

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@morgancreekcip.com.

Best Regards,

Mark W. Yusko

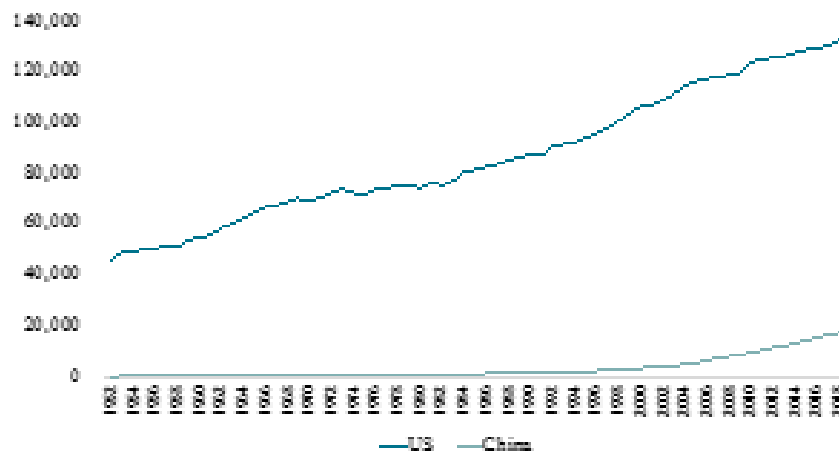
*Mark W. Yusko
CEO & CIO*

NOTES FROM THE BUND¹

In this newsletter, we will discuss our view on technology private investment opportunities to solve the issues caused by the demographic challenge China is facing.

Last week we talked about the consequences of a decreasing labor force derived from China's aging population. The below graph illustrates that while China's productivity has grown in the past decade, on an absolute basis it continues to lag the US significantly. The structural issues that China faces are massive, long-term and irreversible² As such, companies that are able to deliver solutions to improve efficiencies can earn outsized returns over the long run.

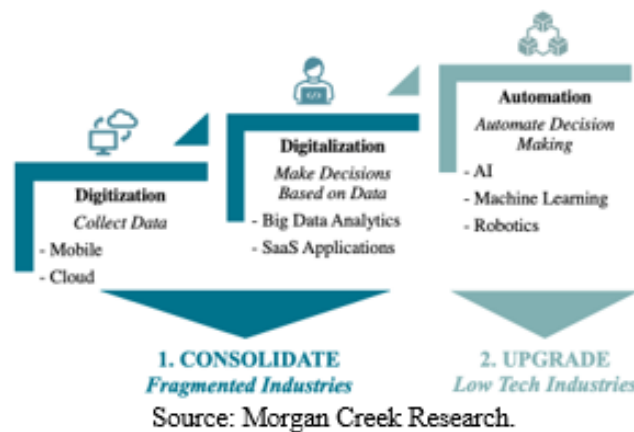
Figure 1: National Labor Productivity of US vs China in 2018 (USD)



Source: McKinsey.

We think Chinese businesses can optimize efficiency via adopting platform business models and enterprise service technologies, and the path of China's efficiency improvement will evolve as laid out in the chart below:

Figure 2: China undergoing another industrial revolution to optimize efficiency



Platform business models

The degree of fragmentation in many of China's sub-verticals certainly stands out. Despite China being the world's largest manufacturing country with massive industrial sectors, most of them are so fragmented that it is difficult to identify the leading domestic industrial players from the mainland. We believe there is a significant investment opportunity in consolidating product and service supply chains with new platform business models. This can be done via digitizing and digitalizing every element in the value chain to link the upstream provider directly to the end customer.

Enterprise service technologies

Despite the rise of domestic consumer internet giants like Alibaba, Baidu, and Tencent as a whole, China's digital economy continues to lag those of its peers in the West. Many traditional industries outside of the modern services sector remain in a worse state of development and have not yet significantly adopted technology. We believe there is a significant investment opportunity to introduce the application of new hardware (*i.e.*, robotics), software (software-as-a-service ("SAAS")), and AI/machine learning enterprise software solutions to further upgrade industry efficiency.

We will continue this discussion next week and share our views on healthcare private investment opportunities in response to the aging population in China.

