

ACROSS THE HEDGE

WEEKEND BRIEF - JANUARY 14, 2022



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@morgancreekap.com or visit us on the web at www.morgancreekap.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, January 27th- 3:00pm EDT. [Register Here.](#)

MANAGER UPDATES

Hedge fund performance remained challenged in December, as most strategies were only able to capture a small portion of the market's upside. Unfortunately, December marked the continuation of much of what we saw in 2021, as broader industry performance materially lagged equity benchmarks for the year. According to data compiled by Morgan Stanley, as of December 30th, the average global hedge fund was up only ~0.7% for the month (vs. MSCI World Index +4.1%), and only up ~7.6% for the year (vs. MSCI World Index +19.1%). This was similarly the case for America-based long/short funds, which captured only ~24% of the S&P's upside with the average fund up ~7.0% for the year (vs. S&P 500 Index +29%). Unlike prior years, the long side of portfolios accounted for the bulk of underperformance, as crowded hedge fund longs across each region underperformed their respective regional index. It is worth noting that crowded hedge fund shorts also underperformed regional indices, which partially offset some of the underperformance on the long side. The performance spread between crowded longs and shorts was positive in Asia and Europe, but lagged in North America. Through December 30th, the performance spread between crowded longs and shorts stood at -11.4% in North America, with crowded shorts finishing up ~22.8% vs. crowded longs up only ~11.4%.

Our managers were not immune to the above mentioned trends, with negative attribution across regions and themes. The portfolio's exposure within Asia and Technology were the biggest headwinds to performance in December, and accounted for most of the negative attribution during the month. This was somewhat counteracted by our more Value-oriented managers who finished the year on a strong note.

DIRECT PORTFOLIO UPDATE

We are pleased to announce that this past December, Market Kurly (the "Company") successfully closed its pre-IPO funding round, raising ~\$210 million from Anchor Equity Partners at a post-money valuation of ~\$3.3 billion. As a reminder, we were able to secure shares of Market Kurly on the secondary market concurrent to the Company's Series F raise this past July (~\$2.0 billion entry point vs Series F post-money of ~\$2.2 billion). In a statement, Market Kurly said it will use the proceeds from this round to further expand its logistics capabilities and service technologies, enhance data infrastructure and hire additional staff to expand product categories and attract new users (10 million users currently).

This most recent raise comes in advance of Market Kurly's planned Initial Public Offering in the first-half of 2022. The Company, which has yet to disclose how much it plans to raise in the IPO, said it was targeting a valuation of ~\$5.9 billion. While the exact date for the IPO has yet to be set, the Company's listing will take place on the Korean exchange, with NH Investment & Securities, Korea Investment &

Securities and JP Morgan serving as the lead underwriters. Our conviction level in Market Kurly remains high, and we continue to be pleased by the Company's performance heading into what should prove to be a pivotal year.

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

WEBINAR

On the most recent HedgeD, With A Capital "D" webinar, the team provided an update on some of Morgan Creek's high conviction Value-oriented themes and positions as well as the Short side of the portfolio heading into 2022. The team also set the stage for the upcoming webinar in January, which will review our high conviction themes and ideas from this time last year.

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

PODCAST

In the second episode of our holiday series, the HedgeD team explores Morgan Creek's highest conviction Value and Short themes and ideas for the year ahead and beyond. The goal of the series is to talk through a lot of ideas at a high level in hopes of encouraging further research and due diligence by you, our listeners. We encourage you to reach out with follow-up questions or comments. Be sure to tune into Part III, where we will conclude the series by taking a look back at our top picks this time last year to see what we got right, what we got wrong and what we still like. Enjoy.

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

PAST EVENTS CALENDAR

- December 23: Podcast—High Conviction Equity Themes for 2022 & Beyond (Part 2—Value & Short Ideas)
- December 23: Webinar—High Conviction Equity Themes for 2022 & Beyond (Part 2—Value & Short Ideas)
- December 7: Podcast—High Conviction Equity Themes for 2022 & Beyond (Part 1—Growth Ideas)
- November 19: Webinar— High Conviction Equity Themes for 2022 & Beyond (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

INDUSTRY UPDATES

What’s in Store for the Hedge Fund Industry in 2022: Despite fresh new threats from Coronavirus variants, assets under management for the hedge fund industry continue to break new records. While the implications of the pandemic continue to reverberate, much knowledge has been assimilated that resonates with hedge fund organizations about their people, technologies and cultures. [Read more.](#)

“A Healthy Evolution”: How Market ‘Stress Tests’ are Reshaping the Hedge Fund Prime Broker Dynamic: The Archegos meltdown, the “meme stock” short-selling squeeze, and new curbs on Chinese education stocks contributed to a “significant stress test” for the prime brokerage sector in 2021, one which potentially heralds far-reaching consequences for the ways prime brokers and hedge funds do business in the future. [Read more.](#)

Agecroft Partners Predicts Top Hedge Fund Industry Trends for 2022: Agecroft Partners has made his 13th annual predictions for the biggest trends in the hedge fund industry for 2022. These predictions are based on insights from more than 2,000 institutional investors globally and hundreds of hedge fund organizations. The hedge fund industry is dynamic and Agecroft believes 2022 will be the most transformative in its history. [Read more.](#)

Hedge Fund Demand to Drive Growth in Global Alternative Data Market: An increasing emphasis on gaining alpha from hedge funds is expected to boost the demand for alternative data, according to a new Research and Markets report. [Read more.](#)

Hedge Funds Turn Bullish on Oil as Omicron Fears Fade: In the final week of 2021, hedge funds bought petroleum futures and options contracts at the fastest pace in four months after market sentiment shifted over the past month from panic over Omicron’s potential impact on oil demand to moderate optimism that this COVID wave would not dent fuel consumption too much. [Read more.](#)

Unphased by DOJ Probe, Hedge Funds Continue to Issue Short Reports: The Department of Justice is reportedly investigating the relationship between research firms that publish short reports and the hedge funds that short the companies in those reports. However, many hedge funds are holding their ground as the investigation proceeds, and they continue to issue short reports and act upon them. [Read more.](#)



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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. 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.