Q1 2019 Fund Commentary

Morgan Creek Capital Management
Morgan Creek Global Equity Long/Short Institutional Fund

MORGAN CREEK CAPITAL MANAGEMENT

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Morgan Creek Global Equity Long/ Short Institutional Fund

("MCGELSIF," the "Long/Short Fund," or the "Fund")

Fund commentary by Cory Lester

We must admit to coming down with a pretty severe case of déjà vu thus far in 2019. The sharp correction in equity markets during Q4 is all but a distant memory and it is starting to feel an awful lot like 2017, when equity market volatility plumbed record lows and stocks grinded higher and higher with hardly the slightest of pauses. We posed the following question in our last letter – will the volatility to end 2018 mark the start of a bear market or simply a correction in the ongoing bull? Price action since clearly suggests the latter, yet there is no shortage of data hinting at the former. Global economic growth has slowed and forecasts downgraded, the amount of sovereign debt with negative yields is back above the $10 trillion mark and earnings estimates have been all but slashed. Per data from BofA Merrill Lynch, the Global Earnings Revision Ratio declined to 0.55 (meaning, there have been 55 upgrades to every 100 downgrades). While the U.S. remains the strongest at 0.61, this is down significantly from a peak of nearly 2.5 in early 2018. Earnings in the U.S. are now forecast to decline year-over-year in the first quarter, yet consensus expects a return to growth over the balance of the year and views the first quarter as an aberration now that the Federal Reserve is back in the market's corner. Consensus sees a glass half-full, while the data seems to lean half-empty. We will be paying close attention to profit margins during first quarter results, which in the U.S. are on track to suffer their first fall since 2015. Companies are struggling to pass on the rising costs of labor, transport and raw materials to customers – a record 58% of respondents to the recent National Association for Business Economics survey of business conditions reported rising wage costs, while only 19% reported that they had increased the prices they charge customers. We would be surprised if these margin pressures turn out to be just a one-quarter aberration.

Your fund had a strong quarter. Despite our concerns about equity market returns going forward, the portfolio is fully invested and the competition for capital amongst managers and direct ideas remains robust. We are slightly more excited about the expected return profile of the short side than the long book, but are still finding compelling ideas on both sides of the portfolio. In the first quarter, MCGELSIF's +19.7% return was driven by Technology and the Direct Portfolio, while Asia and Value were relative drags. The Fund's performance compares favorably to the MSCI World's +12.5% return taking into account the 0.57 portfolio beta coming into the year. We saw positive alpha generation on both the long and short side during Q1. Although the Fund's upside capture in Q1 might make one think otherwise, the portfolio remains hedged.

We initiated a hedge against the Fund's Technology exposure via near-term, out-of-the money options during March across a handful of software names we think are trading at unjustifiably high revenue multiples of 8-12x. If the market experiences a sharp correction and Technology leads to the downside as it has in recent selloffs, we would expect this "SaaS Pretenders" basket to kick in nicely. We continue to take some chips off the table in the more growth-oriented positions in the portfolio where we are able to and rotate into value opportunities. It is difficult for us to ignore the near historic outperformance of Growth vs. Value over the last decade and not think we are headed for a reversal, but it is also impossible to know when precisely these winds will shift. Our goal is not to rotate completely out of Growth and entirely into Value; we simply are looking to have a more balanced portfolio across these two factors. Thankfully, we tend to move slowly when making rotations like this, as against our best inclinations, Growth once again outpaced Value during in Q1.

We added a Healthcare basket to the portfolio during the quarter across a handful of small cap stocks, trading at what we believe to be steeply discounted valuation in light of expected 2019 catalysts and milestones. Healthcare tends to be a defensive sector, which coupled with attractive valuations and hard catalysts, gives us confidence this basket will do all right even if market volatility picks back up. We also remain active on the short side in the Direct Portfolio, where we have stuck with names that mostly went against us in Q1 and added a few new ones. As discussed last time, we tend to think about the short side within specific frameworks and added one new position listed in Hong Kong within the Fraud framework, one in Japan within Secular Decline and one in Europe within Great-to-Good.

