Q4 2018 Fund Commentary

Morgan Creek Capital Management

Morgan Creek Global Equity Long/Short Institutional Fund

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

Fund commentary by Cory Lester

Global equity markets ended the year with a thud. Santa Claus failed to make an appearance on Wall Street and the barrage of negative headlines during the holiday season was impossible to avoid – "Wall Street ends worst year since 2008 financial crisis," "Dow, S&P 500 post worst December since 1931, as Nasdaq has worst on record" and "Dow Drops Below 22K, S&P Enters Bear Market on Worst Christmas Eve Session Ever"[1] to pick just a few. Per Morgan Stanley, through the Monday before Christmas, it was only the second time ever that the S&P 500 had declined seven straight days where at least six of those days saw -1.5% or greater losses – the last such occurrence was in early 1931. Panicked selling had taken over and losses seemed poised to accelerate until markets finally bounced the Wednesday after Christmas. Nevertheless, when the fourth quarter finally ended, the S&P 500 had registered its third worst Q4 since 1950, down -13.5%, with the MSCI World Index off a similar amount. Bah, humbug!

Volatility tends to increase during transition periods in markets. After zero days where the S&P 500 range was above 2% in 2017, there were 38 such sessions in 2018. Looking back at data to 1982, 38 is high, but not abnormally high. During the last two recessions in the early 2000s and Financial Crisis, for instance, there were upwards of 100+ days, for multiple years, when the S&P 500 range was greater than 2%. Whether the volatility to end 2018 is the start of a bear market or simply a correction in an ongoing bull market remains to be seen. Recent economic data points show global growth has decelerated, but there is a lot of debate about whether this signals a global recession is on the horizon or not. Five advanced economies, including Germany and Japan, recorded contractions in the third quarter, but these can be explained away by one-off headwinds. China and the US are the largest drivers of global growth, so in the near-term, much seems to depend on the outcome of trade talks between the two sides. The pinch of escalated trade tension is already being felt, however, with Chinese equities being one of the worst performing markets last year, as consumer spending, auto sales and its housing market slowed markedly. And per a survey conducted by Duke University, almost half of US chief financial officers believe the US economy will be in a recession by the end of 2019, and 82% expect a recession by the end of 2020. Perhaps it is telling that Apple, which derives about 60% of its sales from the US and China, recently cut its revenue guidance for the first time in 15 years. Fourth quarter earnings season should provide a number of clues about the future trajectory of the global economy.

The Morgan Creek Global Equity Long/Short Institutional Fund ("MCGELSIF" or "the Fund") declined in-line with markets during the initial leg down in October, but held up nicely during the second leg down in December. For the quarter, MCGELSIF declined -7.6% vs. -13.4% for the MSCI World and -8.6% for the HFRX Equity Hedge. Over the entirety of 2018, MCGELSIF weathered the volatility in markets reasonably well, returning +2.2% vs. -8.7% for the MSCI World and -9.4% for the HFRX Equity Hedge. We estimate that a blended benchmark for the Fund, reflecting the portfolio's meaningfully higher exposure to Emerging Markets than represented in the MSCI World, declined a little over 10% for the year. The Fund ended the year with strong relative performance vs. global equities, and we think the Great Separation between best-in-class long/short managers and the market is likely underway (we

1 Headlines from the Washington Examiner, FOX Business and TheStreet

have written about our Great Separation market outlook extensively in prior letters, so please let us know if you would like a refresher and we can send them over). We would emphasize the "best-in-class" label since hedge funds as a whole disappointed investors again with sub-par performance in 2018. There have already been a number of managers that have shut down as a result of redemption pressures and we would expect the number of fund closures to increase meaningfully in 2019. One manager in our portfolio, which we were already in the process of moving away from, must have seen the writing on the wall and abruptly decided to close down at year-end. Given the relatively small position size of this manager and the highly liquid profile of its portfolio, the impact of the decision to shut down for the Fund was negligible and capital will be returned in a timely manner. We believe the remaining managers in the Fund all have stable investor bases and long-term staying power, which should put them in a position to take advantage of any unexpected volatility as a result of other hedge funds winding down.

