

# ACROSS THE HEDGE

## WEEKEND BRIEF - JANUARY 9, 2023



**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](mailto:HedgeD@morgancreekcap.com) or visit us on the web at [www.morgancreekcap.com](http://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 12<sup>th</sup>- 3:00pm EDT. [Register Here](#).

### INDUSTRY PERFORMANCE UPDATES<sup>1</sup>

December proved to be another challenging month for equity markets, as volatility remained the overarching theme of the year. Despite the challenging equity market backdrop, many hedge funds were able to mitigate losses. According to data from Morgan Stanley, while the MSCI AC World Index declined -3.9% in December, the average global hedge fund finished the month down only -0.1%. The average North American based Long/Short equity fund also performed well on a relative basis, declining -1.1% (experiencing < 19% of the S&P 500's losses). Hedge fund performance in other regions was stronger, particularly in Asia and Europe. Asian based hedge funds were the top performers in absolute terms in December, as the average fund managed to gain 1.1%. Relative performance was also strong across Europe, as the average European based hedge fund posted gains of 0.4% despite the Euro STOXX 600 Index being down -3.3% for the month. Counting December's performance, the average global hedge fund finished the year down -0.6%, with the average North American based Long/Short equity fund fairing worse at down -9.5% (vs. the MSCI and S&P both down ~18%). European based hedge funds were the best performing cohort on the year, with the average European fund posting gains of 3.4% vs the Euro STOXX 600 Index ending the year down close to -10%.

Global Long/Short alpha continued to improve into year-end, though it was still slightly negative for the full year given longs were down more than shorts in 2022. According to data tracked by Morgan Stanley's Prime Brokerage desk, December not only proved to be the best month for Long/Short alpha on a year-to-date basis, but it was also the best month for Long/Short alpha over the past decade. In December, longs outperformed shorts by ~3.2%, as shorts were down -6.4% while longs were down only -3.2%. Notably, hedge funds were able to generate positive alpha on both sides of the book given the MSCI AC World Index was down -3.9% in December. For the full year, longs held globally by Long/Short funds fell -29.3% while shorts held by Long/Short funds fell -28.9%, resulting in a negative performance spread of -0.4%. It is worth noting that 2022 ranked as the second most challenging year for long alpha since Morgan Stanley started tracking the data in 2009, while short alpha had its second best year on record, with shorts underperforming the MSCI AC World Index by over 11.0%.

From a flows perspective, hedge funds were small net sellers of global equities during the month of December as they added gross exposure on both the long and short sides of portfolios. On both a gross and net basis, North American funds drove almost all the flow globally, though China was the one other region to see notable amounts of activity. Most of the net selling in December occurred at the index level, which was partially offset by hedge funds tilting towards buying single-name positions on a net basis.



## 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

**Hedge Fund Fees Fall to Lowest Level Since 2008 Financial Crisis:** Hedge fund fees have dropped to their lowest level since the global financial crisis in 2008, research firm Hedge Fund Research (HFR) said on Friday, as high inflation and recession fears hit investors. [Read more.](#)

**Hedge Fund Debuts in Biggest Launch Led by a Woman:** Mala Gaonkar's SurgoCap Partners started trading Tuesday with \$1.8 billion under management, the largest debut of a woman-led hedge fund in the industry's history. [Read more.](#)

**Brazil Hedge Funds Score Best Year Since 2016 on US Bond Rout:** Brazilian hedge funds enjoyed the best returns in six years in 2022, profiting from everything from hiking cycles to the sharpest decline in equity markets since the global financial crisis in 2008. [Read more.](#)

**New York Raises Cap on Pensions' Private Equity, Hedge Fund Assets:** New York Governor Kathy Hochul signed a bill on Friday that allows the state's and New York City's pensions to increase allocations to more expensive and opaque asset classes like private equity that could potentially deliver higher returns. [Read more.](#)

**Investors to Favor Large Hedge Funds Again in 2023:** Investors are set to favor large hedge funds in 2023, with data from Agecroft Partners suggesting that the top 5% of the world's hedge fund managers will take 80-90% of investor inflows this year, according to a report by Reuters. [Read more.](#)

**Hedge Funds Position for Persistently High Inflation in 2023:** Many global hedge fund managers are seeking exposure to commodities and bonds in 2023 as they prepare for a year of persistently high inflation, according to a report by Reuters. The report cites a Reuters' survey of 10 global asset and hedge fund managers as revealing that the majority believe that commodities are undervalued and should perform well as global inflation remains elevated during 2023. [Read more.](#)

**Andurand Sees Big Surge in Oil Demand:** Hedge fund trader Pierre Andurand believes global oil demand could surge by as much as 4% at some point next year if Covid restrictions around the world are lifted fully, according to a report by Bloomberg. [Read more.](#)

**Macro Hedge Funds on Course for Record Year as Others Struggle:** This year's big interest rises have set bond and currency trading macro hedge funds on course to record their best annual gains since the global financial crisis in 2008, according to a report by the Financial Times. [Read more.](#)

**Short Sellers See \$304bn in Gains After Fall in US stocks:** Short sellers are on track for their first annual gain since 2018 on the back of a steep decline in US equities this year coupled with bets against megacap stocks including Tesla and Amazon.com, according to a report by Reuters. [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. Hedge fund performance data provided by Morgan Stanley Prime Brokerage—Strategic Content Group.