

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@morgancreekap.com.

Best Regards,

Handwritten signature of Mark W. Yusko

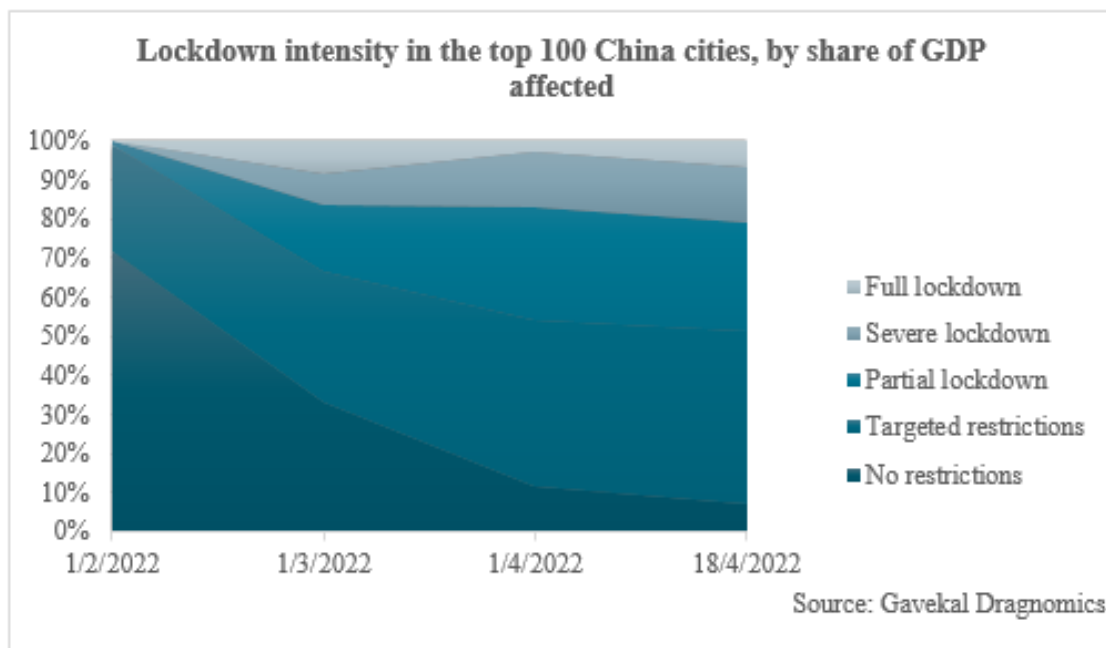
Mark W. Yusko
CEO & CIO

NOTES FROM THE BUND¹

Currently, half of the provinces in China are in some form of lockdown. A report by Gavekal Dragnomics found that all but 13 of China's top 100 cities (by GDP) were implementing COVID-19 restrictions. Most notably, Shanghai has experienced the most severe quarantine measures, having been in full lockdown since late March.

In the next couple newsletters, we will discuss:

- China's rationale and commitment to "zero COVID-19"
- Why cases exploded in Shanghai and lessons for other Chinese cities
- Impact of the lockdowns on the Chinese economy
- Measures the Chinese authorities are taking to support domestic GDP



China's "zero tolerance" policy

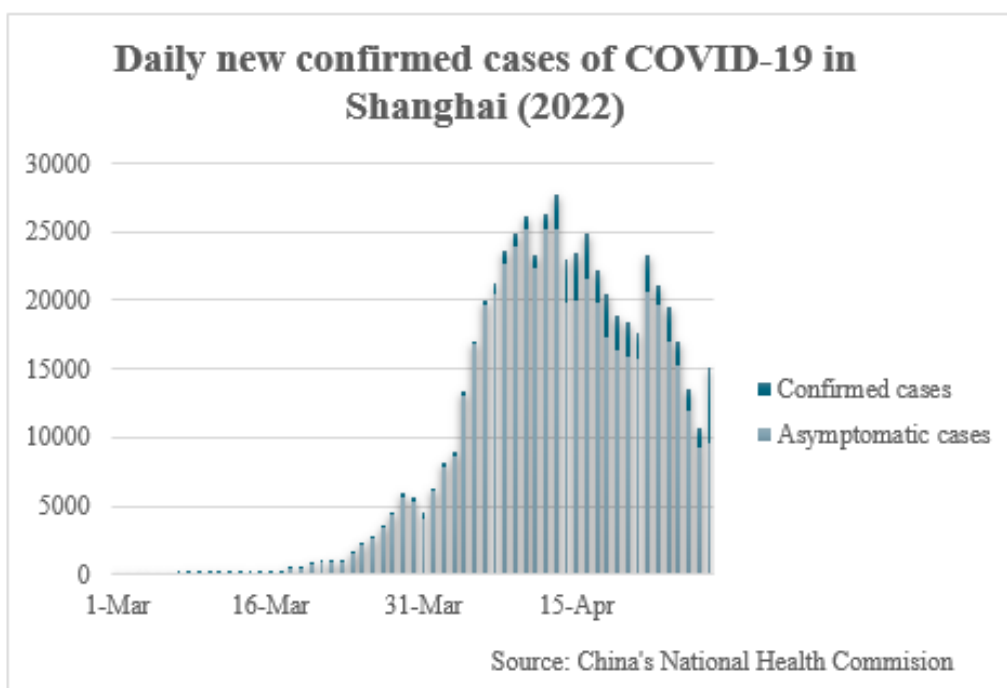
China is the only country today in the world that is still adhering to a zero COVID-19 policy, with many countries now treating COVID-19 as endemic like the flu. This stance has proved challenging for China to adopt for a number of reasons.

