

ACROSS THE HEDGE

WEEKEND BRIEF - DECEMBER 2, 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, January 12th-3:00pm EDT. [Register Here](#).

INDUSTRY PERFORMANCE UPDATES²

Global equities continued their strong run of performance following a better than expected CPI print in early November, with most major indices rallying into month-end. Within this backdrop, hedge funds broadly performed in-line with their net exposure profiles. According to data from Morgan Stanley, through November 23, the average North American based Long/Short equity fund was up 1.2% vs. 4.2% for the S&P 500 Index. For the year, the average North American fund stood at -7.4% compared to the S&P 500 being down -14.3% (through 11/23). The average global fund has fared slightly worse than their North American counterparts in terms of up-capture, generating a positive return of 1.5% for the month vs. 6.4% for the MSCI World Index. On a year-to-date basis, the average global fund was only down -0.7% relative to -15.7% for the MSCI World (through 11/23). In other regions, the average European based hedge fund remained one of the few cohorts that Morgan Stanley tracks to have posted gains on the year, with the average fund in the region returning ~2.5% through November 23.

From a market flows perspective, the pace of de-grossing seen earlier in November slowed ahead of the Thanksgiving holiday in the US, as both gross and net flows were fairly muted through the 23rd. Looking at net activity, there was a small tilt towards buying equities in North America and Japan on a net basis, while equities in Europe and Asia ex-Japan were net sold. Within North America, hedge funds were net buyers of Financials and traditional cyclical sectors such as Consumer Discretionary, Energy, and Industrials. Conversely, hedge funds were net sellers of Health Care (HC Equipment & Supplies and Pharma) and Real Estate (Specialized and Office REITs). Net flows to the broader Technology, Media, and Telecom space were relatively flat at a high level, though flows at the industry level were more divergent with hedge funds tilting towards buying Semi-Conductors and IT Services, while Technology Hardware was net sold. At the factor level, hedge funds were buyers of Volatility and Growth but net sellers of more defensive factors including Quality and Size. In terms of leverage, Morgan Stanley has noted that net exposure levels across North American based Long/Short equity funds increased slightly to ~43%, putting levels back near the median range over the past 12 month, though they remain in the 10th percentile vs. data going back to 2010. Gross exposure levels declined slightly to 179%, which is just ~5% off the lows reached earlier this year. Offsetting much of the buying in North America were Europe and Asia ex-Japan, where hedge funds were net sellers of equities in both regions. In Europe, the selling was spread across most sectors, with the only two sectors to be net bought being Health Care and Financials. As for Asia ex-Japan, hedge funds trimmed long exposure in excess of what was covered on the short side, resulting in the region being net sold. Most of the long selling was concentrated in China A-shares and ADRs, whereas short covering was concentrated primarily in Australian equities.



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 September 29th HedgeD, With A Capital “D” and Around The World With Yusko combined webinars, where the team provided an update on the current market environment and its implications for the traditional 60/40 portfolio of stocks and bonds. 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. We hope you enjoy this dynamic and engaging episode. Please feel free to @ us on Twitter @HedgeD_Podcast or email us directly at HedgeD@morgancreekap.com.

HedgeD podcasts are available on [Apple Podcasts](#) and [Spotify](#).

PAST EVENTS CALENDAR

- 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

Hedge Fund Hiring Spree Sweeps Big Multi-Strategy Firms in Asia: It's been a rough year for hedge funds in Asia, but that doesn't mean they're all struggling. Large global and regional funds have been adding people in Asia at a breakneck pace, as volatile markets favor firms that employ multiple strategies and investment teams while smaller local peers underperform. [Read more.](#)

Here's How One Hedge Fund is Going Against the Grain and Beating the Markets: White shoe Boston fund managers GMO — founded by Jeremy Grantham — is shooting out the lights this year with its “equity dislocation” investment strategy. This strategy, unveiled almost exactly two years ago, buys the cheapest “value” stocks and then bets against the most expensive “growth” ones. [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.](#)

Investors Sticking with Hedge Funds to Protect Assets, says EY Survey: Investors clearly see hedge funds as a useful tool for protecting assets during ongoing market volatility, according to Ernst & Young's (EY) latest Global Alternative Fund Survey, with more than three quarters (78%) of investor respondents expecting to maintain their current allocations in the near future. [Read more.](#)

Commodity Hedge Funds Finding Favor with Investors Again: Hedge fund managers are looking to build stronger partnerships with their advisers. As volatility and uncertainty continue to hammer markets, managers want efficient, timely responses to help minimize risk and address any concerns before making decisions. [Read more.](#)

Tortoise Makes 'Sensibly Contrarian' Long Meta Bet: Tortoise, a London-based hedge fund manager that has outperformed 99% of its long-short equity rivals so far this year, feels the time is right to be “sensibly contrarian” and has out demonstrated the courage of its convictions with a long bet on Facebook owner Meta Platforms Inc, according to a report by Bloomberg. [Read more.](#)

Hedge Fund Returns Improve in Q3, Led by Solid Gains for Macro Strategies: Hedge fund returns held up well in the face of ongoing downward trends for some markets in the third quarter, seeing only a small decline overall, with some specific strategies recording strong gains, according to data from Citco. [Read more.](#)

Investors Expect To Hold Hedge Fund Allocations Steady, But Credit To Benefit the Most: With so much volatility in the markets, investors have been left with virtually nowhere to hide, but hedge funds have demonstrated how they can protect capital during periods of upheaval. The EurekaHedge Hedge Fund Index is down 5% year to date through October, compared to the S&P 500's decline of 17%. [Read more.](#)

Hedge Funds Have Been Shunning Momentum — To Their Peril: As the stock markets have plunged, hedge funds have done the only thing they could do to protect themselves. Overall, funds remain in a holding pattern—with their lowest exposure to equities since 2009. That's undoubtedly good news for investors, as the top 50 most popular long positions among hedge funds have plummeted year to date. However, funds have also become anti-momentum, which has damaged their returns. [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.