Welcome to the inaugural Sintra Capital investor letter.

The Sintra Global Fund launched on 1 July 2022 amidst a backdrop of rising inflation, increasing interest rates, geopolitical tension and falling asset prices. Many leading international companies have declined by 30-40% or more from their recent highs. Today, we are in the enviable position of being able to acquire great businesses at attractive valuations.

Inflation will moderate, interest rates will peak and China will re-open. As Mark Twain said, "I've had a lot of worries in my life, most of which never happened." It is imperative to block out the daily noise and adopt a long-term business ownership mindset.

No central banker wants to "over-tighten" and cause a recession. If market expectations for a terminal Federal Reserve Funds Rate of approximately 5% are correct, we are already 80% of the way through the current tightening cycle.

The recent US inflation number demonstrated that inflation is declining. Investors positioned for the worst were left scrambling as bond yields dropped, the Australian dollar jumped and equity markets rallied strongly. While one data point doesn't make a trend, this is a potential game changer. Signalled by falling real-time leading indicators including freight rates, lumber, used car prices and commodities, actual data is indicating inflation has peaked. The US Federal Reserve are now starting to see the evidence required to modify the trajectory of future interest rate rises with a potential pause happening sooner than expected.

Stock selection remains our absolute focus. Timing the market is extraordinarily difficult and requires being right twice – knowing when to buy and when to sell. Famed investor Peter Lynch hit the nail on the head when he said, "Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves."

The ability to differentiate between risk and uncertainty is crucial. We define risk as the loss of capital which we mitigate with sophisticated stock selection and portfolio construction. Over 60% of the companies in our portfolio have net cash balance sheets and all generate profits.

Uncertainty on the other hand equals opportunity. Central banks globally are raising interest rates and the jury is out on how much of an economic slowdown this will cause. This is uncertainty. Markets don't like uncertainty. The path of least resistance is to sell first and ask questions later. The good, the bad and the ugly. The stock market is the only shop we know that when prices go on sale customers flee the building.

We continue to accumulate high quality companies for the long-term with strong balance sheets, solid earnings growth and attractive valuations.

Some examples of core portfolio holdings include:

The world simply cannot function without Microsoft products. Azure, their cloud computing business and major growth driver, is still growing strongly albeit at the “slower” forecasted rate of 37% in the current quarter. Microsoft is as close to a monopoly business as you will find with incredible profit margins and operating cash flow of just under US$100bn annually. Currently trading on a 1yr forward PE of 21x and providing a return on equity greater than 40%. We see a clear pathway for earnings to double over the next 5-7 years.

Deckers is best known for their UGG boots and Hoka athletic shoes. Purchased in 1995, UGG remains highly profitable for Deckers. Founded by trail runners based in the French Alps, Hoka, translating to “fly over the earth” in Maori language, is the key driver of future growth. Hoka have only recently gained mainstream popularity launching its first global marketing campaign in July. With forecast revenue growth of >20% p.a. over the next 5-years, it is one of the world’s fastest growing footwear brands. Currently trading on a 1yr forward PE of 19x, Deckers represents a long-term strategic holding for the fund.

Freeport is one of the world’s largest publicly traded copper producers. They operate a portfolio of first-class mining operations that are low cost, long life and geographically diverse. Short-term copper prices remain subdued due to ongoing China lockdowns and a potentially slowing global economy. Longer-term however, copper demand is set to grow significantly, driven by decarbonisation and electrification. For example, electric vehicles use up to four times more copper than non-EV’s. This is in addition to the incremental copper needed for charging stations, wind farms and solar panels. Current copper inventories are low by historical standards and future supply growth is limited. This combination of growing demand and supply challenges will ultimately lead to significantly higher copper prices which Freeport is strategically positioned to benefit from.

We thank you for your ongoing support and trust. It is very much appreciated.

Yours sincerely,

Josh Kitchen and Tony Sutton