



# **SINTRA FUND, LTD.**

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

April 2018

April 27, 2018

Dear Investor,

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

The Fund has been invested in the Chinese health care sector for some time. In that connection, I attended a Goldman Sachs conference earlier this month centering on biotechnology in the Middle Kingdom. The insightful gathering brought forth several different competing agendas in the Chinese biotech space. Not only did the event provide the opportunity for GS to show approximately 10 Chinese biotech companies its headquarters and global reach, but also the conference enabled the Chinese companies to obtain exposure to international investors.

The mutually beneficial nature of the event is critically important. To wit, the Hong Kong Stock Exchange will be changing its rules in order to permit the initial public offerings of Chinese biotech firms that have yet to be profitable. The IPO's are expected later in the summer, and thus we will be seeing China's biotech industry advance forward in the coming months fueled by the influx of Chinese and foreign capital.

Keeping our focus on the Chinese market, the Fund is profiting from its investment in Hangzhou TigerMed Consulting Co. The publicly traded Chinese company, whose management also attended the aforementioned GS biotech conference, has been a star performer (+58.91% YTD). The company is a leading clinical contract research organization, which is benefiting from the government's push for BioEquivalence based on Quality Consistency Evaluation.

Over the last three years, the Chinese government has implemented vast changes to place it in a position to advance globally in Biotech. Case in point, presentations at the GS meeting clarified that the **Plan 2025** objectives of the Chinese government regarding leadership in artificial intelligence, the driverless car, and the Internet also include biotech. Moreover, major improvements in the regulatory environment have followed this increasing emphasis on this growing sector. At the outset, the Chinese FDA ("CFDA") has modeled itself upon the US Food and Drug Administration ("FDA"). The CFDA had 100 new drug application reviewers on staff

two years ago. By contrast, it employs 700 reviewers at present. Going forward, the CFDA's goal is to reach some 1200 reviewers, whereas the US FDA has 1000 reviewers. Even more encouraging, the CFDA has hired former US FDA officials to work with them and is building out numerous teams to train the CFDA regulators. The changing trends in China can be seen even more clearly in the pace of regulatory action. For example, as recently as two years ago clinical trial applications in China were held up under review for 1-3 years. Today, application review processes have streamlined to match the American standard of 60 working days!

Chinese hospital activity reflects yet another strong indicator for the investment focus on healthcare, namely because China has a terrific advantage in being able to provide the patient populations for drug trials. Over 300 hospitals in China have patient populations greater than 18,000, while hundreds of others have somewhere between 1000 and 2000. Furthermore, the Chinese government is developing plans for its hospitals to be able to handle new drug trials under the guidance of the government. The CFDA will not permit hospitals to act unilaterally, but instead must follow the guidelines and training regimens for effective drug trials including proper clinical data with penalties for quality issues. Most importantly, a defined process and criteria for data exclusivity to protect the drug innovator/creator will be rigidly followed.

Considering the Chinese market from a macro perspective, perhaps the most crucial reason China must advance medically is because it has the largest population of cancer patients in the world. Even more troubling, cancer rates are expected to increase rapidly in the coming years. 4.3 million Chinese were newly diagnosed with cancer in 2015, twice the comparable figure in 2000 and exceeding those afflicted by the disease in every other country. Interestingly, China's cancer demographics differ substantially from those of Europe and the US. To wit, the leading causes of cancer in China are lung, gastric/liver, and breast. Indeed, over 30% of lung cancer patients worldwide are in China. Annual lung cancer deaths in China may reach 1 million by 2025 with 7.4 million lung cancer cases among adults aged 40+ in 2030. Disturbing statistics to say the least.

Chinese scientists continue to spearhead innovation domestically. For example, Chinese government support and encouragement led Chinese scientists to file 43,168 patent applications in 2016 (+45% over 2015), and China is on track to overtake the US numbers within 3 years. The Chinese government's R&D spending reached \$200 billion in 2015, which equates to an annual growth rate of 18.3% (2% of its GDP). Further, the government's goal is to spend more than 4% of GDP on the biotech sector by 2020. Government support has directly led to the proliferation of more than 1,600 incubators and 115 university science and technology parks growing more than 80,000 companies and providing employment for over 1.7 million people. The government plans to set up approximately 40 national innovation centers by 2025, and 10-20 new science parks for biomedical medicine by 2020. Overall, these promising forward-thinking developments deliver a total expected output value surpassing \$1.45 billion.

Finally, China has recruited over 3,000 returnees since 2008 (mostly with PhDs) through its **“Thousand Talent Program.”** In biotech, an estimated steady 7% increase in returnees choosing to work in the industry has been observed. The Middle Kingdom truly affords a ripe opportunity for innovation and growth in the future.

Immunology pioneer Dr. Carl June spoke this month at a cancer research symposium at Harvard. He mentioned that the Chinese outlook on the sanctity of life differs from the perspective in the US. Thus, the Chinese will continue their research even if mortality rates reach a worrisome level sufficient to halt drug trials outright in the US. Another clear example of this contrast can be found in the State of Arizona recently. Consider what halted Uber from continuing self-driving car trials: an experimental vehicle tragically killed one woman. No matter how tragic, would one accident halt such trials in China?

Your trust and confidence is very much appreciated.

Sincerely,

John H. Pinto