

# MORGAN CREEK

## CAPITAL MANAGEMENT

ALTERNATIVE THINKING ABOUT INVESTMENTS

### *New China Perspectives*



*Welcome to the weekly issue of Morgan Creek's **New China Perspectives**. It is comprised of research from Morgan Creek's China-based investment team together with curated articles of interest. In addition to timely political and economic news covering greater China, Morgan Creek's China team seeks to provide in-depth perspectives on investing in the technology, consumer and healthcare sectors in the region. Our research leverages the "on the ground"*

*insights of our team together with Morgan Creek's decades-long experience in covering the region. Our team are focused, thematic investors primarily covering the technology, consumer, and healthcare sectors and investing in private companies and early-stage managers with deep local expertise. To learn more about our team and investment offerings, please email [chinateam@morgancreekap.com](mailto:chinateam@morgancreekap.com).*

*Best Regards,*

Handwritten signature of Mark W. Yusko

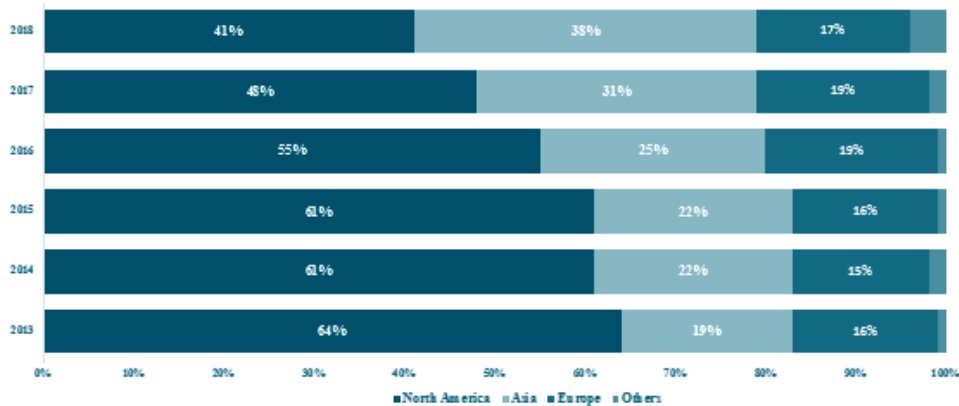
*Mark W. Yusko*  
CEO & CIO

#### **NOTES FROM THE BUND<sup>1</sup>**

Last week, we discussed the development of corporate venture capital ("CVC") in the US; in this newsletter, we want to highlight how CVC has progressed in the last decade and the country that took the industry by surprise.

Modern CVC was first established in North America, and in 2014, US corporate investments accounted for 61% of global activity. In recent years, tech giants such as BAT (Baidu, Alibaba, and Tencent) have hyper-charged Asia's economic growth and have steadily increased their corporate investments in the region. By 2018, North America's share of global investment activity dropped to 41% and Asia's share doubled to 38%.<sup>2</sup> CVC activity in this region is expected to surpass that of North America in the coming years.

### Global CVC Investment Activities by Region



Source: Morgan Creek research.

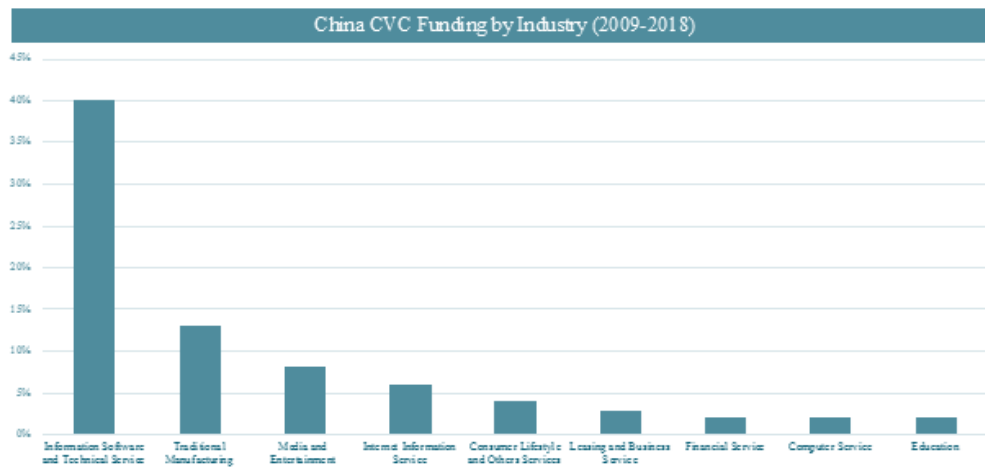
Asian CVC is comprised primarily of conglomerates from China, Japan, and India.

