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

August 27, 2020

Dear Investor,

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

As surprising as it may seem to be turning the calendar toward autumn, time waits for no man despite the six months and counting of our collective pandemic-distorted reality. Election drama and social tensions run hotter in the United States with each passing day, setting a tumultuous and fiery backdrop to an otherwise torrid run by global markets. The rapid accumulation of gains by certain stocks in particular appear almost paradoxical with the otherwise challenging environment most countries and their citizens find themselves mired in as scant light appears at the end of this pestilent tunnel. While America's struggles with corralling the disease grab all the headlines, the coronavirus remains an issue even in the Far East where the pandemic first exploded. Seemingly brought under control in recent months, a third wave of corona currently afflicts Hong Kong, and no overseas travel is permitted.

By contrast, China has been successful in arresting the spread of the virus. Although the country had to resort to rather draconian measures to put the clamps down on the outbreak, the ends justify the means approach proved successful. At this point, group tours are open, cross-border sojourns to Macao flow freely, and restrictions on traveling from Guangdong Province to Macao have been lifted. New visa issuance for Macau has spiked considerably ever since the Vegas of the Orient reopened for gambling.

Tensions continue to flare between the United States and China. The contentious issues range from the trade war and the Huawei technology crisis to the Hong Kong riots and Taiwanese sovereignty. Indeed, the U.S. health secretary recently led a delegation to Taiwan, a diplomatic locus point for American officials to create political noise for the benefit of the current administration. Ultimately, this ongoing battle of tit for tat creates a ripple effect that touches virtually every industry. China has also banned certain U.S. companies from exporting to China.

The Chinese politburo has created a dual circulation policy, whereby companies need a dual supply chain—one to deal with international markets and a second for domestic markets. Overall, the priority is to encourage fiscal support for the domestic market as the de-coupling from the United States gains steam. Chinese companies are being pressured to concentrate on satisfying domestic demand, especially tech firms which must start developing their own supply chains. In short, domestic consumption and self-reliance have become China's economic mantra now.

Xi Jinping is executing a long-term plan that aims to position China for managed growth well into the future, as the de-coupling and domestic focus take precedence in the Middle Kingdom. *The Economist* perhaps put it best, when they recently summed up Xi's version of state-managed capitalism as, "the idea is for state-owned companies to get more market discipline and private enterprises to get more party discipline, the better to achieve China's great collective mission." The overarching objective being supremacy over the global economy, which Xi hopes to achieve by reshaping the Chinese economy into a unique form of Communist Party controlled private/public growth. While history suggests that any attempt at this level of state-managed influence will ultimately put a stranglehold on private growth and innovation, China's nuanced approach may work given the unprecedented size of its human capital reservoir and economic potential. The country remains dependent on the United States economically for the time being, especially regarding critical cutting-edge technology and trade. Nevertheless, Xi's newfound policy is aimed at forging new tools to create wealth, under the guise that "all companies, whoever owns them, exist for the glory of China" per *The Economist.*

Companies are going public on the Shenzhen exchange with greater frequency, particularly in the IT and biotech sectors. Several domestic market listings are quite large, and we anticipate that stock listings will travel now to the Shenzhen Stock exchange as well as the Hong Kong Stock exchange. As further fallout from the geopolitical skirmish, Chinese companies will not be listing as frequently in the USA. For example, the largest artificial intelligence design company in China IPO'd in Shenzhen recently rather than the U.S.

Taiwan is benefiting from the supply chain growth. Orders from Huawei and other Chinese 5G cloud computing and industrial automation corporations are all going through Taiwanese companies. Indeed, 45% of total exports from Taiwan went to China in the first six months of 2020. Opportunities abound for Taiwan at this point. The political noise should not distract one from recognizing such opportunities, and the future is unequivocally a bright one.

The Chinese government continues to cut the prices of generic drugs. The market has corrected to account for this policy, however, and stock prices are normalizing. Further, the government is providing benefits to companies to encourage development of their R&D capability. Companies whose prices are cut also get huge volume, thus offsetting the price cut. Margins remain stable for firms that can drive big volume, in turn supplying additional grist for their R&D mill to churn even faster.

The government is pushing to reward innovative drugs and devices. The pandemic made it clear to Xi Jinping's administration that a big gap exists between public health emergency management and infectious disease prevention. China will be spending money on public health controls and funding the provinces to build up their laboratories to prevent future errors.

