

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 in black ink.

Mark W. Yusko
CEO & CIO

NOTES FROM THE BUND¹

"History never repeats itself. Man always does." – Voltaire

Cycles exist all around us. The most obvious natural cycles include the changing seasons and the journey from birth to death. Even the Sun, the center of our solar system and an important reason behind life on earth is subject to an 11-year solar cycle. Man-made cycles are prevalent in many aspects of our lives, for example in the economy, where we experience persistent business cycles of expansion and contraction.

In this issue, we will explore man-made cycles: what they are, what drives them, and why humans continue to use them. Aside from being an interesting thought exercise, there are important investment implications to cycles. Studying previous cycles can be a useful to investors as it may inform them where they are within a particular cycle, and how to position capital given external environments.

To understand the universality of these cycles across all human organizations over time, we will discuss a broad framework to trace, what we believe to be, similar developments of industries and civilizations. In this newsletter, we will briefly walk-through the key points of this framework and in the coming newsletters will attempt to apply it to explain the cycles of imperial China (newsletter 2) and the telecom industry (newsletter 3).

Humanity has experimented with many different political² and economic models³ over the millennia. There has always been no shortage of optimists proclaiming that man, this time, has uncovered "the invention to end all inventions" at the beginning of each cycle. There are many examples: the arrival of radio in the 1920s, the internet in the 1990s, and blockchain today, which all were accompanied by great predictions of a new era of democratization for the masses. After the fall of the iron curtain and the disintegration of the Soviet Union, people

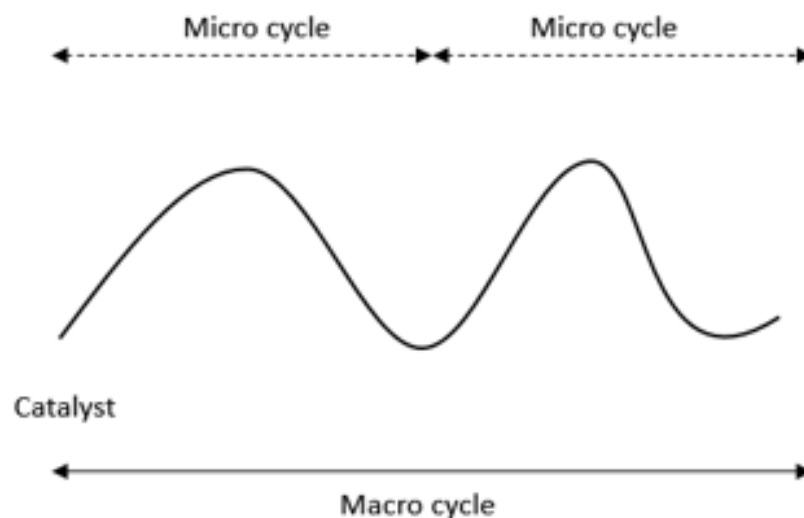
even declared that humanity had reached its evolutionary endpoint in government systems – liberal democracies.⁴

While humankind has found various levels of success with the different systems conceived at different points in time, we have yet to successfully find a single model that has proven itself capable of enduring forever. Nothing in life is constant, except change⁵ and a cursory study of history uncovers that over the long term all of our systems, swing back and forth between open and closed; centralized and decentralized; order and disorder. Continuing from our former example, 90% of traditional media (including the radio) is owned by six companies today⁶; the market share for social media over the internet is even more extreme: just two companies, Facebook and Google account for over 80% of the revenue of the top ten social media companies.⁷

The central driver of all man-made cycles is self-interest. Human history shows that once any system is established, interested groups will form to influence it (at best) or capture it (at worst) so the system works to its advantage. The resulting damage is controllable in the early innings of a system's cycle, where interest among different factions generally aligns, but becomes increasingly problematic when certain factions begin to dominate and demand an outsized portion of the pie.

The system either gets reset or replaced. However, as it is with the natural laws of inertia, the longer a system is established and running, the more difficult it is to pursue a course reset within the same framework.

We discuss our simple framework below, highlighting just the catalyst and two cycles.



