Q2 2020 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

The first half of 2020 was one for the record books. After falling from all-time highs into Bear Market territory at record-setting speed during Q1, stocks zoomed higher throughout Q2 at a similarly breakneck pace. Domestic and global equities had their best quarter of performance dating back to 1998 and 2009, respectively. Interestingly, there has never been a Bear Market associated with a recession lasting only four weeks; yet, given the amount of monetary and fiscal stimulus announced in response to the current crisis, the period from late February to March 23rd, 2020 is likely to lay claim to such title.

So, now what? We wrote last time that we expected global equity markets to remain volatile until there was more consensus around the alphabet letter that best fits the economy's likely path forward, and not much has changed on that front. Given the extraordinarily high level of uncertainties facing the economy, any forecast is, at best, an educated guess. Our best guess at this stage is the recovery resembles a square-root, with a steep initial bounce, followed by a period of muted growth until we have a better handle on the Coronavirus and know the makeup of government following November elections. Instead of rehashing our entire market outlook in the confines of this letter, we invite you to listen to the replays of two webinars we hosted on the topic during June, and to join us for our upcoming webinar on July 22nd.

In brief summary, experts like Jeremy Grantham and Robert Shiller are calling for negative equity market returns over the next 7-10 years. While Grantham and Shiller tend to be deadly accurate over longer periods of time, they can be deadly wrong over shorter periods. Recent cautionary comments from a litany of investing greats like David Tepper and Stan Druckenmiller, on the other hand, lends some near-term credence to their long-term forecasts. Global equity markets are essentially flat since January 2018, and while the recent Bear Market may go down in history as the shortest ever, until markets move meaningfully above January 2018 levels, this might mark the secular turning point in equities for the cycle. In the words of the late and great Barton Biggs, "*Now* is always the hardest time to buy," but *right now* is the time to aggressively rotate into high-quality long/short equity (emphasis on high quality). The performance of high-quality long/short managers appears to be in the early innings of separating from broader markets along the lines of the early 2000s, and this separation is likely to accelerate as the prospects for a quick, V-shaped recovery back to pre-pandemic levels withers. Why? Because as Jim Bianco points out, even a 90% recovery would be a disaster given the extremely high levels of debt at the corporate and household level. If revenues, cash flows and incomes do not return to pre-pandemic levels soon, no amount of liquidity from the Fed will be able to fix the growing insolvency problem. The default cycle is already starting to pick up and the number of Zombie[1] companies has never been higher. Only when the tide goes out do you discover who's been swimming naked. While Dave Portnoy and his day-trading friends might feel like captains now[2], our money is on Warren Buffett and the like over any meaningful stretch of time. If you believe fundamentals, not flows, ultimately drive stock prices, we can hardly recall a better time to invest in the handful of high-quality hedge fund managers that we've assembled in the portfolio today.

GELSIF gained 11.4% in 2Q20 vs. 19.4% and 8.1% for the MSCI World Index and HFRX Equity Hedge Index. Through the first six months of the year, the

[1] U.S.-listed companies more than ten years old with an interest coverage ratio less than one for three years in a row.
[2] https://twitter.com/stoolpresidente/status/1270350291653791747

Fund is up 7.2% relative to -5.8% for the MSCI World and -6.3% for the HFRX Equity Hedge. As one would expect, the long side drove returns during Q2. Turnover during the quarter was no higher than normal and, importantly, we stuck with most of the positions that sold off hardest during Q1. This boded well for performance as the long book significantly outperformed broader markets. Here is a snapshot of the largest long exposures in the portfolio as of quarter-end. U.S.-listed positions are noted by their ticker symbol, while the company name is used to denote positions listed abroad and privates.

Growth-oriented themes and sample positions (public; private):

1. E-commerce: SE, AMZN, BABA, JD; Koudai, Honest
2. Cloud / Software: MSFT, TWLO, Xero, SPLK, RNG
3. Digital Payments: Adyen, STNE, MELI, Afterpay, PYPL, V
4. Streaming: GSX, TAL, NFLX, PTON
5. Digital Advertising / Social Media: GOOG, FB, MTCH, PINS
6. Food Delivery: Meituan Dianping, UBER
7. Gaming: Sony, ATVI, Tencent, NTES

Value-oriented / Special Situation themes and sample positions:

