

ACROSS THE HEDGE

WEEKEND BRIEF - JULY 8, 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, July 28th 3:00pm EDT. [Register Here](#).

INDUSTRY PERFORMANCE UPDATES²

Heightened volatility was persistent across global markets in June, with most major indices finishing the month in bear market territory. Within this backdrop, the broader hedge fund complex performed better on a relative basis, with most strategies only capturing a small portion of the market downside. According to data compiled by Morgan Stanley, the average Global hedge fund was able to limit losses to only a fraction of what global indices were down in June. For the full month, the average Global hedge fund was down only ~1.9% despite the MSCI World finishing the month down ~8.4%. The average North American based Long/Short equity fund fared slightly worse being down ~3.4%, but still only represented 40% of the S&P's loss. This performance was consistent with what we would expect given where net leverage currently sits. For the year, the average Global hedge fund is down a little less than 5% and the average North American based Long/Short fund is down ~12.7% compared to the MSCI World and S&P 500 both being down closer to ~20%. Looking across other major regions, European based hedge funds finished June down ~2.0% and are now down only ~2.3% for the year, making them the top performer of the major strategies that Morgan Stanley tracks. Asia based hedge funds bucked the trend in June, finishing the month up ~0.7% despite the MSCI Asia Pacific Index being down ~6.4%. China-focused Long/Short managers capitalized on the rebound in the region, with the cohort finishing the month up ~3.5% (down ~9.0% for the year). Despite heightened volatility the last week of June, the spread between the most crowded hedge fund longs and shorts was positive in both North America and Europe as shorts worked quite well in June (shorts down ~7.7% and ~3.8% in each region respectively).

As it relates to market flows, hedge funds were net sellers of global equities in June. According to data tracked by Morgan Stanley, North American based funds added short exposure while trimming long positions in small amounts. Along these lines, net leverage across the hedge fund complex fell back to 40% after recently having reached 43%. It is worth noting that while 40% is among the lowest net leverage percentages thus far in 2022, current net leverage levels are still ~5% off the lows reached in mid-June. Most of the net selling was seen within Energy. Specifically, the last week of June ranked among the largest weeks of selling that Morgan Stanley has seen within the sector in recent years. In addition to energy, hedge funds were also net sellers of Health Care, Financials, and Utilities. Flows within Technology, Media and Telecommunications ("TMT") were more mixed, as hedge funds were net sellers of Software and Semis (via short adds) but net buyers of Telecom, Tech Hardware and Internet Retail. Similar to North America, the selling in Europe was similarly driven by a mix of short adds and long selling, and by sector, was led by European TMT, Real Estate and Industrials. Japan was the most net sold region in relative terms, with the selling driven entirely by the long side spread across most sectors. In Asia ex-Japan, the activity was more muted as hedge funds were small net buyers of most countries in the region.



ANNOUNCEMENTS

Webinar

On the most recent HedgeD, With A Capital “D” webinar, the team provided an update on the Cloud Migration/Software theme, which has been a long-standing high conviction Growth-oriented theme for Morgan Creek. The team outlined the prevailing opportunity set that has arisen from the sharp selloff in the space and why skilled security selection will be critical to capitalizing on the opportunity given the impending economic slowdown.

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 May 2022 HedgeD, With A Capital “D” Webinar, during which we provided an update to our Energy Survivors theme – a high conviction Value-oriented theme of ours since shortly after the outbreak of the pandemic in 2020. The team provided an update on the Bull Case Energy and the Bear Case, both of which will ultimately come down to time horizon. We hope you appreciate the update and welcome any follow-up questions or comments. Please feel free to @ us on Twitter @HedgeD_Podcast or email us directly at HedgeD@morgancreekcap.com.

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

PAST EVENTS CALENDAR

- June 30: Webinar—Cloud Migration/Software Opportunity
- June 8: Podcast—Energy Survivors: Hold ‘Em Or Fold ‘Em?
- 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)



ARTICLES OF INTEREST

Macro Funds Surge in H1 2022: A surge among hedge funds in the first six months of 2022 has been led by the Haidar Jupiter fund which gained 4.6% in June, boosting returns this year to 170%. [Read more.](#)

Upbeat Emerging Managers Set to Re-seize the Initiative: Emerging managers are in a buoyant mood looking ahead to the rest of 2022 – despite renewed market volatility and economic uncertainty underpinned by the war in Ukraine and rising inflation. [Read more.](#)

Hedge Funds Scoop up Biotech Stocks after ‘Catastrophic’ Declines: Hedge funds are hunting for bargains in the beaten-down biotechnology sector, betting that a vicious sell-off has run its course and that lower valuations will breathe life back into deal flow. [Read more.](#)

Hedge Fund Managers are Confident About the Next Year Despite the Many Headwinds: Despite the weak performance numbers we're seeing from sources like EurekaHedge and Citco, hedge fund managers generally report being confident about their funds' economic prospects over the next 12 months. Soaring inflation and the geopolitical turmoil hovering over Europe right now aren't taking a bite out of hedge fund confidence either. [Read more.](#)

‘Free Upside’ and Easier Access: How Hedge Fund Investors Can Play the Downturn: In the June edition of its monthly hedge fund newsletter, TD Securities discussed how allocators are thinking about the upcoming redemption cycle — a period when investors are expected to withdraw money from hedge funds. Typically, investors have to wait between 45 and 90 days to liquidate their hedge fund investments, meaning that a spike in outflows can occur about a quarter after hedge funds report poor performance. [Read more.](#)

Hedge Funds Remain Cautiously Optimistic About Economic Prospects: The average measure of hedge fund confidence in the economic prospects for the coming 12 months is +17.8, just under one point higher than the score reported in the first quarter of the year. [Read more.](#)

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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.