

ACROSS THE HEDGE

WEEKEND BRIEF - SEPTEMBER 16, 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, September 29th- 3:00pm EDT. [Register Here](#).

INDUSTRY PERFORMANCE UPDATES²

Global markets have remained volatile thus far in September, as macro uncertainties continue to weigh on investor sentiment. After a challenging start to the month, hedge funds were able to recover a large portion of their early September losses, with performance being roughly flat on a MTD basis through September 8th. According to data compiled by Morgan Stanley, the average Global hedge fund was down ~0.2%, which compared to the MSCI World Index being down ~0.1% (through 9/8). On an YTD basis, this leaves the average Global hedge fund down 3.6% vs. the MSCI World Index down 17.5%. In Europe, returns were flat across the cohort of funds that Morgan Stanley tracks, with all strategies down less than 0.1% on a MTD basis – which compares to the Euro STOXX 600 Index being down ~0.2% in September (through 9/8). Asia-based hedge funds lagged their regional counterparts as equities in the region continued to sell off. The average Asia-based hedge fund was down over 1% through last Thursday, which represented just a small portion of the losses seen in the MSCI Asia Pacific Index (down 3.8% in September). The average North American based Long/Short equity fund fared slightly better than global peers, showing gains of 0.1% vs. 1.3% for the S&P 500 Index (through 9/8). Crowded hedge fund holdings in North America performed well, with longs outperforming the S&P 500 by ~0.5% and shorts lagging by ~0.2% – resulting in a positive long/short spread of +0.7%. Through last Thursday, the average North American based Long/Short equity fund was down 9.8% on an YTD basis, which compared to the S&P 500 being down ~15.0%.

As it relates to market flows, last week ended up being a lighter week in terms of hedge fund volumes. From a net perspective, hedge funds were buyers of Global equities, with the activity spread across North America, Europe, and Japan (Asia ex-Japan was the only region to be net sold). In North America, buying was a mix of long additions and short covers and was spread across a number of sectors. Communication Services ended up being the most net bought sector, marking the 2nd straight week of relatively large levels of buying – at the industry level, the buying was split between Entertainment and Diversified Telecom. Sticking with the Technology, Media and Telecommunications ("TMT") theme, we also saw hedge funds tilt towards buying the Technology sector, most of which came in Semis, Software, and IT Services. Hedge funds were also net buyers of more Defensive sectors with Utilities and Health Care driving the activity. Another contributing factor to last week's net buying activity was index-level products where hedge funds covered short positions while also adding longs. Outside of North America, Morgan Stanley saw hedge funds add long positions in both Europe and Japan, leading to both regions being net bought. In Europe, hedge funds were adding back to gross exposure on the short side, and interestingly, North American based Long/Short equity funds accounted for most of the recent ramp up in gross exposure to the region. Buying at the sector level mirrored trends seen in North America, with Defensives (Utilities and Health Care) and Communication Services leading the activity while flows to European Cyclical sectors were mixed.



ANNOUNCEMENTS

Webinar

On the most recent HedgeD, With A Capital “D” webinar, the team provided a midyear review of Morgan Creek’s high conviction 2022 equity themes. Within each theme, the team provided an in-depth performance overview to see what has been working, what hasn’t and why.

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

- August 25: Webinar—2022 High Conviction Themes Review
- 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)



ARTICLES OF INTEREST

Eastern European-focused Hedge Funds Facing Worst Returns in Eight Years: The surge in global inflation, the strength of the US dollar and the war in Ukraine have all combined to create huge challenges for hedge funds focussed on investments in Eastern Europe, with returns expected to be their worst in eight years, according to a report by Reuters. [Read more.](#)

Bridgewater Boss Predicts 20% Fall in Stocks if US Interest Rates Hit 4.5%: Billionaire hedge fund boss Ray Dalio believes Stock markets will plunge by 20% if the US Federal Reserve raises interest rates to 4.5% to tackle inflation, according to a report by Reuters. [Read more.](#)

Hedge Funds Have Busiest Trading Week in a Year: Hedge funds have had their biggest trading week in a year, in terms of notional trading volume, placing aggressive equity bets, both long and short, according to a report by Bloomberg. [Read more.](#)

Hedge Fund Led by Ex-Viking Co-CIO Boosts Assets to \$2.4 Billion: Anomaly Capital Management, the hedge fund run by the former co-chief investment officer of Viking Global Investors, raised \$500 million in the past five months. [Read more.](#)

Hedge Fund Investors Look for Protection in Uncorrelated Strategies: Investors in hedge funds are seeking out more defensive strategies amid a volatile market environment. [Read more.](#)

Hedge Funds Swarm Back to Upended Markets With Short, Long Bets: After spending much of 2022 playing defense, professional speculators are reasserting themselves with aggressive equity bets on both the short and long side. [Read more.](#)

Short Activity in Industrials Hits Two-year High as Anticipated 'Belt-Tightening' Sees Managers Adjust Strategies: Industrials stocks topped the 'most-shortened' rankings in August, ending the month accounting for 22.98% of total short activity in Europe, having reached their highest level in two years on 18 August at 26.57%, according to latest monthly pan-European short position data from SEI Novus. [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.