Q4 2019 Fund Commentary

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

MORGAN CREEK CAPITAL MANAGEMENT

Table of Contents

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(“MCGELSIF,” the “Long/Short Fund,” or the “Fund”)
Fund commentary by Cory Lester

The Fund had a frustrating quarter and so-so year. A potential banner year seemed to be taking shape during the first quarter with the excitement and performance momentum heading into the Lyft IPO, but this disappointingly proved to be the highpoint in performance for 2019. Overall, the Fund performed okay for the year on an absolute basis, yet on a relative basis, the Fund’s upside capture came up short. Performance ended up in-line with the portfolio’s trailing-twelve month beta to the MSCI World Index of 0.4. Positive alpha on the long side was offset by negative alpha on the short side, resulting in a return for the year in-line with the Fund’s beta-adjusted exposure (0.4 X 28% = 11%). Performance would have been a touch higher if we had not gotten more defensively-positioned coming into the year by trimming Growth, buying Value and dialing-up the Direct Portfolio’s short book. This strategy worked quite well for the Fund in 2018, but hurt performance in 2019. In retrospect, we should have done the exact opposite, but, of course, hindsight is 20/20 and we think continuing to be more defensive in the face of the ongoing market rally remains the prudent course of action. We made some further adjustments to the portfolio along these lines heading into the New Year.

Our outlook for Developed Markets, especially the U.S., is cautious, while we are constructive on certain Emerging Markets, particularly in Asia. This view is informed by the bottom-up opportunities we see from our managers and within the context of our top-down assessment of valuations. The rally in the majority of equity markets during 2019 was entirely the result of multiple expansion and we are struggling to come up with a sound bull case for what drives equity markets higher from here, besides betting multiples continue to expand from their already elevated levels. This is a bet we are unwilling to make as fundamental investors and on many valuation metrics, like Market Cap to GDP (the Buffett Indicator), Shiller P/E and EV/Sales, markets have already reached levels only seen in 1929 and/or 2000. Like one of our managers once remarked, “We don’t get paid to be optimists or pessimists; we get paid to be realists.” We may be many quarters, or even years, away from the top of this market cycle, but we think the data strongly supports our view that U.S. equities, in particular, are in store for an extended period of underperformance and our firm belief that high-quality long/short equity exposure will be an essential allocation in portfolios for meeting return targets going forward. There is a cacophony of commentary about the duration of the current bull market, so we won’t bore you by rehashing it here. We will highlight, however, one interesting analysis we came across in the *Financial Times* recently. According to research by Simon French, a Panmure Gordon & Co. economist, there have been just eleven days since 2010 in which the MSCI World Index has been in a bear market (defined as being more than 20 percent below the preceding 52 -week high). This figure is skewed by the U.S., which has not registered a single day in bear market territory in the last decade, compared to 625 days during the 2000s. In the words of Greek Historian Herodotus, “Happiness never remains long in the same place.” Within the context of financial market history, the last decade has been an absolute nirvana for U.S. equity market performance.

Turning to the portfolio, a lot of what worked and didn’t in the fourth quarter was a lot of the same for the year overall. We had two managers (fortunately, the two largest manager allocations in the Fund) have exceptional years – Teng Yue and Tiger Global. Both generated strong gains on the long side (Teng Yue in Chinese pork producers that benefited from the outbreak of African Swine Flu and Tiger Global in a number of Internet longs spanning the globe), while keeping losses in check on the short side. Teng Yue finished the year up 44% and Tiger Global 33%. We also had some nice winners in Healthcare, where a few Direct Portfolio positions, like AVDL, registered strong gains.

What didn't work? Pretty much everything else. The short book was a significant detractor. After generating meaningful alpha and attribution in 2018, the short book was a persistent headwind in 2019, particularly during the fourth quarter when our short position in TSLA went against us sharply. The Fund's position in Lyft was a rollercoaster – it started off the year as a significant winner when the company IPO'ed, but turned into a modest loser by year-end, as the stock sold off sharply post-IPO. Lyft remains a healthy contributor to overall performance since being added to the Fund in 2015, but for 2019, it was a detractor. Another headwind to performance was, as mentioned earlier, rotating more of the portfolio into Value. We sized up our manager allocation to Bronte throughout the year and while they had a respectable 2019 (up 10%), they didn't do the Fund any favors in the context of a tape up almost triple that amount. The other large headwind was being overweight non-U.S. equities, where markets continued to underperform. We compounded this asset allocation error with a manager selection mistake in Old Peak. Fortunately, Old Peak was never a very large position in the portfolio; we recognized our error in judgement relatively quickly (the manager was only hired at the beginning of 2018) and we have been in the process of exiting the position in-full.

