

## *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@morgancreekcip.com](mailto:chinateam@morgancreekcip.com).

Best Regards,

*Mark W. Yusko*

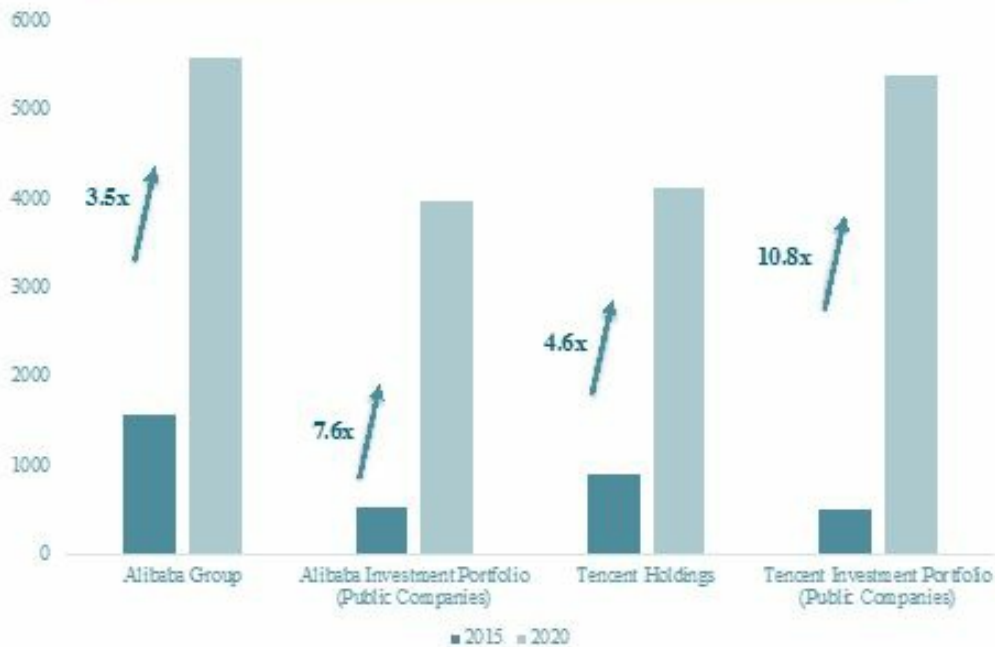
Mark W. Yusko  
CEO & CIO

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

In the previous three issues, we discussed the evolution of North American corporate venture capital ("CVC") and the opportunities and challenges it has faced navigating changing investment environments. In the upcoming newsletters, we will focus on the two most active CVC investors in China: Tencent Ventures and Alibaba Ventures. We will explore each of these two CVC technology powerhouses in separate newsletters, analyzing their diverse investment goals and strategies, as well as their relationships with their parent companies.

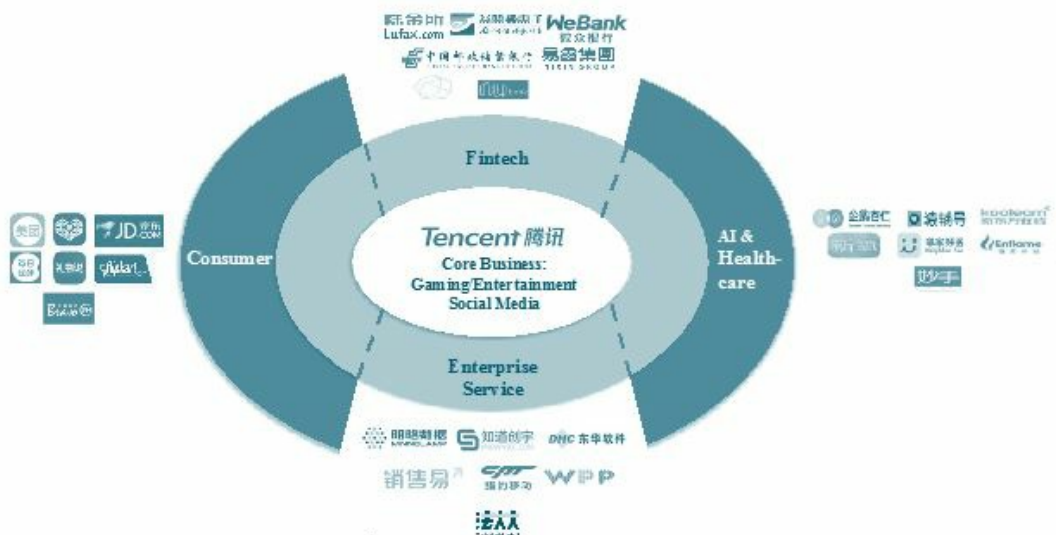
Over the past decade, Alibaba's and Tencent's investments have resulted in an ecosystem worth almost 10 trillion RMB in combined market value; Alibaba's public investment market portfolio is worth 4 trillion RMB<sup>2</sup> and Tencent's is worth 5.4 trillion RMB<sup>3</sup>. This week's newsletter will focus on Tencent.

