

NOTES TO 30 SEPTEMBER 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

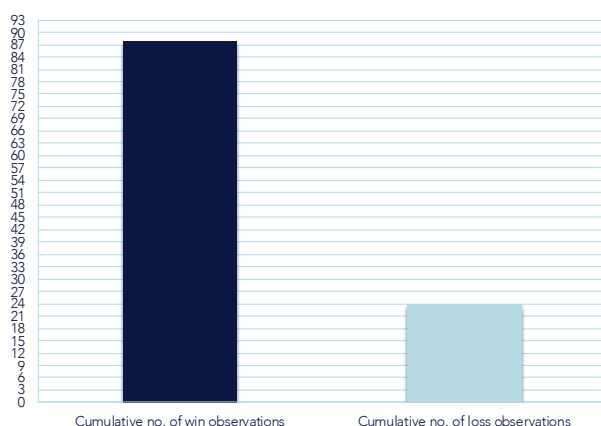
	Calendar YTD	Avg. Cash Weighting	Fiscal ⁽¹⁾ YTD	Avg. Cash Weighting
2018 ⁽²⁾	23.1%	35.4%	21.1%	30.9%
2019	33.0%	25.5%	22.4%	35.8%
2020	14.6%	19.7%	26.3%	20.8%
2021	n.a.	n.a.	0.2%	11.4%
Total Return Since Inception	87.6%	27.0%		
Compound Annual Return	28.4%			

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

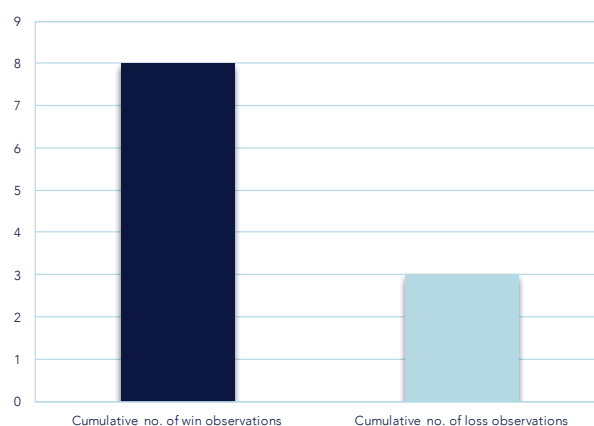
⁽²⁾ Since inception on 27 March 2018 in the AUD reference account

⁽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	1.3
Administrator	Interactive Brokers	Sortino ratio	2.7
Custodian / Prime Broker	Interactive Brokers	Annualised standard deviation	21.0%
Min. initial investment	\$1,250,000	Annualised downside deviation	10.5%
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	0.65
Withdrawals	Any amount at any time, with twenty Business Days' notice	Avg. cash weighting since inception	27.0%
		Total return since inception	87.6%
Distribution	Same as withdrawals	Annualised return since inception	28.4%

⁽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 ACTIONS

After entering into Micron (MU) a month ago at \$42.86, we exited the position at \$49.64 on September 16.

We re-entered into Bank of America (BAC), initiating a 1% position at \$25.63 on September 14.

We added to Slack Technologies (WORK) at \$24.36 on September 9.

We added to Schrödinger (SDGR) at \$56.80 and \$50.82 on September 4 and 18 respectively.

SCHRÖDINGER

Schrödinger is a fascinating company but market participants are truly struggling to find a way to think about the business model. To look around the corner in Schrödinger, investors need to find the most important metric.

The investment case with Schrödinger is all about the speed at which the company is covering ground in the drug discovery space. What does this mean and why is this the right way to think about it?

As you may know, all the chemicals in the universe are thought to be around 10^{60} . Schrödinger's platform is able to explore 237 billion different compounds computationally every six months. This is based on today's compute power. Obviously, compute power is increasing and accelerating each year, which means that at some point in the future, Schrödinger will be able to explore 237 billion different compounds computationally *per day*.

Now, compare this to a typical drug discovery program which synthesizes and tests only 1,000 molecules per year. Not only is this snail pace, it is also based on trial-and-error. To test 1,000 molecules costs c.\$5 million and consumes considerable time.

That gap between the output from traditional laboratories and the speed at which Schrödinger is able to cover ground is widening at an accelerating pace.

Secondly, people are not accurately taking into account that large pharmaceutical companies are contributing knowledge and intellectual property onto Schrödinger's computational platform. For

example, Schrödinger has a partnership with Takeda Pharmaceutical where Takeda will combine its knowledge of structural biology with Schrödinger's computational platform. In exchange for exclusive output of any discoveries, Takeda will pay an undisclosed 3-digit \$xxx million per program, as well as royalties on future sales. Schrödinger is also collaborating with other companies like ThermoFischer, Bayer, AstraZeneca and Sanofi.