The first significant CVC investment in China was in June 1998, when Shida Group invested 12 million RMB in Beijing Mingtai Technology Development Company, establishing Shida Mingtai Company to develop Chinese software. Two decades later, in 2018, China's corporate venture capital investment output reached 20.3 billion RMB, or 17% of all venture capital investments domestically. Three Chinese conglomerates – Baidu, Legend, and Fosun, were recognized as among the "top 10 active CVC institutions in the world in 2018"<sup>3</sup>. From Chinese local VC data platform 36Kr, tech giants Tencent, Alibaba, Baidu, Ant Financial, and Mi were ranked as the "top 10 active CVCs in China in 2018 (by investment frequency)"<sup>4</sup>.

Global Top 10 CVC (2018)		China Top 10 CVC Investment Frequency (2014-2018)						
Ranking	Company	Ranking	Company	Investment Frequency				
				2014	2015	2016	2017	2018
1	Google Ventures (GV)	1	Tencent	72	99	110	130	139
2	Salesforce Ventures	2	Alibaba	40	54	64	64	89
3	Intel Capital	3	Baidu	18	29	23	62	71
4	Baidu Ventures	4	Ant Financial	16	13	24	19	54
5	Lenovo CVC	5	Mi	47	40	47	57	30
6	SEI Investment	6	Meituan	2	8	12	10	16
7	Alexandria	7	ByteDance	2	5	8	13	15
8	Kakao Ventures	8	Fosun	12	14	20	13	12
9	Mitsubishi UFJ Capital	9	Lenovo	5	10	14	13	11
10	Fosun RZ Capital	10	Didi	-	7	4	12	11
			<b>Total</b>	<b>142</b>	<b>180</b>	<b>216</b>	<b>263</b>	<b>309</b>

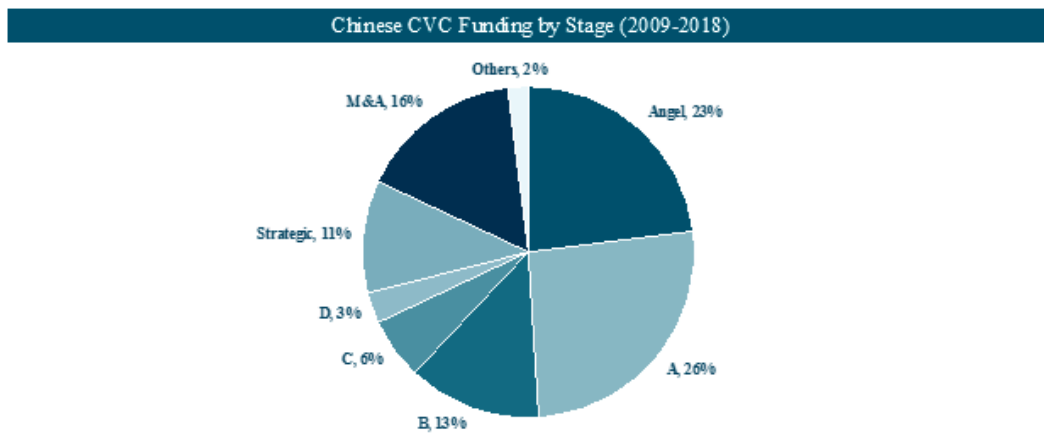
Source: CB Insights and 36Kr.

From 2009 to 2018, China's CVC investment in information software and technology services accounted for 40% of all capital, with the manufacturing industry falling to second place with 13%.<sup>5</sup>



Source: Morgan Creek research.

