

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@morgancreekc.com.

Best Regards,

Handwritten signature of Mark W. Yusko

*Mark W. Yusko
CEO & CIO*

NOTES FROM THE BUND¹

In our last newsletter, we continued a five-week discussion on the recent regulatory changes made by China, and the implications for both China's economy and the broader world economy by discussing the mindset and intentions of the Chinese government for implementing these changes. We will conclude the discussion this week with a wrap up of the proposed changes and the commitment of the Chinese government to implement the changes.

We should not underestimate the resolve of President Xi to restructure the economy. On October 23, 2021, he overcame overwhelming internal party opposition to push through a pilot property tax program. While the exact details are yet to be released, implementing a property tax in China is among the most difficult reforms to pull off given many party officials own multiple properties. As such, efforts to do so have been deeply unpopular among party officials and has effectively stalled since 2011. This has left China today as the only major economy not to feature a property tax, and frequently subjecting it to cycles of rampant speculation and debt-fuelled excess like Evergrande as a result.

President Xi's willingness to push ahead with this painful, but necessary, reform shows

the seriousness (and lengths) which the Chinese authorities will subject the country to in the near term in order to achieve their long term objective: a robust, sustainable economy driven primarily by high quality domestic consumption and production.

China's old economic model of development, while hugely successful, was also highly unbalanced. We think that the economic approach was deliberate as there were simply not enough funds to develop the entire country all at once. The authorities had to pick specific winners (whether this be provinces or industries, etc.) and direct resources to them at the expense of others. Chinese authorities themselves were aware of the model's limitations.

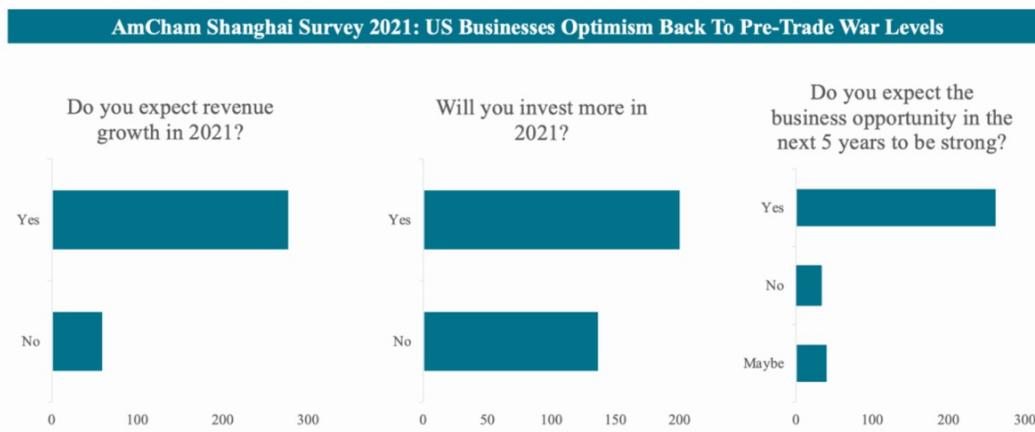
We believe increasing US-China competition finally provided the catalyst necessary to galvanize change internally towards a sustainable developmental model. Economic transformation, previously deferred due to complexity and vested interest, is now being pursued.

Investors, however, hate unpredictability. China, with its transitioning economy and evolving regulatory framework, has uncertainty in spades. And while the saying "crossing the river by feeling the stones" may bring discomfort to investors so used to certainty and consistency in their policy makers, we would like to provide a different perspective on what this phrase entails. Many are often paralyzed by the uncertainty of *feeling the stones* while missing the determined and unwavering vision of the future, the *other side of the river*, which the policy makers must reach.

We hope this white paper is able to shed some light on not just *why* the authorities are pushing for change in China, but also *why now*? It is important to further understand their general trajectory, and *how* they plan to get there to bridge potential misconceptions foreign investors may have. The Chinese word for danger, 危机, is a combination of the characters for "crisis" and "opportunity". As on-the-ground investors, while we see the uncertainty from this current "crisis", we also have our eye on the future at the other side of the river. We believe that investment and profit opportunities still exist in China's continued economic transformation.

We conclude with the diagram below derived from AmCham's most recent China survey, reflecting on-the-ground US companies' high optimism in their China operations.

Figure 1: US businesses in China upbeat about future prospects²



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CHINA NEWS SPOTLIGHT

China's ambassador continues to push to enlist US business allies against tariffs:

Flanked by port and trade union executives from Massachusetts, China's top diplomat in Washington denounced the US-China trade war on Friday, the latest effort to enlist the US business and trade community – and even some state governments – as potential allies to pressure Washington away from its hard-line China policy. [Read more.](#)

China's Middle East strategy stays focused on economic relations:

China's talks with Middle Eastern countries last week brought progress in economic cooperation, but little in other areas despite Beijing's desire to play a greater role in the region. [Read more.](#)

TikTok owner ByteDance cuts investment team amid China crackdown:

TikTok owner ByteDance is shrinking its investment team and dissolving a sub-group focused on financial returns in response to regulatory crackdowns in China, three sources familiar with the matter said on Wednesday. [Read more.](#)

China Sharpens Its Vision for the Digital Economy:

China's State Council published a blueprint on Jan. 12 for the development of the digital economy that aims to increase the contribution of core digital economy industries to 10 percent of gross domestic product (GDP) by 2025. [Read more.](#)

Shanghai mayor wants more chip production facilities to support new-energy vehicle growth:

Shanghai, home to Tesla's largest production base, wants to expand manufacturing capacity for automotive chips to support the rapid growth of smart electric vehicles (EVs). [Read more.](#)

Abbisko Therapeutics and Lilly partner to develop new molecules:

Abbisko Therapeutics and Eli Lilly and Company have signed a global partnership and exclusive licensing agreement to advance the discovery, development and marketing of new molecules, according to an announcement. [Read more.](#)

Neurophth Therapeutics Receives IND Clearance to Initiate Clinical Trial for China AAV-ND4 Gene Therapy NR082 in Leber Hereditary Optic Neuropathy:

Neurophth Therapeutics, Inc., (hereinafter referred to as "Neurophth"), today announced receiving the U.S. Food and Drug Administration (FDA) clearance of its investigational new drug (IND) application on the in-vivo gene replacement therapy NR082 (rAAV2-ND4), the first of its kind in China, for the treatment of Leber hereditary optic neuropathy (LHON) associated with ND4 mutation. [Read more.](#)

Lupin ties up with China's Fancoo Pharma:

Lupin Ltd., a pharmaceutical company, said it has entered into a partnership with Shenzhen Fancoo Pharmaceutical Co. Ltd (Fancoo) of China to market its generic & complex generic medicines in that country. [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 The survey result was based on the responses of 338 AmCham members to a survey conducted from mid-June to mid-July 2021. Several industries were

represented in the report, including automotive, education, logistics, manufacturing, pharmaceuticals, non-consumer electronics and retailers.

Important Disclosures

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