## Alibaba Group vs. Tencent Holdings Market Cap (in Bn RMB)<sup>2</sup>



Source: Yahoo Finance, Company Annual Reports.

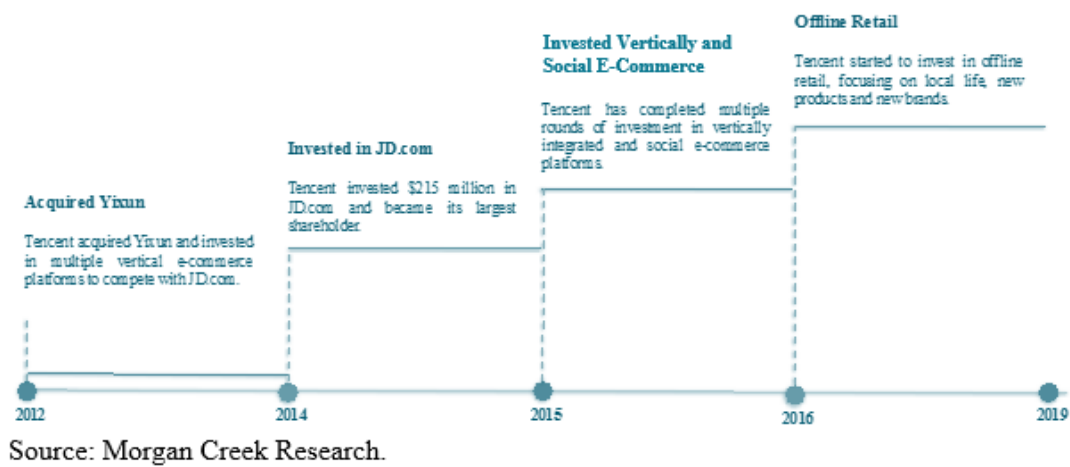
Tencent set up its investment and mergers & acquisitions (“M&A”) department in 2008, and in 2011 established its industry CVC fund with 5 billion RMB in assets under management. Tencent CVC’s investment strategy is to strengthen its primary business and to discover potential market disruptors through its investments. Tencent aims to hold controlling stakes in its core gaming and entertainment/communications industries, and minority stakes in non-core sectors, including Fintech, enterprise services, e-commerce, artificial intelligence, healthcare, and education.



Source: Morgan Creek Research|

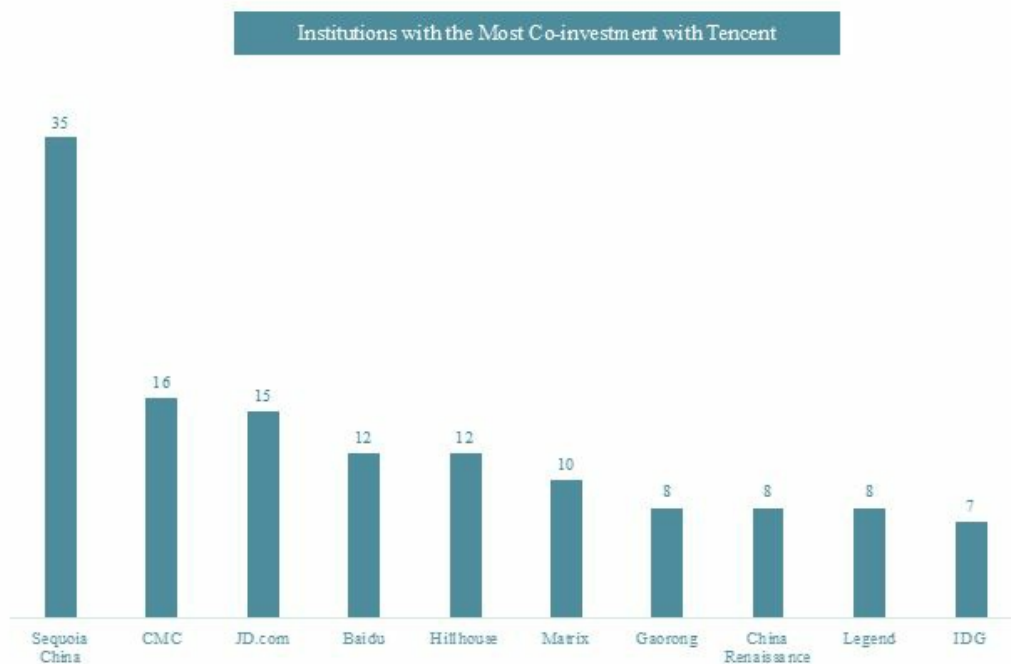
Tencent controls significant consumer traffic through its WeChat ecosystem, which has 1.2 billion monthly active users (“MAU”) as of Q3 2020.<sup>4</sup> It is working actively to monetize that consumer base with 43 of the 90 portfolio companies Tencent has invested in over the past decade being in the e-commerce space.

