

NOTES TO 29 FEBRUARY 2020

Andaz® seeks to obtain annual returns substantially in excess of those derived from mainstream equity strategies. The dedication is to generate a return which is as high as is consistent with a goal of avoiding and minimising the chances of permanent loss of capital under all financial market conditions.

A categorisation of our portfolio would be idiosyncratic long/short global equities with variable beta, where capital is deployed in a systematic manner driven by individual situations and with the goal of generating positive returns from both long and short investments, but where occasionally net exposure levels will be deliberately removed.

GROSS INVESTMENT RETURNS

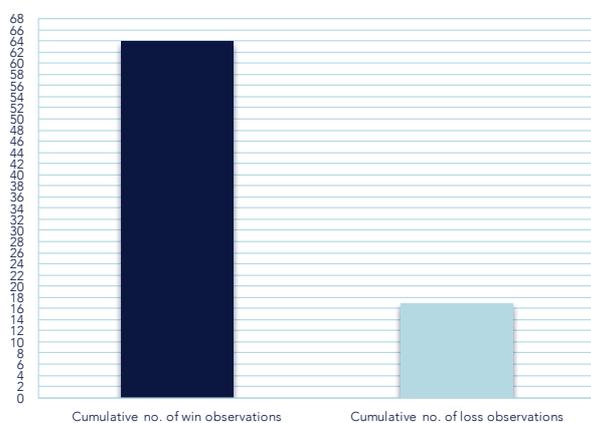
	Calendar YTD	Avg. Cash Weighting	Fiscal ⁽¹⁾ YTD	Avg. Cash Weighting
2018 ⁽²⁾	23.1%	35.4%	21.1%	30.9%
2019	33.0%	25.5%	22.4%	35.8%
2020	-0.9%	40.5%	9.4%	23.5%
Total Return Since Inception	62.2%	30.9%		
Compound Annual Return	28.5%			

⁽¹⁾ Fiscal year runs from 1 July to 30 June in Australia

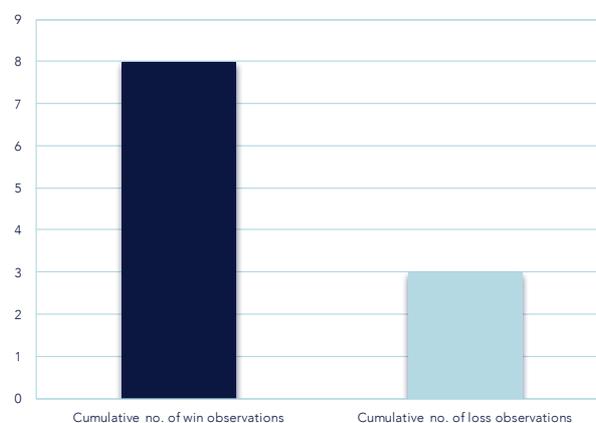
⁽²⁾ Since inception on 27 March 2018 in the AUD reference account

⁽³⁾ Investment returns are *before* fees, expenses and taxes

79% SUCCESS RATE ON LONG TRADES



73% SUCCESS RATE ON SHORT TRADES



FEATURES & PORTFOLIO ANALYTICS

Features		Portfolio Analytics	
Structure	Managed Account	Sharpe ratio	1.2
Administrator	Interactive Brokers	Sortino ratio	2.4
Custodian / Prime Broker	Interactive Brokers	Annualised standard deviation	22.5%
Min. initial investment	\$1,250,000	Annualised downside deviation	11.7%
Min. additional investment	Any amount at any time	Largest monthly gain	14.0%
Qualifying criteria	Wholesale or Qualifying	Largest monthly loss	-13.6%
Management fee p.a.	0.5%	Largest drawdown	-19.7%
Performance allocation	22-24%	Winning month ratio	62.5%

	Any amount at any time, with twenty Business Days' notice	Avg. cash weighting since inception	30.9%
Withdrawals		Total return since inception	62.2%
Distribution	Same as withdrawals	Annualised return since inception	28.5%

⁽¹⁾ Sharpe and Sortino ratios assume the Australian cash rate as the applicable risk free rate

⁽²⁾ Net asset values are provided by Interactive Brokers. Performance figures are **before** fees, expenses and taxes

PORTFOLIO

First, it is important to me that you are all feeling healthy and keeping well. I am fine and have nothing to report. I have no meaningful insight on the coronavirus and am reading the same information as everyone else. The data point worth factoring in seems to be from Italy. The Ministry of Health in Italy is reporting mortality rates which are not insignificant, particularly for those over the age of 70 and after adjusting for a certain amount of lag. That is, the number of deaths versus the number of infections say a few weeks ago, as opposed to, the number of deaths versus the current number of people infected. This, plus a high infection rate (potentially higher due to European greeting etiquettes) is what we are all forced to consider.

At month end, the portfolio had a gross exposure of 60.9%, consisting of 60.9% long and 0% short; as well as 39.1% in cash. Subsequent to the end of the month, we exited EBay (EBAY) in a single trade at \$37.96 on March 4. As a result, the cash position increased to approximately 54%.