Market participants already know that all of the top 20 pharmaceutical companies use Schrödinger's computational drug discovery platform. It is a huge mistake however to ignore that learnings, discoveries, knowledge, and intellectual property are **cumulatively being added** to this first-principles physics-based computational platform and the speed at which Schrödinger is covering ground is **accelerating**.

The output is already impressive. Today, Schrödinger's computational platform is used for 2 main reasons: 1) to explore vast amounts of chemical space on the computer (as opposed to synthesizing in a lab) to seek 'hit' or superior molecules; and 2) to optimize or design-in drug properties required. When a pre-selected molecule is run through Schrödinger's platform (i.e. reduced biology risk), the industry is noticing that Schrödinger's platform is increasing the probability of success for a drug to reach 'development candidate' stage from 1/8 to above 8/10. Obviously, at a fraction of the time and a fraction of the cost.

Schrödinger's platform is a no-brainer and must-have, especially because the failure rate in drug discovery is high.

Schrödinger's software revenue is currently running at an annualised run rate of \$100 million. Again, all of the top 20 pharmaceutical companies use Schrödinger's computational platform. If pharmaceutical companies that are still primarily organised around iterative laboratory programs transition towards computational drug discovery, usage levels will grow by 10-20x. There are only 10 companies with usage levels exceeding \$1 million per year. There will be an inflection point when it makes total sense for a large pharma to allocate \$10 to \$20 million per annum on computational drug discovery.

This applies not only to large pharmaceuticals but a plethora of smaller biotechs interested in using Schrödinger's computational drug discovery platform to seek out hit molecules or to improve known molecules i.e. patent the second or third derivative.

Also, we now know that there are ~20,000 protein-coding genes in the human body, yet the industry has only created drugs for less than 500 of those.

Because covering ground is crucial, patentable and rewarding, it is not difficult to see a gold rush in the computational drug discovery space, which should last multiple decades and see Schrödinger's software

revenue increase from c.\$100 million per annum to over \$1.5 billion per annum (excluding any price increases).

INTERNAL DRUG DISCOVERY

Aside from the software platform, Schrödinger also has an internal drug discovery team. Here, market participants also struggle to value the business. Some have attempted to calculate this based on future royalties. It is difficult to be precise on the value, but it is easier to be able to definitively say that the current market cap is not the right one i.e. invert the question.

How?

If you look at companies in the same space, you will find that the revenue divided by the number of employees involved in drug discovery is between US\$4 million to US\$6 million. Revenue per total number of employees (including admin, sales etc.) is lower between US\$300,000 to US\$600,000.

Schrödinger has 80 employees dedicated to drug development. On a comparable basis, this unit should be able to generate US\$400 million per annum as this business matures. If you search through the caliber, track record, and talent of the team, you could argue that Schrödinger's output/productivity should be above the midpoint. (Schrödinger's drug discovery business is still embryonic with revenue <\$10 million.)

Unless investors think that the team is unable to be as productive as the industry, **the market cap is not in the right ballpark.**

The share price is **very undervalued** and has a **10-bagger potential**. In my view the enterprise value is trading on ~1.4x future revenue (based on the current team size).

After the share price pullback, Schrödinger is currently a c.10% position in the portfolio. Schrödinger's drug discovery team has 12 internal and collaboration programs in late-stage discovery, including three wholly-owned programs; and shareholders can look forward to progress announcements within the next 6 months.

For those interested in Schrödinger's latest presentation, the link is below:

<https://ir.schrodinger.com/static-files/afed9256-e98b-403f-bb38-e88393f46336>

LARGEST POSITIONS

Our largest positions are Xilinx (XLNX), Discovery (DISCK – the class C non-voting stock), Wells Fargo (WFC), Citigroup (C), and Schrödinger (SDGR). All of these situations have upside of at least 2x, and I am working on giving suggestions to some of these companies to help them close the gap.

Discovery is extremely undervalued and on a c.30% free cash flow yield. The company also believes their stock is extremely undervalued and is allocating half of that free cash into share buybacks. At a recent conference, they informed the market that they have successfully and **significantly** increased pricing in their recent Upfront (gathering of TV networks and advertisers). This will most likely result in greater profits and cash flow over the medium term. Discovery continues to gain share in the USA and Internationally.

At month end, the portfolio held 8 stocks – all listed in the USA.