The two most defining market themes of the third quarter that we wrote about last time - the outperformance of the US vs. the ROW and Growth vs. Value - shifted in the Fund's favor during Q4. Emerging Market equities declined only about half as much as US equities and, to a lesser degree, Value held up better amidst the selloff than Growth. These shifts benefited both the Asia and Value sub-strategies, as each was down significantly less than the market. We increased exposure to Value in the portfolio throughout the year and the two managers that were added in January 2018 as a part of this effort, Old Peak in Asia and Bronte in Value, each generated a positive return during Q4. We anticipate further increasing the Fund's exposure to Emerging Markets and Value going forward. On the other hand, the underperformance of Growth was a headwind for the Technology sub-strategy. Although the managers in this sub-strategy held up relatively well (only down about half as much as the market), the sub-strategy still experienced a meaningful loss and gave back a good portion of its YTD gains.

The Morgan Creek Direct Portfolio ("MCD")[2] detracted from performance during Q4, as positive alpha on the short side was not high enough to fully offset negative alpha on the long side. In the vein of adding more exposure to Emerging Markets and Value, we followed our managers' lead and added a few high conviction Chinese ADRs to the Top 20 portfolio on weakness, as well as a global auto name trading at what we believe to be a significant discount to fair value. There were a number of contributors on the short side during the quarter, as you might imagine given the sharp selloff in markets, yet we have continued to add exposure on this side of the book within MCD and are finding no shortage of compelling ideas, particularly within the Fraud category. In general, we (and our managers) scour the globe in search of short ideas that fall into one of six frameworks: (1) Secular Decline; (2) First-Mover, First-Loser; (3) Boom-Bust Cycles; (4) Great-to-Good; (5) Fads; and (6) Frauds. We believe that Frauds are among the most lucrative shorts from a probability-of-working and potential-for-profit standpoint, but they are also among the most challenging to execute, as they can become crowded shorts and there is usually some form of stock manipulation by management or another vested party. Frauds are even more challenging in a bull market where a rising tide lifts all boats. A strong economy, which usually accompanies a bull market, makes it easier for perpetrators to get away with fraudulent behavior and activities since investors and markets are generally less scrupulous than they should be. FOMO is a fraudster's best friend. However, the reverse is also generally true. When the tide goes out, you find out who's been swimming naked. As the business cycle turns, liquidity dries up and investors become more

2 Morgan Creek Direct (MCD) consists of MCD Top 20, MCD Qualitative Top 5, the Fund's direct private co-investments and Morgan Creek Tactical. MCD 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. The basket is constructed using regulatory filings and manager-provided transparency reports on a quarterly basis and rebalanced every six weeks. MCD Qualitative Top 5 is a portfolio of equities sourced from the underlying portfolios of the current managers in the Morgan Creek Global Equity Long Short Institutional Fund. The strategy comprises no more than five long or short baskets of positions. Morgan Creek Tactical includes ETFs and other passive instruments.

demanding. This often leads to fraudulent businesses without the means, whether it is capital, unsuspecting customers or gullible investors, to continue to be sustained by its perpetrators. As financial conditions tighten and global central banks shift from QE to QT, our managers are finding a number of candidates that fit the Fraud framework.

We pride ourselves on investing alongside some of what we believe to be the most talented short sellers in the business. Even in an extremely favorable economic and market environment, they have uncovered a number of Frauds that have unraveled over the last few years, such as Hanergy, China Huishan Dairy, Noble Group, Steinhoff and Kingston Financial, which we were also short directly. In the Q3 letter, we referenced legendary investor Stanley Druckenmiller saying in his Real Vision TV interview with Chairman & Founder of 13D Global Strategy & Research Kiril Sokoloff, that since the Fed has been slow to raise rates this cycle, the malinvestment and number of zombie companies is likely to be a lot higher than most investors appreciate. We would add that the number of partial and outright fraudulent companies is also likely to be a lot higher than most investors appreciate. We are currently short a Consumer Products company listed in Hong Kong and a Specialty Finance company in Germany where the evidence of fraud convincingly outweighs the seemingly "too good to be true" narratives promoted by management. We believe the downside potential in both positions is of similar magnitude to that witnessed in the examples provided above.