What does the portfolio look like now? We thought an overview of some of the portfolio's largest current themes would help answer this question. We are, of course, biased, but as investors in the strategy personally, we think the portfolio is positioned to protect capital in what we expect to be a more volatile market going forward and loaded with deeply-researched, idiosyncratic longs and shorts that should deliver solid results regardless of what broader equity markets serve up.

Many of the Fund's core long positions can be found in high-quality companies with leadership positions in industries experiencing secular growth or undergoing structural change. These more Growth-oriented investments are balanced by an increasing number of more Defensive and Value-oriented positions, some of which, particularly within Healthcare, have defined catalysts. U.S.-listed positions are noted by their ticker symbols, while the company name is used to denote positions listed abroad.

Growth-oriented themes and sample positions (in no particular order):

1. Asian E-commerce: BABA, SE, Meituan Dianping, JD, Mercari
2. Digital Advertising: GOOG, FB, PINS
3. Cloud/Software: MSFT, TWLO, WDAY, NOW, CRM
4. Digital Payments: Tencent, Adyen, MELI, SQ, PYPL
5. Financial Inclusion: Axis Bank and IndusInd Bank (India), BDO Unibank (Philippines)

Value-oriented/Special Situation themes and sample positions (in no particular order):

1. MLPs: ET, PAA
2. Innovative Healthcare: IOVA, AVDL, BHVN, EIGR, HRTX, BGNE
3. Defensive: Swedish Match, BRK, HLF, APO
4. Aerospace: Rolls Royce, MTU Aero Engines
5. Agriculture: Bayer, CTVA.

As mentioned, we have taken some profits in the Growth-oriented positions and added exposure to

Value-oriented/Special Situations. We also continue to selectively add exposure on the short side, where most of the portfolio can be found in secularly-challenged businesses with poor cash flow generation. Short positions are often in companies our managers believe are on the wrong side of change relative to their industry-disrupting longs. In addition, our managers are always on the hunt for Frauds and Fads. Out of respect for the privacy of our managers and to protect the interests of all investors in the Fund, we will not list the individual names represented by the themes below, but we would be happy to provide additional color in a follow-up conversation.

A few of the more pronounced areas of exposure on the short side right now include (in no particular order):

1. Traditional Retail in the U.S., Europe and Australia
2. Advertising Agencies in Europe and Japan
3. Levered Roll-Ups in the U.S. and Europe
4. Frauds in Asia, Europe and Gold Mining
5. Highly Leveraged Cyclicals in the U.S., Europe and China
6. Legacy Technology and Media Assets in the US and Europe

We will go into one existing short position in more detail since we wrote about it last quarter. Our experience with TSLA in the fourth quarter reminded us of a Charlie Munger quote on investing. "It's not supposed to be easy. Anyone who finds it easy is stupid." Just when we thought the bear thesis was playing out and we had added to the short, the script flipped and we found ourselves risk-managing the position and nursing losses. While in the short-term we have fallen victim to being on the wrong side of a crowded short position following a surprise profit in the third quarter, we find the risk:reward at prevailing levels to be very compelling. Even assuming TSLA has turned the profitability corner for good and that it will dominate the global electric vehicle market, like most pundits seem to now take as givens, we think this is already baked into the stock price. No investment is so good that you can't make it bad by paying a high price. Remember that MSFT's stock peaked above $59 in December 1999 and it took sixteen years to hit that level again following the Dotcom Bust – even though the company more than doubled its profits over that timeframe. TSLA's market cap recently touched $100 billion, exceeding that of GM and F combined, and is on par with Volkswagen's, which owns Porsche, Audi and several other high-margin brands. VW generates as much *profit* making cars as TSLA generates in *sales*. Profits are a fundamental investor's true north and even if TSLA's earnings per share reach $13 by 2022, as consensus currently expects, we think the stock is richly priced. As Charley Grant of the WSJ recently remarked, a year ago, when TSLA shares were about 40% cheaper, this estimate was $22/share. Valuing a low-margin, capital intensive, high fixed-cost business that notoriously overpromises and under-delivers at over 35x *estimated* earnings, two years out is, to put it politely, generous. As pointed out by Charley Grant, GM and F trade at less than 7x a comparable estimate of earnings and are projected to combine for $14 billion in net income that year – about 4x what Tesla is expected to earn. The market seems to be saying, with the multiple an investor is paying right now for TSLA's *expected* earnings, that TSLA is more like MSFT, a software company, than an auto manufacturer like GM, F or Volkswagen. This is fanciful. MSFT is everything TSLA is not from a business perspective. MSFT is a high-margin, capital light, low fixed-cost business with an extraordinary track record of execution and management. MSFT's *net margin* is nearly 2x greater than TSLA's *gross margin*.