First, the flu is not currently recognized as an endemic within China. In 2020, only [70 people](#) were officially registered as dying from influenza; this compares to [20,000 deaths reported](#) in the US in the same year. This difference in accounting, where China historically attributed death to flu-related causes like bacterial infections, or organ failure as opposed to assigning it to the flu itself makes it difficult for China to accept such a significant COVID-19 death toll.

And given the size of the population and current vaccination rates, the death toll will be significant: China has 52 million seniors over 60 who have yet to receive two doses of any COVID-19 vaccine and remain especially vulnerable. It has a similar COVID-19 under vaccinated population to Hong Kong, which has just recovered from a [devastating fifth wave of infections](#). If we assume the same mortality rate which Hong Kong experienced², approximately 1.6 million Chinese people could die from COVID-19.

This is an unacceptable outcome for the Chinese authorities, who have not too long ago touted its [robust track record in containing the disease](#).

Furthermore, even with the current [60,000](#) people in Shanghai who have contracted COVID-19, medical resources in the city are already overwhelmed. The risk of uncontrolled, rapid and massive spread bringing down China's healthcare system is one the authorities are unwilling to take. This is not to mention the huge existing number of asymptomatic carriers, which is currently the biggest challenge China faces in making its lockdowns effective.



China was a victim of its own prior successful containment achievements as many elderly and their families opted not to vaccinate. Shanghai's lockdown allows Shanghai and the rest of the country [time to vaccinate](#) for better protection against the Omicron variant. According to [a study in Hong Kong](#), Sinovac has proven effective, with people over 60 infected with COVID-19 experiencing a severe and mortality rate of 3.5% and 1.1% with two doses of Sinovac, which then drops to 0.3% and 0.1% with three doses.

Lack of quick, decisive actions resulted in extended Shanghai citywide shutdown.

Ironically, it was the lack of implementation of strict citywide lockdowns in Shanghai initially when the Omicron variant was discovered that caused the situation to spiral out of control. Shanghai adopted a series of partial lockdowns, which was more economically palatable and which proved historically sufficient in containing prior COVID-19 variants.

This conservative approach towards lockdown can be contrasted with Shenzhen, which experienced an outbreak almost simultaneously. In Shenzhen, the local authorities announced an immediate closure of the city when counts were just in the double digits, and contained all local cases. Shenzhen was able to reopen one week later.

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CHINA NEWS SPOTLIGHT

Beijing cuts mortgage rates for first-time homebuyers to revive property market: In an effort to revive the country's property market, Beijing will let banks cut the lower limits of interest rates for first-time homebuyers by 20 basis points, Chinese regulators said on Sunday. [Read more.](#)

China withdraws as 2023 football Asian Cup host due to pandemic: China withdrew as the 2023 Asian Cup host because of the coronavirus as the country battles its worst outbreak since the early days of the pandemic. [Read more.](#)

China Inflation Exceeds Forecasts as Lockdowns Roil Supplies: China's factory and consumer prices rose faster than expected in April as Covid lockdowns battered supply chains and pushed

people to stockpile food. [Read more.](#)

China launches antitrust investigation into biggest academic database CNKI: China’s market regulator on Friday said it had launched an antitrust investigation into the country’s largest online academic database, the China National Knowledge Infrastructure (CNKI). [Read more.](#)

New York-listed China property platform KE Holdings debuts in Hong Kong: Chinese property platform KE Holdings debuted on the Hong Kong Stock Exchange on Wednesday, becoming the second New York-listed firm recently to carry out a so-called listing by introduction. [Read more.](#)

Chronic Hepatitis B Pipeline Analysis: Emerging Therapies, Key Companies, and Treatment Outlook: DelveInsight’s 'Chronic Hepatitis B Pipeline Insight 2022' report provides comprehensive global coverage of available, marketed, and pipeline Chronic Hepatitis B therapies in various stages of clinical development, major pharmaceutical companies are working to advance the pipeline space and future growth potential of the Chronic Hepatitis B pipeline domain. [Read more.](#)

Ready to go to FDA, can Hengrui's China-made PD-1 liver cancer immunotherapy change the tides?: After two FDA rejections against China-made cancer immunotherapies this year, another Chinese pharma hopes it has the data to crack the agency’s doors open. [Read more.](#)

China’s NMPA Proposes Implementing Regulations for the Drug Administration Law: China’s National Medical Products Administration (“NMPA”) recently announced a comprehensive draft amendment (“Draft Amendment”) to the Implementation Regulation of the PRC Drug Administration Law (“DAL Implementing Regulations”). [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 As of May 5, 2022, Hong Kong registered over 9,000 deaths in a population of 1.21m COVID-19 patients.

Important Disclosures

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