and the steps taken to retain employees during the so-called 'Great Resignation' and what roles (such as ESG specialists) will be most in demand in near future. [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. 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.