

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

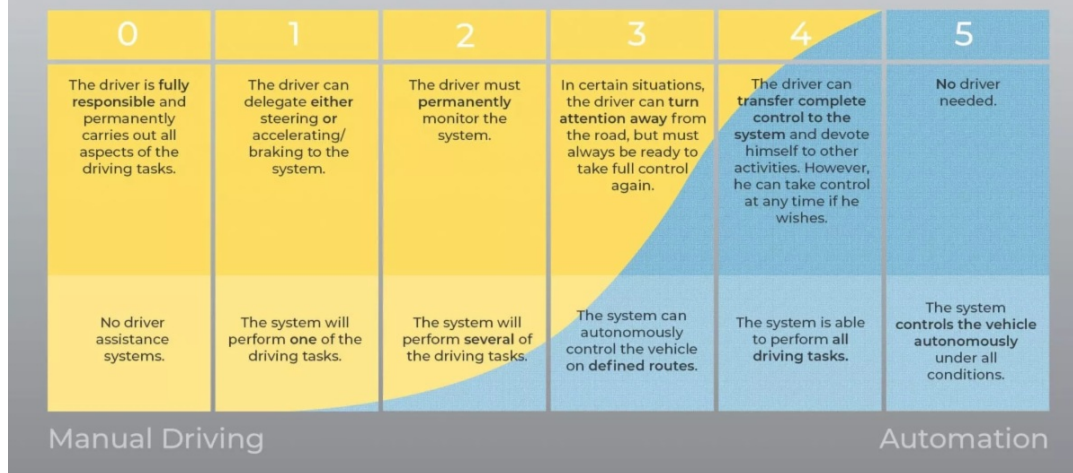
*Mark W. Yusko
CEO & CIO*

NOTES FROM THE BUND¹

In our last newsletter, we continued a three-part discussion and introduced Manbang, a Chinese company seeking to empower mom and pop truck drivers. In this newsletter, we will introduce Inceptio, a Chinese company formed in 2018 that as opposed to Manbang, solves the problems of larger truck fleets by reducing reliance on truck drivers.²

The estimated salary for truck drivers in China is expected to increase by 47% over the next five years (CAGR of 8.0%).³ Furthermore, as discussed previously, the turnover of truck drivers in China is over 80% per year, thus making it even more difficult to find skilled drivers.

Inceptio solves this problem for truck fleets by automating driving to a large extent, reducing reliance on experienced truck drivers. To understand Inceptio's business model, it is important to understand how autonomous driving capabilities are categorized. There are five levels of autonomous driving, shown below.



Source(s): China Business Industry Research Institute, Qianzhan, China Merchants Securities, China Automobile Dealers Association, Deloitte Research, Company Presentation
 Note(s): 1. Data as of 12/31/2020 USD Billion

Figure 1: Levels of autonomous driving⁴

Autonomous driving, as it is widely understood, starts from level 3 where it allows vehicles to drive on predefined routes with less attention required from the driver as compared to auto driving. Level 4 means that a system is able to perform all tasks but a driver may be needed for some activities. Inceptio is currently mass-producing level 3 autonomous driving trucks and has begun road testing its level 4 trucks.

Inceptio level 3 technology is expected to provide overall cost savings of 19% (figure 11) from a non-autonomous truck. These cost savings come from two sources - reduced wage bill due to the need to have only one truck driver (as opposed to two for long routes) whose workload is reduced by 90%, increased fuel efficiency due to artificial intelligence reducing fuel wastage. Inceptio's autonomous trucks are only 10% more expensive than non-autonomous trucks and thus there is a direct net savings for fleets who utilize Inceptio's L3 trucks.

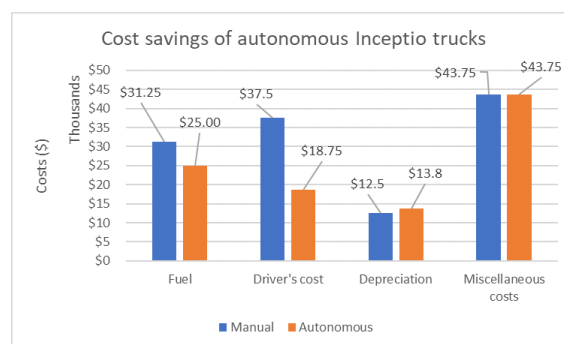


Figure 2: Cost savings due to level 3 technology⁵

More importantly, fleets who utilize Inceptio trucks can run their business while managing a smaller trucker pool of less experienced truckers. This will allow them to scale their business and better achieve economies of scale. Inceptio has amassed many large customers and most recently raised over \$270 million in Series B funding rounds giving it sufficient funds to begin commercializing its L3 trucks this year.

[Click here](#) to see back issues of New China Perspectives

China promotes coal in setback for efforts to cut emissions: China is promoting coal-fired power as the ruling Communist Party tries to revive a sluggish economy, prompting warnings Beijing is setting back efforts to cut climate-changing carbon emissions from the biggest global source. [Read more.](#)

China unveils long-awaited Pillar 3 pension framework: A major piece of China's pension puzzle fell into place last week with Beijing's long-awaited announcement of a framework for the country's fledgling private pension third pillar. [Read more.](#)

How the U.S. Is Moving Closer to Delisting Chinese Firms: Some big-name Chinese stocks including Alibaba Group Holding Ltd. and Baidu Inc. face the prospect of getting kicked off the New York Stock Exchange and Nasdaq if they refuse to let U.S. regulators see their financial audits. [Read more.](#)

Logistics Platform GOGOX to Go Public in Hong Kong: On April 24, Chinese logistics platform GOGOX submitted an application for a public listing on the Hong Kong Stock Exchange (HKEx). [Read more.](#)

NetEase's Cloud Music sues Tencent Music, claims unfair competition: NetEase's Cloud Music unit has sued Tencent Music Entertainment (TME) (TME.N), accusing it of unfair competition and plagiarizing its app design, the company said on Wednesday. [Read more.](#)

China to end regulatory storm over Big Tech and give sector bigger role in boosting slowing economy, sources say: China is scheduled to have a symposium with the country's Big Tech firms on the heels of the Politburo meeting on Friday, raising hopes that Beijing will stop its sweeping regulatory clampdown on the tech sector and give internet platforms larger roles to help prop up the ailing economy, according to two sources briefed on the situation. [Read more.](#)

Biocytogen Enters into Antibody Agreement with Merck: Biocytogen Pharmaceuticals (Beijing) Co., Ltd. (Biocytogen) announced that it has entered into an evaluation and option agreement with Merck to grant them a sole license to evaluate Biocytogen's proprietary antibodies against at least three distinct targets with an option to acquire some of the assets at a later date for therapeutic product development for all uses worldwide. [Read more.](#)

IONOVA Announces Clinical Trial Collaboration with MSD to Evaluate INV-1120 in Combination with KEYTRUDA® (pembrolizumab) in Patients with Advanced Solid Tumors: Shenzhen IONOVA Life Science Co., Ltd. announces today it has entered into a clinical trial collaboration agreement with MSD (Merck & Co., Inc., Kenilworth, NJ., USA) to evaluate clinical benefits of INV-1120, IONOVA's EP4 antagonist, in combination with MSD's anti-PD-1 therapy, KEYTRUDA® (pembrolizumab) for cancer treatment. [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 average truck driver earns around CNY 8900 per month.

³ <https://www.salaryexpert.com/salary/job/heavy-truck-driver/china>

⁴ <https://www.blickfeld.com/blog/levels-of-autonomous-driving/>

⁵ https://www.youtube.com/watch?v=rwYPaAli_I

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