

SIC2017

MORGAN CREEK
CAPITAL MANAGEMENT

ALTERNATIVE THINKING ABOUT INVESTMENTS



PHOTO: VALLARIE ENRIQUEZ/GETTY IMAGES



Source(s): JasonGalanisBeverlyHills.com, Madison.com

#ATWWY: 10 Potential Surprises for 2017

An Update for #SIC2017

May 25, 2017

A Definition, A Disclaimer & A Qualifier

Definition: A Surprise is a Variant Perception (an idea that is materially different from Consensus) that I believe has a better than 50% chance of occurring in the current year.

Disclaimer: I have intentionally not read any of the other lists of 2017 Surprises (most importantly Byron's), so any similarity between the Surprises in this presentation and any of those prognostications is coincidental or evidence (if they match Byron's list) that there was some channeling actually going on...

Qualifier: There is much wisdom about the folly of prediction (some on next page) and it would probably have been wise to decline the original request to produce this List... That said, the process of thinking about Variant Perceptions and Alternative Scenarios is valuable to our investment process and it was actually kind of fun to spend some extra time thinking outside the box (or even better, thinking like there was no box...).

Words of Wisdom

“Making predictions is hard, especially about the future...”

Yogi Berra

“The financial markets generally are unpredictable. So that one has to have different scenarios... The idea that you can actually predict what's going to happen contradicts my way of looking at the market.”

George Soros

“Those who have knowledge, don't predict. Those who predict, don't have knowledge.”

Lao Tzu

Surprise #1

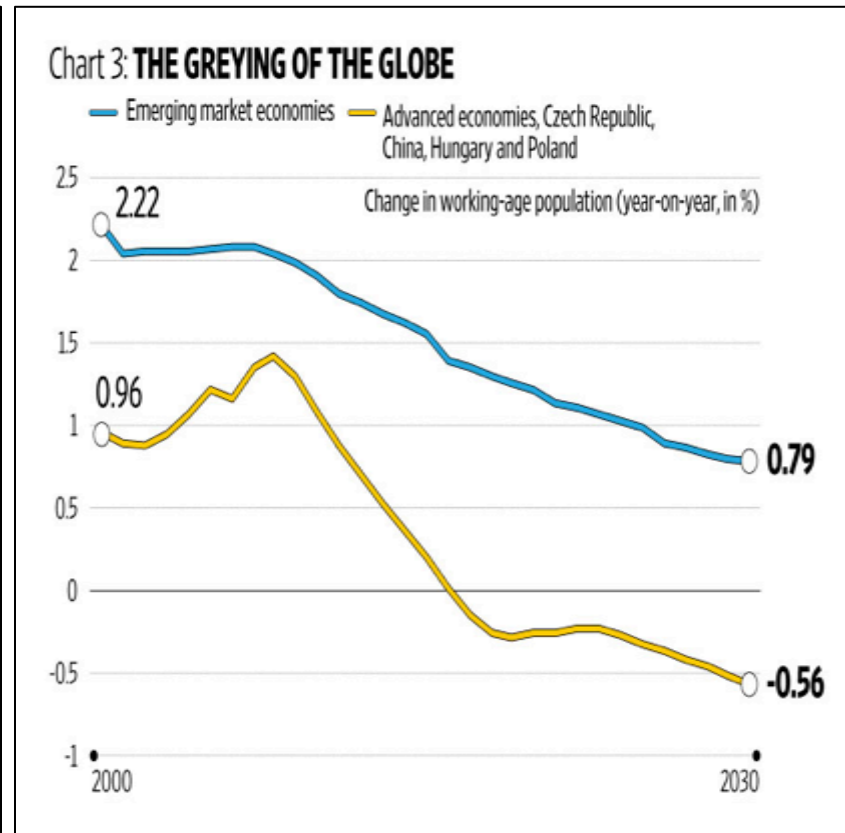
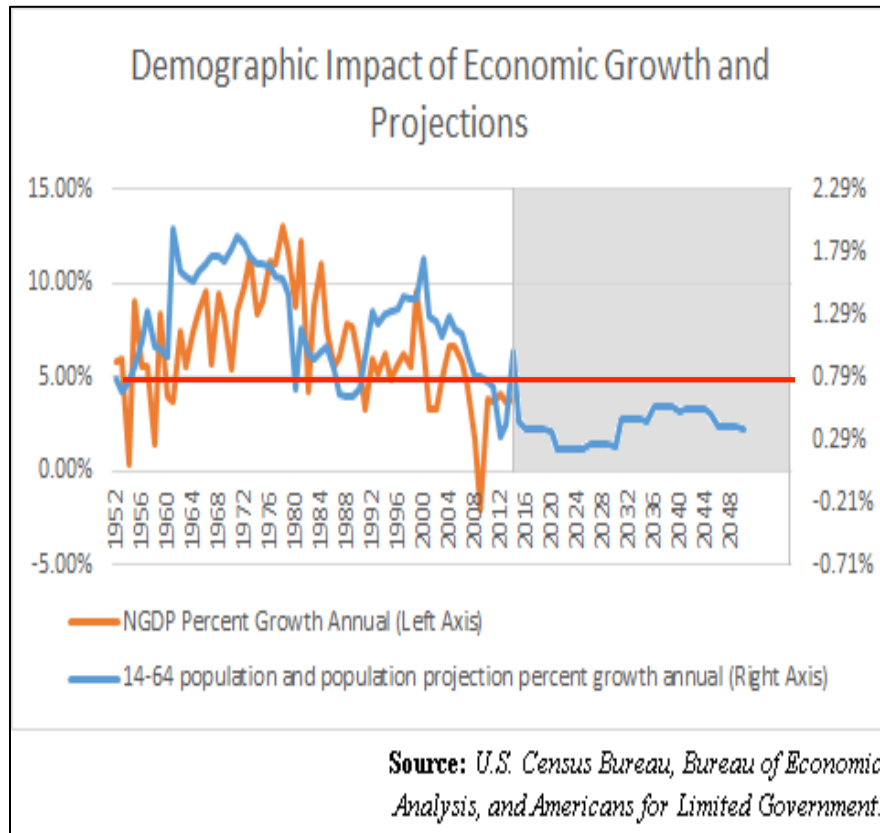
Massive Central Bank Monetary stimulus programs around the world have been unable to spur higher global economic growth as the rising costs of aging populations weigh on the Developed Markets, so governments follow Japan's lead and shift toward Fiscal stimulus measures. Given the negative multiplier effect of Government spending (crowding out), these programs fail to spur growth & inflation and global interest rates resume their downward trend.

Demographics Is Destiny



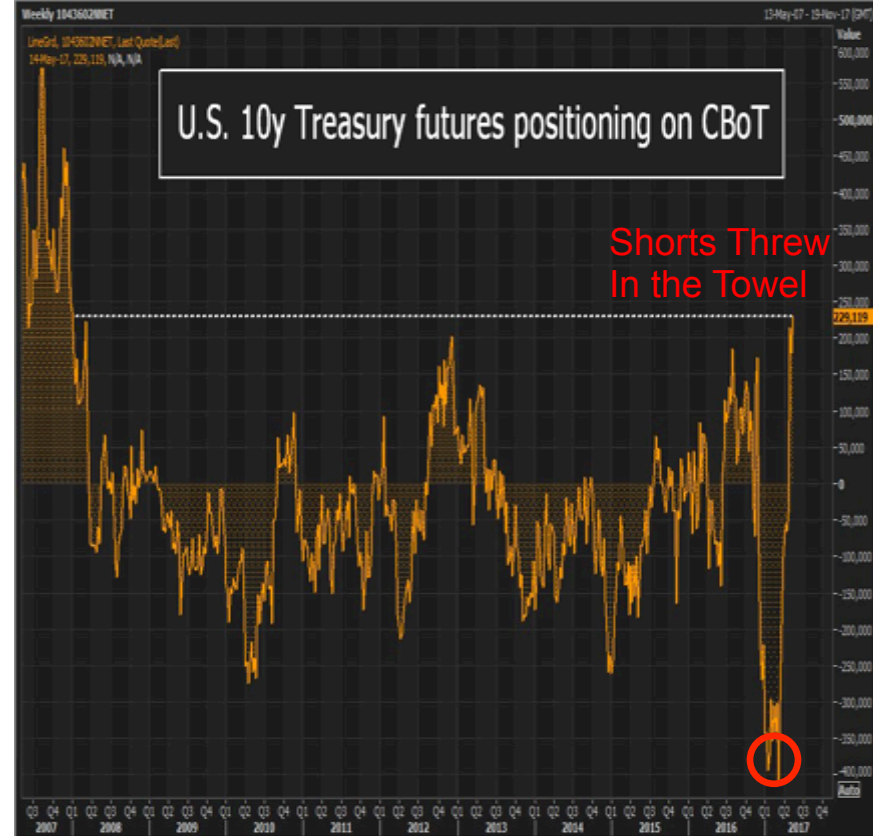
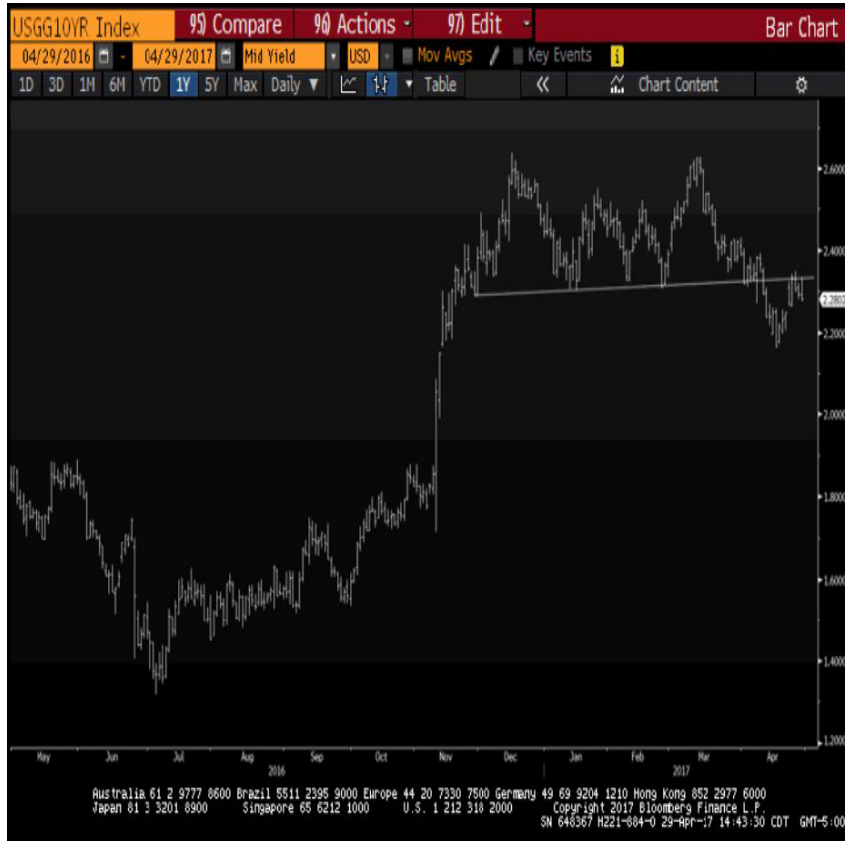
Source(s): econintersect.com

Working Age Population Growth Predicts Nominal GDP



Source(s): netrightdaily.com, livemint.com

2.3% Was Magic # for 10-Yr, Spec Shorts Were Off Chart



Source(s): GMI, @reutersjamie,

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Reflation “Hope” Jump in Rates Completely Reversed

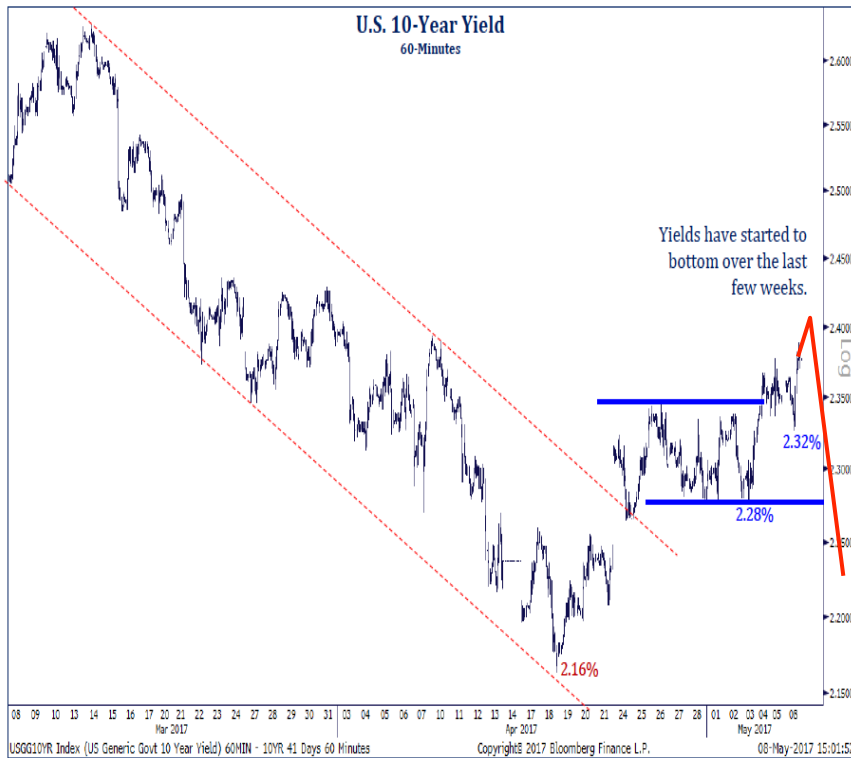


Source(s): @connectedwealth, @lisaabramowitz

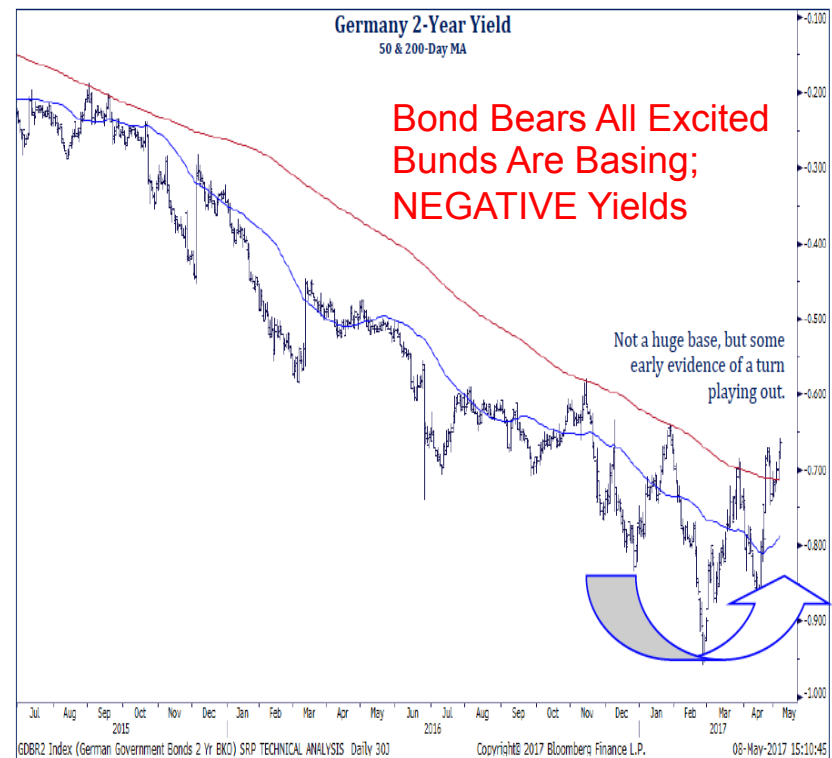
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Bond Bears Calling Bottom, Week Later Different Story...

YIELDS TRYING TO CARVE OUT A LOW



GERMAN 2-YEAR YIELD AT MULTI-MONTH HIGH

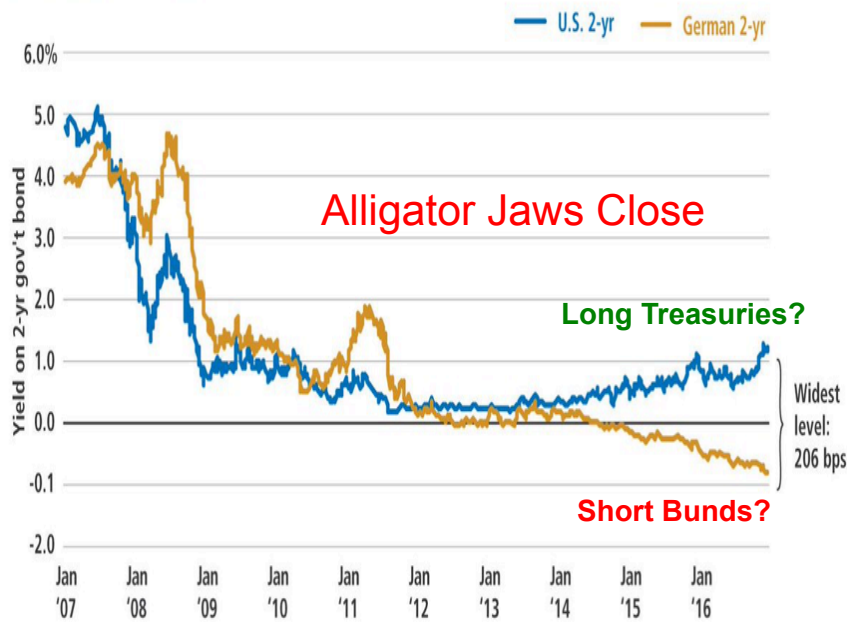


Source(s): Strategas



“Chart of Truth” Keeps U.S. Rate Move in Perspective

THE GREAT DIVIDE



Source: Bloomberg

PIMCO

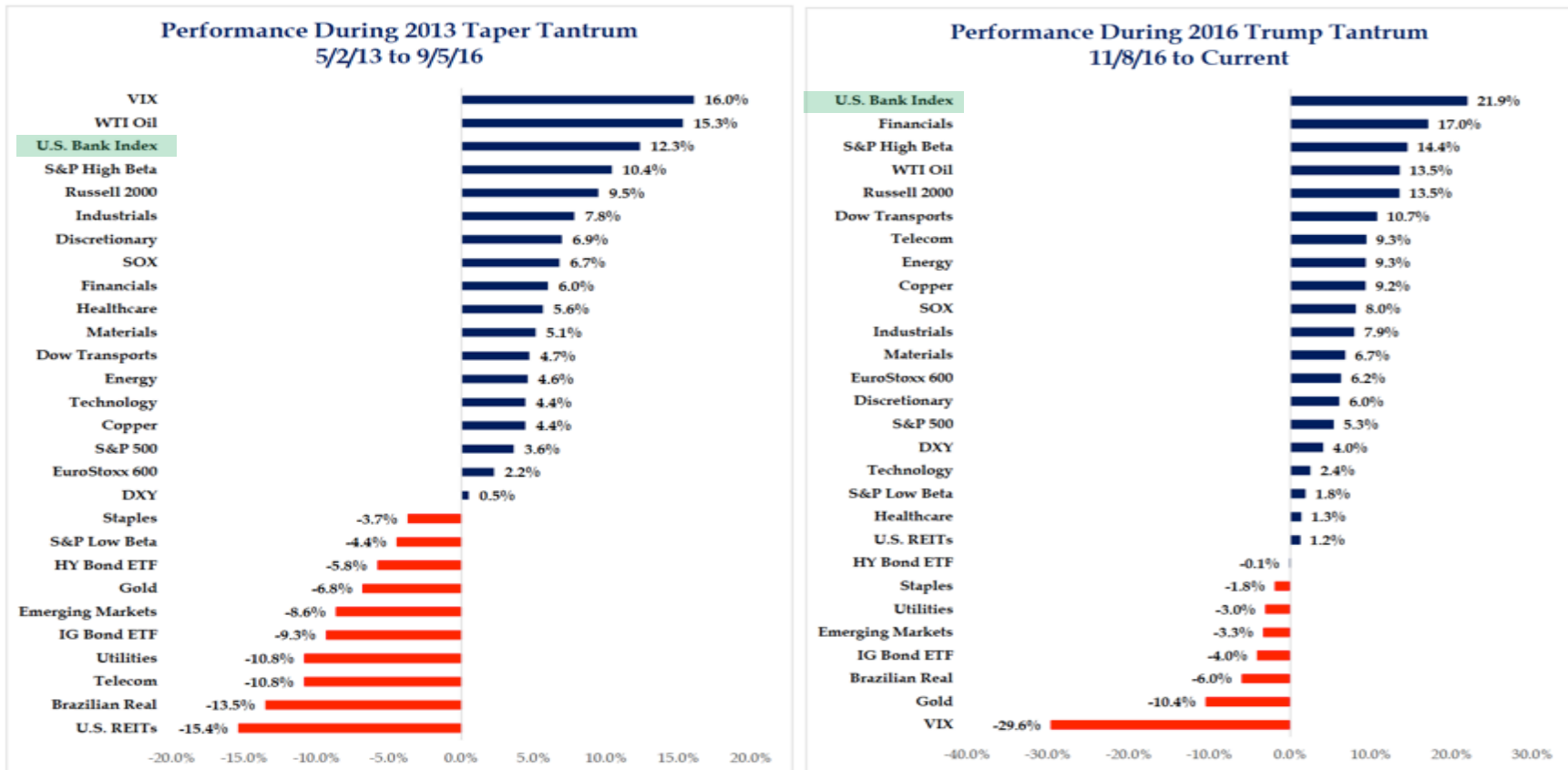
Source(s): @PIMCO, Bigcharts.com

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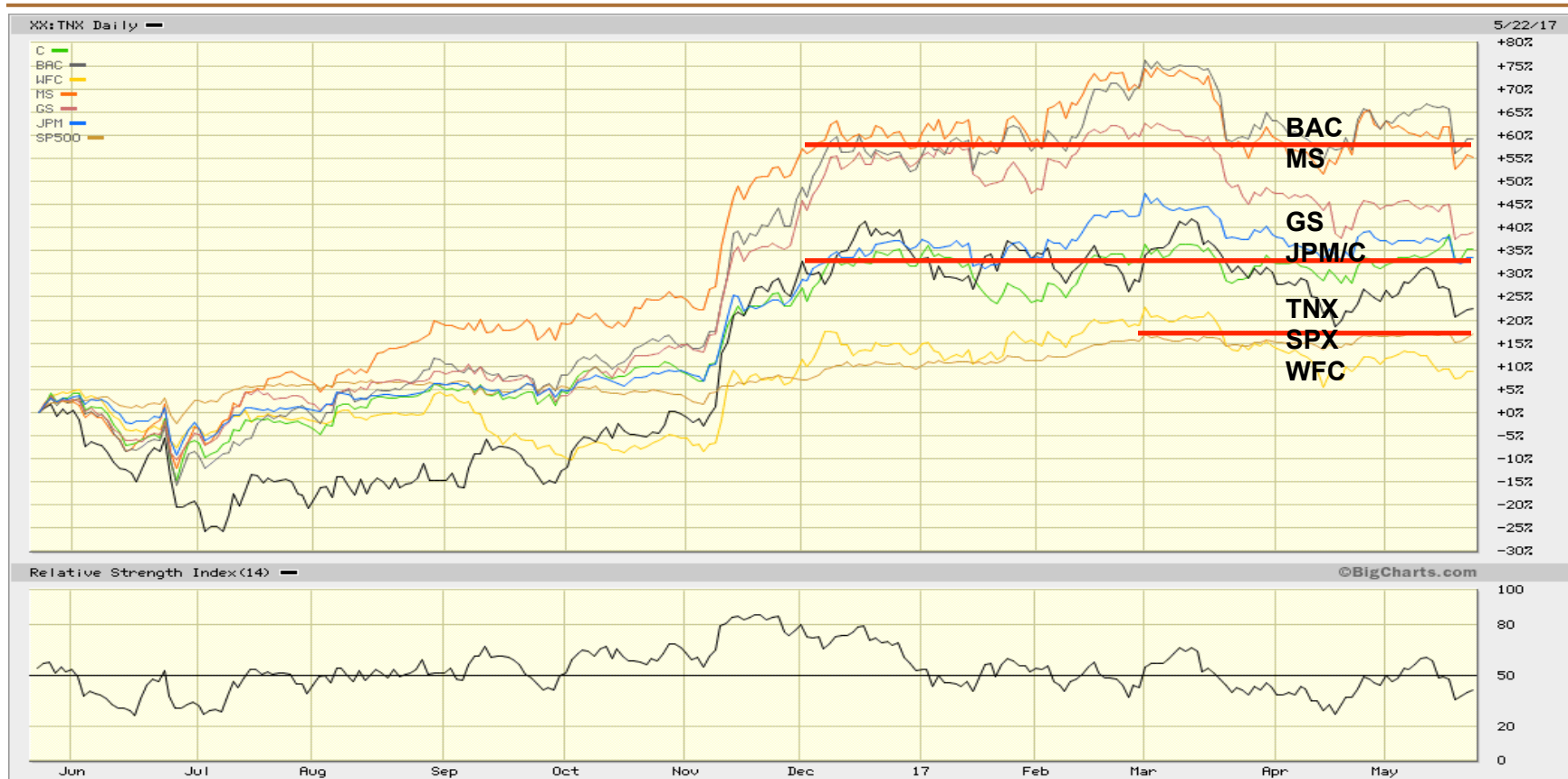
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Financials Always Benefit From Belief In Rising Rates



Source(s): Strategas

Did U.S. Banks Run Too Far, Too Fast? Any Real Change?

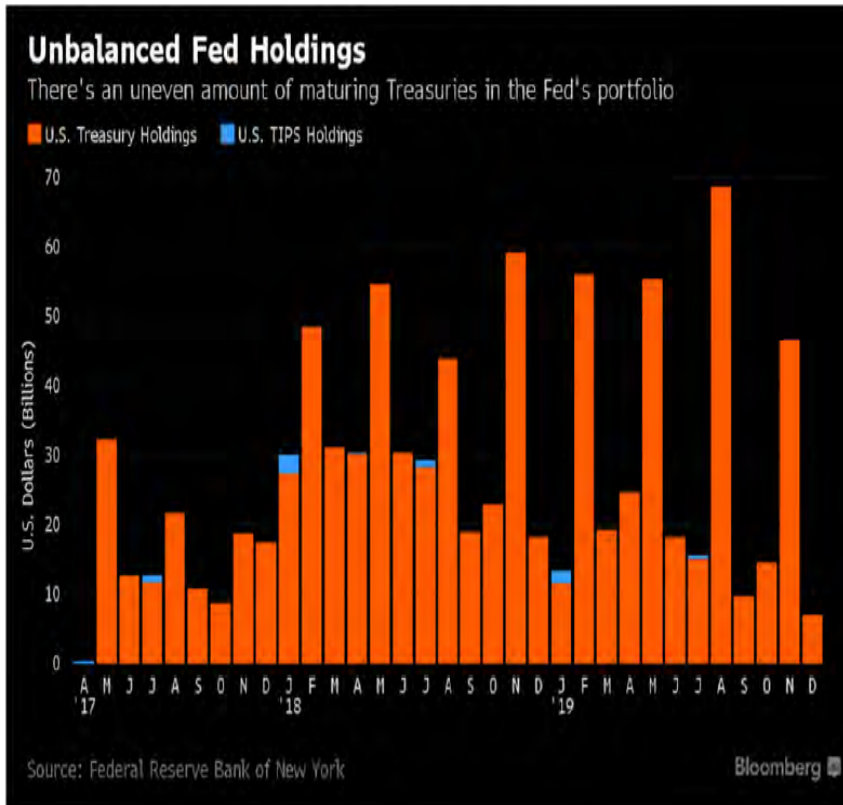


Source(s): Bigcharts.com

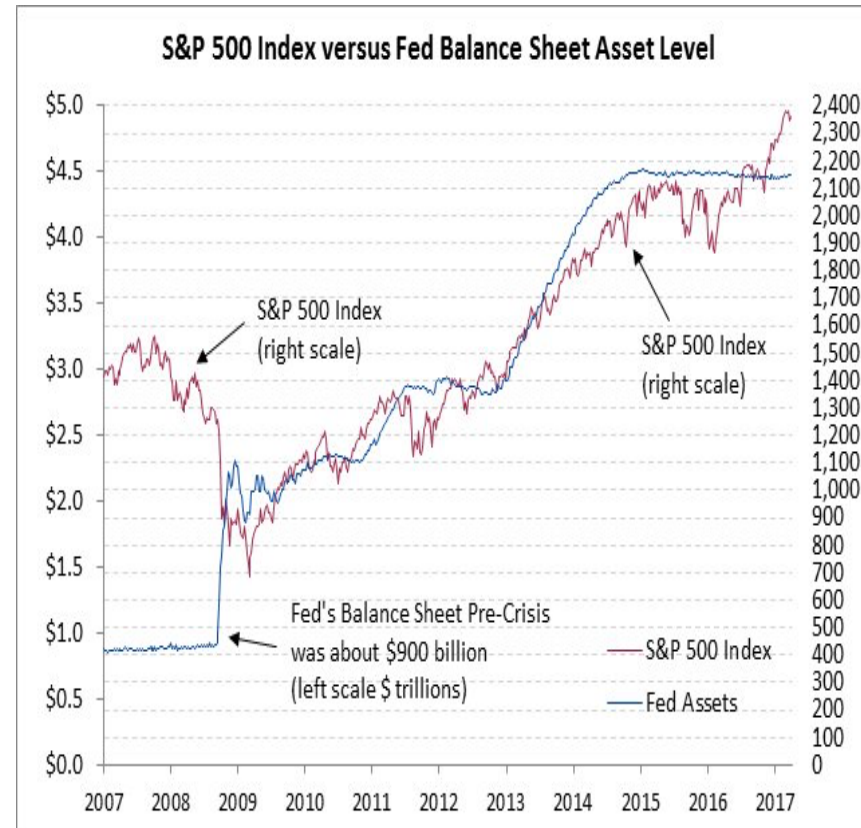
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Fed Can't Unwind B/S w/o Impacting Rates, Bad for SPX



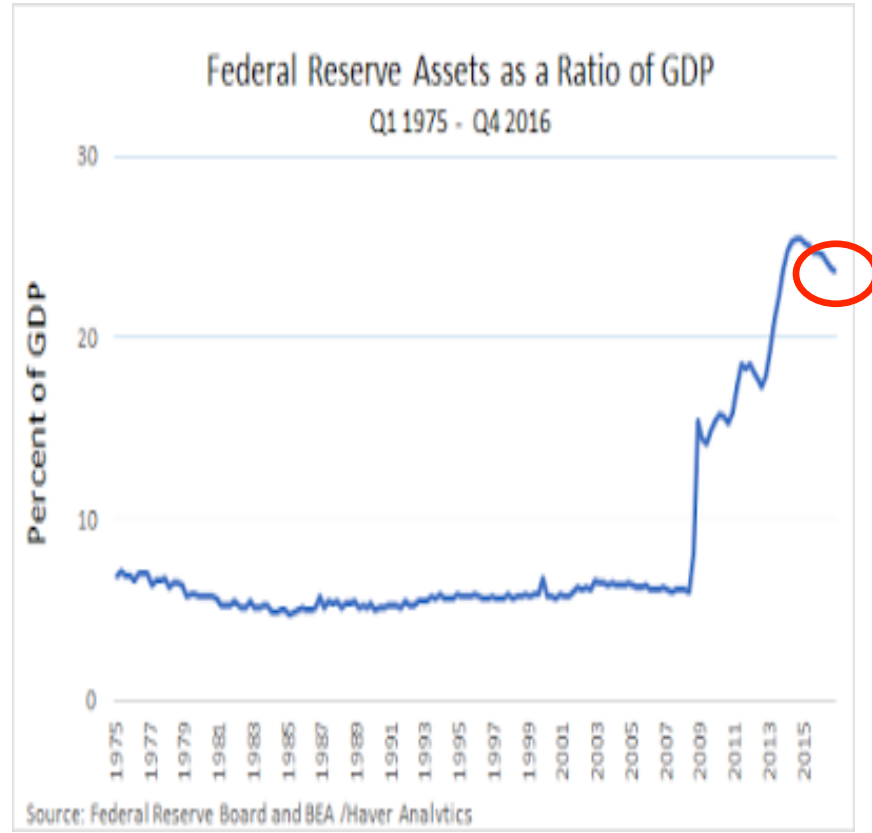
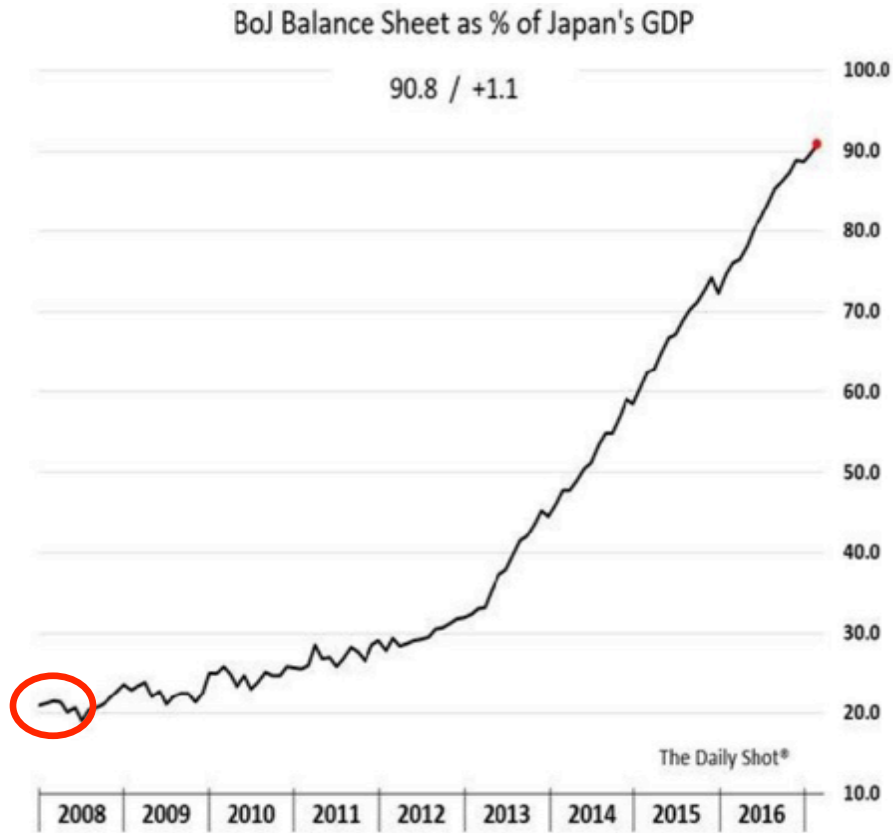
Source: Bloomberg LP



Source(s): TIS Group, @dlacalle_IA



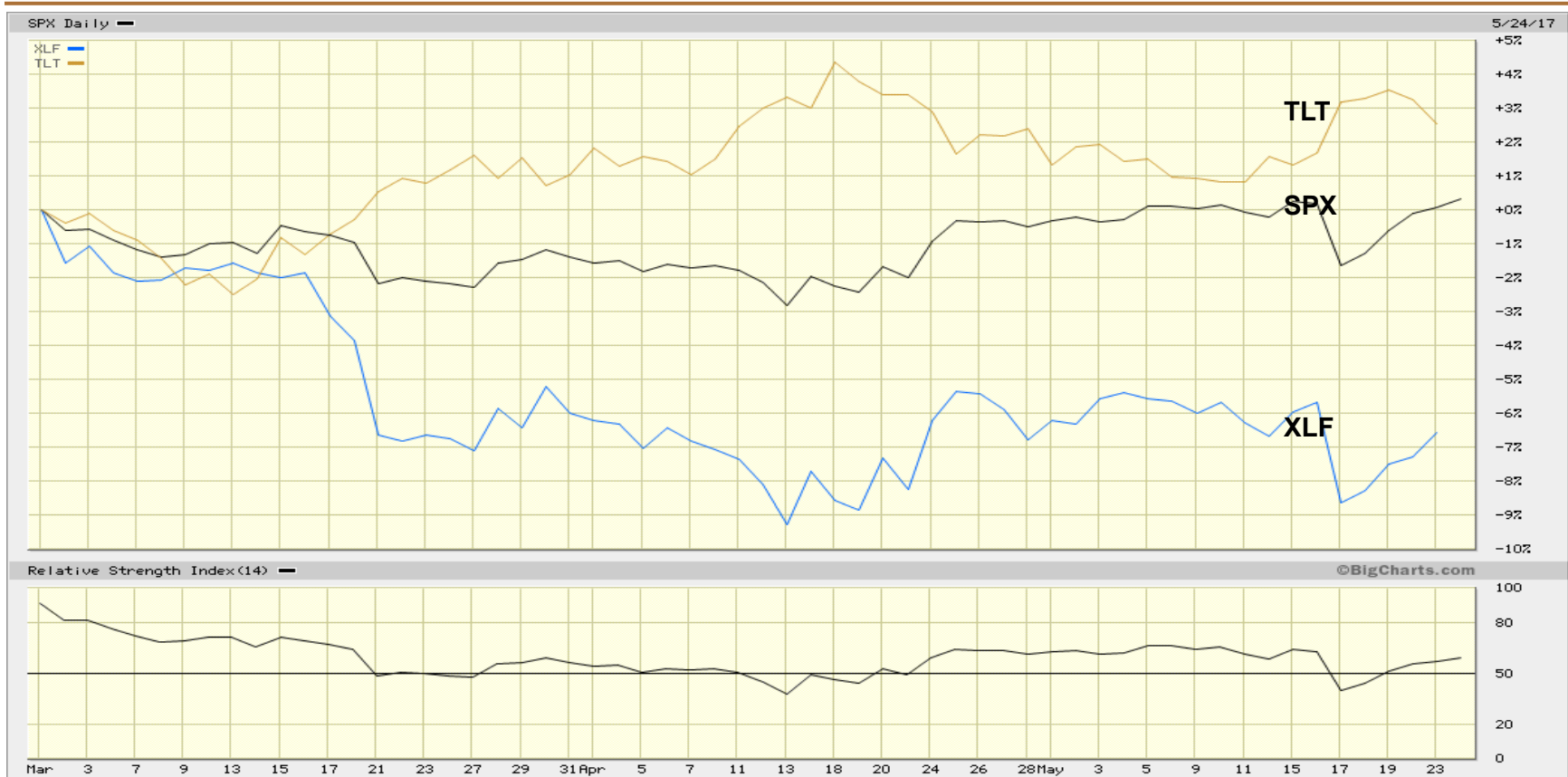
You Can't Know Future? Japan Leads U.S. By 11 Years



Source(s): GMI, MacroMania.com



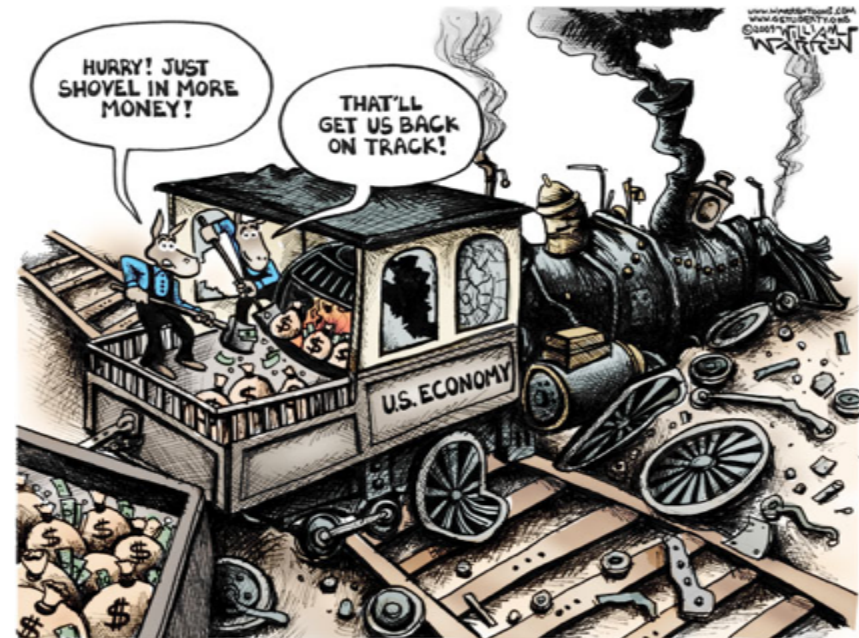
Long Bonds > SPX & XLF Since March 1st Wake-up Call



Source(s): Bigcharts.com

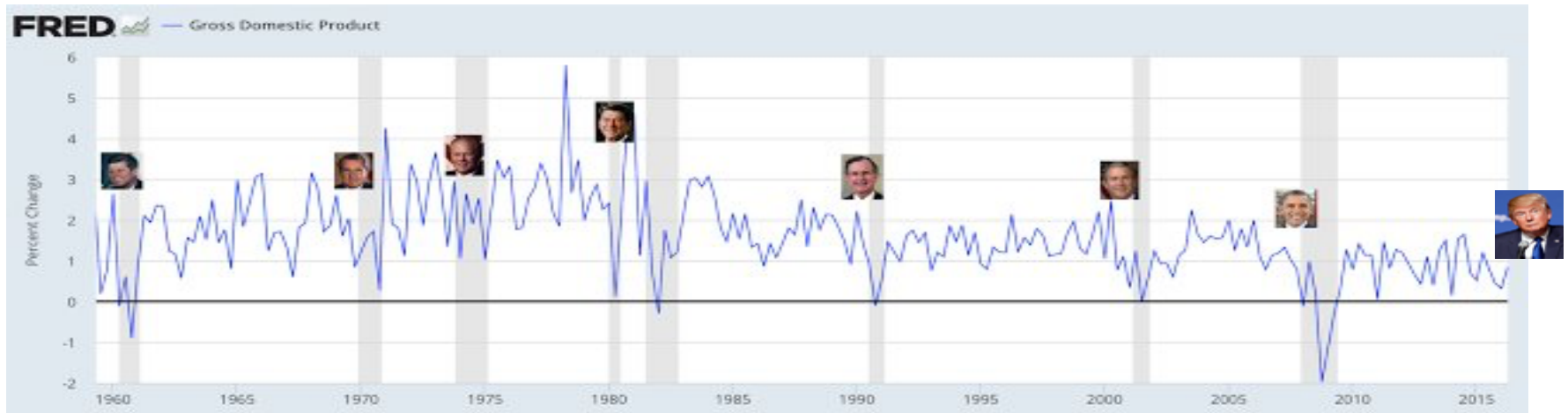
Surprise #2 Gravity Rules, The Economic Cycle Lives

Queen Janet Yellen has maintained interest rates at crisis-level lows throughout the current economic cycle, yet U.S. GDP growth has continued to disappoint (and confound Fed forecasters). With the current shift toward a tighter Fed Monetary Policy stance, growth in commercial bank credit & the monetary base has slowed to zero (from an avg of 7% over past 60 years) which portends a rapid deceleration in growth in 2017 resulting in a Recession (right on schedule for our #2000Redux theme).

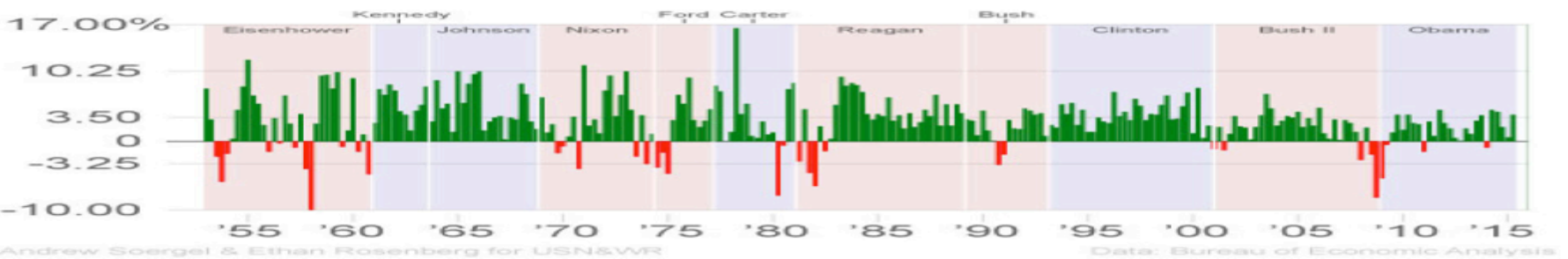


source(s): netrightdaily.com

Fresh Faces in White House Met by Recession in 1st Year



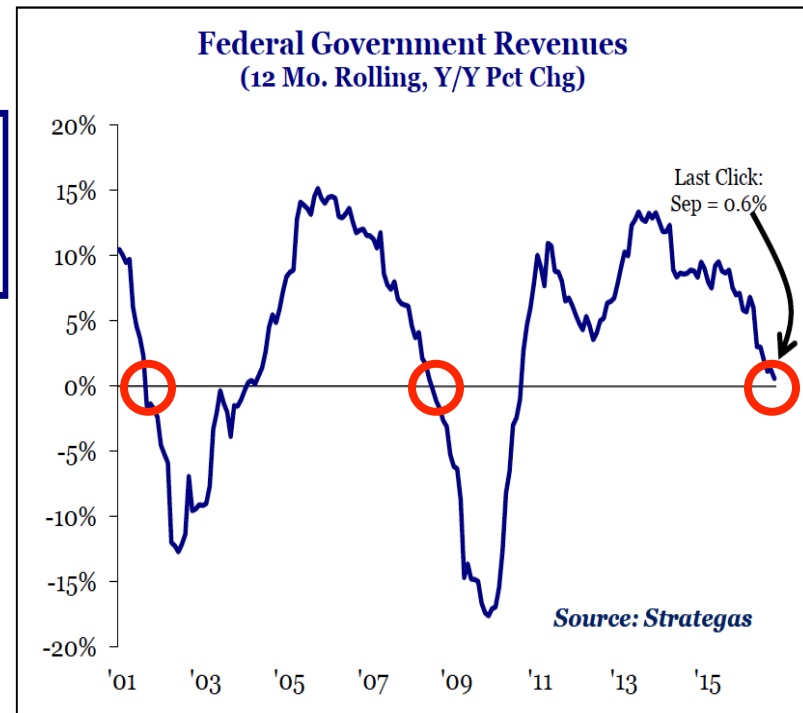
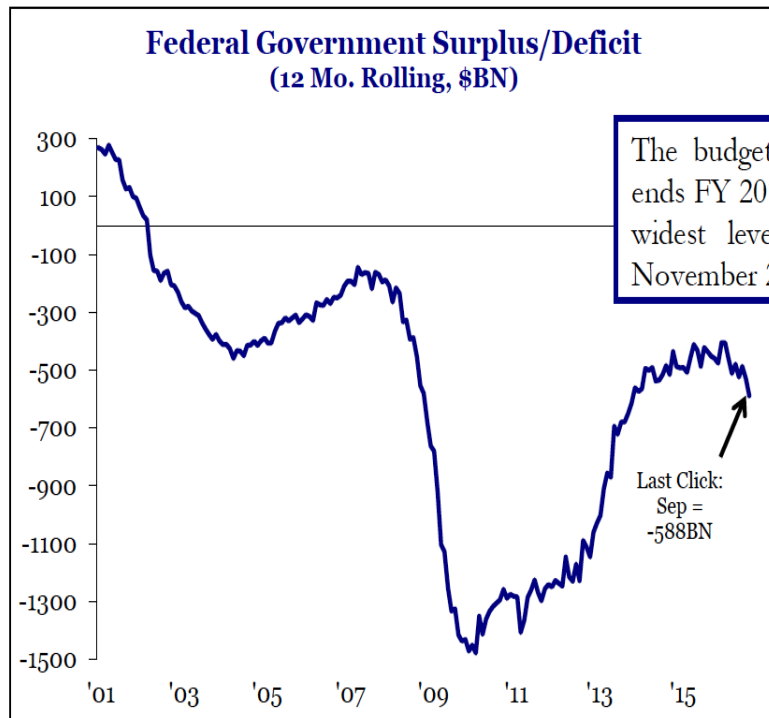
GDP Growth (% change, quarter over quarter)



Source(s): @HumbleStuden, USNews.com

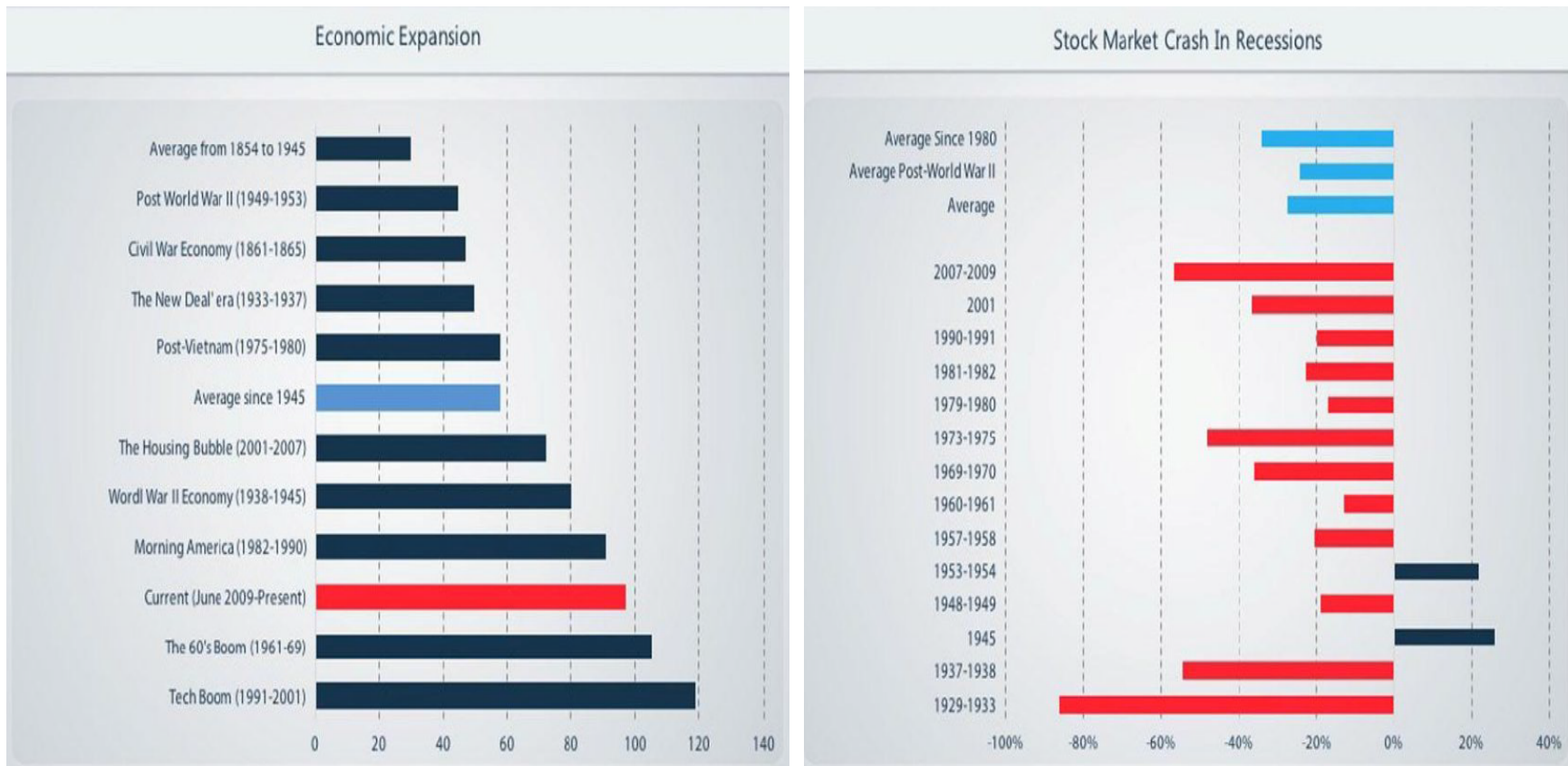
Whoever Won Election Likely Faced with '17 Recession

BUDGET DEFICIT WIDENS TO END FY 2016 AS TAX REVENUE GROWTH CONTINUES TO DECELERATE



Source(s): Strategas

3rd Longest Expansion Ever, When Turns, Will Be Ugly

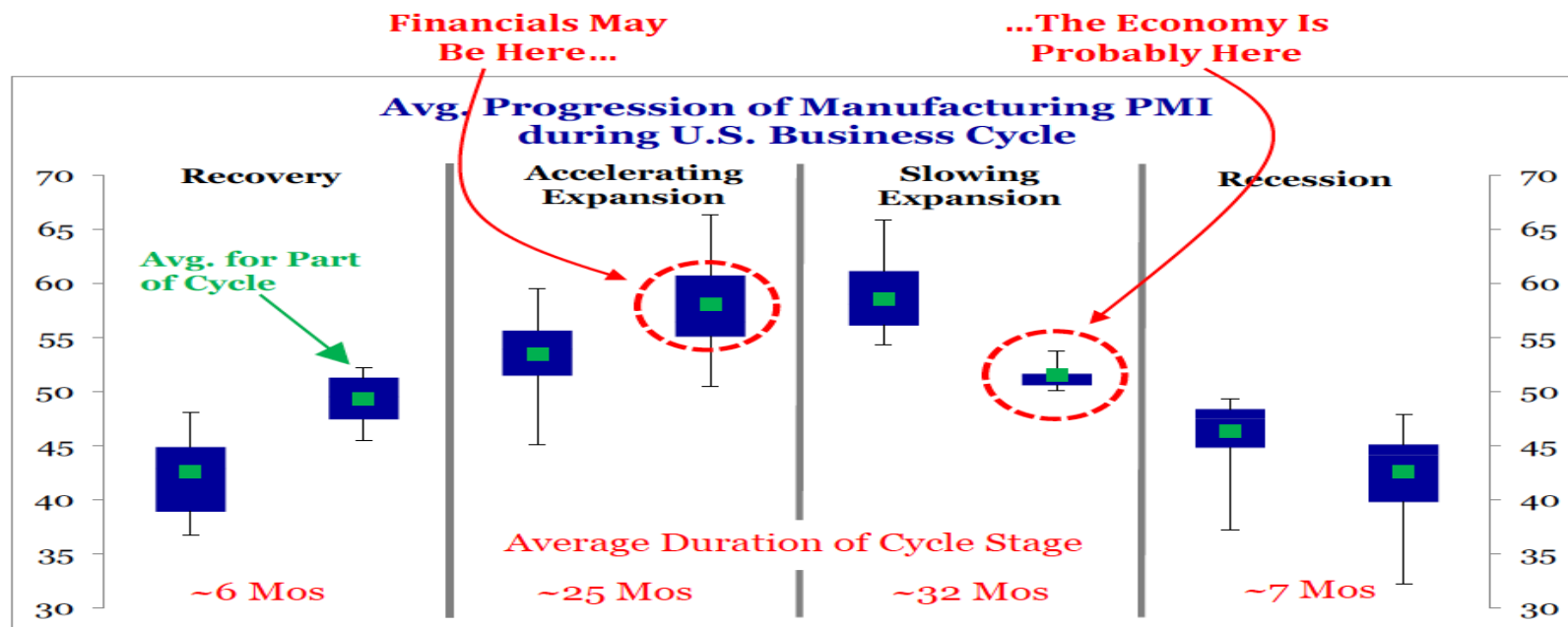


Source(s): GMI

U.S. Economy In Late Stage of Biz Cycle, Recession Near

Where Are We In the Cycle?

