ANDAZ
PRIVATE INVESTMENTS

NOTES TO 30 JUNE 2020

Andaz® is a performance-oriented specialist investment manager managing only one equity strategy. We perform our own independent and proprietary investment research to seek to obtain annual returns substantially in excess of those derived from mainstream equity strategies.

Our approach is to be highly selective and systematic in selecting only situations offering a large absolute return where the likelihood of permanent loss of capital is minimal. The portfolio never rides beta and exposure levels will vary depending on the available opportunity set. The goal is to generate positive returns from both long and short investments, which also means being able and willing to hold high levels of cash until sizeable mispricings arise.

GROSS INVESTMENT RETURNS

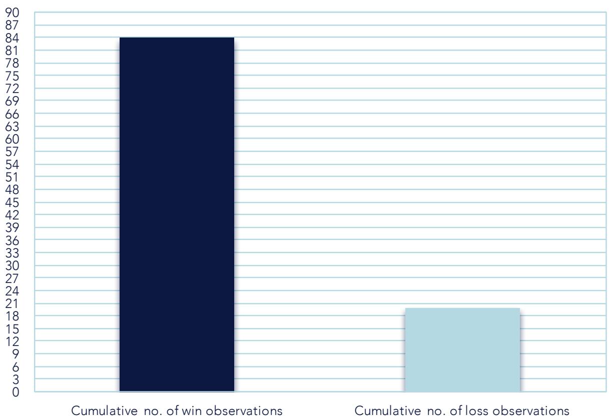
	Calendar YTD	Avg. Cash Weighting	Fiscal[1] YTD	Avg. Cash Weighting
2018[2]	23.1%	35.4%	21.1%	30.9%
2019	33.0%	25.5%	22.4%	35.8%
2020	14.3%	23.9%	26.3%	20.8%
Total Return Since Inception	**87.2%**	**28.7%**		
Compound Annual Return	**31.9%**			

[1] Fiscal year runs from 1 July to 30 June in Australia

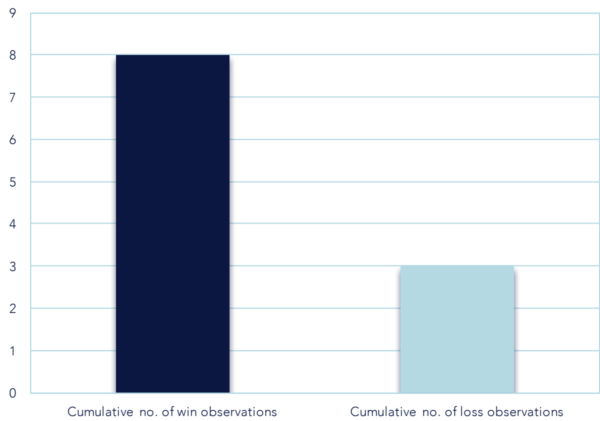
[2] Since inception on 27 March 2018 in the AUD reference account

[3] Investment returns are *before* fees, expenses and taxes

81% SUCCESS RATE ON LONG TRADES



73% SUCCESS RATE ON SHORT TRADES



FEATURES & PORTFOLIO ANALYTICS

Features		Portfolio Analytics	
Structure	Managed Account	Sharpe ratio	1.5
Administrator	Interactive Brokers	Sortino ratio	2.9
Custodian / Prime Broker	Interactive Brokers	Annualised standard deviation	21.7%
Min. initial investment	$1,250,000	Annualised downside deviation	11.0%
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	0.64
Withdrawals	Any amount at any time, with twenty Business Days' notice	Avg. cash weighting since inception	28.7%
		Total return since inception	87.2%
Distribution	Same as withdrawals	Annualised return since inception	31.9%

(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

As the fiscal year has concluded in Australia and the 12-month period to 30 June 2020 was particularly testing, it is worth assessing whether we performed against our stated goal of achieving gross annual returns of 25% to 30%. Obviously, some years we will be below this target, while other years we may exceed it. This target - not promise - combined with a long run way to serve (hopefully 34+ years) is ultimately how we will measure ourselves.

