Q2 2019 Fund Commentary

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

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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

Following a strong first quarter, the Fund experienced mixed results in Q2. MCGELSIF underperformed the MSCI World Index, but outperformed the HFRX Equity Hedge Index. On a year-to-date basis, performance remains favorable compared to both benchmarks, particularly when one adjusts for the Fund's 0.57 beta vs. global equities coming into the year. Despite the Fund's upside capture thus far in 2019, the portfolio remains hedged, as evidenced by the Fund's downside protection during the swift, albeit short-lived, market correction in May. Our recent reservations about return prospects for broader equities have been misplaced so far; however, all we really care about is consistently generating positive long/short spread year-in and year-out. In other words, we look for our longs to go up by more than our shorts in up markets and that our shorts go down by more than our longs in down markets. As long as we can consistently pick longs that outperform and shorts that underperform, the Jones Model (150% gross exposure by 40-60% net) should take care of the rest (please reach out if you would like to review the arithmetic behind this statement). Fortunately, this has been the case thus far YTD (our longs are up a lot more than our shorts, in aggregate) and this is the reason the Fund has been able to keep up so well with markets despite operating with only about half the market's exposure.

As a result of the sharp rise in markets YTD, managers have been selectively taking profits on the long side and sharpening their pencils on the short side. Considering we are now in the longest economic expansion on record in the U.S. dating back to 1854, and with equity markets up high teens, despite negative earnings in Q1 and negative earnings forecast again for Q2, we think this is prudent. Multiples could certainly expand from already elevated levels, but there are increasing signs that the current slowdown in the economy is intensifying. According to the Duke University/CFO Global Business Outlook survey released in mid-June, 48.1% of CFOs in the U.S. think the American economy will be in recession by mid-2020 and 69% by year-end 2020. Those optimistic about the economy fell to 19.8% from 47% a year ago. Monetary policy is not a panacea, and unlike the equity market's ebullient reaction to the prospect of lower rates, we find it worrisome the Federal Reserve has so abruptly reversed course. We do not think Chairman Powell is simply caving to political pressure but is likely instead responding to the unexpected downshift in incoming data. Indeed, the last two times the Federal Reserve cut rates, in 2001 and 2007, the economy was on the brink of recession. We view low rates as a sign of economic weakness, not strength, and low rates are not just a U.S. phenomenon. The amount of bonds trading with nominal negative yields recently hit an all-time high over $13 trillion (and over $25 trillion on a real basis factoring in inflation). We believe the bond market is sending a strong signal to investors that the global economy is in the midst of a sharp slowdown. As a result, we have allowed the beta of the portfolio to drop to an even lower level today than coming into the year. We have selectively added to the short book and continued to increase the Fund's exposure to more defensively-positioned/value-oriented managers. One such manager was increased meaningfully in size on July 1st.

Positive contributors for the quarter were broad-based, with gains coming from Healthcare, China, Large-Cap TMT, and the Direct Portfolio short book. Headwinds to performance included SaaS exposure (both in select longs and hedges), our managers' short portfolios and the Fund's position in Lyft. The

Healthcare basket added last quarter has performed reasonably well (up about 20% in Q2). We have taken profits (and losses) in a few of the names, but continue to have meaningful exposure and conviction across the remaining. On the flip side, the basket of software names we put on as hedges in late Q1 via near-term, out-of-the-money options expired and was a headwind to performance. We continue to think many of these names are "SaaS Pretenders," yet a rising tide continued to lift all boats within that space during Q2. "Most boats" would be more apt in the Fund's case, as one of our managers with exposure to the SaaS space had two core long positions go sharply against them during the quarter. While valuations across SaaS stocks look frothy and positioning is perhaps near an extreme, it is a theme we expect to have meaningful exposure to over the long run. We have it sized in the portfolio such that we are comfortable riding out volatility similar to what we experienced in Q2. Consider the following: American companies invested more in software than in IT equipment for the first time during the first quarter. Outside of buildings and other structures, software surpassed every type of investment. Software spending would be even higher if the cost of writing original software programs (now classified as R&D) was included. The shift from legacy IT solutions (i.e., "on-prem") to the cloud (i.e., "off-prem") is increasing in speed and an opportunity measured in the many hundreds of billions of dollars over the next decade. A few of our managers are all over this theme and we think have done a good job of identifying some of the potential long-term winners as well as likely losers. We are being very targeted with stock picks in the theme given the current level of excitement and valuations, but have used dislocations, like in the two names referenced earlier, to incrementally add capital within the Direct Portfolio alongside core long-term holdings with exposure to the theme such as AMZN, MSFT, and BABA.