1. Financial Inclusion: Axis Bank and IndusInd Bank (India), BDO Unibank (Philippines)
2. Value: Swedish Match, HLF, APO, BRK, Croda, Corbion, STT, BK
3. Aerospace: TDG, Safran, MTU, Rolls Royce
4. Energy Survivors: HAL, SLB, PTEN, DVN, OVV
5. Innovative Healthcare: PGNX/LNTH, Wuxi, BGNE, Ipsen

The long side of the portfolio in E-commerce, Cloud / Software, Digital Payments, Streaming, Social Media, Food Delivery and Gaming continued to benefit tremendously from the behavioral impact of the pandemic on consumers and corporates. Many companies within these themes have experienced a step-function increase in adoption and growth rates since March. By some estimates, two years' worth of demand has been pulled forward with no associated increase in customer acquisition costs. In many of these businesses, the strategic decision is being made to cut back on marketing spend because demand is so high. As new demand is monetized over the coming years, cash flow generation should more than justify the rapid rise in most of these businesses' stock prices. As one of our managers recently quipped, "CV19 poured concrete on the competition." Although many stocks in this universe have performed extremely well, we remain confident in their long-term prospects. Elsewhere in the long book, Emerging Market Banks in India and the Philippines started to show signs of life, the Value theme performed reasonably well, the Aerospace theme initiated in April is off to a solid start, Energy was a detractor and Healthcare was a mixed bag.

The historic collapse in energy demand accompanying the pandemic threw the energy sector into a tailspin and a wrench into our Long MLPs thesis. We were attracted to select MLPs due to their high yields, out-of-favor status with investors and, in the two names we owned, what we believed to be strong underlying fundamentals. Boy were we wrong. While never an outsized exposure in the portfolio, the sheer magnitude of the collapse in the sector led to relevant losses during March. While both names have bounced back from the lows, we decided to rotate this exposure into a new manager allocation June 1st. We constantly remind ourselves that you don't have to make money back the same way you lost it, and with oil and gas prices at current levels, significant bankruptcies, liquidations and production declines are likely to occur across the entire North American oil and gas complex. What started off as a value play, quickly turned into a distressed play, and the manager we hired is solely-focused on identifying energy survivors amidst the wreckage. By this manager's estimates, 70% of shale producers are likely to go bankrupt at sub-$40 oil, with 40% of these liquidating. At the same time, the oil market has already shifted from oversupplied to undersupplied, and as the economy gradually recovers in the coming years, oil prices could rise significantly. Those companies levered to a higher oil price that can avoid bankruptcy possess legitimate multi-bagger potential, albeit with a correspondingly high degree of risk. We have sized the position accordingly and believe the manager we hired to guide us in this endeavor is one of the best distressed equity investors in the business, having executed a similar strategy across a handful of other sectors during similarly distressed periods the past two decades.

The short side of the portfolio was a significant headwind to performance during Q2, as one would expect given market strength. The short book has been a combination of spectacular victories and crushing defeats so far in 2020. During the depths of the selloff in March and April, we covered a number of short positions (seven to be exact) at very significant gains. By mere coincidence, over April, May and June we added seven new shorts to the portfolio, which in most every case proved to be poor timing. In a few other cases, we failed to take profits in shorts during the selloff that have since rebounded to pre-pandemic levels and higher. Here is an overview of the short book at quarter-end.

Some of the more pronounced areas of exposure on the short side include:

1. Traditional Retail
2. Coronavirus-Impacted Travel & Leisure
3. Over-Earning Consumer Staples
4. Traditional Shipping & Logistics Services
5. Levered Roll-Ups
6. Frauds
7. Highly Leveraged Cyclicals
8. Legacy Technology & Media Assets
9. Traditional Advertising Agencies
10. SaaS Pretenders

We covered short positions in PVG, SGRY and the Dentsu Group all down very significantly from our cost basis, but Wirecard was perhaps the best example of a spectacular victory. Unlike most short-sellers in the stock, we timed our entry rather presciently, entering in mid-2018 not all that far away from all-time highs. Better lucky than good sometimes. Like many frauds, Wirecard was not that difficult to spot and, in fact, had been in the crosshairs of a number of highly-regarded short sellers for over five years. But that's one of the inherent difficulties with shorting frauds. They are sometimes easy to identify, yet always incredibly difficult to execute. For an in-depth discussion on the topic, we would point you to the 4Q18 letter where we went into frauds as a short selling framework. Although we timed our entry in Wirecard well, our exit could have been better. While the stock was down by about a third from our cost basis when we covered the position, versus a market that was up over the holding period, we weren't there for the stock's epic collapse in June. We covered our position in April after the first damaging KPMG audit report. At the time, the short had become crowded and we thought the outcome of the E&Y audit report was too binary, so we decided to take profits and rotate them into a similarly-suspect short that also happens to be located in Europe. This time in France. In hindsight, we should have stuck with at least a smaller position in Wirecard and plan to use this experience to achieve even better outcomes in future frauds.