China believes it is important to spend money on improving technology, healthcare, and medical devices. PPE manufacturing will be improved within 4 to 6 months, around the same time experts expect that China will have a vaccine. While identifying which company makes the vaccine breakthrough first will require the assistance of Nostradamus, we can profit from the mad dash to the finish line by focusing investment on the manufacturers' supply chains. Case in point, we have invested in the largest glass bottle manufacturer in China, Shandong Pharmaceutical (+82.9% YTD), and also gained exposure to Weigao (+96.4% YTD), a leading producer of injection needles and packing material utilized for vaccines.

Although the virus dominates the headlines and is most certainly front of mind for the Chinese government, the long-term fallout from the pandemic creates several critical issues that Xi's administration must address. First and foremost, unemployment will be troublingly high. 8.8 million college graduates flood the Chinese labor market each year, and under the specter of a pandemic and a paradigm shift in how offices conduct business the government must still get them jobs. Consequently, public sector companies have been advised to increase hiring of recent college graduates.

Migrant workers also face unemployment pressures due to the outbreak. Many returned to their hometowns from urban factories due to Covid. Once home, jobs were scarce in these small towns. Unfortunately, the jobs they previously held have since been taken by locals where the factories are located. The announced government unemployment rate is 5.7%. At first blush, this may appear lower than expected but the figure has one glaring omission: unemployed migrants are not covered in the data. Since unemployment is only measured based on the densely populated and economically vibrant urban areas, the above statistic obscures the fact that the government must deal with an issue much more serious than surface level numbers would indicate.

Inflation will also be a challenge for the Chinese government. The upcoming Plenum will be held in October, at which point the next five-year plan will be presented after the current plan expires this year. The government will point out new social development targets it wishes to achieve and the policies the government will be undertaking. As to inflation, the current domestic rate stands at 2.7%, but the target inflation rate is 3.5%. To resolve this disparity, the government has not cut deposit rates (although it has cut the reserve ratio three times). Nevertheless, Chinese currency is on the upswing while U.S. interest rates are low to flat. China will eventually be in a good position here.

The Chinese stock market is surging thanks to several promising trends. Namely, liquidity in the China A share market is excellent—1 trillion RMB trades daily. Secondly, Chinese money is essentially trapped within China; the money cannot go out, and it is controlled. Thirdly, the government has placed restrictions on the property market, creating a dynamic where residential properties are to be built for a living not for speculation! In short, Chinese capital markets are strong. Due to the population being cooped up at home, we saw a 45% uptick in opening new domestic stock trading accounts in July.

Ping An Insurance, a longtime Fund-holding, remains in strong position to benefit as China's position grows stronger. The healthcare giant is now buying back shares, and it trades at a 10x PE ratio with a nice dividend yield. Ping An will benefit from the economic recovery and also has a money management business that will drive revenue through performance fees. New China Life, a leading life insurance provider and Fund-holding, holds considerable promise as well.

Lastly, live-streaming pioneer Huya (+56.2% YTD) finds itself in the midst of a momentous occasion for the company's future trajectory. Tencent (+48.6% YTD), the Chinese tech titan, is brokering a deal to consolidate Douyu and Huya, the two leading video game live-streaming platforms in China. The stock-for-stock merger will make Tencent the largest shareholder in both Huya and Douyu. Formerly staunch rivals who long fought over every Chinese subscriber, the two companies will now be hosting streams in unison. Investors such as the Fund should benefit from this merger. Moreover, the live-streaming duo will share a combined value of around $10 billion and together will control more than 300 million monthly esports users. Synergies will abound, as the two companies have similar revenue and profit numbers. Further, this new company will be the largest live streaming company in China once merged and will enjoy strong parent support from Tencent.
Overall, the industries that have worked best in the Chinese markets are consumer products, biotech, and healthcare. By contrast, banks, insurance companies, and mining have had a correction. In recent weeks, however, these lagging sectors recovered somewhat. We anticipate further recovery as China continues to stabilize. However, it did not help U.S. multinational corporations based in China that Trump sought to put a ban on WeChat.

While these troubling times persist, the potential for making attractive investments remains our focus. Domestic consumption will be profitable, because 5G and the domestic supply chain will explode. Healthcare will continue to increase, and data centers are a promising space for investment as well.

We wish you health and serenity as the summer comes to a close.

Your trust and confidence is very much appreciated.

Sincerely,

John H. Pinto