As you can see in the monthly performance table towards the bottom of this note, July 2019 was a particularly strong month. The subsequent 5 to 6-month period however was flat. And finally, the portfolio performed well during the months of March, April and May. Some of you may have noticed, the portfolio peaked rather strongly on the 8th of June.

For the full year and in AUD terms, Andaz generated +26.3% (before fees, expenses and taxes). Since inception, the compound annual return is +31.9% per annum (before fees, expenses and taxes).

LOOKING BACKWARDS AND FORWARDS

Looking forwards, it is perhaps most important to remember that second-order thinking is key. This is especially true during moments of an extreme nature or times of heightened stress. The reason is we know that the human mind has this counter-productive ability to somehow reset. In the field of capital management, this is dangerous.

The question we all ask is "are stock markets going to climb higher or are we about to observe a fall in prices?"

Here, first-order thinkers would say "the outlook is bleak" or "growth is impaired, unemployment rates are climbing, and I think profits across businesses will decline; so let's sell".

Instead, second-order thinkers would say "the outlook is ugly, but everyone is negative and still fear struck" or "I think this company's earnings will fall far less than people expect, and the surprise will lift the share price; so let's buy."

It is important not to forget that the stock market does not hand out free lunches.

In less philosophical and more concrete terms, the unemployment rate in Australia is currently around 7.1%. In America, it is around 11.1%. Due to the lagging nature of this statistic, it is entirely plausible that this figure may continue to climb in the near term.

The point however is this: In America, the newly created Federal Pandemic Unemployment Compensation entitlement is set at $600 per week. According to government agencies, this is *in addition* to an average $378 per week in unemployment benefits. That is almost US$1,000 per week in handouts. Prior to this pandemic, the median individual income was c.$865 per week. The latter is pre-tax and I believe the former is post-tax.

I repeat median, not average.

This is the reason why JPMorgan, Bank of America, as well as other major banks are reporting that for customers with less than $5,000 in their bank accounts, those individuals have seen their account balances swell by 40% net of outlays for living expenses.

This situation is similar in Australia for households.

Therefore, it should be clear to market participants that unemployment figures cannot be interpreted in the traditional manner.

If we look at balance sheets or asset classes in major economies, of course we can see companies in the energy sector go into administration. We see retailers being pushed to the brink. While not as visible, we can also see smaller private companies or levered businesses without access to capital winding down.

However, if you look at asset classes as a whole e.g. equities, bonds, real estate, commodities, collectibles etc. they are all largely intact. This is not accidental or irrational but very deliberate. In fact, what we have is several money-printing machines now actively bidding in the screens next to investors for various securities.

There is $28+ trillion of newly created money sloshing in our financial system across multiple countries. This amount represents somewhere between 1.6-1.9x the amount of debt being issued by governments. The point of all of this is to avoid chaos.

I could go on, and I am certain all of you have witnessed unprecedented changes to legislation and rules e.g. changes to lease obligations, mortgage payments, employment terms, tenancy eviction rules, operating while insolvent etc. But instead I am reminded of a quote from Lyndon B. Johnson where "talking/writing about economics is a lot like peeing down your leg. It seems hot to you, but it never does to anyone else."

The bottom line is that it is necessary to double-think and triple-think every angle of every situation.

The real problem is we know that those below the median line are benefitting financially (as they should), but this also tells us that when this pandemic is over, it is unlikely those above the median will foot the bill through higher taxes.

This is consistent with what politicians are saying. There is no indication that this monopoly-like helicopter money will be removed from the system. Given this backdrop, what happens to asset prices when we do have a vaccine? In particular, what happens to stock prices of companies that make it into the post-covid world, without having accumulated much debt, and have potentially less competition? Just how close are we actually from discovering a sufficiently effective vaccine – even if it is short term immunity but widely distributed, as opposed to long term immunity?

I think this is what is being reflected in financial markets known not to hand out free lunches.

ACTIONS

We entered into Bank of America (BAC) in increments at $21.95, $21.75 and $19.83 on March 10, 14, and 20 respectively. We purchased a meaningful amount in one transaction at $18.95 on March 24. We exited at $23.53 and $24.65 on April 9 and April 13 respectively.

We re-entered Bank of America at $22.66 on May 20 and again exited eight days later at $26.11.