At month end, the portfolio had a gross exposure of 84.8%, consisting of 84.8% long and 0% short; as well as 15.2% in cash.

In terms of liquidity, the weighted average market capitalisation is A\$50 billion and the stock with the smallest market capitalisation is circa A\$5 billion.

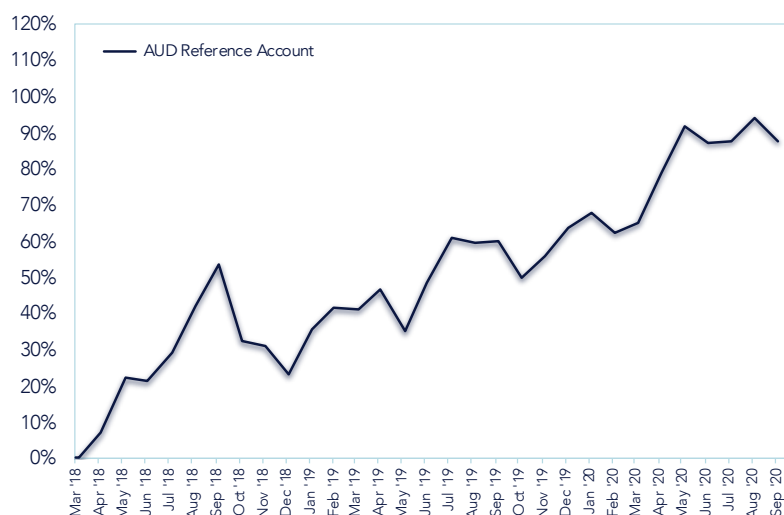
GROWTH OF AN ASSUMED \$500,000 INVESTMENT IN THE REFERENCE ACCOUNTS

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%
Jul 20	\$937,519	+0.18%	+1.52%
Aug 20	\$968,929	+3.35%	+5.11%
Sep 20	\$937,822	-3.21%	-5.80%

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

1 October 2020

© 2020 Andaz Private Investments Pty Ltd ("Andaz"). The information contained herein is being provided to investors in Andaz products (collectively the "Funds"). This document and the information herein is confidential and not for further dissemination. This report is for distribution only under such circumstances as may be permitted by applicable law. All information contained herein relates to the Andaz AUD product, unless otherwise specified. All NAV figures were taken directly from actual statements generated by Interactive Brokers, and are unaudited. Each client will receive individual statements showing returns from the custodian. Actual results may differ from the data presented due to the timing of each investors' capital activity, account parameter restrictions, and other such factors. While the performance results of the Funds have been compared here with the performance of well-known and widely recognised indexes, the indexes have not been selected to represent an appropriate benchmark of the Funds whose holdings, performance, and volatility may differ significantly from the securities that comprise the indexes. The performance data is for sovereign/institutional investors who usually negotiate fees, are subject to varying brokerage commissions, and may not be subject to non-resident dividend withholding taxes. For actual results net of all fees, applicable expenses and taxes, please refer to individual statements provided by the custodian. Past performance is not necessarily indicative of future results. Had the highest fee structure, and all expenses and all taxes been applied,

performance results would likely be lower. Cumulative no. of win-loss observations since inception includes security selection, re-entering an exited but previously owned security, and decisions to materially reweight existing positions.

The information contained herein reflects the opinions and projections of Andaz as of the date of publication, which is subject to change without notice at any time subsequent to the date of issue. Andaz does not represent any opinion, estimate or projection will be realised. The information presented in this document is not intended to be, nor should it be construed as, investment advice. It has not been prepared taking into account any particular investor's or class of investor's investment objectives, financial situation, circumstances or needs, and should not be used as the basis for making investment, financial or other decisions. This shall not constitute an offer to sell or the solicitation of an offer to buy any interests in any product managed by Andaz. Such an offer to sell or solicitation of an offer to buy interests may only be made pursuant to definitive subscription documents between Andaz and an investor. The information provided should not be deemed a recommendation to purchase or sell any specific security. Andaz has an economic interest in the price movement of the securities discussed in this document, but is subject to change without notice. While the information in this document has been prepared with all reasonable care, neither Andaz nor its affiliates makes any representation or warranty as to the accuracy or completeness of any statement in this document. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information.

This document may contain forward-looking statements regarding our intent, belief or current expectations with respect to market conditions. Readers are cautioned not to place undue reliance on these forward-looking statements. Andaz does not undertake any obligation to revise any such forward-looking statements to reflect events and circumstances after the date hereof. Andaz does not guarantee the repayment of capital, payment of income or portfolio performance. All investments involve risk including the loss of principal.