Let's assume though, for the sake of argument, TSLA proves to be more of a software company than an auto manufacturer (a highly unlikely outcome in our opinion). If earnings two years out actually are $13/share and TSLA gets around the same 33x P/E multiple currently afforded to MSFT for its *actual* reported earnings, the current stock price might hold. However, if TSLA proves to be more of an auto manufacturer than a software company, with much lower margins (the highly likely outcome in our opinion), the stock could easily fall 50%. Add to this (1) the pending lawsuit from TSLA's controversial takeover of SolarCity, (2) the threat of a large recall for any number of reported manufacturing defects, (3) the risk of regulatory intervention into TSLA's very misleadingly-named (we think), driver-assistance program "Autopilot," (4) the potential for a drop-off in demand as electric vehicle subsidies expire (like they did at year-end in the U.S. for TSLA) and competition increases, and/or (5) the risk of disappointing Model Y and/or Cybertruck product launches (the product reveals didn't exactly instill a lot of confidence), and the stock could fall a lot more. If any of these risks materialize, let alone multiple of them do, solvency questions would almost certainly re-enter the equation. The risk:reward at TSLA's current price is highly skewed to the downside and it remains the largest of our ten or so Direct Portfolio short positions.

Despite continued headwinds for the short side so far in 2020, we estimate the Fund is off to a solid start. 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**." We have had many interesting discussions in the last few months including: *Back Around The World: 2019 in Review, #GetOffZero: The Most Important Decision Investors Must Make in the Current Environment,* and *#MRGA: Make Recessions Great Again.* 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.

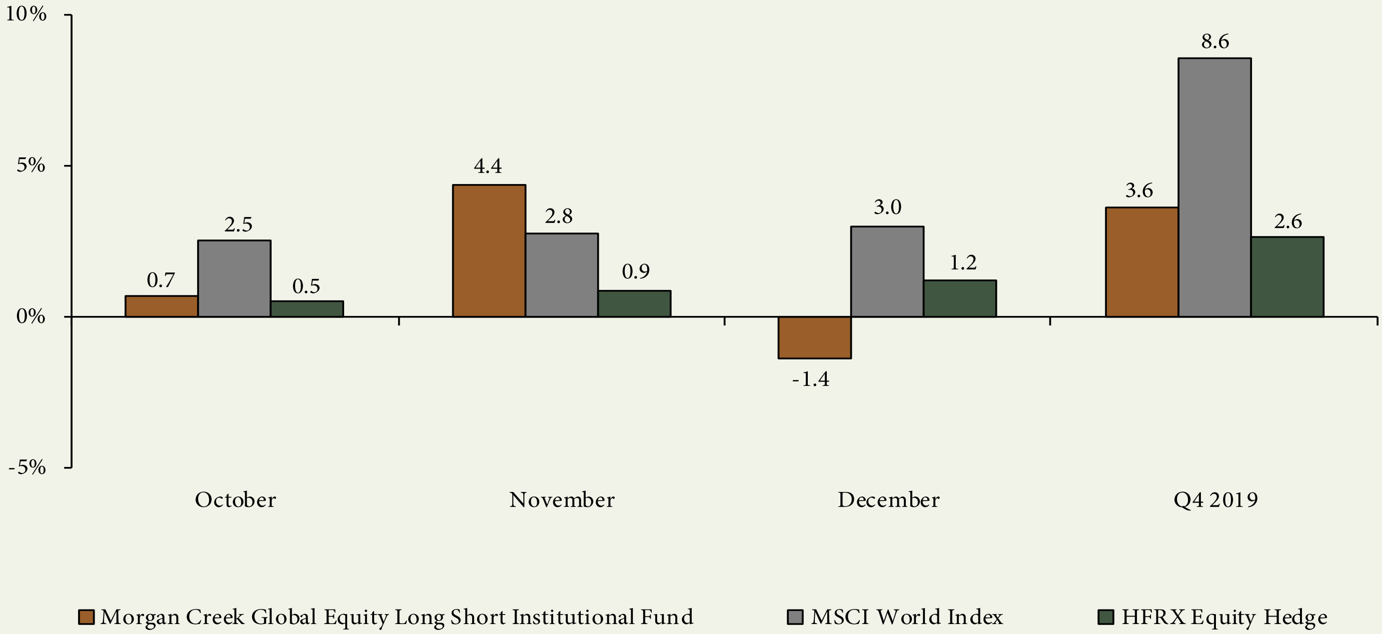
We are also a proud sponsor of The Investment Institute, an Educational Membership Association for Institutional & Private Investors and Managers in the Southeast. The date of the next program is **February 24–25, 2020** at **Barings Global Headquarters in Charlotte, NC**. For more information on how 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.