While our managers' short portfolios in aggregate went against them during Q2, the Direct Portfolio short book underperformed the MSCI World by about 13%. With the MSCI World up 4%, the Direct Portfolio shorts fell about 9%. This alpha generation was driven by shorts in China, Japan, and TSLA. We detailed the Secular Decline framework in the first quarter letter and it is how we think about a couple of our shorts in Japan at the moment within the convenience store industry. Japan's shrinking population presents an enormous challenge for domestically-oriented, consumer-facing businesses and makes it a rich hunting ground for Secular Decline shorts. Long-term projections suggest Japan's population will fall to just 50 million over the next hundred years, down from a peak of 128 million in 2010. Every year, Japan is set to lose the equivalent of a mid-sized American city. Also, because Japan is a developed market, many industries have high penetration levels and are consolidated, making M&A risk relatively lower than in other markets. Further, Japan's immigration policies are insular and the likelihood of a near-term, meaningful change to the demographic picture via reform is limited. On top of this, labor costs are rising because of chronic labor shortages due to a long-list of political (i.e., immigration policy), demographic (i.e., ageing and shrinking population) and cultural (i.e., lack of women in the workplace) reasons, which, in combination, are squeezing already thin margins for many retailers. Lastly, negative interest rates in Japan create demand for dividend stocks, which can lead to high valuations relative to the quality of the underlying businesses. When fundamental forces (such as rising labor costs) lead to negative revisions to dividend policies, these stocks tend to de-rate sharply. Such was the case for one of our short positions in Japan during April.

TSLA is the largest short position in the Fund and ticks the box for a number of the frameworks we incorporate on the short side. The stock fell 20% during the quarter and was a meaningful contributor to performance. We mostly think about TSLA within the First-Mover, First-Loser framework, but it also has elements of Boom-Bust Cycles, Fads, and Frauds. TSLA is a crowded short and controversial stock, but a lot of great shorts throughout our careers have been so as well. We do not think this in and of itself is a good reason not to be involved. We believe fundamentals ultimately drive stock prices and are increasingly of the viewpoint that the fundamentals have decidedly turned against TSLA, which is why we sized it up to the largest short position in the Direct Portfolio during Q2. With the federal tax credit available for Tesla purchases dropping to $1,875 July 1st, down from $3,750 to start the year, and $7,500 before that, we think the value proposition of other electric vehicles now entering the market will become increasingly obvious to car purchasers. New competition is arriving in droves from established auto manufacturers, with many models expected to handily out compete TSLA on important car buying factors like price, range, safety, reliability, and service. Although TSLA enjoyed its First-Mover advantage for years, the company has failed to reach consistent profitability and prove its business model is sustainable. The Model S (introduced in 2012) and the Model X (introduced in 2015) are tired models and sales are flagging, in addition to sales likely being cannibalized by the company's fervent push for Model 3 sales (panicked is probably a better word to describe it). The pent-up and pulled-forward demand for the Model 3 means sales will likely peak sooner than expected, and we are highly skeptical the Model Y will be the next leg of the TSLA growth story. As growth rolls over, we expect the market to become less forgiving and to stop giving the company the benefit of the doubt. The narrative is already shifting from First-Mover to First-Loser and once the shift is more widely understood, we find it extremely difficult to find any kind of realistic floor for the stock using any sort of conventional valuation method.