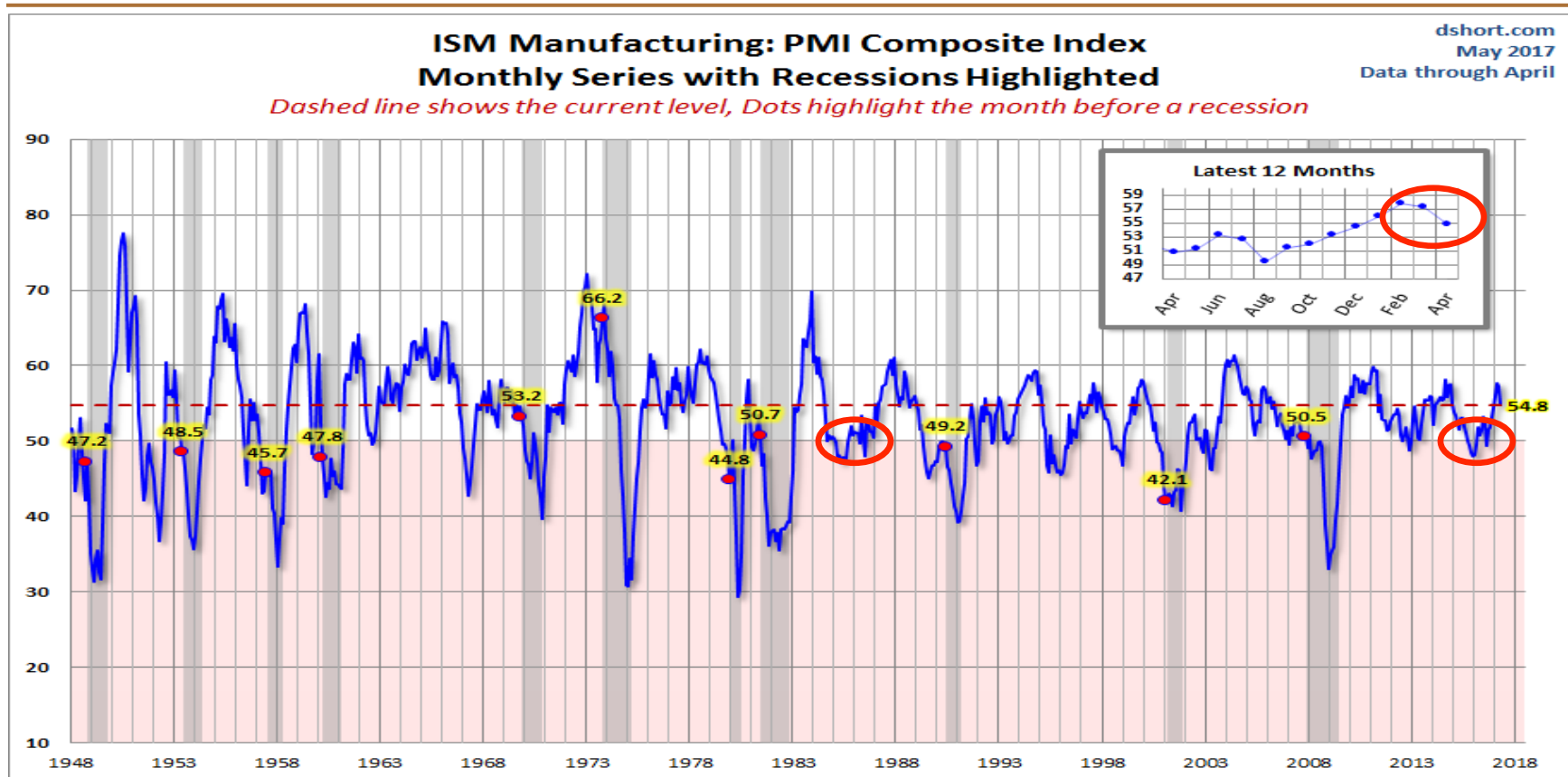
**Economy is Flashing Some Late-Cycle Signals;
Financials Evidencing Some Recovery Phase Attributes**



*End periods include transition quarters.

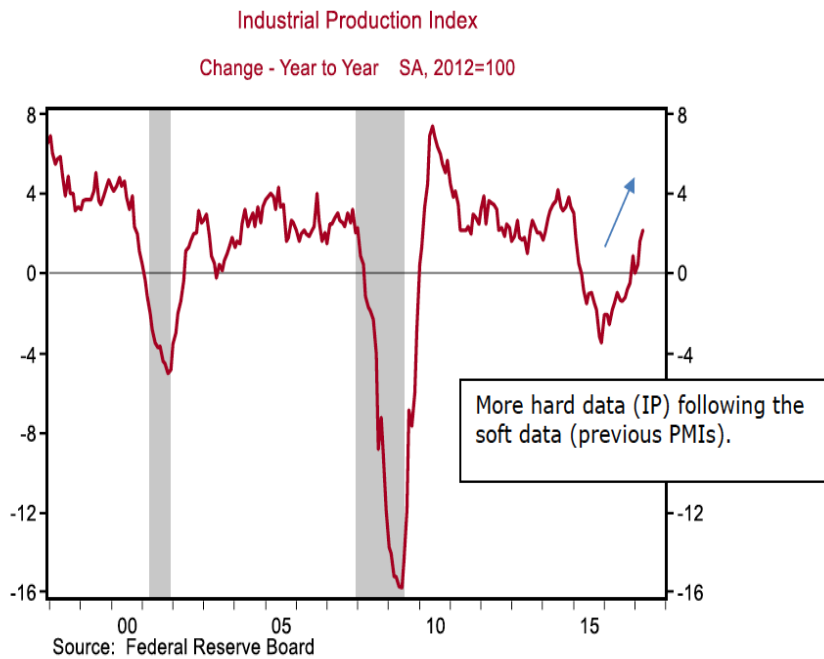
Source(s): Strategas

US Manufacturing WAS In Contraction, Mid-Cycle Slump?

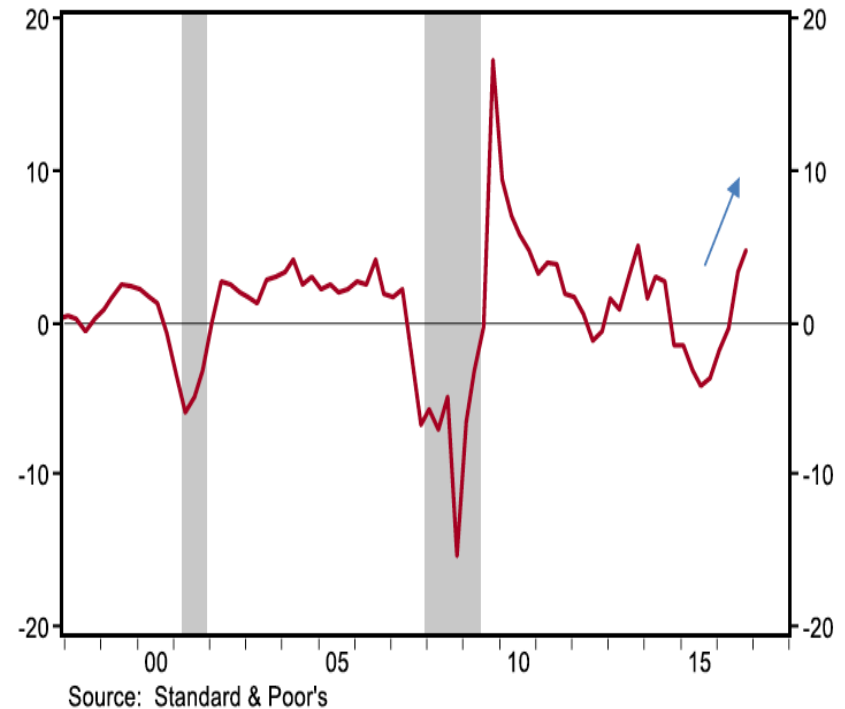


But, Possible U.S. Had Rolling Recession in 2015/16?

**U.S. INDUSTRIAL PRODUCTION RISING,
WHICH FITS WITH IMPROVING EARNINGS**



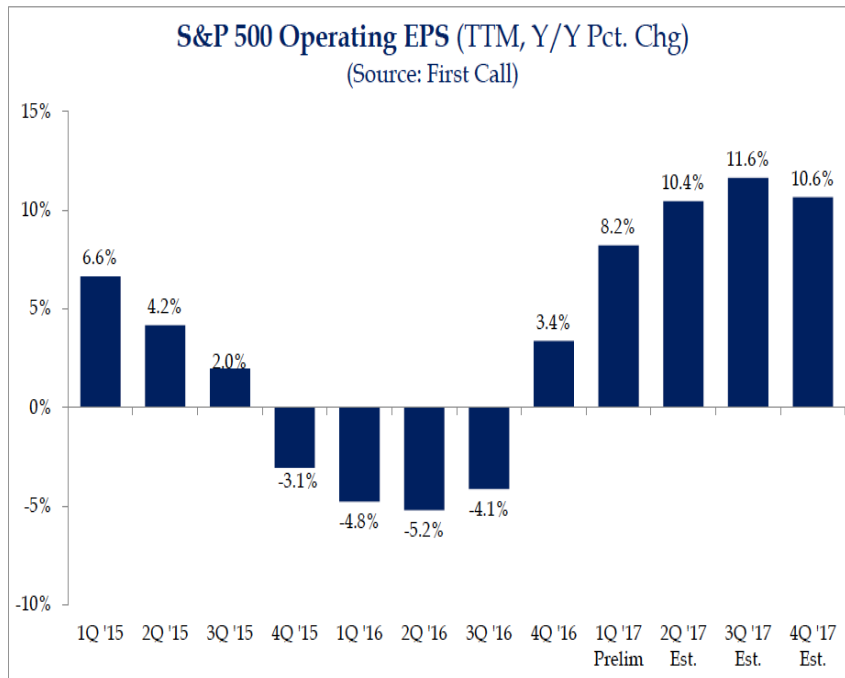
S&P 500 Composite: Operating Earnings per share
Change - Year to Year \$/share



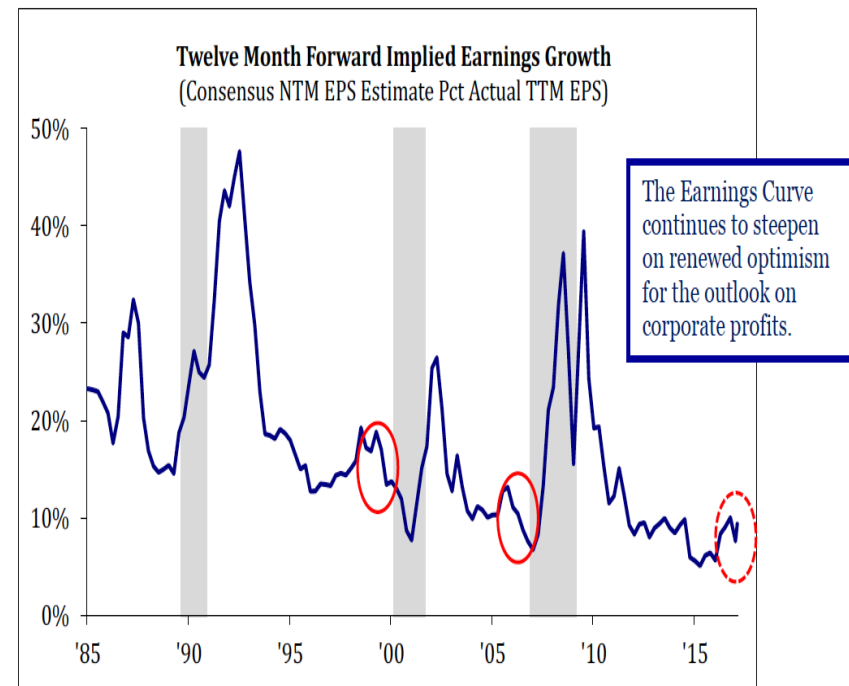
Source(s): Strategas

Street Declares End of EPS Recession, Head Fake Risk

AN UNDERREPORTED STORY: THE END OF THE EARNINGS RECESSION

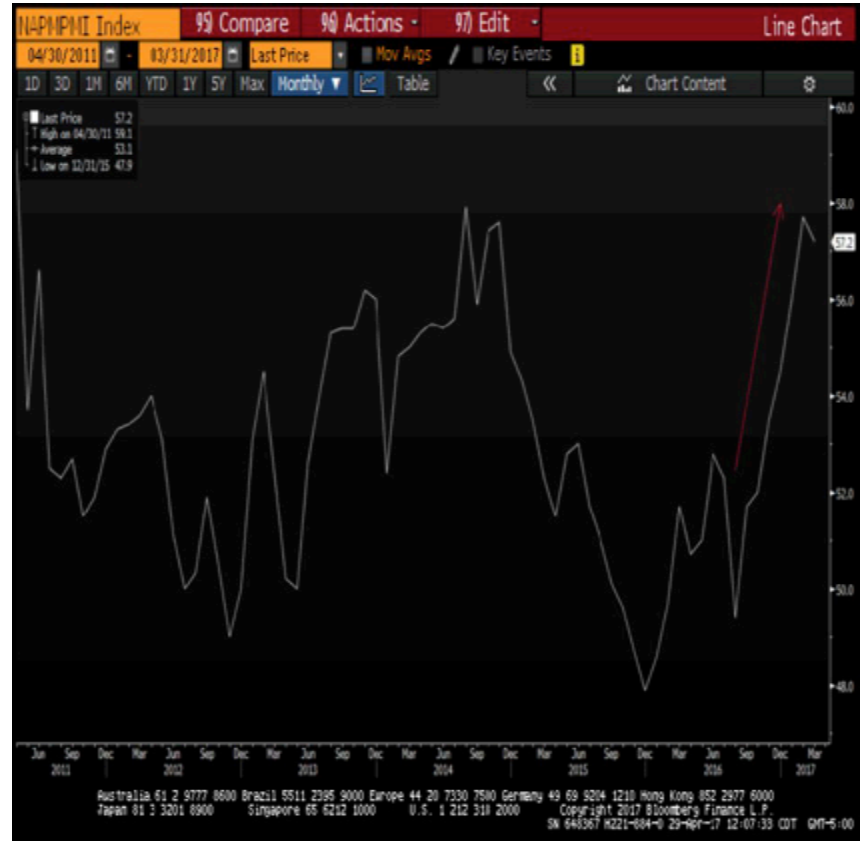
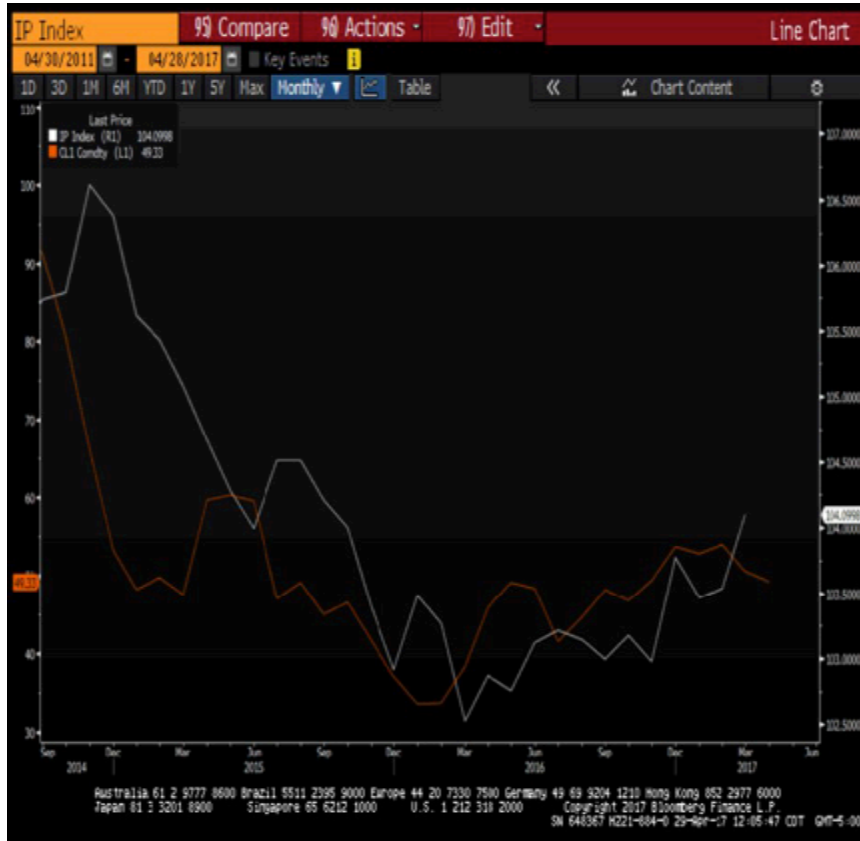


EARNINGS CURVE TURNING UP; IMPORTANT TO WATCH GOING FORWARD

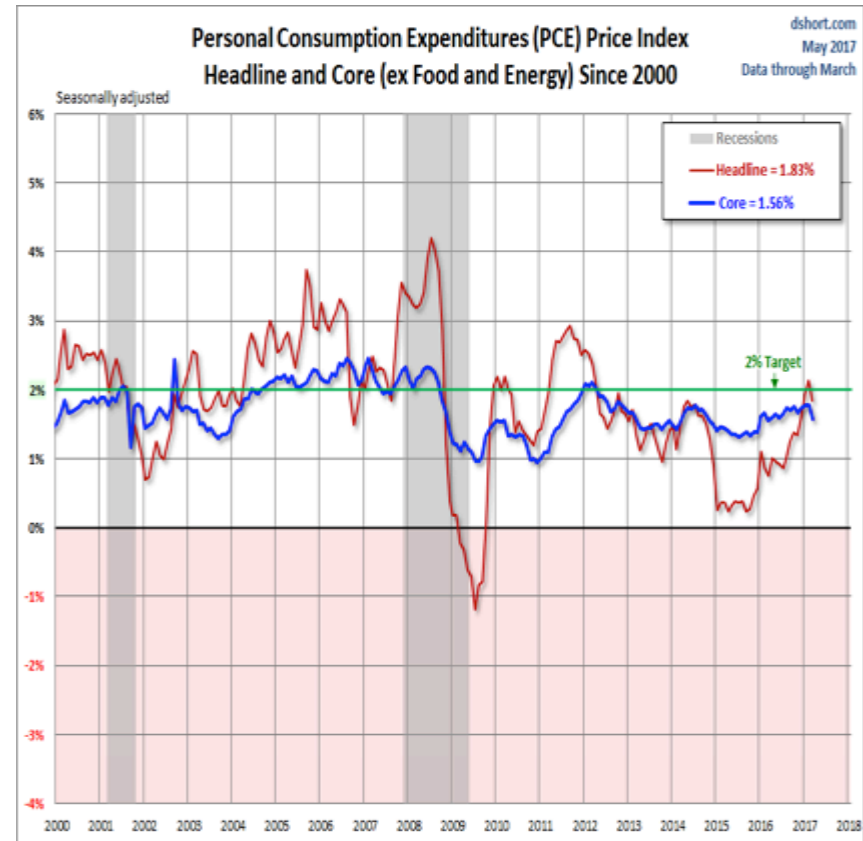
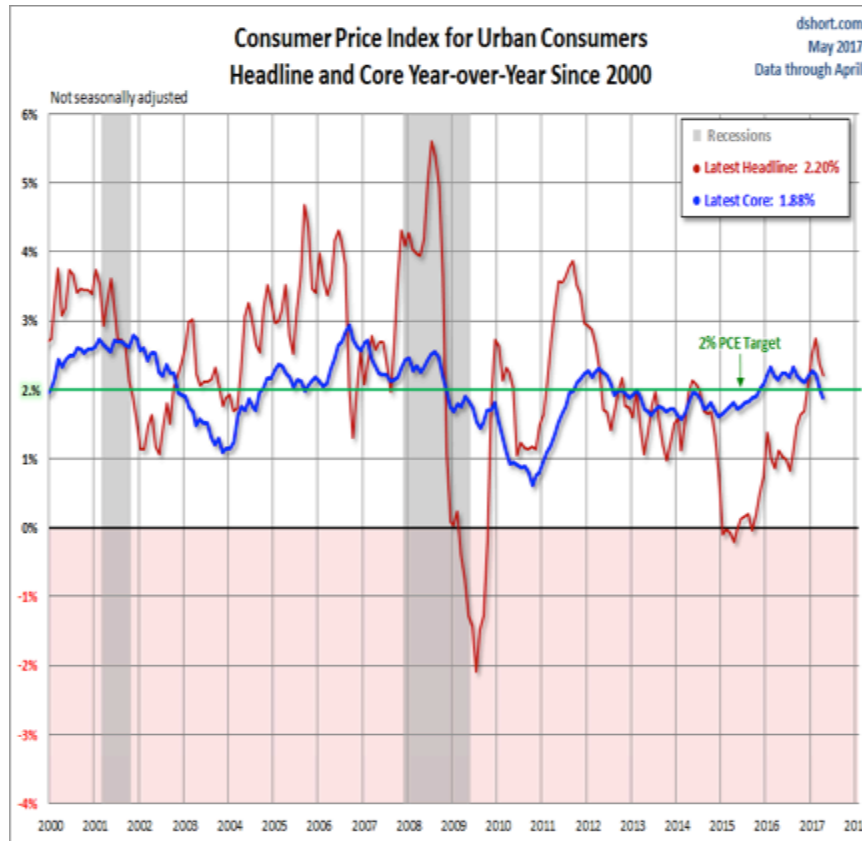


Source(s): Strategas

Oil Recovery Led to Rising IP, Led to Rising CPI & ISM



Inflation Turns Back Down As Oil Recovery Impact Fades



Source(s): AdvisorPerspectives.com

Huge Alligator Jaws Opened Up Between CESI & SPX...

Citi USD Economic Surprise Index vs. S&P 500 (18 months)

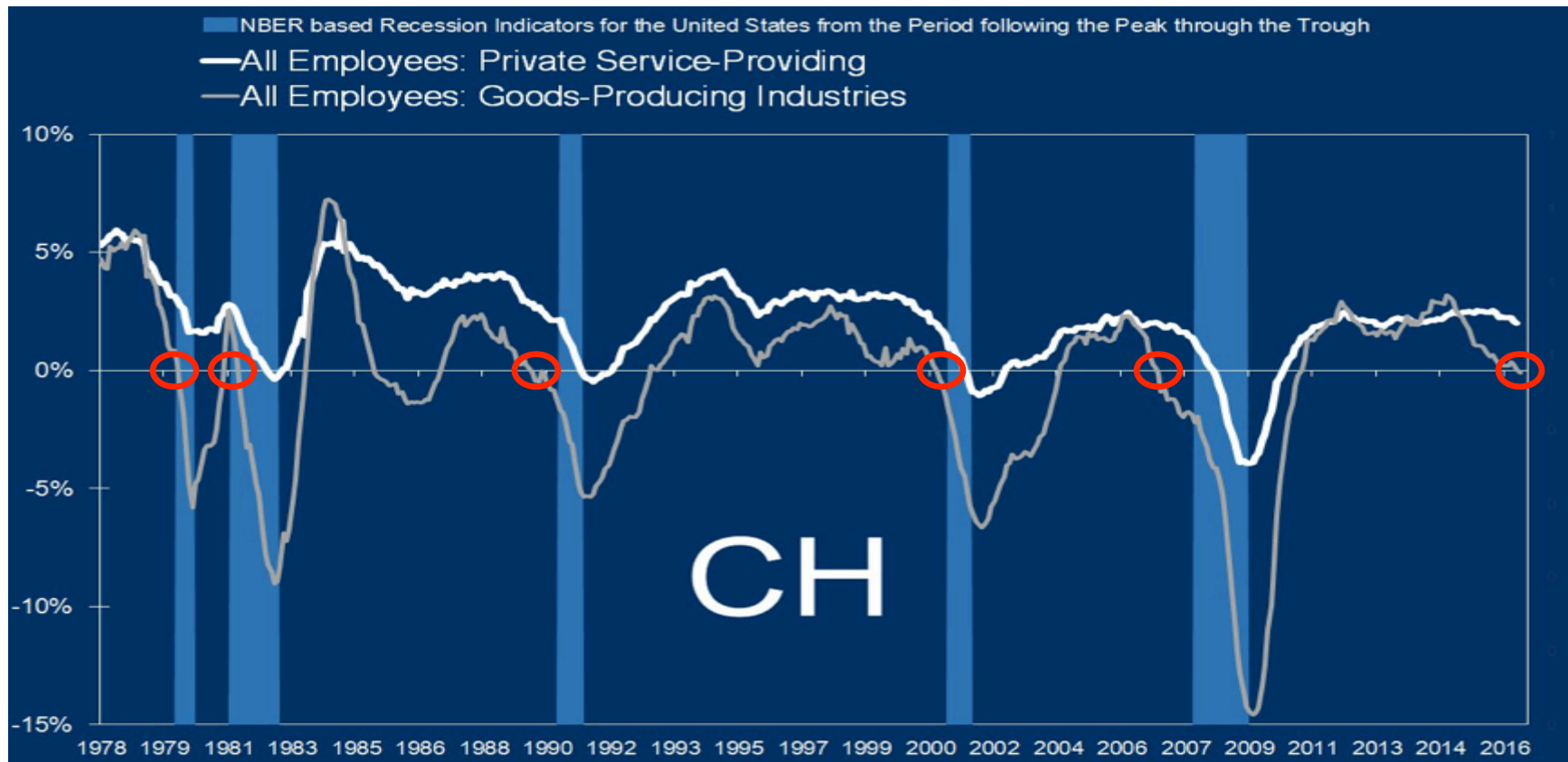


Source: Bloomberg LP

All this is happening as the U.S. is experiencing one of the biggest crashes in economic macro data in years. Citi's measure of this is based on actual results that are stronger or weaker than expectations. It appears economic expectations are consistently more rosy than reality. It looks like the USD also needs some time to catch up with the U.S. economic reality.

Source(s): TIS Group

Employment Leads Profits Decline; Signals Recessions



Source(s): @VmtPerception, @CorpusHedge

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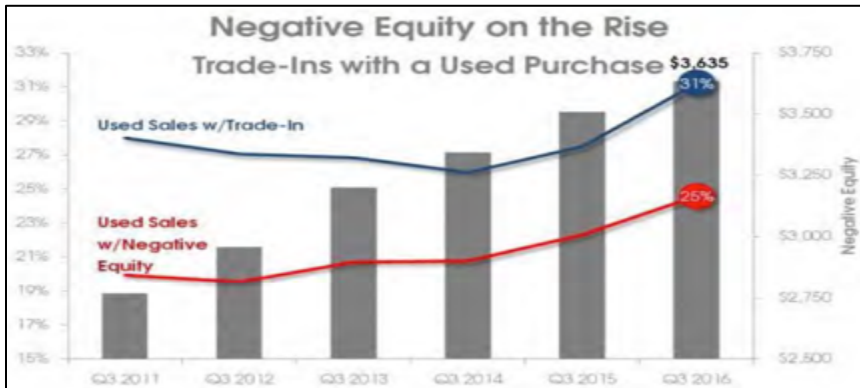
Auto Sector Huge Component of ISM, Sub-Prime Redux?

U.S. Auto Sales Annualized (40 years)



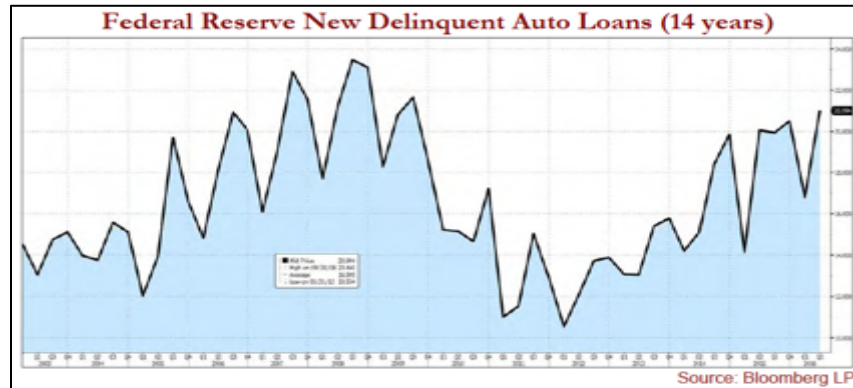
Source: Bloomberg LP

Negative Equity on the Rise
Trade-Ins with a Used Purchase



Source(s): TIS Group

Federal Reserve New Delinquent Auto Loans (14 years)

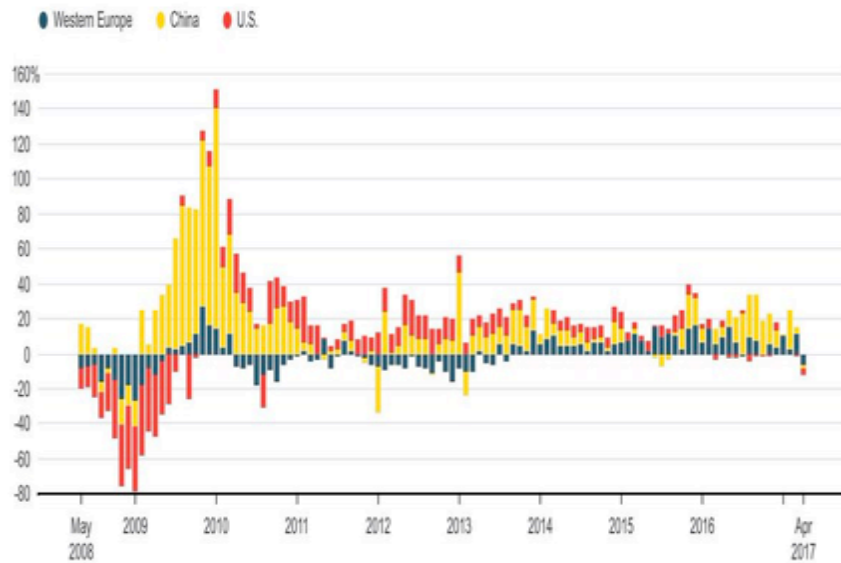


Source: Bloomberg LP

First Broad Decline In Car Sales Since GFC, Gets Worse?

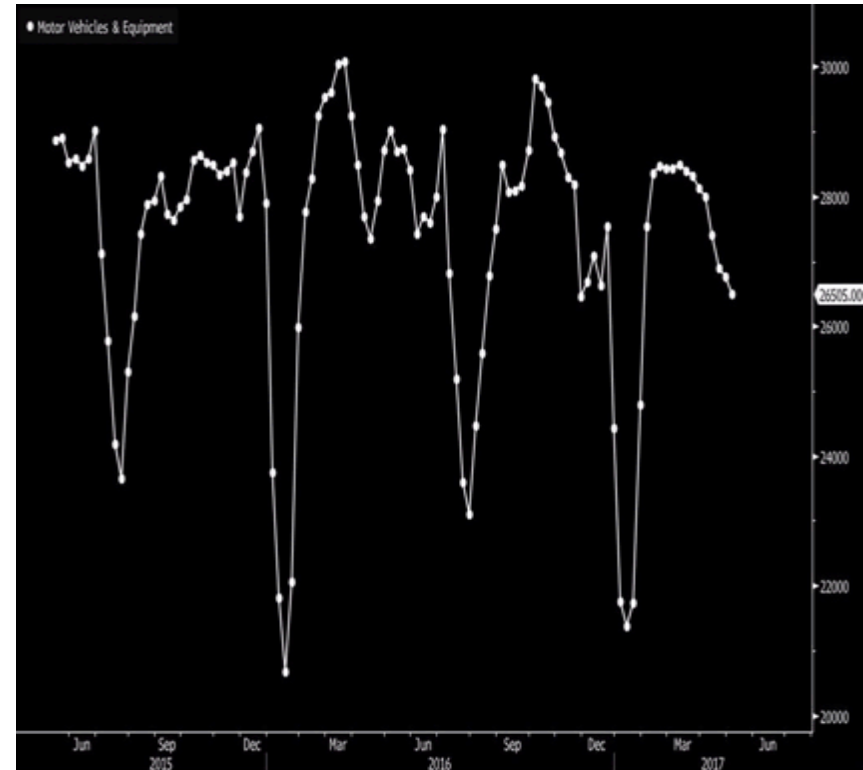
Triple Threat

April is the first occasion since January 2009 when the world's three big car markets have all been contracting



Sources: European Automobile Manufacturers' Association, China Automotive Information Net, WARD's Automotive, Bloomberg, GoDffy calculations

Rail Loadings: Motor Vehicles & Equipment

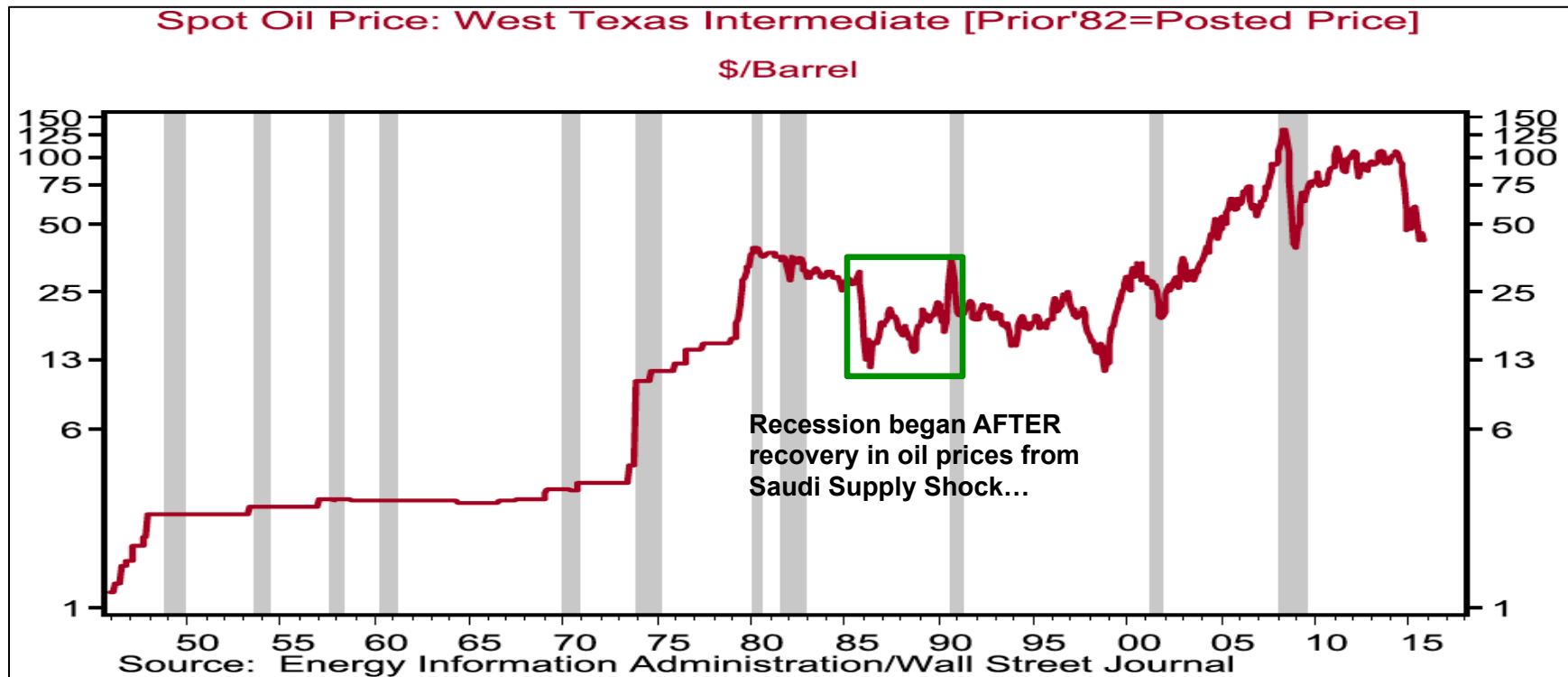


Source(s): @JesseFelder, @convertbond



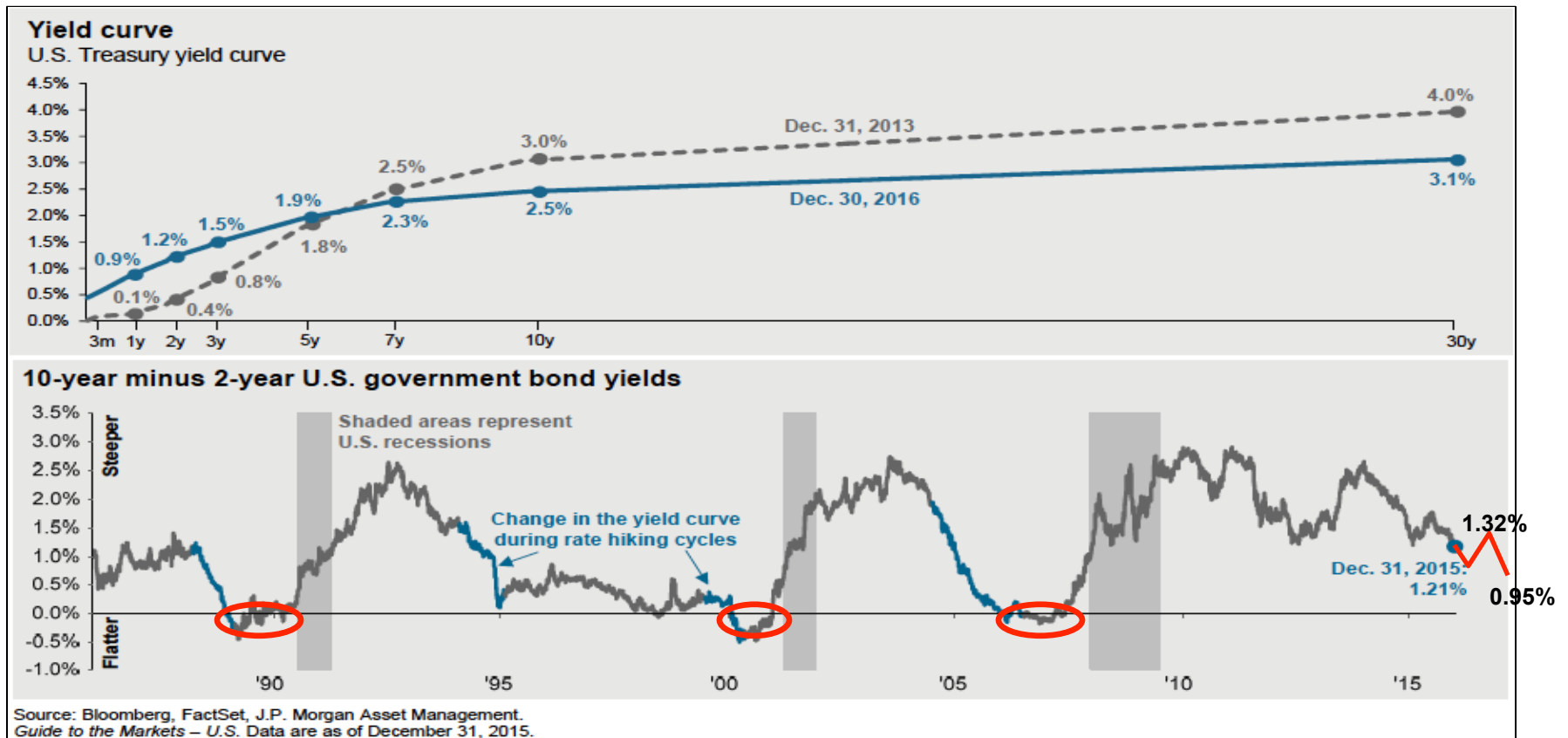
Spoiler #1 to Recession Surprise is Oil Prices Being Low

**FALLING OIL PRICES DON'T LEAD TO A U.S. RECESSION
(IT'S RISING OIL PRICES THAT DO THIS).**



Source(s): TIS Group

Spoiler #2 to Recession Surprise is Lack of Inverted YC



Source(s): NeubergerBerman

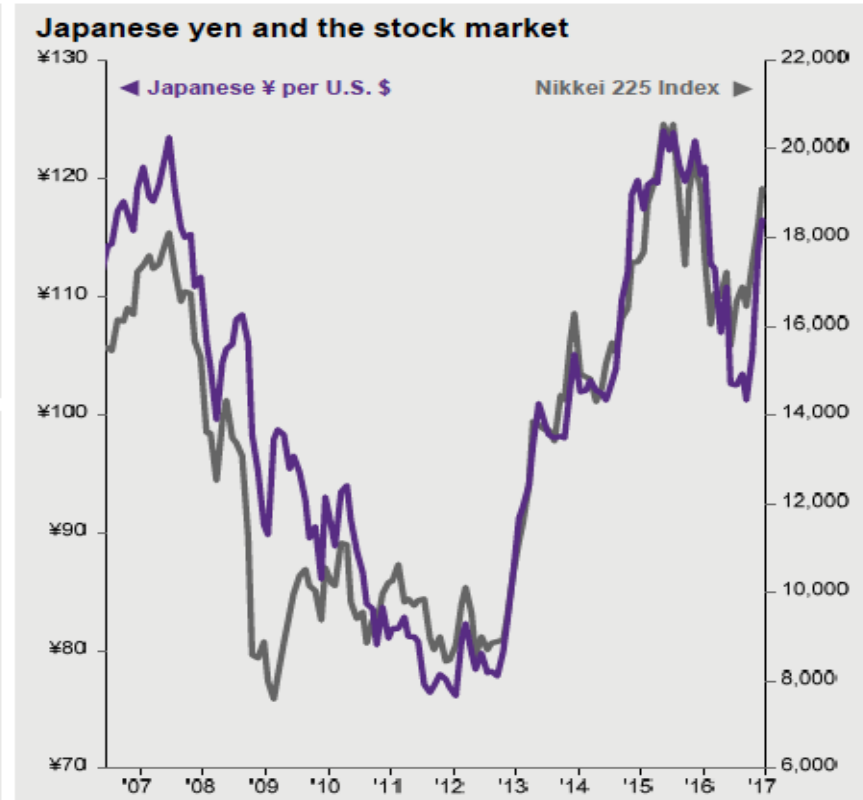
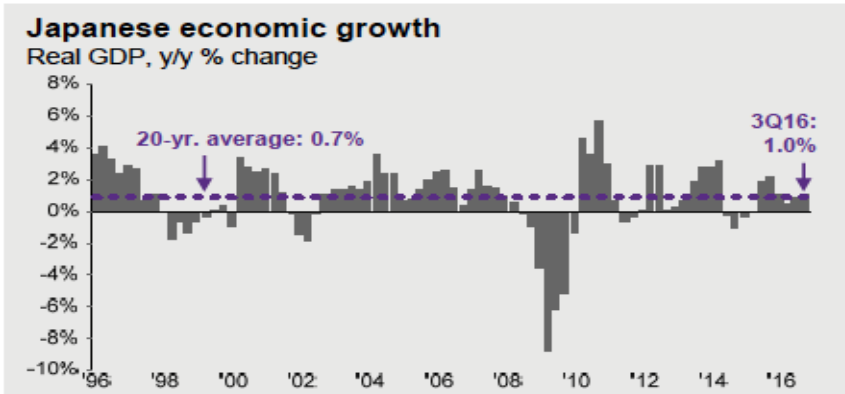
Surprise #3

Kurve It Like Kuroda

After shocking the world last January by adopting NIRP, BOJ Governor Kuroda sees the error of his ways and fully commits to his Yield Curve Control Program, resulting in a steeper yield curve and greater stability in Japanese capital markets. The Yen continues to weaken (with USDJPY approaching 130) corporate profits surge to new record highs and Japanese equities rally hard (particularly the Mega-Banks). The Nikkei finishes the year at 22,000.



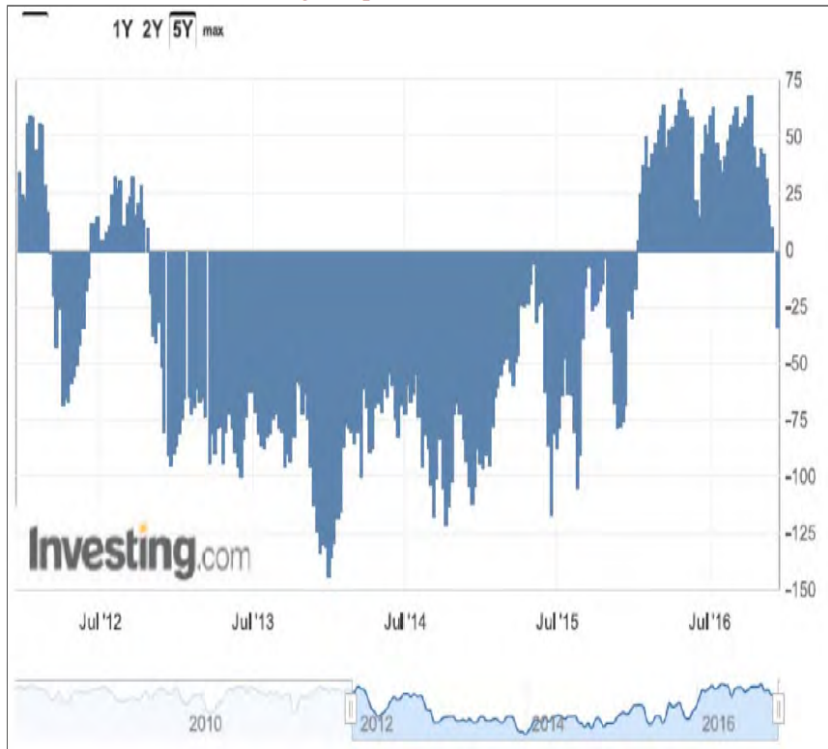
Abenomics: Make Yen Fall, GDP, Wages & Stocks Rise



Source: FactSet, J.P. Morgan Asset Management; (Top and bottom left) Japanese Cabinet Office; (Right) Nikkei.
Guide to the Markets – U.S. Data are as of December 31, 2016.
 Source(s): JPMorgan

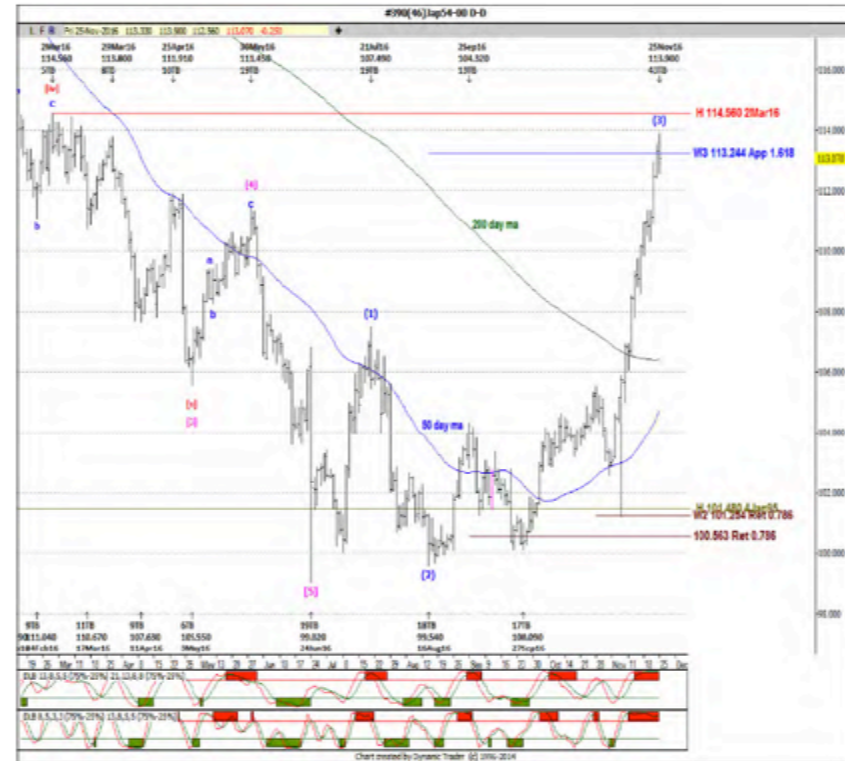
Problem Was Kuroda-San's NIRP Mistake, Yen Surged

CFTC JPY Speculative Net Positions



Source: <http://www.investing.com/economic-calendar/cftc-jpy-speculative-positions-1614>

Yen vs. U.S. Dollar



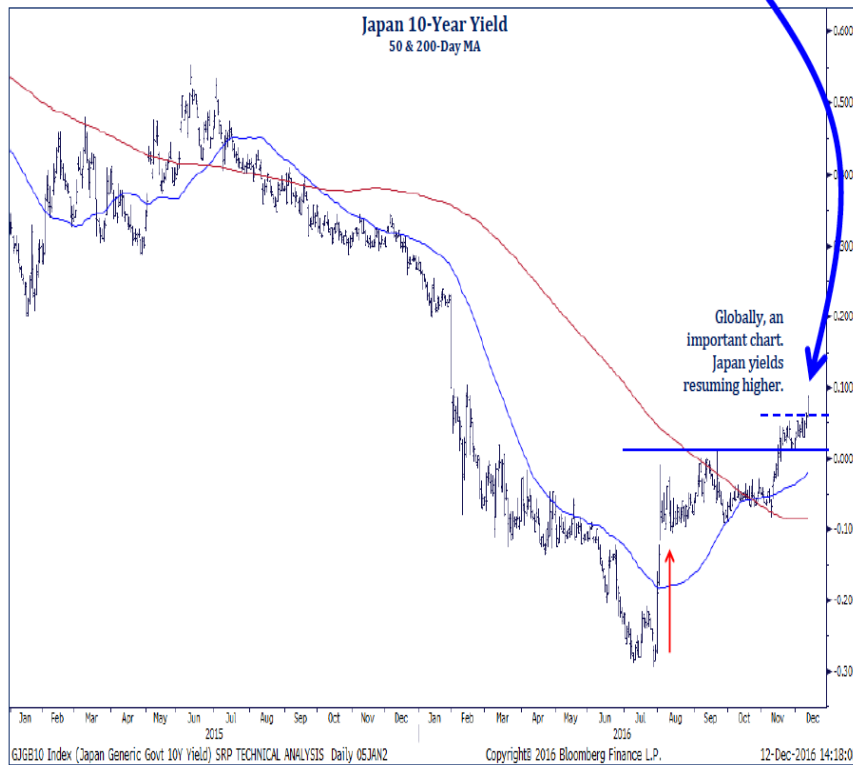
Source: 618034 Ltd.