China's CVC investments focus on start-ups, with almost half of the capital flowing into angel rounds and Series A rounds. Strategic acquisitions and M&As also account for a substantial proportion at 27%. The distribution of CVC investment rounds in China shows a barbell investment approach: either very early in a company's lifecycle, where the corporate investors are looking at accessing frontier technologies, or very late, where investors are looking for strategic tie-ups. An example of the latter is Tencent's \$215 million investment in JD.com in 2014, to enhance and improve the e-commerce sector. As part of the agreement, Tencent also gave two of its e-commerce holdings to JD.com and promoted JD.com's services prominently on its WeChat mobile messaging platform.<sup>6</sup>



Source: Morgan Creek research.

## CHINA NEWS SPOTLIGHT

### ECONOMY

**Beijing to issue 10m digital yuan to boost consumption during Spring Festival holiday:** Beijing will issue digital currency worth 10 million yuan (about \$1.55 million) to local residents on Sunday to boost consumption during the upcoming Spring Festival holiday, according to the local financial supervision authority Saturday. [Read more.](#)

**Innovative SMEs to get policy boost in financing:** China's latest move to support over 1,000 innovative small and medium-sized companies is conducive to enhancing the resilience of the industrial chain and boosting the high-quality development of the nation's sprawling industrial economy, officials and analysts said. [Read more.](#)

## PRIVATE EQUITY & VENTURE CAPITAL

**JD.com's logistics unit set to sell shares through Hong Kong IPO:** The logistics unit of Chinese e-commerce giant JD.com is set to sell its shares through an initial public offering (IPO) at the Hong Kong stock exchange. JD Logistics' application to the local bourse on Tuesday came more than two months after JD Health raised US\$3.5 billion in its maiden share offering in December. [Read more.](#)

**More help for AI startups key to sector prospects:** Since 2014, China has had the fastest growth of investment in startups in the artificial intelligence sector worldwide. Yet, more institutional efforts are needed to ensure more robust and high-quality development of the sector, according to a recent report. [Read more.](#)

## TECHNOLOGY & CONSUMER

**China's 5G phone shipments top 167m in 2020: report:** Shipments of 5G smartphones in China reached 167.5 million units in 2020, accounting for more than half of the total smartphone shipment throughout the year, according to global market intelligence firm International Data Corporation (IDC). [Read more.](#)

**Clubhouse Fever Brings Its Audio Tech Provider Agora to the Spotlight:** A chat led by tech big shots including Tesla CEO Elon Musk and Robinhood CEO Vlad Tenev on popular mobile voice social network Clubhouse has made people flock to the invite-only app. Like an unfiltered live podcast, Clubhouse allows users to create or jump into different "rooms" for real-time discussions on various topics including technology, entrepreneurship, culture, policy, etc. [Read more.](#)

## HEALTHCARE

**SCYNEXIS and Hansoh Pharma Announce Licensing Agreement and Strategic Partnership for Ibrexafungerp in Greater China:** SCYNEXIS, Inc. (NASDAQ: SCYX), a biotechnology company pioneering innovative medicines to overcome and prevent difficult-to-treat and drug-resistant infections, and Hansoh Pharmaceutical Group Company Limited ("Hansoh Pharma", 3692:HK), one of the leading biopharmaceutical companies in China, today announced a strategic partnership and license agreement for the development and commercialization of Ibrexafungerp for the Greater China region. [Read more.](#)

**How this cancer-fighting company from China quietly landed as the Bay Area's latest biotech IPO:** cancer-fighting biotech company with facilities in China, San Francisco and San Diego joined the ranks of publicly held companies by raising about \$140 million in an initial public offering of American depositary shares. Adagene Inc. (NASDAQ: ADAG) — whose co-founder, chairman and CEO, Peter (Peizhi) Luo, is based in the Bay Area — said each of its American depositary shares represents 1.25 ordinary shares of the Suzhou, China-based company. [Read more.](#)

**To see back issues of New China Perspectives, please visit:**

<https://www.morgancreekcav.com/market-commentary/#investment-process>

<sup>1</sup> The Bund is a historic waterfront area in central Shanghai, where Morgan Creek's office is located. From the 1860s to the 1930s, it was the rich and powerful center of the

foreign establishment in Shanghai, operating as a legally protected treaty port. The picture above is part of the historical waterfront.

<sup>2</sup> Source: CB Insights

<sup>3</sup> CB Insights.

<sup>4</sup> 36Kr.

<sup>5</sup> The Wall Street Journal.

<sup>6</sup> The Wall Street Journal.

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#### **Important Disclosures**

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