We went into some detail about how we think about the Fraud framework in the fourth quarter letter, so thought we would provide some color on the Secular Decline framework this time. Secular Decline shorts tend to be found in companies trapped on the wrong side of change – think Sears vs. Amazon. While this example may seem obvious today, it was less than obvious ten, even five, years ago and it typically takes years for the full extent of disruption to be adequately discounted by the market. Secular Decline shorts eventually become easier to spot, as they are often on the opposite side of secular trends that touch and impact us all, and for this reason usually trade at optically-cheap valuations. They can also be crowded shorts, making the stocks susceptible to short squeezes at even the slightest hint of an uptick in fundamentals. The optically-cheap valuations also tend to invite takeover interest and attract activist investors, which is an especially dangerous risk factor in a market with an abundance of liquidity and cheap credit like today. This is where the true skill of the best short sellers comes into play. In Secular Decline shorts, one must be able to distinguish between cyclical forces and secular headwinds and between what may be a value opportunity vs. a value trap. The line between the two is normally blurry and can be the difference between a multi-bagger long and a terminal short, particularly when leverage is involved, which is often the case as management teams generally employ financial engineering to buy themselves time to try to pivot the business or to stave off the inevitable as long as possible. The key feature of most successful Secular Decline shorts is a stall in revenue generation, followed by a gradual and persistent decline. For this reason, these types of shorts are also often referred to as "melting ice cubes." When revenue generation stalls, stocks typically de-rate quickly, so to make money in a Secular Decline short, a short seller needs to be convinced that revenues will continue to suffer and that margins are tapped out, thus making an optically-cheap stock on trailing numbers still expensive on forward. The successful execution of a Secular Decline short represents the practice of short selling at its finest and provides the portfolio with a steady stream of alpha generation for much longer than many other shorts. We are constantly on the hunt for Secular Decliners and they often appear on the other side of some of our long-term investment themes. Ride-sharing is currently one such theme, where our due diligence and monitoring of current investments, Lyft, DiDi and Uber, has informed opportunities on the short side in areas such as rental cars and auto insurance.

Speaking of ride-sharing, we would like to take this opportunity to provide an update on the Fund's investment in Lyft, which was the largest single-name driver of performance during the first quarter. On March 29th, Lyft completed its IPO, becoming the first publicly traded, ride-sharing company. As long-term investors in the company, this development marked an exciting moment for the Fund as the offering priced Lyft's shares at $72 – well above the company's last private funding round at $47.35/share. When the Fund first made its investment in March 2015, the concept of ride-sharing was still in its infancy. Lyft only operated in a handful of select markets across the U.S. and had provided a total of just 25 million rides on its platform throughout its history. Fast-forward to today, the company has completed over one billion rides and operates in over 600 markets across the U.S. and Canada. While this type of growth is impressive, we likely still remain in the early innings of the ride-sharing industry, as platforms such as Lyft and Uber accounted for less than 1% of total miles driven in the U.S. last year. We believe Lyft is well-positioned to continue to disrupt the $2 trillion consumer transportation industry as people increasingly embrace the transportation as a service model due to its convenience, enhanced safety profile and long-term cost savings vs. traditional car ownership. With that in mind and now that Lyft is a public company, management needs to demonstrate it can capitalize on this market opportunity, while at the same time managing costs and reducing losses. We are excited yet sober about the risk:reward profile for Lyft at its current valuation and anticipate rotating into other opportunities once the Fund's shares come off of lock later this year.

Please do not hesitate to contact us with questions or comments, and we would welcome introductions to other like-minded investors.

Update on Morgan Creek

We hope you have been able to join us for our Global Market Outlook Webinar Series entitled "**Around the World with Yusko**." We have had many interesting discussions in the last few months including: *You Ain't Seen Nothing Yet: Why The Equity Bear Market is Just the Beginning, Keto Diet is Great For Your Body, But Your Portfolio Needs #CARBS,* and *Channeling Byron: 10 Potential Surprises for 2019.* If you missed one and would like to receive a recording, please contact a member of our Investor Relations team at IR@morgancreekcap.com or visit our new website morgancreekcap.com.

We are also a proud sponsor of The Investment Institute, an Educational Membership Association for Institutional & Private Investors and Managers in the Southeast. The date of the next program is **May 20–21, 2019** at **The St. Regis in Atlanta**. For more information on how to become a member and join this elite group please visit www.theinvestmentinstitute.org.