We averaged down our position in Wells Fargo (WFC) at $29.25, $26.50, $28.24, and $24.82 on March 13, March 24, May 1, and May 11 respectively. Wells Fargo was increased to the maximum 15% weight.

Zscaler's share price (ZS) held up strongly during the sharp downturn in other securities, and as a result we exited the position to re-invest elsewhere. We sold Zscaler in fractions at $63.00, $64.63, $66.40, $60.50 and $60.00 on March 25, 26, 31 and April 2.

We used the proceeds to enter into the voting shares of Zillow Group (ZG) at $33.00 on March 25. We subsequently took the position to a maximum 15% weight at $38.30, $35.70 and $35.10 on April 15 and April 16.

We entered into Qantas (QAN) at $2.53 and $2.48 on March 20. We added to the holding at $2.56 and $2.51 on March 24.

We reduced the position at $4.99 on June 10 and $4.01 on June 26. We re-purchased below the placement price of $3.62 on June 29.

We entered into Southwest Airlines (LUV) at $30.87 on March 24 but due to public pressure and changes to the loan agreement initially offered to the U.S. airline industry we exited 10 days later at $32.30 on April 3.

We entered into Twitter (TWTR) at $26.15 on March 25 and added at $25.25 on March 31. We trimmed the position at $29.77 on May 11 and exited completely at $31.95 on May 22.

We entered into Slack Technologies (WORK) at $31.90 on June 10. Slack was initiated at a 4% weight of the total portfolio.

We averaged down into Discovery (DISCK) purchasing small amounts at $21.35 and $19.14 on March 13 and March 27. We increased DISCK to a maximum 15% weight at $19.76 on June 3.

Other smaller actions we took was entering into Intel (INTC) at $56.69 on May 4. We exited in two transactions at $58.22 and $62.70, less than a month later. We also entered into Apple (AAPL) at $316.60 and $312.75 on May 12 and May 18 respectively. We exited at $324.20 less than a month later. We also entered into Citigroup (C) at $59.90 on June 5 and continue to hold that position.

At month end, the portfolio held 8 stocks – 7 listed in the USA and 1 in Australia.

At month end, the portfolio had a gross exposure of 90.7%, consisting of 90.7% long and 0% short; as well as 9.3% in cash.

In terms of liquidity, the weighted average market capitalisation is A$43 billion and the stock with the smallest market capitalisation is circa A$7 billion.

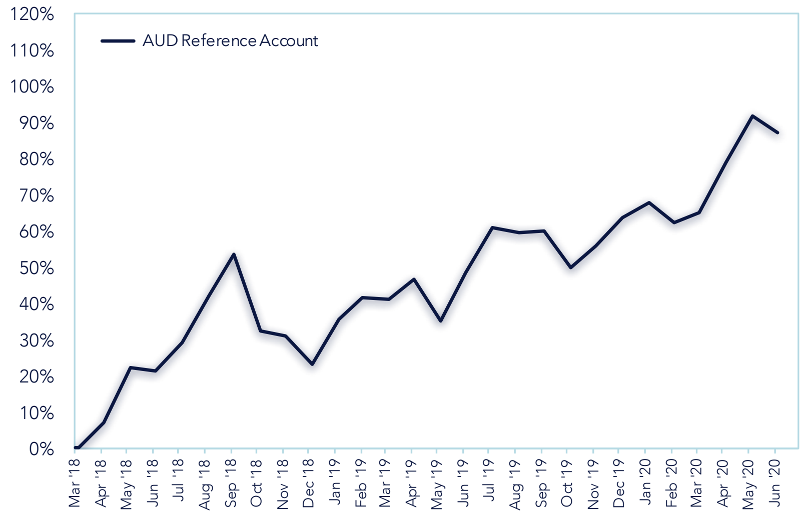
GROWTH OF AN ASSUMED $500,000 INVESTMENT IN THE REFERENCE ACCOUNTS

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%
Mar 20	$824,619	+1.70%	-2.57%
Apr 20	$893,734	+8.38%	+14.48%
May 20	$958,217	+7.22%	+9.60%
Jun 20	$935,799	-2.34%	+1.38%

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 this Andaz note/update. 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

3 July 2020

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