

ACROSS THE HEDGE

WEEKEND BRIEF - OCTOBER 14, 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 Tuesday, November 15th 3:00pm EDT. [Register Here](#).

INDUSTRY PERFORMANCE UPDATES²

Following a challenging end to September, hedge funds were able to capture a relatively large portion of the rebound in equity indices last week. According to data from Morgan Stanley, hedge funds finished the week up 1.6% on average (through 10/6). North America based Long/Short equity funds were among the top performers through the first four days of October with the cohort up just over 3% on the week compared to the S&P 500 being up 4.5%. The top 50 crowded hedge fund longs in North America largely underperformed throughout most of September, but recovered well last week, outpacing both the S&P 500 and the top 50 crowded hedge fund shorts by a wide margin (up ~1.9% more than the S&P 500, up ~1.4% more than the crowded hedge fund shorts). Crowded longs outside of North America also outperformed, with the top 50 hedge fund longs in Europe outpacing the Euro STOXX 600 and the top 50 crowded hedge fund shorts. The top 50 hedge fund longs in Asia were also up more than the MSCI Asia Pacific and the top 50 crowded Asia shorts (crowded longs up +5.6%). On a YTD basis, last week's strong performance leaves the average Global hedge fund down slightly less than 3% vs. the MSCI World still being down north of 20%. North American based Long/Short equity funds have fared slightly worse, capturing a little less than 50% of the downside in the S&P 500 Index. In other regions, European based hedge funds posted gains of ~90bps last week with Asia based hedge funds posting gains of ~1.6% (through 10/6).

As the market rallied higher last week, hedge funds shifted to covering short positions globally, resulting in net leverage across most major strategies Morgan Stanley tracks ticking higher. The largest move in net leverage was seen in North American, where net leverage increased to ~41%, representing a ~6% move higher from the recent lows touched on September 26th. European funds also saw a notable move higher with net leverage rising ~5% week-over-week. Last week's short covering was fairly broad-based and spread across all regions. In relative terms, Japan ended the week as the most net bought region, followed by North America. Looking first at North America, almost all of the short covering took place at the index-level, with ETFs being covered most days last week. Interestingly, when stripping out ETFs, short flows in North America actually tilted slightly positive. At the single-name level, hedge funds were net buyers of Consumer-related sectors, Utilities, and Financials. Conversely, hedge funds were net sellers of both Energy and Materials despite the two being among the better performing sectors on the week. Flows to Technology, Media and Telecommunications ("TMT") were relatively muted at a high level, but it is worth noting that at the industry level there was more divergence, with Internet & Direct Marketing Retail and Semis among the most net bought industries while Software ranked among the most net sold. As mentioned above, Japan was the most net bought region in relative terms as hedge funds covered short positions within Consumer Discretionary, Industrials, and Communication Services. The covering was less pronounced in Europe and Asia ex-Japan, where flows at the sector level in both regions were relatively muted.



ANNOUNCEMENTS

Webinar

On the most recent webinar, the team discussed the current market environment and its implications for traditional asset classes. While the current investment landscape is riddled with potholes, generational investment opportunities are likely to present themselves. The team outlined one such opportunity, specifically as it relates to equity markets in China and why now could be the time to take advantage of depressed valuation levels in the region.

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

- September 29: Webinar—Surveying the Current Investment Landscape / China Market Opportunity
- 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



ARTICLES OF INTEREST

Star Chinese Macro Hedge Fund Predicts Bull Market for China Stocks: Chinese macro hedge fund Shanghai Banxia Investment Management Center has called the bottom of the country's stock rout and predicted that the country is on the verge of a bull market. [Read more.](#)

Hedge Funds Remain Bullish on Dollar: Despite the US dollar having jumped by nearly 20% so far this year, hedge funds still think there's more to come from the greenback as the US Federal Reserve looks to curb inflation with tighter monetary policy, according to a report by The Financial Times. [Read more.](#)

Institutions Turn to Hedge Funds of Funds to Diversify: Hedge funds-of-funds managers are seeing modest interest and investment from asset owners as the global impact of inflation, rising interest rates, the reversal of monetary stimulus and higher volatility wreak havoc on global markets. [Read more.](#)

Hedge Fund Boss Laffont Says Coatue Still Mostly in Cash, Sees Stock Woes Ahead: Philippe Laffont's Coatue Management has kept the majority of its assets in cash after slashing its hedge fund's equity market exposure earlier this year, and he expects stocks to fall much further. [Read more.](#)

AIMA Hedge Fund Confidence Index Hits Highest Average Since 2020 Launch: The AIMA Hedge Fund Confidence Index (HFCI) measured +25.4 for Q3 2022 – up from +17.8 in Q2 – the highest average confidence score recorded since the HFCI debuted in 2020. The index, which is based on a sample of 389 hedge funds, accounting for approximately \$3 trillion in assets measure average confidence in terms of business prospects for the next 12 months. [Read more.](#)

The Next Generation of Hedge Fund Leaders: There's a new generation of investors gearing up to lead some of the world's largest hedge funds as billionaire founders eye succession plans. [Read more.](#)

Multi-strategy Hedge Funds Continue to Attract Net Allocations: Multi-strategy hedge funds were again the capital raising winners in August bringing in a net +\$2.75 billion, and taking year to date inflows to +\$18.37 billion, according to a report by AlphaWeek. [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.