Source(s): TIS Group

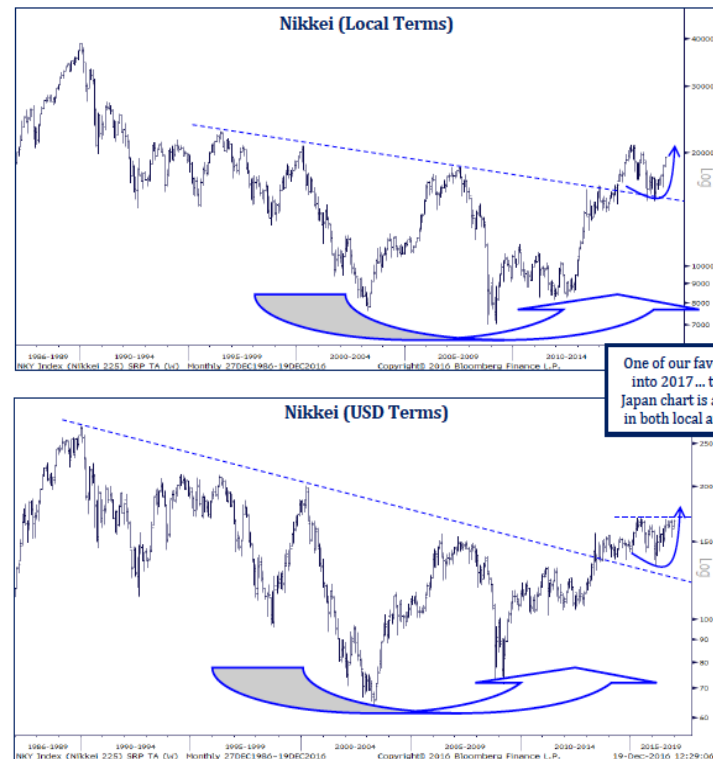


Reversing JGB's Back To Positive Triggered Equity Rally

JGB YIELDS RESUMING HIGHER, DESPITE BoJ TARGET



BULLISH CHARTS



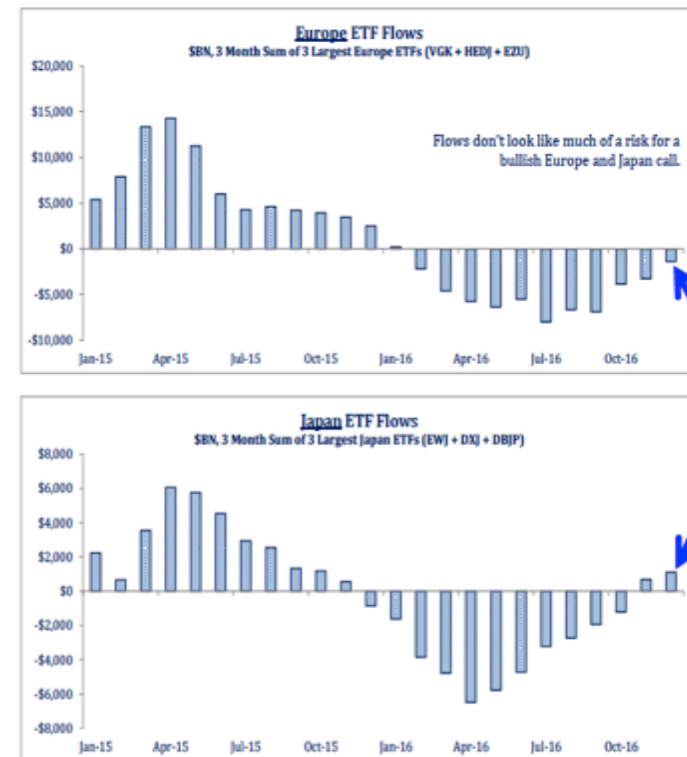
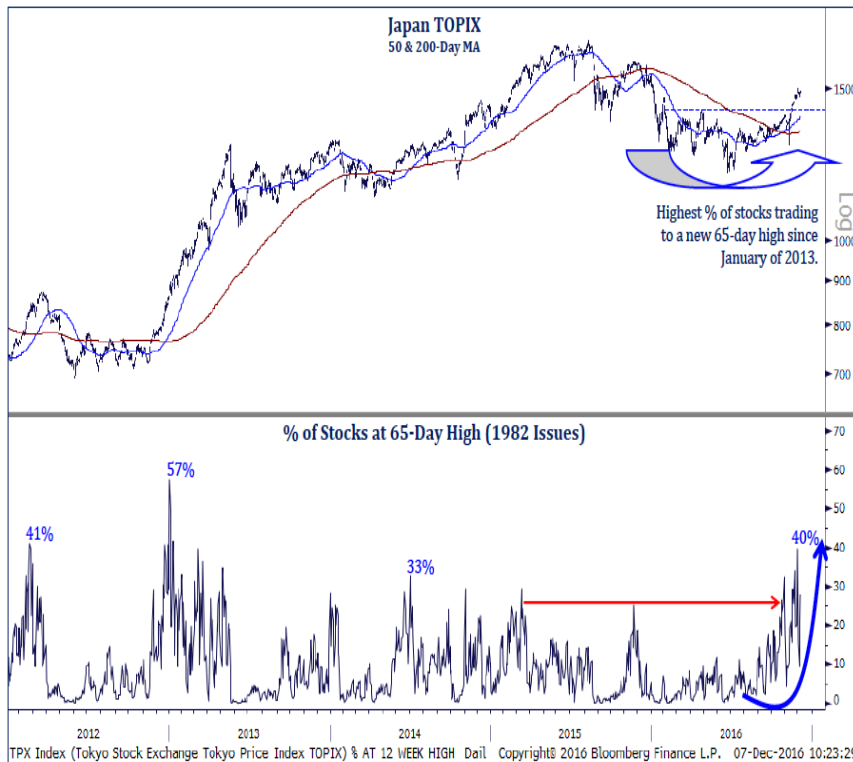
Source(s): Strategas



Local Buyers Create Momentum, Foreigners Still Waiting

JAPAN HAS ALSO TURNED, INTERNAL MOMENTUM REACCELERATING

FLOWS STILL SUGGEST EUROPE & JAPAN REMAIN CONTRARIAN IDEAS



Source(s): Strategas

Only Way Out: USDJPY Must Go Much Higher Over Time



I think \$/JPY goes much, much higher over time.

Source(s): GMI

Japan Equities Crushed SPX 2H16, Have Lagged in 2017



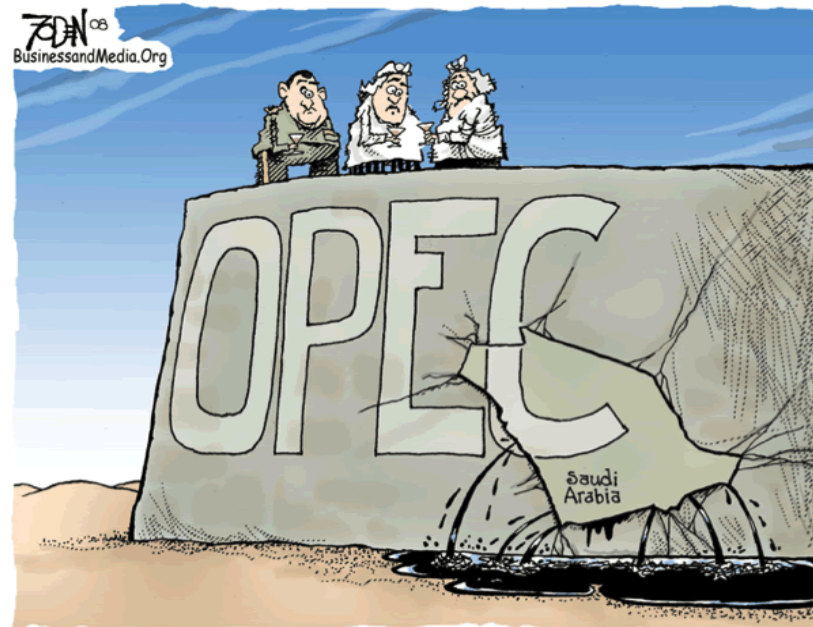
Source(s): Bigcharts.com



Surprise #4

When OPEC Freezes Over...

After the ceremonial show of OPEC unity in November, where members agreed to production cuts to attempt to firm up oil prices, it turns out that members of Cartels actually cheat and excess supply continues to dog the oil market. In hindsight it becomes clear that the agreed upon “cuts” were merely normal seasonal production declines and 2017 brings a chorus of “you cut first, no you cut first...” Global crude inventories remain stubbornly high and prices fall back toward the bottom of the New Normal \$40 to \$60 range before bouncing back to end the year at \$60.



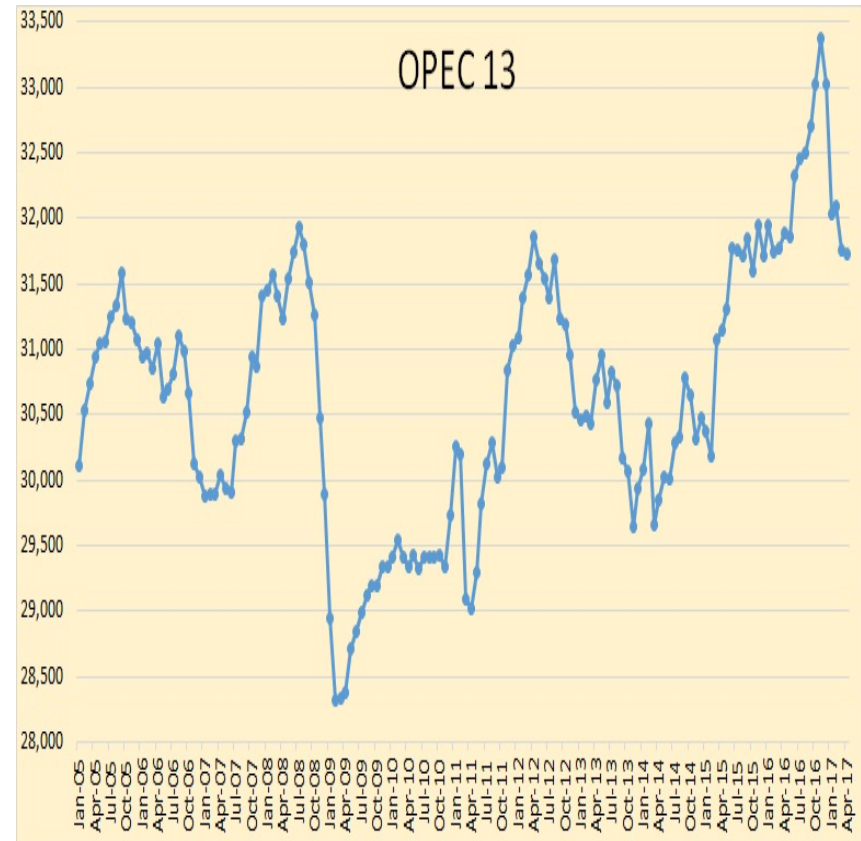
Source(s): BusinessandMedia.org

OPEC “Agreed” To Relatively Meaningful Production Cuts

OPEC Agreement on Saudi Initiative To Cut Production by 1.2 million Bbl per Day
 Saudi’s absorb 40% of cut with 486 mln Bbl reduction
 Iran cuts by 90 mln Bbl only 7.5% of OPEC reduciton

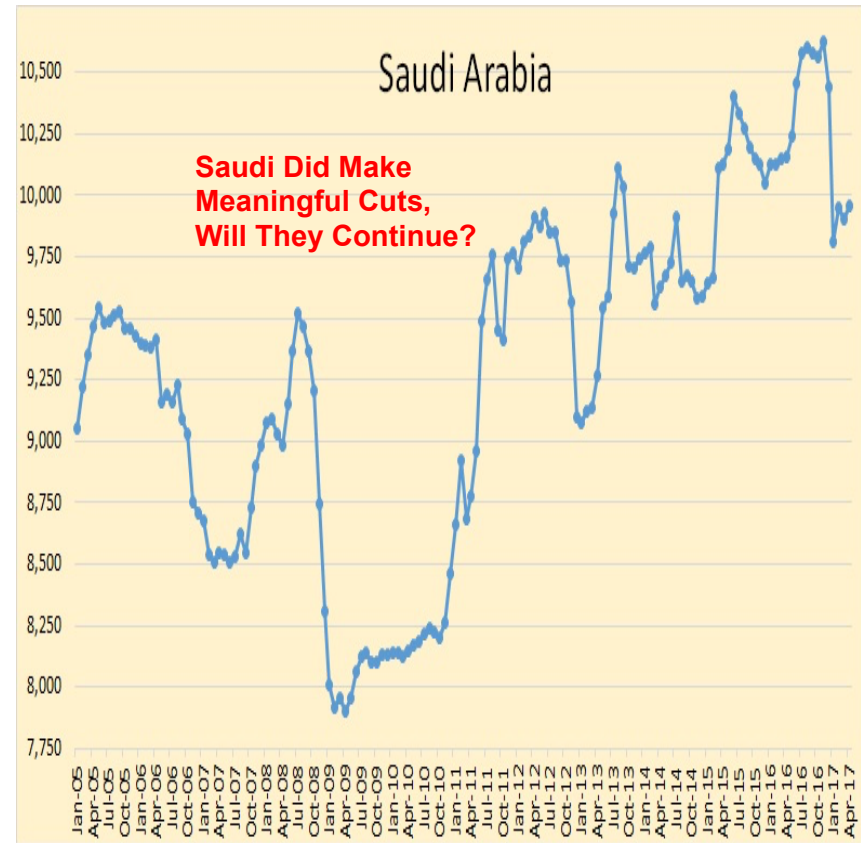
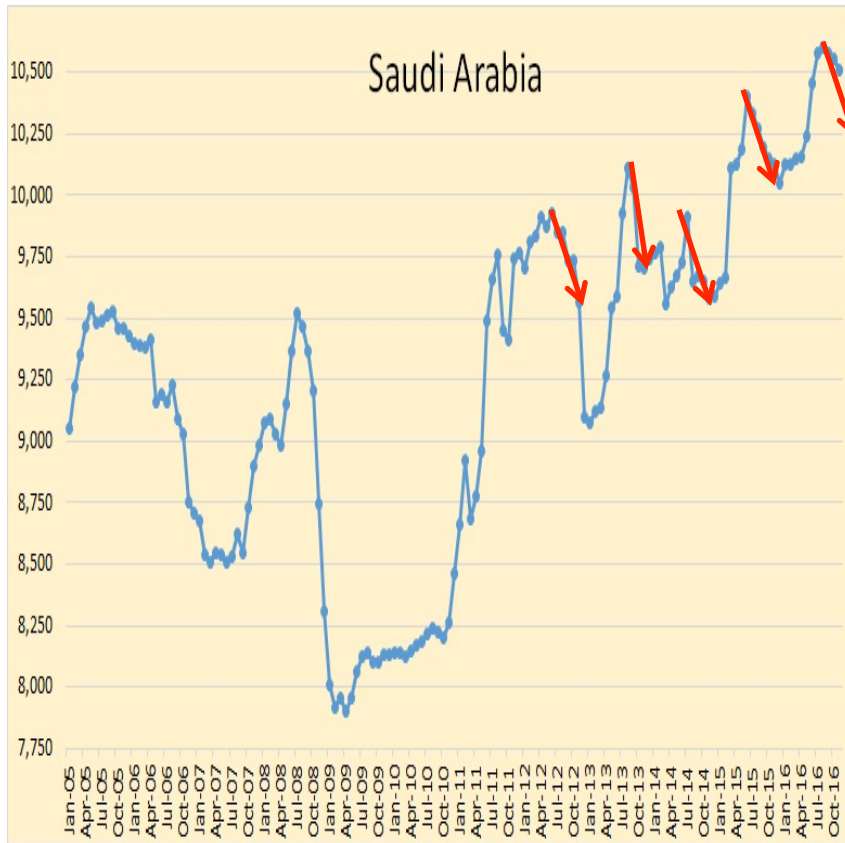


Source Data: Bloomberg, LP



Source(s): TIS Group, PeakOilBarrel.com

Is “Cut” Just Seasonality? Saudi Production Creeping Up



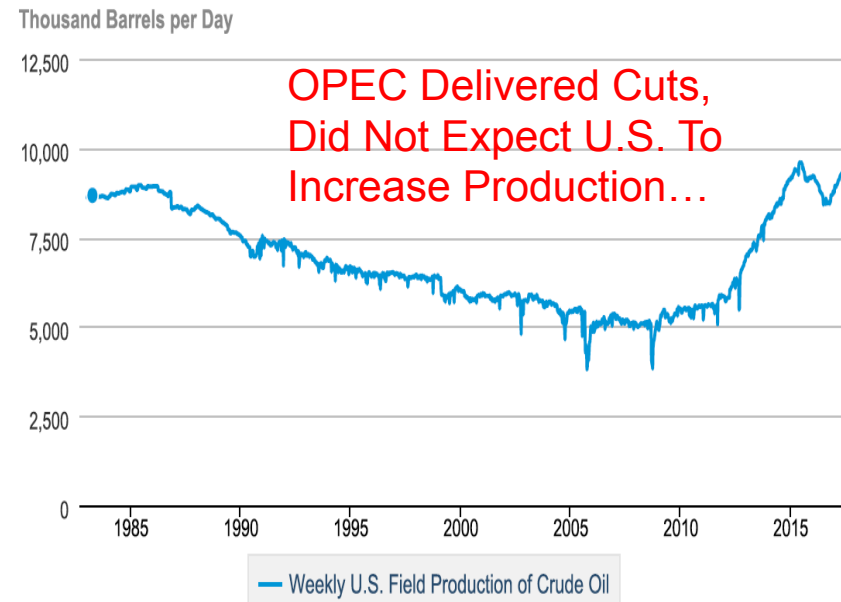
Source(s): PeakOilBarrell.com



Was It About Cuts...OPEC Tries To Smack Levered Shale



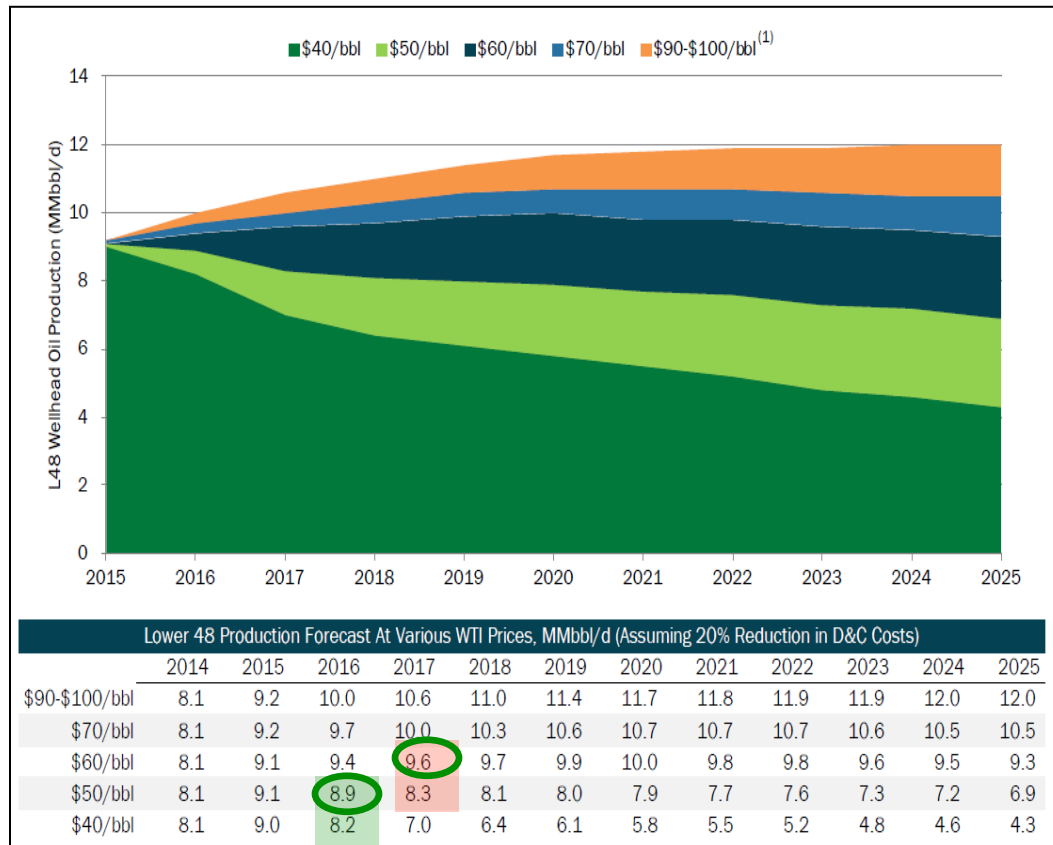
Weekly U.S. Field Production of Crude Oil



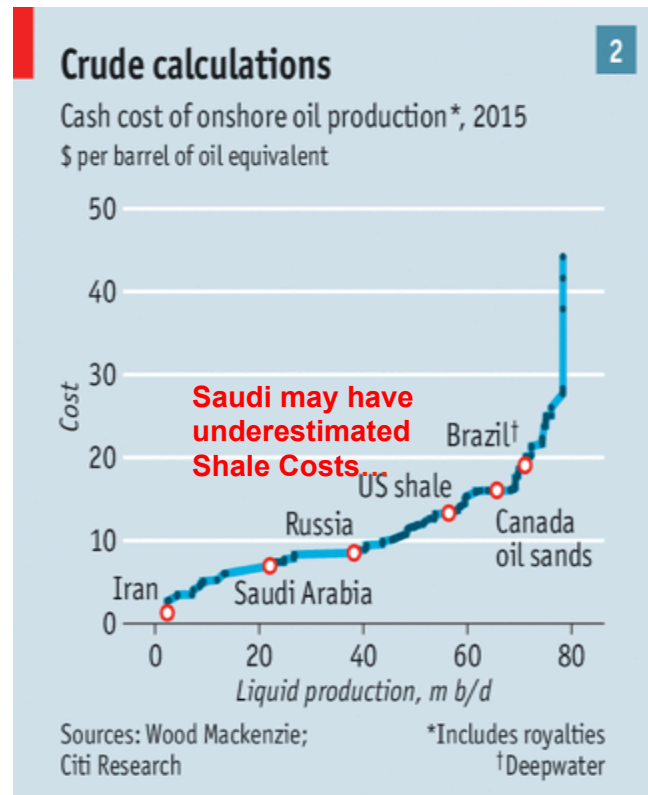
Source(s): TIS Group, EIA

eia Source: U.S. Energy Information Administration

As Hedges Roll Off, Production Will Rise w/ Higher Prices

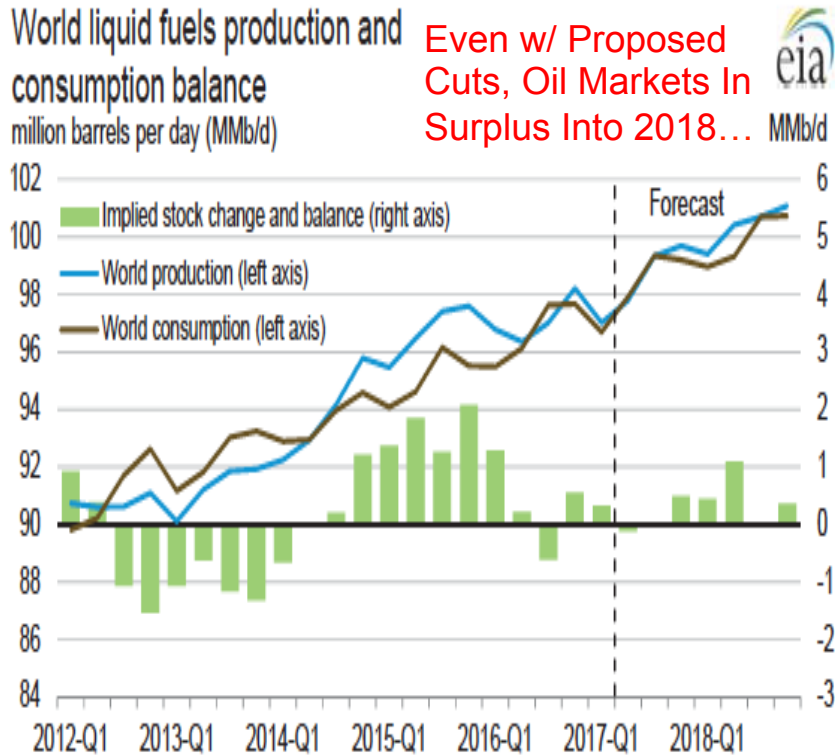


Source(s): ITG, Economist.com.



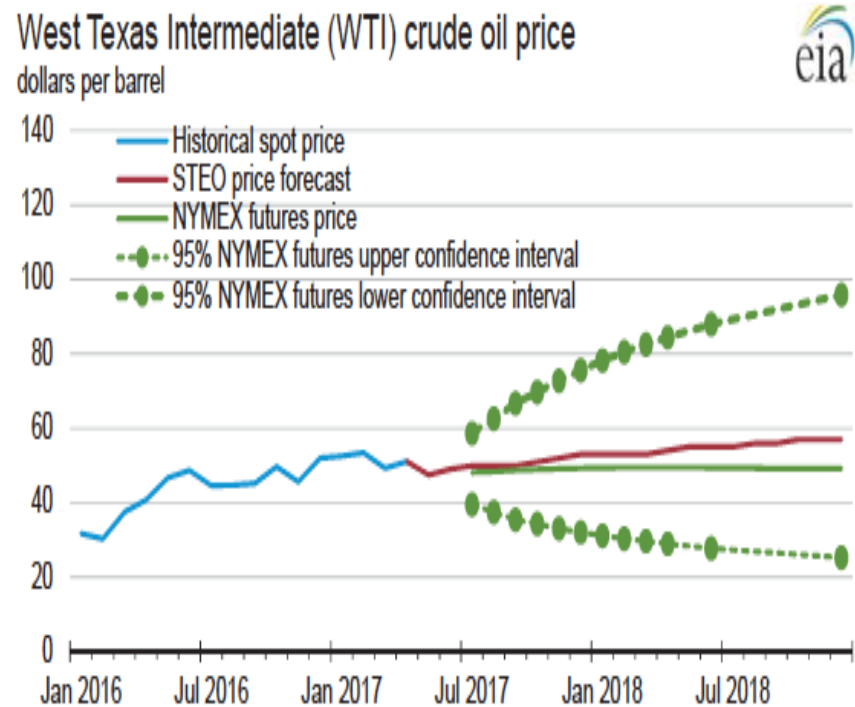
Economist.com

Even w/ Cuts EIA Forecast Balanced Market, Stable Prices



Source: Short-Term Energy Outlook, May 2017.

Source(s): EIA

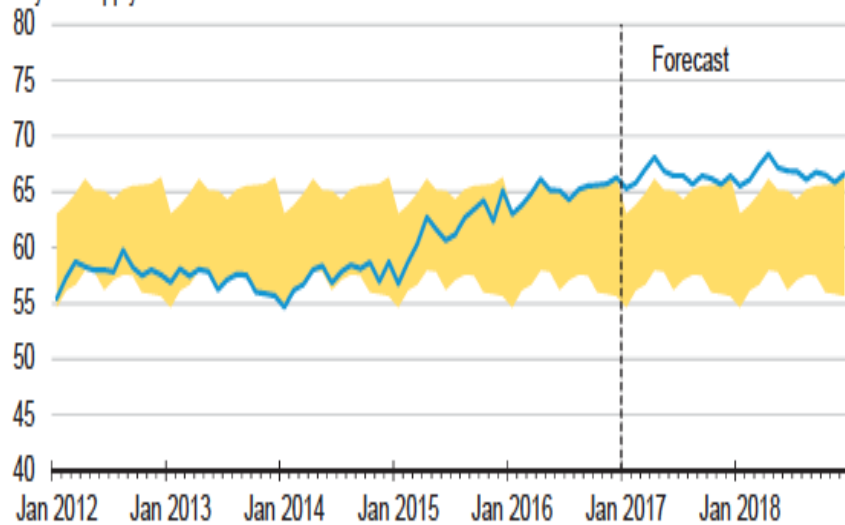


Note: Confidence interval derived from options market information for the 5 trading days ending May 4, 2017. Intervals not calculated for months with sparse trading in near-the-money options contracts.

Source: Short-Term Energy Outlook, May 2017.

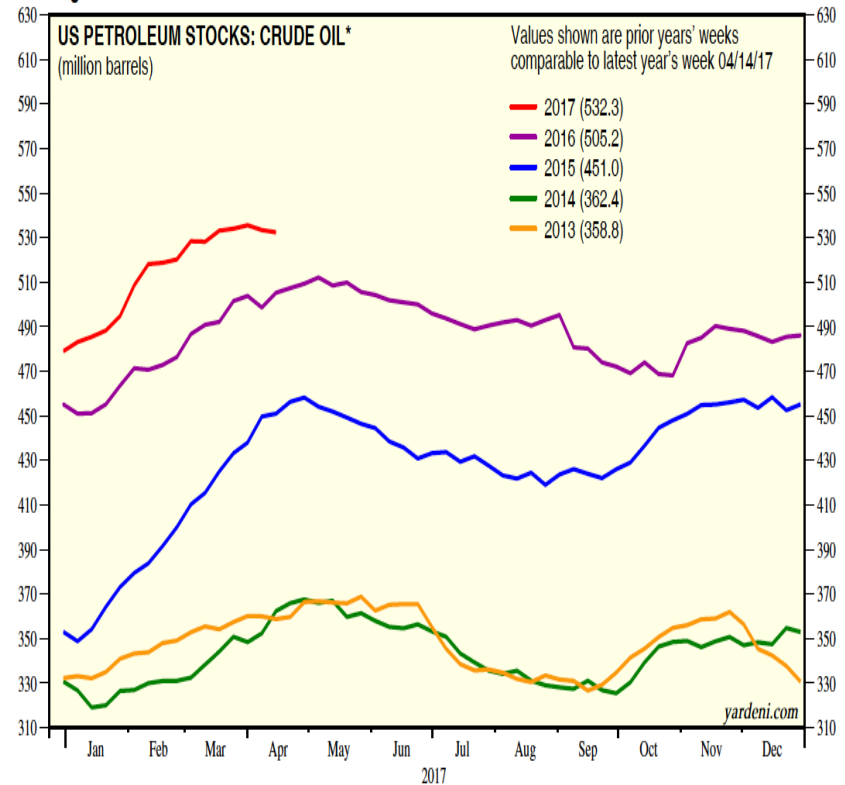
Stubbornly High Stocks May Keep Prices Lower Longer

OECD commercial stocks of crude oil and other liquids
days of supply



Note: Colored band around days of supply of crude oil and other liquids stocks represents the range between the minimum and maximum from Jan. 2012 - Dec. 2016.

Source: Short-Term Energy Outlook, January 2017.

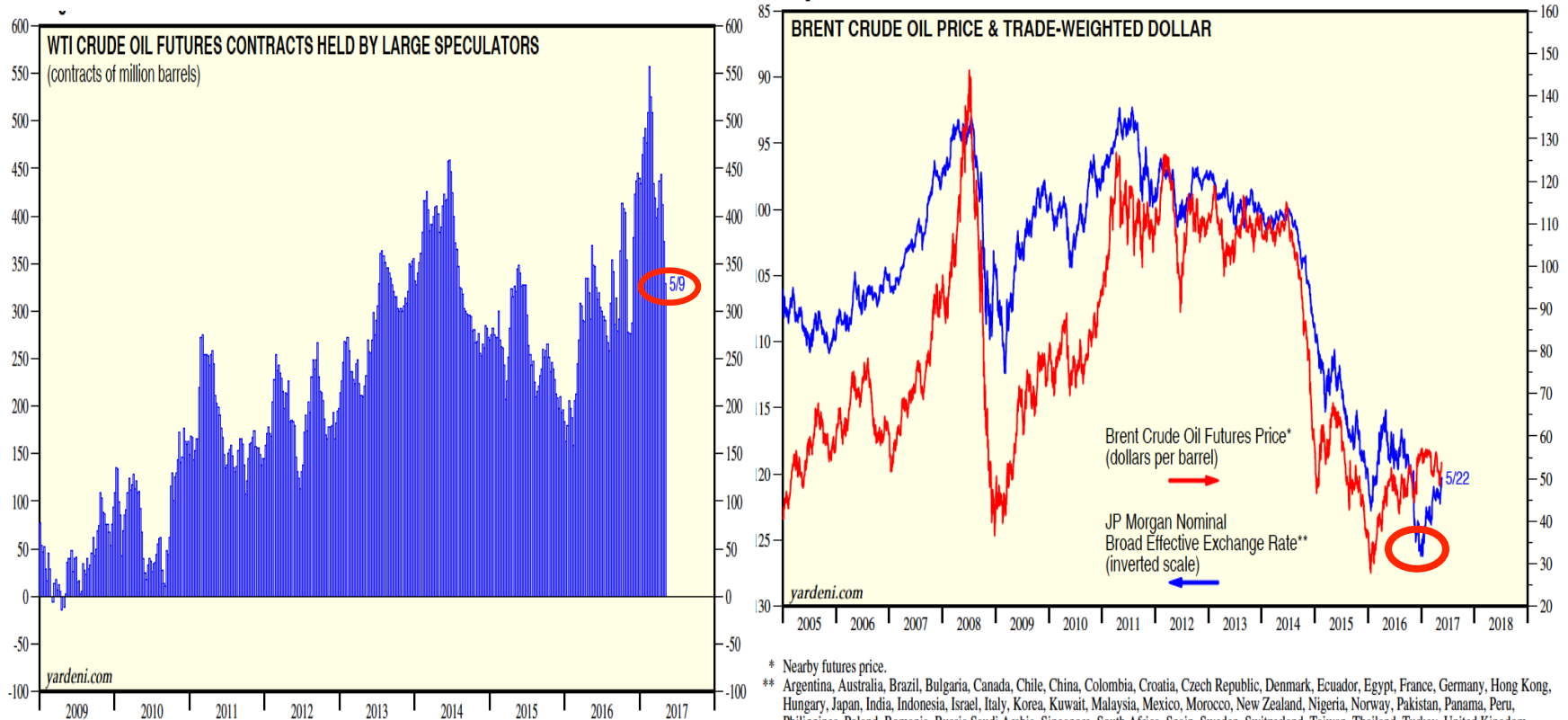


* Excluding US Strategic Petroleum Reserve.
Source: US Department of Energy and Haver Analytics.

Source(s): EIA, Yardeni.com



Oil Longs Were > 2014 Danger Zone, Dollar Said Oil to \$30

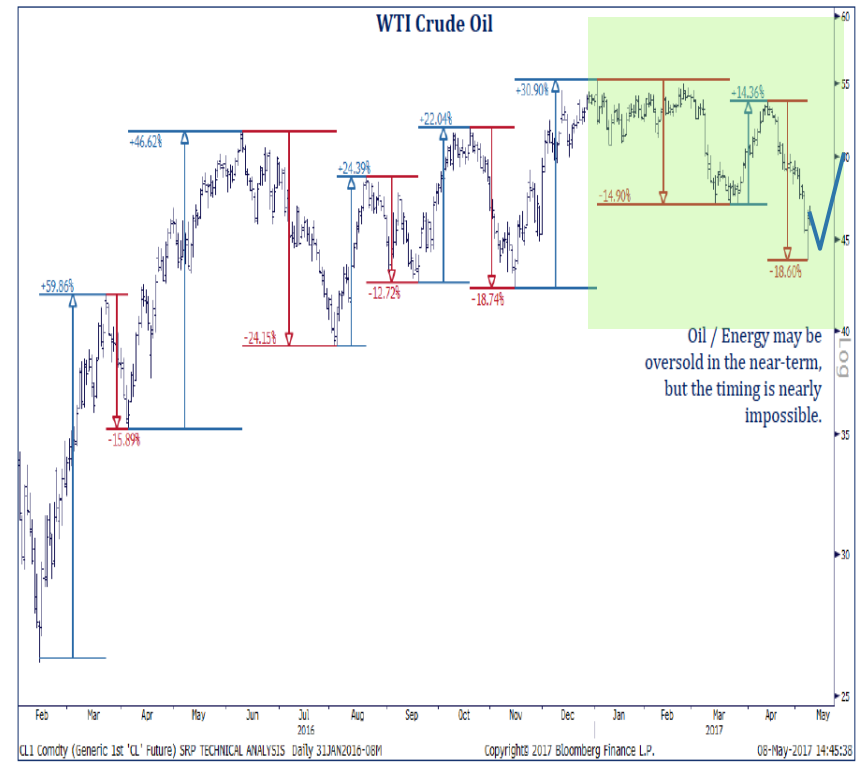


Source: Commodity Futures Trading Commission and US Department of Energy.

Oil Has Been Locked In \$40 to \$60 Range As Expected



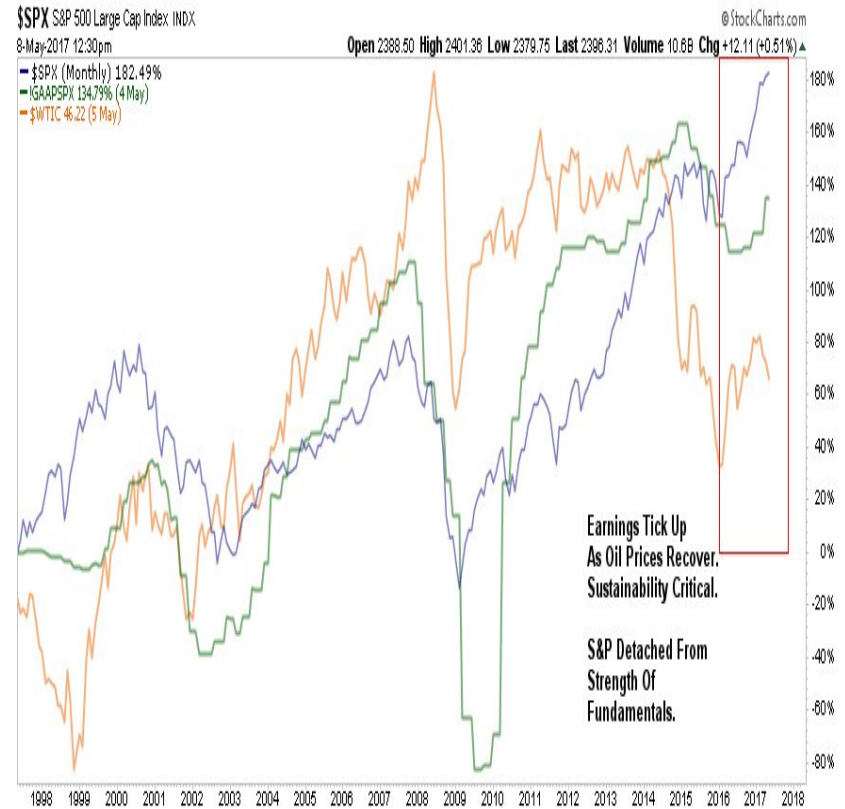
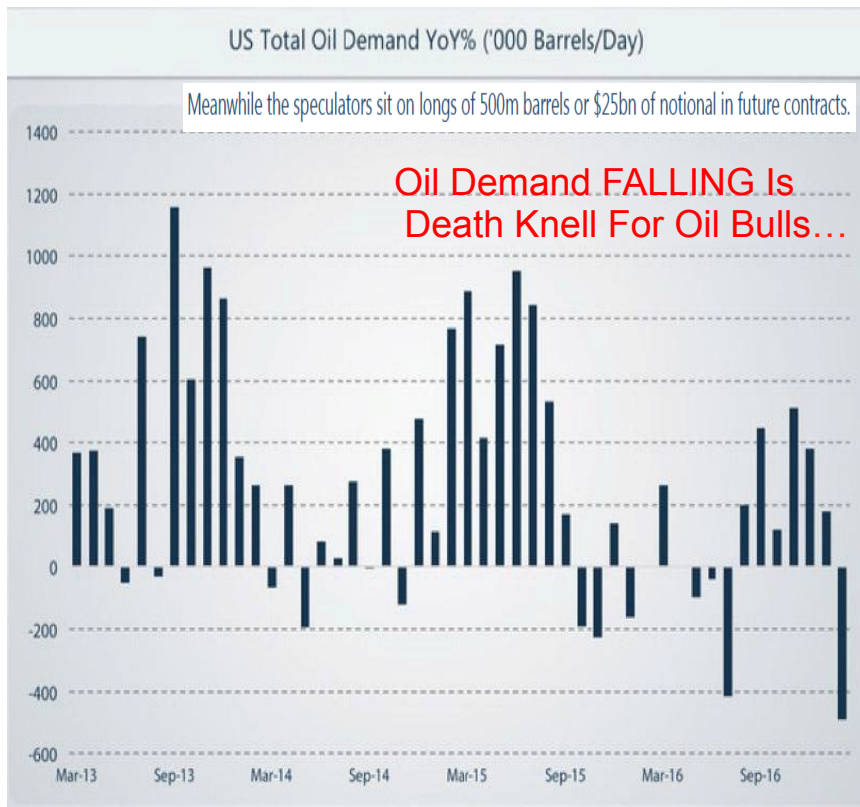
HARD WORK...



Source(s): GMI, Strategas



As Goes Oil Prices, So Goes S&P 500 EPS and \$SPX...



Source(s): GMI, @lanceroberths



Surprise #5

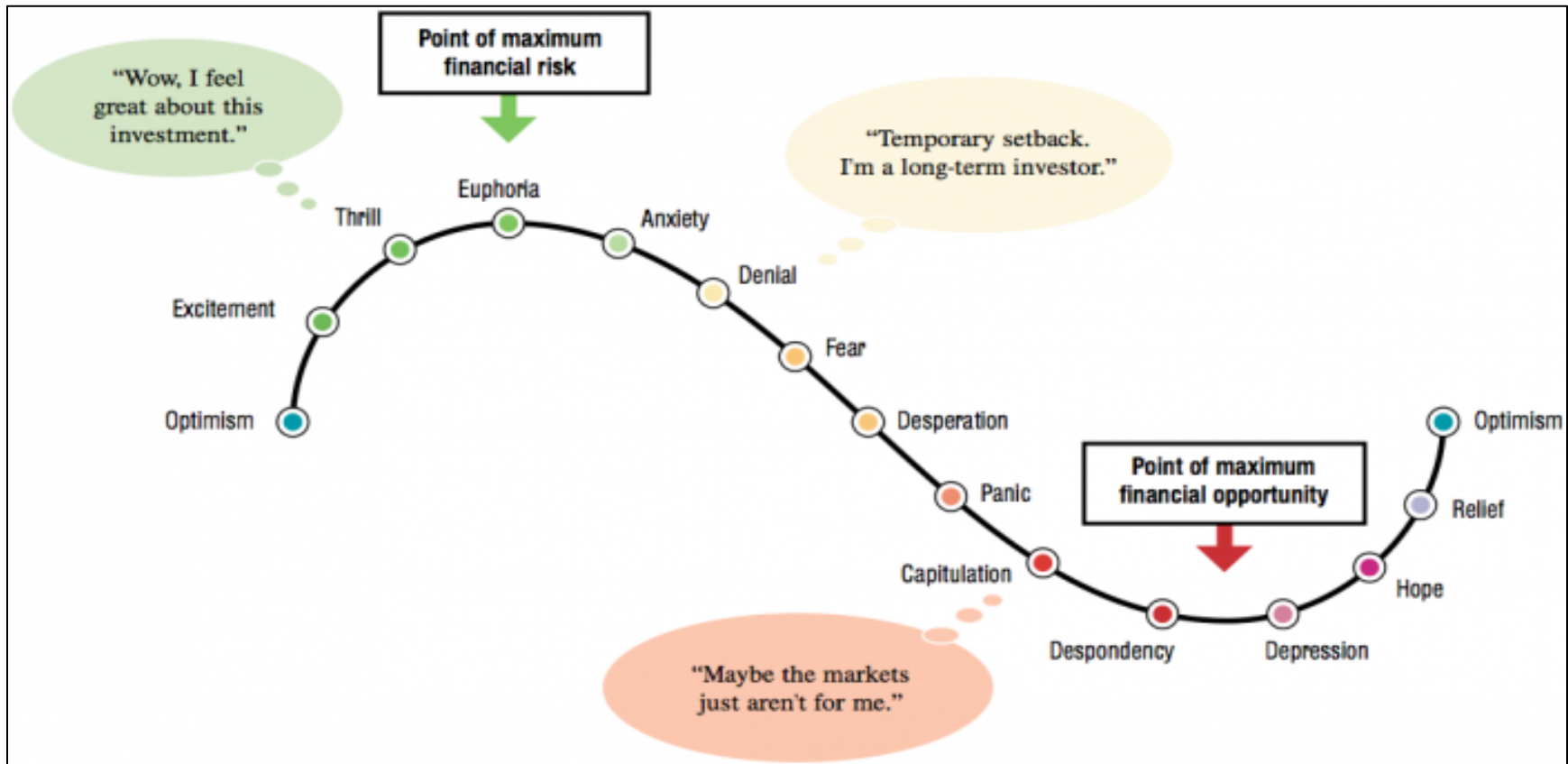
After a bruising environment for European Financial stocks in 2016, culminating in the failure of the Italian Referendum in December, summer clearance prices come early and the Risk/Reward becomes compellingly attractive. Contrary to the negative headlines, Euro Banks have recapitalized their balance sheets, NPLs have peaked and the Euro Macro backdrop is improving. We often say that Investing is the only business we know where when things go on sale, everyone runs out of the store, so resist the urge to run and buy what's on sale.

Saldi, Saldi, Saldi.



