

ACROSS THE HEDGE

WEEKEND BRIEF - OCTOBER 28, 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 Wednesday, November 9th- 3:00pm EDT. [Register Here](#).

INDUSTRY PERFORMANCE UPDATES²

Heightened volatility has remained persistent across global markets in October, with most major indices trending in positive territory. Within this backdrop, performance across the broader hedge fund complex has been somewhat muted, with most strategies capturing only a small portion of the rebound in equity indices last week. According to data from Morgan Stanley, the average global hedge fund finished the week up 0.6%, which compared to the MSCI World Index rallying nearly 2.0% (through 10/20). North American based Long/Short equity funds were among the top performing strategies tracked by Morgan Stanley, with the average fund generating a positive return of 1.3% vs 2.3% for the S&P 500 Index. Notably, after weighing on returns earlier in the month, crowded longs contributed to the positive alpha funds were able to generate last week, with the top 50 hedge fund longs in North America outperforming the S&P 500 by ~1.8% through last Thursday (crowded shorts were up ~2.2%, resulting in a positive spread of +1.9%). For the month, the average global fund was up 0.3% vs. 1.8% for the MSCI World, with the average North American based Long/Short equity fund up 0.9% vs. 2.3% for the S&P 500 Index (through 10/20). Looking at other regions, European based hedge funds captured only a small portion of last week's rally, with the average fund capturing ~16% of the Euro STOXX 600's upside. Elsewhere, Asia based hedge funds ended as the only major strategy to post losses last week, and were the only cohort showing losses thus far in October (avg. fund -1.6% vs. MSCI Asia Pacific Index -1.5%).

From a market flows perspective, hedge funds trended towards trimming gross exposure as they covered short positions with activity on the long side of portfolios being fairly muted. In notional terms, covering was largest in Europe, where hedge funds were covering both index-level and single-name short positions. On the long side, flows were muted across most areas with the exception of Technology, which ended up being the most net bought sector by a wide margin. Looking across other regions, Asia ex-Japan was net sold (long trims in Real Estate, Health Care, and Discretionary) while flows to Japan were flat on a net basis. Looking at flows in North America, covering was slightly less pronounced than what we saw in Europe and was driven by index-level products as opposed to single-name shorts. By sector, Financials ended as the most net bought in relative terms as earnings kicked off within the space. Technology followed as the next most net bought sector as hedge funds started building back long exposure. Within Technology, most of the net buying was attributable to Software, though interestingly, Semiconductors have continued to see the largest amount of gross additions of any industry (across all sectors) with hedge funds adding to both longs and shorts in relatively equal amounts last week. In addition to Financials and Technology, hedge funds were small net buyers of Communication Services, Consumer Staples, Health Care and Consumer Discretionary. At the factor level, there was a clear preference for large caps over small caps, with the former being bought in some of the largest amounts Morgan Stanley has seen in recent months.



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

Hedge Funds Are Slashing Leverage to Weather Market Slump: Hedge funds have cut portfolio leverage this year in a conservative turn that has sucked borrowed money from global markets, adding selling pressure to stocks and bonds. [Read more.](#)

This Hedge-Fund Manager Who Made Winning Bets in 2020 Says Investors Should be Bracing for a Decades-Long Bear Market: Saba Capital's founder Boaz Weinstein, warns of a "real headwind" for investors from central bank tightening that could trigger a decades-long bear market, such as seen in Japan. [Read more.](#)

Hedge Funds Bullish on Long/Short and Global Strategies Despite Recent Woes: More than 40% of hedge fund managers expect LPs to increase investment allocations to long/short and global strategies in the next 12 months, research from EisnerAmper suggests. [Read more.](#)

SS&C GlobeOp Forward Redemption Indicator Down to 2.35% in October: The SS&C GlobeOp Forward Redemption Indicator for October 2022 measured 2.35%, down from September's figure of 2.67%. [Read more.](#)

Hedge Funds Tap Into Tech Talent: Tech-based expertise is now a key battleground in hedge fund staffing, expanding far beyond the computer-based quantitative space in recent years, as managers running traditional fundamental and discretionary-focused strategies also look to draw on the alpha-generating opportunities offered by the avalanche of alternative datasets and algorithm processes in the hunt for yield. [Read more.](#)

Financial Advisors Boost use of Alternative Investment and Private Funds: Advisors are increasingly leaning on private funds and alternative investments amid volatile equity and bond markets, according to a bi-annual survey by Broadridge Financial Solutions. [Read more.](#)

Brazil's Biggest Hedge Fund Managers More Optimistic Following First Round of Presidential Voting: Some of Brazil's largest hedge fund managers say they are feeling more optimistic about the prospects for the country's economy following the first round of voting in the Presidential election, 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@morgancreekcap.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.