Turning to crushing defeats. We detailed our short thesis in Tesla in the 2Q19 and 4Q19 letters, so won't dive into now. Suffice to say, we've been wrong, very wrong. While we continue to think Tesla is an auto company masquerading as a tech stock, we found ourselves short a stock that increasingly looks to be positioned on the right side of change, that change being the shift from Internal Combustion Engines (ICE) to Electric Vehicles (EVs). This is a big no-no. We and many of the best short sellers actively avoid shorting open-ended growth stories. That said, TSLA reported 2Q20 deliveries of 90,650 compared to more than 95,000 in 2Q19 when the stock price was around $225. Not exactly an obvious open-ended growth story, and the quality of its cars isn't exactly winning over critics. The J.D. Power 2020 U.S. Initial Quality Study ranked Tesla dead last out of 31 brands and Tesla placed 23rd out of 30 brands in the annual Consumer Reports auto reliability survey. Something just doesn't seem right here. Even CEO Elon Musk Tweeted in May that the, "Tesla stock price is too high imo," when it was around $760. It ended the quarter much higher, so what do we (and he) know. As a manager once said when dealing with a similarly frustrating short, "mess with the bull you get the horns." While we think we know how the Tesla story ends, TSLA clearly gave us the horns and we admit it looks like we got the fundamental thesis wrong (the shift from ICE vehicles to EVs, even with low gas prices, looks inevitable). Our suspicions of fraud and malfeasance have not been laid to rest; so, while we swallowed our pride and reduced the position size materially during Q2, we have maintained a more appropriate fraud-sized position in Tesla. As stated in the case of Wirecard earlier, timing the unraveling of frauds can take years, which is why we size these situations on the smaller side relative to core shorts, which Tesla initially was. We chose to live to fight another day, such that if the fraud case does materialize, we can still be there for Tesla's day of reckoning. Those who don't learn from their mistakes are doomed to repeat them. Wirecard taught us a lot.

Please don't hesitate to contact us with questions or comments, and we would look forward to speaking with you soon.

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**," most recently discussing the Corona Crash Crisis updates. We have had many interesting discussions in the last few months. 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 Fall event is currently scheduled for **October 26–27, 2020** at **The Angus Barn Pavilion** in **Raleigh, NC**. For more information on how to become a member and join this elite group please visit www.theinvestmentinstitute.org.