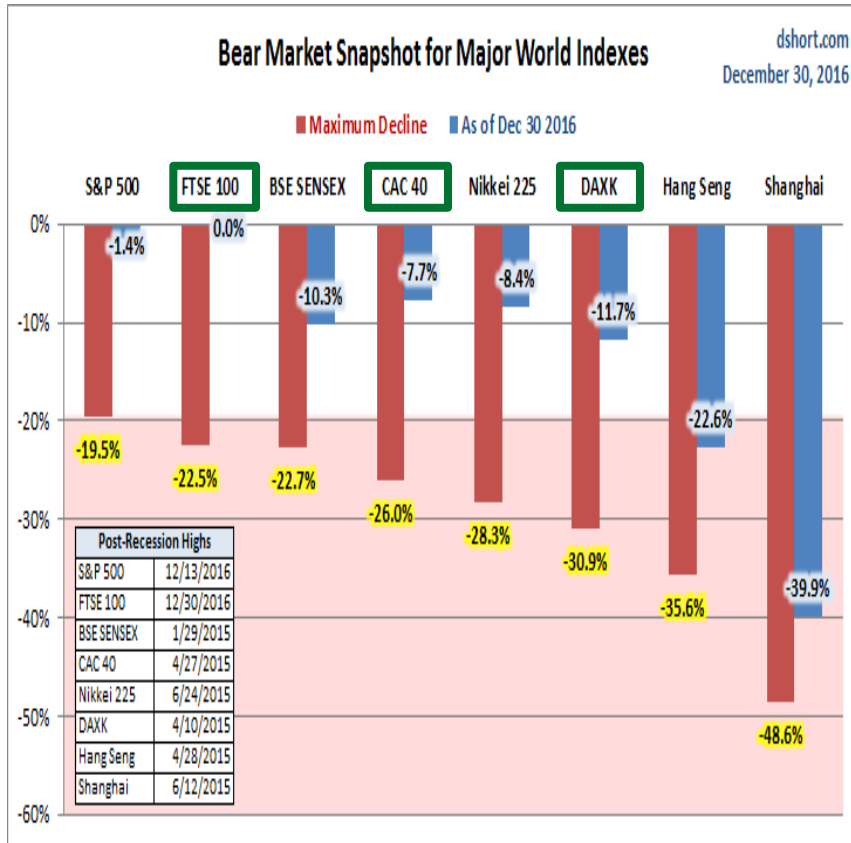
Source(s):

Opportunity Lies in Despair, Despondency & Depression



Source(s): stocktwits.com

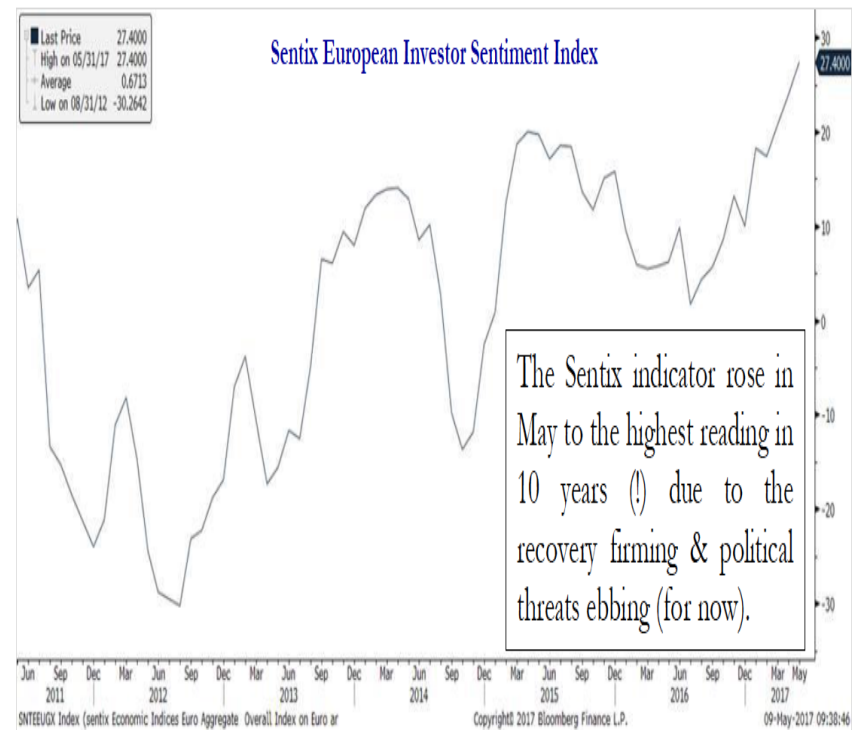
Shopping Where Equities On Sale, Hope Trade in Europe



Source(s): AdvisorPerspectives.com, TIS Group

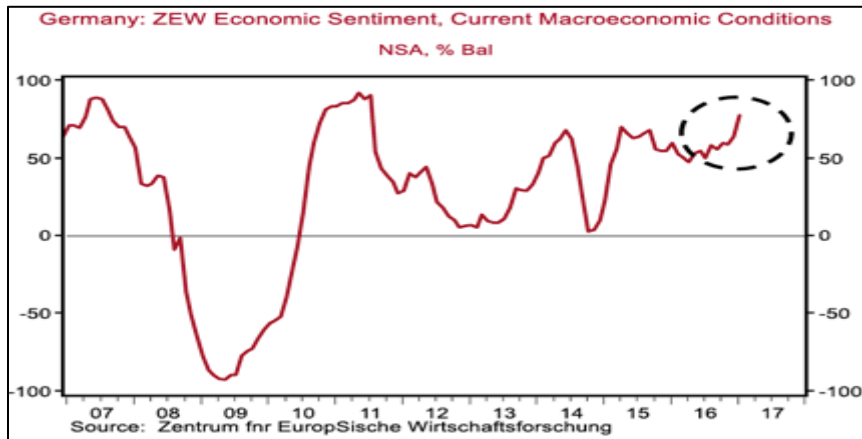
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ANIMAL SPIRITS EMERGING IN EUROPE



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EU Inflation Finally Improving, Following ECB B/S Higher



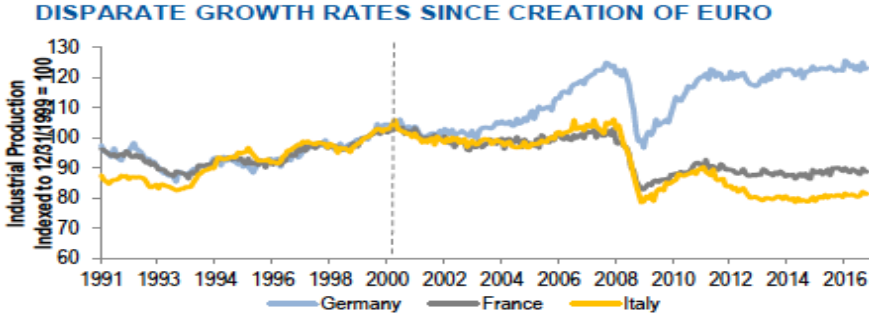
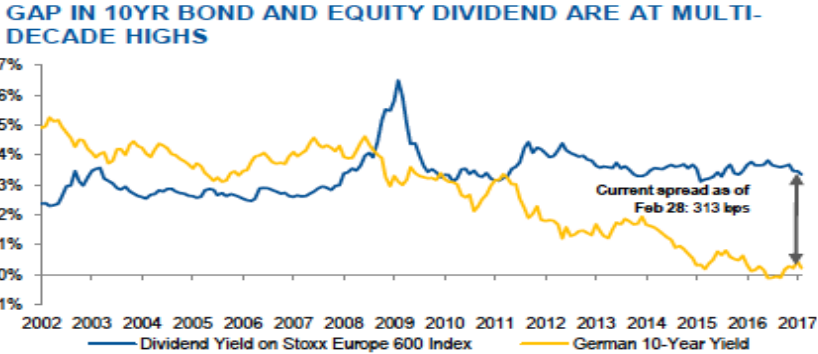
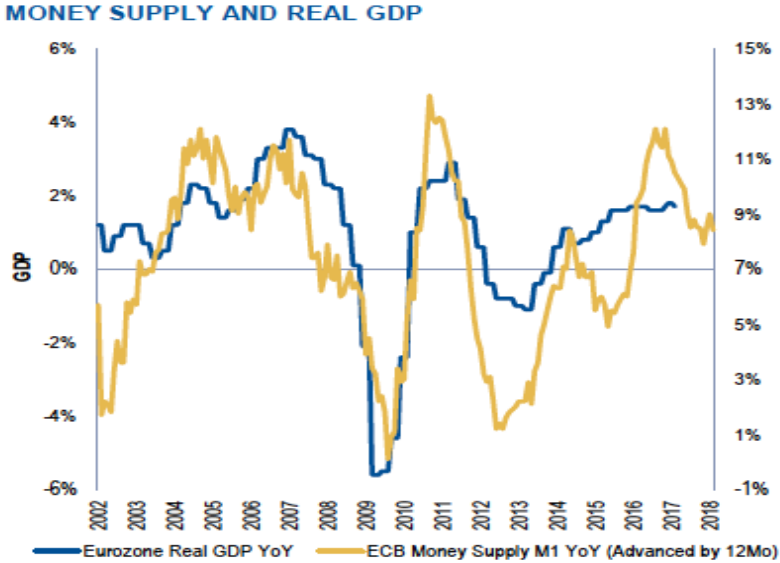
Source(s): IIS Group, @Shuidensuehner



Europe Valuations Better vs. US, Political Risks Were Real

Europe – Monetary Stimulus Ebbing and Political Headwinds Increasing

Attractive valuations offset by earnings growth challenges



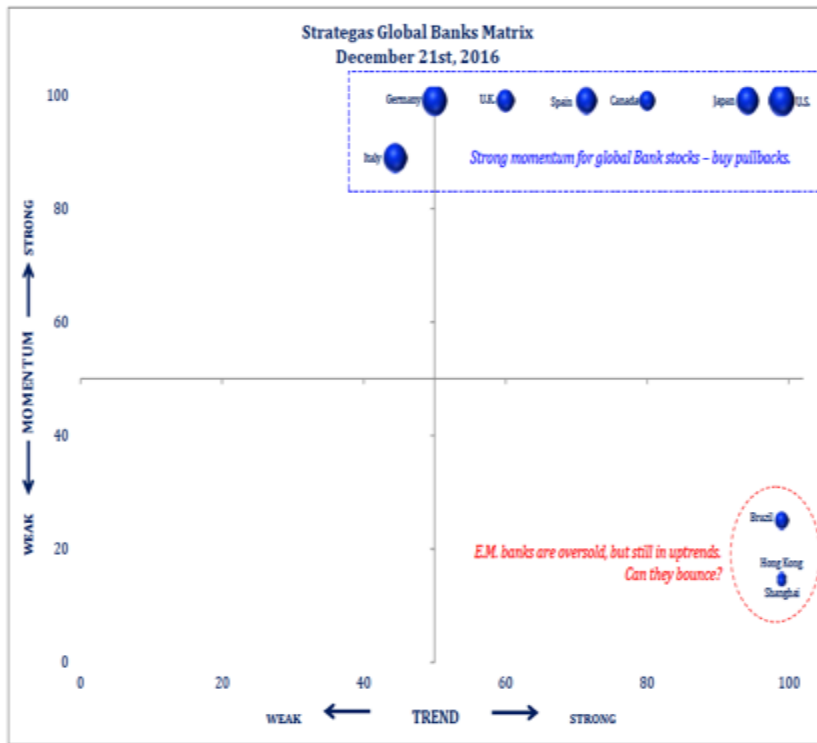
Sources: Thomson Reuters, Bloomberg, European Central Bank, FactSet. GDP and Money Supply data as of Feb. 2017. German 10-Yr Yield and Dividend Yield on Stoxx Europe 600 Index as of Feb. 2017. Growth rate data as of Oct. 2016.

Source(s): NeubergerBerman



Banks Look Attractive Globally, Particularly So In Europe

GLOBAL BANKS REMAIN STRONG ACROSS THE BOARD

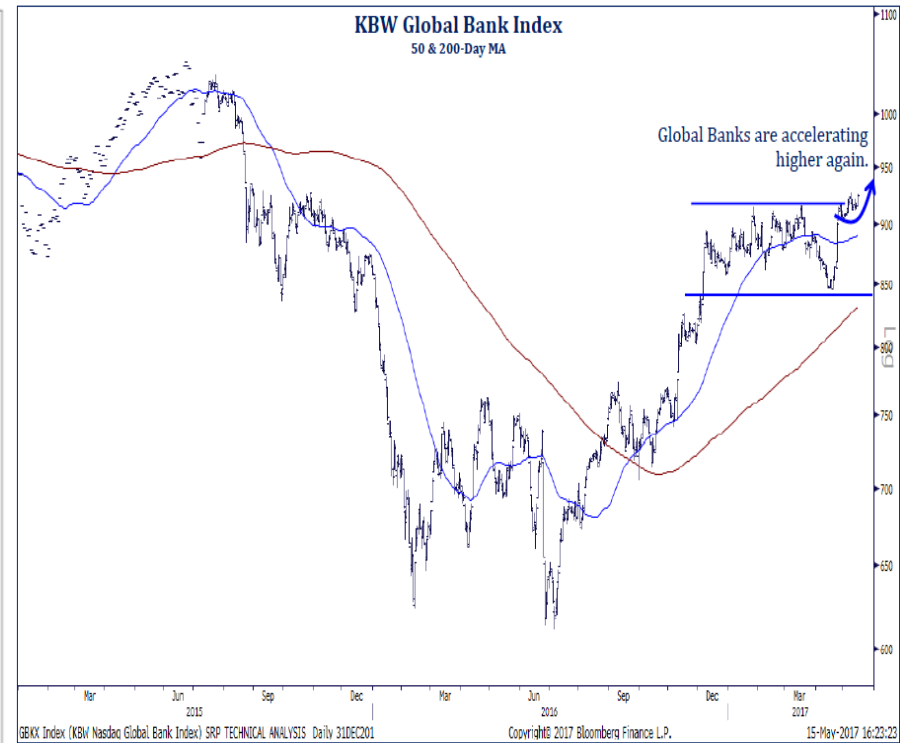


*The size of each data point is proportional to each sector's relative strength (i.e., the bigger the dot, the more stocks outperforming).

Source(s): Strategas



GLOBAL BANK INDEX BREAKING OUT

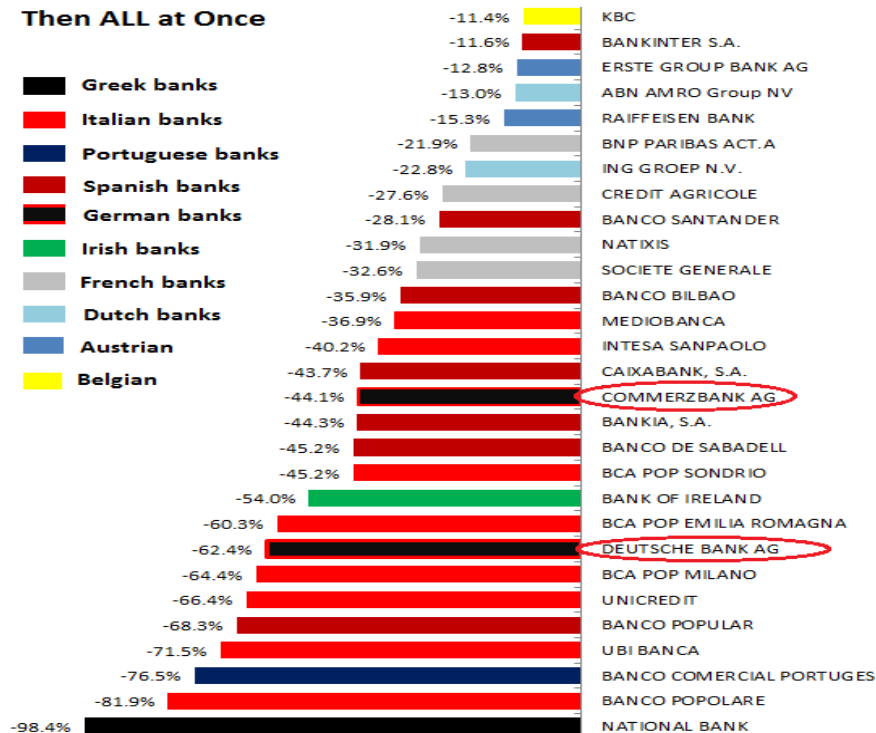


#TBTF : Some Banks Are More Important Than Others

EU Banking Mayhem One Bank at a Time Then ALL at Once

- Greek banks
- Italian banks
- Portuguese banks
- Spanish banks
- German banks
- Irish banks
- French banks
- Dutch banks
- Austrian
- Belgian

ESTX Banks Index % change from 52 week high



WOLFSTREET.com

Source(s): wikipedia.com, @Shuldensuehner

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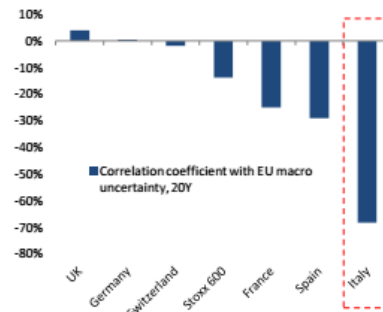
Was Italian Banking System Mother of Economic Threats?

Figure 3: Italy is the most volatile major market in Europe...



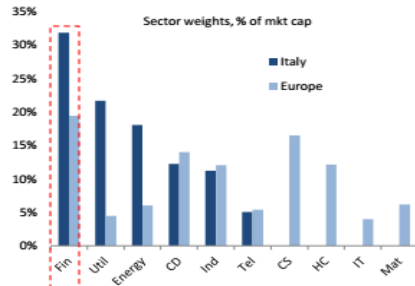
Source: Datastream, Deutsche Bank

Figure 4: ...and the most sensitive to macro uncertainty



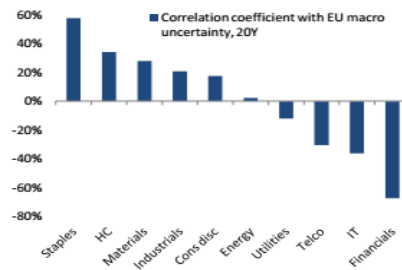
Source: Datastream, Deutsche Bank

Figure 5: Italy is heavily exposed to financials...

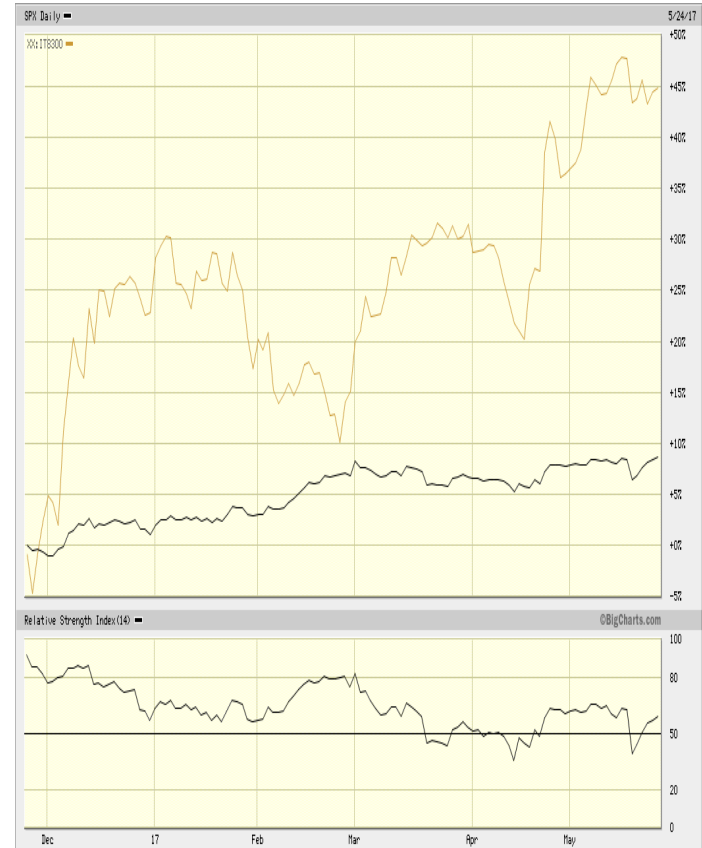


Source: Datastream, Deutsche Bank

Figure 6: ... the sector most sensitive to macro uncertainty



Source: Datastream, Deutsche Bank

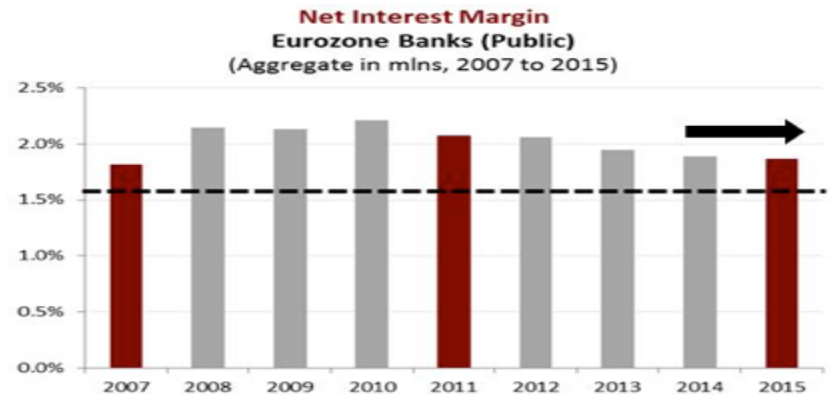


Source(s): DB Resaearch, Bigcharts.com

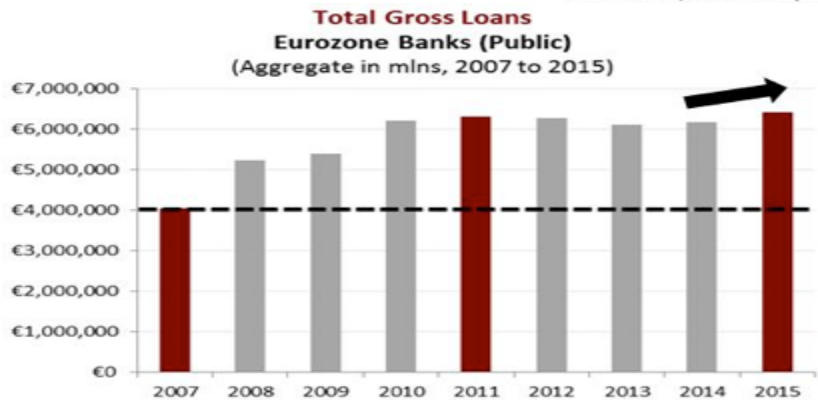
Euro Banks as Group Doing Better Than Press Clippings



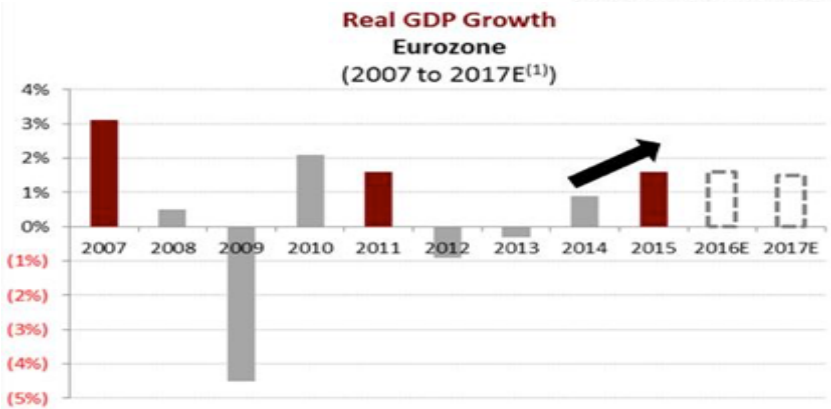
Source: KBW, Hamilton Capital



Source: KBW, Hamilton Capital



Source: KBW, Hamilton Capital



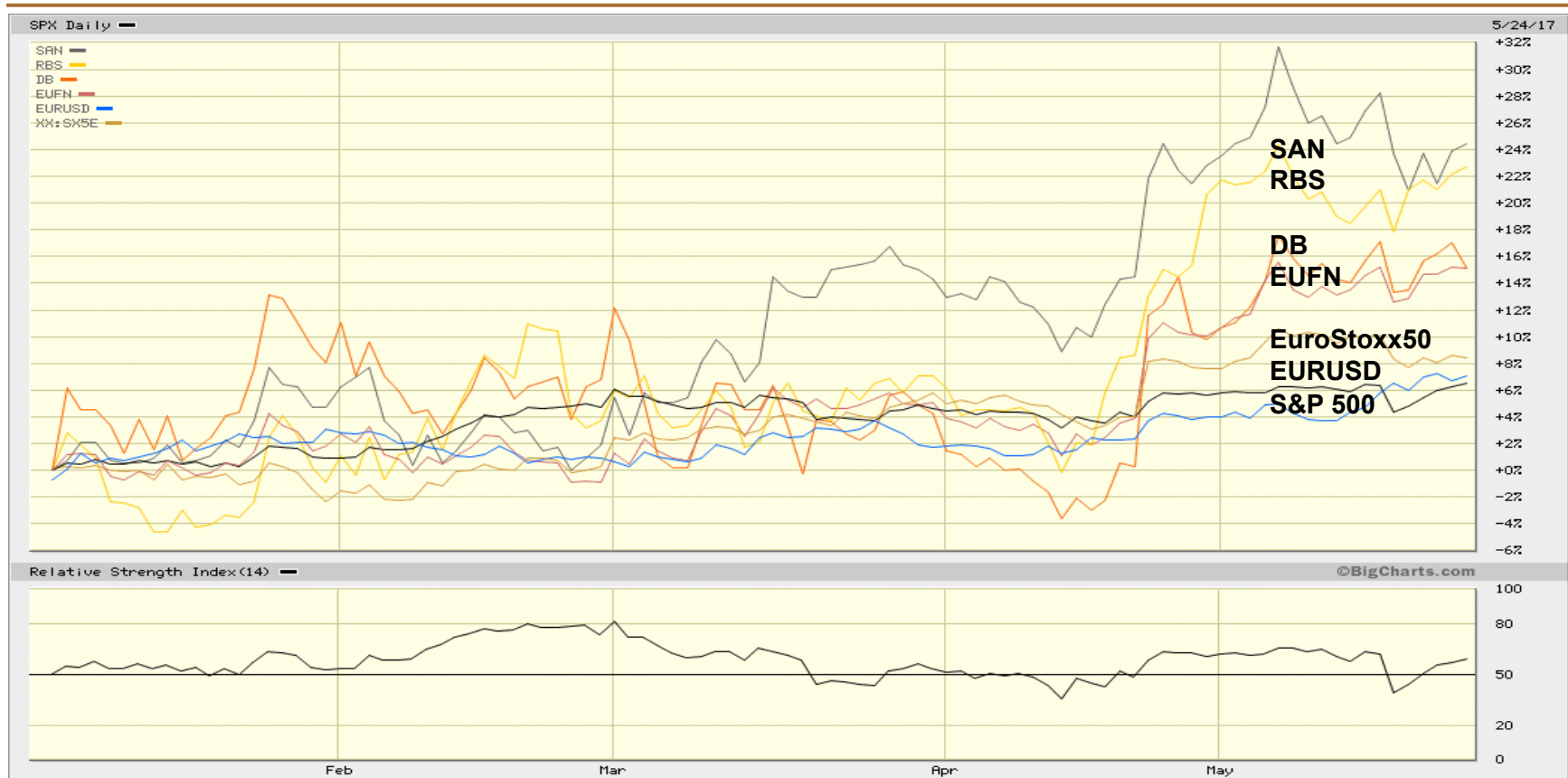
1. Based on economist consensus estimate

Source: Bloomberg, Hamilton Capital

Source(s): HamiltonCapitalPartners.com



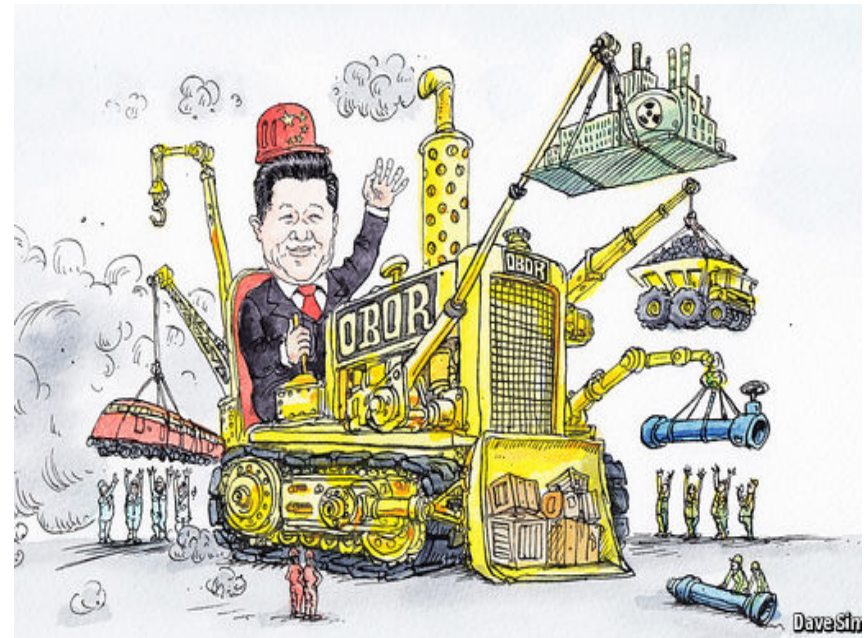
Europe & Euro Banks (Assist to Euro) Beat SPX in 2017



Source(s): Bigcharts.com

Surprise #6 One Belt, One Road, Multiple Bull Markets

China has embarked on a historic infrastructure program, the One Belt, One Road (OBOR) project that will recreate much of the ancient Silk Road trade routes all across Europe, Africa & S.E. Asia. This massive undertaking will trigger Bull Markets in stock markets all across the region, as well as in industrial commodities needed to complete these enormous construction projects. As Chinese cyclical companies trade at substantial discounts to consumer companies, there are particularly attractive investment opportunities in these sectors.



Source(s): DaveSim.com

This In An Infrastructure Build... Buy EM & Commodities

Silk Road Economic Belt and Maritime Silk Road



Source: SHSS/Xinhua

Source(s): TIS Group

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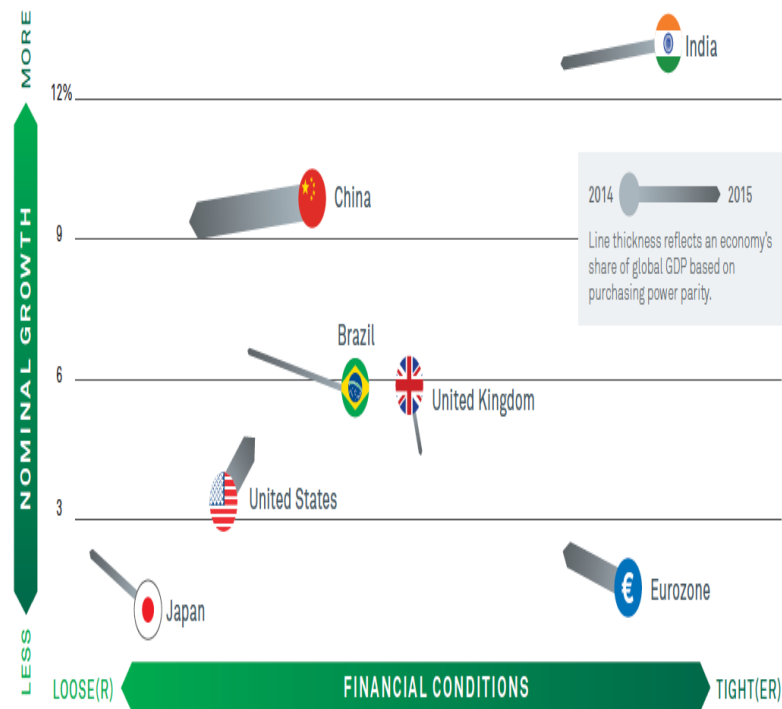
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China/India Have Material Growth Advantage Over ROW

THE YEAR OF LIVING DIVERGENTLY

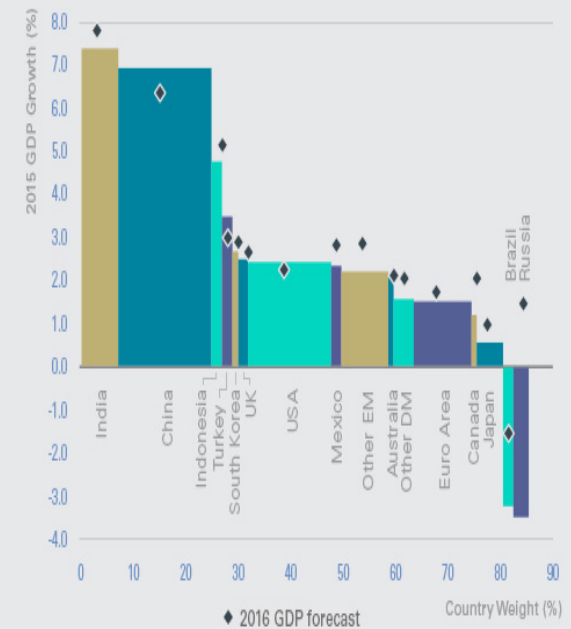
GDP Growth and Financial Conditions in Selected Economies, 2014-2015

CLICK FOR INTERACTIVE DATA 



STABILIZING ECONOMIES TO DRIVE GLOBAL GROWTH IN 2016

- GDP growth will grind higher to 3.5% from 3.2% as recovery from crisis continues
- Growth will come from rebounds in hard-hit emerging markets and small improvements in Europe, Japan
- Labor markets will continue march toward full employment in economies such as the US, UK



Source: Goldman Sachs Global Investment Research.

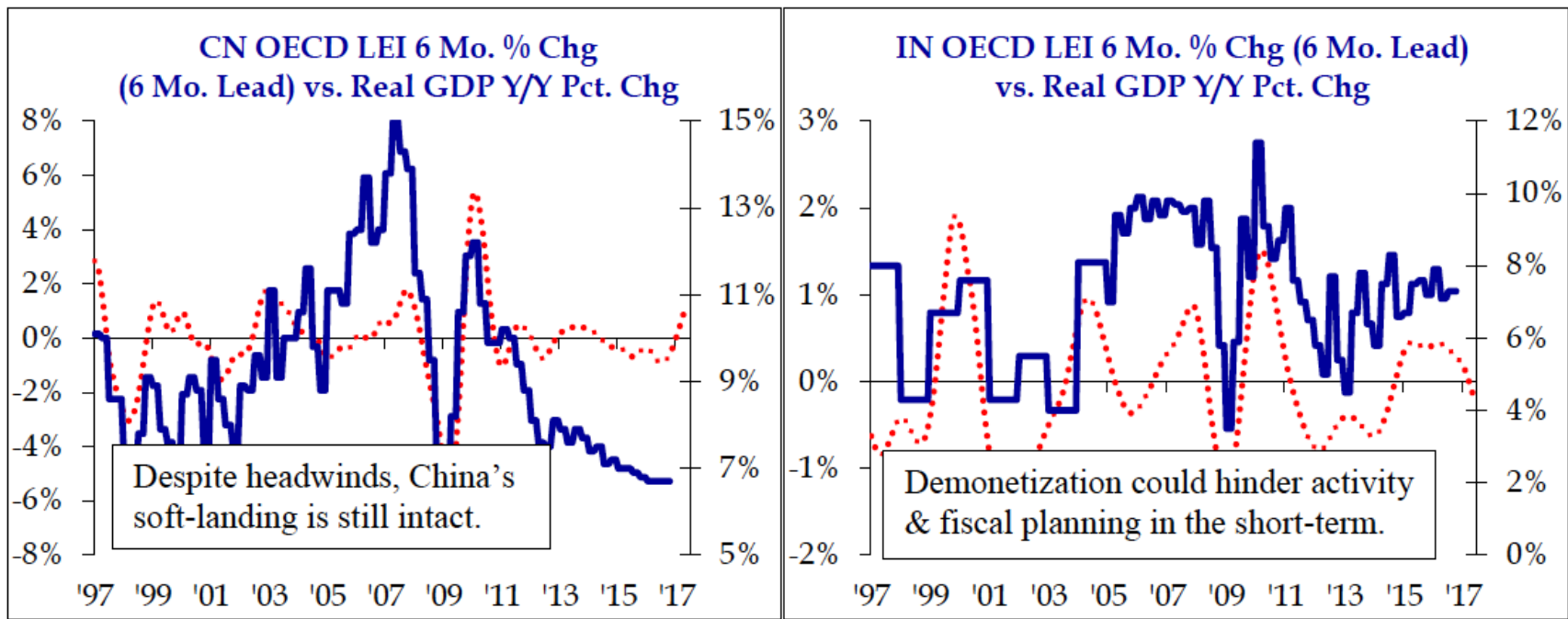
Source(s): Blackrock

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Contrary to Media Hype, China LEI Are Rapidly Improving

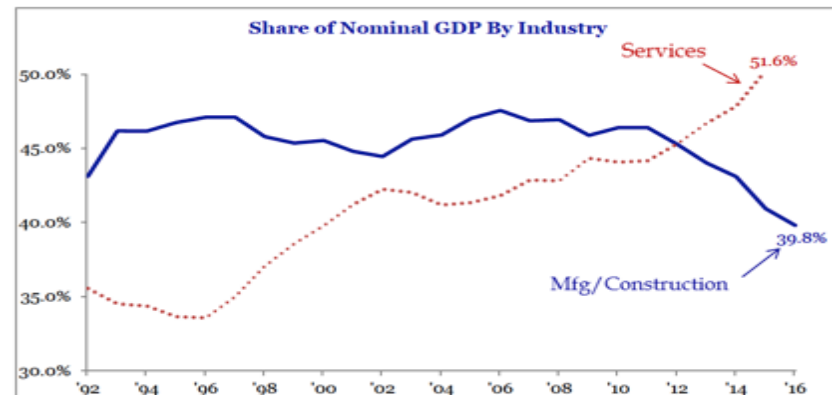
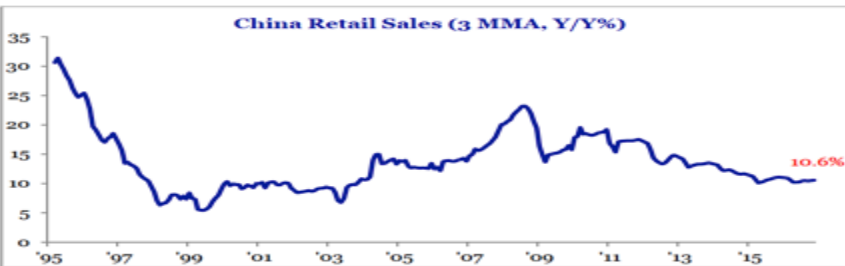
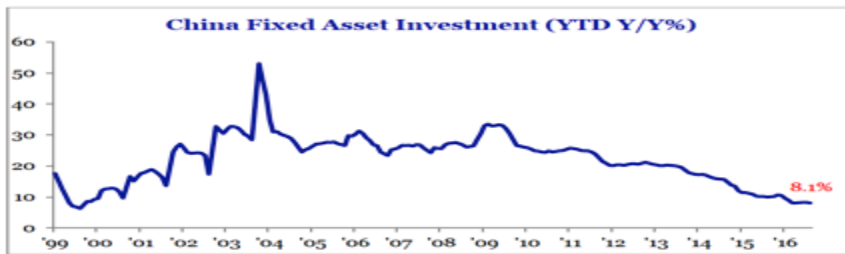
DESPITE HEADWINDS, MOST EM LEIs ARE SIGNALING GROWTH IN THE NEAR TERM



Source(s): Strategas

China Bears Confused By Resilience of China Economy

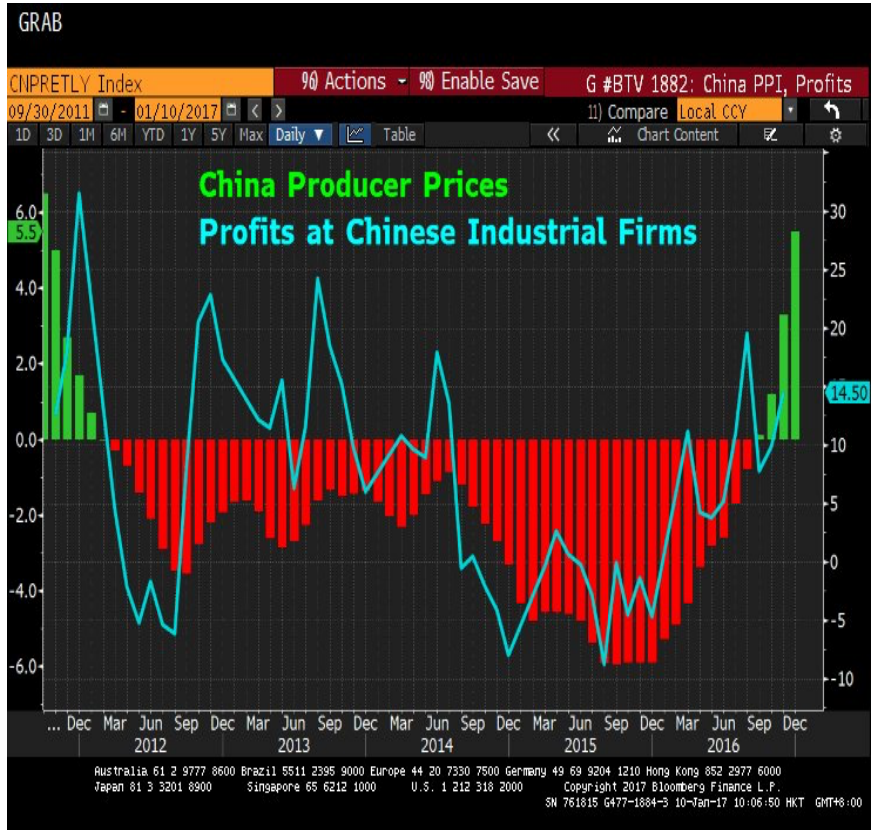
CHINA SOFT-LANDING STILL INTACT



Source(s): Strategas



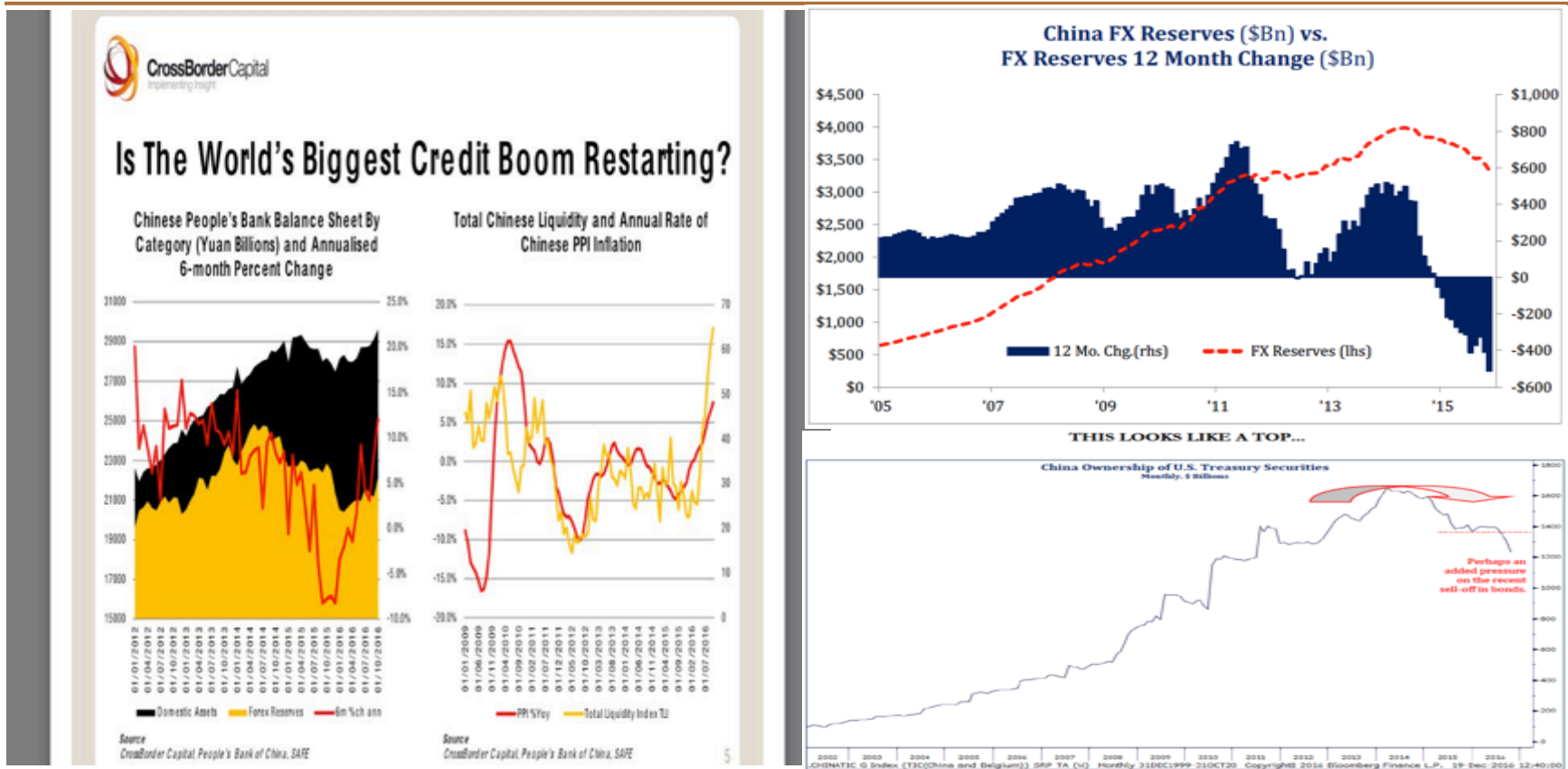
China Economic Activity Surprising To The Upside...



Source(s): @davidingles



While Western Investors Debate Imminent Banking Crisis



Source(s): @CrossBorderCapital, Strategas

Lots of Talk About RMB Deval, Still See Little Vol in 2017



Source(s): GMI

China Risk Is PBoC Actually Tightening Credit Conditions

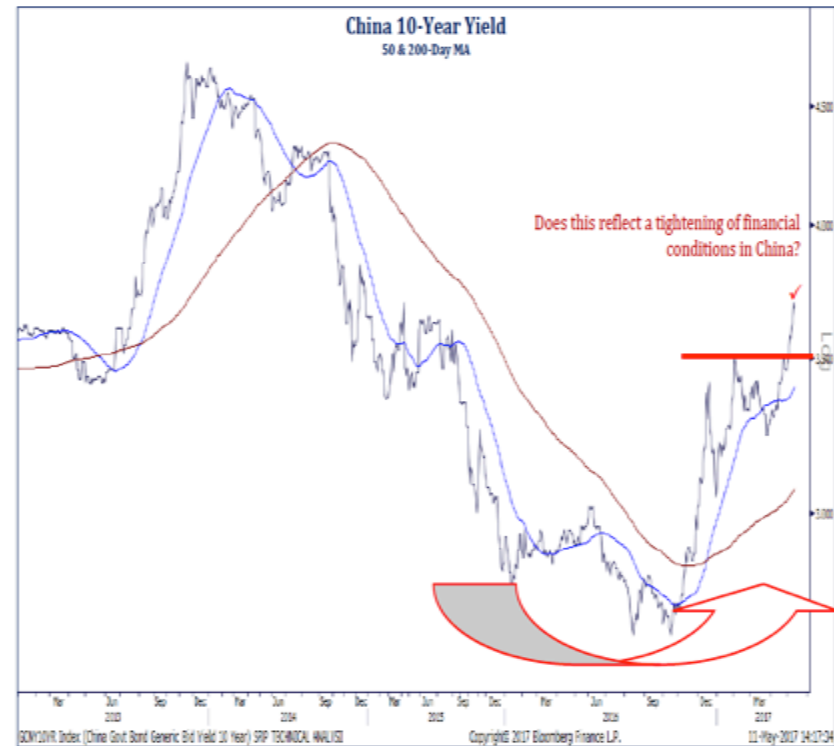
CHINA TIGHTENING SHOWING UP IN FINANCIAL MARKETS

ONE RISK...



Last Updated: 5/9/17

Source(s): Strategas



China Loan Growth & Imports Slowing = Lower U.S. ISM



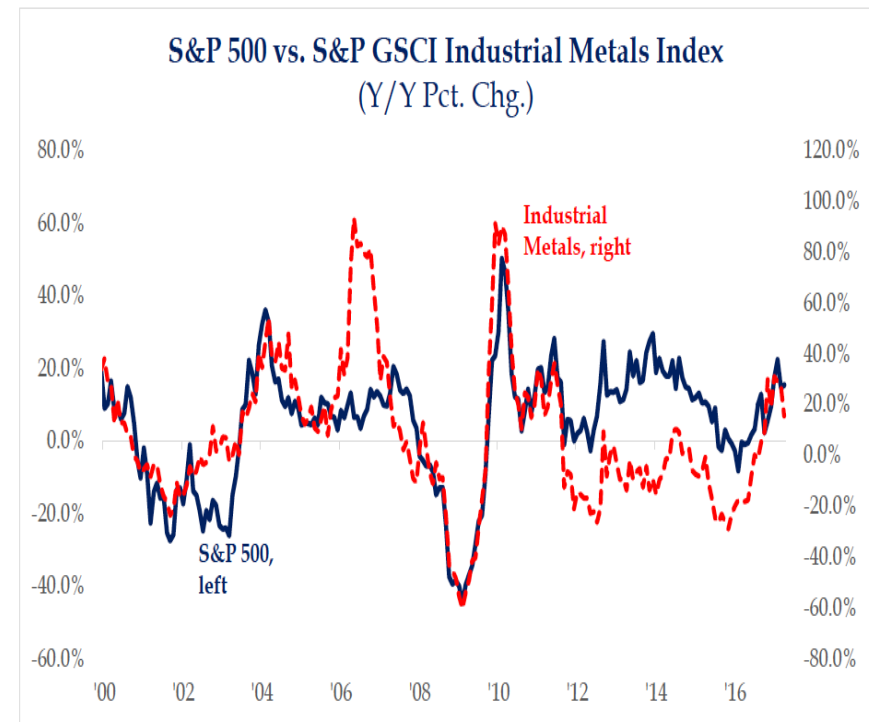
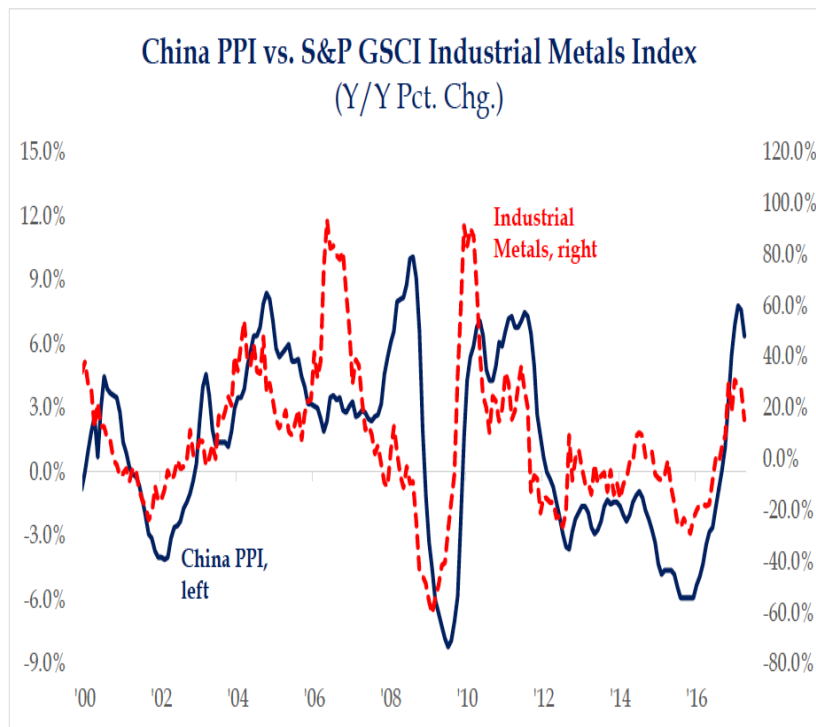
Source(s): @GS_CapSF

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China Credit Impulse Fades, PPI Falls, Metals Fall, SPX?

CHINA PPI & INDUSTRIAL METALS ROLLING OVER...

...MAY CAUSE THE MARKET TO PAUSE HERE

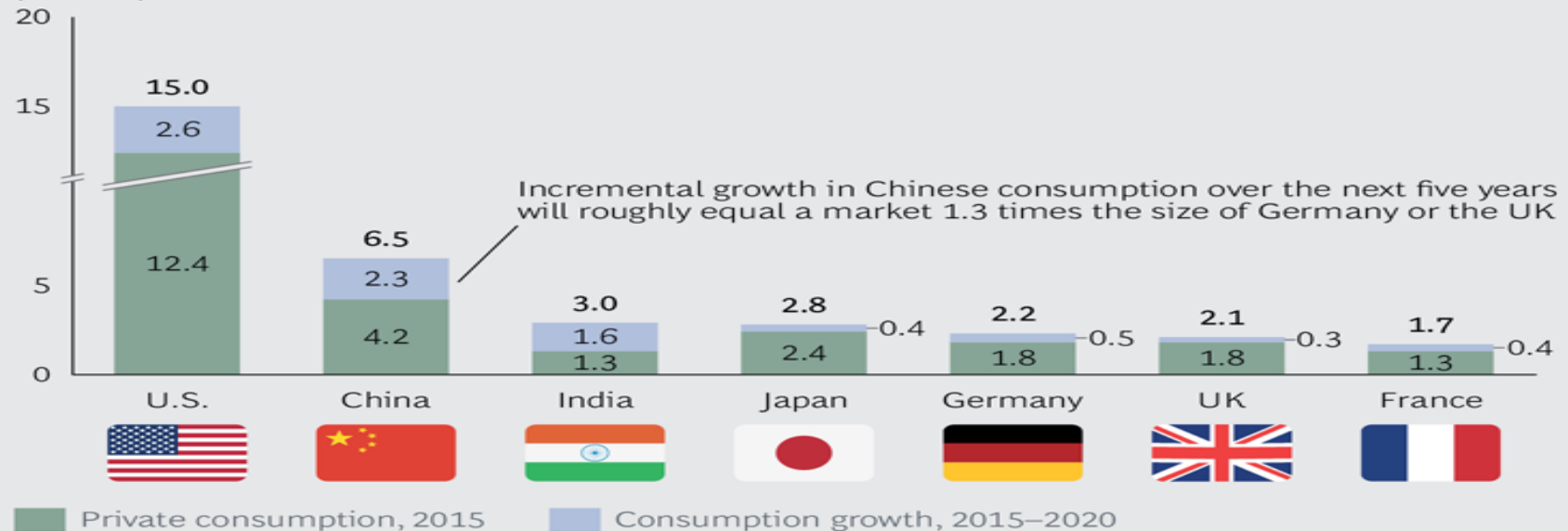


Source(s): Strategas

Hard to Overstate Impact of Rise in China Consumption

EXHIBIT 1 | By 2020, Chinese Consumption Will Have Grown by \$2.3 Trillion—Even if GDP Growth Slows to 5.5%

Nominal private consumption, 2020
(\$trillions)



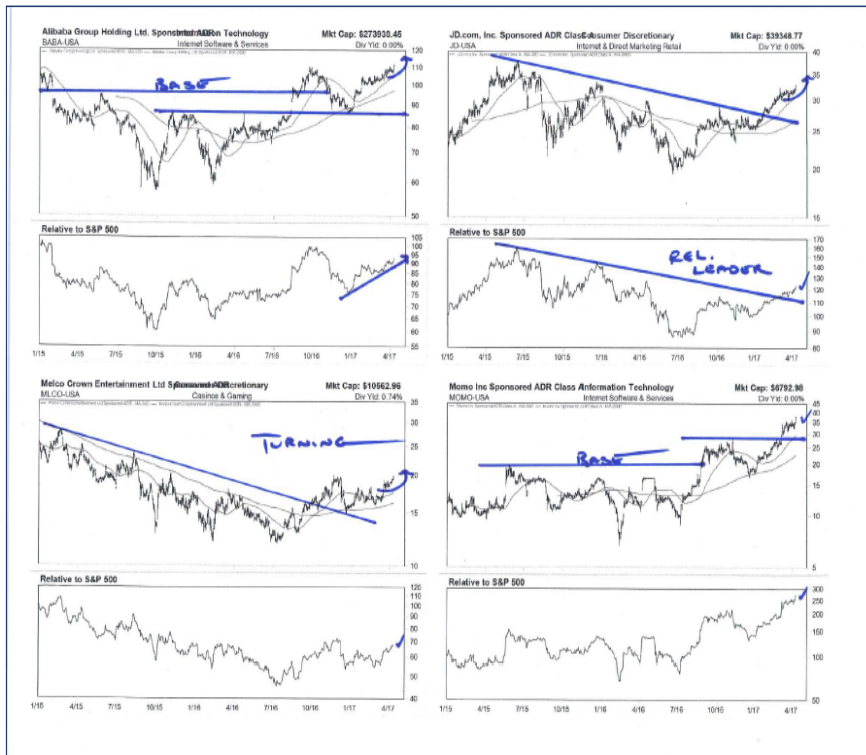
Sources: Economist Intelligence Unit; BCG analysis.

Note: Assumes annual GDP growth rate of 5.5%. Because of rounding, not all numbers add up to the totals shown.

