

# 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](mailto:chinateam@morgancreekc.com).

Best Regards,

Mark W. Yusko  
CEO & CIO

### **NOTES FROM THE BUND<sup>1</sup>**

In response to COVID, governments around the world embarked on a combination of extraordinary fiscal and monetary stimulus to fill massive demand shortages created by the pandemic. In the US, the Federal Reserve more than doubled the size of its balance sheet, already at a record post the Great Financial Crisis, in less than two years.

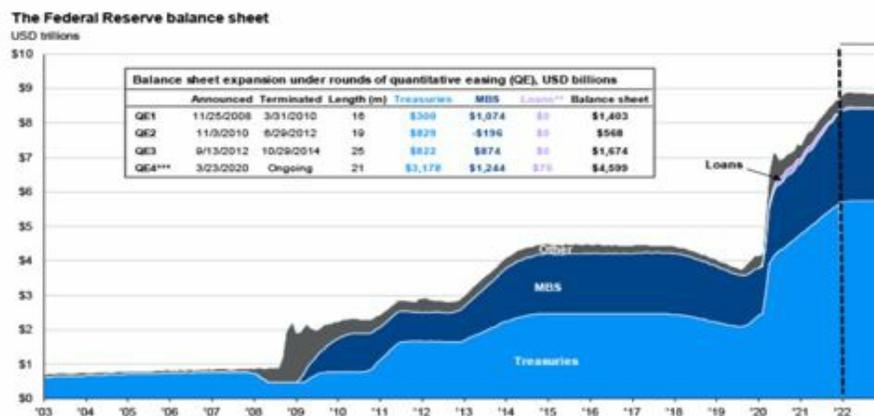


Figure 1: [Global Fiscal Mandate as a Result of the Pandemic](#) (Source: FactSet, Federal Reserve, J.P. Morgan Investment Bank, J.P. Morgan Asset Management.)

This stimulus helped prevent what would likely have been an extremely severe recession but came also with consequences that we are just beginning to uncover. One of those consequences is the asset bubble, which manifested itself in the IPO markets.

The next two newsletters will explore the impact of this liquidity on the two largest IPO markets in the world – US and China. In this issue, we will begin by recapping the performance of both these markets in 2021 to provide a point of reference.

Buoyed by a wall of liquidity in 2020 and 2021, a record number of IPOs occurred with the amount of funds raised globally increasing dramatically by [49% and 55%](#), respectively. The chart below shows both number of deals as well as IPO dollar proceeds reaching a high-water mark in 2021, despite the outbreak of one of the deadliest pandemics in human history.



Figure 2: Number of Global IPOs and Proceeds in US\$ billion over time



Figure 2: [Global IPO proceeds in 2020 and 2021](#)

The five largest exchanges globally are based in the top two economies – the U.S. and China. As illustrated in Figure 2, there was no significant differential in aggregate dollars raised between the two markets in 2020. In 2021, however, the amount raised on NASDAQ was greater than the combined proceeds raised on the Shanghai and Hong Kong exchanges.

### Hong Kong Stock Exchange (HKSE)

The HKSE experienced a moderate increase in IPOs, benefitting from a continuing trend of homecoming listings, which contributed to [27% of IPOs by proceeds](#). A homecoming listing is when a company chooses to list in the country where it is incorporated (or earns most of its revenue from) in the form of a secondary listing. [Technology \[38%\] and life science \(23%\)](#) companies were the top contributors to IPOs in the HKSE. HKSE has a pipeline of more than 180 companies looking to go public in 2022.

## A-share

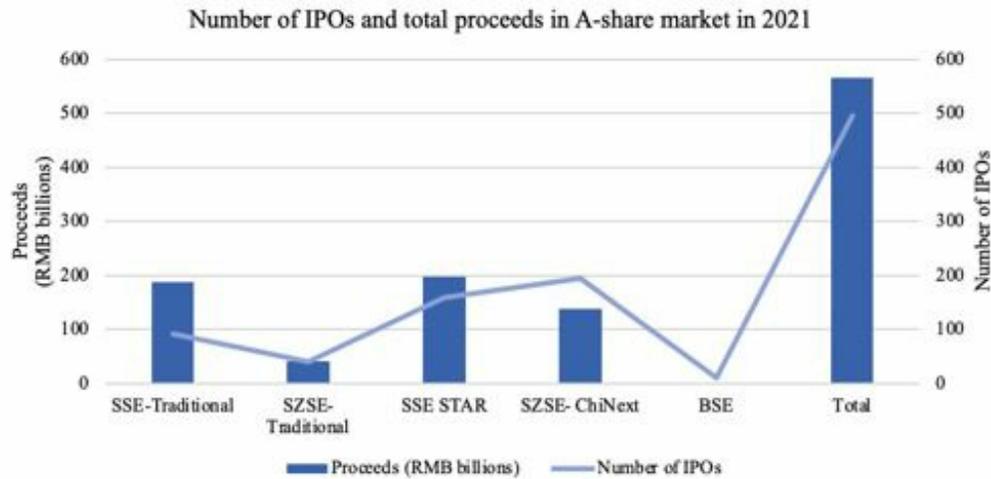


Figure 3: [Number of IPOs and total proceeds in 2021 in A-share market](#)

The A-share market hit a historic high of fundraising in 2021, up [20% from the prior year to RMB565.0B](#). The STAR board (formally recognized as the Shanghai Stock Exchange Science and Technology Innovation Board), ChiNext and newly launched Beijing Stock Exchange (BSE) accounted for most of the funds raised domestically, representing [73% of the market by number of deals and 60% of the market by total proceeds](#). These exchanges primarily support innovative small and medium innovative technology and healthcare enterprises.

