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Report to Shareholders of the Sintra Fund, Ltd.
August 2021

August 31, 2021

Dear Investor,

We are pleased to provide this report for the month of August 2021. 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.

This quarter, the Chinese stock market spiraled downward because of the government's increasingly frequent and stringent regulatory attacks directed upon Chinese industries. President Xi Jinping's crosshairs are currently targeting the education sector and internet companies. Focusing on the latter's data management and online content access, Jinping aims to align users' online activities and companies' growth capabilities with the priorities of the government above any free market or personal liberty considerations. Further, the lack of certainty about the government's "Ready, Fire Aim" approach has Chinese companies' leadership and global market investors sitting on a knife's edge. As we detailed in last month's letter regarding the after school and private education industry, Xi Jinping in one fell swoop wiped out a booming business model with numerous promising prospects for investment.

Several years ago, Jinping directed a so-called "corruption" attack on government bureaucrats. Undoubtedly, the underlying motive of this directive was purging Xi's enemies. Couching the crackdown in terms of making bureaucracy more transparent, he could remove all threats to his political hegemony over the Middle Kingdom's power structure. Having done so while positioning himself for a third term in office, Jinping has a new program in place. Perhaps taking a cue from the progressive wing of the U.S. Democratic Party with its emphasis on "inequality," the Jinping government now espouses "common prosperity." Disconcertingly, this policy has companies "voluntarily" turning over billions to the government. For example, tech giant TenCent Holdings announced an additional "social responsibility" contribution of $7.7 billion in August, running the company's 2021 common prosperity tab up to $15 billion. Of course, no accountability and no understanding as to the ultimate beneficiaries of such largesse exists because it is tantamount to asset forfeiture at gunpoint. Indeed, private charities are being marginalized so that contributions will go to State-directed and government-controlled charities. Put another way, billionaire George Soros recently quipped in the *Financial Times* that "Xi's China is not the China [investors] know."

Such aggressive, troubling attacks evoke the strong-arm tactics utilized by Mohammad Bin Salman Al Saud of Saudi Arabia. In 2018, King Salman had 381 of the wealthiest Saudi businessmen ensconced in the Riyadh Ritz-Carlton hotel. Enacting an “antigraft campaign,” the ruler then squeezed billions from them.

We see a similar story playing out in China. President Xi is determined to shut the voice of local billionaire businessmen while simultaneously obtaining government access to the customer data of their businesses. Moreover, the government is also going to prevent the IPO of internet companies on the U.S. stock market with the apparent concern that possible U.S. corporate espionage would affect Chinese national security. Like the “social responsibility payments” above, this purported concern for national welfare shrouds the government’s political power play to consolidate power and leverage by restricting access to assets and foreign markets.

Such autocratic measures raise alarm bells for foreign investors, and we must adjust accordingly. We are positioning the Fund to focus on sectors the government currently prioritizes. To wit, we anticipate renewable energy, innovative pharmaceuticals, and domestic consumer brands to be worthy of investment. Despite the myriad concerns outlined thus far, there is no shortage of room for us to invest successfully in a country of 1.4 billion people and a $15 trillion economy.

Investors crave certainty. Since the Chinese government is casting its regulatory net over a wide range of companies, investors will become even more wary. Consequently, we predict that global investors will reduce their exposure to Chinese equities. Nevertheless, we are heartened by a recent UBS report that proclaimed, “the A share market should resume an upward trajectory after domestic credit growth bottoms [at year-end 2021] …and continue to outperform MSCI China.”

As the Chinese regulatory shackles become stronger, U.S. companies will likely be able to innovate at a higher rate. After all, it’s difficult for their Chinese competitors to move quickly when hiding in a foxhole. At one point in the past, Apple computer could not advance quickly because it felt hindered by a U.S. government monitor installed at the company as a penalty. Furthermore, AIG faced the same problem when a U.S. government monitor was embedded at the corporation. The Chinese government is now purchasing shares in private companies with the dictate that it will insert its own member on the Board of Directors. Moreover, innovation will be delayed as the Chinese government inserts its representatives onto the Board of Directors of Chinese companies. Naturally, Chinese corporate executives are very concerned about the uncoordinated attacks on Chinese industries. Thus, they are hiring government bureaucrats from the regulatory agencies at outrageous salaries just to have greater insight as to where the government is headed with its draconian market controls. Perhaps they’re even hiring their future government monitor and don’t realize it! The Chinese policy of Uygur detention centers as well as the disappearance of corporate executives who show up weeks later and are never again mentioned in the press cannot make Chinese corporate chieftains feel too comfortable.

As this letter is being written over the weekend, China has declared a new policy against celebrities. The government states that they too must contribute more to social responsibility. One Chinese celebrity has been penalized $46 million for tax evasion and was also attacked for having an illegal surrogacy of two children in the United States.

We do not believe that the heavy-handed government crackdown will affect the Chinese healthcare sector. The government changed the distribution channel by eliminating the two-invoice system in 2017. Further, the centralized purchase scheme for generics and high-value medical consumables occurred in 2018. Health insurance has been expanded and a reduction on the financial burden on patients has occurred. Such pragmatic, measured regulatory policy would be welcome elsewhere in China to say the least.

Despite the otherwise tumultuous state of affairs in China, a few silver linings can be found in the Fund that have progressed nicely over the course of August. As we've touched on in several prior letters, new and renewable energy is not only a point of emphasis from Jinping's directives on high, but it is also a burgeoning industry ripe for opportunity. Consequently, we have several irons in the renewable fire in China, including: **Ming Yang Smart Energy**, a leading offshore wind turbine manufacturer that has advanced 18.4% YTD (+4.3% in August); **Yunan Energy New Material**, a lithium battery films producer flourishing this year (+99% YTD) and in August (+13.9%); and, **Weichai Power** (+14.6% in August and +26% YTD) dominates the diesel engine market and has branched out into fuel cell production for renewables as well. All told, the fuels of the future are driving the Fund at present.

One other company worth highlighting is **Truking Technology,** a leading domestic pharmaceutical equipment supplier in China. The stock soared up +45.9% in August and has supplied investors with ample gains in 2021 (+142% YTD). We have invested previously in the picks and shovels of big pharma in China, especially after the onset of the pandemic when the market rewarded suppliers of Covid tests and glass vial producers for the vaccine. China's focus on its domestic biotech innovation and contract research organizations has helped boost Truking, and foreign brands have taken notice. In turn, this outside investment has driven an increase in market share for the firm.
Your trust and confidence is greatly appreciated.

Sincerely,

John H. Pinto