

ACROSS THE HEDGE

WEEKEND BRIEF - APRIL 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@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, May 5th- 3:00pm EDT. [Register Here](#).

INDUSTRY PERFORMANCE UPDATES²

Many of the trends that were persistent in Q1 have continued thus far in April, as hedge funds were once again large net sellers of global equities in the first full week of April. According to data compiled by Morgan Stanley, most of the selling has come as a result of short additions, though hedge funds also tilted towards selling longs on a net basis across all regions. According to the data, net leverage across North American, European and Asian funds declined by ~3% since the end of March, and current levels now sit below the 10th percentile for each region. Given that the net selling was more a product of short additions, gross leverage remained relatively flat, as levels dipped only 1% lower for North American funds but remained flat across European and Asian funds.

Breaking out the selling by region, North America and Europe ended as the two most net sold areas in relative terms. In North America, most of the net selling this past week took place outside of the broader Technology space, which had been the main driver of the net selling throughout most of Q1. Health Care ended as the most net sold single-name sector, followed by Industrials, Discretionary, and Real Estate. Notably, the selling of Health Care last week was in-line with the largest levels Morgan Stanley has seen in over 2 years, with most of the flow seen in Health Care Providers & Services, Biotech, and Life Sciences & Tools. As for Europe, last week ranked among the largest Morgan Stanley has seen in recent years in terms of the magnitude of short additions – all strategies contributed to the short adds. The short additions were spread across most single-name sectors and ETFs, but European Tech, Financials, and Discretionary ultimately ended as the most net sold sectors because in addition to seeing short additions, hedge funds also sold longs across these sectors. In Asia, hedge funds also tilted towards selling equities on a net basis, albeit in lighter amounts.

Across all strategies globally, hedge fund performance has been able to hang in relatively well vs. benchmark indices with the average global fund down only ~50bps through April 8th vs. the MSCI AC World Index down -1.3%. Asia-based funds have been the top performers thus far despite equity indices in Asia lagging global stocks – the average Asia-based fund is currently flat on the month vs. the MSCI Asia Pacific down -2.5%. North American funds are down the most in April according to Morgan Stanley, with the average fund showing losses of ~1.0% vs. the S&P down ~60bps through last Thursday. European-based funds have also underperformed in relative terms, with the average fund down ~50bps MTD vs. the Euro STOXX 600 down only ~10bps.

According to Morgan Stanley, one reason for the challenging performance for North American and European funds has been that the crowded longs in both regions have underperformed, as they are down -3.3% and -1.9% respectively. The top 50 crowded longs in Asia, however, are down only ~1.3% in Apr, which compares to shorts down -3.2%.

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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 provided an update on Morgan Creek’s current market outlook and why we believe long/short equity is the new 60/40. The team also highlights why exposure to high quality long/short equity strategies will be essential to offsetting the negative headwind from stocks and bonds in the coming years.

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

Podcast

In the last episode of HedgeD, the team tried something new by giving listeners the audio replay from the March 3rd, 2022 HedgeD With A Capital “D” webinar. We host this webinar series each month and in it we take a look at one of our most topical current investment themes. In March, we looked at South Korea, which we find particularly interesting on the Technology, Internet, Consumer and Fintech fronts for reasons described in the episode. The team walks listeners through the opportunity set at a high level with the support of the webinar slides which can be found on our YouTube channel (link above).

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

PAST EVENTS CALENDAR

- April 7: Webinar—Why Long/Short Equity Is The New 60/40 (Part 2)
- March 22: Podcast—Surveying the South Korean Investment Landscape
- March 3: Webinar—Surveying the South Korean Investment Landscape
- 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 (Part 1)
- September 29: Podcast—Why Long/Short Equity Is The New 60/40 (Part 1)



ARTICLES OF INTEREST

Building the Business: Challenges and Opportunities for Smaller Primes: As the hedge fund industry expands into newer markets and asset classes, smaller prime brokers can carve out boutique offerings in niche and specialist areas – but scalability challenges remain. [Read more.](#)

Activist Investor Blackwells Capital Reiterates Call for Peloton Sale: Activist alternative investment firm Blackwells Capital and a significant shareholder of Peloton Interactive, has published a presentation highlighting the failure of Peloton's new CEO to galvanise shareholder support, and addressing the 'severe and lingering governance issues facing the Company'. [Read more.](#)

Goldman Sachs Loses Trading Technology Expert to Hedge Fund: Trading technology expert George Tsimeropoulos has joined hedge fund Balyasny Asset Management as head of execution services, just three years after arriving at Goldman Sachs as a managing director in 2019, according to his LinkedIn profile. [Read more.](#)

Seward & Kissel New Hedge Fund Study Shows Confidence in Hedge Funds Rising with COVID Waning: With the most severe obstacles to businesses imposed by the pandemic beginning to ease, both hedge fund investors and managers showed marked signs of confidence in alternative investments in 2021, according to The Seward & Kissel New Hedge Fund Study, an annual study of newly launched hedge funds. [Read more.](#)

Meet 2022's Hedge Fund Rising Stars: These ten up-and-comers will be honored at Institutional Investor's Hedge Fund Industry Awards on April 27. [Read more.](#)

Hedge Fund Performance Dispersion Widest Since Financial Crisis: Dispersion among hedge fund performance is at its widest since the financial crisis of 2008, according to a report by The Financial Times. [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.
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.