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.
December 2019

December 19, 2019

<Contact>
<Company>
<Address 1>
<Address 2>
<Address 3>
<City>, <State> <Zip>
<Country>

Dear <Salutation>,

We are pleased to provide this report for the month of December 2019. This letter is being sent earlier in the month due to international holiday travel by Sintra personnel. The exact monthly investment performance figures will be sent to investors later in January, once the results are calculated by International Fund Management Corp., the Fund's calculation agent.

The China-Hong Kong imbroglio continues to dominate headlines, as fierce demonstrations roil on and weigh down the respective economic outlook and stability of each country's markets. The main beneficiary appears to be Tsai Ing-wen, the current President of Taiwan, who is currently running for re-election. With the Taiwanese people scheduled to flock to the polls on January 15th, one wonders if the recent landslide victories for pro-democracy candidates in Hong Kong creates a domino effect that spills over to Ing-wen's island nation. What once appeared to be razor thin margins between candidates in Taiwan has morphed into a comfortable ten-point cushion for Ing-wen, if recent polling is to be believed. Furthermore, Taiwan is benefitting from the Trump-China trade skirmish, as well as the de-coupling occurring between China and foreign companies. At this point, foreign companies are establishing artificial intelligence and deep learning research and development centers in Taiwan. Not surprisingly, Taiwan's third quarter GDP rose to 2.99% (a five-quarter high) and should only climb higher as the effects of the trade war ripple through world economies. Case in point, Taiwan forecasts 2019 GDP to rise by 2.64% and by 2.7% in 2020.

Taiwanese Fund holding, Farglory Free Trade Zone (+51.9% YTD), has a monopoly in operating the area surrounding Taiwan's largest airport. The security has advanced this year on the back of excellent earnings, and the zone is booming with growth. This development will lead to increasing demand for 5G infrastructure and should be a boon to Fund holdings Sporton (+54% YTD) and Integrated Service Technology (+6.2% YTD).

Earlier in the month, China held its annual economic policy setting meeting. The Politburo vowed to avoid systemic financial risk—that's a good idea!

The recent phase one trade truce with China has advanced. It is important for the Middle Kingdom to have trade certainty as indicators are pointing to a continued slowdown. For example, this fall passenger car sales declined 6%, smartphone sales fell 6.7%, and retail sales (previously on a +10% growth track) slipped 7.2%. To counteract this economic pullback, the Chinese government pushed through consumption tax modification, imposed upon individuals and organizations which manufacture and import taxable products. The tax relates to products harmful to health such as tobacco and liquor, luxury goods such as jewelry and cosmetics, high energy consumption products such as cars, motorcycles, petroleum products, and tires. All told, the new directive would give the cabinet the ability to launch pilot programs to allow for adjustments of rates and product inclusion. Ultimately, China's goal is to reduce the tax burdens on companies and consumers to offset economic decline and spur domestic spending.

At the beginning of the month, the Chinese healthcare sector needed a visit to the doctor as the industry suffered in light of the government's release of the 2019 National Reimbursement Drug List. The new price directives will be effective for a two-year period. 70 new drugs were included on the list and the government established a 61% price cut for them. Further, 27 renewal drugs had their prices cut 26%.

Although an average price cut of 61% looks heavy, the real price cut may not be that severe. After talking with several experts, we found most pharmaceutical companies fixed a higher-than-normal price (approximately +20%) during negotiation with National Reimbursement Drug List (NRDL) committees. This foresight when launching innovative medicine anticipated government-mandated price cutting and ensured that the real average price would be closer to 40% instead. The NRDL covers more than 95% of Chinese residents, which means any medicine included on the list could be eligible for reimbursement by up to 1.35 billion people. This figure, about four times the population of the United States, is astronomical to consider and demonstrates the scope of the downward pressure the Chinese government can apply to its domestic healthcare companies.

Despite this price burden, we believe the huge domestic base of Chinese patients can still offer pharmaceutical companies a robust profit (even if they must set drug prices lower than peer countries). Besides, the government appears willing to protect certain innovative medicines developed domestically--Sino Biopharmaceutical Limited's Anlotinib renewed its NDRL status without any price cut—although it remains to be seen what guides the government's choices when playing favorites with NRDL candidates.

It appears counterintuitive that the government is cutting prices for generics in order to encourage the development of innovative medicines and devices with greater cost-efficiency, but the Chinese healthcare sector trudges onward nonetheless. Case in point, medical blood purification manufacturer Shandong Weigao GP Medical has advanced 40.4% YTD, while Lepu Medical, a leader in cardiovascular medicine, added 62% in 2019 thus far. We believe that its recently approved biodegradable stent, Neovas, will funnel positive returns to the company. Overall, less price pressure exists on domestic medical device companies and consumables. Although imported brands remain market leaders in this sector, the domestic corporations (and Fund-holdings!) will fight to claim more market share.

The MSCI indices revision added 204 China A shares to the MSCI Emerging Markets Index, 93% of which are mid-cap stocks. Portfolio re-balancing estimates from the brokers suggest that approximately $29 billion will flow into the market. The Fund has focused exposure on this mid-cap area, which is primarily populated by Big data/tech, electronics, and chemical companies.

We wish our investors a fine holiday season and happy new year. Your trust, confidence and support is greatly appreciated.

Sincerely,

John H. Pinto