Across the Hedge

Weekend Brief - December 16, 2022

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 2013. 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, January 12th- 3:00pm EDT. *Register Here*.

Industry Performance Updates[1]

After a strong run of performance in October and November, investors hit pause on the stock market rally as heightened macroeconomic risks weighed on global equities. Despite the current environment, hedge funds have managed to protect capital, limiting downside capture in what has thus far proven to be a volatile month. According to data from Morgan Stanley, while the MSCI World Index declined -2.4% last week, the average global hedge fund was able to limit losses to just -0.7% (through 12/8). The average North American based Long/Short equity fund felt a bit more pain vs. other strategies, declining -1.5% (experiencing > 55% of the S&P 500's losses). Hedge fund performance in other regions was stronger, particularly in Asia. The average Asian based hedge fund managed to gain 0.7% last week despite the MSCI Asia Pacific Index declining -1.4%. Relative performance was also strong across Europe, as the average European based hedge fund only posted losses of -0.3% vs. the Euro STOXX 600 Index being down -1.9% (through 12/8). Following last week's decline in markets, the average global hedge fund was down -0.7% on the year, with the average North American based Long/Short equity fund fairing worse at down -9% (vs. the MSCI and S&P both down over 15%). European based hedge funds remain the best performing cohort on the year, as they came into the week up 2.7%.

With the recent sell-off in markets, hedge funds have tilted towards selling global equities, which resulted in net exposure levels drifting lower. Net exposure levels across North American based Long/Short funds declined 3% last week, dropping to 40%. Given that most of the selling came via short additions as opposed to long selling, gross exposure levels only declined 1% to 178% (due to mark-to-market impacts). Last week's selling was largely concentrated in North American equities, as hedge funds were net buyers of other regions. Much of the selling that took place in North America occurred across index-level products as hedge funds added to shorts while also trimming longs in the region. According to Morgan Stanley, Consumer Discretionary was the most net sold sector as it saw the most short additions of any sector by a fairly wide margin. Within Consumer Discretionary, most industries were net sold, led by Hotels, Restaurants & Leisure, Autos, and Specialty Retail. Conversely, hedge funds were small net buyers of Consumer Staples, Energy, and Financials – all of which were driven by long additions. Outside of North America, hedge funds tilted towards buying other regions on a net basis, particularly Asia-ex Japan. Most of the buying in Asia-ex Japan came within China and was entirely driven by long additions. The buying in China was concentrated in H-shares, with flows to ADRs and A-shares being more muted. Hedge funds were buyers of more traditional defensive sectors in the region, including Real Estate, Consumer Staples, Health Care and Communication Services. In other regions, hedge funds were small net buyers of Europe, with flows at the sector level concentrated in Health Care. Net flows to Japan, meanwhile, were relatively flat.

Announcements

Webinar
On the most recent webinar, the team provided an update on the traditional 60/40 portfolio as well as what high conviction themes they are excited about heading into 2023. Specifically, the team discussed potential opportunities in Emerging Markets (China & Brazil), Technology (Software), and Healthcare (Biopharma).

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 November 9th HedgeD, With A Capital "D" and Around The World With Yusko combined webinars, where the team provided an update on the traditional 60/40 portfolio as well as what high conviction themes they are excited about heading into 2023. They touch on a variety of topics in Emerging Markets (China & Brazil), Technology (Software) and Healthcare (Biopharma). We hope you enjoy this dynamic and engaging episode. 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

- December 2: Podcast—2023 High Conviction Themes Sneak Peak
- November 9: Webinar—2023 High Conviction Themes Sneak Peak
- October 27: Podcast—Surveying the Current Investment Landscape/China Market Opportunity
- 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

Articles of interest

Asia's Hedge Fund Seeders Go for 'Uncorrelated' Strategies: With traditional equity and bond portfolios underwhelming investors this year and China's market returns letting them down, Asia's most active seed-fund providers are ploughing money instead into hedge funds with strategies not correlated to major macro trends. Read more.

Hedge Fund Bets Give Boost to Huge Texas Teachers' Pension: The roughly $184 billion pension fund, one of the biggest in the U.S. and a significant investor in hedge funds, lost 2.3% for the fiscal year ended June 30, outpacing the median 5.1% loss for large pension funds reported by Wilshire Trust Universe Comparison Service. Read more.

Big Banks Gain as Brazil Hedge Funds Go Global: The globalization of Brazil's hedge fund sector is providing a boost to several big banks, including Goldman Sachs Group Inc, UBS Group AG and Deutsche Bank AG, as managers look to overseas investments to boost returns, according to a report by Bloomberg. Read more.

Hedge Funds Returning to Form as Year-end Approaches: Hedge funds extended gains in November with the investable HFRI 500 Fund Weighted Composite Index advancing 0.8% for the month, as directional equity hedge and interest rate sensitive relative value arbitrage strategies led the way. Read more.

Hedge Funds Dump Bullish Oil Positions: Hedge funds and other money managers continued selling petroleum positions for the fourth consecutive week during the seven days ending 6 December as the price cap on Russian oil came into effect, according to a report be Reuters. Read more.

Rokos Targets $3bn as Macro Fund Set for Record Gains: Rokos Capital Management, the hedge fund run by billionaire investor Chris Rokos, is looking to raise up to $3 billion in fresh capital on the back of record gains for its global macro fund, according to a report by Bloomberg. Read more.

Hedge Fund Performance and What it Could Mean for Outsourcing in the New Year: Performance, or rather a lack thereof, during the volatile markets this year, is the most significant headwind facing hedge fund managers heading into 2023. With no incentive fees coming in, many fund managers will face a tough time sustaining their operations. Read more.

Citadel YTD Returns Hit 32% Following November Gain: Citadel, the hedge fund firm founded by billionaire investor Ken Griffin, saw its YTD gains reach 32% following another month of positive performance in November, according to a report by CNBC. Read more.

Singapore Cements Position as a Regional Hedge Fund Hotspot: The number of hedge fund firms expanding from Hong Kong to Singapore has tripled in the past three years, establishing the city state as a rival regional hedge fund hotspot, according to a report by Bloomberg. 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. Hedge fund performance data provided by Morgan Stanley Prime Brokerage—Strategic Content Group.