- **Catalyst:** At the beginning of every revolution is an enabling catalyst. This could be the idea behind a new governance system (in the case of politics) or new technology/infrastructure that allows for the rise of a new technology platform (in the case of industries).
- **Macro cycle:** The macro cycle tracks the series of cycles (rise and fall) of successive governments/dynasties (in the case of politics) or new technology platforms (in the case of industries). An example of the latter using the telecommunications space, technology platforms would include the telegraph, the telephone, radio, TV, the PC, smartphones, etc.
- **Micro cycle:** The micro cycle follows the rise and fall of a single government/dynasty or new technology platform.

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CHINA NEWS SPOTLIGHT

China Sets Modest Growth Target of about 5% as Parliament Opens: China set a modest target for economic growth this year of around 5% on Sunday as it kicked-off the annual session of its National People's Congress (NPC), which is poised to implement the biggest government shake-up in a decade. [Read More.](#)

China Accelerates New Industrialization to Bolster Real Economy - MIIT: China's pace of pushing its "new industrialization" strategy has continued to significantly accelerate in the past decade which further sharpened the country's competitive edge with vast improvements in the manufacturing and digital sectors, said the Ministry of Industry and Information Technology (MIIT) on Wednesday. [Read More.](#)

Oil Down on China Outlook, Spotlight on Powell Testimony: Oil prices fell on Monday after China set a lower-than-expected target for economic growth this year at around 5%, and as investors cautiously awaited U.S. Federal Reserve Chair Jerome Powell's testimony this week. [Read More.](#)

China Favors Chips, AI Executives Over Internet Tycoons at Top Political Meetings: A number of prominent Chinese internet executives have been left out of the country's top political meetings in Beijing this week, giving way to experts in artificial intelligence and semiconductors as Chinese leader Xi Jinping's priorities shift amid rising technology competition with the US. [Read More.](#)

Lithium Price Slide Deepens as China Battery Giant Bets on Cheaper Inputs: Rare discounts offered by Chinese battery giant CATL (300750.SZ) to automakers have accelerated a plunge in lithium prices, and the market is set to drop a further 25% with supply growth outpacing demand, analysts and traders say. [Read More.](#)

Nvidia's Plans for Sales to Huawei Imperiled if U.S. Tightens Huawei Curbs-Draft: A biotech U.S. chipmaker Nvidia Corp's plans to sell technology to China's Huawei would be thwarted if the U.S. government proceeds with a proposal to further restrict shipments to the blacklisted company, a draft report by a government contractor shows. [Read More.](#)

Xiaomi Billionaire Leads New Fund to Boost China's Chip Industry: Smartphone giant Xiaomi Corp., founded by Chinese tech billionaire Lei Jun, has set up a fund to invest in China's chip industry, the latest effort to shore up the sector targeted by U.S. restrictions. Xiaomi and software and cloud company Kingsoft Corp. are investors in the 10 billion yuan (\$1.45 billion) fund, which is also backed by a handful of government-backed investors, according to a Kingsoft regulatory filing announcing the fund.. [Read More.](#)

BeiGene doubles sales as Brukinsa, tislelizumab gear up for key launches: In 2022, BeiGene's product revenues reached \$1.25 billion, up nearly 100% from \$634 million in 2021. BTK inhibitor Brukinsa continued to expand in blood cancer, with its 2022 sales swelling 159% to \$565 million. And amid fierce PD-1/L1 competition in China, tislelizumab managed a 66% sales increase to \$423 million.. [Read More.](#)

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¹The 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.

²There are many political systems historically, including democracy, communism, socialism, monarchy, etc.

³The three main economic systems include command, market and mixed.

⁴The end of history and the last man, Francis Fukuyama. After reaching [peak in 2012 with 97 electoral democracies](#) worldwide, the trend has begun to reverse. Many of the western democracies today are extremely polarized and even the US, which styles itself as the bastion of democracy, has experienced some setbacks including an insurrection in January 2022. Democracy as many envisage today (universal suffrage, one man/ woman, one vote) is also relatively young: it was only after the Voting Rights Act of 1965 that [black women could vote freely](#)

⁵Quote from Greek philosopher Heraclitus (535 BCE).

⁶Media consolidation in the US, Tacoma Community College

⁷[The top 10 social media sites & platforms 2022](#) SEJ Media

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