Source(s): weforum.org

We Continue to Like China Consumer/Technology Story

CHINESE ADR's ARE BULLISH CHARTS

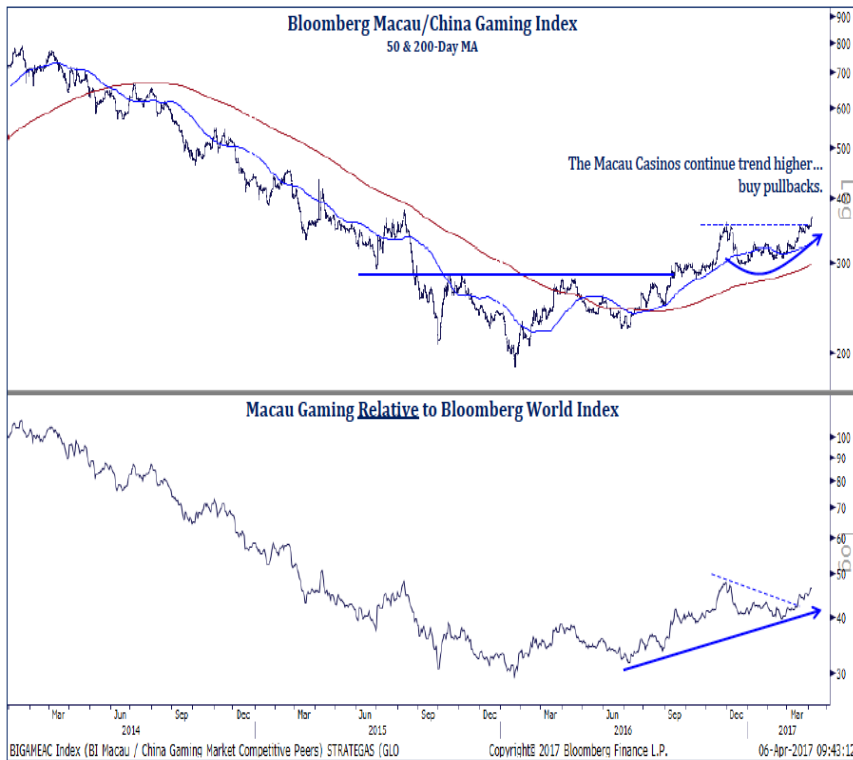


Source(s): Strategas, Bigcharts.com



Macau Recovery Gains Momentum After Xi Crackdown

STILL BULLISH ON MACAU GAMING, GLOBAL PICTURE FIRM



Source(s): Strategas, Bigcharts.com

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Chinese Equities Were Compellingly Cheap, Need Flows

IMPORTANT TEST FOR HONG KONG STOCKS



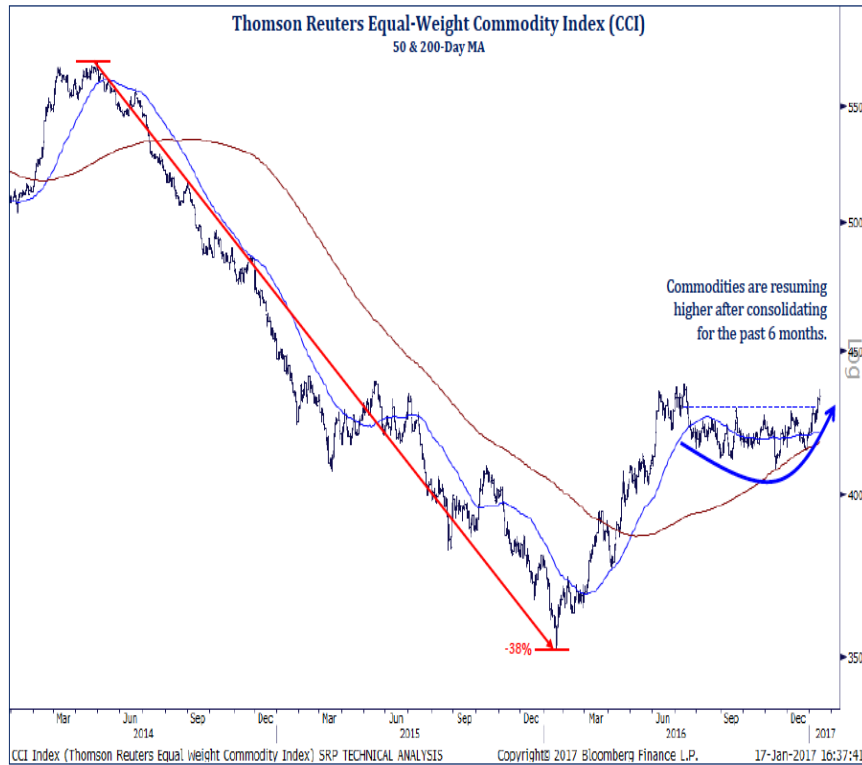
Source(s): Strategas

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Can Commodities Break Out, Is Super Cycle Restarting?

EQUAL-WEIGHT COMMODITY BASKET BREAKING OUT



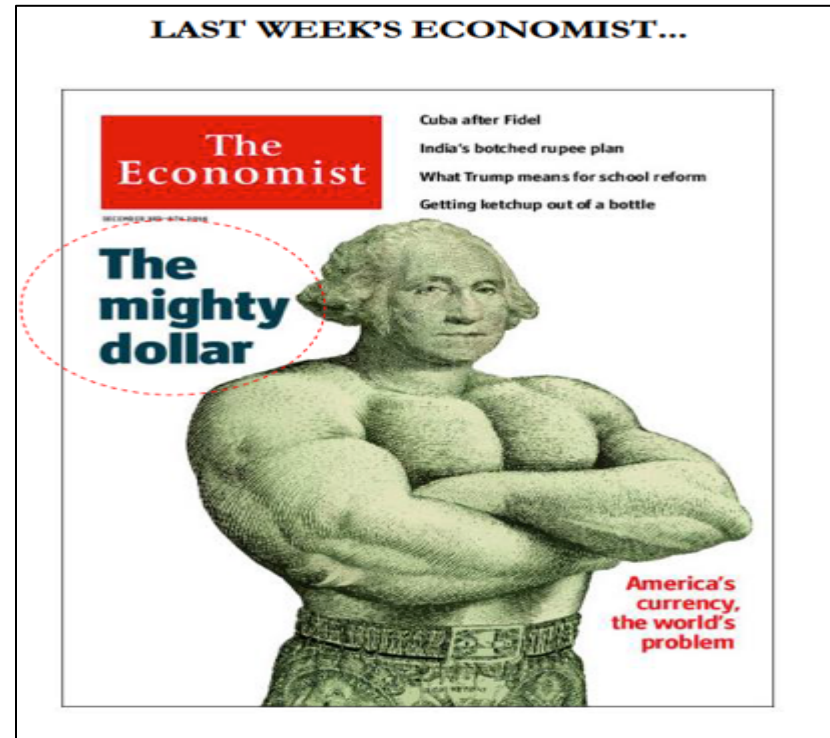
Source(s): Strategas, @ChrisKimble

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Surprise #7

There is broad consensus that the U.S. Dollar must appreciate as the Fed takes a different Monetary Policy course than the ECB & BOJ and begins to normalize interest rates (despite DXY being up only a couple percent since the Dec 2015 hike). [Interestingly, if not for a strong Dollar rally after the surprise Trump election victory, the DXY would have finished down for the year.] That final surge, perfectly commemorated by the Economist cover last month, turns out to be King Dollar's Last Stand and USD actually begins to weaken against other global currencies in 2017.

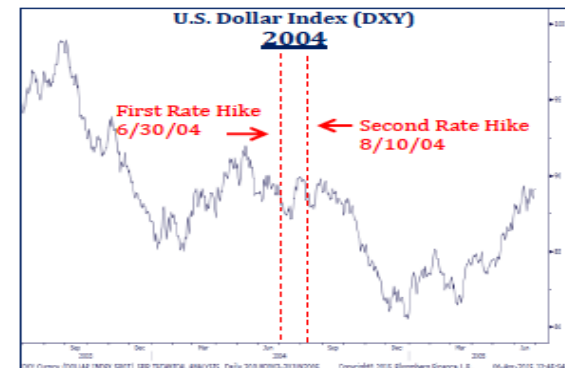
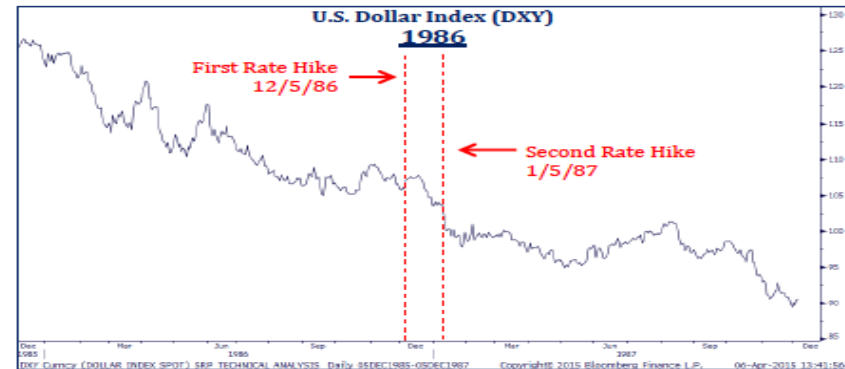
King Dollar's Last Stand



Source(s): Strategas, Economist.com

Dollar Tends To Peak When Fed Actually Raises Rates

DOLLAR HAS OFTEN CORRECTED POST-RATE HIKE



Source(s): Strategas.com

Longer View of Dollar Shows Cyclical; Secular Top?

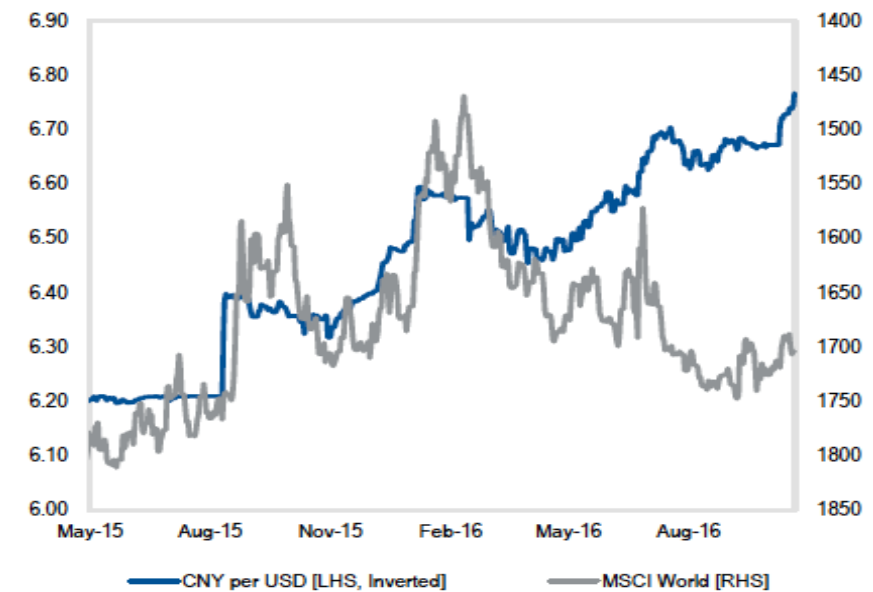
Currencies – Dollar Stabilizes Versus Major Developed Markets

Key focus is on Chinese currency and impact on global growth perception

U.S. DOLLAR INDEX (DXY)



CHINESE CURRENCY HAS BEEN CORRELATED TO EQUITY MARKETS



Sources: Bloomberg, Monthly DXY data from January 1975 – Sep 2016. CNY vs. MSCI World data from May 2015 – Sep 2016. The DXY Index is a measure of the value of the USD relative to a basket comprised of major world currencies.

Source(s): NeubergerBerman

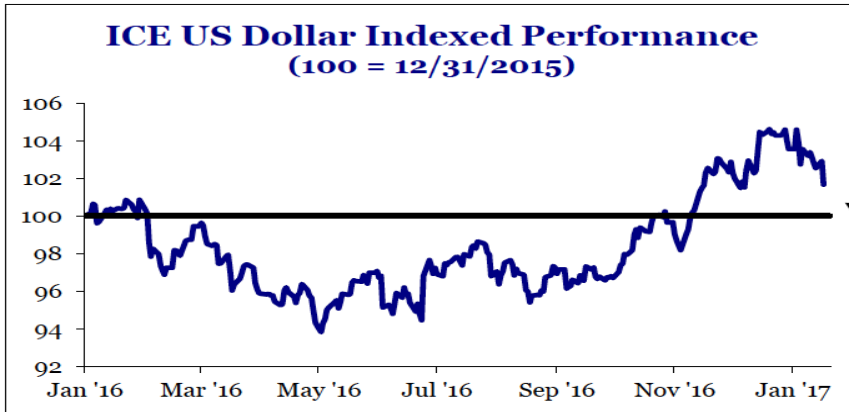


Trump vs. Reagan Get Huge \$ Move, Others See 1990s

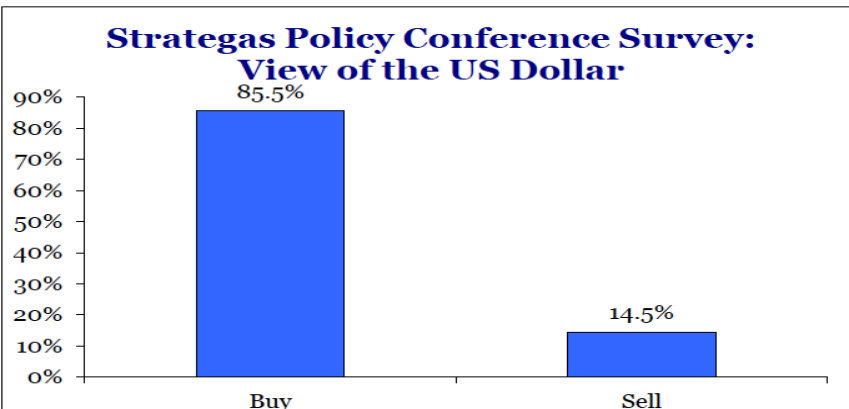
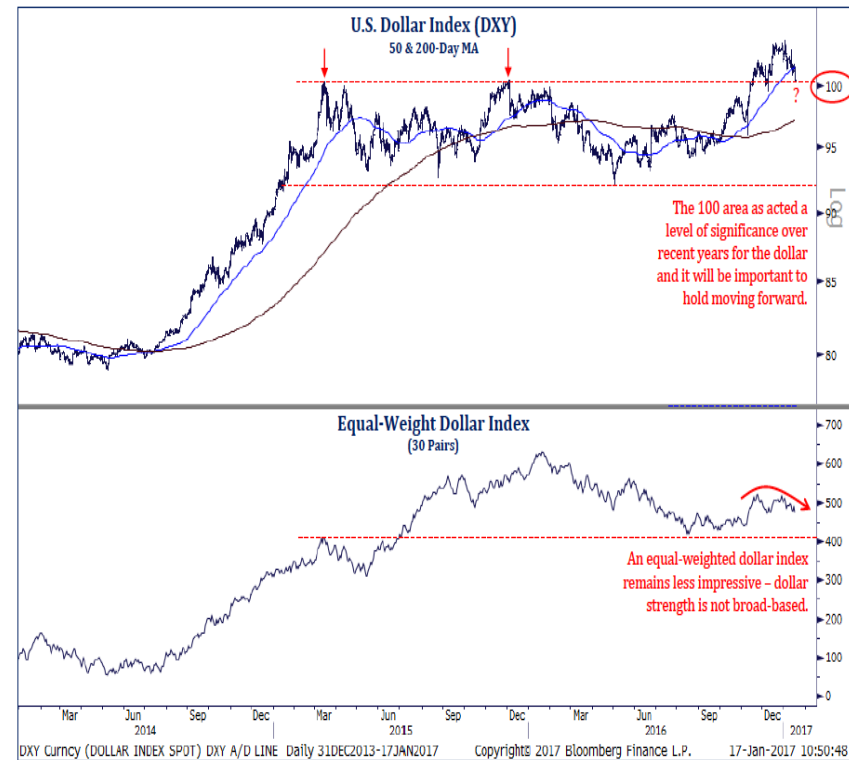


Source(s): GMI

Everyone Believes Something Will Occur, Opposite Does

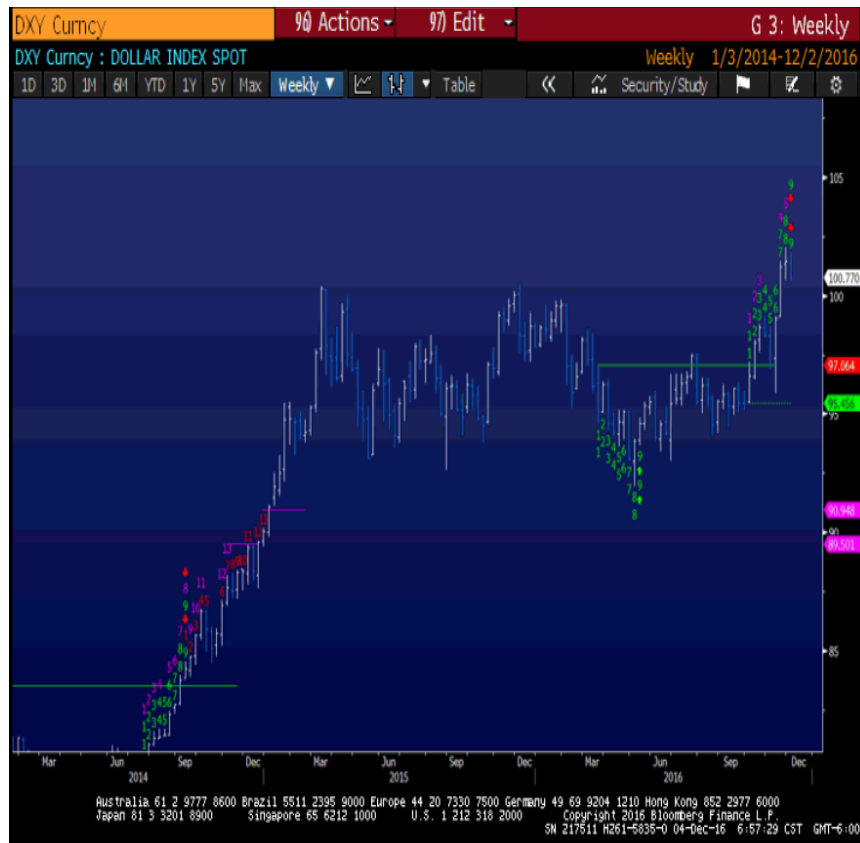


DOLLAR INDEX BACK TO SUPPORT, LESS IMPRESSIVE UNDER THE SURFACE



Source(s): Strategas

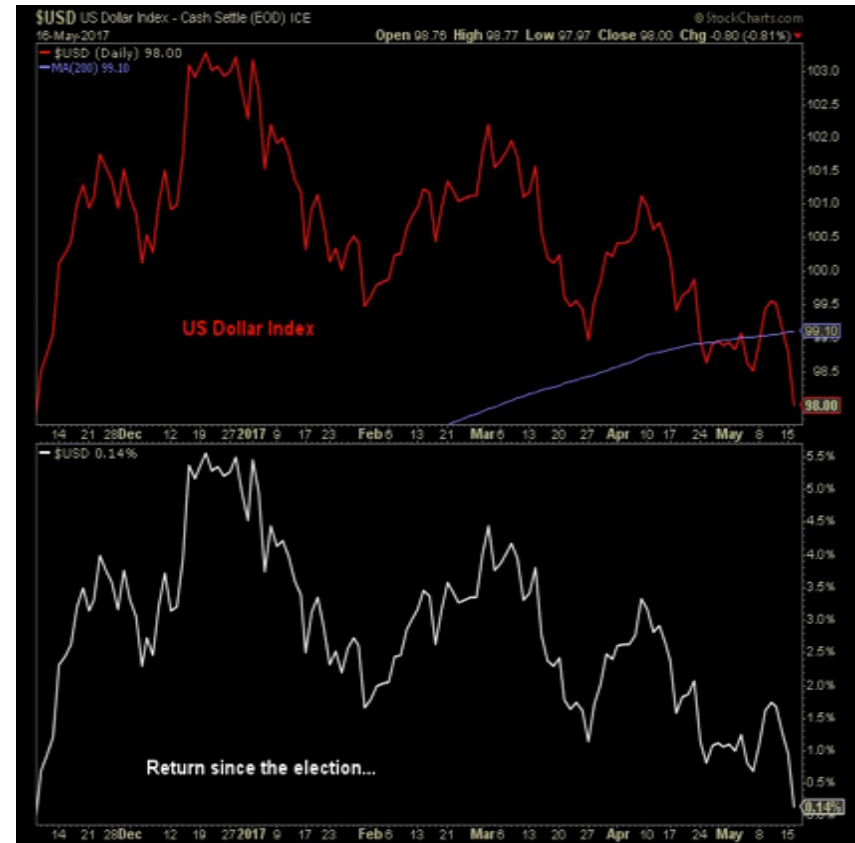
DXY Put in Demark Weekly 9 Count Dec, Like Clockwork



Source(s): GMI

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Dollar Breaking Below Long-Term Support Despite Hikes

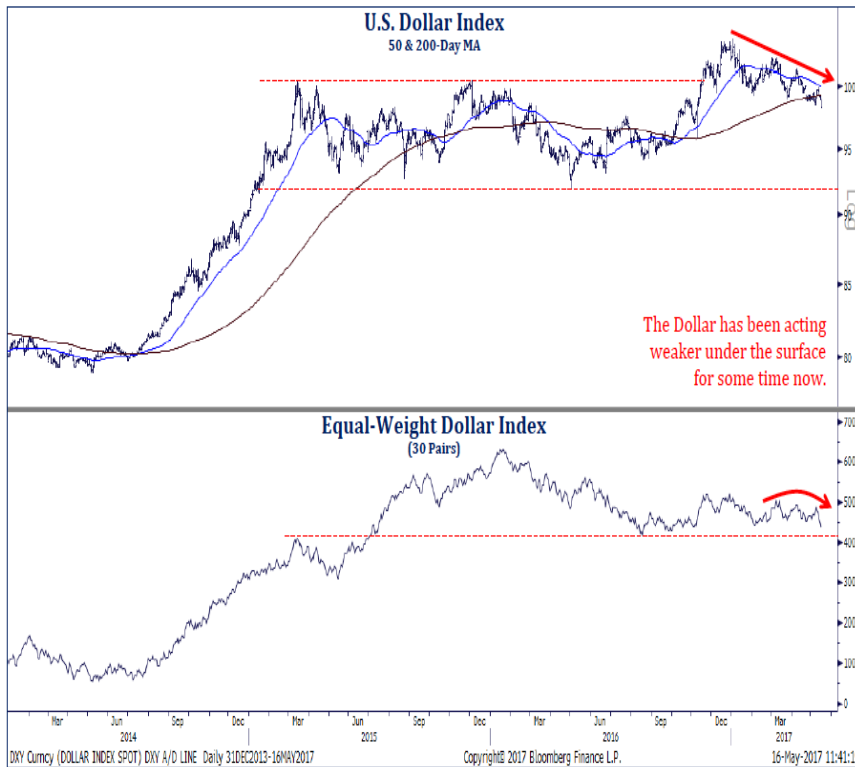


Source(s): @convertbond. @pensionpartners

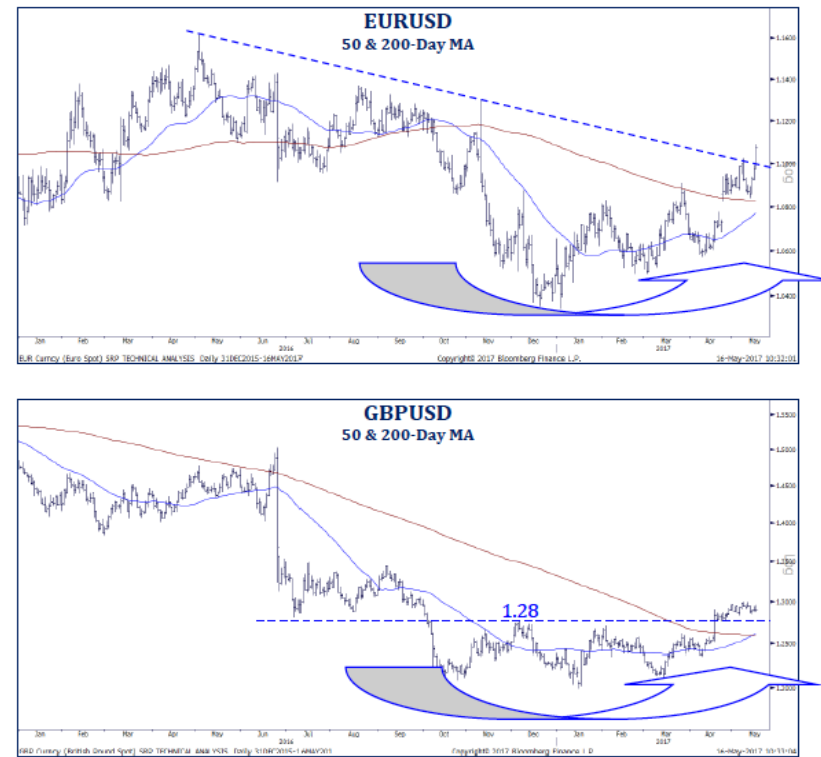


Dollar Now in Declining Trend While Euro & GBP Firming

U.S. \$ REMAINS SOFT



EUR & GBP ARE FIRMING



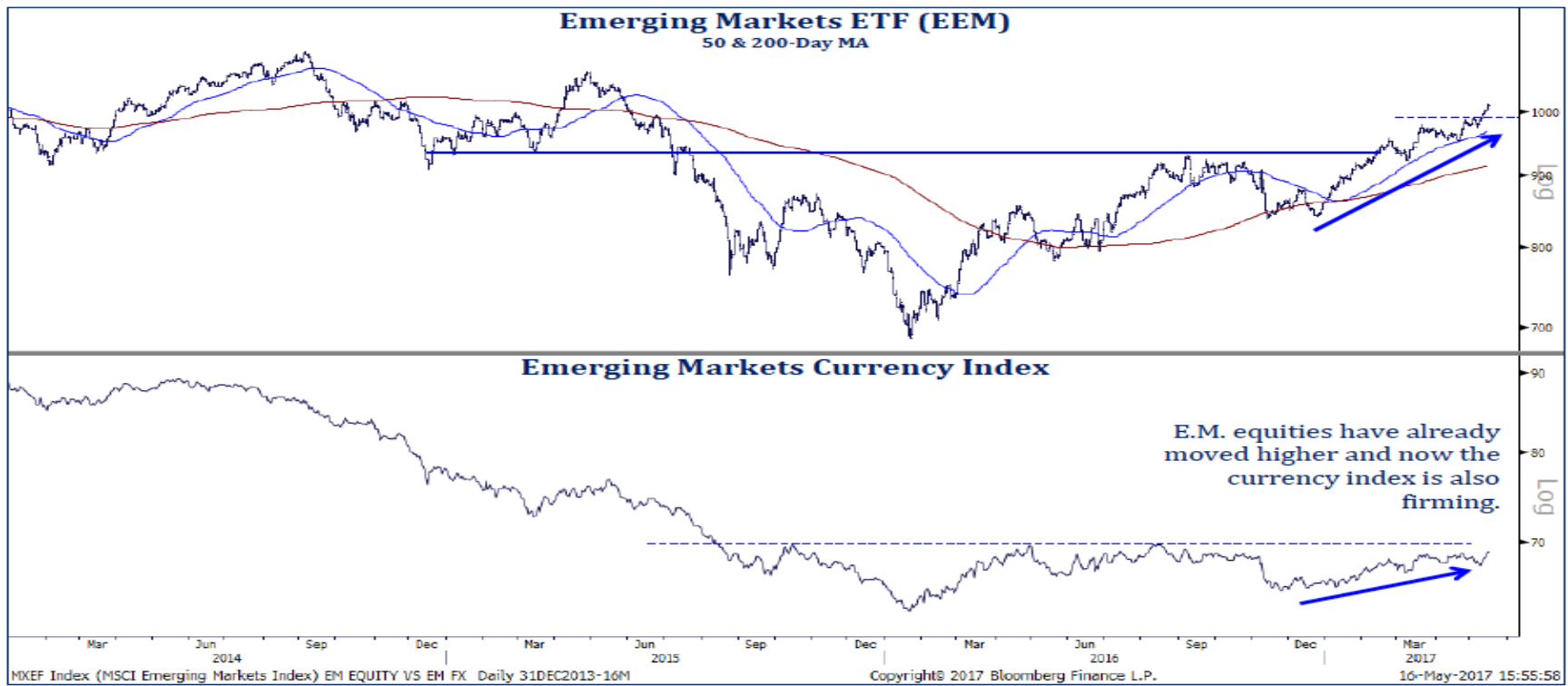
Source(s): Strategas

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Despite Fears of Higher U.S. Rates, EM FX Recovering

E.M. FX ALSO BASING



Source(s): Strategas

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Currency Wars Still Raging, Quietly Gold Comes Back

If the USD were to continue its downward trend, gold would be a likely beneficiary. Gold has risen five days in a row now, nicely correlating inversely with the USD. The Dollar has now erased all the gains it made since the election.

USD vs. Gold (1 year)



Source(s): TIS Group, Barcharts.com

Surprise #8

The relentless negative news beginning with the infamous “Hillary Tweet” and culminating in President-Elect Trump’s recent comments on drug pricing have pounded Healthcare & Biotech stocks over the past year (only sector that was negative in 2016). Given that the House and Senate are controlled by Republicans (who receive significant backing from the Pharma Lobby) we believe it is highly unlikely that any of the Campaign proposals targeting drug pricing see the light of day in Congress. Healthcare & Biotech stocks emerge from sick bay and are peak performers in 2017.

Healthcare Gets Discharged

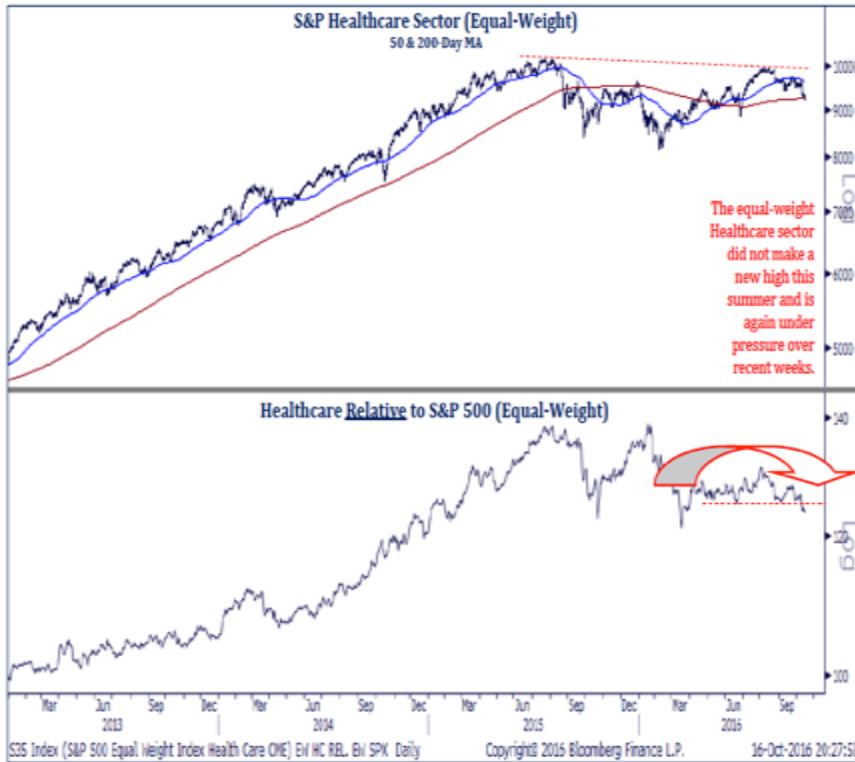


Source(s): scoopnest.com

As Clinton Prospects Surge, Healthcare Stocks Slumped

6-MONTH RELATIVE LOWS FOR HEALTHCARE

EUROPE HEALTHCARE ALSO WEAK



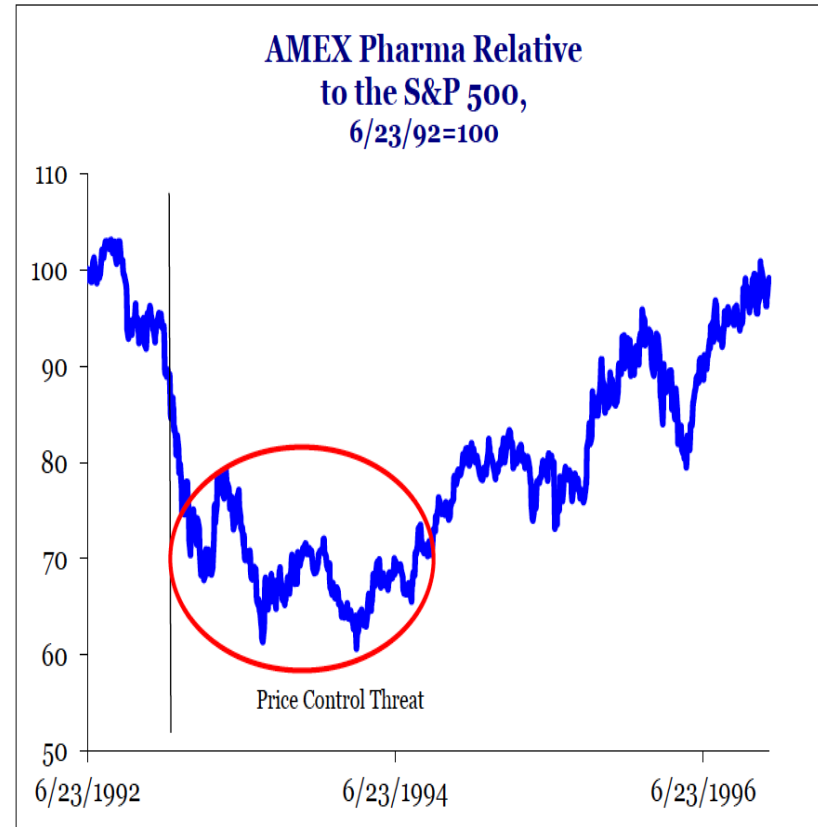
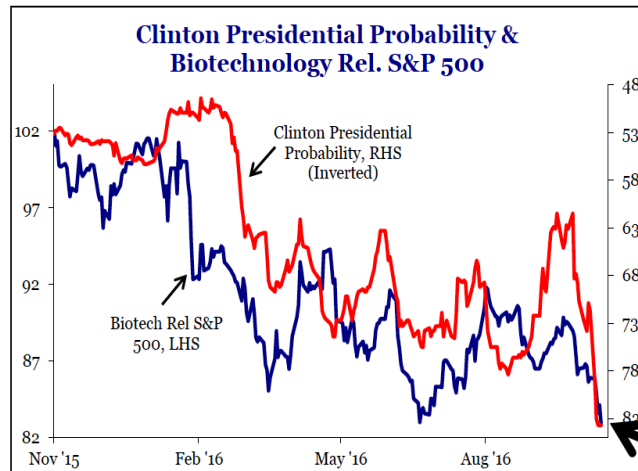
Source(s): Strategas



Did Dem Sweep Fear Create H/C Opportunity Like '94?

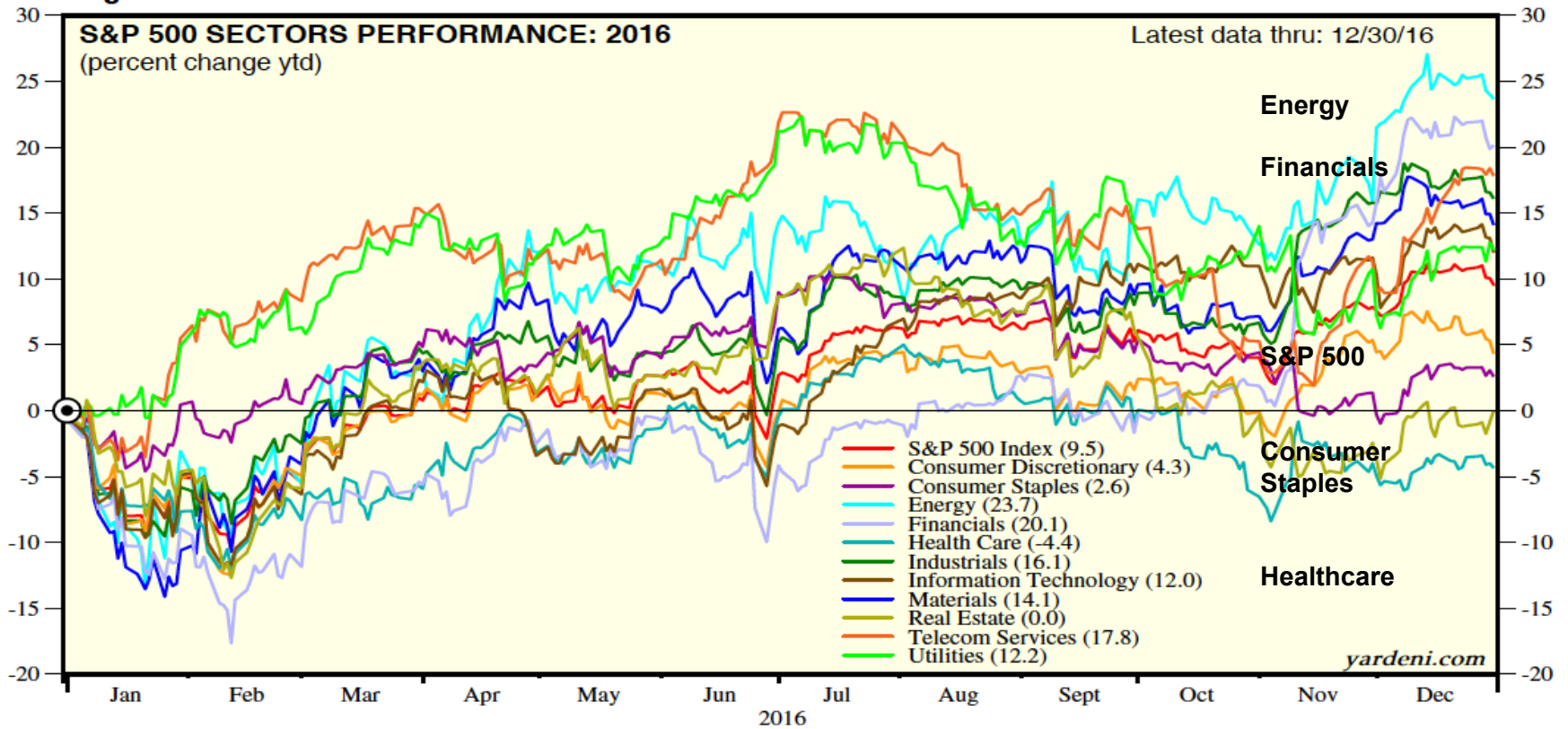
A REPUBLICAN HOUSE IS A FIREWALL ON DRUG PRICING LEGISLATION

Biotech stocks took it hard on the chin last week as the prospect of an all-Democratic government increased in probability. But House Republicans have vowed not to pass any meaningful legislation that would restrict drug pricing and, as of now, it looks like the Republicans will keep the House. The Republican position becomes more complicated if there is a bipartisan deal on international tax reform (which helps biotech companies), but a Republican House is a firewall that prevents legislation to restrict drug pricing, all else being equal. The probability of the Republicans keeping the House is 82% in this morning's betting markets.



Source(s): Strategas

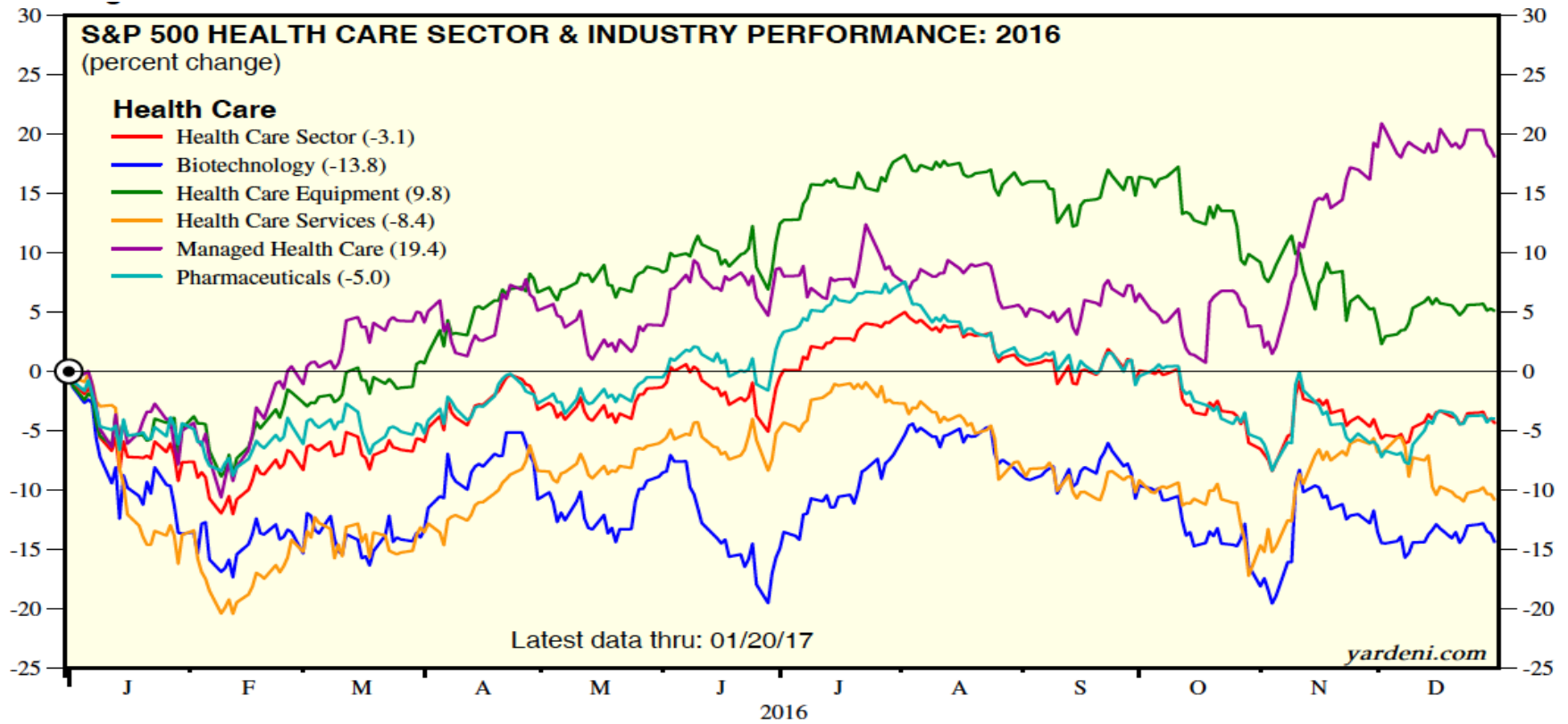
Healthcare Only Negative Sector in S&P (Biotech Worse)



Source(s): Yardeni.com



Wide Performance Dispersion Within Healthcare Sector

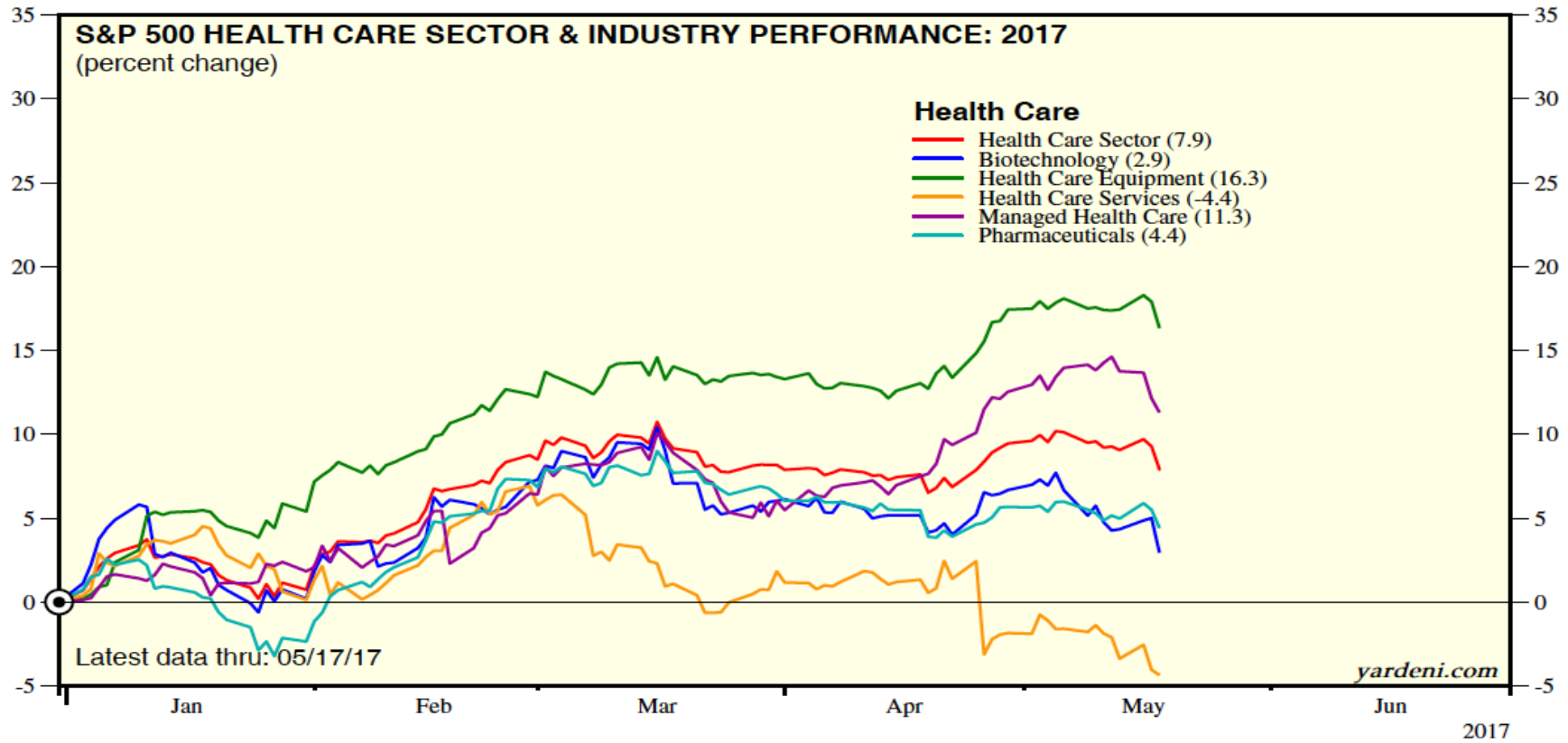


Source: Standard & Poor's Corporation.

Source(s): Yardeni.com



Worst to First: Healthcare Bounces Back As Expected



Source: Standard & Poor's.

Source(s): Yardeni.com



Surprise #9

Despite all the concerns about rising U.S. interest rates and a stronger Dollar triggering a crisis in Emerging Markets, the Developing World proves yet again how prophetic Willy Sutton was when asked why he robbed banks. His reply was simple, “that’s where they keep the money” and the same holds for why EM will continue to outperform in the coming years, “that’s where they have the growth”. The positive momentum spreads beyond just the commodity producing countries that surged in 2016 and the rising tide lifts all boats across Emerging & Frontier markets.

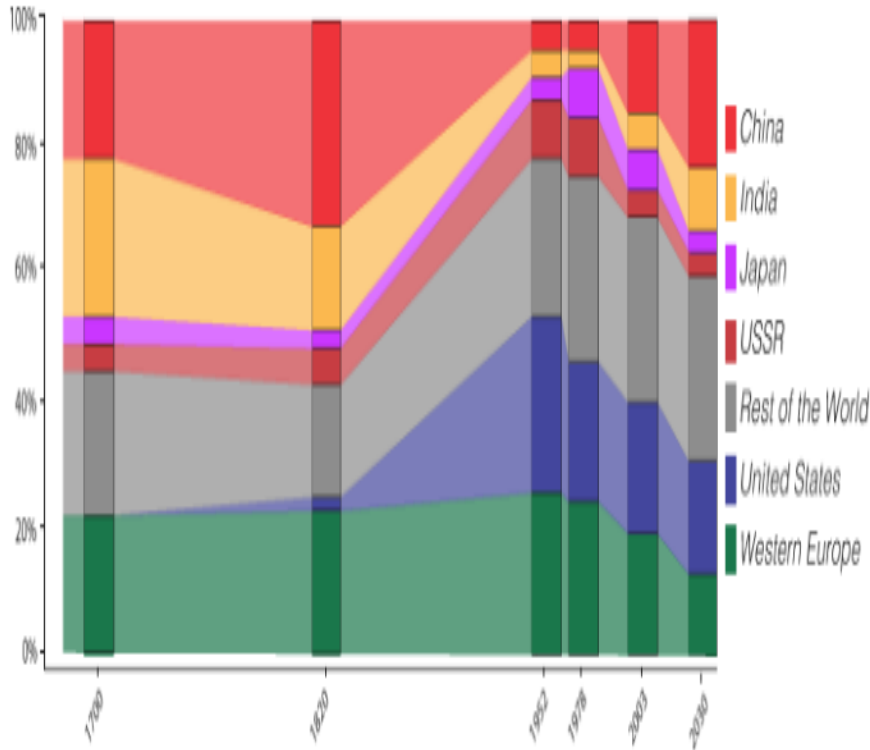
Willy Sutton Was Right



Source(s): Immobilienblasen.blogspot.com

Chindia Ruled Global Economy For Decades; Comeback

Share of Global GDP by Region



Source(s): weforum.org, ATKearney.com

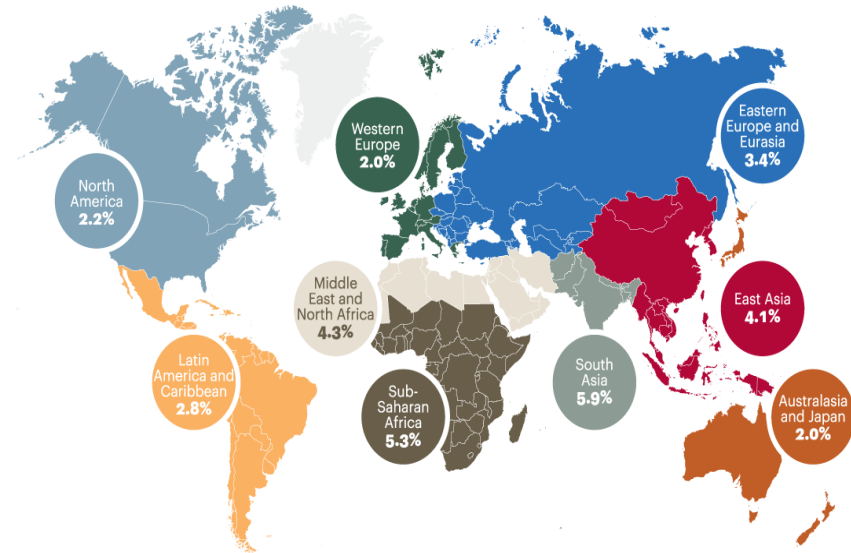


Figure 2

Regional growth rates vary, with South Asia and Sub-Saharan Africa leading the pack

Real GDP growth

%, 2016–2020 annual average

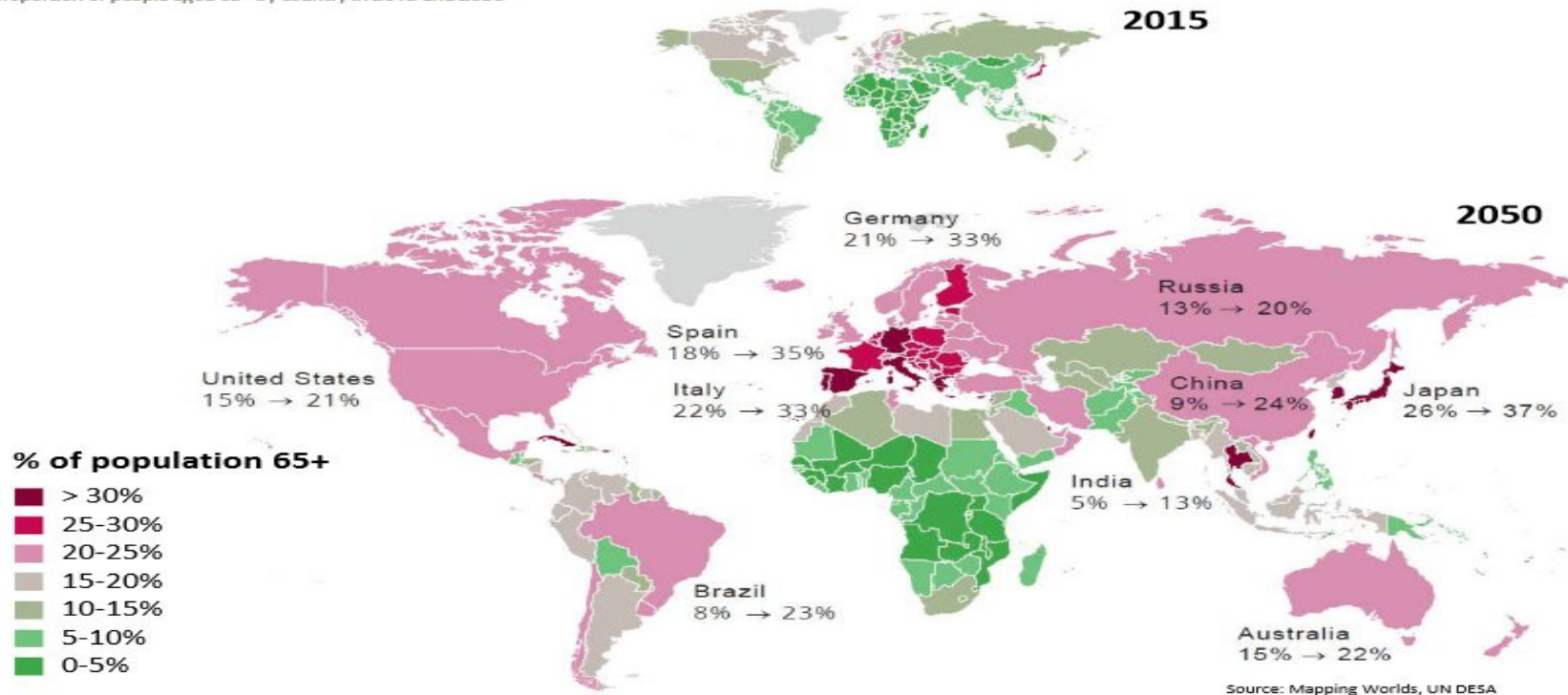


Notes: GDP figures are the unweighted average of the forecast annual growth rates of the economies within each region between 2016 and 2020. GDP growth is measured at constant prices.