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: *Navigating the Seven Cs: China, Crypto, Crude, Currencies, Commodities, Convexity & Correlation*, *Mind the GAAP: Why Fundamentals Still Matter*, and *You Ain't Seen Nothing Yet: Why The Equity Bear Market is Just the Beginning.* 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 **October 24 –25, 2019** at **The Umstead Hotel in Cary, NC**. For more information on how to become a member and join this elite group please visit www.theinvestmentinstitute.org.

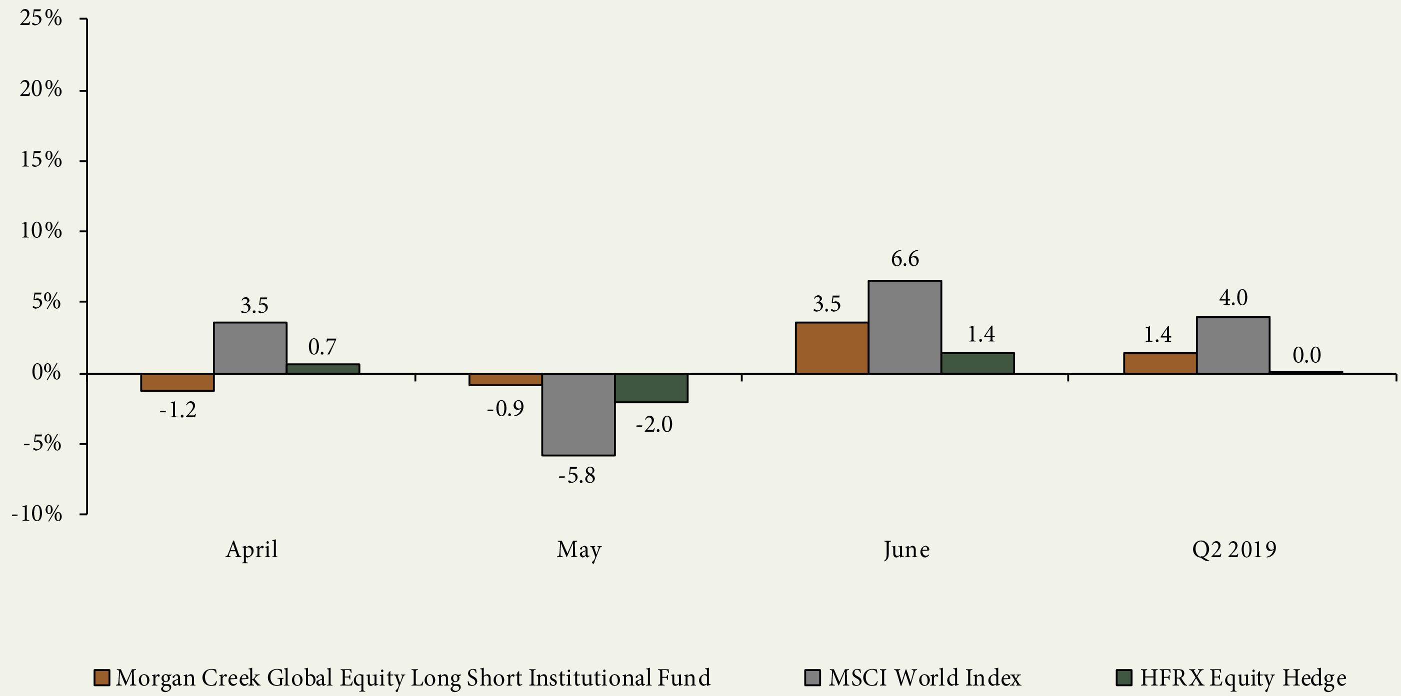
As always, it is a great privilege to manage capital on your behalf and we are appreciative of your long-term partnership and confidence.

