

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

Over the next four weeks, we will discuss in depth the Chinese political system, and the implications for both China's economy and the broader world economy.

China has experienced a surge in regulatory activity over the last 12 months, confounding many international investors over its seemingly random approach to decision making. We will present a framework with which we analyzed the drivers, means and future direction we believe regulation is moving China toward. In the next four newsletters, we dive deeper to investigate the critical components of the decision-making machine itself.

Questions we will explore include:

- What is the core belief of the Chinese which underlies the design of their political system?
- How is their system designed to solve problems?
- What are its constraints?
- This system has proven effective in the past, but can it endure?

We will walk through our views below:

- The system is pragmatic and results-oriented
- At the core of the model is experimentation and rapid iteration. Failures are discontinued and successes are replicated widely. China has institutionalized this approach over many decades by designing organizations to (i) recruit and promote capable officials and (ii) provide accurate and timely feedback to improve
- The three important constraints of this system are: (i) ossification, or the capture of the system by elites for their own benefit; (ii) continued willingness to commit to the model regardless of failure; and (iii) failure of feedback mechanisms due to overconfidence or fear from subordinates
- The Chinese authorities have successfully reinvented their system to adapt to the rapidly changing global environment. The future will tell if this current approach continues to deliver for China, but given the model's adaptability and strong track record, we think the odds are favorable that this model will endure

"It doesn't matter if the cat is black or white as long as it catches mice"

Deng Xiaoping

The Chinese people have always been pragmatic, a trait cultivated over millennia in people who have had to compete with one another intensely over extremely scarce resources. Their obsessively practical approach towards life is preserved and illustrated in the core principles behind their earliest philosophies and religion.

While the first western philosophers [turned their eyes towards the heavens](#) in the pursuit of universal truth², Chinese philosophy was primarily [centered around the mundane](#) task of organizing society around limited resources to avert conflict.

Religion was subject to the same pragmatic scrutiny. Recent archaeological discoveries of [oracle bones](#), or ancestor/diety consulting tools used during the Shang dynasty (1600-1046 B.C) to predict outcomes of hunts or harvests, showed that the ancient Chinese tracked the [efficacy of their oracles](#) by recording eventual outcomes with initial advice given. A successful track record would determine which ancestor/diety would continue to be worshiped.

This single-minded focus on practical results underlie many Chinese attitudes to this day. Recognizing this Chinese tendency is vital to comprehend the motivation at the core of all of China's institutions.

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CHINA NEWS SPOTLIGHT

China's immigration policy to continue to be strict but avoid one-size-fits-all approach: With many expressing concerns about whether China's immigration policies will be relaxed in the new year, the National Immigration Administration said on Thursday that amid the ongoing pandemic it will continue to adopt a strict policy but will avoid oversimplifying matters and "one-size-fits-all" solutions. [Read more.](#)

CNIPA's Trademark Examination and Trial Guide (No. 462) Comes into Effect: The detailed guidelines for Trademark Examination and Trial, which were issued by

China's National Intellectual Property Administration (CNIPA) in November 2021, came into effect on 1 January 2022. [Read more.](#)

China's industrial profits rebound in 2021 as production improves: Profits of China's major industrial firms surged 34.3 percent year on year in 2021 as industrial production recovered and profit margin improved, official data showed on Thursday. [Read more.](#)

Lenovo invests nearly US\$50 million into its chip-design ambitions: Lenovo has become the latest PC company with the resources to pair the future of its hardware with first-party chipsets. [Read more.](#)

China conditionally approves AMD's \$35 bln deal for Xilinx: China's market regulator has conditionally approved semiconductor group Advanced Micro Devices Inc's (AMD.O) \$35 billion all-stock deal for peer Xilinx (XLNX.O), it said on Thursday. [Read more.](#)

Early trial win bolsters Abogen entrant in China's COVID-19 vaccine race: With phase Ib data published in The Lancet Microbe showing Suzhou Abogen Biosciences Co. Ltd.'s mRNA COVID-19 vaccine candidate ARCoV had acceptable safety and induced a strong immune response in the 120 people who received it, company partner Walvax Biotechnology Co. Ltd. is continuing to enroll participants in a large phase III test of the vaccine. [Read more.](#)

Hope Medicine Announces US FDA Clearance for Phase II Clinical Trial of A First-in-class Monoclonal Antibody, HMI-115, in Androgen Alopecia: Hope Medicine Inc. ('HopeMed'), a clinical stage innovative biopharmaceutical company, has recently announced that U.S. Food and Drug Administration (FDA) has approved its Investigational New Drug (IND) application for phase II study to evaluate HMI-115, a first-in-class monoclonal antibody drug in treating androgen alopecia. [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 pursuit of truth in western philosophy led to the foundations of modern science. Some Chinese researchers argue, not unconvincingly, that China's overly [practical emphasis caused local scientists to ignore basic research](#) (which impeded its long-term technological progress) to pursue faster application-oriented outcomes, resulting in China missing out on a [scientific revolution](#) similar to its peers in the West. The Opium War opened China's eyes to the technological gap between itself and the developed world and jumpstarted its pursuit of basic science for its own sake as a practical necessity. The authorities most recently [doubled down on this stance](#) again.

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