Sources: International Monetary Fund World Economic Outlook (October 2015 and January 2016); A.T. Kearney analysis

Rapid Aging of Global Population Big Headwind For DM

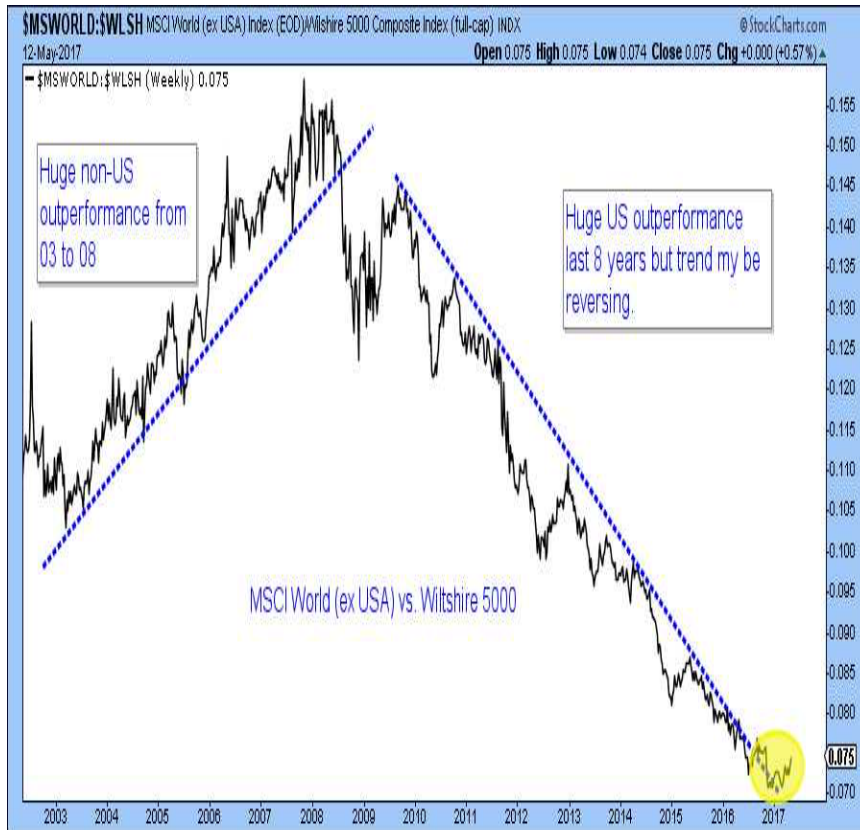
The Aging of the World Population
The proportion of people aged 65+ by country in 2015 and 2050



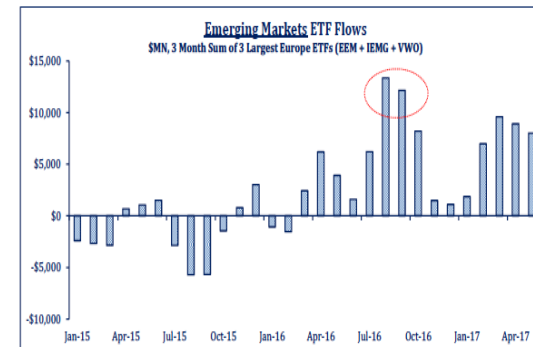
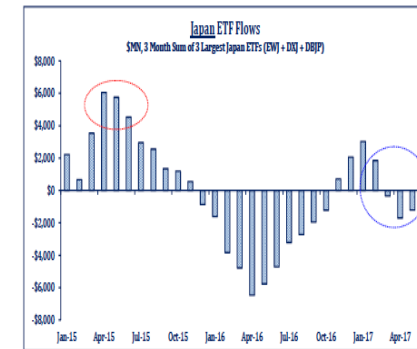
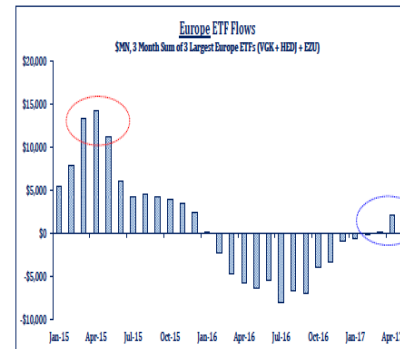
- The aging of the world population is a key People theme.
- By 2050, the Silver Generation (people aged 65 years and older) will outnumber children under 14 for the first time in human history.
- The countries with the largest proportion of old people in 2050 will be Japan (37%), Spain (35%), and Germany and Italy (33%).

Source(s): @christhesuit

U.S. Dominated ROW For 8 Years, Time For A Reversal



INTERNATIONAL FLOWS ARE RISING, BUT NOT EXTREME

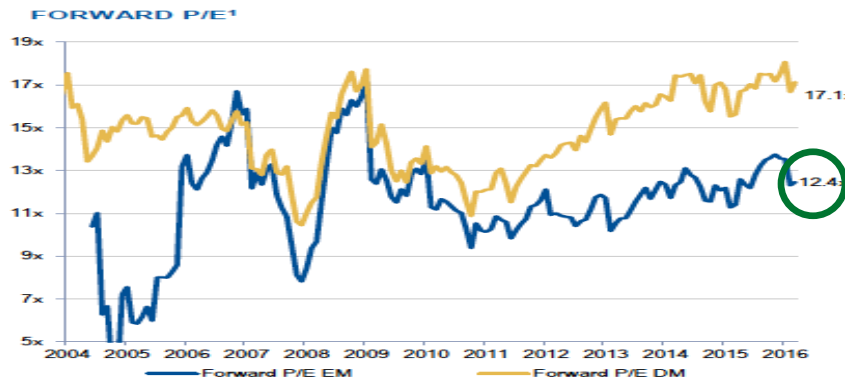


Source(s): @G_krupins, Strategas



EM Has Superior Growth Than DM & Trades At Discount

Where are Valuations Currently?



Emerging Market Equity P/E Ratio



Relative Valuation – Emerging Versus Developed Market Equities



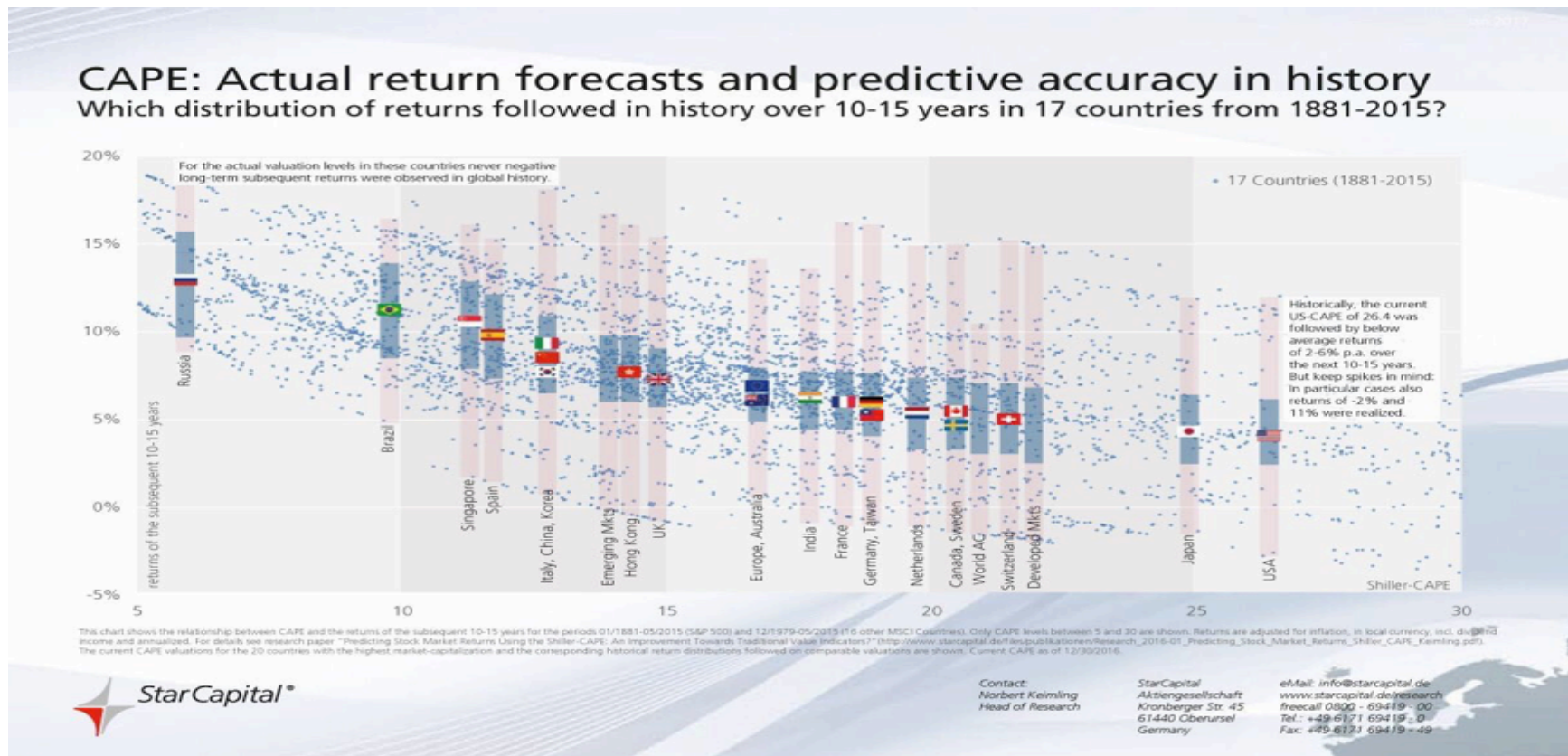
Source: Bloomberg. Monthly data January 2003 – Feb. 2017. The trailing P/E is calculated as last price divided by trailing 12 month diluted earnings per share from continuous operations. Indices are unmanaged and are not suitable for direct investment. Investing entails risks, including possible loss of principal. Past performance is no guarantee of future results. See Additional Disclosures at the end of this presentation, which are an important part of the presentation.

Source: MSCI. Monthly data January 2008 – Feb. 2017. Based on FY1 P/E estimates. Any value or other measurements using a factor of forward earnings of a company discussed herein are based on consensus estimates, not Neuberger Berman's own estimates, and they may or may not be realized. In addition, any revision to a forecast could affect the market price of a security. By quoting them herein, Neuberger Berman does not offer an opinion as to the accuracy of and does not guarantee such estimates. See Additional Disclosures at the end of this presentation, which are an important part of the presentation.

Source(s): NeubergerBerman



EM Cheaper Than DM, CAPE Forecasts Higher Returns



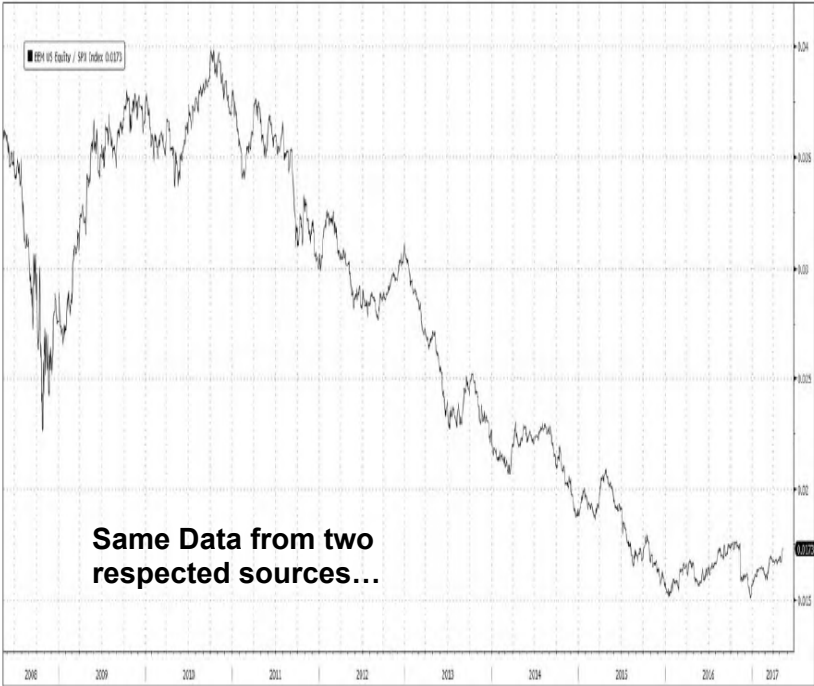
Source(s): Yardeni.com, @CAPE_Invest

EM vs. DM Performance is Cyclical, New Up Cycle Begins



CHART OF THE DAY—EEM—EMERGING MARKET EQUITIES BREAK OUT

Emerging Markets Index/S&P 500



Source: Bloomberg LP

Source(s): @mark_dow, TIS Group



EM Animal Spirits Return, Plunging Liquidity a New Risk

EM flows: roaring back

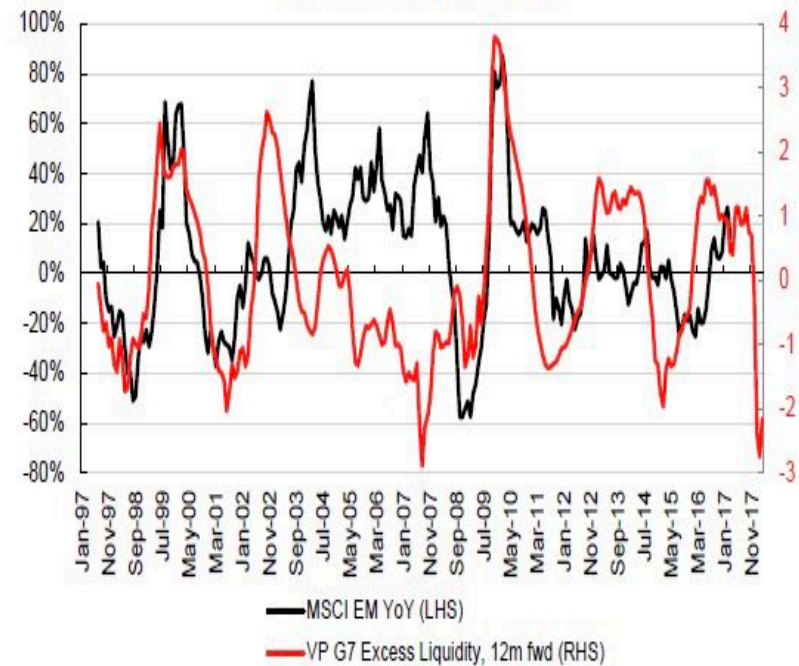
Non-resident cross-border portfolio flows, \$bn



Source: IIF

FT

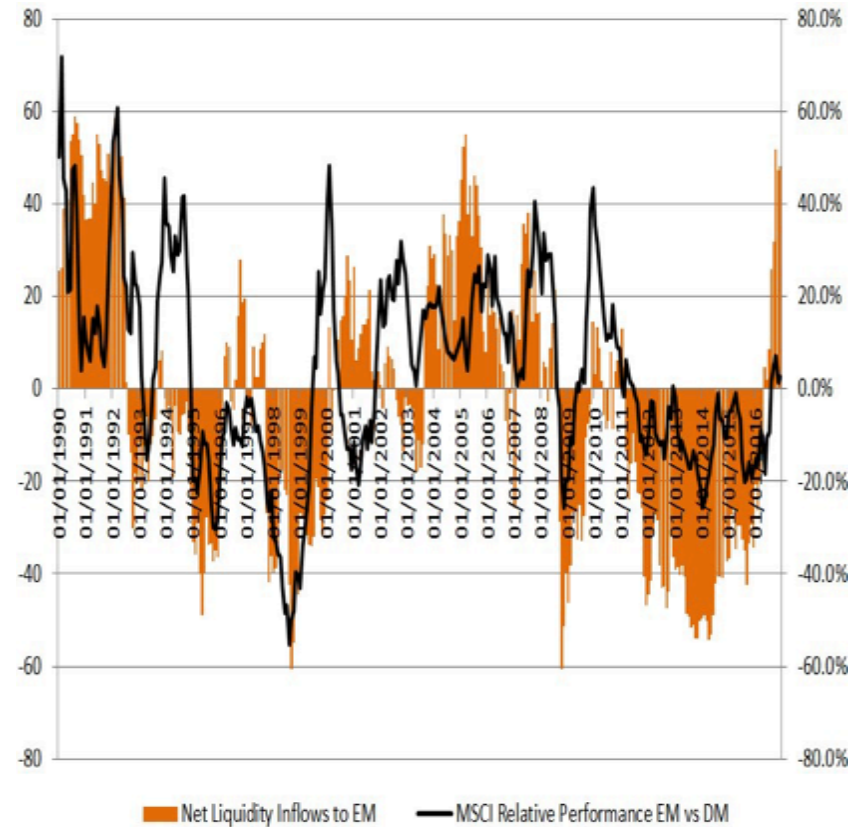
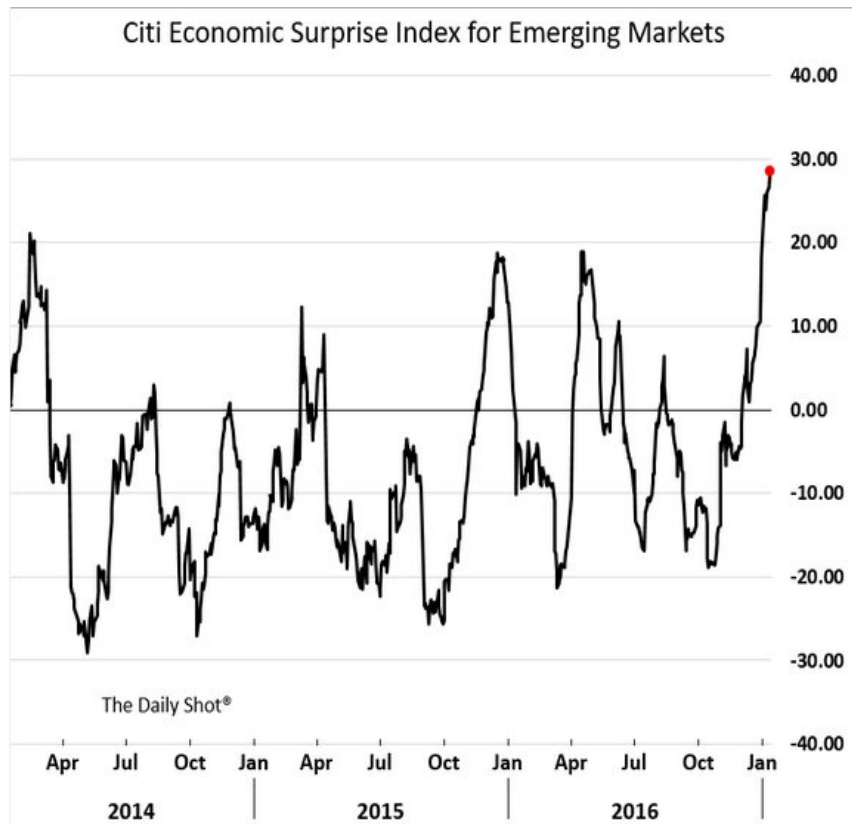
VP G7 Excess Liquidity (Advance 12 months) vs MSCI Emerging Markets



Source(s): @whatlearnedTW, @jessefeder

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EM Economic Surprises & Liquidity Surging = Tailwind



Source(s): @SoberLook, @CrossBorderCapital



MSCI Planning Small Changes to EM & FM Index Lineup

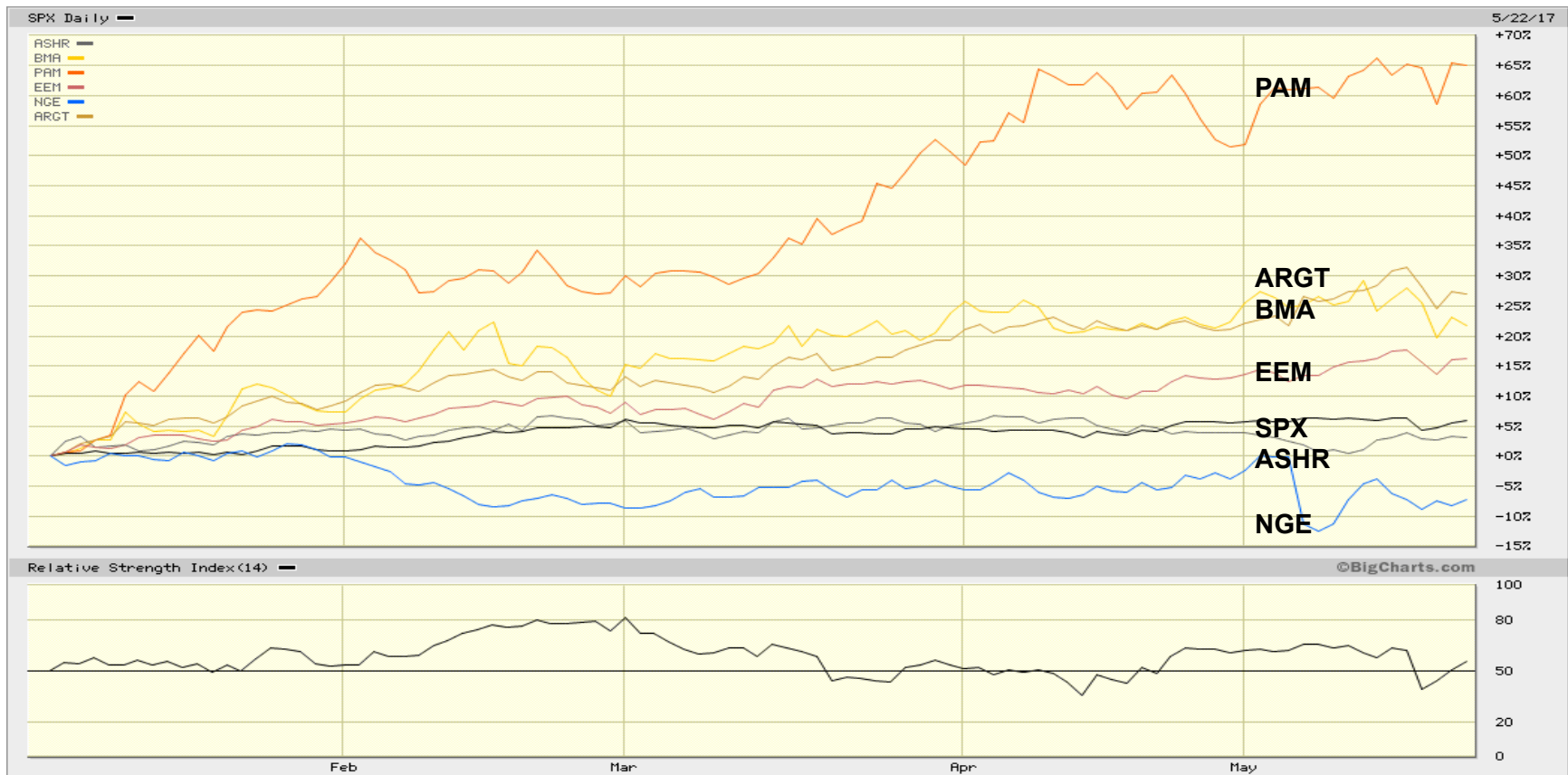
MSCI ANNUAL MARKET CLASSIFICATION REVIEW

During the Annual Market Classification Review, MSCI analyzes and seeks feedback on those markets it has placed under review for potential market reclassification. Every June, MSCI communicates its conclusions from the discussions with the investment community on the list of countries under review and announces the new list of countries, if any, under review for potential market reclassification in the upcoming cycle.

- The review is based on the criteria set forth in the MSCI Market Classification Framework.
- MSCI announced on June 14, 2016 that **Pakistan** will be reclassified from Frontier Markets to Emerging Markets coinciding with the May 2017 Semi-Annual Index Review.
 - [Pro forma list of constituents for the MSCI Provisional Pakistan Indexes](#)
 - [Simulated list of constituents for the MSCI Frontier Markets 100 Index \(ex Pakistan\)](#)
- MSCI will retain the China A-shares inclusion proposal as part of the 2017 Market Classification Review. MSCI does not rule out a potential off-cycle announcement should further significant positive developments occur ahead of June 2017.
- List of markets currently under review for a potential reclassification as part of the 2017 Annual Market Classification Review:
 - **China A-shares** (from Standalone to Emerging Markets) - [more info](#)
 - **Argentina** (from Frontier Markets to Emerging Markets) - [more info](#)
 - **Nigeria** (from Frontier Markets to Standalone status) - [more info](#)
- MSCI will communicate its final conclusions on the potential inclusion of Argentina into Emerging Markets in June 2017.

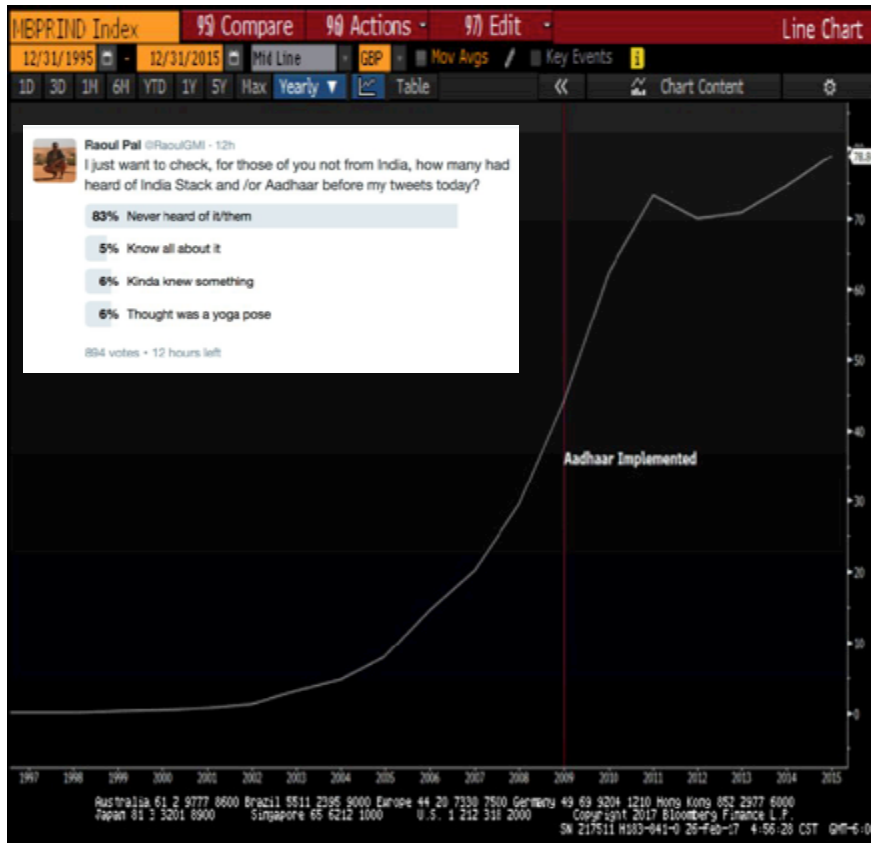
Source(s): MSCI

The Power of MSCI Index Committee Is Extraordinary



Source(s): Bigcharts.com

Aadhar Makes India Amazing Opportunity Next Decade

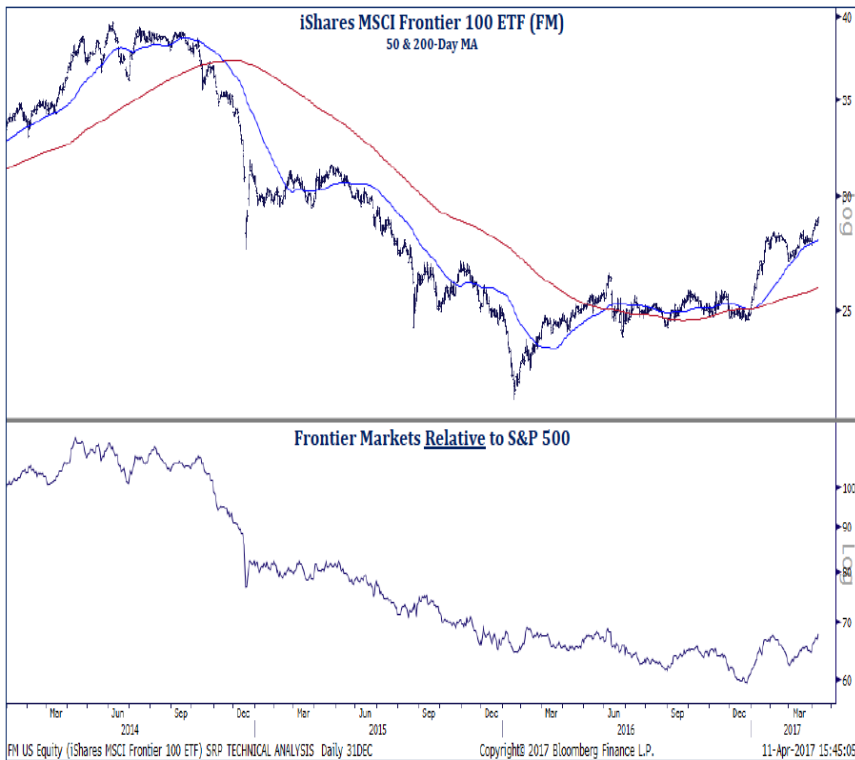


Source(s): GMI



Willie Sutton Reminds Us To Go Where The Growth Is...

FRONTIER MARKETS CONTINUE TO TURN UP



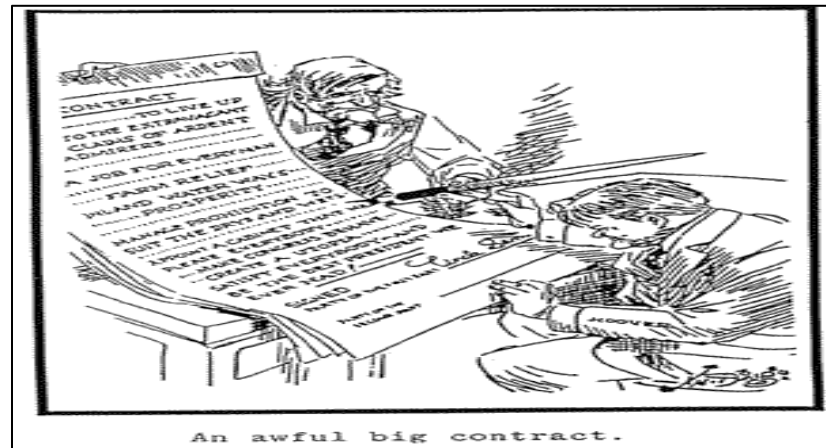
Source(s): Strategas, Bigcharts.com



Surprise #10

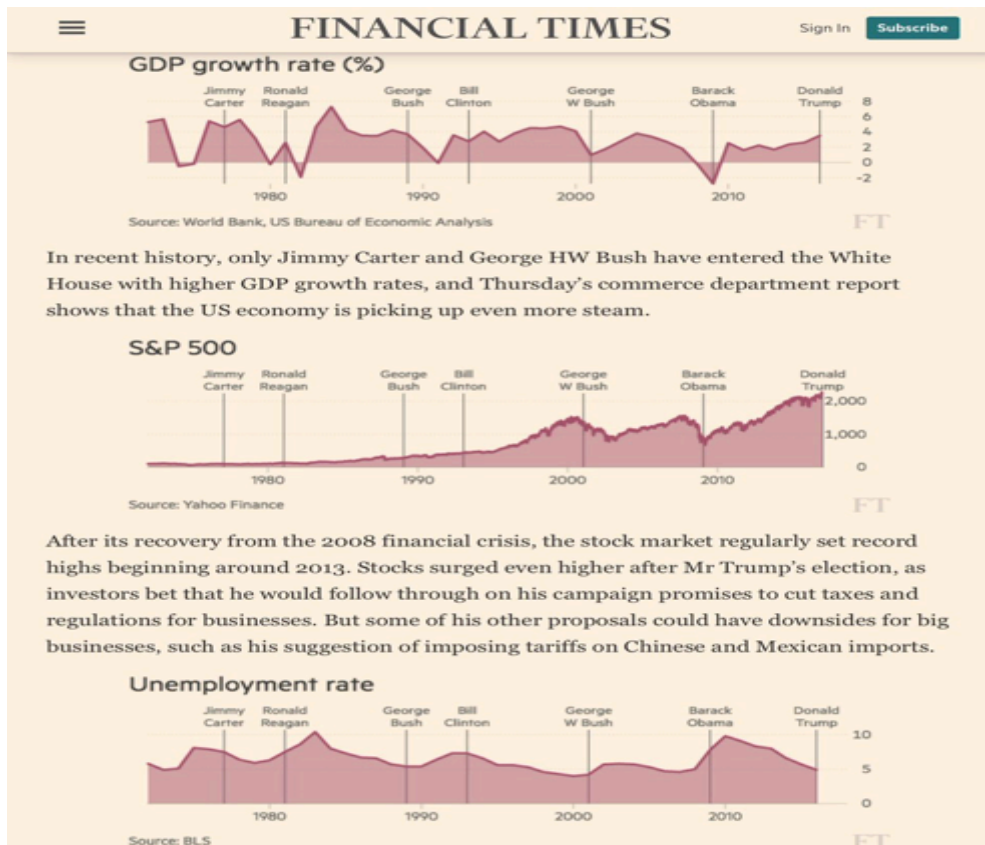
Donald Trump, like Herbert Hoover, made a lot of promises in order to win the Presidency. Also Like Hoover, Trump comes to office with no political experience and finds it difficult to deliver on those promises. But just like in 1929, equity markets believe those promises and surge to a Bubble top (S&P 2800) within six months of his taking office. With a U.S. Recession triggering an unwinding of massive debt burdens and the stock market swooning, Trump repeats the Policy mistakes of Hoover on Trade, Immigration & Taxes and Hooverville is back with a new name, Trumptown.

#WelcomeToHooverville



Source(s): , thebuffalotrader.com

Trump Entering Office w/ Economy & Markets At Peaks

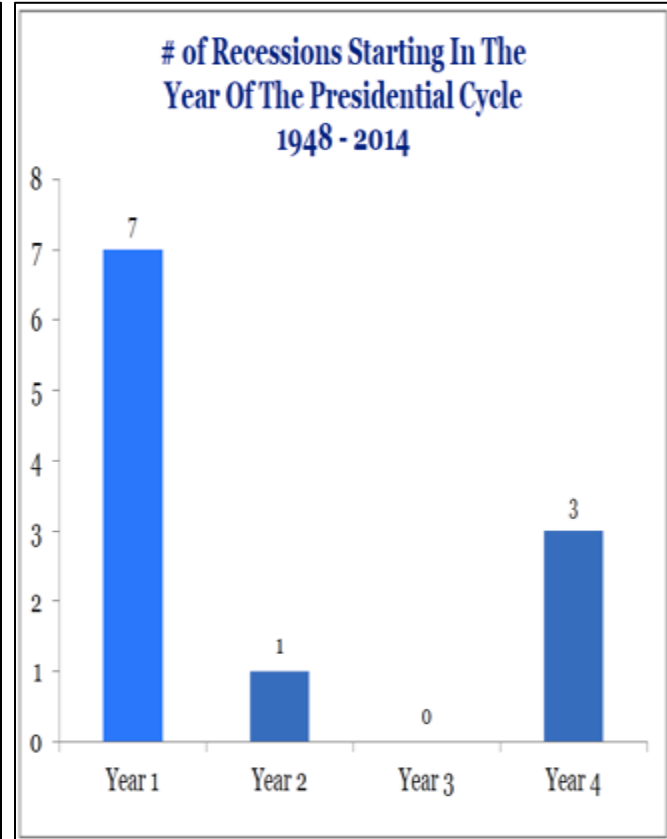
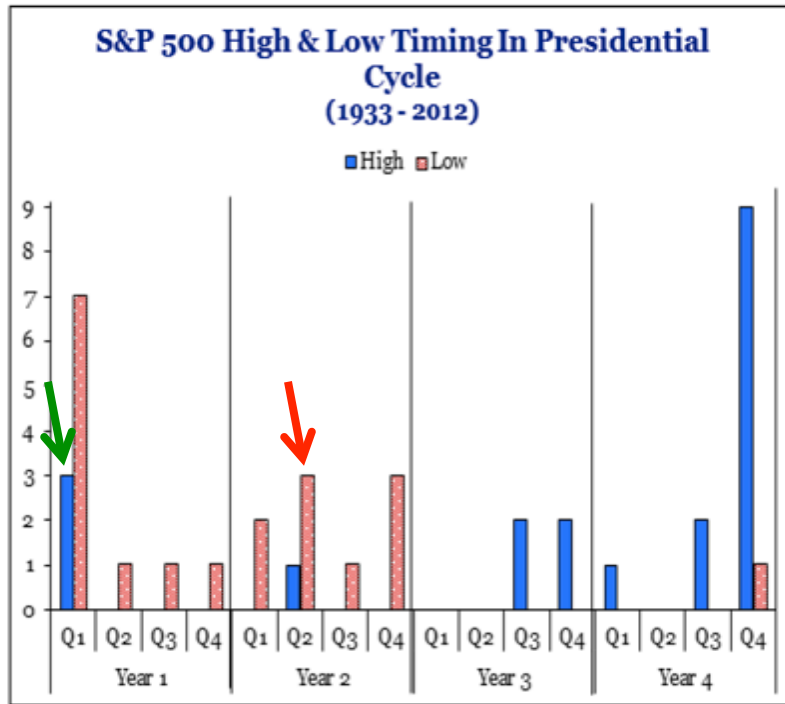


Source(s): FT.com, Yardeni.com



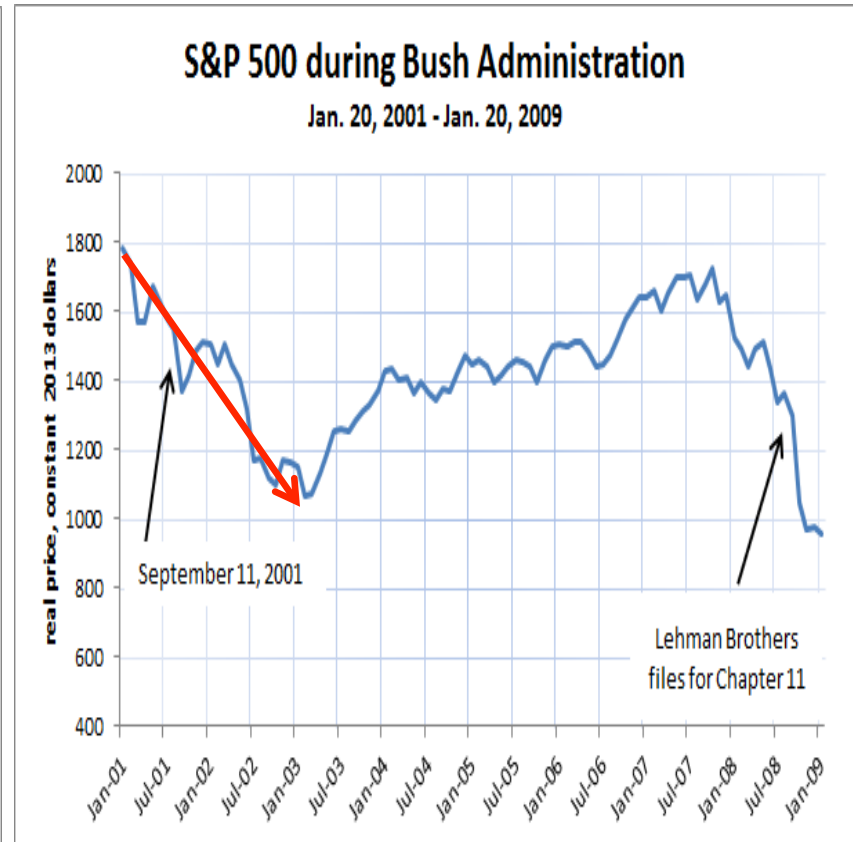
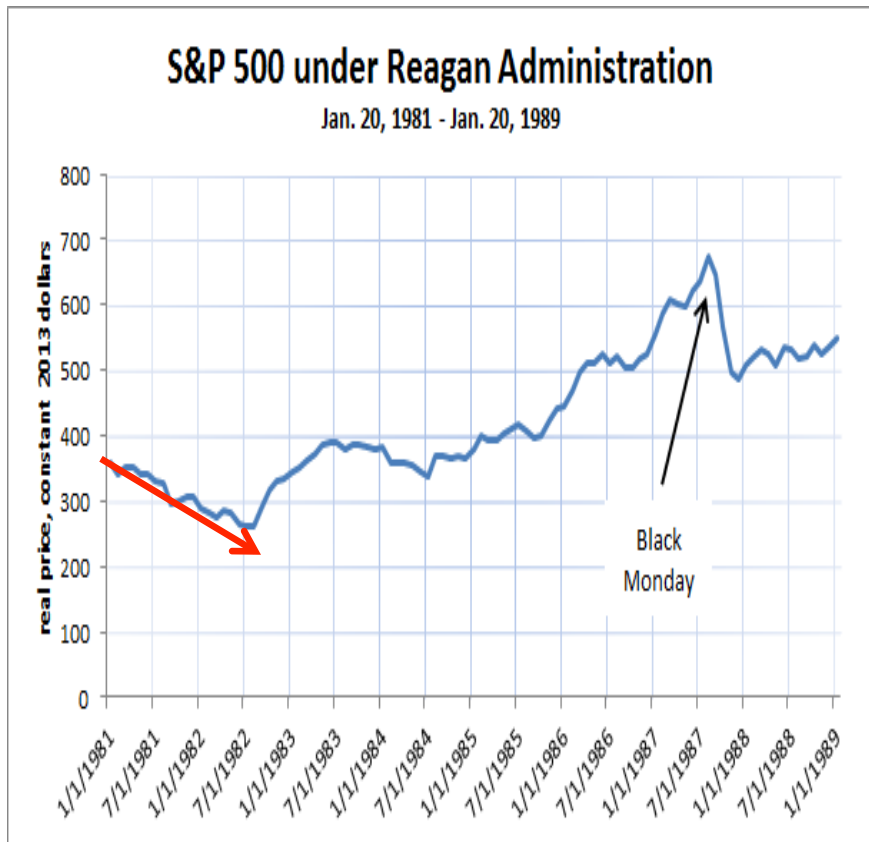
Presidential Cycle: S&P High Q1 2017, Low Likely 2018

80% OF THE S&P 500 CYCLE HIGHS FALL IN YEAR 3 OR 4 OF THE PRESIDENTIAL CYCLE, 95% OF THE CYCLE LOWS WERE HIT IN YEAR 1 OR 2



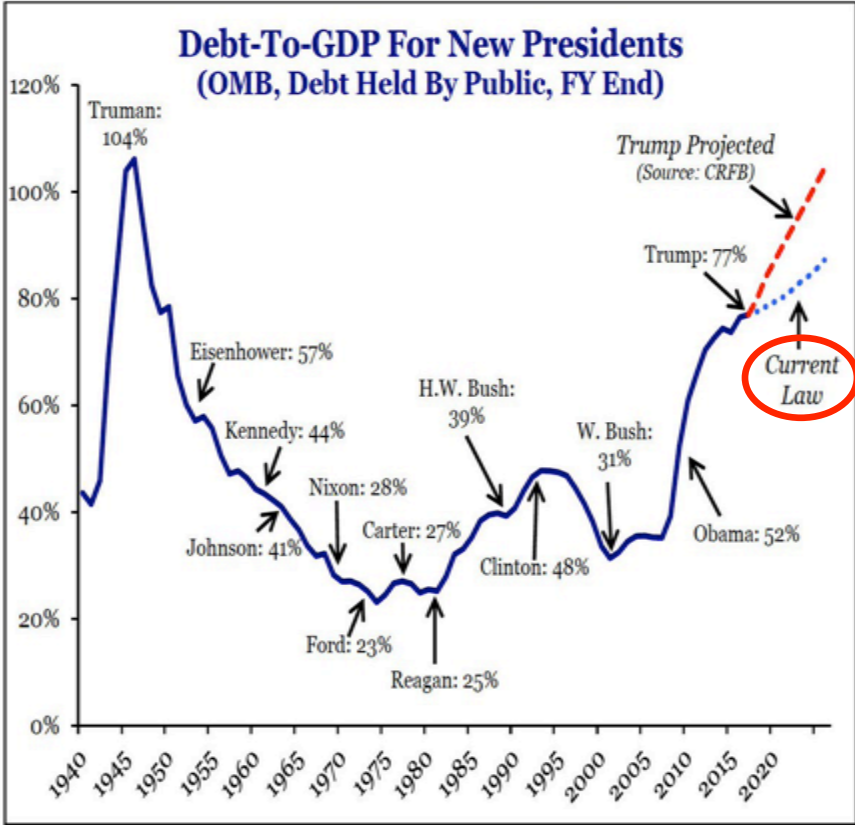
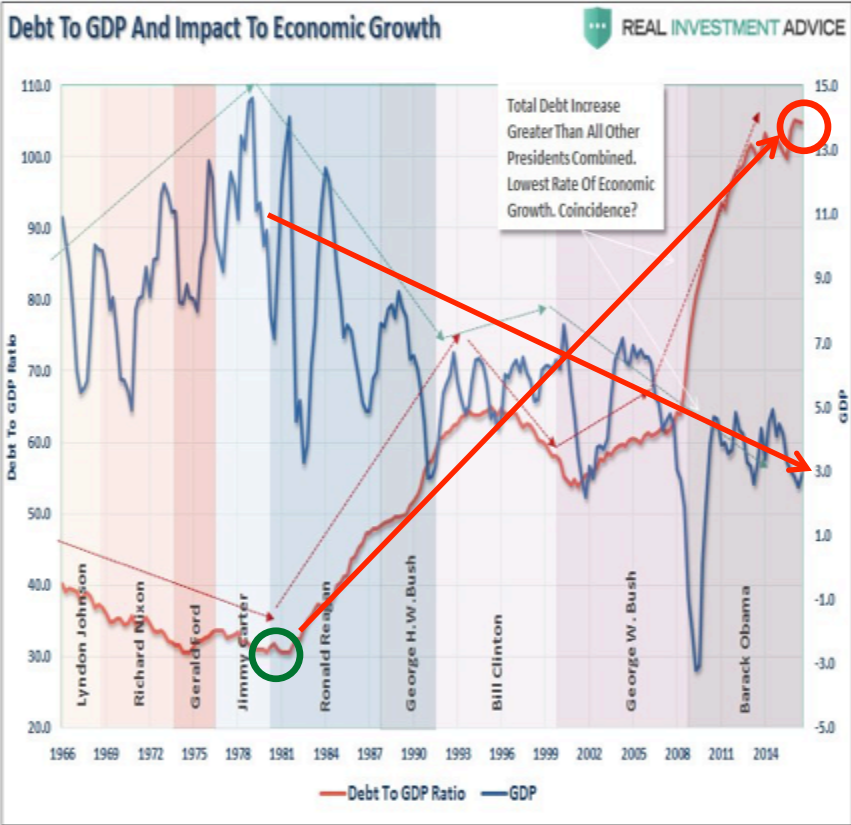
Source(s): Strategas

And Republican Sweeps Been Tough After Take Office...



Source(s): cheatsheet.com

High Debt Limits GDP Growth, DJT Promises GDP Surge?



Source(s): @LanceRoberts, Strategas



Investors Betting On The #TrumpTrifecta, So Far NoFecta

Anticipated Pro-Growth GOP Policies Amidst Improving Global Environment

Is Market Anticipating Pro-Growth Policies or Responding to Strong Numbers?

SUMMARY OF ANTICIPATED TRUMP/GOP POLICIES

Tax Reform

Corporate taxes/repatriation: cut from 35% to 15% and eliminate the corporate AMT. One-time cash repatriation at a tax rate of 10%.
Individual taxes: Rates cut to 12 – 33%.

Fiscal Policy

Investment in transportation, clean water, electric grid, telecommunications, security, energy infrastructure projects.

Healthcare

Repeal and replace Obamacare.

Trade

Withdraw from TPP. Identify violation of trade agreements. Renegotiate NAFTA. Label China a currency manipulator.

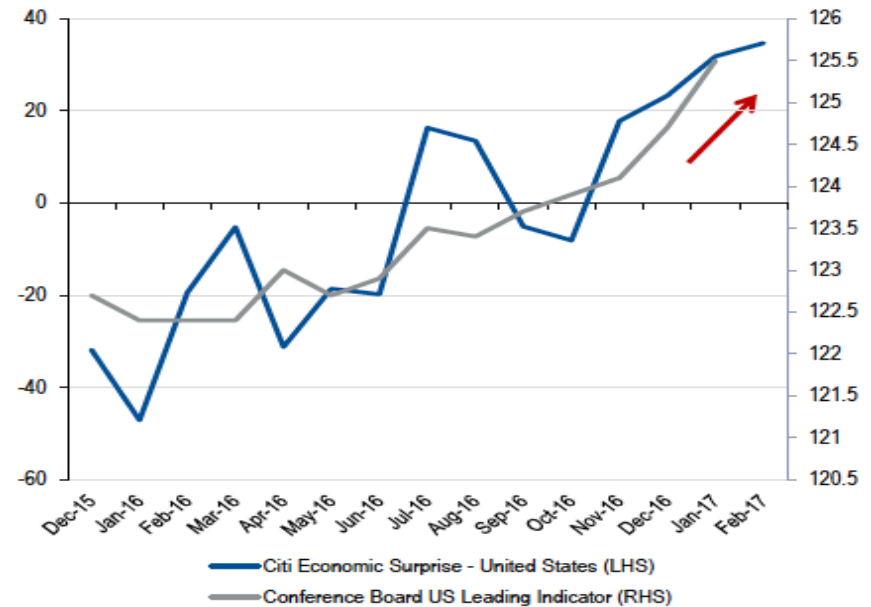
Immigration

New immigration controls to boost wages and build a wall. Move criminal aliens out and end sanctuary cities.