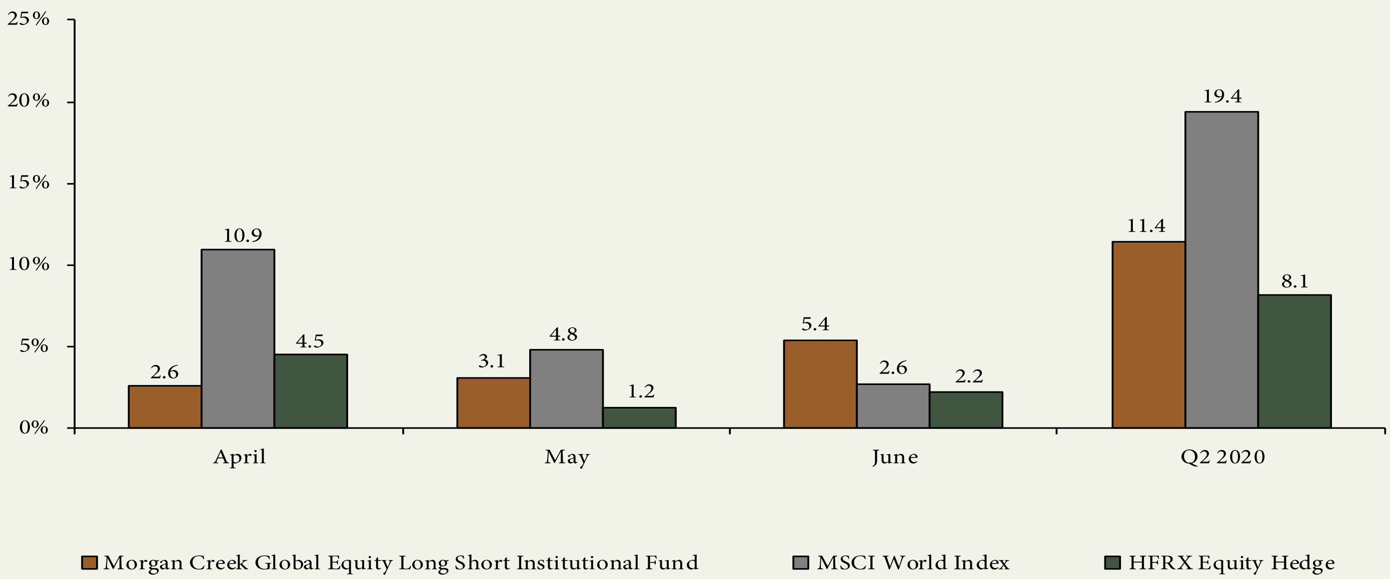
As always, it is a great privilege to manage capital on your behalf and we are appreciative of your long-term partnership and confidence.

With warmest regards,

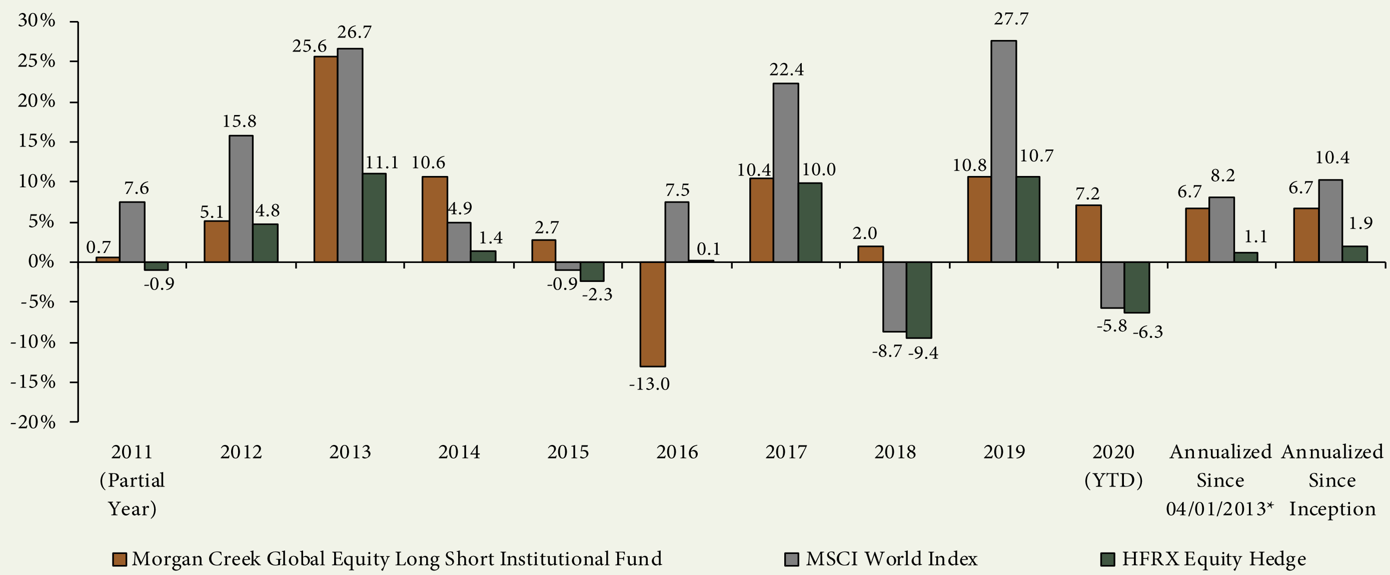
Mark W. Yusko

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 2020, 2020 (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 6/30/2020. *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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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.

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Morgan Creek Capital Management, LLC does not warrant the accuracy, adequacy, completeness, timeliness or availability of any information provided by non-Morgan Creek sources.

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