



SINTRA FUND, LTD.

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Report to Shareholders of the Sintra Fund, Ltd.

May 2019

May 31, 2019

Dear Investor,

We are pleased to provide this report for the month of May 2019. The exact monthly investment performance figures will be sent to investors later in June, once the results are calculated by International Fund Management Corp., the Fund's calculation agent.

After investors enjoyed a resurgent market in the wintry months of early 2019, the spring has increasingly brought mixed results depending on sector. Unfortunately, global markets appear steadfast in mirroring the perceived fate of the world's two largest powers' trade negotiations. When animosity tempers and tariff squabbling abates, markets flourish and China excels as we saw earlier this year. In the month of May, however, it's been a different story altogether. To wit, the cooling off period in tariff negotiations between China and the United States chilled the growth in global markets and slowed the trajectory of profit making to a glacial pace. The cherry on top of this trade war sundae came at month-end in the form of President Trump announcing a separate restrictive tariff on neighboring Mexico as reprisal for ongoing immigration problems. Suffice it to say, trade disputes abound as summer beckons.

We find ourselves at month-end with no announced plans for a resumption of trade discussions on the horizon, and consequently equity prices continue to decline as the calendar flips to June. These trade issues at times resemble that of two aggrieved middle school students quarreling on the playground, as current posturing features China discussing limits on rare earth exports while the US raises tariffs. Such gambits create unease and distrust, not to mention a lack of certainty both geopolitically and in global markets. Thus, companies find it difficult to plan capital investment because their concentration on supply chain modifications is designed to avoid tariff traps. With such unpredictable trade follies, corporate growth strategies become more challenging to implement efficiently and impactfully. This effect becomes abundantly clear by glancing quickly at the data. For example, the value of US exports to China declined \$6 billion in the first quarter of this year compared to the same period last year. Furthermore, US

manufacturers have to get their goods to China through non-US export sites. The *China Daily* (Global Edition) of May 29, 2019 states that there will be a \$7.8 billion estimated GDP loss in the US due to its rising tariffs on imported products. In short, the opportunity costs of each global superpower's political machinations are mounting considerably. Both sides appear determined to maintain such attacks until trade agreements that incorporate some semblance of "face-saving" for Presidents Xi and Trump can be settled.

The Fund portfolio is designed so that equity holdings are insulated from the trade imbroglio. Typically, their businesses are focused domestically in China and these companies can flourish regardless of any boisterous missives emanating from the White House. Given the contagion effect that any kind of uncertainty can have on the larger context of investing, such protections are never fully guaranteed. Thus, the portfolio did decline in May.

Fund-holding Wuliangye Yibin, a frequent feature in these letters, is a first tier Chinese liquor brand and a strong performer for the Fund. The state owned enterprise reform plan for the company is completed. Senior management, key employees, and distributors will partake in ownership stakes of the company. These incentives enable the company to progress beyond past financial results. Notably, the stock has doubled in 2019 alone, despite a flat month of May.

A larger monthly decline of 7.9% occurred in Ping An Insurance, a Fund-holding that has been a growth leader for the portfolio in 2019 (38% year-to-date heading into May). This behemoth insurance conglomerate has a market capitalization of \$200 Billion USD, and recently approved a highly encouraging stock incentive plan for key employees. Further, a substantial share repurchase program will soon be implemented, while its P2P platform Lufax is growing well and should be listed this year. The increasing wealth of the middle-class and the growth of commercial businesses in China continue to clear the path for greater insurance coverage in the Middle Kingdom.

Midea, a well-known home appliance brand based in Guangdong, enjoyed an ascent of 10.5% year-to-date before a slight 4.6% pullback in May. Nevertheless, the Chinese government's new policies for providing subsidies to urban residents for appliance purchases should assist the company's growth. Additionally, the merger of Midea's washing machine business with Wuxi Little Swan will create economies of scale. In short, we anticipate these factors will spur on profit and price appreciation for this Fund-holding.

We believe that the Fund's portfolio contains market leaders with a sufficient bulwark to beat back these trade headwinds. The companies are working within China and are not

exposed to tariff wars due to limited export capacity and a focus on domestic product construction.

Your trust and confidence is most appreciated.

Sincerely,

John H. Pinto