Regulation

Cancel executive orders, moratorium on additional regulation, reform regulatory code

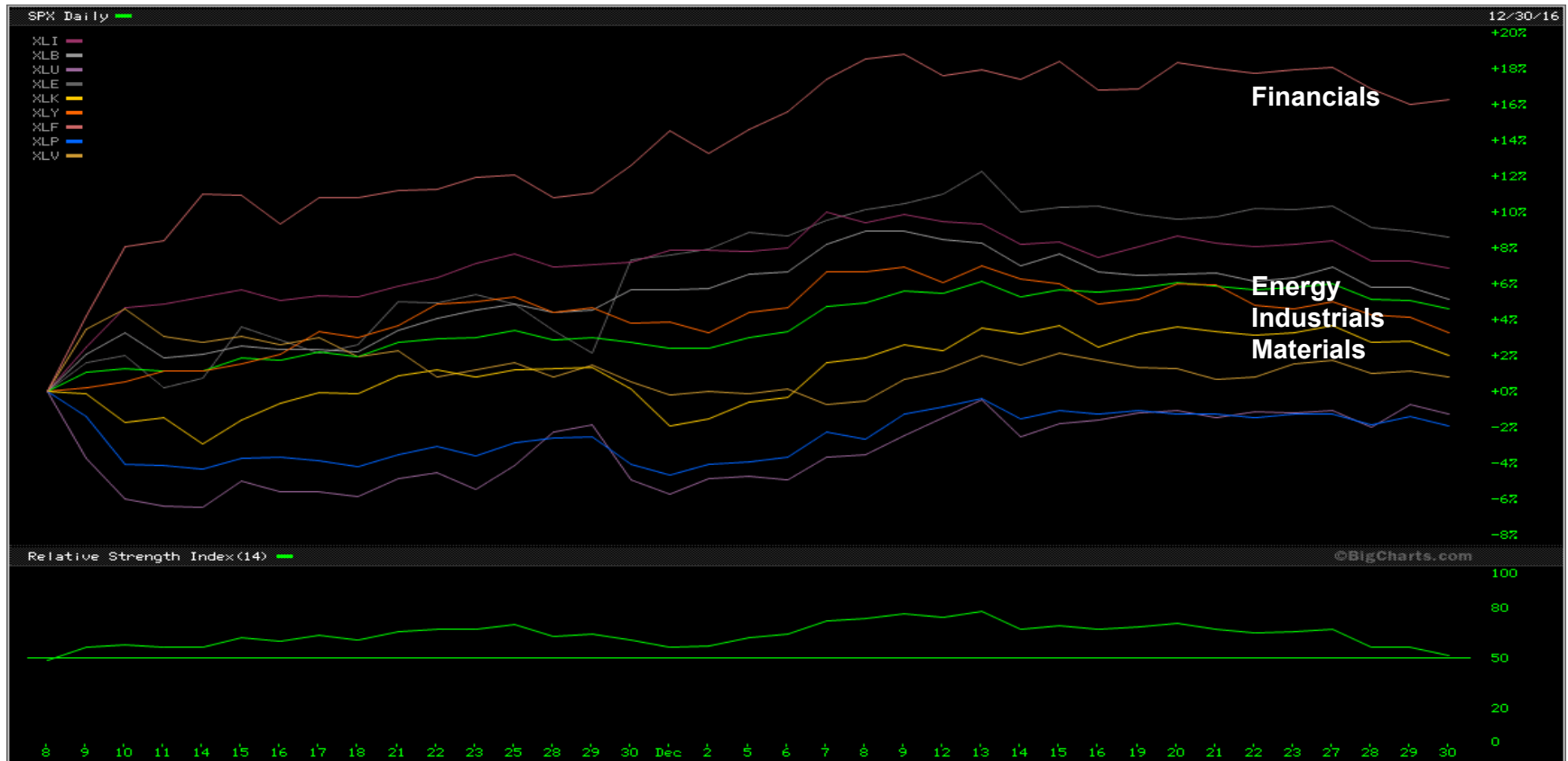
Sources: As of Feb. 26, 2017. Bloomberg, donaldtrump.com



Source(s): NeubergerBerman



2nd Best Post Election Rally (Since Hoover), Led By Trifecta

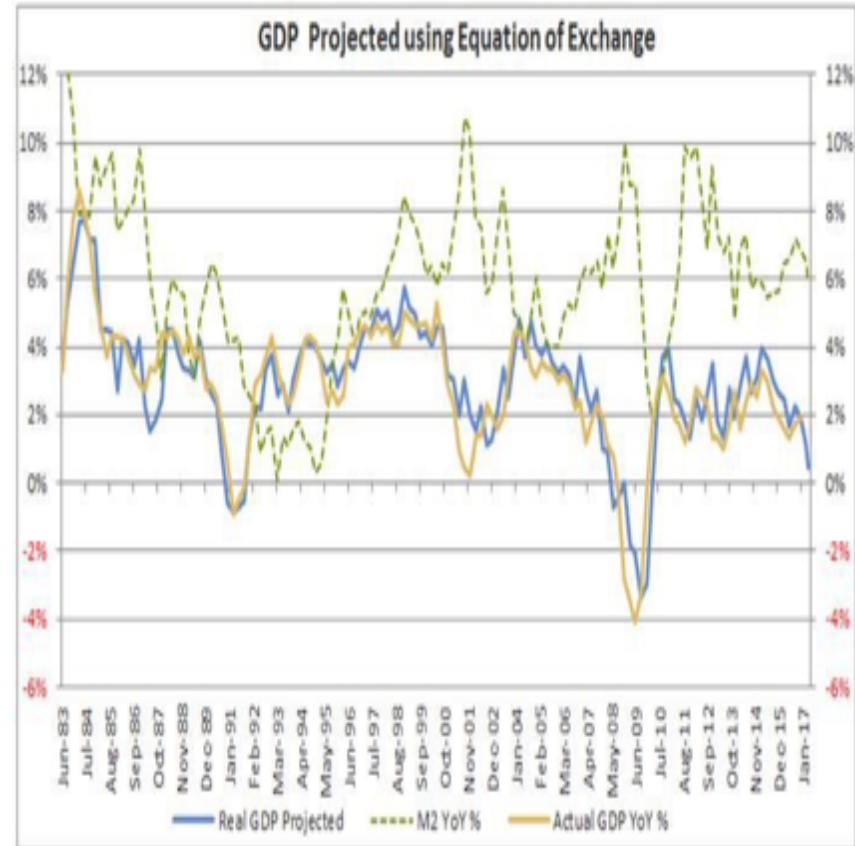
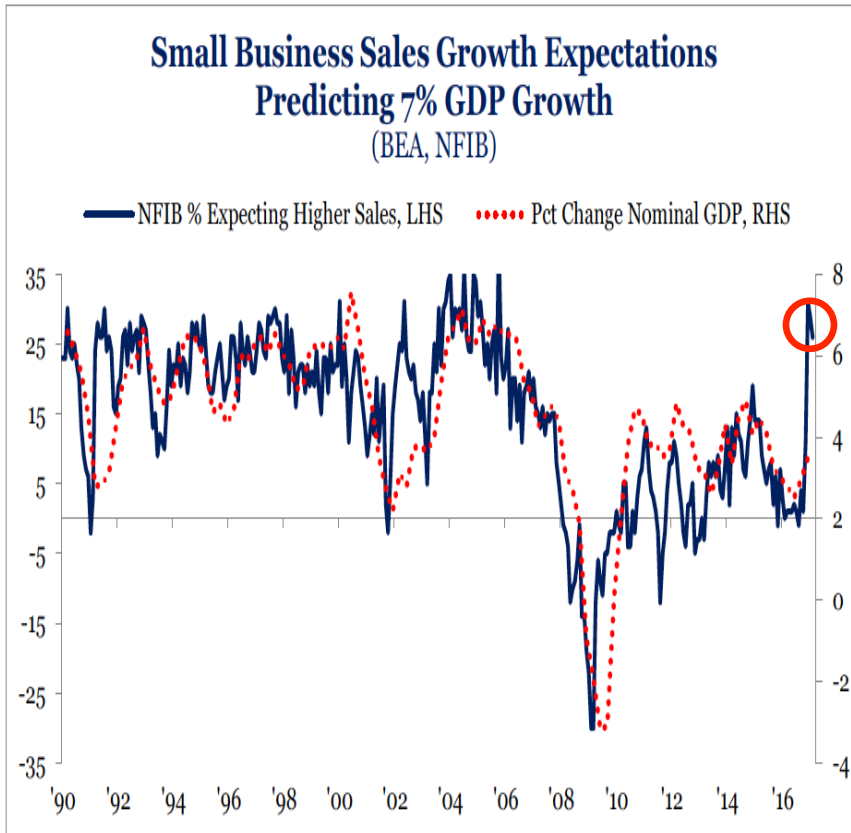


Source(s): Bigcharts.com

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Small Biz Taking Trump Literally, GDP Math Doesn't Work



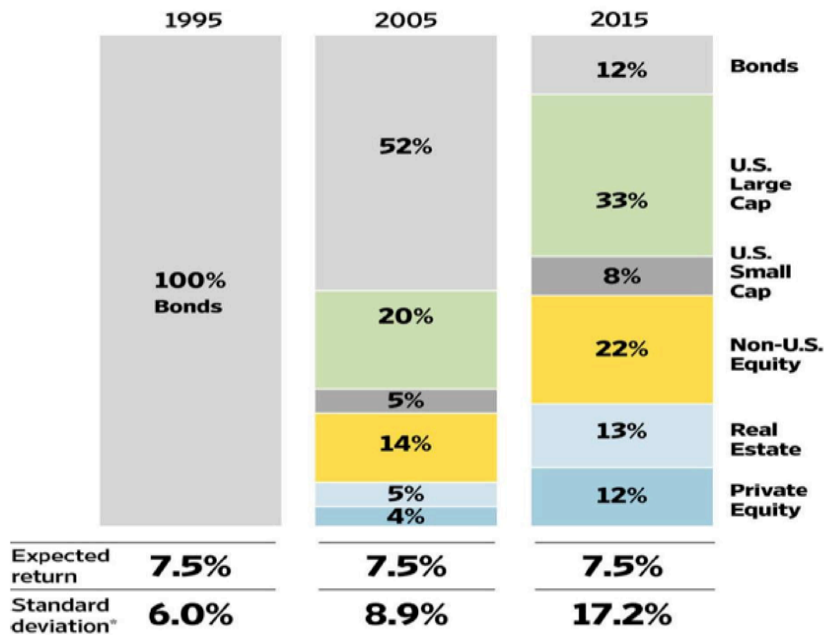
Source(s): Strategas, @GSCap_SF

Financial Repression Pushing Investors Into Risk Assets

Rolling the Dice

Investors grappling with lower interest rates have to take bigger risks if they want to equal returns of two decades ago.

Estimates of what investors needed to earn 7.5%



*Likely amount by which returns could vary
Source: Callan Associates

THE WALL STREET JOURNAL.

Chart 13: Valuation is all that matters in the long-term

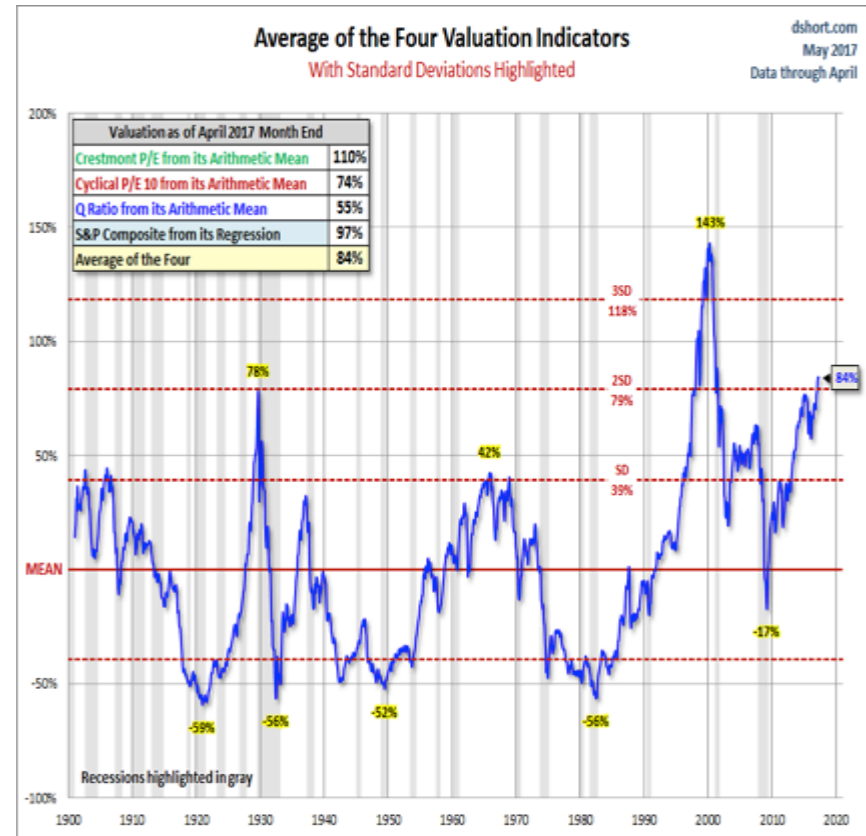
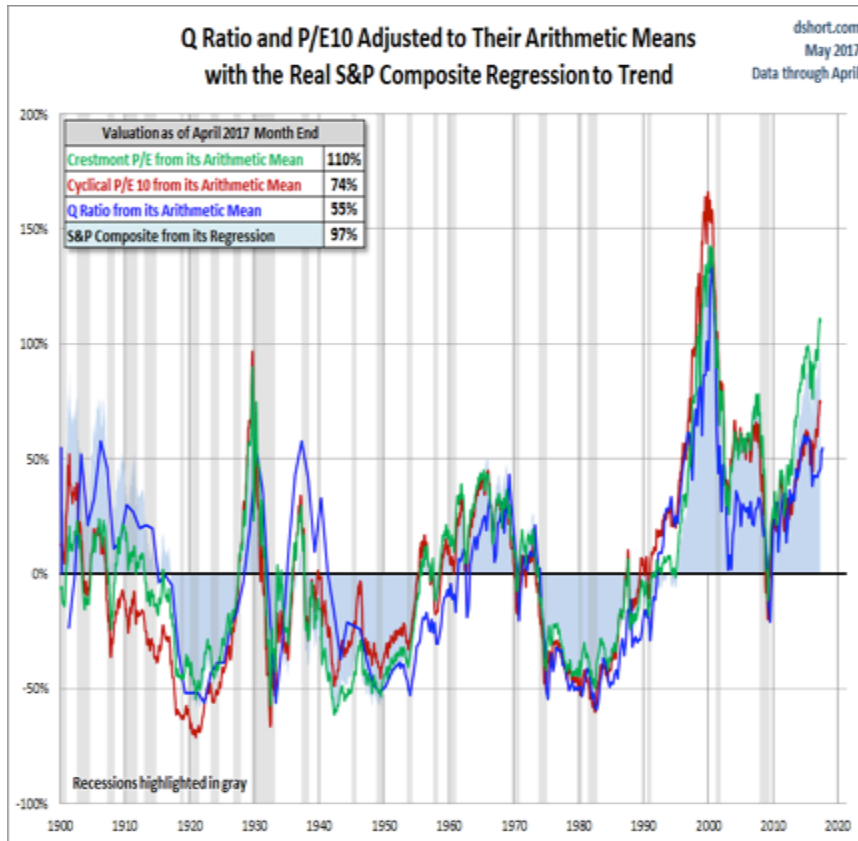
Normalized P/E's predictive power on S&P 500 returns



Source S&P, BofA Merrill Lynch US Equity & US Quant Strategy

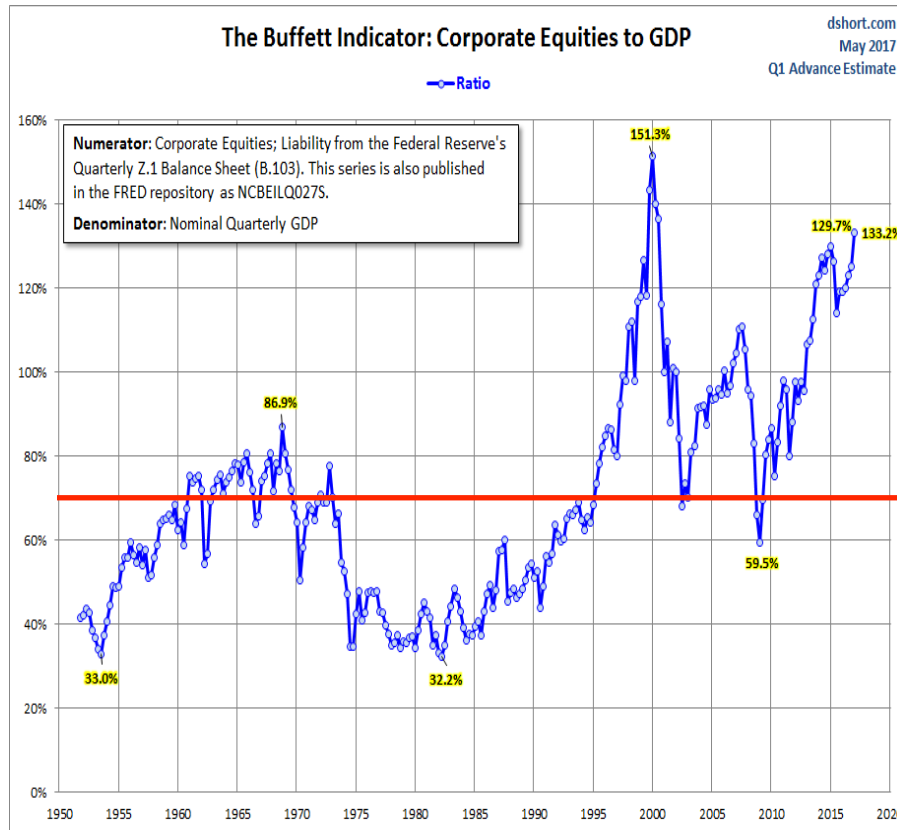
Source(s): GMI, WSJ

S&P 500 Valuations Bubbly, 2nd Worst Ever, All P/E Ramp

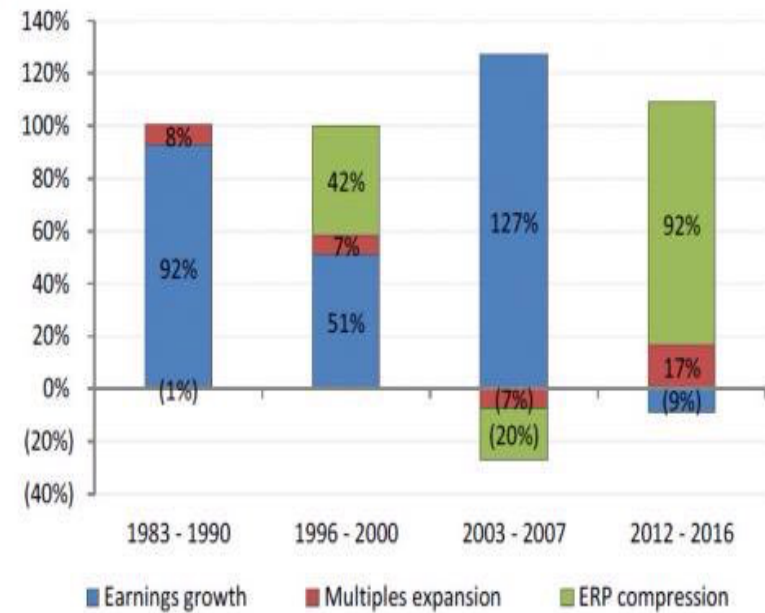


Source(s): AdvisorPerspectives.com, @hussmanfunds

Buffett Indicator High, Recent Expansion All P/E Increase



Contribution to SPX rallies in past expansion cycles



Source: Haver Analytics and Deutsche Bank

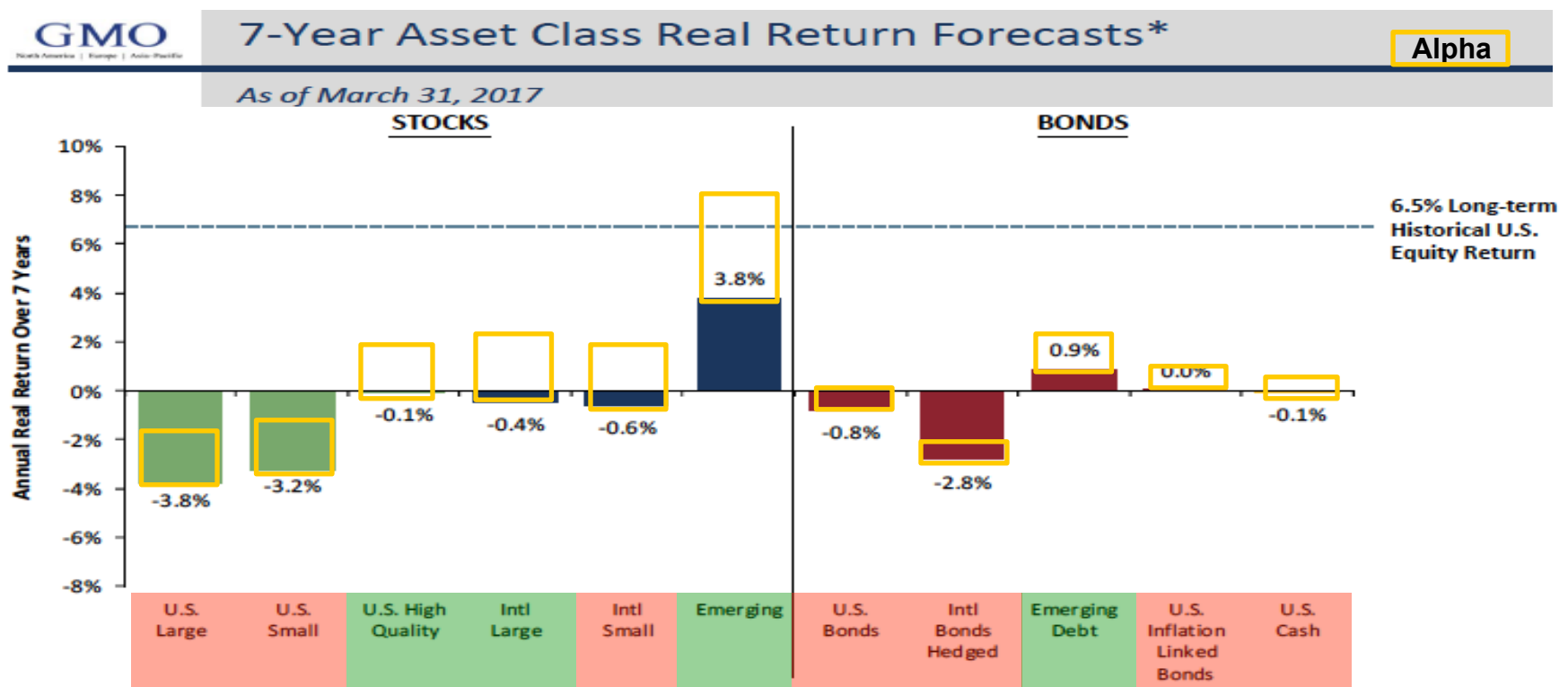
Source(s): AdvisorPerspectives.com, @stocktwits

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113

GMO Forecasts Negative Returns for U.S. Equities Again

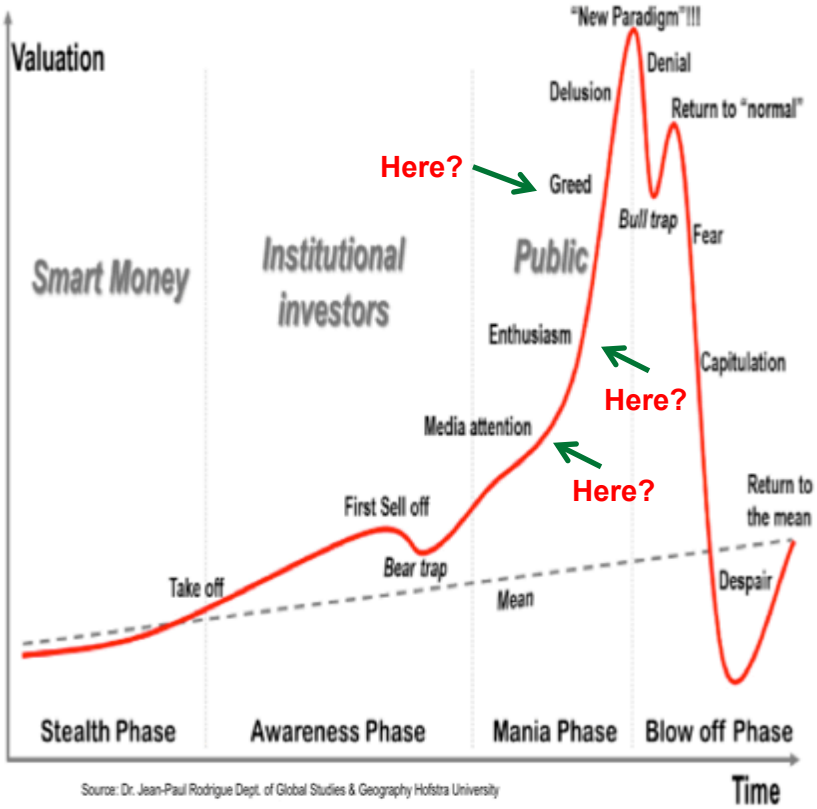


Source: GMO

*The chart represents real return forecasts for several asset classes and not for any GMO fund or strategy. These forecasts are forward-looking statements based upon the reasonable beliefs of GMO and are not a guarantee of future performance. Forward-looking statements speak only as of the date they are made, and GMO assumes no duty to and does not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which change over time. Actual results may differ materially from those anticipated in forward-looking statements. U.S. inflation is assumed to mean revert to long-term inflation of 2.2% over 15 years.

Source(s): GMO.

Many Reasons To Sell Before Mania Phase, Now Where?

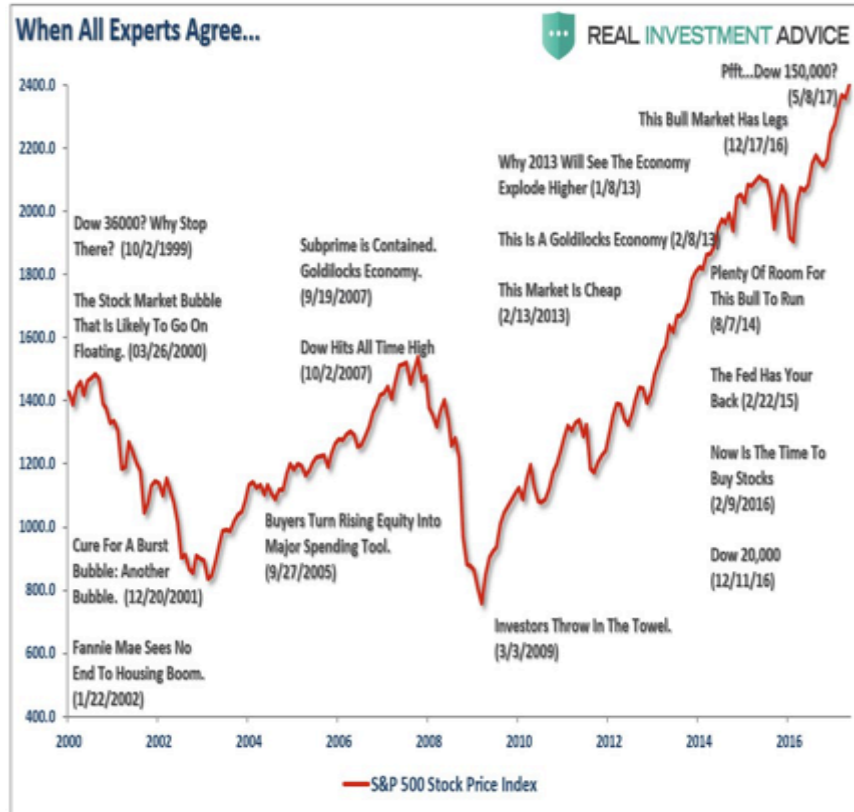


Source: Dr. Jean-Paul Rodrigue Dept. of Global Studies & Geography Hofstra University

Source(S): @michaelbatnick, pgmcapital.com



Perilously Close To Universal View Equities Have No Risk



And a bit of supporting evidence...

A few days ago Charles Schwab, the investment brokerage firm, announced that the number of **new brokerage accounts** soared 44% during the first quarter of 2017.

More specifically, Schwab stated that individual investors are opening up stock trading accounts at the **fastest pace** the company has seen in 17 years.

17 years.

Anyone remember what happened 17 years ago?



Investors always buy what they wish they would have bought...

Oh right. The Dot-com bubble burst.

Source(s): @lanceroberts, GMI

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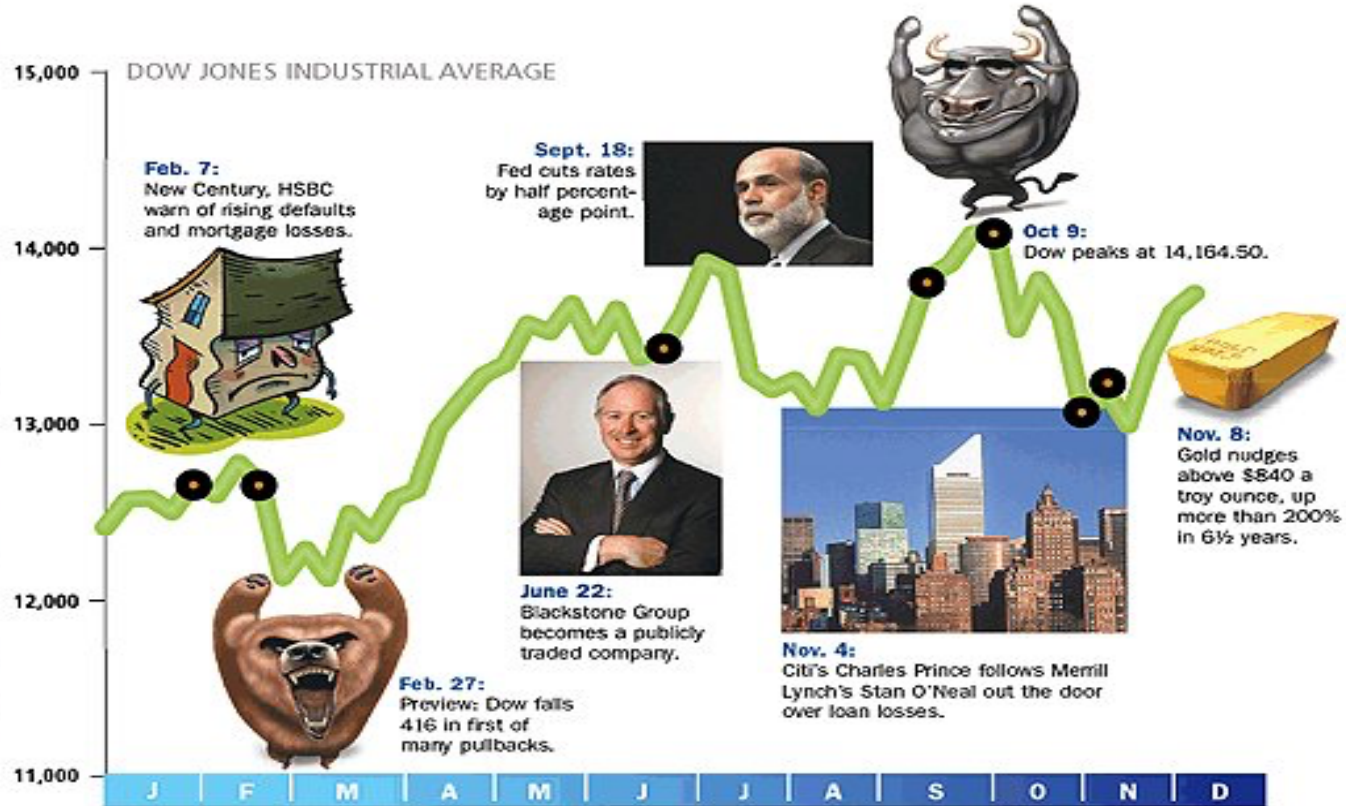
116

Snap! Crackle, Pop? '07 Surged Past BX IPO & Oct Peak

2007

Shake, Rattle and Rally On

Volatility returned with a vengeance this year, giving bulls and bears alike opportunities to celebrate. As China et al. expanded, oil prices shot toward \$100 a barrel. In the U.S. the housing boom finally went bust, with ugly consequences for holders of mortgage-related debt. Big banks took huge writeoffs, while the Fed chopped rates. The medicine hasn't worked yet—but wait 'til next year.

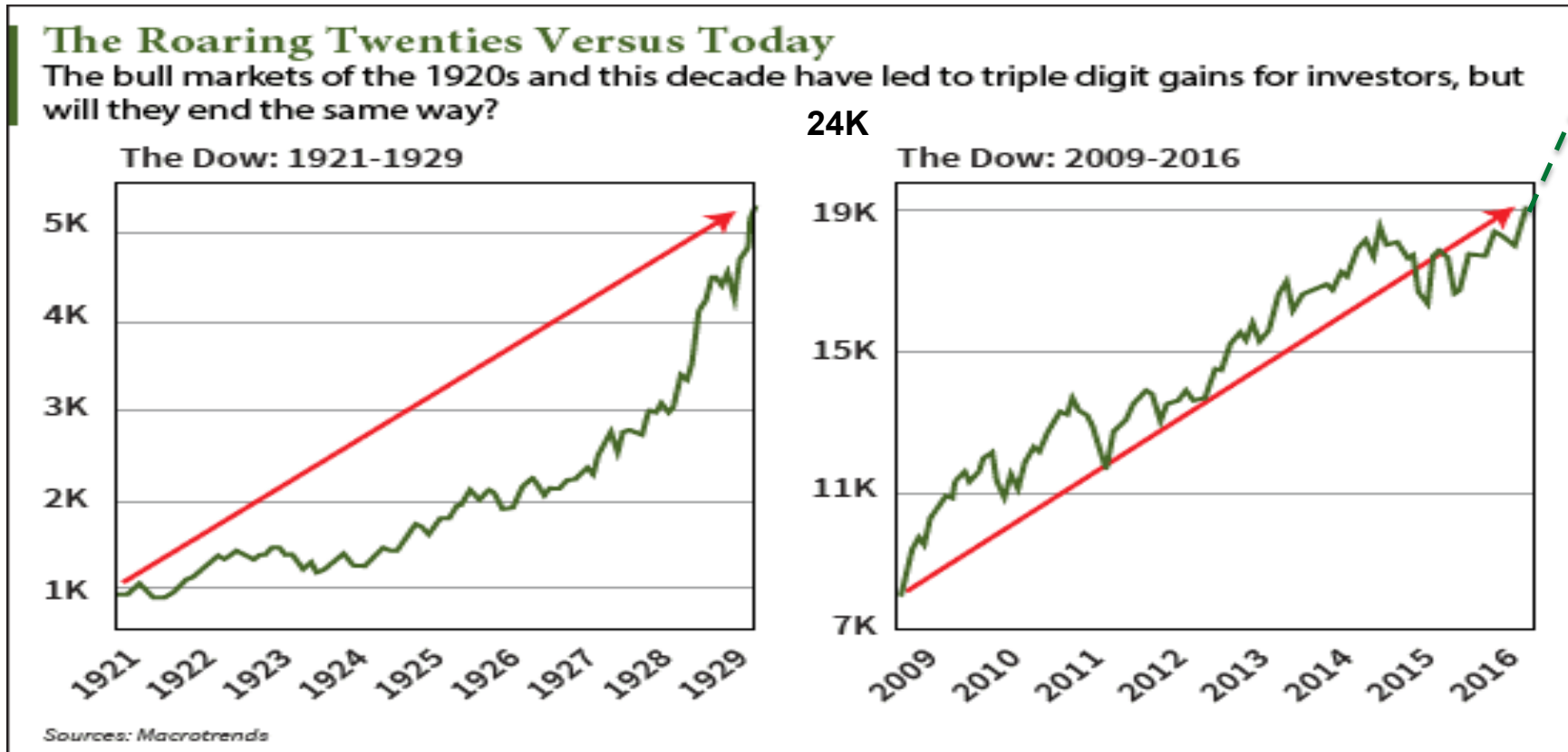


Source(s) Barrons.com

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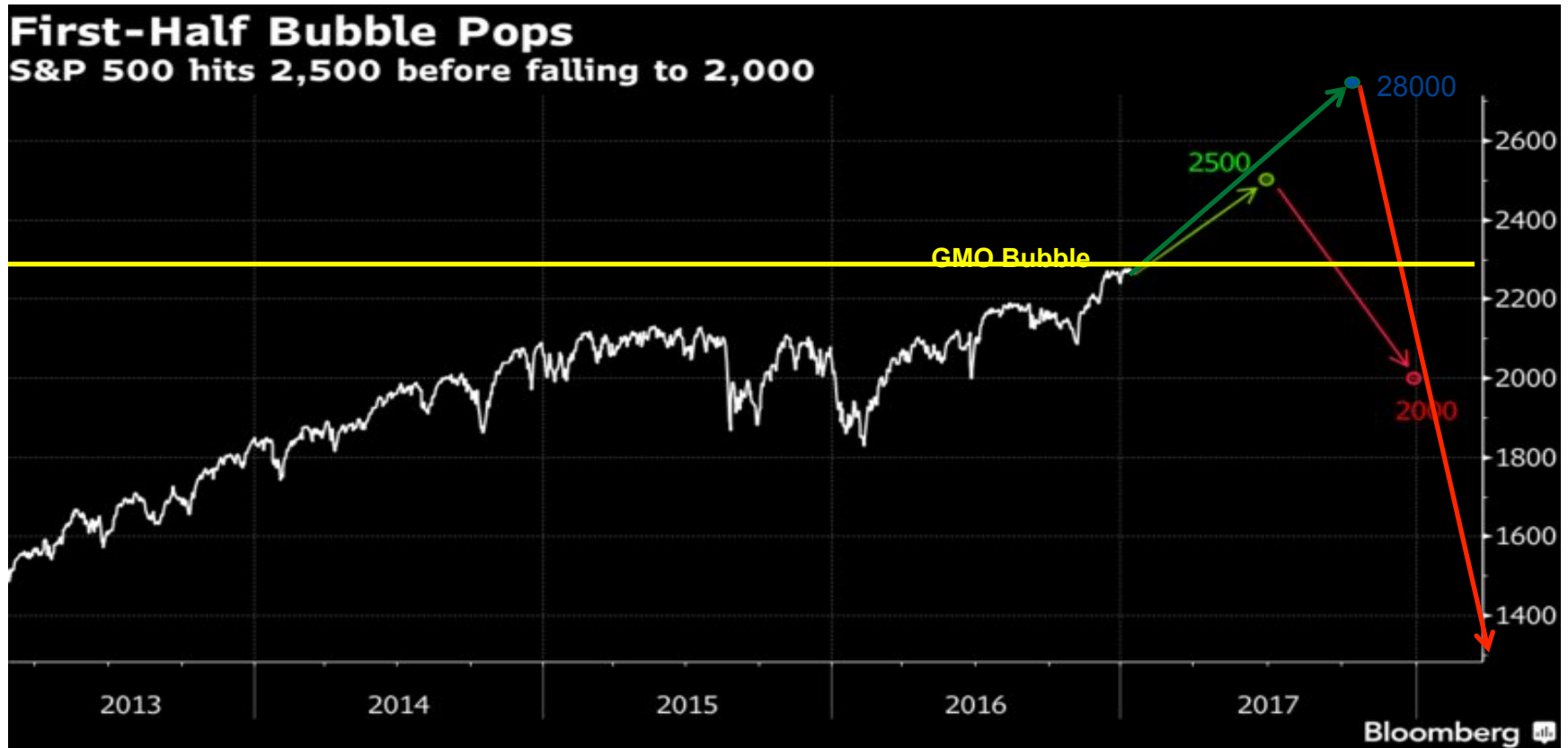
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A Repeat of Roaring Twenties Would Take DJIA to 24,000



Source(s): WallStreetExaminer.com

CS Makes SPX 2500 Bubble Case, 2800 Would Be '29 2.0

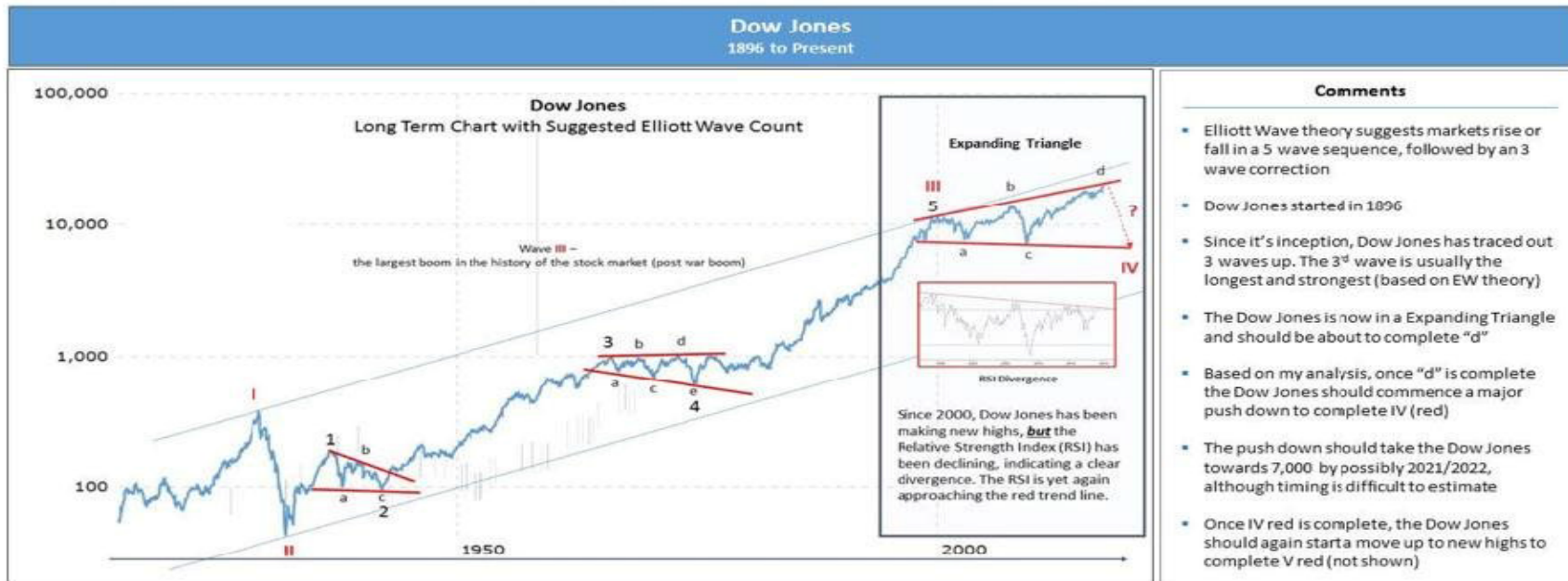


Source(s): @TheBubbleBubble, CreditSuisse

Variant Perception Predicts Crash, Timing Like #WTH

Dow Jones Heading for Crash

My analysis of the Dow Jones, since its inception in 1896, using Elliott Wave theory, suggests it is about to “top” possibly by Q3 in 2017. When “d” is completed, I expect a 70% correction to form IV (red) as shown



Source: Chart taken from MacroTrends, but analysis/labels added by myself using Elliott Wave theory

Source(s): GMI

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U.S. Households Have Never Been More Fully Invested

Households have never been more exposed to **financial markets**.



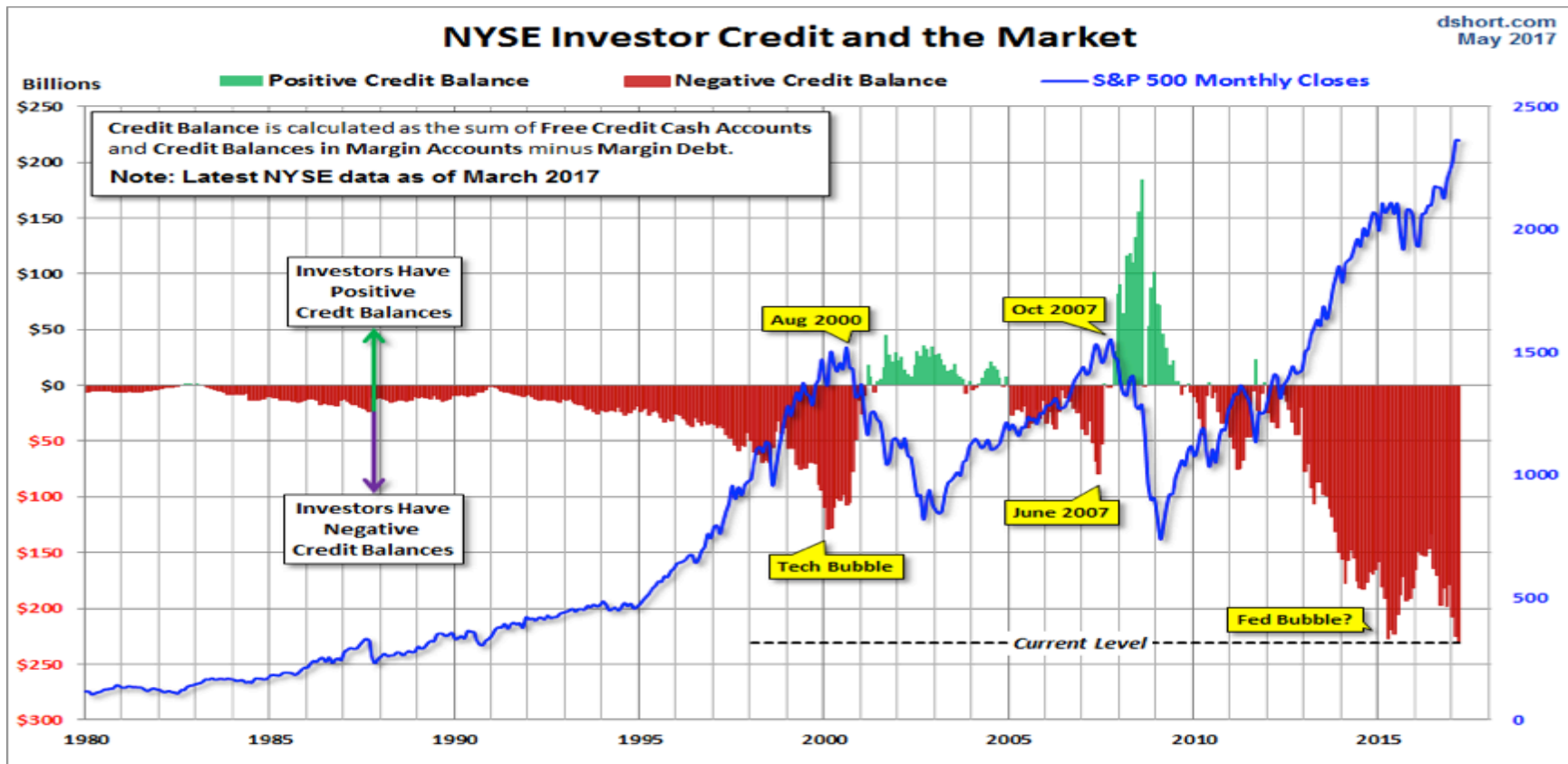
Source(s): @bondskew, TheFelderReport.com

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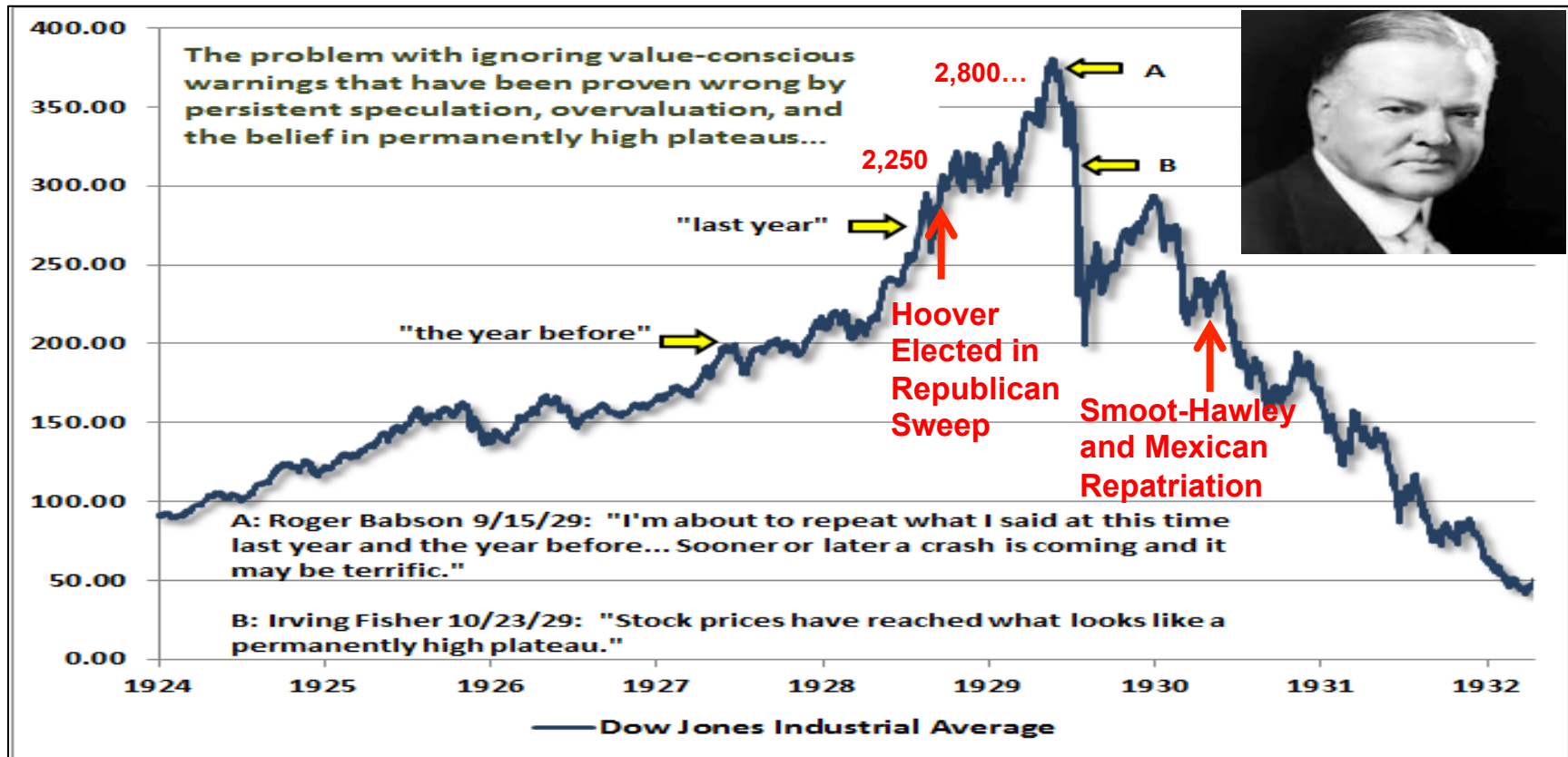
121

