

# ACROSS THE HEDGE

## WEEKEND BRIEF - MAY 13, 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](mailto:HedgeD@morgancreekcap.com) or visit us on the web at [www.morgancreekcap.com/opportunistic-equity/](http://www.morgancreekcap.com/opportunistic-equity/).

### 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, June 16th- 3:00pm EDT. [Register Here](#).

### INDUSTRY PERFORMANCE UPDATES<sup>2</sup>

May has thus far proven to be a challenging month for hedge funds, with most major strategies showing losses on the month. Heightened volatility in global markets continues to weigh on performance as investor sentiment remains broadly negative. According to data compiled by Morgan Stanley, the average Global Long/Short fund was down ~1% through May 5th, further compounding negative performance this year. The average North American based Long/Short fund was down ~1.5% vs the S&P up ~0.40%. The wide spread between Long/Short performance and broader market performance can be attributed in part to both long and short alpha being negative to start the month. Looking at the top 50 most crowded holdings across both sides of portfolios, crowded longs in North America were down ~2%, while crowded shorts were up ~1.7%, resulting in a negative performance spread of ~3.7%. It is worth noting that this was the widest weekly spread tracked by Morgan Stanley since the crowded shorts rallied back in January 2021. This now puts the average North American based long/short fund down ~9.4% on the year (as of May 5th).

Through May 5th, the spread between crowded stocks was positive in Europe and negative in Asia, with longs underperforming their respective benchmarks in each region. European based funds were down ~40bps and remain top performers on a year-to-date basis (down ~40bps vs. Euro STOXX 600 down ~8.7%). Asia-based funds were down closer to ~70bps vs. MSCI Asia Pacific down ~1.0% and are now down ~6.2% on the year.

Hedge Funds were incremental net buyers of global equities last week. One thing worth noting, according to Morgan Stanley's Prime Brokerage desk, was that last week marked the first sign of Long/Short funds beginning to trim gross exposure. The magnitude of the reduction in gross exposure was fairly minimal (gross reductions in May only offset ~25% of gross additions in April), but regardless, marked a shift in trend. Notably, Long/Short strategies were the only major strategy that Morgan Stanley tracks to trim gross exposure, whereas other major strategies skewed toward gross additions last week. The overall reduction in gross coupled with mark-to-market impacts, has resulted in gross leverage across North American and European funds falling to their lowest respective levels over the past 12 months. Net Leverage levels remained relatively unchanged across both regions, with nets coming in at ~42% and ~43% respectively.

Most of the gross reductions took place across North American equities. Technology and Financials saw the largest amounts of long selling, which ultimately led the two to be the most net sold sectors last week. On the short side, funds skewed towards covering shorts in most single-name sectors. More traditional defensive sectors were among the most net bought in North America, led by Staples, Providers & Services within Health Care and Utilities. Europe saw the largest amounts of net buying relative to other regions, with the buying spread across most strategies.



## ANNOUNCEMENTS

### Webinar

On the most recent HedgeD, With A Capital “D” webinar, the team provided an update the Energy Survivors theme, which has been a high conviction Value-oriented theme for Morgan Creek since shortly after the outbreak of the pandemic in 2020. The team highlighted the Bull Case for Energy as well as the Bear Case, both of which will ultimately come down to time horizon.

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

### Podcast

In the last episode of HedgeD, we replay the April 2022 HedgeD With A Capital “D” webinar, where we provided an update on an idea we put out there last September about why we think equity long/short could be the new 60/40. Given price action in stock and bond markets so far year-to-date, we thought an update on our thinking would be timely. We hope you enjoy this update and if you would like to discuss the matter in more detail, please feel free to @ us on Twitter @HedgeD\_Podcast or email us at HedgeD@morgancreekcap.com.

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

## PAST EVENTS CALENDAR

- May 5: Webinar— Energy Survivors: Hold ‘Em Or Fold ‘Em?
- April 22: Podcast—Why Long/Short Equity Is the New 60/40 (Part 2)
- 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)
- 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
- April 21: Webinar—First Quarter Performance Review & High Conviction Themes



## ARTICLES OF INTEREST

**Tech Trading in Turbulent Times:** Hedge funds trading technology companies endured a bumpy start to 2022, with bets on a slew of blue-chip stocks souring as investors took flight amid fears of rising inflation and interest rates coupled with concerns over US economic growth. [Read more.](#)

**Quant Hedge Funds Increasingly Popular with Investors:** Research from SigTech's 2021 annual Hedge Fund Research Report saw 80% of hedge fund managers expecting institutional investors to increase their allocation to quant strategies over the following year, and 86 per cent expecting quant hedge fund strategies to increase allocations over the following five years. [Read more.](#)

**Future Fund Allocates Additional AUD2bn to Hedge Fund Strategies:** The Future Fund, Australia's sovereign wealth fund, is tackling what its chairman has described a "challenging and volatile" period by allocating a further AUD2 billion to hedge fund strategies while shifting AUD4 billion of its portfolio out of cash, according to a report by Financial review. [Read more.](#)

**BlackRock's \$100 Million London Trader Turns Bearish Amid Record Losses:** BlackRock Inc. star money manager Alister Hibbert has turned bearish as his hedge fund endures its worst-ever losses amid a sharp decline in stocks. [Read more.](#)

**Hedge Funds Attract the Biggest Inflows in 7 years on the Back of Market Volatility:** The hedge fund industry attracted its largest inflows in seven years during the first quarter as investors sought downside protection amidst a volatility spike triggered by fears of inflation and rising rates as well as geopolitical tensions. [Read more.](#)

**New Entrants Push Global Hedge Fund Industry Over \$5tn Threshold:** The hedge fund industry turned back to outflows in February, experiencing -\$3.19 billion in net redemptions, -0.07% of industry assets, according to the Barclay Fund Flow Indicator published by BarclayHedge, a division of Backstop Solutions. [Read more.](#)

**Technology to Survive and Thrive in a World of Growing Threats:** The outbreak of the Covid-19 pandemic has created a breeding ground for an increase in fraudulent activity, as the world shifted to working from home and reliance on digital technology was heightened in all aspects of daily life. This underscored the need for tighter procedures and processes around detection and protection within all sectors, but especially financial services. [Read more.](#)

**World's Largest Allocators Added \$130bn to Private Markets Last Year, says Vidrio Research:** Mandate activity among the largest institutional investors soared in 2021 across private equity, private credit, real estate and infrastructure, and hedge funds, according to research commissioned by Vidrio Financial, a provider of software and integrated data services solutions for institutional alternative allocators globally. [Read more.](#)

## CONTACT INFORMATION

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## IMPORTANT DISCLOSURES & FOOTNOTES

### General

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### 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.