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Report to Shareholders of the Sintra Fund, Ltd.
January 2020

January 30, 2020

Dear Investor,

We are pleased to provide this report for the month of January 2020. The exact monthly investment performance figures will be sent to investors later in February, once the results are calculated by International Fund Management Corp., the Fund's calculation agent.

Investors could finally breathe a sigh of relief in January, as the closing of the Phase 1 trade agreement between the United States and China eased tensions between the two countries. Rumors of a trade deal either coming together or falling apart have dominated the business news cycle for over a year and have had a larger than life impact on the ebbs and flows of the market. In light of the new deal, the Chinese market advanced and business can (hopefully) resume unencumbered by fears of standoffish negotiations. To wit, the Chinese RMB has grown 4% year to date in concert with the maintenance of low interest rates by the US federal reserve. Obviously, this is merely step one, and we have likely not seen the last of this geopolitical trade drama. As the lunar new year of the Rat is set to begin at month-end, the Chinese government is moving forward with its economic incentives plan once again.

A major goal of Chinese fiscal policy will be to support select infrastructure projects, especially 5G telecom. Over 150,000 base stations will be built and it is estimated that 230 million handset units will be operational in 2020 across 56 areas of the country. With such growth on the horizon, the fund is positioning itself to benefit from China's emphasis on 5G technology. In particular, we see beneficiaries in the China A Share market, Hong Kong, and Taiwan. As to the latter two, the social unrest in Hong Kong provides an opportunity due to lower valuation and Taiwan's presidential election conclusion is positive. Taiwan should benefit from the de-Americanization implemented by China during the trade dispute. Chinese companies are changing supply lines, which will hurt the bottom line for large US companies with business interests in the Middle Kingdom. Indeed, we foresee numerous smaller companies, many of which are currently receiving increased orders from Chinese telecom giant Huawei, flourishing due to the anticipated 5G rollout in China.

I recently attended a Chinese lunar new year event in New York. There, the Chinese Ambassador to the United States proclaimed that "decoupling" was not a sound solution to resolve the differences between the world's foremost superpowers. Regardless, US companies are changing their supply chains from China, while the Chinese government continues to quietly recommend that its own companies utilize non-American suppliers.

In China, companies are reassessing their opportunities. Carrefour sold out to its Chinese partners, while McDonald's China is now 80% owned by its Chinese partners and Carlyle. Put another way, the Chinese are essentially taking control of major foreign companies' operations and business enterprises in the Middle Kingdom. This enables China to direct supply chain business from McDonalds to domestic companies instead of American ones. Yum China is another American business run almost entirely by China for Chinese interests alone. To wit, Yum China's only connection to its former parent, Yum, is the 3% royalty it pays on sales. Some companies are staying the course, however, as Coca-Cola is doubling down in China. The beverage titan recognizes that the growing consumer population in China is terrific for its business. Not surprisingly, Coca-Cola has had 20% earnings gains for its China business over the last three years.

We believe that the proper approach is to go long China as we wish to benefit from the continued growth of the country. The rising concern of the quickly spreading coronavirus has us on high alert, however, and we will keep a watchful eye on how this affects the economy. The longer this health crisis persists, the greater the risk it poses to both Chinese and global markets. Disease scares create considerable global anxiety and uncertainty, neither of which are good for positive returns.

Although Chinese interest rates are not expected to decline, the government is making a concerted effort to cut reserve requirements for banks. Case in point, a 60 base point cut recently occurred and several more are expected in order to provide additional liquidity to the Chinese economy.

The household registration reform (HUKU) is advancing. The government is abolishing the restrictive registrations on cities which have less than 3 million in population. This will enable the rural inhabitants of these nearly 2,000 cities to migrate to other urban areas. Greater healthcare support will be provided as an incentive for this urbanization. This policy change should assist real estate companies in larger urban cities as well as healthcare companies, many of which we have invested in to take advantage of the shifts in Chinese domestic policy.

China is currently dealing with increased inflation. In a troubling development, swine flu caused the forced killing of much of the pig population. The optimistic view is that this crisis will wane by the end of the second quarter, but until then pigs are at risk in China. To offset some of the economic shocks of this catastrophe, the Chinese government has provided subsidies to pig farmers.

President Trump's trade agreement provides for the opening up of the financial sector in China. Phase 1 advanced the opening date to April 1, 2020, a year ahead of the previous timeframe. Domestic liquidity should increase as foreign financial institutions are enabled to operate within China. At the J.P. Morgan healthcare conference in San Francisco in January, I heard Jamie Dimon express his enthusiasm for an expanded role for JP Morgan in China. He has advised his China team to only accept the highest quality, first rank institutions as customers. He wants JP Morgan to be a standard setter in China for corporate governance and operational excellence.

The current valuation of the China A Share market is at a 10.5 PE for 2020, a 10-year low that clearly reflects the impact of the trade war. In Hong Kong, meanwhile, the p/e valuation is less than 10—a figure even lower than the SARS crisis in 2003. Social unrest and public demonstrations have truly disrupted the Hong Kong economy. Nevertheless, the fundamentals of the country remain very strong and its long-term view is promising. In fact, it’s an intriguing buy-low target at this point and we are exploring greater Hong Kong market exposure.

As we alluded to earlier, Taiwan is a key beneficiary of the US trade war, and we have invested in local companies. The economy’s GDP growth was 2.9% in 2019 and it should match that this year. Furthermore, Taiwanese companies are excellent in IP design and provide key components in the manufacturing process for 5G telecom equipment. With the anticipated 5G boom in China, these Taiwanese firms will thrive in 2020.

Our primary focus is on domestic consumption beneficiaries such as liquor, food, and beverage. We are following that with a focus on health care.

At the JP Morgan healthcare conference, I visited with several Chinese companies. The common thread that tied together my conversations centered around growth in innovative medicines being the key to success. While the government is cutting reimbursement pricing on generics, it is allowing excellent price movement for new innovative drugs. We will invest accordingly, and we are also looking into vaccine manufacturers as well as medical device companies.

The buzz around automatic cars in China is getting ever louder, as Tesla has set a lot of this process in motion. Its new Model 3 went on sale in China on January 7, and many Chinese companies are assisting Tesla in its growth. At this point, Tesla has 30% localization of its components. Further, the company expects full 100% localization of components for its vehicle by year-end 2020. What a remarkable achievement for Tesla, an American corporation, to have 100% of its product manufactured in China!

We are looking forward to a positive year of investment performance. Your trust and confidence is very much appreciated.

Sincerely,

John H. Pinto