SINTRA FUND, LTD.

2100 S. Ocean Blvd., S204 – Palm Beach FL 33480 - Tel 212-644-0309-Fax 212-644-0320
e-mail: jhpinto@sintracapital.com www.sintracapital.com

Report to Shareholders of the Sintra Fund, Ltd.
July 2019

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Dear Investor,

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

July delivered another solid month for global markets, buoyed by trade resolution optimism. The Fund returned positive as China and emerging markets appeared headed for an uptick in fortunes at month-end. Trade agreement optimism, however, was dashed in early August, ushering in a sudden and sharp market reversal. It remains to be seen if bearish investors, whose calls for a recession have echoed mostly empty for several years now, will finally have their day in the sun in light of recent trade negotiation developments. To wit, President Trump threatened greatly increased tariffs and President Xi decided China would not purchase US agricultural products while minimally devaluing the yuan.

Many close to the negotiations shared cautious optimism at the close of July that a deal was within reach, and perhaps a global recession could be staved off by two strokes of the pen. Regrettably, the deal turned sour in surprisingly quick fashion. Case in point, the Chinese press reported that China would be purchasing agricultural products when the US negotiators left Shanghai. Marking a stunning turnaround, shortly after the negotiators landed in Washington DC President Trump pressed for additional tariffs. Apparently, this maneuver appalled the Chinese, who felt that President Trump had not negotiated in good faith. Senior Chinese leadership felt embarrassed and taken for fools. Moreover, in Asian culture a premium is placed on the necessity to "save face" in public disagreements. It beggars belief that the Chinese leaving the negotiating table red-faced could satisfactorily pass for saving face back home.

Chinese media currently reports that an increased sense of nationalism is more apparent in the Middle Kingdom. The Chinese believe their security is threatened by the Americans' bad faith, strong-arm negotiating techniques. While President Trump may have relied on such tactics to browbeat business partners into cushy real estate deals, the Chinese culturally and geopolitically represent a different kind of opponent in a much more public arena of discourse. The line is often blurred in the Chinese press between genuine, objective news, and thinly veiled state propaganda; rarely has this been more obvious than the recent groundswell of support in China for the narrative that American trade austerity is a direct attempt to hinder China's advancement. The nationalism-fueled logic suggests that the U.S. is deliberately inhibiting Chinese businesses from purchasing technological building blocks essential to global progress. In short, these trade squabbles are increasingly being positioned in China as a direct assault on China's ability to grow and prosper economically.

Domestically, China is determined to maintain focus on policy improvements which will assist a consumer-driven future for the country's economy. For example, income taxes have been cut and the VAT tax was reduced. Furthermore, the government continues to facilitate fiscal and structural supports for domestic consumption and infrastructure investments. The goal is to assist local service providers and maintain a strong domestic consumption-based economy.

On the securities side, China is moving away from the US, made all the more clear by the creation of a new domestic stock exchange market for biotech and innovation companies. The purpose of this so-called STAR market is to allow such companies to obtain capital for R&D and technological advances. Further, this exchange's development will have a negative effect on the NASDAQ, as Chinese companies will be pressed to go public on the STAR and not register ADR's in the US.
Chinese businesses are also developing transshipment programs to transfer export goods to Vietnam, Laos, and Cambodia for additional refinishing touches before exporting the same products to the U.S. to avoid tariffs. "Made in Vietnam" is the new moniker for tariff-free Chinese goods. While the U.S. is keenly aware such practices occur with increasing regularity, U.S. Customs is unable to absorb the workload of examining all of the imported products. In short, the Chinese have found a backdoor work-around to dodge the full brunt of Trump's tariff barrage.

China faces geopolitical battles on several fronts, as the political turmoil in Hong Kong is boiling over. The Chinese government will not allow itself to become provoked by the demonstrators in Hong Kong, whose goal is to incite an overly harsh and punitive retribution. Nevertheless, the last thing President Xi would do is engender worldwide condemnation by sending Chinese troops to Hong Kong to establish military order.

China is very aware that the Taiwanese elections are set to take place in January 2020. The pro-China KMT party candidate, Han Kuo-yu, is leading in the polls. If the Taiwanese see that China is using strong arm tactics on Hong Kong, it would be impossible to bring Taiwan into its orbit. China is marketing the Hong Kong model of cooperation to the Taiwanese, who have always been loath to bow at the Chinese altar. A powder keg situation with Hong Kong would render any Taiwanese compliance with Chinese oversight moot. Until further resolution, China is restricting visas for Chinese tourists to travel to Taiwan to apply economic pressure on Taiwan. Thus, we have sold portfolio holding Formosa Hotels (+24.8% year-to-date) as tourism revenues will be decreasing.

The US is facing similar restrictions for Chinese students who seek to study in America. The government is recommending that students cut their educational ties to the USA. Horror stories of immigration problems which beset Chinese students in America are bandied about in the Chinese press, further stoking nationalistic flames. Educational ADRs listed in the US, once a popular investment in this space, have thus fallen out of favor with the Fund.

Regarding healthcare, the Chinese government is funding growth in domestic generic drug manufacturing. Counterintuitively, foreign-produced generic drugs are even more expensive in China than innovative cancer drugs manufactured domestically. Thus, in order to reduce costs, the government is assisting domestic generics. Fund holding CSPC Pharmaceutical, which develops and sells generics, should flourish under these new conditions and build off its July momentum (+7.9%). The Fund also has a position in Sinopharm, the biggest distributor of drugs and medical devices in China, which rebounded nicely after a slow start to the year to post a +6.2% price appreciation in July. Moreover, Sinopharm owns more than 5,000 retail pharmacies nationwide, a key asset because hospitals will be restricted from generics sales going forward. This former profit center for hospitals will be shifted to the coffers of retail distributors of pharmaceutical products. Thus, firms like Sinopharm will see increased profitability.

On the hospital side, the Fund has positions in the eye and dental areas. Aier Eye Hospital (+32.3% YTD) is the largest private ophthalmology hospital chain in China and is growing well in third and fourth tier cities. Additionally, Topchoice Medical Investment is the largest privately-owned dental service provider in China with a portfolio of 25 dental hospitals. The stock is up 76.5% YTD and is not giving us a toothache!

Ultimately, the relationship between the US and China remains in flux. Our focus is upon domestically oriented Chinese companies which are profitable and growing. We believe that the Chinese government will create the programs necessary to sustain the domestic economy even while it deals with the onerous and ever-evolving tariff/trade issue.

Your trust and confidence is most appreciated.

Sincerely,

John H. Pinto