The chart below illustrates this trend, with the declining share of traditional (real estate, infrastructure, industrials) IPOs represented by Shanghai and Shenzhen listings.

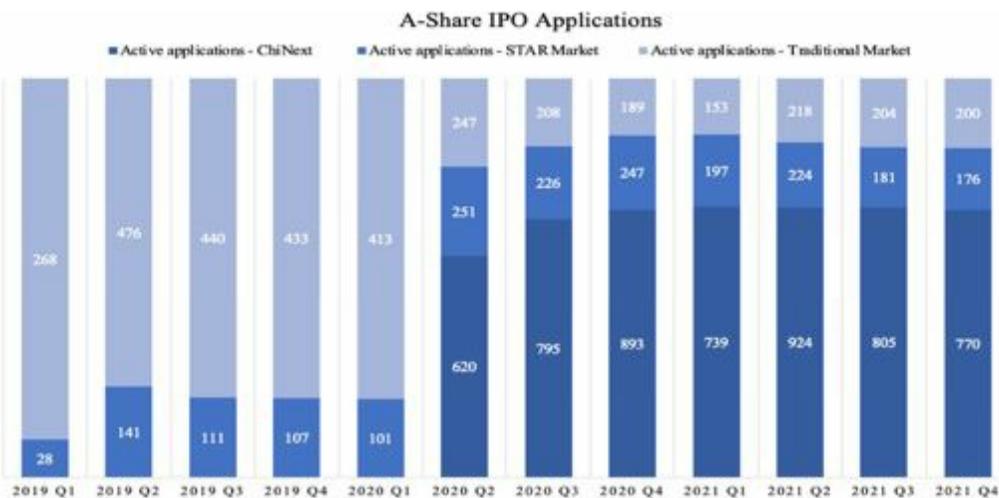


Figure 4: [A-share IPO Applications](#)

The A-share market is expected to continue its robust growth in 2022 with 779 active applications filed for IPO.

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### CHINA NEWS SPOTLIGHT

**China in Longest Streak of Liquidity Withdrawals Since February** : China's central bank drained cash from the banking system for a seventh straight day as market rates plummeted amid

ample liquidity. The People's Bank of China withdrew a net three billion yuan (\$442 million) in open market operations on Tuesday, draining a total of 18 billion yuan since July 25. That's the longest period of net withdrawals since February in open market operations. [Read More.](#)

**One of the Decade's Hottest Bond Markets Is Imploding in China:** When investor demand for Chinese property debt was approaching its peak back in 2018, a banker could pull together the makings of a multi-million dollar deal during a Saturday boat trip around Hong Kong's harbor and barely look up from her drink while doing it. Now, the \$203 billion market—which once yielded several deals a week and padded portfolios across the world from Pimco to UBS—is all but dead. In addition, offshore investors are swallowing almost all of the losses. [Read More.](#)

**Baidu's Robotaxis Don't Need Any Human Staff in these Parts of China:** Chinese tech company Baidu said Monday it has become the first robotaxi operator in China to obtain permits for selling rides with no human driver or staff member inside the vehicles. The local government approvals allow Baidu's Apollo Go robotaxi business to eliminate the cost of human personnel in some instances. The initial scale of the permits is small: 10 robotaxis divided between two suburban areas of Wuhan and Chongqing, two major Chinese cities. [Read More.](#)

**TikTok Rival Kuaishou Enters Chip, Cloud Sectors:** China's second-biggest short video platform Kuaishou Technology has unveiled its first self-developed chip to power high-quality video livestreaming and launched a cloud video business arm to help companies generate and distribute their own video content. The SL200, which has started in-house testing, is an intelligent video processing system-on-chip for live video-on-demand applications, Senior Vice President Yu Bing told Yicai Global yesterday. [Read More.](#)

**China Chipmaker Hygon Makes Strong Debut on Shanghai Startup Market:** Chinese chipmaker Hygon Information Technology debuted Friday on the market here for technology startups at almost double its initial public offering price, giving it a market capitalization of 139.6 billion yuan (\$20.7 billion). The stock opened at 70 yuan on the Shanghai Stock Exchange's tech-focused STAR market, 94% higher than the IPO price of 36 yuan, buoyed by strong growth expectations. [Read More.](#)

**BeiGene Touts Positive PhIII Data on Tislelizumab in Aftermath of Setbacks at FDA:** After the FDA indefinitely delayed its decision on BeiGene's Novartis-partnered PD-1 drug candidate tislelizumab as a monotherapy for esophageal cancer, Novartis announced that it was scrapping a second application for non-small cell lung cancer. However, BeiGene is holding out hope that there's yet another way to expand the drug's market outside of China. BeiGene put out word Tuesday morning that a Phase III open-label global study, named RATIONALE 301, met its primary endpoint of non-inferior overall survival (OS) versus sorafenib as a first-line treatment in adults with unresectable hepatocellular carcinoma (HCC). The company claimed that the trial, which enrolled more than 600 patients from the US, Europe and Asia, showed a consistent safety profile from previous studies involving tislelizumab and reported no new safety signals. [Read More.](#)

**Zai Lab to Shop Around CD47 After Deciding to 'Deprioritize' Internal Development :** Another competitor in the anti-CD47 race is throwing in the towel. Zai Lab has determined "due to the competitive landscape," that internal development of monoclonal antibody ZL-1201 will be deprioritized. Zai's decision—disclosed in the company's second-quarter earnings report—comes after the company had just landed on a recommended phase 2 dose in July. But as tantalizing a prospect as CD47 has been, it's been tough sledding for pharmas trying to target it. [Read More.](#)

<sup>1</sup> 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.

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**Important Disclosures**

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