Finally, we continue to be excited about the return potential from the Fund's investment in Lyft, which has grown into the largest single-name position in the portfolio since our initial investment back in March 2015. Over the course of last year, Lyft announced a number of major operating milestones as it relates to rides and revenue. Notably, in September, Lyft celebrated the completion of one billion rides delivered on its platform and will generate more rides in 2018 than it has in all previous years combined. The company facilitated more than 50 million rides per month in 2018, generating upwards of 600 million rides for the year while approximately doubling its revenue. In October, Lyft selected underwriters for its initial public offering, with the expectation of a listing in the first half of 2019. JPMorgan will serve as the lead underwriter with support from Credit Suisse and Jefferies. The underwriters have proposed a valuation range of $18 billion to $30 billion, with a target of $25 billion. This would represent a significant premium to the valuation of the position within the Fund as of year-end.

If you find yourself in New York City on March 7th, we would encourage you to join us at the CFA Society New York event – The Great Separation: is Now the Time to Embrace Long/Short Equity? – from 5:00 to 8:00pm. Mark Yusko will be delivering the keynote presentation, immediately followed by a panel discussion that I will be moderating with a few of the Fund's long/short equity managers. This would be an excellent opportunity to learn more about the Fund, get an update on our equity market outlook for 2019 and to hear from a few of the underlying managers in the portfolio directly. Please let us know if you are interested in attending and we will happily send over the details. We hope to see many of you there! 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: *Back Around the World: 2018 in Review* and *Passive Aggressive: Why Alpha Beats Beta In The Great Separation.* 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.

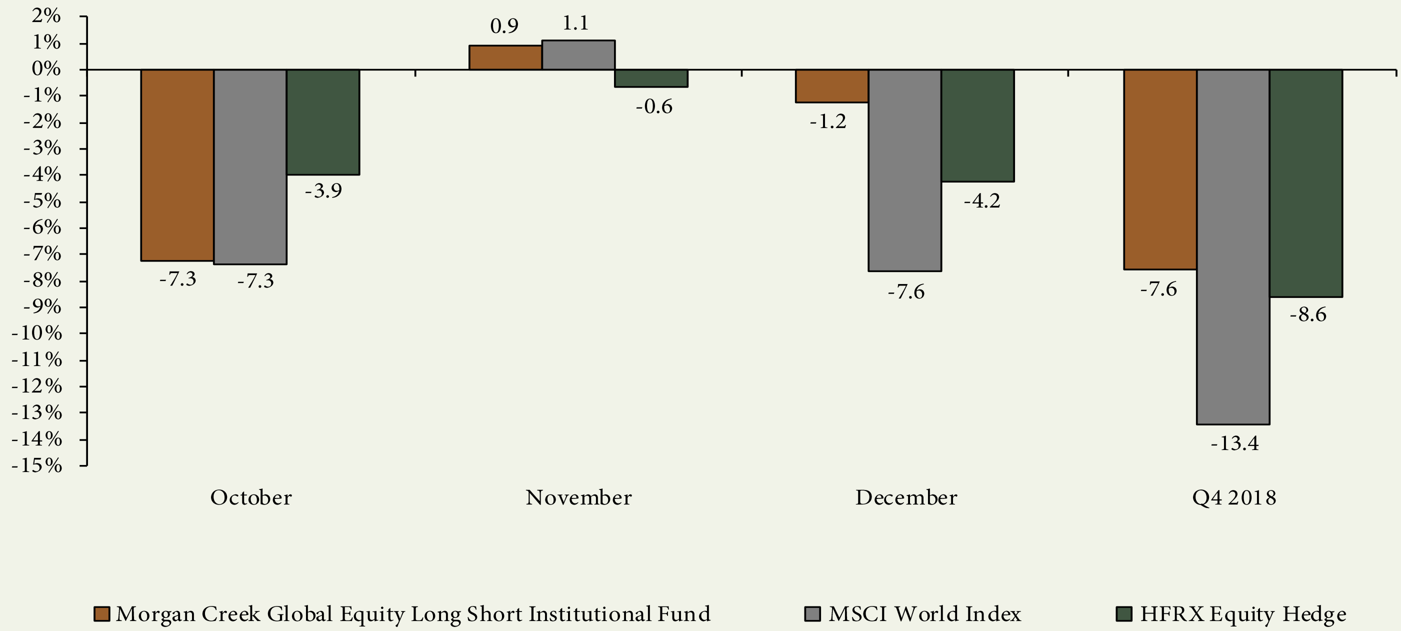
We are also a proud sponsor of The Investment Institute, an Educational Membership Association for Institutional & Private Investors and Managers in the Southeast. The date of the next program is **May 20–21, 2019** at **The St. Regis in Atlanta**. For more information on how to become a member and join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