Tencent has also focused on social e-commerce and mini e-commerce programs to leverage its WeChat ecosystem, creating an internal app marketplace. To strengthen its offline retail presence, Tencent invested 4.2 billion RMB into Yonghui Superstores, the fifth-biggest supermarket in China. This investment has allowed Tencent to direct online traffic to Yonghui’s online to offline (“O2O”) retail stores Chaoji Wuzhong (“Super Species”) to compete with Alibaba’s Hema Xiansheng.



In 2018, Tencent adjusted its organizational structure once again when it added a Platform and Content Business Group (PCG) and a Cloud and Smart Industry Business Group (CSIG) after the company made investments in business to business (“B2B”) companies. Tencent believes that the technologies and business models it has developed and utilized in its consumer businesses may have wider applications in B2B sectors including transportation, artificial intelligence, logistics, and robotics.

Compared with other CVCs, Tencent tends to invest in the relatively early stage companies and has close relationships with VC and PE funds including Sequoia China, CMC, and Hillhouse Capital. Tencent also partners closely with JD and Baidu’s CVC programs.



Source: Morgan Creek Research.

[Click here](#) to see back issues of New China Perspectives

## CHINA NEWS SPOTLIGHT

### ECONOMY

**China Remains World's Top Manufacturing Hub for 11 Consecutive Years:** China has maintained its position as the world's largest manufacturing hub for 11 straight years, accounting for nearly 30% of the global manufacturing output, state-owned media Xinhua News Agency reported, citing the Ministry of Industry and Information Technology (MIIT). [Read more.](#)

**China has potential to realize 2035 goal:** The two sessions starting Thursday will discuss the 14th Five-Year Plan (2021-25) for National Economic and Social Development and the Long-Range Objectives Through the Year 2035, which has drawn widespread attention at home and abroad since it was proposed by the top authorities in late October. [Read more.](#)

### PRIVATE EQUITY & VENTURE CAPITAL

**Chinese Power Bank Rental Company Energy Monster Sets Sights on US Listing:** Chinese power bank rental company Energy Monster has recently announced its intentions to go public in the United States. According to reports from Sina Technology, the firm officially filed the required documents to the US Securities and Exchange Commission on March 13. [Read more.](#)

**Southeast Asian Ride-Hailing Giant Grab Weighs US IPO Through SPAC Merger:** Southeast Asian ride-hailing and delivery giant Grab is seeking to go public in the US through a merger with special purpose acquisition companies (SPAC), Bloomberg reported, citing people familiar with the matter. [Read more.](#)

## TECHNOLOGY & CONSUMER

**XPeng Receives 500M Yuan in Funding From Guangdong Government:** Chinese electric vehicle (EV) maker XPeng Motors announced on Monday that it has secured funding worth 500 million yuan (\$77 million) from the Guangdong provincial government. [Read more.](#)

**Baidu kicks off \$3.6b Hong Kong listing:** Baidu Inc. started on Friday the retail tranche of its Hong Kong public offering, as the latest US-traded mainland company seeking a secondary listing in China. The search engine giant will raise up to about HK\$28 billion (\$3.6 billion) through an issuance of 95 million shares. [Read more.](#)

## HEALTHCARE

**China's YishengBio chronicles comeback story in Hong Kong IPO while plotting big moves in infectious diseases, cancer:** It can be tough to be a vaccine developer in China. YishengBio shed some light on the regulatory hoops and hurdles it had to jump through since launching its first rabies vaccine in 2003 — and the grand plans it has for the global pipeline in infectious diseases and cancer — in an IPO filing on the HKEX. [Read more.](#)

**Carlyle-Backed China Biotech Firm Plans Hong Kong IPO:** Abbisko Therapeutics Co., an oncology-focused Chinese biotech company, is planning a Hong Kong initial public offering that could raise about \$250 million, according to people familiar with the matter. [Read more.](#)

<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> Note: Market cap data of 2015 are derived from Jan.1, 2015. Market cap data of 2020 are derived from Oct.16, 2020.

<sup>3</sup> Yahoo Finance, Company Annual Reports.

<sup>4</sup> <https://www.chinainternetwatch.com/31054/tencent-quarterly/>

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### Important Disclosures

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