We exited Micron (MU) selling half of the remaining holding at \$58.35 on February 7, and the other half at \$60.11 on February 13. We also exited Western Digital (WDC) at \$70.00 on February 13.

On February 14, we used some of the proceeds from the aforementioned sales to enter into Wells Fargo (WFC) at \$48.15, as well as Discovery, Inc. (DISCK) at \$28.83. We also added to ViacomCBS (VIAC) at \$34.98.

As you know, the portfolio has zero leverage. The reason why we are not selling more of our portfolio is because of the only five remaining positions that we hold, two are highly impressive companies with an 8 to 10 year lead over their closest competitors. Three of the companies we have invested in have zero net debt, of which two are buying back shares presently. Also, three of our stocks are trading on single-digit earnings multiples.

Looking at financial markets, what I am seeing is shares of large banks in desirable countries (not those with negative interest rates) exchanging hands close to 1x net tangible book value. I am also seeing the equity of many companies, including oligopolistic U.S. airlines, starting to trade as if they were destined for bankruptcy. The task is now to emphasize more on credit investment analysis and to figure out which companies will have sufficient liquidity to steer through the likely road ahead. While many companies will no doubt be tested close to the line, those that will in fact clear the bar but are discarded from blanket selling by other market participants is where we think we will make outsized returns.

It is about picking up thirty to fifty cent on the dollar situations, and being right about that dollar.

We believe our temperament will serve as an edge. We remain steady handed, constantly measuring and quantifying as much as possible. The goal and focus is to coil our springs in a portfolio of situations which will perform the quickest and largest when this volatility subsides.

At month end, the portfolio held 6 stocks but currently only holds 5 stocks.

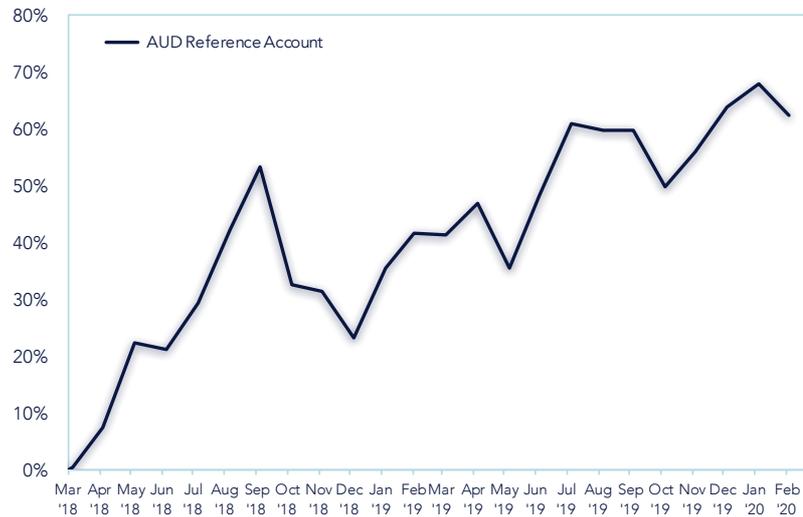
In terms of liquidity, the weighted average market capitalisation is A\$28 billion and the stock with the smallest market capitalisation is circa A\$10 billion.

GROWTH OF AN ASSUMED \$500,000 INVESTMENT IN THE REFERENCE ACCOUNTS

Date	Gross Returns	Gross Monthly Returns in AUD	Net Monthly Returns in USD
27 Mar 18	\$500,000		
Mar 18	\$500,859	+0.17%	
Apr 18	\$536,101	+7.04%	
May 18	\$611,001	+13.97%	
Jun 18	\$605,669	-0.87%	
Jul 18	\$645,902	+6.64%	
Aug 18	\$710,053	+9.93%	
Sep 18	\$766,429	+7.94%	
Oct 18	\$662,130	-13.58%	
Nov 18	\$655,769	-0.99%	
Dec 18	\$615,634	-6.12%	
Jan 19	\$677,324	+10.02%	
Feb 19	\$707,893	+4.51%	
Mar 19	\$705,362	-0.36%	
Apr 19	\$733,917	+4.05%	
May 19	\$676,106	-7.88%	
Jun 19	\$741,201	+9.63%	
Jul 19	\$803,346	+8.38%	
Aug 19	\$797,733	-0.70%	
Sep 19	\$798,650	+0.11%	
Oct 19	\$748,230	-6.31%	
Nov 19	\$779,172	+4.14%	+2.49%
Dec 19	\$818,501	+5.05%	+8.24%
Jan 20	\$839,480	+2.56%	-3.58%
Feb 20	\$810,870	-3.41%	-5.60%

The difference between gross and net returns is due to movements in FX relative to the base currency, any applicable hedging, the timing of fee deductions by Interactive Brokers, the fee structure, and to a lesser extent commissions, taxes, minor differences in weightings, and any expenses.

CUMULATIVE GROSS INVESTMENT RETURNS



THANK YOU AND IN TOUCH

Thank you for reading the Andaz Notes. If you would like to drop us a line, please reach out using the contact form on our website <https://andazprivate.com>.

Yours sincerely,

Yizhong Chan
6 March 2020

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