With warmest regards,

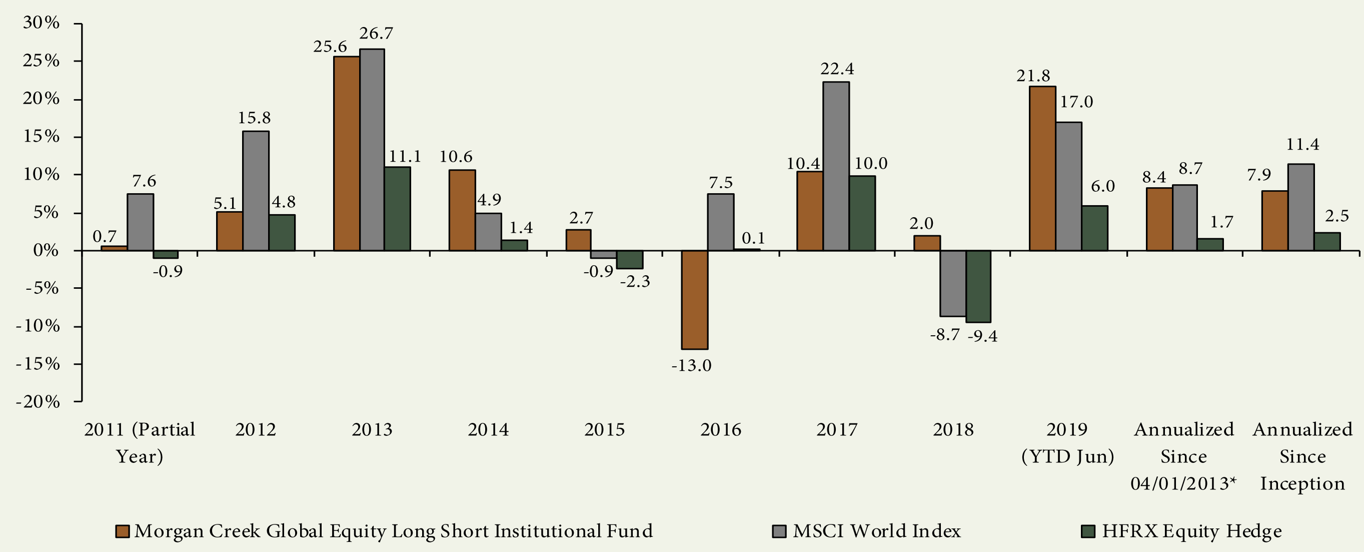
Mark W. Yusko

Mark W. Yusko
Chief Executive Officer & Chief Investment Officer

Q2 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): June, Q2 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 06/30/19. *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.*

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, LLC, Member FINRA/SIPC.

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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. 2005-2016 results are audited. 2017 performance data is not yet audited and is subject to change upon audit. Monthly performance numbers are not individually audited and only a fund's annual financial statements are audited. Performance may differ based upon New Issue eligibility, individual dates of admission and actual fees paid. All performance reflects reinvestment of dividends (if any) and all other investment income (which should be evaluated when reviewing performance against other indices). The performance data set forth in this presentation is based on information provided by underlying managers and is believed to be reliable but has not been independently verified by Morgan Creek Capital Management, LLC. MCGELSIF 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. Past performance does not guarantee future results. 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.

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.

Indices

The index information is included merely to show the general trends in certain markets in the periods indicated and is not intended to imply that the portfolio of any fund managed by Morgan Creek Capital Management, LLC was similar to the indices in composition or element of risk. The indices are unmanaged, not investable, have no expenses and reflect reinvestment of dividends and distributions. Index data is provided for comparative purposes only. A variety of factors may cause an index to be an inaccurate benchmark for a particular portfolio and the index does not necessarily reflect the actual investment strategy of the portfolio.

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.

No Warranty

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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 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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