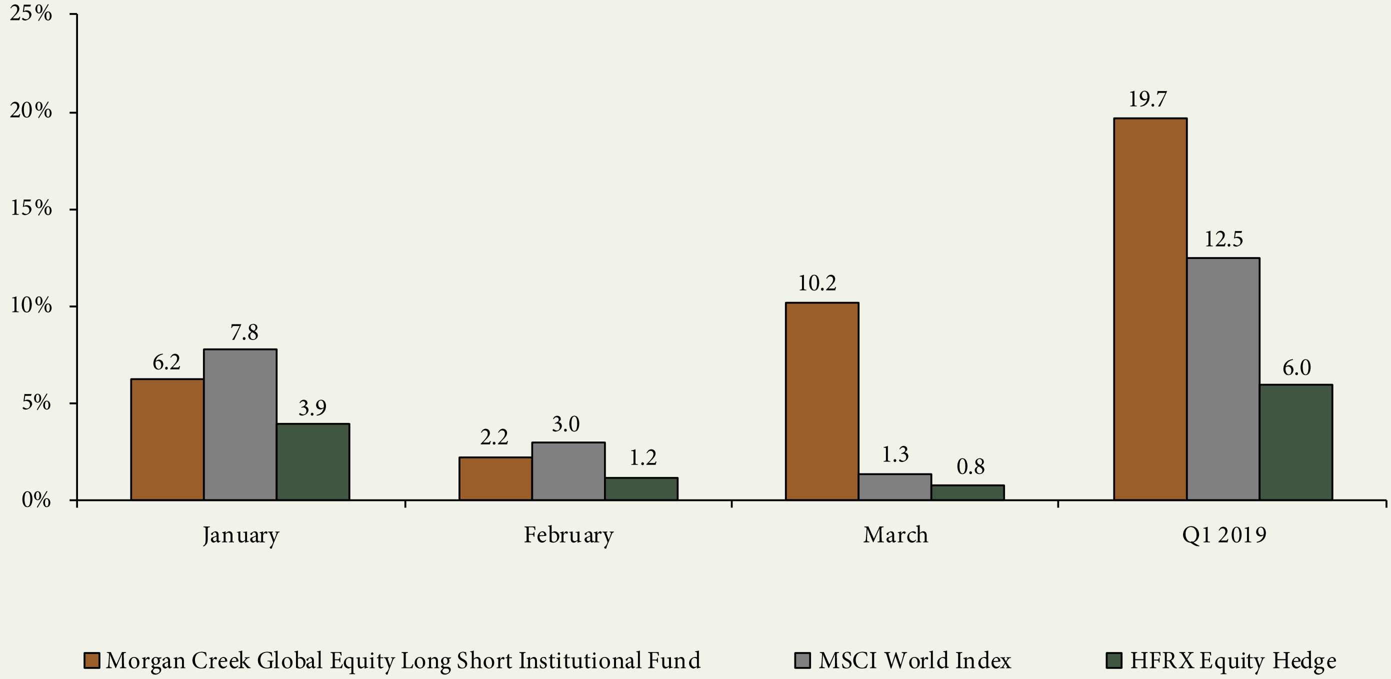
As always, it is a great privilege to manage capital on your behalf and we are appreciative of your long-term partnership and confidence.

