

ACROSS THE HEDGE

WEEKEND BRIEF - AUGUST 19, 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, August 25th- 3:00pm EDT. [Register Here](#).

INDUSTRY PERFORMANCE UPDATES²

Hedge funds have thus far largely performed in-line with their net exposure profiles in August, as Global equities have continued to rally through mid-month. With that said the broader hedge fund complex only captured a fraction of last week's market rally, as short positioning continued to be a drag on performance. According to data collected by Morgan Stanley, the average Global hedge fund posted gains of 0.4% (through 8/11), which compared to the MSCI AC World Index ending 1.8% higher (~22% upside capture). North American based Long/Short equity funds fared slightly better, with the cohort posting gains of 0.5%, which represented only a third of what the S&P 500 Index was up (current net exposure levels would typically imply up capture closer to ~50%). In other regions, European based hedge funds lagged their global counterparts as they posted gains of 0.3% vs. the Euro STOXX 600 Index up 1.1%, while Asia based hedge funds were able to post the strongest relative returns as they were up 0.6% on average (vs. MSCI Asia Pacific up 1.0%). On a YTD basis, Morgan Stanley is now tracking the average Global hedge fund down just 2.4% vs. the MSCI AC World Index down 12.5% (through 8/11). North American based Long/Short equity funds were down 7.5% on average, which compared to the S&P 500 Index being down nearly 11%. It is worth noting that short alpha has been materially negative in the region in recent months, as crowded hedge fund short holdings have rallied nearly 28% since the start of July (through 8/11).

As it relates to gross market flows, the most notable trend thus far in August has been hedge funds continuing to cover shorts (long exposures have also been trimmed on the margin). Starting with North America, hedge funds were incremental net buyers of equities as a result of short covering and muted long activity. Most sectors were net bought with the exception of Cyclical-related sectors, given hedge funds sold long positions in both Industrials and Materials. As for short covering, it was largest in nominal terms within Health Care and Technology, both of which ended among the most net bought sectors last week – at the industry level, the covering was led by Biotech, HC Providers & Services, Software and IT Services. In addition to Healthcare and Technology, hedge funds also tilted towards buying Communication Services (long additions in large-cap names) and Financials (long additions in Consumer Finance + short covers in Banks). North American Long/Short gross and net exposure levels have been impacted by mark-to-market moves, as gross exposures increased to 188% (1% off levels at the start of the year) with net exposures relatively unchanged at 45%. In both Europe and Asia ex-Japan, de-grossing was seen in similar amounts on the long and short side, resulting in muted net activity. Along the same lines, flows were also muted across most sectors in both regions. With that said, there was relatively large amounts of buying of Asia ex-Japan Healthcare vs. selling of European Health Care. In Japan, short covering outweighed the selling on the long side, resulting in one of the larger weeks of buying in recent months.



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 June 2022 HedgeD, With A Capital “D” Webinar, where the team provided an update on a long standing, high conviction Growth-oriented theme – Cloud Migration/Software. Investors get a few great buying opportunities a decade in this secular growth theme and we believe the sharp selloff in the space currently is likely one of them. The backdrop is opportunity-rich, yet skilled security selection will be critical to capitalizing on the buying opportunity in the midst of a broader economic slowdown. We outline the prevailing opportunity set as we see it and more in this episode of HedgeD. 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

- July 25: Podcast—Cloud Migration/Software Opportunity
- 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



ARTICLES OF INTEREST

Hedge Funds Lead Charge into Stocks: Hedge funds led a charge by professional investors to unwind bearish wagers and snap up stocks this week, as the S&P 500 saw a 2% gain on Wednesday, according to a report by Bloomberg. [Read more.](#)

Hedge Funds Rebound in July, as First-half Performance Dispersion Narrows: Performance dispersion among hedge funds has narrowed in recent weeks, as almost 60% of managers generated profits in July – with long/short equity, event driven and relative value strategies all making gains, according to new industry data. [Read more.](#)

Number of European Short Positions Hits Highest Level Since May 2020, says SEI Novus Data: The UK's short exposure soared in July relative to other European countries, to give it the greatest short exposure in the region at 22.6%, according to the latest data from SEI Novus. Short exposure in Germany meanwhile, the country with the greatest short exposure in June, fell to 22.18%, followed by the Netherlands at 11.12%. [Read more.](#)

Two Sigma, Soros Among Hedge Funds Positioned for Tech Comeback: Two Sigma Investments, Hudson Bay Capital Management, and Soros Fund Management were among the prominent hedge funds that added stakes in mega-cap technology companies in the last quarter, positioning themselves to potentially benefit from the recent comeback in growth stocks. [Read more.](#)

Hedge Funds Rushed to Snap Up Stocks During CPI-Fueled Rally: With the S&P 500 mounting a 2% gain Wednesday, professional speculators such as hedge funds piled into shares while unwinding bearish wagers. Their nominal net purchases reached the highest level in more than three months, according to data compiled by Goldman Sachs Group Inc.'s prime broker. [Read more.](#)

SEC Proposes More Transparency Rules into Hedge Fund Exposures: The Securities & Exchange Commission (SEC) is proposing an amendment to a rule that would require private equity funds and hedge funds to disclose more information about their investments and assets to better surveil systemic risks. [Read more.](#)

Japanese Yen Attracts Hedge Funds as a Speculator's Currency: Hedge funds and asset managers are speculating on the yen, intensifying swings in a currency usually known as a refuge during troubled times. [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.