

ACROSS THE HEDGE

WEEKEND BRIEF - MARCH 2, 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@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, March 3rd- 3:00pm EDT. [Register Here](#).

MANAGER UPDATES²

Hedge fund performance, while somewhat muted, has largely been in-line with net exposure profiles thus far in 2022. According to data compiled by Morgan Stanley, as of February 24th, the average global hedge fund was down -3.7% for the year vs. the MSCI World Index down -9.5%. The average U.S. Long/Short fund has fared worse than its global peers, returning -7.0% vs. -9.8% for the S&P 500. With the recent pullback in global equity indices, it is worth noting that hedge funds have been consistently adding to shorts, which caused net leverage across U.S. Long/Short funds to fall to as low as 44% intra-month (the lowest level Morgan Stanley has seen since June 2020). The performance spread between the top 50 crowded hedge fund longs and shorts widened the last week of February, as crowded longs finished up 0.7% while crowded shorts finished the week down -1.4% (+2.1% spread WTD/+2.3% spread MTD). This may suggest a better month of alpha generation for hedge funds, as the spread between crowded longs and shorts was marginally positive in January (+2.6% spread YTD).

Our managers have not been immune to recent industry trends, with the portfolio's more Growth-oriented exposure being the biggest headwind to performance. This has been counteracted by our more Value-oriented managers who continued their strong run of performance after generating positive returns in January. Our dedicated manager within the Energy space continues to be a stand-out performer in the portfolio (currently the largest manager allocation) and should benefit from higher underlying commodity prices.

DIRECT PORTFOLIO UPDATES³

Last year was a bumper year for IPOs globally, and South Korea was no exception, with 2022 looking to be another good year for Asia's fourth-largest economy. Upward of 20 companies went public on South Korea's main market last year, raising around \$14 billion—nearly double the previous record, set in 2010. Among the most prominent were the \$3.8 billion flotation in August of video game producer Krafton, the \$2.1 billion raised by KakaoBank in July, and March's \$1.3 billion offering by biopharmaceutical firm SK Bioscience, which was one of the best-performing IPOs of 2021. Heightened retail investor interest, thanks in part to a new system that improves the odds of small investors gaining access to offerings, has been an important driver of the Korean IPO market. More than 20 million people—almost 40% of the total population of South Korea—participated in the IPO market last year, which is more than 11 times the previous year's total. In addition, Korea's bourse has been a beneficiary of investors looking to increase their allocation to markets in Asia outside of China, following the regulatory crackdowns by Beijing.

Along these lines, it was recently reported that Market Kurly is seeking to raise up to \$1 billion in its public market debut. While the valuation of the offering has yet to be set, it was reported that the Company could be valued at about \$4 billion to \$6 billion in a listing. Market Kurly is expected to submit an application for preliminary approval to the Korean Exchange this quarter, with a target listing date in the second quarter.

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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 explored Morgan Creek’s highest conviction equity themes by taking a look back at our top picks for 2021 to see what we got wrong, what we got right and what we still like.

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

Podcast

In the last episode of our holiday series, the HedgeD team explores Morgan Creek’s highest conviction equity themes by taking a look back at our top picks for 2021 to see what we got wrong, what we got right and what we still like. We hope you enjoyed this three-part series and if you missed Part I, which focused on our top Growth themes, or Part II, which focused on our top Value & Short themes, please give them a listen, as they set the stage for a lot of the content we will be talking about with the help of some outside guests throughout 2022.

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

PAST EVENTS CALENDAR

- January 28: Webinar—What Went Wrong, Right & What do We Still Like (Part 3—2021 Review)
- January 28: Podcast—What Went Wrong, Right & What do We Still Like (Part 3—2021 Review)
- 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)



INDUSTRY UPDATES

SS&C GlobeOp Forward Redemption Indicator at 1.79% for February: The SS&C GlobeOp Forward Redemption Indicator for February 2022 measured 1.79%, up from 1.52% in January. [Read more.](#)

Hedge Funds Posted a 2.42% Loss in January but Outperformed Volatile Markets: Losses abounded in January, but the hedge fund industry largely shielded its investors from the worst. Hedge funds in aggregate were down 2.42% on the month, according to the Barclay Hedge Fund Index compiled by BarclayHedge, a division of Backstop Solutions. [Read more.](#)

Balyasny Boss Predicts Increase in Hedge Fund Investments in Private Companies: An increasing number of hedge funds will begin investing in private companies, despite fears of overheating in the crowded market, according to Dmitry Balyasny, the hedge of US hedge fund Balyasny Asset Management, according to a report in the Financial Times. [Read more.](#)

Amazon Passes Microsoft as the Most Widely Held Hedge Fund Stock: Amazon.com was the most widely held stock among hedge funds heading into 2022. At the end of the fourth quarter, at least 382 hedge fund firms held a position in the company, according to SEI Novus. [Read more.](#)

U.S. SEC to Ramp up Hedge Fund, Private Equity Fund Scrutiny : The U.S. Securities and Exchange Commission (SEC) Wednesday proposed new rules to boost hedge fund and private equity fund disclosures as it looks to increase oversight of the private funds industry and better monitor systemic risks. [Read more.](#)

SEC Proposes Increased Reporting on Short Positions: New proposals from the US Securities and Exchange Commission (SEC) would force hedge funds and other large investors would have to disclose significantly more information about the stocks they short, according to a report by Pensions & Investments. [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



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.
4. Information taken from the below publically available sources
 - Global Finance Magazine ([read more](#))
 - Bloomberg ([read more](#))