

ACROSS THE HEDGE

WEEKEND BRIEF - JUNE 4, 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 Opportunistic 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 Opportunistic 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/

PLATFORM OVERVIEW

With the backing of Tiger Management, Morgan Creek launched its flagship opportunistic equity strategy in 2005. While Morgan Creek's Opportunistic 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, June 30th- 3:00pm EDT. [Register Here](#).

INDUSTRY PERFORMANCE UPDATES²

Hedge fund performance was challenging in May, as heightened volatility and geopolitical uncertainty continued to weigh on investor sentiment. After weathering mid-month market losses, most strategies only captured a small portion of the market upside during the last week of the month (through May 26th). According to data compiled by Morgan Stanley, the average Global Long/Short fund ended up ~0.6% vs. the MSCI World up ~2.9%. The average North America based Long/Short fund ended up ~1.1% vs. the S&P 500 up just north of ~4.0%. As a result, through May 26th, month-to-date performance was more in-line with benchmark indices as the average Global Long/Short fund was down ~1.5% vs. the MSCI World down ~1.9%, and the average North American Long/Short fund was down ~2.7% vs. the S&P down only ~1.6%. In North America, the last week of May was particularly challenging for crowded hedge fund holdings, as crowded longs lagged the S&P at ~2.7% vs. crowded shorts up ~4.6%, resulting in a negative spread of -1.9% (through May 26th). Performance in other regions was equally challenging, as the average European based hedge fund posted gains of just ~0.6% despite the Euro STOXX 600 ending up ~1.7%. Asia-based hedge funds were the only ones to show losses during the last week of May, as the average fund was down ~0.5% and the average China-focused Long/Short fund was down ~0.9%.

On the flow side, the last week of May ended as one of the largest Morgan Stanley has seen this year in terms of gross exposure reductions, which was in large part due to short covering as global equities rallied higher. Notably, according to Morgan Stanley, last week was the first time this year where hedge funds tilted towards both covering shorts and selling longs (3rd largest week of long selling YTD of global equities, and the 2nd largest week of covering). The gross exposure reductions were largest in North America and Asia ex-Japan equities, with Long/Short and Quant funds driving flows in both regions.

Looking at North America, reductions in gross exposure levels were roughly balanced between the long and short side, which resulted in relatively muted net exposure activity. Selling on the long side of portfolios was largest in Communication Services, Consumer Discretionary and Financials, all of which ended among the most net sold sectors. In addition to these sectors, Morgan Stanley also saw hedge funds tilt towards selling more traditional defensive sectors in North America. As it relates to the short side, most of the covering was in ETFs as hedge funds covered broad based index hedges. At the factor exposure level, there was a clear preference for Value over Growth, with the former bought as it outperformed while the latter was sold as it underperformed. Notably, the spread between Growth and Value exposure is now at the lightest level Morgan Stanley has seen dating back to early 2013.

As mentioned above, hedge funds also trimmed gross exposure to Asia ex-Japan. China was the most net sold region as it accounted for most of the long selling seen through May 26th, and selling was split across most sectors. The covering, however, was spread across a wider number of countries within the region, including China.



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, the team sits down with an experienced hand in the Tech-investing scene in South Korea, Carlos Jesena of Carmenta Global Management. Carlos and Carmenta have backed many now-household names in South Korea such as Coupang, Market Kurly and Toss. Carlos gives listeners updated thoughts on each of these exciting companies, in addition to walking through the current opportunity set in South Korea. He imparts on listeners a wealth of information about Tech-investing in Asia, accumulated over the course of his long, yet still young career. Carlos is definitely a person that should be on your Asia Technology Investing Watch List for years to come.

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

PAST EVENTS CALENDAR

- May 27: Podcast— A Conversation About Tech Investing In South Korea (Carlos Jesena)
- 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



ARTICLES OF INTEREST

Hedge Fund Star's Bullish Turn Points to End of China Stock Rout: A top-performing Chinese macro hedge fund that held zero stock exposure earlier this year is turning more positive, saying a benchmark index has probably seen its low for the year though volatility will persist. [Read more.](#)

For Better Or Worse, These Are The Stocks Hedge Funds Bought And Sold In Q1 2022: Forty-five days after the end of each quarter, hedge funds with at least \$100 million in assets under management are required to report their holdings at the end of the quarter. Many investors plan their strategies based on what the most well-known hedge funds are buying, but that might not be the best strategy right now. [Read more.](#)

Hedge Funds and Asset Managers Adopt Different Approaches to Trading Treasuries: Hedge fund managers are adopting a different approach to asset managers when it comes to trading US treasuries, according to a report by Bloomberg. [Read more.](#)

Hong Kong Stocks Back in Favour with JP Morgan's Hedge Fund Clients: Hong Kong stocks are back in favour with JP Morgan Chase & Co's hedge fund clients, according to a report by Bloomberg, with the Wall Street Bank having revealed in a note this week that hedge funds are buying again after a sell-off lasting over a year. [Read more.](#)

Volatility Sees Hedge Fund Inflows Surge to \$13.6bn in Q1: Net inflows to hedge funds more than doubled from the previous quarter to come in at \$13.6 billion in the first quarter of 2022, according to data from the Citco group of companies (Citco), an asset servicer with \$1.8 trillion in assets under administration (AUA). [Read more.](#)

US Hedge Funds Increase Their Focus on ESG factors: US hedge fund managers are paying increased attention to the incorporation of environmental, social and governance factors in their strategies according to a report by Pensions & Investments. [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.