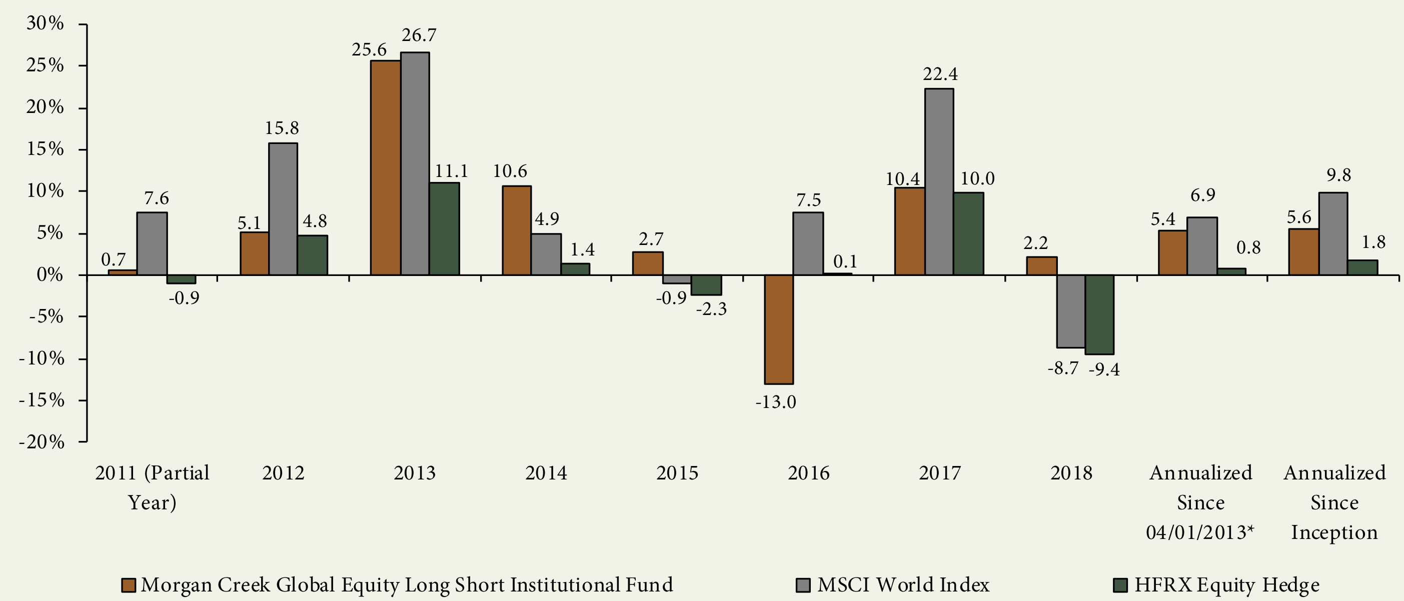
With warmest regards,

Mark W. Yusko
Chief Executive Officer & Chief Investment Officer

Q4 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): December, Q4 2018, 2018 (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 12/31/18. *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 Top 5," 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. The basket is constructed using regulatory filings and manager-provided transparency reports on a quarterly basis and rebalanced every six weeks. "Morgan Creek Direct Qualitative Top 5" is a basket of long or short equities sourced from the underlying portfolios of the current managers in the Morgan Creek Global Equity Long Short Institutional Fund. The basket comprises no more than five, 1% long or short positions. "Morgan Creek Tactical" includes ETFs and other passive instruments.

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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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