

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.

Best Regards,

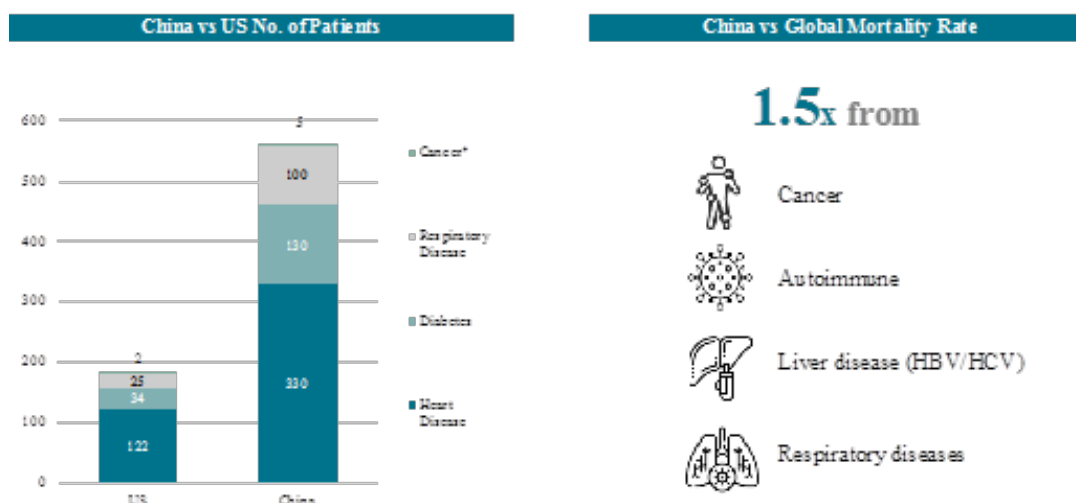
Mark W. Yusko
CEO & CIO

NOTES FROM THE BUND¹

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

Over the last couple of newsletters, we've discussed the consequences of the increasing chronic disease incidence derived from China's aging demographic challenge. China is the *de facto* leader in a variety of chronic illnesses globally, including cancer, where China has four times as many patients as the US. However, China is severely lacking in modern treatments with its mortality rate in cancer, for example, is 1.5x that of developed peers.

Figure 1: Comparison of chronic diseases in China vs developed countries²



We think China's unmet medical needs can be solved by bringing innovative treatments to China and building domestic service ecosystems to support future local innovation.

Bring innovative treatments to China

90% of the drugs registered in China today are generics.³ However, this is changing rapidly as the innovative drug segment contributes to over one quarter of China's pharmaceutical industry

revenue and is expected to grow over 10% annually in the coming years.⁴ There are many factors accounting for this recent growth, most critically: (i) the availability of returnee Chinese scientists and engineer talent, (ii) supportive government regulation, and (iii) healthcare-friendly private and public capital markets. There is a big opportunity to back managers and entrepreneurs who are able to connect talent and technology to bring existing and/or innovative treatments from developed countries to China and help them progress through the National Medical Products Association (“NMPA”) approval process.

Build domestic service ecosystems to support future local innovation

There needs to be a simultaneous upgrading of the service ecosystems domestically, which historically catered to serving the less complex needs of pharmaceutical companies that produced generic drugs. Today, specialized CROs⁵ (Contract Research Organizations) with strong project management and scientific expertise are increasingly in demand to help accelerate Chinese biotech companies’ R&D process from discovery through the various clinical trials and registration. The same is true of CDMOs (Contract Development Manufacturing Organizations), which are engaged to help streamline CMC (Chemistry, Manufacturing and Controls) processes as these innovative drugs advance along the development pipeline and begin manufacturing for commercialization.

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CHINA NEWS SPOTLIGHT

ECONOMY

China’s census: what is it and why is the latest population survey so important?: The decennial census is key to gauging changes in the size and diversity of China’s population, making it an essential tool for future government policies. [Read more.](#)

China’s steel prices spike on record raw material costs, raising inflation fears: The decision by Chinese steel mills to fire up prices amid soaring raw material costs has raised concern about inflation risks in the world’s second largest economy and the impact this may have on smaller manufacturers who cannot pass on higher costs. [Read more.](#)

PRIVATE EQUITY & VENTURE CAPITAL

Chinese Lifestyle Brand Platform Onion Global Debuts on NYSE: Known as the first Chinese e-commerce platform for lifestyle brands, Onion Global on May 7 formally went public at the New York Stock Exchange under the ticker symbol “OG”, offering 12.5 million American depository shares (ADS) and achieving the maximum increase of more than 57%. [Read more.](#)

Tencent-backed insurtech Waterdrop raises \$360M in New York IPO: Waterdrop, an online insurance technology company backed by Tencent, went public in the US on Friday, raising \$360 million. [Read more.](#)

TECHNOLOGY & CONSUMER

Didi Offers Details of Its Income Structure to End Rumors about Excessive Commission: Chinese ride-hailing giant Didi Chuxing offered details on the income it derives from ride-hailing services on its WeChat official account on Friday. [Read more.](#)

Beijing Ranks First in China for the Number of Unicorns: According to a report released this week by the Great Wall Enterprise Research Institute, in terms of the number of unicorn companies, Beijing ranked first in the country, with 82 companies last year, followed by Shanghai with 44 and Hangzhou with 25. [Read more.](#)

HEALTHCARE

WuXi Biologics completed three acquisitions to enhance its global network: WuXi Biologics, a global company with leading open-access biologics technology platforms, announced that it has completed the acquisitions of a Bayer manufacturing facility in

Wuppertal, Germany, the Pfizer China ("Pfizer") manufacturing facilities in Hangzhou, China as well as CMAB Biopharma Group ("CMAB"). [Read more.](#)

Samantha Du's Quan Capital, Lilly Asia back China's first big kidney play: It's been a good couple of years for kidney biotechs. Once a barren field, it has since been filled with new companies from blue-chip VC firms such as Arch, Versant and Third Rock. [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 United Nations, Department of Economic and Social Affairs, Population Division (2019), World Population Prospects 2019, Online Edition, Rev. 1. Data as of August 2019; McKinsey & Company, International Diabetes Federation 2017; NCCR, National Central Cancer Registry, CNS.

³ [China's Pharmaceutical Industry will be the world's largest in under 10 years - Daxue Consulting - Market Research China](#)

⁴ [China's Pharmaceutical Industry will be the world's largest in under 10 years - Daxue Consulting - Market Research China](#)

⁵ CROs conduct clinical trials and research support services for biotech and medical device companies.

Important Disclosures

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