So Confident, Levering Portfolios Back To ATH Levels



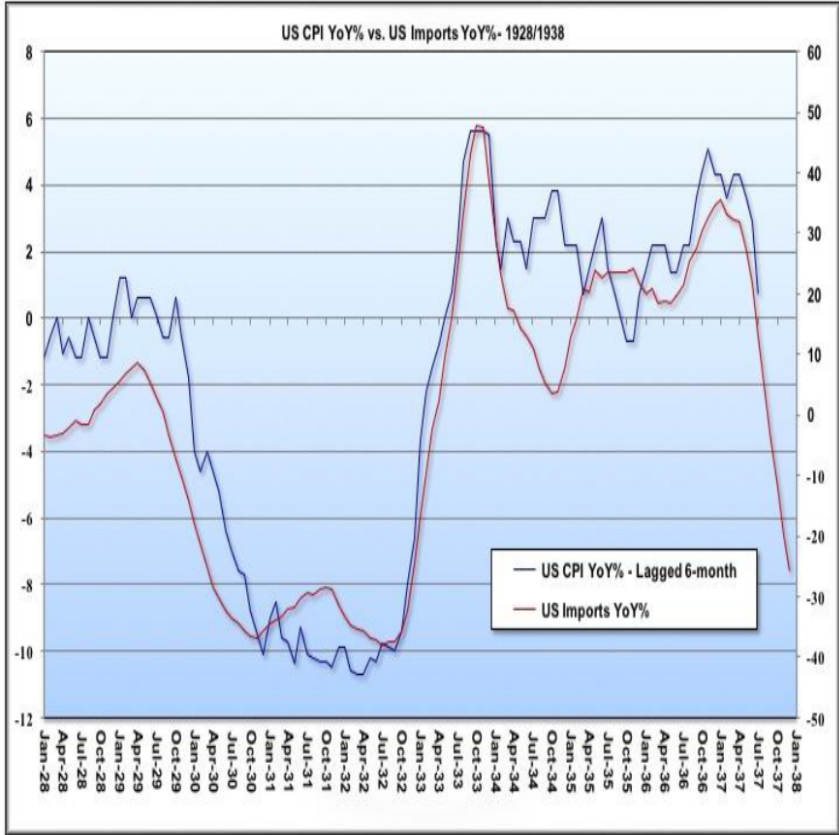
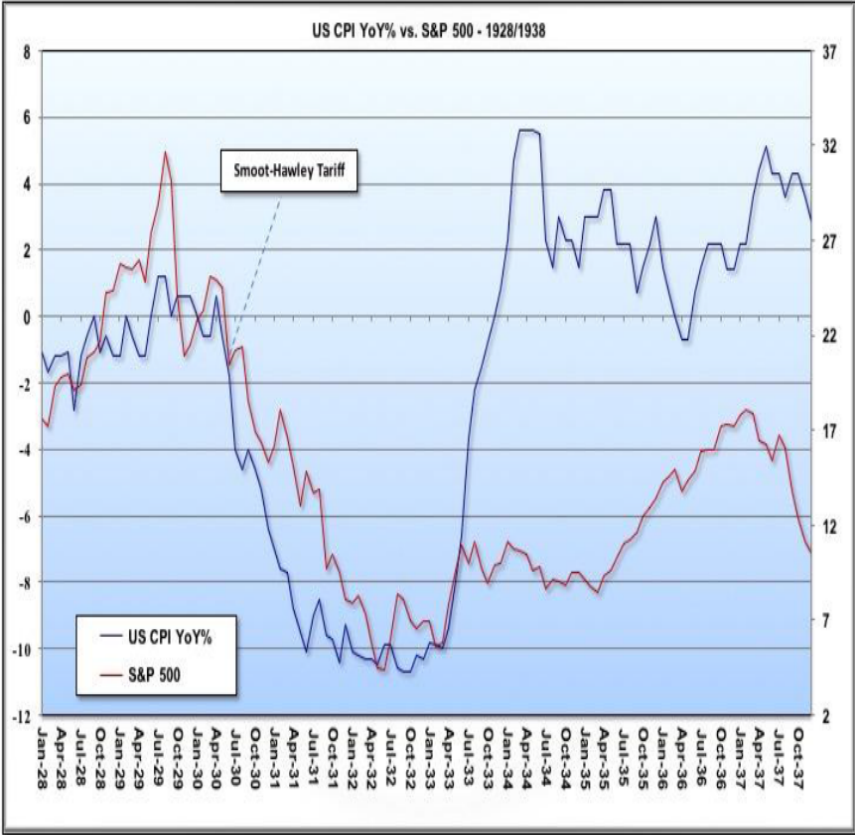
Source(s): CommonwealthFinancialNetwork.com, AdvisorPerspectives.com

We Have Seen This Movie Before, Don't Like The Ending



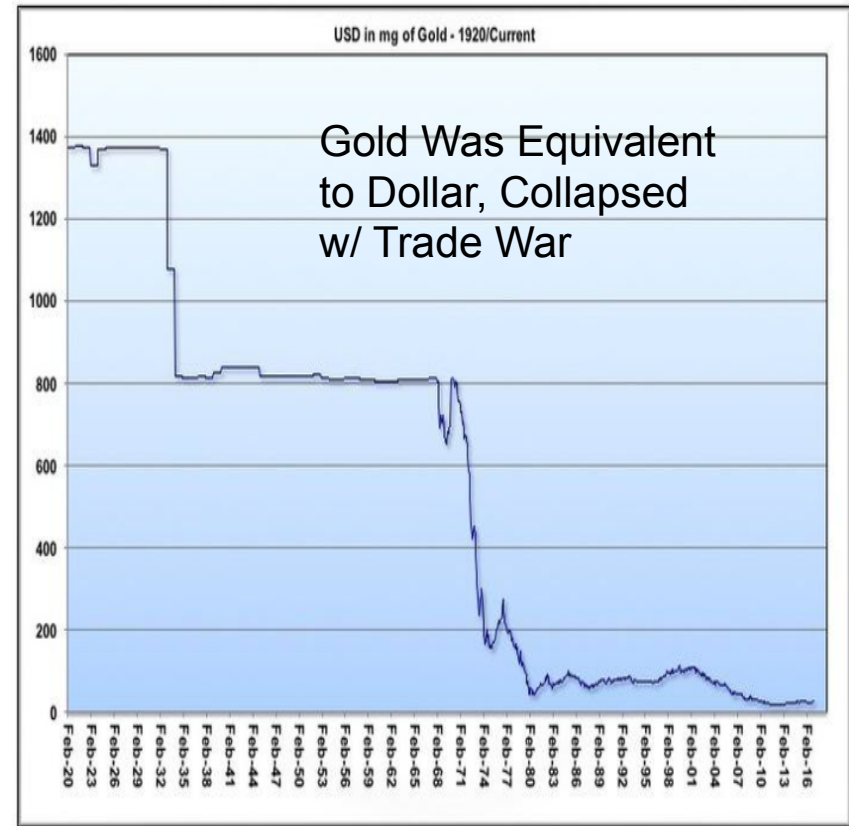
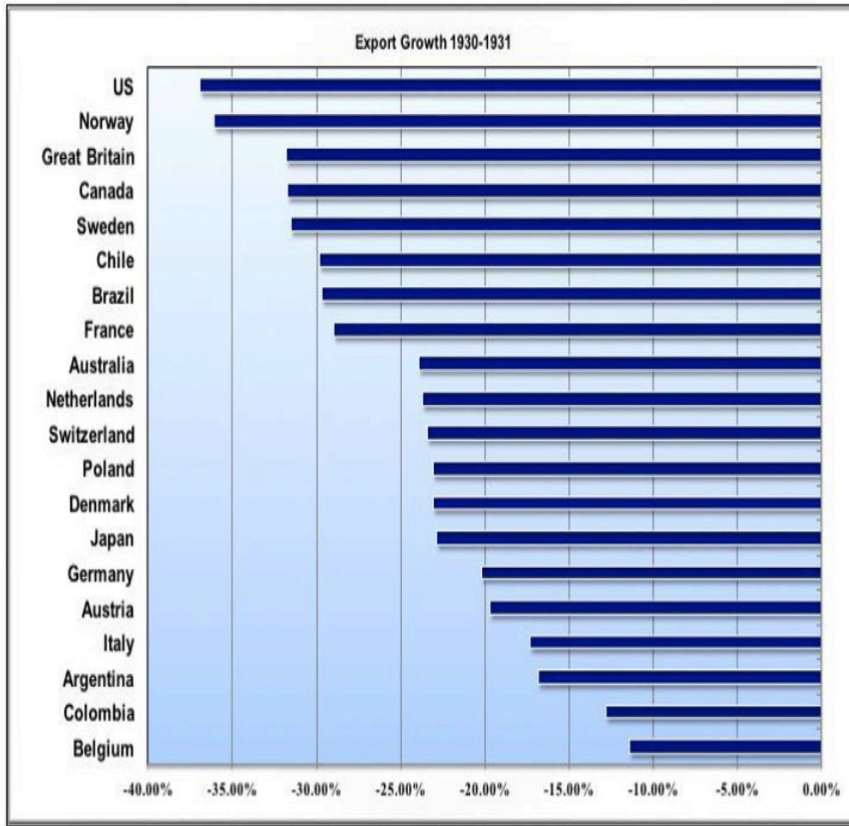
Source(s): babypips.com, ftense.com

Tariffs Led To Import Collapse, Massive Deflationary Bust



Source(s): GMI

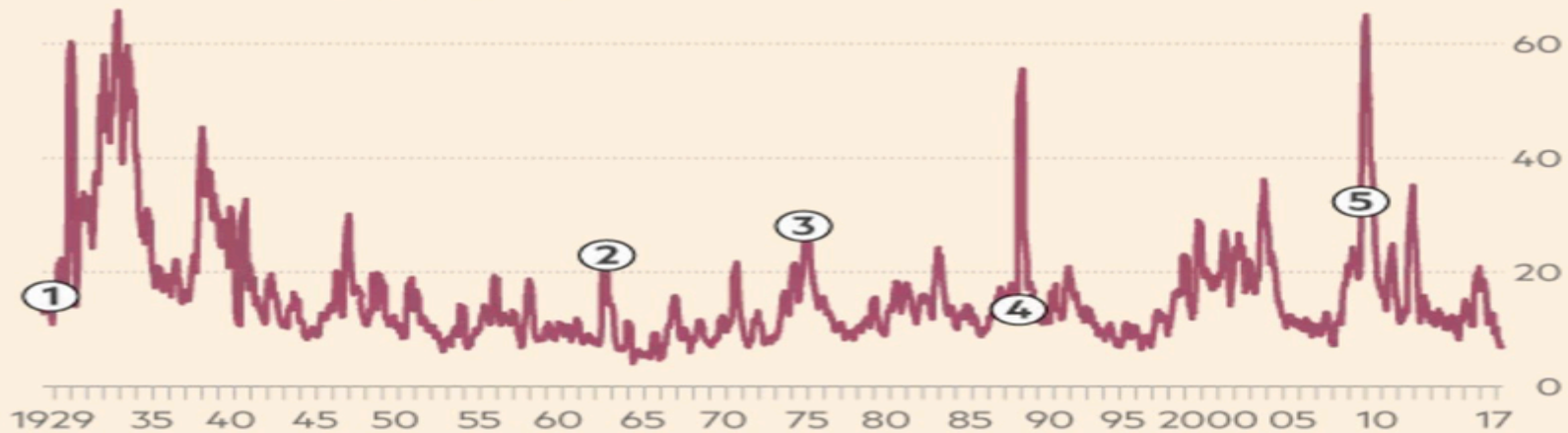
Tariffs Triggered Trade War, Everyone Lost, US Lost Most



Source(s): GMI

U.S. Equity Market Only More Calm 3% of Time in History

The US equity market has almost never been calmer
Realised volatility 90-day (%)



Source: Bloomberg

FT

1. Oct 1929: The Wall Street Crash
2. Oct 1962: Cuban Missile Crisis
3. Nov 1974: Oil crisis and collapse of Bretton Woods
4. Oct 1987: Black Monday crash
5. Oct 2008: Global financial crisis

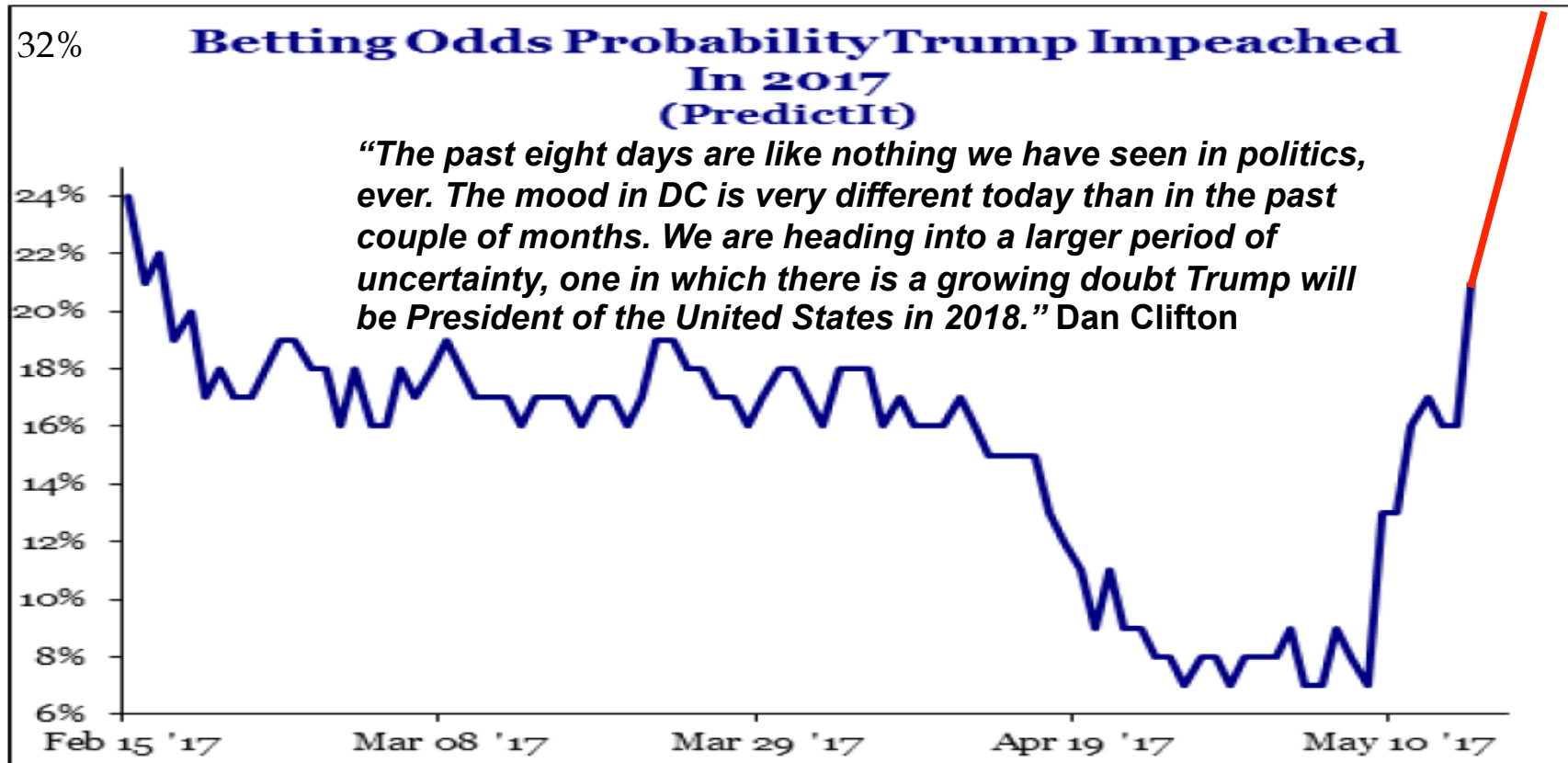
Source(s): @WhatIlearnedTW

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126

Trump Suddenly Creating Huge Political Market Risks



Source(s): Strategas

World's Greatest Indicator Remains In Green Safe Zone



Source(s): Stockcharts.com



Bonus Surprise Demise of Active Greatly Exaggerated

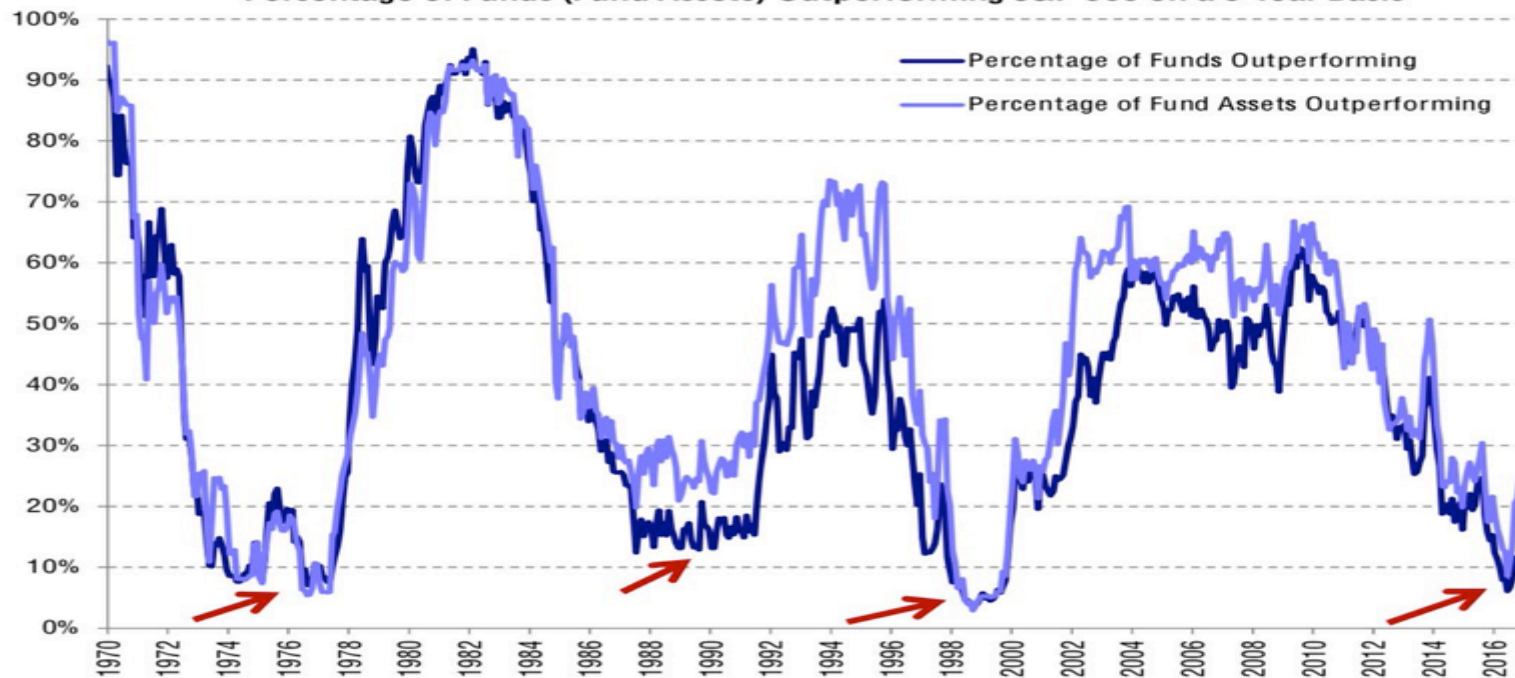
For the 4th time in my career (and I am not that old), Active Management (and Hedge Funds) are declared “Dead”, as Passive strategies outperformed again in 2016. Similar to previous periods of Central Bank largesse, the math of capitalization weighting, exacerbated this time by “Dumb” (read rule based) Beta ETF strategies, favored passive momentum strategies since QE began in 2009. People always “buy what they wish they would have bought” and poured record amounts into Index Funds & ETFs in 2016 (#PeakPassive), just in time for Active Management (and HF) to outperform in 2017 (just like 2001).



Source(s): schalklouw.blogspot.hk

Reports of Death of Active Mgmt (Hedge Funds) Cyclical

We Have Been Here Before – Each Trough Has Been Followed by Recovery
Percentage of Funds (Fund Assets) Outperforming S&P 500 on a 5-Year Basis

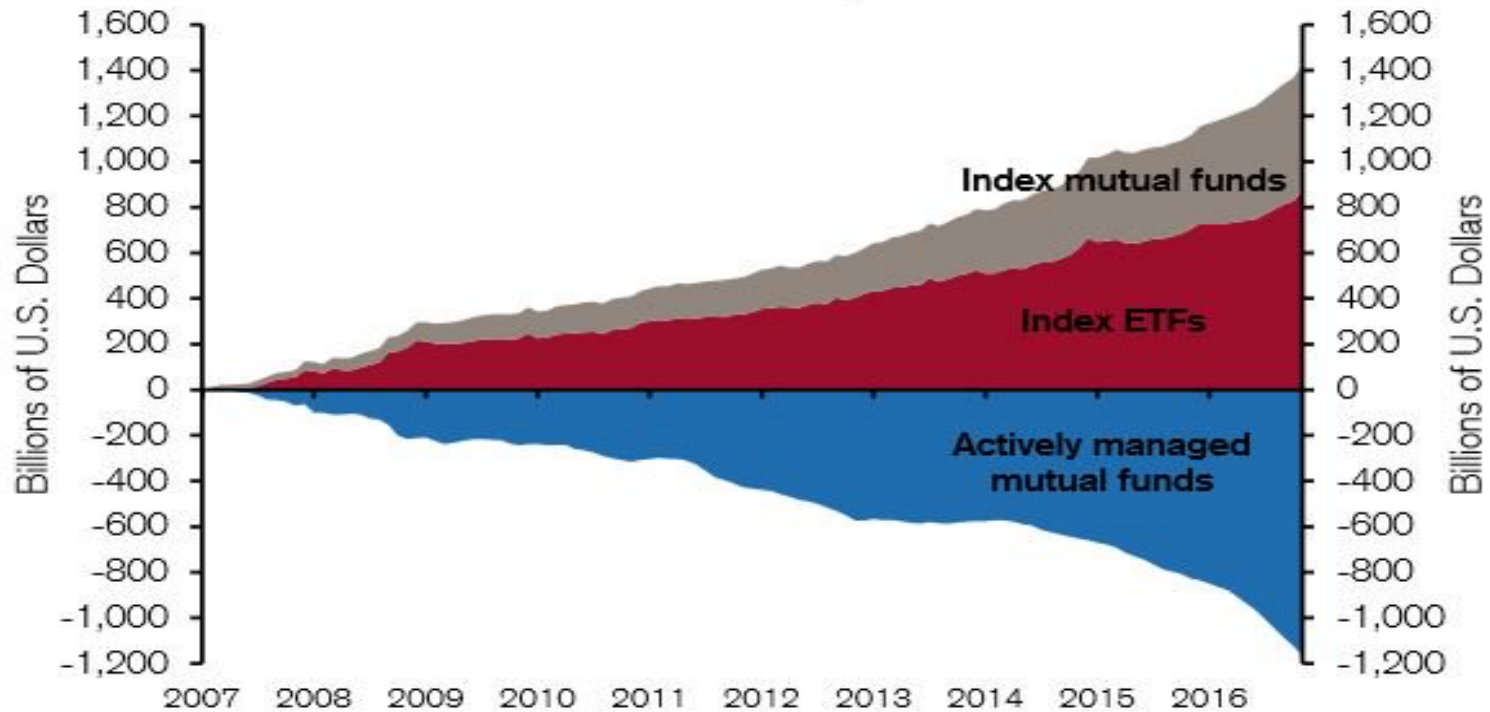


Note: For details, see Fig. 1 on page 2. Source: CRSP, Bloomberg, Robert Shiller data, Instinet research

Source(s): 13d Research, @CallumThomas

Huge Capital Flows From Active to Passive #PeakPassive

Exhibit 1: Flows from Active to Passive Funds in U.S. Equities

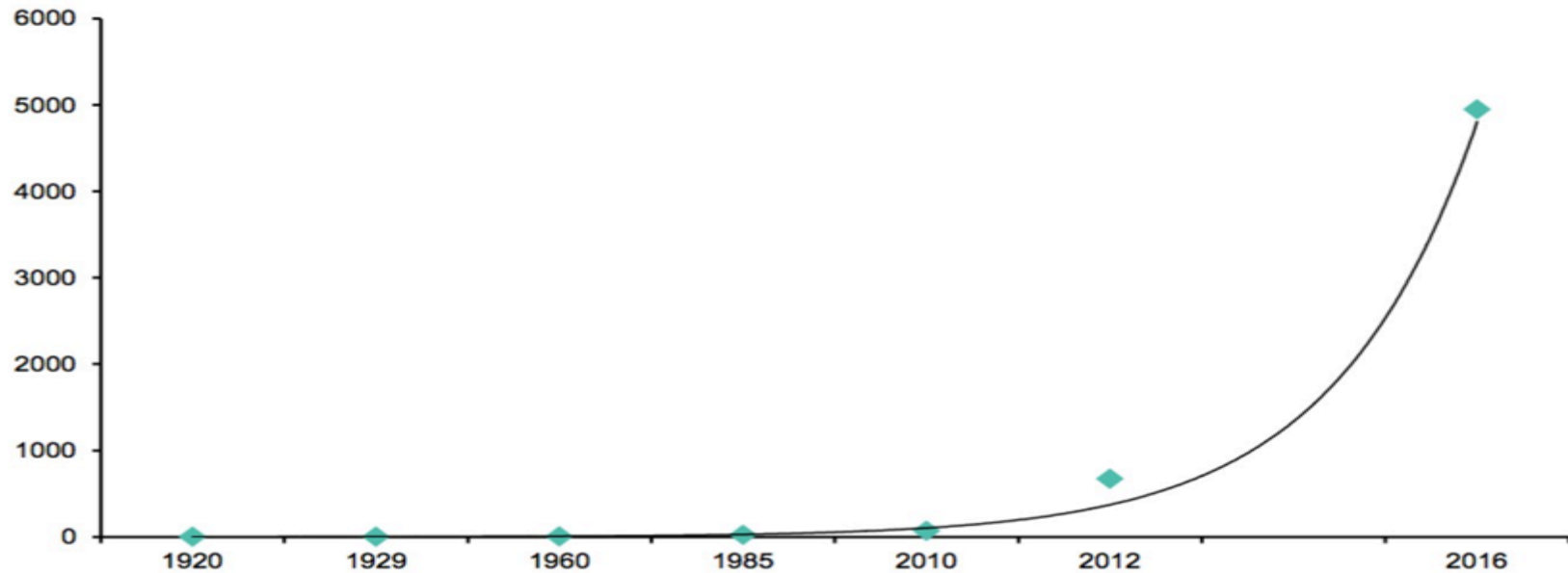


Source: Investment Company Institute; Simfund; Credit Suisse.
Note: U.S. domestic equity funds; 2016 figure as of 11/30/16.

Source(s): @ValueWalk

Faith in Indexing (Dumb Beta) Will Lead to Turkey Trouble

EXHIBIT 1: **The proliferation of indices**



The first 5 datapoints are based on Wurgler (2011) "On the Economics Consequences of Index-Linked Investing"

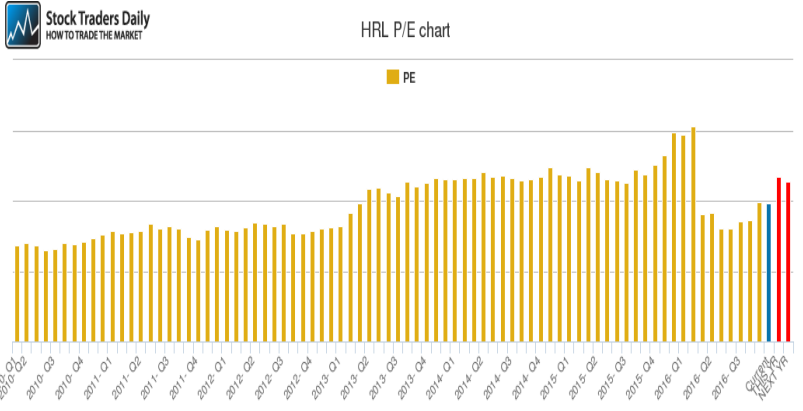
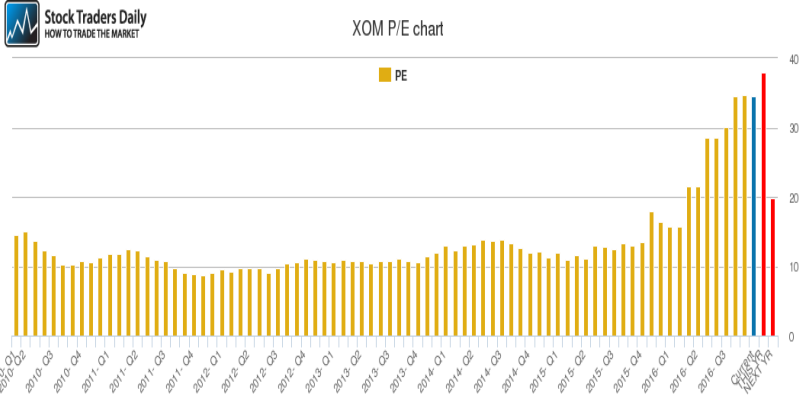
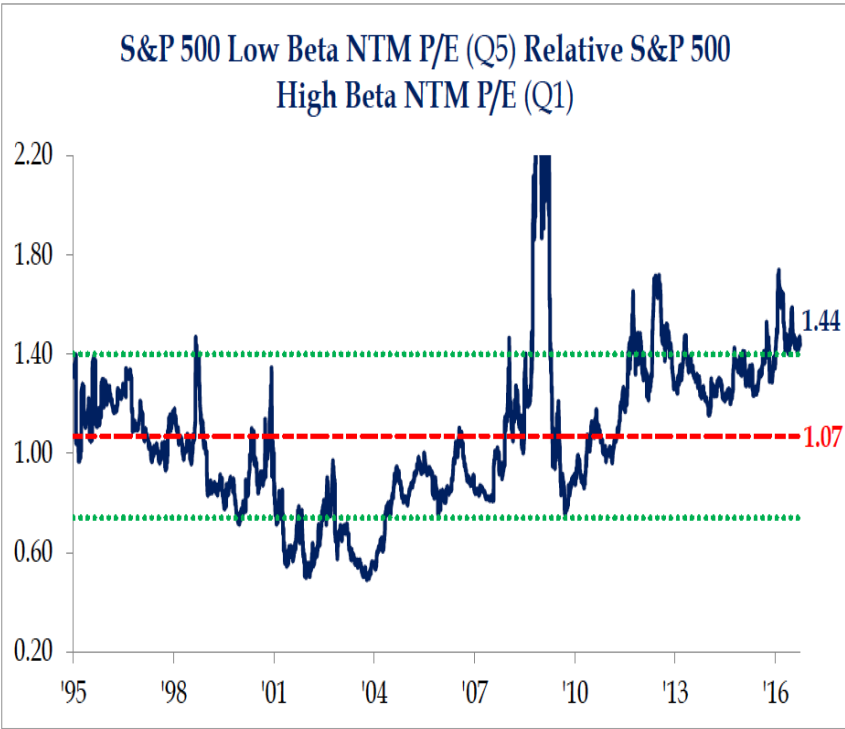
The last two datapoints refers to the cumulative number of factor indices (4274 from ERI Scientific Beta (<http://www.scientificbeta.com/#/concept/home-analytics-intro>) and 673 ETF's identified by Morningstar (<http://www.ft.com/cms/s/0/a5309ec0-43dd-11e4-8abd-00144feabdc0.html#axzz4Ek414pmW>))

We have fitted an exponential curve though we have left the scale on the x axis non linear on purpose as in fact the recent rate of index creation exceeds that fitted by an exponential curve. Source: Wurgler(2011), FT, ERI Scientific Beta

Source(s): @ValueWalk

Passive Rush Pushes “Safe” Stocks to Dangerous Levels

LOW BETA STOCKS TRADING AT ELEVATED LEVELS



Source(s): Strategas, stocktradersdaily.com



XOM Now One Of Easiest Shorts Have Seen in Career...

Exxon has a market cap of \$345bn and trades off a P/E of **34**. The stock's share price and valuation are dragged higher due to its market weight in index funds and ETFs, not on its fundamentals. It is wildly too expensive. One day, this is going to break... I think it could halve...



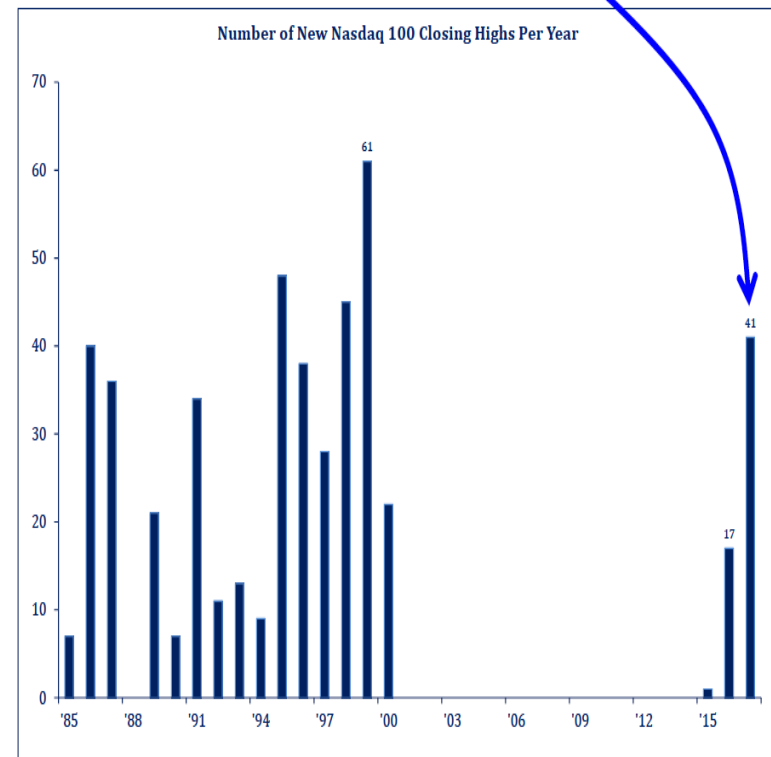
Source(s): GMI

Investors Enamored With Fab Five Tech Stocks, #FAANG

NASDAQ 100 IS A GREAT TREND, BUT NOT HISTORICALLY STRETCHED



THE CHASE FOR 61 CONTINUES



Source(s): Strategas



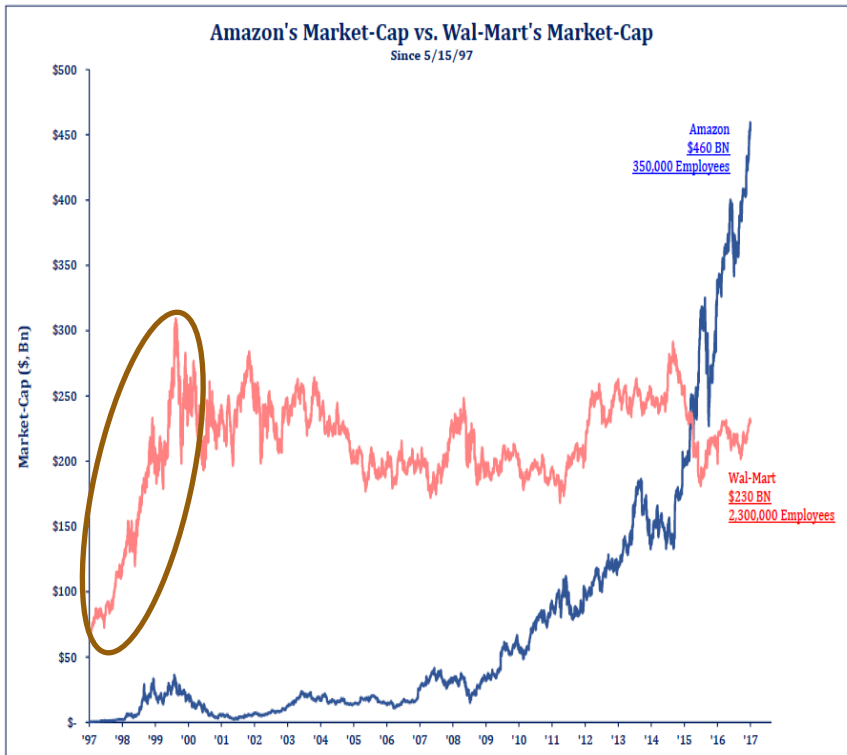
Forget the Nifty Fifty, All You Need is Fab Five, #FAANG



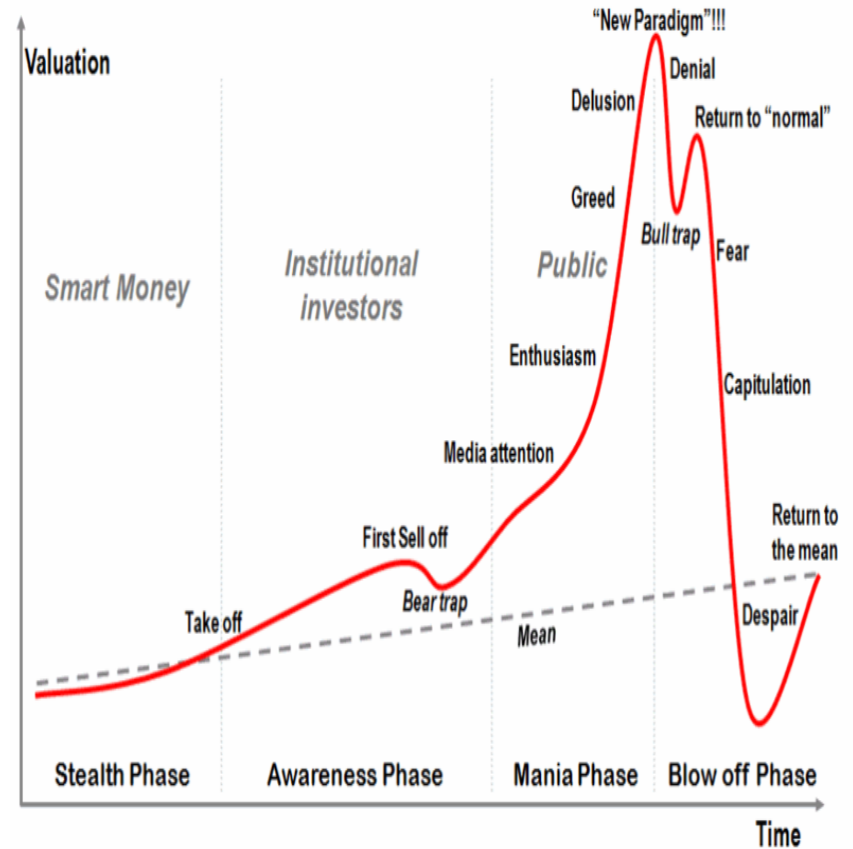
Source(s): Bigcharts.com

Challenge Is We've Seen This Movie Before... Valuation?

DOING MORE WITH LESS



Source(s): Strategas



Technology Not 2000 Crazy... “Less Drunk Than Them”?

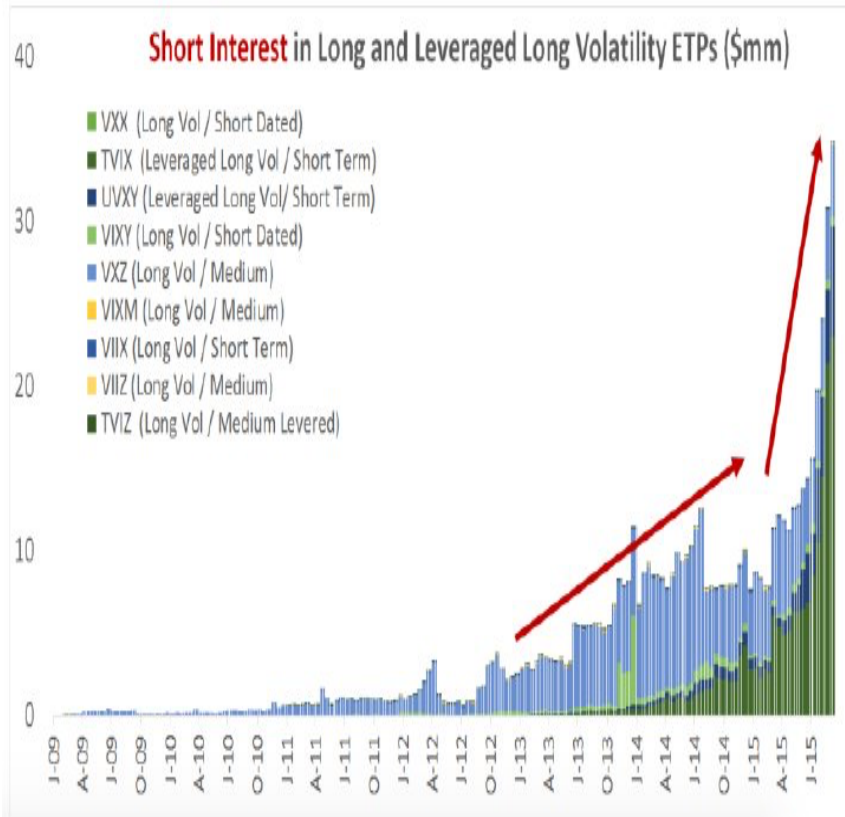


Source(s): @charliebillelo

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Short Volatility Trade Has Gotten Completely Out of Hand



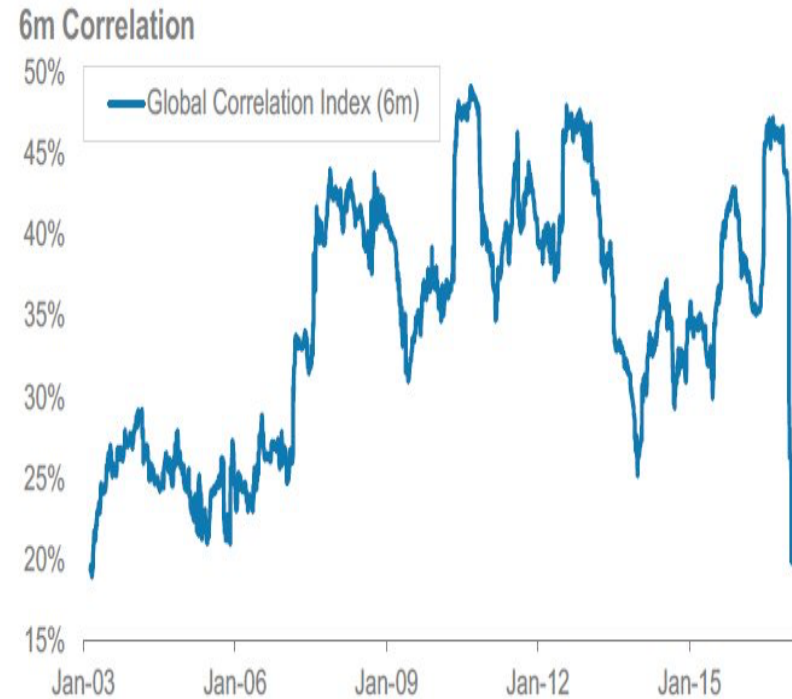
Source(s): @JesseFelder

Best Environment In A Decade For Stock Picking & TAA

10-YEAR LOW FOR EQUITY CORRELATIONS



Exhibit 1: Cross-asset correlations have fallen sharply



Source: Bloomberg, Morgan Stanley Research

Source(s): Strategas, @LanceRoberts, Morgan Stanley



Hedge Funds Have Faced Stiff Headwinds During QE Era

HEDGE FUND PERFORMANCE LACKLUSTER SINCE CENTRAL BANKS BEGAN INTERVENTION

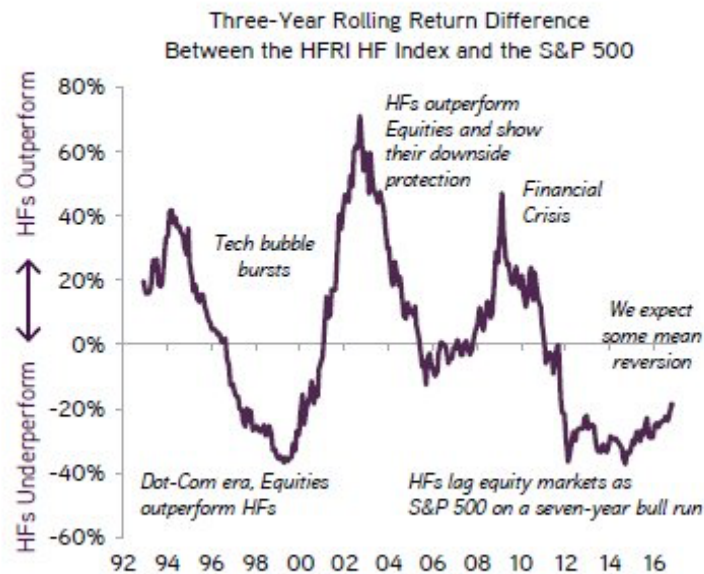
Year	Hedge Funds Returns	S&P 500 Total Return	Hedge Funds Outperform	Fed Balance Sheet (\$Bn)
1990	5.8%	-3.1%	YES	\$319
1991	32.2%	30.5%	YES	\$347
1992	21.2%	7.6%	YES	\$369
1993	30.9%	10.1%	YES	\$409
1994	4.1%	1.3%	YES	\$440
1995	21.5%	37.6%	NO	\$453
1996	21.1%	23.0%	NO	\$475
1997	16.8%	33.4%	NO	\$518
1998	2.6%	28.6%	NO	\$546
1999	31.3%	21.0%	YES	\$669
2000	5.0%	-9.1%	YES	\$620
2001	4.6%	-11.9%	YES	\$663
2002	-1.5%	-22.1%	YES	\$732
2003	19.5%	28.7%	NO	\$772
2004	9.0%	10.9%	NO	\$811
2005	9.3%	4.9%	YES	\$848
2006	12.9%	15.8%	NO	\$870
2007	10.0%	5.5%	YES	\$891
2008	-19.0%	-37.0%	YES	\$2,239
2009	20.0%	26.5%	NO	\$2,234
2010	10.2%	15.1%	NO	\$2,421
2011	-5.3%	2.1%	NO	\$2,926
2012	6.4%	16.0%	NO	\$2,907
2013	9.1%	32.4%	NO	\$4,033
2014	3.0%	13.7%	NO	\$4,498
2015	-1.1%	1.4%	NO	\$4,487
2016 YTD 3Q	4.1%	7.8%	NO	\$4,519

Source(s): Strategas

Hedge Funds Outperform During Stress & Rising Rates

EXHIBIT 40

Hedge Funds Typically Outperform During Periods of Stress



Data as at November 30, 2016. Source: Bloomberg.

Source(s): @NoSunkCosts, KKR



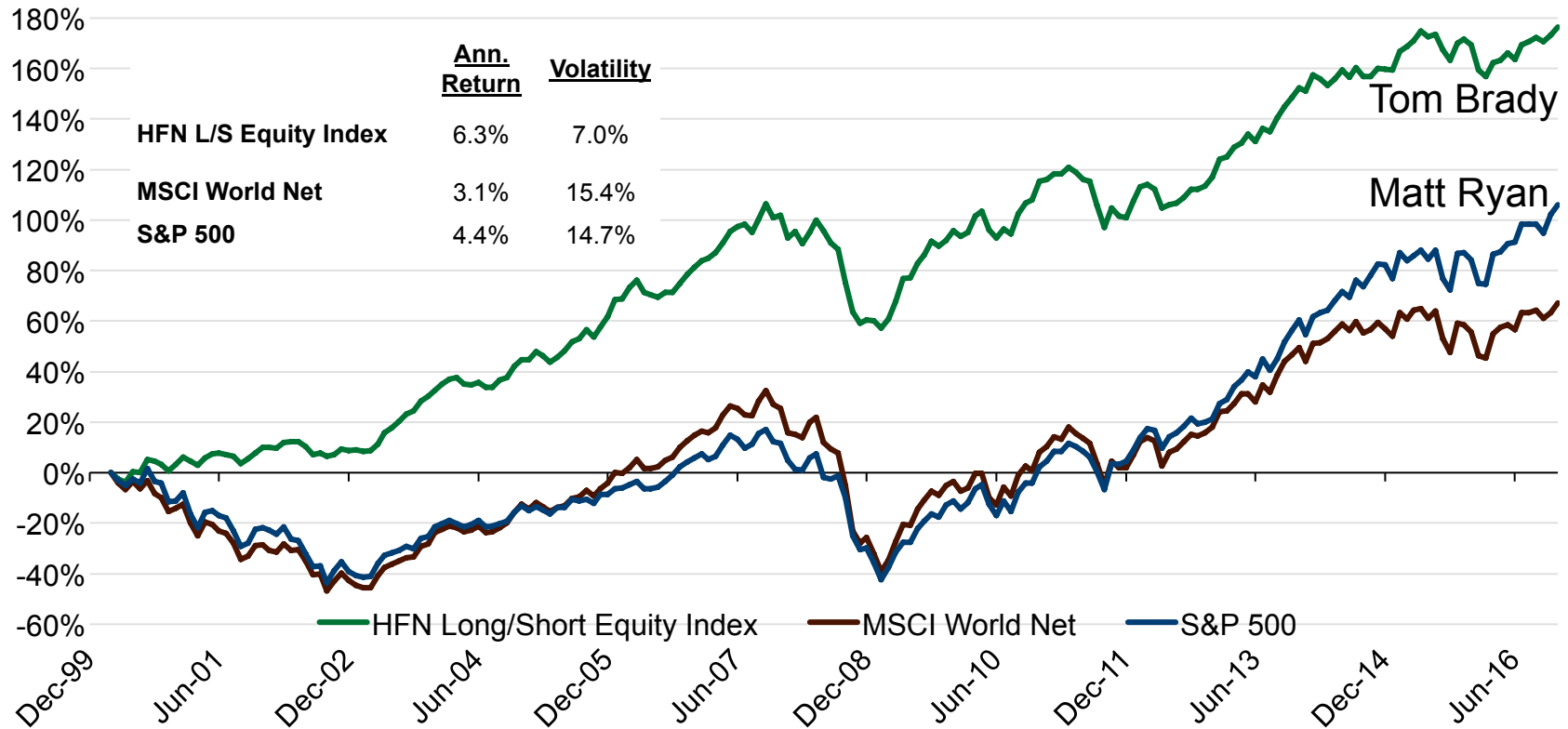
EXHIBIT 41

Hedge Funds Often Outperform in Rising Rates Environments

Date		# of	Chg in UST	Performance		Annualized Performance	
Start	End	Days	10Yr (bps)	HFRI FoF	US Agg	HFRI FoF	US Agg
Sep-93	Nov-94	426	260	4%	-4%	4%	-3%
Dec-95	Jun-96	182	120	8%	-1%	17%	-2%
Sep-98	Jan-00	488	185	30%	-1%	22%	-1%
Jun-03	May-06	1066	178	28%	6%	9%	2%
Dec-08	Apr-10	485	143	14%	9%	10%	7%
Oct-10	Feb-11	120	104	3%	-1%	10%	-4%
Jul-12	Dec-13	518	137	12%	-2%	8%	-1%
Jul-16	Dec-16	153	103	1%	-4%	2%	-9%
Average			154	13%	0%	10%	-1%
Median			140	10%	-1%	9%	-2%

Data as at December 21, 2016. Source: Bloomberg, Haver Analytics.

Long/Short Funds Have Long History of Beating Index



Source(s): eVestment.

Note(s): Data shown from 04/01/00 to 12/31/16. The indices shown are for informational purposes only and are not reflective of any investment. As it is not possible to invest in the indices, the data shown does not reflect or compare features of an actual investment, such as its objectives, costs and expenses, liquidity, safety, guarantees or insurance, fluctuation of principal or return, or tax features. Past performance does not guarantee future results. There is no guarantee that any investment strategy will achieve its objectives, generate profits or avoid losses. Diversification does not ensure profit or prevent losses.

21:29 Left in Super Bowl, Your QB is Stinking, WWYD?

Tom Brady is 15/25 for 179 yards with an interception in first half of Super Bowl LI. He's looked terrible, while Matt Ryan had perfect QPR of 158.3 for the first time in a Super Bowl. Ryan just threw another TD pass to go up 28-3, want to swap QBs?



Source(s): FoxSports.com, NESN.com

Investors Forget BRK.A Had Two 50% Declines In Decade



Source(s): @SentimeTrader

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145

Words of Wisdom

“Sell in May and go away, and come on back on St. Leger's Day.”

This phrase refers to the custom of aristocrats, merchants and bankers who left the city of London to go to the country to escape the heat during the summer months. St. Leger's Day refers to the St. Leger's Stakes, a thoroughbred horse race in mid-September and the last leg of the British Triple Crown. – Investopedia

“Even the intelligent investor is likely to need considerable willpower to keep from following the crowd. For indeed, the investor's chief problem, and even his worst enemy, is likely to be himself. Individuals who cannot master their emotions are ill-suited to profit from the investment process.”

“The best way to measure your investing success is not by whether you're beating the market but by whether you've put in place a financial plan and behavioral discipline that are likely to get you where you want to go. In the end, what matters isn't crossing the finish line before anybody else but just making sure that you do cross it.”

Ben Graham

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This presentation shall not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of, the 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. 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. Past performance is no guarantee of future results. The illustrations are not intended to predict the performance of any specific investment or security. The past performance figures do not represent performance of any MCCM security and there can be no assurance that any MCCM security will achieve the past returns of the illustrative examples. This is not an offering to subscribe for units in any fund and is intended for informational purposes only. An offering can only be made by delivery of the Prospectus to "qualified clients" within the meaning of U.S. securities laws.

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