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

New China Symposium 2021

An On The Ground Perspective on Investing in China

Please join Mark Yusko and Nic Lee, Managing Director, Shanghai as they discuss:

- The evolution of private equity markets in China
- Our long term China investment themes of healthcare and technology
- Implications of shifting geopolitics and coronavirus on China and our investment strategy

Mark and Nic will be joined by healthcare and technology fund managers in China as well as entrepreneurs from our portfolio companies to present opportunities in their specific sub-verticals. Speakers include Gabriel Li, Managing Partner, Orchid Asia Group; Huigang Rao, Managing Partner, Galaxy Capital; Hongbo Lu, Partner, Vivo Capital, and Marietta Wu, Managing Director, Quan Capital.

[Click here](#) to see the detailed agenda.

Please register here by clicking on the appropriate session(s) you wish to attend.

China Macro

May 4 - 10:30 am - 11:45 am Eastern

**China Private Markets –
Technology**

May 5 - 9:00 am - 11:30 am Eastern

**China Private Markets –
Healthcare**

May 6 - 9:00 am - 11:30 am Eastern

CHINA NEWS SPOTLIGHT

ECONOMY

China's Census Expected To Show Population Decline, Spur Debate On Key Policy Issues: Data from China's latest nationwide census is expected to show a critical downward shift in the nation's population trajectory, analysts said, making decisive reforms in population planning an urgent task for policymakers. [Read more.](#)

Japan Approves World's Biggest Free-Trade Deal After China's Call To Boost Asian Economy: Japan's parliament approved joining the world's largest free-trade deal, the Regional

Comprehensive Economic Partnership, on Wednesday as signatories aim for it to come into effect from the start of next year. [Read more.](#)

PRIVATE EQUITY & VENTURE CAPITAL

China VC Weekly: Fintech, Biotech, Automation: In last week's VC news: Tencent-backed fintech firm Shenzhen Tengyin raises roughly \$15 million in a Series A+ round, Beijing-based biotech company EdiGene bags \$62 million, while automation powerhouse Liaye, founded by former Baidu employees, raises \$50 million. [Read more.](#)

Bytedance Says It Has No Immediate Listing Plans: Beijing-based ByteDance said on Friday that it was not ready to go public and it has no imminent IPO plans. [Read more.](#)

TECHNOLOGY & CONSUMER

Huya Lands Exclusive Rights For Chinese League Of Legends Events In \$310 Million Deal: Chinese live-streaming platform Huya Inc revealed it has signed a \$310 million media rights deal with the country's League of Legends operator TJ Sports, according to a filing to the US Securities and Exchange Commission. [Read more.](#)

Alibaba And Tencent Are In A Public Cloud Battle In Southeast Asia: On April 12, Tencent Cloud, the public cloud service department of the one of three biggest tech companies in China, announced a new facility in Jakarta, Indonesia. [Read more.](#)

HEALTHCARE

Scivita Medical Raises RMB 0.4 B To Build Innovative Endoscope Portfolio: Scivita Medical Technology Co., Ltd. has announced that it has raised nearly RMB 0.4 Billion in Series A funding round, which has become one of the highest financing projects in the field of endoscope in China in recent years. [Read more.](#)

Chen Yu Jumps Ship From Vivo Capital And Goes Large, Allying With The Column Group On An Inaugural \$824M Biotech Crossover Fund: Over the past 15 years, the crew at The Column Group have gathered more than \$2 billion together to pursue their game plan of fostering biotech startups. And it's been effective. [Read more.](#)

¹ 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.

² China's birth rate has continued to decline even after the end of the one-child policy. This is in line with the experiences of developed countries due to lifestyle choices associated with economic affluence where mortality rates are low.

Important Disclosures

The above information reflects opinions of Morgan Creek Capital Management, LLC ("Morgan Creek") as of the date it is written and, as such, all such opinions are subject to change. No representation or warranty, express or implied, is given by Morgan Creek as to the accuracy of such opinions and no liability is accepted by such persons for the accuracy or completeness of any such opinions. Further, Morgan Creek does not warrant the accuracy, adequacy, completeness, timeliness or availability of any information provided by non-Morgan Creek sources.

