

# ACROSS THE HEDGE

## WEEKEND BRIEF - AUGUST 5, 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](mailto:HedgeD@morgancreekcap.com) or visit us on the web at [www.morgancreekcap.com/](http://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 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, August 25<sup>th</sup> 3:00pm EDT. [Register Here](#).

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

After struggling to keep pace with global benchmarks in the first half of July, hedge funds were able to post modest gains in the back half of the month. According to data collected by Morgan Stanley, North American based Long/Short equity funds led the way, with the cohort posting gains of 1.3% the last week of the month, representing over 45% of the gains seen in the S&P 500 (through 7/28). While still positive, the average Global hedge fund was only up 0.8% last week, compared to the MSCI AC World Index up 2.1%. For the month of July, the average Global hedge fund was up 1.1% (vs. the MSCI AC World up 5.8%), bringing YTD performance to -3.8%. The average North America based Long/Short equity fund fared better than their Global counterparts in July, returning 3.4% vs. the S&P 500 Index up 7.7% (through 7/28). Despite stronger relative performance in July, the average North American based Long/Short equity fund is still down nearly 9% for the year. In other regions, European based funds posted modest gains, bringing YTD performance within the cohort to down slightly less than 1%. In relative terms, the cohort struggled in July after coming into the month as the top performer YTD, posting gains of less than 0.2% despite the Euro STOXX 600 index rallying nearly 6.5% (through 7/28). Crowded hedge fund shorts in Europe weighed on returns as they were up 6% in July, which came at a time when single-name short exposure in the region was hovering near ~2 year highs. Asia based hedge funds also struggled to keep up with markets the last week of the month, finishing July down roughly 0.30%.

As it relates to market flows, hedge funds continued to trim gross exposure globally, though active de-grossing was lighter than amounts seen earlier in the month. According to Morgan Stanley, most of the active de-grossing took place on the short side, with hedge funds covering short positions in most regions. Looking at the long side of portfolios, selling was largest in Asia. On the leverage front, de-grossing was largely offset by mark-to-market gains, which resulted in gross leverage across North American based Long/Short funds being unchanged week-over-week at 185%. Net leverage was similarly unchanged at 44%, which was in-line with the highest levels Morgan Stanley has seen over the past ~2.5 months (after falling to 35% in mid-June). Looking at net activity, hedge funds were small net buyers of North American equities, most of which was driven by the covering of index-level shorts. In addition to ETFs, Morgan Stanley also saw hedge funds continue to buy Utilities on a net basis, which came after the sector had been net sold 9 of the past 10 weeks ending July 15th. Hedge funds were also net buyers of Healthcare, most of which came from long additions in Biotech and Pharma. Conversely, hedge funds tilted towards selling Technology, Media and Telecommunications ("TMT") related industries, with Software, Media and Semis accounting for the bulk of the net selling. In addition to TMT, hedge funds were also net sellers of Energy (long selling) and Materials.



## 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

**Black Swan Hedge Funds are Booming in Scary Times:** Money managers are selling insurance against sudden market drops, but the strategy is expensive and doesn't always pay off when the market falls. [Read more.](#)

**Hedge Fund Launches Remain Strong — at Least in the First Quarter:** Hedge fund managers were on a roll with new launches last year and they aren't retreating — at least according to data for the first quarter. [Read more.](#)

**Oil Positions Steady After Heavy Hedge Fund Selling Ends:** Investors purchased small volumes of petroleum last week, after exceptionally heavy sales the week before, squaring up short positions after an unusually sudden and steep pull back in prices on recession fears. [Read more.](#)

**One Size Regulation Doesn't Fit all Hedge Funds:** A survey by Hedgeweek in June shows that 50% of larger hedge funds (>\$1bn) are looking to expand their internal legal and compliance teams, with 44% of smaller hedge funds (<250m) planning to increase their outsourcing of compliance functions. [Read more.](#)

**Global Oil Demand to Bounce Back, Predicts Star Hedge Fund Trader Andurand:** Star hedge fund trader Pierre Andurand has predicted that demand for oil will surpass expectations even if global economic growth stalls, according to a report by Bloomberg. [Read more.](#)

**SS&C GlobeOp Forward Redemption Indicator falls to 1.82% in July:** The SS&C GlobeOp Forward Redemption Indicator for July 2022 measured 1.82%, down from the 2.42% recorded in June. [Read more.](#)

**University Endowments with Larger Hedge Fund Investments Generate Higher Returns, says MFA Report:** A new report released today by Managed Funds Association highlights the important role of hedge fund investments in the overall portfolio of educational endowments. The report, titled "Allocations and Endowment Returns," shows that university endowments that invest more in hedge funds as part of a long-term strategy achieve higher returns. [Read more.](#)

**Top Performing Brazil Hedge Fund Backs Oil and Domestic Stocks:** Vista Capital, a Brazilian hedge fund which has so far racked up a 54% return in 2022, is betting on further increases in the price of oil prices and buying up shares in domestic companies, according to a report by Bloomberg. [Read more.](#)

**Higher Hedge Fund Fees Mean Better Performance, says Barclays Study:** A new study by Barclays suggests that when it comes to hedge fund fees and returns, it really is case of you get what you pay for, according to a report by Bloomberg. [Read more.](#)

## CONTACT INFORMATION

Morgan Creek Capital Management  
301 West Barbee Chapel Road, Suite 200  
Chapel Hill, NC 27517

Andrew Schmeelk  
aschmeelk@morgancreekcapi.com  
Phone: 917-618-2903



## 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.