With warmest regards,

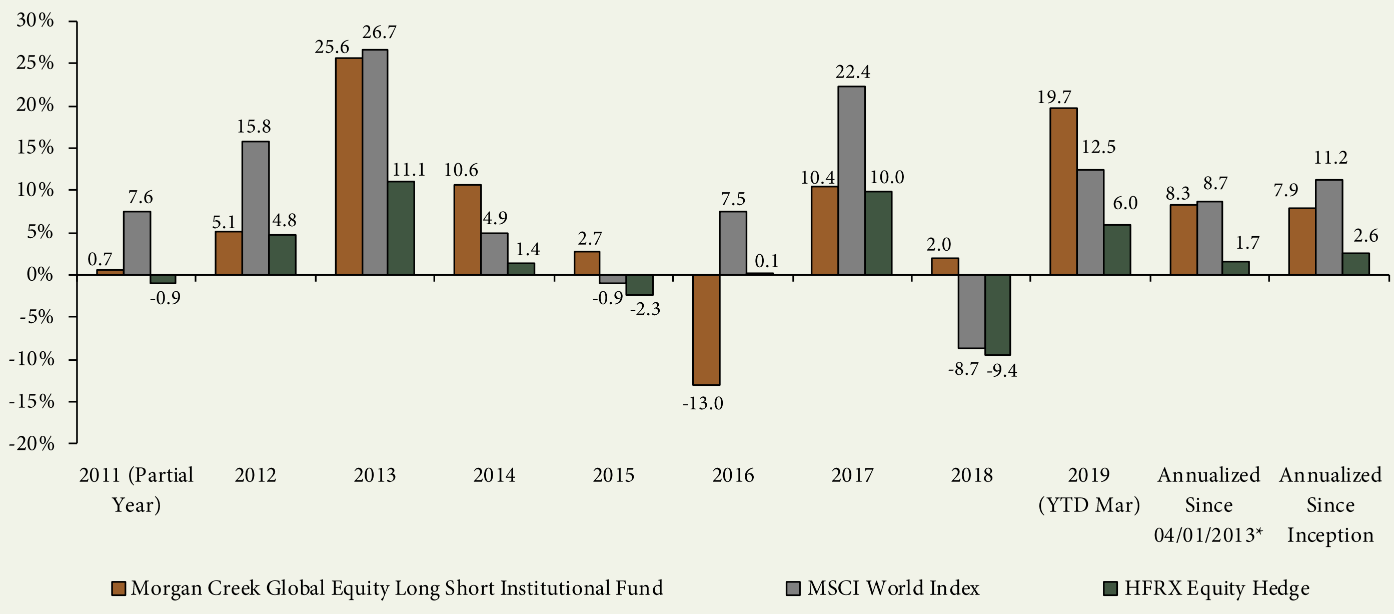
Mark W. Yusko

Mark W. Yusko
Chief Executive Officer & Chief Investment Officer

Q1 Performance of the Morgan Creek Global Equity Long/Short Institutional Fund



Since Inception Performance of the Morgan Creek Global Equity Long/Short Institutional Fund



*Note(s): March, Q1 2019, 2019 (YTD), and Annualized performance figures for Morgan Creek Global Equity Long/Short Institutional Fund are internal estimates. 2011 is a partial year as the Fund was launched on 10/01/11. Performance is shown as of month-end for a new eligible investor, since inception, net of all fees and expenses. The performance data quoted represents past performance of the Fund. The investment return and principal value of an investment in the Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The current performance of the Fund may be lower or higher than the performance data quoted. Please refer to www.morgancreekfunds.com for performance data current to the most recent month-end. 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. Please refer to more detailed disclosures at the back of this presentation. All returns shown are through 03/31/19. *Performance since 04/01/2013 shown to illustrate the Fund's performance since the introduction of the "Hybrid Model", which refers to the Fund's practice of investing directly in securities as well as via funds managed by external investment managers. Past performance is not indicative of future results.*

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Morgan Creek Direct
"Morgan Creek Direct" consists of "Morgan Creek Direct Top 20", "Morgan Creek Direct Qualitative", the Fund's direct private co-investments and "Morgan Creek Tactical". "Morgan Creek Direct Top 20" is a basket of 20 equally-weighted equities and reflects the top long positions in the underlying portfolios of the current managers in the Morgan Creek Global Equity Long Short Institutional Fund. "Morgan Creek Direct Qualitative" is a portfolio of equities sourced from the underlying portfolios of the current managers in the Morgan Creek Global Equity Long Short Institutional Fund. "Morgan Creek Tactical" includes ETFs and other passive instruments.

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.

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MSCI World Index — this is a free float-adjusted market capitalization index that is designed to measure global developed market equity performance. Morgan Stanley Capital International definition is from Morgan Stanley.

HFRX Equity Hedge Index — is constructed from strategies with both long and short positions by Hedge Fund Research, Inc. utilizing a UCITSIII compliant methodology. Definition is from Hedge Fund Research, Inc.

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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 only. 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.

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