



# **SINTRA FUND, LTD.**

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## Report to Shareholders of the Sintra Fund, Ltd.

March 2018

March 29, 2018

Dear Investor ,

We are pleased to provide this report for the month of March 2018. The exact monthly investment performance figures will be sent to investors later in April, once the results are calculated by International Fund Management Corp., the Fund's calculation agent.

In keeping with March tradition of coming in like a lion, we found the following fact to be particularly powerful in capturing the paradigm-shifting consolidation of power transpiring in China recently:

**In early March, on the day when term limits for the Chinese president were eliminated, Chinese stocks with the name "Emperor" in the title, rose an average of 5%!**

Further, President Xi Jinping's anti-corruption campaign has incarcerated over 1.3 million people, including a comprehensive purge of political enemies. The March 2018 Party Congress also approved the extension of the anti-corruption campaign. Thus, the pressures on those opposed to "Emperor" Xi Jinping will continue, while these recent political moves and others sure to come make Xi increasingly "bulletproof" politically behind his bulwark of institutional support.

Providing a stark contrast to Xi Jinping's masterstrokes in hoarding so-called "soft power," we find ourselves assessing domestically the initiative from President Trump's administration. Namely, the tariff program which wasted no time in negatively affecting global markets. In short, this sabre rattling has only further destabilized the placidity of global markets. At this time, we are awaiting new developments to see if the situation worsens and creates further volatility.

While in Asia this month, I spent time with Yum China's management, whose company oversees and owns the KFC (Kentucky Fried Chicken) and Pizza Hut outposts in China. Yum

China has flourished over the past 18 months since its separate listing. Case in point, 4 billion chickens were consumed in China last year alone; Yum China is responsible for 1/4 of the amount or 1 billion chickens! In 2017, the company opened 800 new stores, bringing its current Chinese footprint to over 8,000 stores and 433,000 employees. Looking ahead, Yum China's goal is to continue the current expansion strategy, ultimately growing to over 20,000 stores.

While this is hardly a newsflash, it's worth noting that it is not easy to do business in China. The country has 1.3 billion in population, and at least 53 different dialects of Chinese are spoken. Thus, the fact that Yum China can logistically handle this growing enterprise is quite impressive. For example, in February the Yum operation in England (a separate entity) was thrown into total disarray when a new DHL delivery contract was set to commence and chickens could not be delivered to the stores in the U.K. Comparing that misadventure with the generally smooth sailing we've seen from Yum China, it's clear that Yum China's management possesses exemplary logistical expertise to effectively oversee the thousands of trucks and procurement abilities necessary to service China's gargantuan poultry-loving populace.

Keeping logistics in mind, Yum China is advancing with several initiatives. Namely, the firm made arrangements with a leading railway company in China to have its products sold to passengers on trains. Passengers use the company's mobile app to order the food, and shortly thereafter dinner is delivered from the railway station outlet to the conductor on the train who brings it to the passenger!

Meanwhile, tech titan Alibaba has taken an ownership stake in Yum China, which portends even more promisingly for the branded fast-food company's growth outlook. The Yum China outlet in Hangzhou, the headquarters city of Alibaba, has now instituted the cutting-edge consumer transaction technology of "smile/pay." To wit, a customer's face is recognized upon entering the store, where the customer must simply smile into the camera to place an order and charge his or her account directly. This innovation circumvents the need for swiping a card or fishing through wallets for cash, and the company hopes to expand this efficiency-boosting technology throughout its system. Furthermore, Yum wishes to benefit from the ease of the Chinese online payment industry, which already accounts for around half of global transactions. Yum China is also profiting from the fact that Chinese entities filed for 530 camera and video surveillance patents last year—more than five times the number applied for in the US! At this point, China has the world's largest database of national identification photos.

Yum China is also working in the area of predictive analytics, yet another technological edge of the development frontier. For example, the company collaborates with food delivery services to recognize when a customer may order lunch and simultaneously considers customers' past order tendencies. Thus, the customers' order record produces analytical insights to reflect

when the client is in the office on a given day, where exactly lunch is needed, and in turn identifying when the meal may be sent to the customer's office building in a warmer bin and maintained in advance. The luncheon order may then be expeditiously delivered to the customer's office on command to meet consumer demand in real-time!

At year-end 2017, Yum China was recognized by the Chinese government for its charitable initiatives and acknowledged for its growing employment around the country. The Fund stands to gain from investing in a company with such excellent corporate governance and outstanding economic potential. We are also hopeful that Yum China's 400,000 strong employment force would prevent any possible tariff retaliation including preventing customers from eating at Yum China restaurants. Indeed, in the past when the Chinese were angered by Korea, the population was encouraged to avoid frequenting Korean establishments.

New management comprised of Chinese rather than ex-pat Americans assumed Yum China leadership on March 1st. Ms. Joey Wat, who had a career at McKinsey & Co. before taking a leadership position at Yum China for a number of years will be leading the charge.

### **Singapore**

The subject of innovation and the digital revolution was featured this month at the ASEAN economic ministers meeting in Singapore. Insiders plugged into the collaborative symposium indicated clearly that Asian power China far outpaced global peers in terms of artificial intelligence ("AI") and virtual reality technology, enjoying a premium position to the competition in AI capabilities. The Singapore group showed one particularly impactful video, which depicted a drone flying in the air carrying the vice mayor of a Chinese city! One drone! One passenger!

A further example of AI growth is Alibaba's artificial intelligence research institute created in Singapore to spearhead advancements in the battle to develop AI technology. The focus of the Institute is to develop cutting-edge AI technologies in areas such as elderly care and urban transport. The Institute will be working to develop robot companions to stay with the elderly at home and sensors to help detect problems both in advance and real-time. The developed world's technological superiority is under attack, to say the least.

Many Chinese firms have moved beyond the low-cost, low-value-added export model that worked so well in the early days of Asia's development. In 2016, inventors in Asia accounted for more than 47% of all international patents, almost as many as the net total from North America and Europe combined! This Asian tally includes Japan, but China is on track to overtake Japan for patents filed, while its annual investment in research and development is expected to surpass that of the US by 2020. China graduates 20x more engineers annually than the USA, a harrowing fact for those that believe in the strength of American computer

engineering when stacked against the future outlook of our neighbors in the Eastern Hemisphere.

In March, the management of the Canadian World Fund (“CWF”)—a long-term holding of our Fund—announced that it would be privatizing the company and ending the discount to Net Asset Value of CWF. The shares rose 46% upon the announcement. The shareholder vote upon the liquidation will take place in April and funds will be distributed thereafter.

Your trust and confidence is very much appreciated.

Sincerely,

John H. Pinto