



# **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](mailto:jhpinto@sintracapital.com) [www.sintracapital.com](http://www.sintracapital.com)

## Report to Shareholders of the Sintra Fund, Ltd. November 2019

November 26, 2019

Dear Investor,

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

As 2019 begins winding down into the holiday season, the China/US trade tariff dispute continues to weigh heavily on the vicissitudes of global market performance. Like a predictable ebbing and flowing tide, the markets rise whenever positive news trickles in relating to this issue but recede with every purported negative development. Fortunately for the Fund, November featured a preponderance of good news on the trade front, and in turn the Fund's China A share equities increased in value. From the market's perspective, a limited trade deal is better than no deal.

Amidst all the tumult and political machinations on all sides, Hong Kong naturally traded downward. The student demonstrations have had a significant negative impact on the market. In November, I was invited on a US state department-sponsored mission to Hong Kong to confer with potential investors in emerging markets. My response was that it was the wrong time to go to Hong Kong in light of the myriad student demonstrations. I was informed that the state department felt the demonstrations were simply in central Hong Kong and that business would be fine. Understanding this could not be the case, I declined the mission.

Indeed, I am writing this letter in Italy at a global journalists' conference. I find that such non-financially oriented gatherings are helpful to obtain insights from all parts of the world. The representative from the media in Hong Kong explained to me that the student demonstrations have moved from central Hong Kong to Kowloon/Causeway Bay. The disruption has proliferated to the point where schools are closed through the end of the year and businesses cannot operate at full capacity. Moreover, the journalist from Hong Kong warned that 2019 corporate results for Hong Kong-based firms will be very negative once January annual reporting rolls around. Tourism is already down 34% year to date in Hong Kong. Ultimately, I was surprised that US state department smarts did not equate to street smarts.

Italian television features numerous commercials for Huawei's line of telecom products. The Trump administration has made this Chinese telecommunications colossus, currently a leader in 5G

cellular network technology, a prime target of its rhetoric and geopolitical posturing. On November 1<sup>st</sup>, Huawei commenced 5G service in 50 Chinese cities where 130,000 base stations will be operational by year end.

The Hong Kong journalist noted that the Huawei corporate campus, based in Shenzhen, is enormous. The company's host of researchers hail from all parts of the globe, including many Americans. The Chinese news journalist at the conference then showed me his new Huawei phone. He explained that he switched from an iPhone to Huawei due to the substantial advantages the Chinese phone boasts over the product from Cupertino, CA. He researched the phones and explained that at the high-end price, the Chinese would simply go for the finest quality phone. Further, he demonstrated to me the various technological capabilities of the Huawei device, which features a proprietary bifurcated video capacity. In other words, the top part of the screen provides a close-up of the video subject; on the bottom part of the screen a wider focus is obtained which shows the objects at a distance. The magnification on the Huawei phone goes up to 50X with a very clear picture, even clearer than my iPhone's renowned lens. Despite these technological advancements, this Huawei phone costs \$400 to \$500 USD less than the Apple iPhone. The Chinese journalist then stated, "Huawei makes it very easy to transfer all your files and information from your Apple iPhone to its phone!" One could draw a fascinating metaphor for the dynamic between Huawei and Apple to reflect the ongoing large-scale tectonic economic shifts globally from U.S. to Chinese superiority.

Becoming verified by Huawei as a supplier could have many benefits to a corporation. The Fund has invested in Yangzhou Yangjie Electronic Technology Co. Ltd. The company has been approved by Huawei to supply it with mobile phone quick chargers and notebook adapters. Furthermore, 2020 sales should start at \$100 million RMB, a positive signal for future growth of the nascent company especially considering Chinese businesses are very concerned about ensuring supply chain security without utilizing American suppliers. The company could see exponential growth in power semiconductors and power diodes as it benefits from import substitution for domestic clients. This is particularly relevant as Yangzhou Yangjie has the largest power diode production capacity in the world. Given these business advantages, the Fund is investing in the company despite suffering from a net profit decline of 44% year-on-year primarily due to tariffs.

The Chinese consumption and healthcare sectors demonstrated the most improvement for the Fund in November. One can understand the consumption sector strength by simply looking at the results from Alibaba's Singles' Day sales on 11-11. To wit, the Chinese e-commerce leviathan pulled in \$38.4 billion during the sale, eclipsing in a single day all of Amazon's sales from last quarter!

While reading this letter, one may wish to munch on some snacks from Fund-holding Chacha Food Company Limited (+71% year-to-date). Chacha is a leading producer of roasted sunflower seeds and has been diversifying into nut products. Online sales, a recent boon to bottom line data, appear to be the firm's gateway to robust future growth. I was pleased to learn from the Chinese news journalist that his wife is a devotee of Chacha, which she always orders online (probably on Alibaba!). In fact, he showed me a photo (on his Huawei phone) of the Chacha walnut snacks!

Chengdu Hongqi Chain, a leading Chinese convenience store operator in Chengdu with premier marketshare, demonstrated higher same store sales along with store expansion in 2019. The market has rewarded the company's positive returns, as shares have advanced 51% this year.

In the healthcare sector, Aier Eye Hospital continues to provide a crystal-clear sightline to positive returns for the Fund. Notably, the company announced a substantial asset purchase of 28 eye hospitals from numerous institutions. In closing the transaction, Temasek (the sovereign wealth fund of Singapore) will become a strategic investor in the company, a move that has helped push the stock to an all-time high in November (+107% year-to-date). In order to lock in our gains, the Fund pruned its position as the stock may be a bit overvalued due to the recent groundswell of market support. Additionally, Lepu Medical Technology (Beijing) Co. Ltd., a medical equipment manufacturer primarily focused on the cardiovascular area, advanced 14% in November as investors continue to recognize the growing importance of the Chinese healthcare industry.

The slowing Chinese economy should give some impetus toward the closure of a trade reconciliation with the US. Economic growth declined from 6.4% Q1 to 6.2% Q2 to 6% Q3. These government-crafted figures must be taken with a grain of salt, however, as pundits remain skeptical that these "official" numbers aren't in fact lower than reported. So far, the central bank has not reduced interest rates.

In Taiwan, the Fund is benefiting from supply chain "de-Americanization" as M31, a provider of silicon products, has jumped 43% in 2019. Fund holding Chailease, the leasing company, continued its growth in mainland China (+48% year-to-date). On the political side, the demonstrations in Hong Kong placed the spotlight on Taiwanese President Tsai. She is running for re-election on January 11, 2020, a pivotal race from a geopolitical perspective that we have covered at length in several prior letters. The odds for success improved with her consistent defense of "democratic values," casting shade on the Chinese handling of the turmoil in Hong Kong.

We wish our investors a fine holiday season. We thank you for your support. Your trust and confidence is very much appreciated.

Sincerely,

John H. Pinto