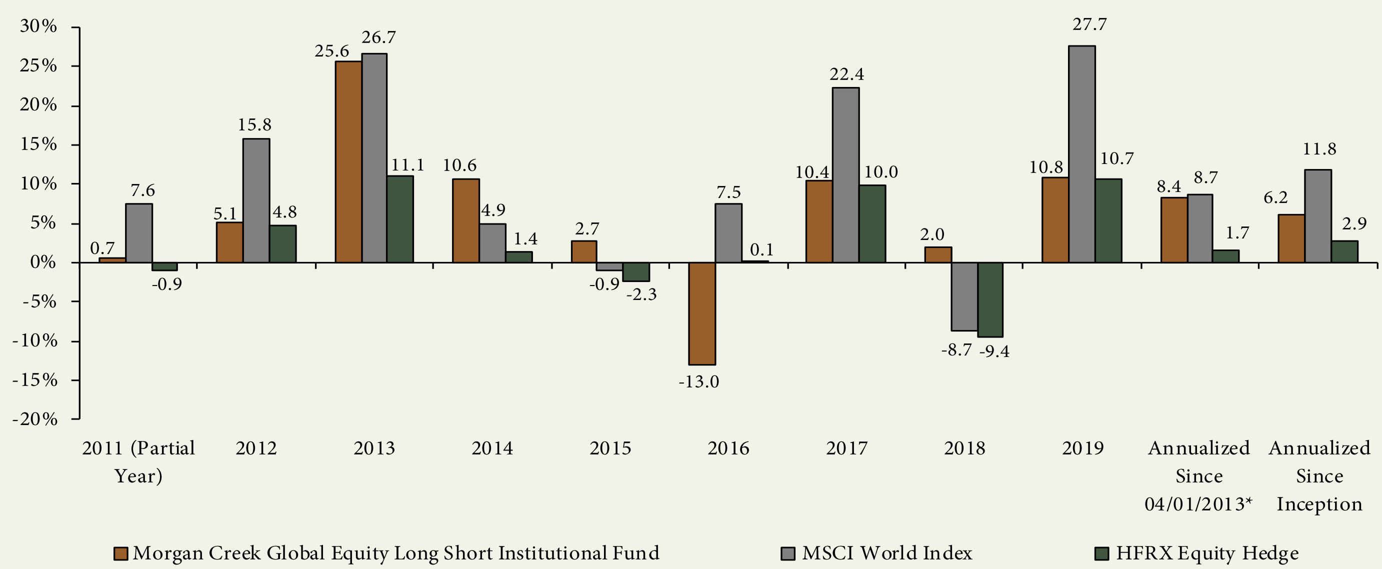
With warmest regards,

Mark W. Yusko
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 2019, 2019, 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 12/31/19. *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.

Performance Disclosures

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.

Internal Rate of Return ("IRR")

The Internal Rate of Return is the discount rate at which the present value of the future cash flows of an investment equal the cost of the investment. It is found by a process of trial and error; when the net present values of cash outflows (the cost of the investment) and cash inflows (returns on the investment) equal zero, the rate of discount being used is the IRR. When IRR is greater than the required return-called the hurdle rate in capital budgeting-the investment is acceptable. Definition from Barron's Financial Guides, Dictionary of Finance and Investment Terms.

There can be no assurances that Estimated Residual (Net) Value is a true representation of actual market value, nor can there be any assurances that the estimated Net IRR will not be materially different from the estimate presented. The Estimated Residual (Net) Value is calculated by Morgan Creek based on information provided in part by the underlying funds and upon Morgan Creek's own valuations of the underlying portfolio companies. The underlying funds have not provided the Estimated Residual (Net) Value and in fact, may calculate the value in a materially different manner resulting in a materially different valuation. To the extent the actual Residual (Net) Value is materially lower than the estimate provided herein, the actual Net IRR will also be materially lower. The Estimated Residual (Net) Value may never be realized. There can be no assurances that unrealized value included in the Estimated Residual (Net) Value calculations will be realized at the time the underlying funds liquidate their investments. Investments which are currently reflecting unrealized gain may realize a loss when actually liquidated. Neither past performance, estimated values, nor estimated IRRs are necessarily indicative of future results.

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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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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